ESTABLISHED 1839

The COMMERCIAL and FINANCIAL CHRONICLE

Reg. U. S. Pat. Office

Volume 169 Number 4768 New York, N. Y., Thursday, January 13, 1949 Price 30 Cents a Copy

Truman Budget Sets New Peacetime Peak

Provides outlays of $41.9 billion, or almost $2 billion above current fiscal year figure. Defense expenditures estimated at over $14 billion and international affairs and finance to take $6.7 billion. Receipts to be bolstered by $4 billion in additional taxes and $2 billion more of social security levies.

President Truman

President Truman's budget message for the fiscal year 1950 was delivered to Congress on Jan. 10. It contained provisions for an overall outlay of $41.9 billion, the largest peacetime expenditure on record. On the basis of current receipts a deficit of $873 million is estimated for the coming fiscal year, but the President, as already indicated in previous messages, recommends taxes be increased by $4 billion and existing social security levels be boosted by an additional $2 billion. The text of the budget message outlining the general recommendations follows:

To the Congress of the United States:

I am transmitting my recommendations for the Budget of the United States for the fiscal year ending June 30, 1950.

Under the laws of our country,

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Business Outlook for 1949

By WILLIAM A. McDONNELL*

President, First National Bank, St. Louis, Mo.

Picturing 1949 as year of readjustment with levelling off of prices and business volume, but without depression, Mid-West banker warns, however, management is going to have its first real test since prewar days. Looks for losses and failures in some businesses, together with lower employment, but an eventual attainment of a healthier economy. Concludes the longer readjustment is delayed, the more painful it will be.

Forecasting is an indoor sport which has recently fallen into considerable disrepute and I doubt that I am the one to restore its reputation for reliability. This is particularly true of short range forecasting. Someone has widely observed that long range prophesy is safer than short-term prognostication if only because the prophet cannot so soon be embarrassed by the proved error of his ways. In other words, I would be treading on much safer ground if I were predicting what would happen to American business in 1975 because those of you who were still living in that year would have long since forgotten what I had said.

Wm. A. McDonnell

And then there is another reason for the anxiety with which I launch into a forecast for 1949. Anyone who speaks on a subject of such wide-spread interest and about which so much is being said and written runs the risk of getting his own ideas mixed up with those of others and of for-

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*An address by Mr McDonnell before the Sales Managers' Bureau of the St. Louis Chamber of Commerce, St. Louis, Mo., Jan. 7, 1949.

The Stock Market in 1949

By RALPH A. ROTNEM

Market Analyst, Harris Upham & Co.

Market analyst holds market's conservatism since 1946 limits its vulnerability to indicated reductions in business activity and commodity prices. Predicts although uncertainty will overhang market until Congress disposes of Truman's proposals, lows of last three years will remain unbroken and typical six-month rally will occur before year-end.

It is fortunate that the stock market has been so conservative during the last two years, or it might be vulnerable to the indications that commodity prices and business activity may move to lower and more realistic levels and that taxes may be increased. That the market has been conservative is shown by the fact that the Dow Jones industrial average advanced only 10c from Dec. 31, 1946 to Dec. 31, 1948. Yet during those two years the earnings on the stocks included in that average advanced 54%.

Ralph A. Rotnem

Had this average sold as high in ratio to earnings as it did in 1929 it would have reached a level of 420. Had it sold at as high a ratio as it did in 1937, it would have reached 357. Its peak, however, during the year was 193 and its closing level was 177.

Measured in other ways — by the yield of stocks compared with bonds, or by the ratios of the value of listed stocks to estimated national wealth, personal income,

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EDITORIAL

As We See It

The Sand Upon Which the House Is Built

Analysis of the various and sundry measures now recommended by the President may in some instances divert attention from the underlying notions and philosophy upon which they rest. So long as the President or his advisers hold to the basic concepts of society and economics now directing and controlling their actions, there can be little hope of escaping the type of programs proposed in the President's recent messages even if, by some strange chance, these particular measures were all relegated to the scrap heap where most of them belong. There is an element of the unrealistic not to say of danger, accordingly, in devoting attention so exclusively to the blueprints of the superstructure that the nature of the foundation upon which it must rest escapes the searching inquiry it deserves and must have.

There has grown up in this country a younger generation which almost from its birth has been nourished —or should we say poisoned?—with wholly visionary and always fantastic notions which are out of harmony with American traditions and the American system. To this element many strange passages in the President's recent messages may and probably do appear reasonable enough, but those with longer experience in this very

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What Changes Ahead in Business?

By EDWIN B. GEORGE*
Dun and Bradstreet Economist

Mr. George analyzes briefly present and prospective business trends and concludes no important setback is likely during 1949. Looks for Gross National Product in 1949 around $265 billion, but accompanied by slightly higher unemployment and lower wholesale prices and living costs.

Failing new pressures, inflation is fading. Prices have caught up with the money supply (on oversimplification but a useful bench mark); the supply of many sorts of goods has caught up with demand at prevailing prices; in some industries capacity in being has caught up with blueprints; credit expansion is slowing visibly; the fourth round of wage increases promises so far to be moderate; and the too easy sequel of general decline is once again widely forecast.


Edwin B. George

For those who shudder easily, a story of gloom can be readily documented. Softening of demand and of prices is evident in textiles, clothing, leather products, rubber, furniture, radios, some chemicals and drugs, house furnishings and even lumber, certain kinds of machinery, machine tools and building materials. Layoffs are making the headlines—partly because on any significant scale and for other than seasonal reasons they are still rare. Many shippers are reluctant to pay the new railroad tariffs. Telephone collections in some sections are down. Sales of luxury goods (liquor, furs, luxuries and toilet goods) fell away from the pace long ago. Paper is no longer a precious commodity. Failures are increasing and the rate of new entries declining. Gray market prices, one of our best signs of disequilibrium in formal markets, have been moving closer to regular prices. Pre-Christmas bargain sales are absurd, but happened in some cases.

But this is not the first gloom story since the end of the war. According largely to the temperament of the observers, it is the second, third or fourth. They could all be documented, and there are hardy souls today who regard the present misfortunes to be as merely peripheral as those which drew tears in the preceding three years.

What we know is that total national activity as expressed in Gross National Product approximated a record-breaking dollar worth of $260.8 (in annual rates) during the fourth quarter of 1948. What we want to know is the net effect in real terms of the changes that are bound to occur through the system in 1949.

The Farmers' Income

Paradoxically, I regard the decline in agricultural prices as inflationary or buoying, as the case may be. Farmers save more than do city dwellers from the same cash income, and the shift in spending power to their city cousins reflected in the probable decline in *earned* farm incomes should increase aggregate consumer spending. Furthermore, farmers' needs for new equipment and structures is still reasonably strong, as is their position with regard to liquid assets and debt, thus placing unusually rigid props under their spending. Finally as a result of the support price programs, farmers' total income will be a good deal larger than their earned incomes — the government payments which make up the difference constituting a net addition to national spending power. Present expectations are that 1949 payments will reach $1.5-$2 billion. In other words, a development that many have regarded as deflationary in its effects seem likely to contribute to sustaining activity after we take into account its indirect repercussions.

Net exports, or the balance of exports over imports, which was very inflationary a year ago, will still be a supporting factor. It will obviously not be so pronounced now as then, but seems certain to top the third quarter mark of $5.2 billion by half to $2 billion (both in annual rates) in early 1949, and by a significant though smaller amount in the last half. (A substantial recovery to $6.6 billion has already occurred in the fourth quarter.) The foreign aid program will be in full swing, which was not the case until toward the end of 1948. On the other hand, the improved production of European and other countries will help them both to get along with fewer private imports from us and to ship more to us.

Private Construction

Private construction seems likely to decline for the first time since the end of the war. Nonfarm residential building may slip off by between 5% and 10%, particularly in the second half of the year on a seasonally adjusted basis. Many of the importunate demands seem to have been satisfied, and current costs are not inviting to the man who has a choice. The new Congress may try to play Lady Bountiful in this area, but I doubt if its short-term success will be conspicuous. Compulsory allocations would still divert from other construction the materials that matter most, and greater liberality in mortgage guarantees would tend principally to fabricate more money rather than more houses. A decline of 10-15% is in prospect for industrial building. Commercial construction, including private educational and scientific institutions, on the other hand ought to hold close to 1948 levels. The need is still great.

It is probably on the outlook for producers' durable equipment that controversy is most rife. So many industries and big concerns have announced completion or tapering off of their expansion programs as to induce a rather general attack of nerves. Then in his wisdom, the President saw fit to attribute to business an unexpectedly large share of responsibility for inflation. Soundly or not business has been developing a scapegoat complex not usually associated with bold new designs, and a drastic fall in investment was foreseen by many as one of the consequences. Such fears were partly quieted by the President's message, omitting as it did any proposal to restore an eviscerating excess profits tax. Furthermore, some large industries—e.g., petroleum, utilities, and railroads—have little choice but to go ahead. Still further, a quiet force that could be of great importance to some operators is the cheapness of equipment in relation to what may turn out to be rigid high labor costs. It is true that a rather dizzy pace was reached for this class of expenditures in the third and fourth quarters of 1948, with little likelihood that it could be held. Taking all factors into account, however, I do not expect this rate to fall below $17 billion by the end of this year, and we may well do better. That is still a good figure, and disaster is hardly commensurate with it. Any substantial enlargement in the defense program would be additionally sustaining by the time it was able to seep through into orders. The expected jump in the corporation tax rate may be burdensome on less securely financed producers, but that is at worst an unknown. Most large concerns can still tap the lending if not the equity markets without great effort or hazard to their financial structures. Low debt on all hands is in fact one of the country's strong bulwarks against collapse.

Consumers' expenditures are the biggest frog in the pool, if not the most galvanic. They will be determined by income and by the will to spend. Income from any level of activity approximating the present is bound to be high, and will be supplemented from special sources such as tax refunds, wage increases (assuming they are not so high as to weaken production incentives), the support price payments to farmers previously discussed, national life insurance payments to

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*Extracts from address by Mr. George at Monthly Meeting, New York State Society of Certified Public Accountants, New York City, Jan. 10, 1949.

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Regular Features

Published Twice Weekly

The COMMERCIAL and FINANCIAL CHRONICLE

Reg. U. S. Patent Office

WILLIAM B. DANA COMPANY, Publishers
25 Park Place, New York 8, N. Y.
REctor 2-9570 to 9576

HERBERT D. SEIBERT, Editor & Publisher
WILLIAM DANA SEIBERT, President
WILLIAM D. RIGGS, Business Manager

Thursday, January 13, 1949

Every Thursday (general news and advertising issue) and every Monday (complete statistical issue — market quotation records, corporation news, bank clearings, state and city news, etc.).

Other Offices: 135 S. La Salle St., Chicago 3, Ill. (Telephone: State 0613); 1 Drapers' Gardens, London, E. C., England. c/o Edwards & Smith.

Reentered as second-class matter February 25, 1942, at the post office at New York, N. Y., under the Act of March 8, 1879.

Subscription Rates

Subscriptions in United States, U. S. Possessions, Territories and Members of Pan-American Union $35.00 per year: in Dominion of Canada, $38.00 per year. Other Countries, $42.00 per year.

Other Publications

Bank and Quotation Record—Monthly, $25.00 per year. (Foreign postage extra.)

Monthly Earnings Record — Monthly, $25.00 per year. (Foreign postage extra.)

Note—On account of the fluctuations in the rate of exchange, remittances for foreign subscriptions and advertisements must be made in New York funds.

Natural Gas—An Industry With A Future

By SUSAN E. GILDERSLEEVE*
Editor, Oil Statistics Co., Babson Park, Mass.

Writer surveys progress and future prospects of natural gas industry. Indicates reserves are super-abundant, and, despite difficulties in securing new capital in order to finance tremendous expansion and provide necessary equipment, the industry abounds with favorable growth factors. Lists data regarding leading companies.

Preliminary figures of the Natural Gas industry for the full 1948 year tell a tale of the establishment of new records by the industry in 1948; more customers served, greater production, larger revenues, and a peak in expenditures of $800 million against $730 million in 1947 for construction and expansion. By way of illustration, 12.2 million customers received natural gas from gas utility companies, an increase of about 13% over 1947. Total natural gas utility revenues, at a peak of $848.3 million in 1947, are indicated at about $980.1 million in 1948, a 16% increase, while total sales in 1948 rose 11.4%. In Chart I we are presenting a pictorial analysis of 14 years of growth in the natural gas industry as shown by the increase of natural gas utility customers, revenues and sales. Also given is the marketed production of natural gas, which includes, in addition to utility sales, direct sales of natural gas by producers to consumers in the field and the natural gas component of mixed gas sales.

Susan E. Gildersleeve

Despite repeatedly made and shattered records of production and sales since 1932 (sales have tripled from 1932 to 1947) and a doubling in the size of the industry, undoubtedly many mills and factories will be closed down this Winter during the coldest spells, especially between Pittsburgh and Chicago, owing to the fact that the current supply of natural gas is so far in arrears of the sharply increasing demand.

Pipe Lines Continue to Spark Growth

In 1948, a new all-time high of about 8,500 miles of new natural gas pipe lines was authorized by the FPC, bringing the total of such lines in America to the phenomenal figure of about 251,330 miles. The FPC in 1947 authorized the construction of 5,370 miles of pipe line. Some idea of the vastness of these lines may be gained when it is realized that today natural gas pipe lines are greater by 17,000 miles than the railroad mileage, and 100,000 miles longer than oil pipe lines. Currently, new applications awaiting FPC approval total an additional 14,600 miles.

The first growth period of the natural gas industry, marking its change from a regional to a national industry, was sparked by the technological improvements in the mid-1920s of the electrically-welded, seamless pipe, and the automatic ditch-digger, making possible long-distance transmission lines. Since 1931, nearly 60,000 miles of long-distance natural gas pipe lies have been laid.

In 1947, the change-over of the wartime Big and Little Inch petroleum lines to natural gas initiated the beginning of a tremendous postwar growth era. Since the conversion the Big and Little Inch lines, formerly the longest and biggest (20 to 24 inches in diameter) pipe lines in the country, have been overshadowed by the authorization or beginning of even larger lines (30 inches in diameter is now characteristic). Such lines include one from Texas to Ohio, another from Texas to Philadelphia and New York City, and a third from Texas to Boston.

Over $650 million was spent in 1948 on the expanson of natural gas systems, with the result that a greater amount of gas moved through transmission lines than at any previous time, and still the supply is not sufficient. Within five years it is estimated that $1.95 billion will be spent on natural gas transmission facilities.

Among others, some of the most important projects approved in 1948 include that of the Trans-Continental Gas Pipe Line Co. to build a 1,840-mile line from Texas to New York City at an estimated cost of $189 million. Believed to be the most expensive and longest natural gas pipe line in the world, upon completion it will supply 340 million cubic feet daily to gas utility companies in New York, New Jersey and Pennsylvania. Texas Eastern Transmission Corp. will add 1,400 miles to its system, while Tennessee Gas Transmission will construct a 1,387-mile line from Texas to Pittsburgh. Together these three lines will boost the supplies of gas in the regions served by about 20%. Columbia Gas System plans to spend more than $130 million on expansion; El Paso over $150 million on its line to Pacific Lighting and Pacific Gas & Electric, while Tennessee Gas will spend $136 million on construction to be finished in 1951.

The one big factor hampering the surge of natural gas expansion continues to be steel, mainly 24-inch and 30-inch steel pipe. For the approved 8,500 miles of pipe line, nearly 1,950,000 tons are needed, and for the applications

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*Reprinted from the Jan. 4 Bi-Weekly Bulletin of the Oil and Natural Gas Industries and Their Securities, published by Oil Statistics Co., Babson Park, Mass.

Unjustifiable Attacks on Bank For International Settlements

By ERNEST H. WEINWURM

Mr. Weinwurm refutes accusations against wartime operations of the Bank for International Settlements, directed particularly at Thomas H. McKittrick, its former President, now a member of staff of ECA. Says gold received by BIS from Hitler was returned to nations rightfully claiming it. Opposes liquidation of the Bank.

Both the European Recovery Program and the staff of the European Cooperation Administration will be under sharp scrutiny during the months to come when Congress will consider additional appropriations for the second year of the plan. This will cover the policies of the Administration and the men in charge of determining and carrying out these policies. Obviously, not even the most efficient official can hope to satisfy all those interested in the progress of the Recovery Program. There will be always disagreements over aims and methods; democracy requires that they shall be explored fully and no responsible official will be angered even by heavy attacks provided they deal with important material problems.

Ernest H. Weinwurm

However, efforts to smear men who have volunteered to carry out one of the toughest assignments in all history should be left to the propagandists "behind the iron curtain." But some people—even in high places—get immediately excited at any mention of a connection with "Wall Street," a spot which they almost identify with hell. This is being done even in such cases where special skills and experience not easily to be found elsewhere are at stake.

Once again, there has been a repetition of false statements concerning the Bank for International Settlements at Basle, Switzerland. These statements have been refuted many times in the past but they are printed again nevertheless on the assumption that most readers are unaware of the true facts.

During the last year, the B. I. S. has increased its activities considerably and has become an important center for settling financial transactions among the recipient nations of the European Recovery Program. Thus there is every reason for satisfaction that it was possible to maintain the Bank's organization during the war and thus have an experienced and well oiled mechanism ready at a time when it was most urgently needed. Surely, this has saved both the U. S. and the Marshall Plan countries a good deal of time, money and effort.

Thomas H. McKittrick

The man who managed to save the Bank during the war was an American, Thomas H. McKittrick. At the end of the war he resigned from his position and returned to this country. But it is not surprising that those in charge of getting the best experts for the new Economic Cooperation Administration should have remembered Mr. McKittrick. Thus, he took a leave of absence from his job as a Vice-President of the Chase National Bank to take over one of the key posts at the Paris office of the E. C. A. as head of the trade and payments branch to increase trade and reduce the difficulties resulting from bilateralism. His years of experience and, perhaps even more important, his personal contacts with the heads of the central banks of Europe who are stockholders of the B. I. S. made him an almost ideal choice for this exceedingly difficult assignment and everyone interested in the success of the Marshall Plan should rejoice that so competent a man could be found at all.

However, "certain circles" apparently have other aims, and thus try to discredit Mr. McKittrick in repeating those old and often refuted stories about his evildoings as head of the B. I. S. during the war.

Though it has been done so often before, it may still be useful to review once again those developments which are now a matter of public record.

Mr. McKittrick is being first accused of having remained as head of the B. I. S. during the war although the Bank was "72% controlled by Hitler." The facts are as follows: The European central banks were the principal stockholders of the B. I. S. When Hitler overran most countries of Europe he became master of their central banks as well and thus in theory could have voted the B. I. S. stock held by these central banks. However, the Bank had taken appropriate action to preserve its neutrality during the war which were formally set out in a declaration of Dec. 18, 1939. There the Bank stated as its policy "that it would limit itself to operations which would stand as above reproach from the point of view both of belligerents and neutrals. In virtue of this principle, the Bank has very considerably reduced the volume of its business. It has, however, been able to render valuable services to a great number of central banks and especially to those in countries which were ultimately drawn into the conflict and which sought at the beginning of the war to safeguard their reserves by exchange operations or gold shipments to overseas centers."

Moreover, in conformity with a decision adopted in 1939 no directors' meetings were held during the war and the annual meetings were conducted by proxy. This means that decisions were not made by the stockholders (the central banks) but by the President of the Bank without direct influence from the stockholders.

The Gold From Germany

The second accusation deals with the acceptance by the Bank of gold from Germany during the war. The facts are fully explained on page 12 of the last report of the Bank for the year ended March 31, 1948. They can be summarized briefly as follows: The Bank had large claims against Germany under the Young Plan reparation settlements of 1930. Germany continued to service those debts during the war and this was in the interest of all the stockholders of the Bank. Payments were made in gold through the Swiss National Bank. The B. I. S., in each instance, asked for and received an assurance from the Reichsbank that it had owned the gold before the war.

After the end of the war, a complete examination of all the gold bars received was made in cooperation with the Allied nations. Full agreement was reached with regard to the gold claimed by Western European nations (France, Belgium, Netherlands) and an amount of 3,740 kilograms was eventually returned to those countries.

The third point refers to the resolution adopted by the Bretton Woods Conference in 1944 to recommend liquidation of the B.I.S. The facts surrounding this strange decision have been discussed at length in the "Chronicle." The principal author of that resolution which was passed without discussion was the late Harry D. White, then Assistant Secretary of the Treasury and chief U. S. delegate at the Conference.

In a speech delivered at the annual meeting of the B.I.S. on June 14, 1948, Mr. Maurice Frere, Chairman of the board of the B. I.S. and President of the National Bank of Belgium, referred to that resolution and stated that "no government has so far proposed that this recommendation should be carried out. The American Government which was to apply the Bretton Woods Agreement has just expressed the view that there was no reason to give effect to the recommendation of the Bretton Woods Conference concerning the Bank for International Settlements. In consequence, that government recently instructed its representatives on the Monetary Fund and the International Bank to inform the boards of these two institutions of its decision and to add that the United States Government regards the issue as closed."

The hopes that the matter would not be brought up any more unfortunately did not materialize. However, those who want additional information should inquire of the U. S. Treasury before discussing the question in public as an open and undecided one.

Obviously, there are no secrets around the B.I.S. All its wartime transactions have been investigated most thoroughly and, finally, it has received a clean bill of health. Both Europe and this country can be grateful to the men who managed to get such a result. They probably will form the right opinion about those who are interested in arousing new suspicions for purposes which cannot easily be determined.

Concerning Depression in The Financial Industry

By HOWARD M. ERNST*

Mr. Ernst, ascribing causes of public apathy in matter of investment to widespread success of individual owners in their own business as well as to lack of appreciation that they become partners when they acquire corporation stocks, recommends arousing public interest in securities through education. Sees danger of government to private enterprise in decline of financial industry.

It is gratifying to note that at last cognizance has been taken of the serious depression which our financial industry has been suffering. I use the word "industry" advisedly for it is as much an industry as agriculture, mining, manufacturing or commerce. In fact, it is the financial industry which in the past has furnished these giants the sinews with which to perform their herculean tasks. Now I do not mean to say that should the current depression of our financial industry result in its elimination our economic structure will be destroyed, but the obvious alternate I am sure is not a pleasant thought to the majority, and I am equally sure would please our enemies. Most certainly, as in previous instances, if private enterprise performing a public necessity no longer can operate, our government will step in and furnish the required service.

I do not think it is necessary to dilate at length concerning the probable results if the government should be forced to directly finance our manufacturing, mining and commercial enterprises. In consideration of these facts, it behooves all of us to concentrate our interests in ending the aforementioned depression and strengthening our financial industry. This is essential, not for the purpose of aiding the gambler, easing the way for the speculator, protecting the investor or creating alleged plutocratic lords. In fact, we might be doing all these things, but regardless, our main purpose of continuing to keep alive a private enterprise that supplies the fundamental wherewithal for the operation of our economic empire is paramount. I repeat, the alternative is not pleasant. It would be a definite step against the basic philosophy of Americans.

In order to correct an evil, it always appeared to me sounder to seek its cause first and eliminate it if possible rather than try to directly check the evil itself. It is easier to stop a train by shutting off the engine's power than by erecting a barricade or even applying the brakes with the power still on. Both steps are apt to only temporarily slow the train down, but without power progress must come to a halt. The power of our financial industry has been practically shut off for it is derived from the public and the public in general have ceased to be interested in equities or loans. The natural question this statement invokes is "why?" and the answer is the $64 one.

Reasons for Public Apathy

The first thing that comes to mind in an effort to solve the problem is the fact that the business of our people is prospering to such an extent that they are completely satisfied with their individual returns therefrom and whatever financial project they may contemplate from time to time will be one that is tied up with their own business. Hence they have lost all interest in any other line of endeavor, even to the extent of lacking any knowledge of the fundamentals of other available opportunities. This brings up the second reason for the public's apathy towards the financial industry.

It is my impression that the public today does not understand exactly what in effect they have done when a stock or a bond is acquired. They do not realize that in buying a stock they purchase a partnership in a business. It is precisely the same deal that they made when they formed or entered into the private firm in whose business they may presently be engaged. That firm doubtless is today proving a profitable enterprise. Furthermore if it could be expanded by acquiring interests in allied concerns or purchasing them it would be good business. In doing so, the price to be paid would be determined on its relation to the value of the assets and their character along with current, past and probable future earnings. Now without becoming a stock salesman, I suggest that these same considerations be applied to the cost of obtaining a partnership in any of the leading and foremost industries of our country, through the purchase of their stocks at current market prices. I would be very much surprised if a great number of people do not suddenly realize that the terms offered were more favorable than that of their interest in their own business or of some private deal they had but recently completed.

It is quite possible some people will excuse the situation on the basis of risk, by which I presume they will mean open market fluctuations. Here again it is a case of lack of understanding as to just what the daily quoted prices mean. It should be understood that the figures thus published actually indicate the liquidating value of your partnership. Permit me to emphasize "liquidating," for few partnership interests or shares in private corporations can be readily liquidated except after protracted and lengthy negotiations and then not always at full value. Compare the current fluctuations of any stock to what you think you might get for your interest in your firm or shares of your corporation on an immediate sale, and then you may better judge the comparative risk involved in buying an interest in a publicly owned corporation. Remember the earnings and assets of the company are not affected by the market price of its stock.

Question of Management

There is still another thought that may be a factor in the public's indifference to the financial industry and that is management. They may say that in their own business they are boss, or at most have only a few partners to contend with, and that though it may be true they can purchase an interest in a publicly owned concern on more advantageous terms, they will be at the mercy of a strange management. That is to a certain extent true but not quite as bad as it sounds. Today practically all our foremost corporations furnish stockholders with extensive, thorough and detailed

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*Mr. Ernst is a partner in Ernst & Co., members of the New York Stock Exchange.

Observations . . . .

By A. WILFRED MAY

On Confusing Stock Market With Social Trends

The stock market's decline which greeted the Election results was angrily characterized by large segments of our press and public as the manifestation of Wall Street hysteria in exaggerating the likelihood of the socialist state. For example, a leading weekly magazine then irately called the stock market community a herd of "scared rabbits" and described investors generally as "a manic group that is either unduly elated or unduly depressed," concluding that "the market runs a perverse and miserable course in contraposition to the American dream."


A. Wilfred May

A more scholarly and authoritative commentary, similarly denying the interpretative significance of the market's post-election decline, was made by Leon H. Keyserling, an architect of the Truman "Fair Deal," in the "New York Times" Magazine of last Sunday, as follows: "... it would take more than a few weeks of speculative flurry on the stock market to lead any thoughtful citizen to suspect that our economic future has been clouded by the recent popular reaffirmation of principles and programs which, up to the present, have been accompanied by the highest business prosperity and standards of living ever achieved."

Bear Market's Lunatics Suddenly Become Political Philosophers

On the other hand, during the subsequent market rally which followed President Truman's State of the Union Message last week, far from being conceived of as a herd of moronic nincompoops, the Wall Street community suddenly seemed to deserve the highest accolades as the nation's number-one political analysts. The "Times'" leading editorial in the very same issue which carried Mr. Keyserling's above-cited denial of the market's prescience, stated in substantiation of its gratification over "Truman's 'Welfare State'" and his full reiteration of the electorate's "mandate": "Of all the comments on the Truman program that of the Stock Exchange, emotional but not sentimental, was the most striking. The market listened, felt a sense of relief, and rose." Then after explaining that "Practically all that Mr. Truman has done has been to take his election mandate seriously, as he had a right and duty to do," the newspaper concluded; "we agree with the Stock Exchange that the Truman Administration is not likely to upset the balance."

In the same newspaper Mr. Arthur Krock reported Washington's attribution of great interpretative weight to the stock market's two-day rise after the President's outlining of his "Fair Deal," and cited as one explanation for the bullish ticker Mr. Truman's alleged lack of the political power needed to achieve his Planned Society.

No Correlation Between Bullishness and Freedom

The actual reasons for the market "rise"—which, incidentally, embodied merely a recovery of 40% of the ground lost since October, and still leaves stock prices exceedingly low in relation to such economic factors as earnings, net worth, commodity prices, national income, etc.—we do not presume to know.

Perhaps the reiteration of such prospective by-products of the *Welfare State* as a permanent spending extravaganza to pay for the Utopian program, and further attacks on the "gluttonous" rentiers, is generating belief in relative attractiveness of equities.

In any event, there definitely is no correlation whatever between rising stock prices and the freedom of enterprise. This is clearly demonstrated by the recent record in other countries. In Great Britain the social revolution instituted by the Labor Government after July 1945 was accompanied by an 18-month advance on the London Stock Exchange; and even now, after 3½ years of industrial and financial socialization, including the capital levy, and on the probable eve of steel nationalization, the London "Financial Times" Index of 30 industrial shares stands at 122 compared with 107 when the Labor Government took over in August 1945.

Similarly, the postwar socialization in Norway has not prevented an 11% rise in her common stocks since 1945, to a level 53% above 1939 (source: *International Financial Statistics*, published by the International Monetary Fund). And in France a six-month rise of 70% in equity share prices occurred in 1936-'37 against the background of Leon Blum's socializing Front Populaire (source: *Statistical Yearbook of the League of Nations*).

* * *

So we see that not only is there no correlation anywhere between the direction of stock prices and the degree of national socialization; but also that it is especially fallacious to assume that an *advancing* market is taking its cue from expected preservation of free enterprise.

In making conclusions about a nation's socialization, instead of the stock market—let such elements as government's n-th degree budgetary extravagances, its proposed embarkation into steel manufacturing; the proposals for ever higher and more confiscatory taxation representing a levy on incentive capital, the new Administration's and its economic advisers' attacks on profits and attempted divestment of capital from capitalism, its grasping for control of prices (only partly "in-the-closet"), the demand for greater government authority over prices, wages, rents, and credit, the wholesale subsidization of various politically powerful groups, be weighed by the thoughtful and conscientious citizen. Otherwise the next bull market will further accentuate the public's already-existing complacency which is hastening the nation down the socialist road.

The State of Trade and Industry

Steel Production
Electric Output
Carloadings
Retail Trade
Commodity Price Index
Food Price Index
Auto Production
Business Failures

With the Christmas and New Year's holidays over, over-all industrial production turned upward the past week, attaining a high level and moderately exceeding output of the comparable week a year ago. For the week ended Dec. 11, the latest report available, continued claims for unemployment insurance showed an increase of about 2% and initial claims reflect a rise of approximately 5%.

* * *

In a review of past achievements of our capitalistic system, President Truman in his Economic Report delivered on Friday, last, stated that the year 1948 was a year of "bountiful prosperity," adding that employment averaged 59,000,000 civilian workers, including a million workers who were added to the labor force during 1948. Unemployment held at the low level of 2,000,000.

As for production, the President noted that output for the economy as a whole was 3 to 4% higher than in 1947 with farm output showing an increase of 9%. On the other hand, prices, according to the President, "ceased the broad upward movement" which began with removal of price controls.

The consumer price index declined a little, although other parts of the index rose, he pointed out, and continued: "Sharply divergent movements of prices—both up and down—confront us with urgent problems of adjustment to sustain maximum employment and production throughout the economy."

With respect to wages, the President reported that wages rose and some groups managed to keep a step ahead of increasing prices, while others were less fortunate.

Commenting on profits, the President observed that corporate profits after taxes were about $21,000,000,000 and the ratio of profits to sales was about 5%. Enlarging on his statement, he said, "such profits are in excess of the levels needed to furnish incentives and equity funds for industrial expansion, and to promote sustained economic health, although some businesses have not thrived nearly so well as others."

Setting forth his economic policy, the President said in substance, that the goal the nation seeks is the greatest prosperity for the whole country, and not the special gain of any particular group. Emphasizing the need for nearly a million job opportunities for our growing labor force he stated our increased labor force and modernized plants should strive for a 3 to 4% increase in total output.

In connection with the report, President Truman incorporated such major legislative recommendations as tax increases, extension of present credit policy, promotion of supply and production; controls; expansion of natural resources; continue price support for agriculture; continue European Recovery Program; extend President's authority to make reciprocal trade agreements; provide housing relief; Federal education program; national health program and extension of old-age and unemployment insurance systems.

* * *

On Tuesday of the current week the President, in presenting the new budget, a record-breaking one of $41,858,000,000 for peacetime covering the next fiscal year, gave warning that the Federal Government will be obliged to operate in the red unless Congress increases taxes by $6,000,000,000 to provide for adequate debt reduction.

Calling for an increase of $1,700,000,000 in Federal spending in the year beginning next July 1, President Truman stressed the point that it represented "minimum requirements," since the Federal Government will collect only $40,985,000,000 in taxes in the fiscal year 1950, being at least $873,000,000 short of the figure necessary for a balanced budget and well below the amount needed for "adequate" debt reduction.

* * *

The volume of retail purchases the past week dipped slightly below that of the previous week but moderately surpassed the level of the comparable week last year. Markdowns were sharper and were extended to more items than in the similar week a year ago. Cold, inclement weather stimulated apparel volume in some areas.

The dollar volume of wholesale orders rose fractionally in the week and showed little variance from that of the similar week in 1948. There were numerous orders for Spring needs with scattered re-orders to replenish stocks reported. Collections continued to be slightly slower than a year ago, but deliveries generally were prompt.

STEEL OPERATIONS SCHEDULED THIS WEEK TO ESTABLISH NEW HIGH RECORD

Scrap prices slid off this week in every major area. But whether it means that further declines are in order or that the present drop foretells less steel demand is not clear. One thing is certain, scrap markets all over the country are jittery, according to "The Iron Age," national metalworking weekly.

Nervousness in Chicago, Pittsburgh, Cleveland, Cincinnati, Youngstown and Philadelphia have been translated this week into

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Hubert Atwater Now With Gammack & Co.


Hubert F. Atwater

Hubert F. Atwater is now associated with Gammack & Co., 40 Wall Street, New York City, investment advisers and members of the New York Stock Exchange. Mr. Atwater, a specialist in railroad and public utility bonds, started his career with Redmond & Co. in 1906. For the past several years he has been with J. G. White & Co.

Fred Stone, Jr., V-P Of Marine Trust Co.


Fred D. Stone, Jr.

Charles H. Diefendorf, President of The Marine Trust Co. of Buffalo, announces the election as a Vice-President of Fred D. Stone, Jr., New York representative of the Municipal Securities Department of the bank, 120 Broadway. Mr. Stone joined The Marine Trust Co. in Jan. of 1948 and is in charge of the bank's general market municipal operations.

G. S. Colby Is With DuPont, Homsey Co.

BOSTON, MASS.—G. S. Colby recently joined the research staff of du Pont, Homsey Co., 31 Milk Street, and will henceforth write their "Weekly Letter," which is available to brokers, banks and individuals.

From late 1945 to the first of this year, Mr. Colby was connected with Sherman Gleason & Co. of Boston, in the capacity of financial analyst and, during that period, was the writer of Sherman Gleason's "Weekly Letter."

In the "Chronicle" of Jan. 6 it was incorrectly reported that Mr. Colby had joined F. L. Putnam & Co.

Bond, Sikora Mgrs. Mericka's N. Y. Office

Wm. J. Mericka & Co., Incorporated, announce that Joseph V. Bond and Alfred A. Sikora have been placed in charge of the firm's New York office, 150 Broadway, succeeding T. G. Horsfield, who retired Dec. 31, 1948. Both Mr. Bond and Mr. Sikora have been with the firm for some time.

Pointers on Selling

For clever, helpful hints for selling securities read the "Securities Salesman's Corner," a regular feature in every Thursday's issue of the "Chronicle."

Truman Delivers His Economic Report

Backing up his message on State of the Union, the President gives data on present economic situation and lists guides to economic policy. Recommends a budget surplus, with $4 billions in additional taxes. Wants credit speculation and rent controls continued and enlarged, with additional power to curb prices and related wages. Outlines policies to promote economic growth.

President Harry S. Truman on Jan. 7 submitted to Congress his "Economic Report," along with the Annual Economic Review of his Council of Economic Advisers, as required under the Employment Act of 1946. The contents of the Report are an elaboration of the views and recommendations given by the President in his Message on the State of the Union two days earlier. The text of the President's "Economic Report" follows:

President Truman

To the Congress of the United States:

The people of the United States have just enjoyed another year of bountiful prosperity. This has enabled us further to strengthen our economy at home, and further to supplement the recovery of freedom-loving peoples elsewhere who seek lasting peace.

The resourcefulness of American business, the skill of our labor force, and the productivity of our agriculture have lifted our standards of living beyond any prewar expectation. We have achieved these blessings through the happy combination of our free institutions, our system of private enterprise upon which we primarily rely for economic results, our vigorous government, and the mutual respect and trust that we all hold for one another. My pledge to all elements in our economic system is that their government will continue to steer a course guided by full recognition of these values. Toward this end, I ask of all the cooperation and confidence upon which our way of life depends.

Let us all remember that our unparalleled prosperity has not been maintained by chance, and that we can lose it if we leave the future to chance. Courageous and positive action has contributed to our progress, and some of the most serious difficulties still confronting us exist because our thought and action have not been sufficiently clear and vigorous.

As we work together in 1949 to combat the remaining dangers of postwar inflation, we should bear always in mind that our purpose is at the same time to build strong bulwarks against deflation and depression, and thus to consolidate our past gains and move forward to new levels of sustained prosperity for all.

This third annual Economic Report, under the Employment Act of 1946, affords not only the President but also the Congress and the whole country still another occasion to look to our current economic position, to draw courage from our progress, and to benefit by our mistakes. Now is the time to formulate and execute a practical program of immediate and long-range economic measures pointed toward stability and growth.

Sources of Our Economic Strength

The year just ended has tested the strength of our economy, and challenged our ability and willingness to act to protect our prosperity. When 1948 opened, the inflation which had attained threatening proportions in the preceding months was continuing unchecked. Prices were rising everywhere. They brought higher but uneasy profits to business firms. They squeezed the family budget of workers, who in turn sought to press wages upward as the cost of living advanced. The rising spiral created more and more maladjustment among prices, wages, and other incomes.

Early in 1948, a sharp break in grain prices spread concern throughout the economy. Commodity speculation, fed by a world demand of unprecedented magnitude and intensified by our own short corn crop, had carried the prices of wheat and corn to levels which could not be sustained. The market structure collapsed of its own weight. On Feb. 13, the price of cash wheat was 25% or 74 cents a bushel lower than it had been a month earlier.

But this break did not set off a train of consequences similar to those which, following World War I, had turned the boom into a deflation of unusual depth and rapidity in 1920-1922. In 1948, the decline of the speculative grain market did not bring unemployment, cutbacks in production, general unloading of inventories, or abandonment of plans for capital investment. Our economy showed strength sufficient to withstand shock of a kind which had ended earlier inflations with collapse.

The reasons for this were not just that we were luckier in 1948 than we had been in 1920. Affirmative national policies and greater caution in the business community combined with other developments to make the economy more shock-resistant. The farm price support program guaranteed that the collapse of grain prices would not go far enough to impoverish the farmers, to curtail the farmers' demand for the products of industry, or to bring about a chain reaction of price breaks in other markets. As the price drop was localized, it did not cause cancellation of the buying and investment plans of businessmen and consumers.

Nor was the farm price support policy the only source of our strength. Our whole financial and banking structure was stronger and more resilient than in the early twenties. Our businessmen, having become better informed, were more prudent. Our working groups were better supplied with current income and accumulated savings. Our social security and related policies added to the feeling of stability. The government had so employed a large budget surplus as to prevent the inflation from becoming as hectic as it otherwise would have been; and such policies served to moderate the extent of the reaction. This combination of private and government action helped us to avoid serious trouble last year, although it was not effective enough to terminate the inflationary trend which was soon augmented by the defense program and by the reduction in taxes. Nor did we develop an adequate protective program against hurtful deflation in the future. We must now look to an improved combination of basic private action and supplementary government action to develop still better remedies and safeguards.

Our escape from the danger of a general recession in the Spring of 1948 does not mean that no further dangers will appear, or that we can wait until they descend upon us in full force before taking wise preventive measures. We have been granted a breathing spell, but we have not been granted lasting prosperity without further effort and vigilance. So long as the rising course of incomes and activity continues, there will be in operation many of the forces which have been responsible for the long-sustained advance of prices. There are a few sectors of our economy where dangerous inflationary forces continue to be predominant. For example, the shortages of steel and electric power, and the steadily mounting costs of public utility services, add further to the higher costs of production which up to now have been rather readily passed on to the consuming public.

The recent appearance of wider areas in the economy where supply conditions have improved, where the pressure of demand has been reduced, and where price inflation has been halted or reversed, should be looked upon as a desirable development to be welcomed rather than feared. It marks the beginning of the process by which a more stable condition can be reached after a long period of rising prices. But these adjustments have not proceeded far enough to justify a cessation of concern about inflation. Besides, a sharp and uneven adjustment of prices downward may cause dislocations quite as serious as the sharp and uneven movement of prices upward. Since both factors may be at work in different parts of the economy at the same time or in rapid sequence, we need to have available a range of governmental measures which can be applied as brake or as accelerator according to the need.

While the prosperity of the postwar years has been great, it has rested in considerable part on somewhat temporary factors which were the aftermath of war. In 1949, we are entering a period of harder tests. The momentum of war-created demand and war-created purchasing power has waned, and we must now rely more fully on currently generated purchasing power to absorb a full output of goods and services. We must be more than ever on the alert, to make sure that withdrawal or lessening of temporary demand factors is not accompanied by a reduction of productive activity and the mounting unemployment to which this would lead.

I believe that prosperity can be continued and that, with proper action, the prospective volume of business investment, consumer spending, and governmental transactions should promote ample employment opportunities for the coming year. But many adjustments in price and income relations need to be made, and these must flow mainly from the wise action of the leaders in our enterprise economy. These leaders should draw sustaining confidence from the fact that it is the policy of the Government under the Employment Act of 1946 to use all its resources to avoid depression and to maintain continuous prosperity.

These favorable prospects will not be realized automatically. The strength of our economy, the strength of our great Nation, depends upon our capacity and willingness to adopt the salutary policies which are required by changing circumstances and to put them into effect.

In this Economic Report, drawing upon the more detailed information and analysis furnished to me by the Annual Economic Review of the Council of Economic

(Continued on page 30)

From Washington Ahead of the News

By CARLISLE BARGERON

The significant thing about Mr. Truman's attack on the steel industry in his State of the Union message is that he readily took the idea from his Leftist advisers without seriously examining it. He seems to be surprised at the furore it raised, and in effect, asks in a hurt tone, what is wrong, what has he done that should cause any excitement.

Carlisle Bargeron

There's a lot of talk about a steel shortage. All he asks is that a study be made of our needs and supply, of the question of whether we need more plant capacity, how much, whether the steel companies can or are willing to expand, etc. The government will lend them money if they want it. In the last analysis, the government may build the plants.

Now what's wrong about all this? How could anybody misinterpret his motives? He seems to be honestly taken back that any excitement should have been raised.

But the fact is that it is a revival of the agitation against the steel industry that was at a high pitch in 1941 before Pearl Harbor. The agitation then was that the steel companies, along with the automobile industry, were insisting on doing business as usual when they knew a war was coming on. The agitators became apoplectic because the automobile industry wouldn't convert to war, when they would not have had the war orders to sustain them, and because the steel industry wouldn't go out for a helter-skelter expansion. Roosevelt, at the time, of course, was insisting we were not headed for war, while at the same time moving hell bent for it.

The steel companies now will be called before Congressional committees and hammered about the conduct of their business. The agitation will be revived in full sway.

The alarming thing is that this idea (of government intervention) was picked up so quickly. It was incubated only about two weeks before it found a nest in the President's message. First, it was planted with a gossip columnist by a little economist who is working with Senator O'Mahoney. Keyserling, the Leftist on the President's economic council, planted it with the President. The Council as a whole, didn't sponsor it.

The episode is pretty disheartening to those of us who have been unable to see devil's horns on Mr. Truman, those of us who have defended him against charges of radicalism. Personally, I still can't see him as a radical.

But the left wing element has unquestionably moved in on him. The steel incident is but one example. You have only to take a look at the reorganized committees in Congress to appreciate the extent to which the Leftists have moved back in.

The Senate Labor Committee can boast only one Democrat, Lister Hill of Alabama, who might be said to have the slightest balance and this is highly debatable. The make-up of the committee is characterized by such extremists as Murray of Montana, Claude Pepper and the new whirlwind, Humphreys of Minnesota.

Mr. Truman's most loyal apologists are having a hard time explaining the appointment of Dean Acheson as Secretary of State. He admittedly played with the Left-wing crowd and admittedly was in good standing with the pro-Russian school of the State Department. Now we are being told that sometime before he left the department he had had a change of heart and was the author of the get-tough with Russia policy. Maybe so.

But it is also a fact that in the course of policies he evolved or had to do with evolving, Poland ended up with a loan for $19,000,000. Acheson's law firm is registered at the State Department as representatives for the Polish government.

Mr. Truman's apologists contend that Acheson was the only one of experience that could be called upon for the job. In this highly involved game of global politics we are now playing, we need men well acquainted with the European brigands, we are told, men who know them by their first names, can match them in the game of intrigue. The field of such experienced men narrows down to international lawyers. Dewey was to have John Foster Dulles, member of the country's largest international law firm, as his Secretary of State, had he been elected. This was on the theory that he had had wide experience in dealing with these foreign birds. Mr. Truman chose from another international law firm. The international lawyers have had experience in keeping their European clients in and out of jail, in straightening out their financial entanglements, helping them borrow money, doing the many things an international lawyer does for his clients. It is a decidedly new theme in the conduct of our foreign affairs. Maybe a solution for the muddled situation of our State Department would be to farm out the conduct of our foreign policy to an international law firm for a fee. If we do it should be done on a contingent arrangement; in other words, the firm paid according to the amount of trouble it keeps us out of.

The explanation being made in behalf of Mr. Truman and the steel incident is that having failed as a haberdasher he has a deep and abiding sympathy for the small business man; nothing radical about it, he just naturally has this feeling.

Many little fellows are feeling a squeeze because they can't get steel. This touches Mr. Truman's heart. So why not make this little gesture towards them.

This writer, however, can't escape the source of the steel attack and the fact that Mr. Truman took it up so readily, paying no attention to his conservative advisers who argued against it.

Doyle, O'Connor Adds

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—John R. Doyle has been added to the staff of Doyle, O'Connor & Co., Inc., 135 South La Salle Street.

With Geo. C. Lane & Co.

(Special to THE FINANCIAL CHRONICLE)

NEW HAVEN, CONN.—Russell H. Mower is with George C. Lane & Co., Inc., 70 College Street.

Equity Capital—Whose Problem Now?

By FLOYD L. CARLISLE, JR.

Noting decline in portion of population now investing in common stocks, writer places responsibility for educating and encouraging increased individual interest in private securites on corporations as well as securities industry. Says corporations should advertise their securities in newspapers and magazines.

Industry constantly needs equity capital. The "free enterprise" system demands it. If industry doesn't acquire it from the public it may have to take it from the government—and then "free enterprise" may cease to exist as such. "Wall Street" used to provide industry with equity capital. Twenty years ago in "Wall Street" there were many important underwriting firms with large capital. These firms had many wealthy friends and clients. They would actually "underwrite" new equity capital issues with their own funds because they believed they could resell such issues to others at a profit. Today these real "underwriters" and substantial investors have practically disappeared from the market either because their capital has been shrunken by high inheritance taxes and "redistributed" to others or because the chances of large profits are dimmed by the prospect of high income taxes which must be paid from such profits, making the risks out of all proportion to the prospective rewards. And it looks as though these taxes are likely to stay for some little time.

Floyd L. Carlisle, Jr.

The brokerage machinery of "Wall Street" has been developed to handle "trading" in securities among experienced and reasonably wealthy investors for a small commission. These "investors" aren't trading much anymore. Their wealth, too, has been "redistributed" to others or has been stagnated by the tax structure. And taxes no longer permit accumulation of substantial wealth from earned income.

The Potential Investors

The "people"—the farmers, the workers, the successful young men in the professions, in business and in industry, or the financially inexperienced heirs of our former capitalists, now have or are getting most of the wealth—but for the past 16 years or more, these people have been so strangely educated in economics that they have come to mistrust big business, the financial fraternity and the stock market. A recent survey by the Federal Reserve Bank indicates that only about 5% of the people in this country with accumulated savings have any portion thereof directly invested in common stocks of American corporations. "Wall Street" has not yet reorganized its system and methods to sell its functions and its wares to the big new market for securities represented by the remaining 95%. Its present profit margins can't possibly permit it to do so.

Corporations Must Help

Can industry afford to wait for "Wall Street," with its own lack of capital, its lack of practical ability quickly to reorganize its methods, and its lack of trained young salesmen, to take the lead in the obviously necessary educational and selling job ahead? The time may be too short. After all this job shouldn't be "Wall Street's" prime responsibility. "Wall Street" presumes to represent the investor's interests rather than the corporation's. Corporate securities are, after all, the product of the issuing corporation — not of the broker.

If our "free enterprise" private ownership economy is good, all of our people, in amounts reasonable to their circumstances, should be educated and encouraged to invest a portion of their savings in corporate securities generally, not only in the company by which they are employed, but in securities of a widely diversified character. And for the protection of these investors such investments should and can be selected and supervised by men of integrity, experience and good judgment in investment affairs.

How to Proceed

Our leading corporations now have the most effective existing channels of communication, with this new potential market. Why, then, shouldn't they embark upon an immediate and aggressive campaign of their own to explain to the people the social and economic advantages of prudent and systematic investment in corporate securities? This can be done by public statements, by articles in employee and consumer house organs devoted to thrift and systematic savings and the part that corporate equities can play in such savings programs. It can be done by investing a proper portion of employee benefit and employee savings funds in such securities. It can be done by paid advertising in our newspapers and magazines. It can be mentioned on present radio programs.

"Wall Street" incidentally has already set up the machinery for intelligently supervising the investment of such savings through its many able analysts in the principal investment banking and brokerage firms, the investment counsel organizations and especially in the many rapidly growing mutual investment companies.

After all, industry helped sell billions of government war savings bonds to the people. The same technique applied to corporate securities could be equally productive and perhaps give "Wall Street" the help it needs to aid industry most effectively in this big task.

Have Prices Risen More Than Incomes?

By E. W. ECKARD

Professor of Business Administration, University of Arkansas

Professor Eckard, on the basis of his statistical analysis of gross national product, incomes and prices, concludes that prices have risen less than money income in comparison with prewar years and hence real income is higher now than in prewar period. Bases conclusion on: (1) consumers are spending a smaller percent of their disposable personal income; and (2) consumers' prices have risen less than income as evidenced by comparison of price indexes with incomes.

I

During the past two or three years the complaint that prices have risen more rapidly than money incomes is commonplace. A matter of public policy is at stake: namely, will a fourth round of wage increases be asked for and granted? There are many variants of this complaint and the one that generally receives the most sympathy is to the effect that while other prices and incomes have been rising rapidly the income of the person making the complaint has been lagging. For the most part this comparison is made between the present and some not too clearly defined period prior to World War II. For the sake of convenience the five year period 1935-39 inclusive will be used since many indexes are computed with this period as the base.

E. W. Eckard

Statements condemning high prices generally refer to high prices of consumers' goods since approximately 95% of our disposable personal income is spent for consumption. It is difficult to say which field of consumers' goods receives the most attention because of high prices. In many cases it is suggested that prices have become so high that total ability to buy has been exceeded. The idea that by some device or other all of us have been gypped in this boom period is fairly common. Or, to restate the last proposition, real incomes have fallen because prices have risen more rapidly than money income.

The word "income" is used herein to refer to money value of income in accordance with the use of the term in the income accounting figures released by the Department of Commerce. The term "real income" will be used to denote the sometimes elusive concept of what the money income will buy in the way of consumers' goods. In our attempt to arrive at a real income figure we shall use the figure released as "disposable personal income" rather than "personal income" because the latter includes "payments to governments." If disposable personal income has risen with respect to prices then we can assume that real incomes are higher now than they were before the last war. But if the contrary is true we have suffered a decline in real income. There are at least two approaches to the problem of determining whether real incomes have risen since the 1935-39 period: (1) through a comparison of the increase of income with the increase of some index of the cost of living; and (2) by means of a study of the behavior of appropriate income flows. Let us proceed to consideration of the two approaches in the order mentioned.

II

A comparison of the rise in monetary income from prewar days to postwar times with a concurrent rise in various price indexes will serve as an aid in forming a conclusion as to whether prices have risen more than incomes since the period 1935-39. However, considerable care must be exercised in the choice and use of such indexes. If we use the Consumers' Price Index (Department of Labor) we find that prices have risen less rapidly than incomes. See Table I for a summary of changes.

TABLE I

Index Numbers of Disposable Personal Income, Consumers' Prices, Meat Prices, and Per-capita Disposable Personal Income in the United States

(All figures are index numbers with the average of 1935-39=100)

	1935-39	1947	1948 (First Half)
Index of disposable personal income	100	262.2	280.2
Consumers' Price Index (Department of Labor)	100	159.2	169.2
Meat component of the Consumers' Price Index	100	217.1	236.7
Per-capita disposable personal income	100	234.1	250.2

Source: Department of Commerce "Survey of Current Business." The index for per-capita disposable personal income was computed by adjusting the disposable personal income index to take into consideration a 12% increase in population.

Stated as index numbers with 1935-39 as the base the figures on disposable personal income (shown in Table II) became 100 for 1935-39, 262.2 for 1947 and 280.2 for the first half of 1948. When adjusted for a postwar increase of 12% in population the per-capita disposable personal income index numbers become 100 for 1935-39, 234.1 for 1947 and 250.2 for the first six months of 1948. At the same time the Con-

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Television—A New Impetus To Motion Picture Industry

By SPYROS P. SKOURAS*
President, Twentieth Century-Fox Film Corp.

Asserting television, combined with radio and motion picture industries, will reach height of success and prosperity and be of great service to humanity, leading motion picture executive warns film industry is going to have headaches before adjustments are perfected. Contends, eventually whole new technique, with vastly larger audience, faces all three industries, with films as backbone of entertainment. Sees television combined with films, creating a new entertainment-seeking public.

Radio and motion pictures complement each other and combined, both have attained great success. So, now, television, with the aid of motion pictures and radio, and the great facilities it affords, all three combined, will reach the height of success and prosperity and service to humanity. But let us not take everything for granted that all is serene in the amusement and entertainment world. Television is going to give us many, many headaches and and many ups and downs. Before these great predictions will be realized, we will go through many stormy periods.

Spyros P. Skouras

Gentlemen, let me express the opinion that we are tinkering with no mere little gadget or passing fad of the times. We are dealing with no midget marvel of the moment. We have on our hands a mighty giant, and until it is fully grown and developed, it will plague us and upset us and give us many headaches. But once it is developed, not only will it affect the present styles and patterns of the amusement world, but the whole future of the human race.

Democracy has found a new weapon, peace a new fleet-footed envoy. A medium that can depict the good life with instantaneous effect, while it is being lived, and, at the same time, can record the tragedy of conflict as it is waged, surely, will hasten world brotherhood. The possibilities are as illimitable as the perfection of television is inevitable.

There is no question that the motion picture industry and radio will feel the impact of this growth of television and that there will have to be an adjustment period. However, I see no basis whatsoever for those who cry "panic" and darkly predict that it will mean the eventual destruction of the motion picture industry and radio. On the contrary, in my opinion, television will give to the motion picture industry its greatest impetus since the advent of sound.

Of course, motion pictures are going to have headaches, but let me tell you something about television too. You, gentlemen of radio, enjoy a kind of blessing, whether you know it or not, in that you deal only in sound. Your listeners can fill in the mind's eye, with whatever images are conjured by the sound alone.

Let me illustrate:

When I questioned the casting of our picture, "Wilson," Darryl Zanuck recorded the whole dialogue—and honestly, the record was more appealing to me, had greater emotional and dramatic impact, more tragedy, than when I saw the picture. "Wilson" was a great picture, too, and gentlemen, greatness will be what is expected of you. You had better prepare for it.

Sound alone, in public entertainment, can escape much critical disfavor because in this instance the audience uses its imagination, and the human imagination can do perfect casting and acting. When it *sees* the show also, it is a different matter.

It has been comparatively easy for radio, but we have been facing this problem for many years.

A whole new technique, a whole new world of achievement, an entirely changed setting and a vastly larger audience now confronts you with a challenge.

When between 15 and 20 million television sets will be in use in homes, and television in theatres will be in common use, then the motion picture radio and television will be one.

Theatre television will be by wire transmission. There is no question about that. The vast facilities of the new art will bring thousands of theatres, nationally and internationally, together for unsurpassed shows, attracting all ages and types of people. Then will be added to the motion picture-television audience some 50 to 60 million people in the United States alone who now seldom see pictures.

With the facilities of television, a part of the trinity serving this audience, all of the headaches in time will be eased and the bumps will be ironed out so that the finest amusement, the greatest prosperity and the most effective service to the public will result. The zenith in entertainment will be reached.

Of course, the backbone of entertainment will be films. The radio show today is generally a

(Continued on page 42)

*Excerpts from an address by Mr. Skouras before the Radio Executives Club of New York, New York City, Dec. 30, 1948.

Dealer-Broker Investment Recommendations and Literature

It is understood that the firms mentioned will be pleased to send interested parties the following literature:

Common Stock Program for Investors—Data on stocks of over 55 companies in 25 major industries—G. H. Walker & Co., 1 Wall Street, New York 5, N. Y.

Copper—Review—Hirsch & Co., 25 Broad Street, New York 4, N. Y.

Gold Stocks—Memorandum—Lauterwasser & Co., 145 Sutter Street, San Francisco 4, Calif.

New York City Bank Stocks—Preliminary indicated earnings for 19 stocks for 1948 in special bulletin—Laird, Bissell & Meeds, 120 Broadway, New York 5, N. Y.

Oil Industry—Analysis of the **Outlook**—Eastman, Dillon & Co., 15 Broad Street, New York 5, N. Y.

Also available is a comparative analysis of **American Can** and **Continental Can**, a bulletin on **Railroad Developments**, and a circular on **Zenith Radio Corp.**

Preliminary New York Bank Earnings—Tabulation of data on 19 New York banks—New York Hanseatic Corporation, 120 Broadway, New York 5, N. Y.

Railroad Bonds in 1948 and Prospects for 1949—Goodbody & Co., 115 Broadway, New York 6, N. Y.

Also available are an analysis of **Abbott Laboratories** and leaflets on **Archer-Daniels-Midland, Commonwealth & Southern Corp., Creole Petroleum Oils, Lionel Corp., Sharon Steel, Stewart-Warner, Texas Co., Wisconsin Central** and **Youngstown Sheet & Tube.**

Reorganization Plans—Current developments in **Niagara Hudson Power Corp., Central States Electric, American Power & Light, Commonwealth & Southern, Standard Gas & Electric, Electric Power & Light** and **American & Foreign Power**—Ira Haupt & Co., 111 Broadway, New York 6, N. Y.

Stocks for the Future—Data on **Tracerlab, Inc.; Beryllium Corp.; Lindsay Light & Chemical Co.; Finch Telecommunications** and **The Girdler Corp.**—Coffin, Betz & Sullivan, 123 South Broad Street, Philadelphia 9, Pa.

Western Canada Oil Industry—Data—Charles King & Co., 61 Broadway, New York 6, N. Y.

* * *

C. I. T. Financial Corp.—Data—Robers & Co., 61 Broadway, New York 6, N. Y.

Crane Company—Memorandum—J. R. Williston & Co., 115 Broadway, New York 6, N. Y.

Durez Plastics & Chemicals, Inc.—Analysis—William A. Fuller & Co., 209 South La Salle Street, Chicago 4, Ill.

Electric Power & Light Corporation—Analysis—Newburger, Loeb & Co., 15 Broad Street, New York 5, N. Y.

Also available is a memorndum on **Budd Company.**

Kingan & Co.—Memorandum—McCarley & Co., Vanderbilt Hotel Building, Asheville, N. C.

Northern States Power Company, Minn.—Special write-up—A. C. Allyn and Company, Inc., 100 W. Monroe Street, Chicago 3, Illinois.

Pennroad Corp.—Memorandum—A. M. Kidder & Co., 1 Wall Street, New York 5, N. Y.

Public National Bank & Trust Co.—Analysis—C. E. Unterberg & Co., 61 Broadway, New York 6, N. Y.

Also available is an analysis of **Miles Shoes, Inc.**

Schenley Industries, Inc.—Detailed analysis—E. F. Hutton & Co., 61 Broadway, New York 6, N. Y.

Skilsaw, Inc.—New memorandum—Ames, Emerich & Co., Inc., 105 South La Salle Street, Chicago 3, Ill.

Strawbridge & Clothier—Memorandum—H. M. Byllesby & Co., Stock Exchange Building, Philadelphia 2, Pa.

Also available are memoranda on **John B. Stetson** and **Warner Company.**

Sunshine Consolidated, Inc.—Detailed analysis—Aetna Securities Corp., 111 Broadway, New York 6, N. Y.

Texas Union Oil Corp.—Information—Stewart J. Lee & Co., 60 Wall Street, New York 5, N. Y.

United Kingdom 4% Funding Loan—Write-up—Zippin & Company, 208 S. La Salle Street, Chicago 4, Ill.

Utah Power & Light—Write for data attention of R. H. Burton—Edward L. Burton & Co., 160 South Main Street, Salt Lake City 1, Utah.

For Chile Bond Issues Schroder Trust Agent

Schroder Trust Company has been appointed successor agent for the following dollar bond issue of the Republic of Chile:

Twenty-year 7% external loan sinking fund bonds, dated Nov. 1, 1922, due Nov. 1, 1942.

Railway refunding sinking fund 6% external bonds, dated Jan. 1, 1928, due Jan. 1, 1961.

External loan sinking fund 6% bonds, dated Sept. 1, 1928, due Sept. 1, 1961.

External loan sinking fund 6% bonds, dated March 1, 1929, due March 1, 1962; and

External loan sinking fund 6% bonds, dated May 1, 1930, due May 1, 1963.

Viewpoint on President's Message and the Outlook

By H. J. SIMONSON, JR.*

President, National Securities and Research Corporation

Investment analyst, after consideration of the President's message on State of the Union, foresees a slight decline in peak levels of 1948 in current year, most recessions coming in latter half. Looks for little change in interest rates and stock yields, with money in circulation remaining at present level. Says a recession will be moderate and will be cushioned by huge money supply, high government spending, full employment at high wages, record private savings, relatively high farm earnings and near record of individual incomes.

For the last two hours I have been holding a telephone conference with our staff in New York. They heard the President's message there, while I heard it here. Dr. Macaulay, Dr. Winkler, our two economists, Vice-President Chadwick and seven of our senior executives conferred on the economic effects of the Message. I now present their report.

H. J. Simonson, Jr.

The overall conclusion on the President's Message by our staff was that it was just about what was expected. There were no surprise requests. It followed the Democratic program in every detail. Conspicuous by their absence were any statements as to the cost of the program. Also, economically, it seemed to us to be the typical New Deal unsoundness, as he wants to protect the economy from boom and bust by having business expand output, promote employment and at the same time he wants to raise taxes $4 billion. Now that the news is out, however—and it is not as bad as many people thought—we concluded that the market effect should at least temporarily be quite favorable. It is the old story of uncertainty that prevails, then you know what the conditions are, and when you do know them, it doesn't seem as bad as you thought it would.

We have been concerned somewhat by the voting of Southern Democrats and Republicans on the changes in the House rules procedure, as this raises the question as to how effective the expected coalition between the Republicans and Southern Democrats will be in preventing or at least reducing costly legislation. However, it seems likely to us that some of the items in the President's Message will be modified substantially and over all we are satisfied that the 81st Congress does not want a severe recession, much less a depression.

I will cover a few of the individual items and our viewpoints on them. First, it is obvious that government expenditures will be high. The defense program will be continued. As to universal training, we question whether that will become effective or not. There is quite a lot of opposition to it. Farm supports will, of course, be enacted. We expect legislation will extend the present farm supports rather than to permit the lower supports to become effective next year.

On the matter of taxes, the President says he needs $4 billion. Notice he doesn't say how it is to be raised exactly; but he did say that corporations should stand the bulk of it; that personal income taxes may have to be increased in rates in the middle and upper brackets; and that the estate and gift taxes should be increased.

It is our conclusion that we will not have an excess profits tax this year. We do expect corporate taxes to be increased up to about 45%. We think an increase in estate and gift taxes will become effective. As to personal taxes, we have some question about it, although it may be that we will get some slight increase in the upper brackets. That is largely dependent on the fact that the corporate rate being held down to about 45% will necessitate the raising of funds from other sources; actually the increased corporate taxes on the basis of one basic point, accounts for $300,000,000 of revenue to the government; so if we take the 38% current rate, increase it to 45%, we have seven basic points increase, times $300 million, which is a $2.1 billion increase. So if we get the 45% corporate rate it will only increase the revenue $2.1 billion, whereas he is talking $4 billion. We think that the chances are great that he will get about $3 billion with corporate and estate and gift taxes, and we are quite confident there will be no E.P.T.

The statement this morning was that the Federal Budget must be balanced and a substantial surplus created to reduce inflation and also the debt. It has been part of the Democratic program and also President Truman's wishes for the last couple of years to effect some reduction in the debt each year. We think we are going to have a reduction in the debt this year. In speaking of this year, I mean the fiscal year ending June 30, 1950, which will be the year covered in his Budget Message, which is going to be delivered in a few days. On the basis of the reduction in debt of about $2 billion, it is quite necessary that the corporate income of the country be very near as high as it has been in the past or else we are going to have some deficits. We don't think the program will provide for any deficit financing, but rather that the administration will see to it that the necessary funds to retire a couple of billion dollars of the government debt will come from various forms of taxes, primarily corporations, estate and gift taxes, and possibly a small amount from individuals in the higher brackets.

On the question of housing, the President presented a very modest program, in our opinion. He said that the government wants to promote and encourage low cost rental housing. Further, he said he wants an increase of one million units over the next seven years. He wants to promote the idea of reducing building costs. How he is going to do that, I don't know, when he is talking about permitting wages to go up. The only other answer to it, of course, is if there can be an in-

(Continued on page 37)

*An address by Mr. Simonson at the Los Angeles Stock Exchange Club to a group of securities dealers, Los Angeles, Cal., Jan. 5, 1949.

Illinois Brevities

Halsey, Stuart & Co. Inc., headed four groups of underwriters, offering (1) on Dec. 10 $9,720,000 New York Central RR. 2⅝% equipment trust certificates, due serially from 1950 to 1964, at prices to yield 1.55% to 2.90%, according to maturity; (2) on Dec. 16 $15,740,000 Southern Pacific Co. 2⅛% serial equipment trust certificates, series Z, due serially from 1950 to 1959, inclusive, at prices to yield 1.45% to 2.45%, according to maturity; (3) on Jan. 5 $6,400,000 Illinois Central 2¼% equipment trust certificates, series BB, due serially from 1949 to 1959, at prices to yield 1.40% to 2.50%, according to maturity; and (4) on Jan. 6 $2,060,000 Florida East Coast Ry. 2¾% equip. trust certificates, series K, due serially from 1949 to 1959, at prices to yield 1.50% to 2.95%, according to maturity.

* * *

A nationwide group of investment bankers, jointly headed by the First Boston Corp., New York, and Halsey, Stuart & Co., Inc., Chicago, on Dec. 7 offered to the public $150,000,000 American Telephone & Telegraph Co. 25-year 3⅜% debentures due Dec. 1, 1973, at 101.61 and interest. Other Illinois investment houses participating in this offering were William Blair & Co., Bacon, Whipple & Co.; H. M. Byllesby & Co. (Inc.) Mullaney, Wells & Co., F. S. Yantis & Co., Inc., Farwell, Chapman & Co., Detmer & Co., E. W. Thomas Co., Dempsey & Co., Mason, Moran & Co., Patterson, Copeland & Kendall, Inc., Sills, Minton & Co., Inc., Alfred O'Gara & Co., Ketcham & Nongard and Straus & Blosser. The offering, which represented the largest individual corporate public financing operation this year, was oversubscribed.

* * *

The annual reports of three of the largest meat packers in this country, Armour & Co., the Cudahy Packing Co. and Swift & Co., covering the fiscal year ended Oct. 30, 1948, shows that results for that period were disappointing, although sales were in excess of or nearly equal to those for the fiscal year ended Nov. 1, 1947. The principal cause of the lower earnings was the fact that the major plants of the three companies were strikebound for 2½ months. The sudden and sharp break in meat prices in February of 1948 was also a factor. The consolidated figures are as follows (000's omitted):

ARMOUR & CO. AND SUBSIDIARIES

52 Weeks Ended—	Oct. 30,'48	Nov. 1,'47
Sales & other inc.	$1,993,784	$1,958,211
Net after taxes, etc.	*1,965	30,903
Earns. per com. sh.	Nil	$6.76
Current assets	282,143	266,496
Current liabilities	109,241	113,123

*Net loss.

THE CUDAHY PACKING CO. AND SUBS.

Fiscal Years End.—	Oct. 30,'48	Nov. 1,'47
Sales & other rev.	$567,877	[illegible]
Net after taxes, etc.	1,013	7,122
Earns. per com. sh.	$0.36	$4.32
Current assets	73,509	67,409
Current liabilities	36,700	27,006

SWIFT & CO.
(Including Wholly-Owned Domestic and Canadian Subsidiaries)

Fiscal Years End.—	Oct. 30,'48	Nov. 1,'47
Sales & other inc.	$2,364,372	$2,251,826
*Net aft. taxes, etc.	27,889	34,335
*Earnings per share	$4.71	$5.80
Current assets	322,775	281,708
Current liabilities	115,610	75,243

*Before provision for high cost additions to fixed assets—$10,000,000 in 1948 and $12,000,000 in 1947.

* * *

A. G. Becker & Co., Inc. on Dec. 9 headed an investment banking syndicate which publicly offered 34,000 shares of 5% sinking fund preferred stock (par $50) and 70,000 shares of common stock (no par value) of Younker Bros., Inc., Des Moines, Ia. The preferred was offered at $50 per share, and the common at $26 per share. Included among the underwriters were Central Republic Co. (Inc.), William Blair & Co., Stifel, Nicolaus & Co., Inc., Bacon, Whipple & Co., Sills, Minton & Co., Inc., Straus & Blosser, Holley, Dayton & Gernon and Mullaney, Wells & Co. The net proceeds are to be used, in part, to retire unsecured bank loans, totalling $1,500,000, and the balance will be added to working capital.

* * *

Pullman, Inc., on Dec. 9 announced that it had decided not to file a bid on Dec. 13 with the Office of Alien Property of the U. S Department of Justice for acquisition of a controlling interest in two rayon-fibre companies — North American Rayon Corp. and American Bemberg Corp. — which the stockholders were advised in the corporation's third quarter 1948 statement was under consideration.

* * *

Halsey, Stuart & Co., Inc., the sole underwriter, on Dec. 15 publicly offered $5,000,000 of New Bedford Gas & Edison Light Co. 25-year 3% notes, series A, due Nov. 1, 1973, at 100.50% and interest.

* * *

The preferred stockholders of Liquid Carbonic Corp., Chicago, on Jan. 28 will consider approving a long-term loan of $10,000,000, the net proceeds to be used as follows: $8,900,000 to retire present bank loans and the balance to be added to working capital.

* * *

Paul H. Davis & Co., Chicago, is included among the group of investment bankers which underwrote an issue of 69,590 shares of common stock (par $1) of Ferro Enamel Corp., which were first offered to the latter's common stockholders of record Dec. 29, 1948 at $16.75 per share on the basis of one new share for each five shares held. Rights expired on Jan. 12, 1939. Subsidiaries operate plants in Illinois in Chicago and Kirkland. The net proceeds are to be added to Ferro Enamel's general treasury funds and used for general corporate purposes of the company and its subsidiaries, including the carrying of inventories and receivables.

* * *

Cherry-Burrell Corp., Chicago, in December borrowed $4,000,000 from the Prudential Insurance Co. of America. The loan is evidenced by a 3½% promissory note due serially to Dec. 1, 1963. The proceeds were used to retire $2,400,000 of bank loans and to increase working capital. The loan is payable at the rate of $300,000 each year from 1953 to 1963 at which time the unpaid balance of $1,000,000 will mature. Current assets at Oct. 31, 1948 amounted to $13,496,482, and current liabilities $3,060,620. For the fiscal year ended Oct. 31, 1948, net sales totaled $28,574,329 and net profit after income taxes was $952,549, or $1.57 per common share, as against $32,158,427 and $2,630,868, or $5.33 per common share, respectively, in the preceding fiscal year.

* * *

Another group of investment bankers, headed by Halsey, Stuart & Co. Inc. on Dec. 9 publicly offered $12,000,000 Alabama Power Co first mortgage bonds, 3⅜% series due 1978, at 102.75 and interest. Mullaney, Wells & Co., F. S. Yantis & Co., Inc. and Patterson, Copeland & Kendall, Inc., of Chicago, also participated in this offering.

Halsey, Stuart & Co. Inc. also headed other groups of underwriters, who on Dec. 8 publicly offered $5,500,000 first mortgage and collateral trust bonds, 3¼% series due 1977, of the Potomac Edison Co. at 102.46 and interest and $7,500,000 Oklahoma Gas & Electric first mortgage 3¼% bonds, due 1978, at 102.52% and interest. Mullaney, Wells & Co. also participated in the latter offering.

* * *

In litigation of far reaching interest and implication for the nation's television and radio receiver manufacturing industry, Motorola, Inc., Chicago, on Jan. 5 filed suit in Federal District Court at Chicago for patent infringement against Admiral Corp., also of Chicago. The suit seeks both permanent and preliminary injunctions against Admiral Corp., assessment and accounting under court decrees of all damages caused by the alleged infringement of patents, costs and legal fees, and judicial award of triple damages following the accounting. Ross Siragusa, President of Admiral Corp., stated that "in my opinion the allegations in the suit are completely unfounded."

* * *

Western Light & Telephone Co., Inc., which operates in Kansas, Missouri, Oklahoma and Iowa, offered to its common stockholders of record Dec. 1, 1948 the right to subscribe on or before Dec. 15, 1948 for 47,206 additional shares of common stock (par $10 per share) at $20 per share, on the basis of one additional share for each five shares held. The unsubscribed shares were underwritten by a group of investment bankers headed by Harris, Hall & Co. (Inc.), and including, among others, Julien Collins & Co. The utility firm also arranged for the sale to six institutional investors, at 101.39 and interest, of $2,500,000 first mortgage bonds, series C, 3¾%, due Dec. 1, 1978, through Harris, Hall & Co. (Inc.).

* * *

Federal Judge Michael L. Igoe, at Chicago, Jan. 3 issued an order postponing for 60 days all bankruptcy, liquidation and receivership actions against the Tucker Corp. On Jan. 6, he ordered activity at the corporation's Chicago plant confined to a "shutdown" basis indefinitely. Preston Tucker, President, was enjoined from disposing of any of the corporation's assets during the aforementioned 60-day period. The Tucker firm was reported to have current assets of $6,270,141, including only $731,401 of cash and United States Treasury notes, as of Nov. 30, while current liabilities were said to be $1,423,558.

* * *

American Hospital Supply Corp. has placed privately, through Harris, Hall & Co. (Inc.), Chicago, an issue of $1,250,000 4¼% sinking fund notes due Dec. 1, 1963.

* * *

Jewel Tea Co., Inc., Barrington, reports that retail sales of $13,225,028 for the four weeks ended Dec. 4, 1948 were the highest for any four week period in the company's history. This is a gain of $1,970,138, or 17.5% over the same period a year ago. Retail sales for the 48 weeks ended Dec. 4, 1948 were $140,642,118, an increase of $23,766,525, or 20.3% over last year.

* * *

A registration statement was filed with the SEC on Dec. 30 covering 82,500 shares of common stock, par $10, of Insurance Exchange Building Co., Chicago, of which 41,000 shares will be underwritten by Central Republic Co. of Chicago. The proceeds will go to five selling stockholders.

* * *

United Stockyards Corp. reports for the year ended Oct. 31, 1948, a consolidated net income, after charges and Federal income taxes, of $477,421, which was equivalent to $1.26 per share on the convertible preferred stock and 66 cents per share on the common stock. This compares with a net of $602,222, or $1.59 per preferred share and $1.05 per common share, for the preceding fiscal year. As of Oct. 31, 1948, current consolidated assets totaled $3,114,258 and current liabilities amounted to $1,559,700.

* * *

Television Fund, Inc., Chicago, reports that net asset values at Oct. 31, 1948, amounted to $274,983, equal to $9.12 a share on 30,158 outstanding shares, with securities carried at market values of $169,525 and $107,628 cash.

* * *

Morris L. Levinson, President of Chen Yu, Inc., Chicago, announced the sale on Jan. 3 of the Chen Yu business to Wm. R. Warner & Co., Inc., who will operate it through their affiliate, Richard Hudnut Sales Co. He added that the sale did not include a line of deordorant pads and cleansing pads, which items will continue to be made and sold by a division headed by Mr. Levinson which will be known as 5-Day Laboratories, Inc.

* * *

A letter of notification was filed with the SEC on Dec. 28 covering 4 000 shares of capital stock of Reliance Mutual Life Insurance Co. of Illinois, to be offered at $25 per share, the net proceeds to be used to increase surplus. There will be no underwriting.

* * *

The consolidated net profits of H. W. Gossard Co., Chicago, and its subsidiaries for the year ended Nov. 30, 1948, amounted to $632,222, equal to $2.92 per common share, as against a net of $537,987, or $2.48 per common share, for the preceding fiscal year. At Nov. 30, 1948, net working capital was $2 995,788, compared with $2,980,829 a year before.

* * *

A letter of notification was filed with the SEC on Dec. 31 covering 3,100 shares of common stock, par $1, of Oxford Electric Corp., Chicago, to be underwritten by Townsend, Graff & Co., New York, N. Y. It is proposed to offer the stock at $4 per share for 1,800 of the shares and $3.87½ per share for the remaining 1,300 shares.

* * *

Operations of the Florsheim Shoe Co., Chicago, resulted in a profit of $1,515,586 after adequate provisions for doubtful accounts, depreciation, Federal income and other taxes. This was equivalent to $2.22 per share on 373,671 shares of class A common stock and $1.11 per share on 618,120 shares of class B common stock outstanding, and compares with

(Continued on page 42)

Sleight-of-Hand-Out

By JO BINGHAM

Bingham Survey Associates

Holding fundamental question in social security is how much we can, and, not how much we shall, dish out, writer points out it may be a see-saw mechanism, that redistributes poverty instead of wealth. Cites increasing burden of dependency and other similar payments on current product, and foresees diminution of real income by producers through tax slices from current product pie to maintain social security payments.

The vision of a socially-secure land flowing with milk and money to which we can help ourselves is leading us from Hamlin. "Enough for all" is a piper's song of security which lures us from the ring of ax and anvil, and dims the other sounds of men at work. So widespread is the belief in the economic paradise to be created by a comprehensive scheme of social security, that to have any reservations about it is almost heresy.

Jo Bingham

Nevertheless, if all the talk of social security were compressed down to one fundamental, the question would be, how much can we dish up? and not, how much shall we dish out?

Money talks, but it doesn't tell the real story of social security. Essentially, money payments for social security neither produce nor pay for social security benefits. Money is merely a medium of exchange. The coin of the realm of security is work. What people produce at any given time is the only source of goods and services—including social security benefits.

Current product is the source of all the food, shelter, clothing, tobacco and trinkets purchased, whether they are bought with income from property or investment, from wages, or from unemployment benefits or public assistance. Those who purchase with wages are exchanging a part of their own current product for a part of the current product of others. But there is no equivalent exchange or balance of current product by those who purchase with what are called "transfer payments," that is, with pensions, public assistance and social security benefits. These may be called "dependency" payments, and they represent a burden upon the current product of others. A readily understandable illustration of this burden—this sharing of product—is the heavy levy of the Federal individual income tax. The greater the imposition of taxes to take care of increasing dependency payments, the shorter become the rations of all. The privilege of receiving without the corollary responsibility of producing, has an averaging effect on incomes and standards of living. It is a see-saw mechanism. By whatever degree it redistributes wealth, it also redistributes poverty. And it is possible to tip the balance so far as to lead to economic disaster.

The Oregon Proposal

A current, and somewhat startling indication of this is the result of a proposal submitted to the people's vote in Oregon on Nov. 2, 1948. Oregon cradled the Townsend plan, and since 1938 the people have defeated such proposals three times. The 1946 Townsend pension proposal of $100-at-60, which was to have been financed by a 3% transaction tax, was roundly defeated. The tax carried by the proposal made it clear who would pay for it, and how. But the 1948 proposal merely instructed the Legislature "to provide and pay . . . a minimum monthly pension of $50 (and) to feed, clothe, house, and provide hospital, medical, dental and other needed care . . ." This was different. It didn't look as if the voters had anything to lose, and they passed it.

Where were these pensions to come from, that the Legislature was "to provide and pay?" It was clear to persons more analytical than the majority of the voters had evidently been, that the people of the State would ultimately have to produce the revenue to pay the pensions. How much would it cost? Estimates ranged from $50,000,000 to $200,000,000 annually. The entire budget of the State of Oregon is only about $100,000,000 a year. Was the State then facing bankruptcy? Was the proposal as passed binding upon the Legislature? What would happen? One thing that happened was a slump in the Oregon bond market. Immediately after it was known that the proposal was passed State or local Oregon bonds received no bids; and bids already made were actually withdrawn on a $2,000,000 issue. A Salem, Oregon, news release reported the contrite Townsend Club as saying, "We didn't intend it. We don't want to bankrupt the State."

It is obvious that "the vote that shakes the turrets of the land" can also weaken or wreck the fiscal foundations of its government. In California and Washington, recently passed proposals for expanding old-age assistance are expected to cost those states $125,000,000 and $37,500,000 a year, respectively. And for the State of Washington this is reported to involve an annual deficit.

Burden of Dependency Payments

However, despite the concentration of West Coast examples, this trend of increasing the burden of dependency payments is not localized. It is nationwide, and has been the reaction of impetus first given by the passage of the Social Security Act in 1935. This began the great forward motion of welfare programs. Public assistance payments for the country as a whole rose from $657,000,000 in 1936 to $1,183,000,000 in 1946. In the same period benefit payments reported by the Social Security Administration for the social insurances and related programs[1] rose from less than a half billion to over $5,000,000,000. The combination of these assistance and insurance payments indicate the growth of government responsibility for individual and family security. Totals follow for selected years:

Year	Dollars in Thousands
1936	$1,115,608
1940	2,223,686
1944	2,062,141
1946	6,334,805

Source: From *Facts and Figures in Government Finance:* 1948-1949, The Tax Foundation, Tables 21 and 22.

But those public assistants, unemployment, retirement and like benefits are not the only payments which are a drain on the current product. There are additional government payments, and a minor amount of business payments, for which no current services are rendered. In that sense they are a passive, unproductive segment of the economy. However, although they do not represent earnings arising from the current production of goods and services, they do represent demand upon it. Each dollar of these payments will buy as much of the current product as a dollar from rents or wages, although it has not made an equivalent contribution to the current product. In this category ("payments for which no current services are rendered") the Department of Commerce classifies not only social insurance and relief payments but also: all Federal, State and local pensions, including military both veterans terminal leave and subsistance allowances; government life insurance benefits, etc. The recent totals reflect unusual war-connected payments not to be expected regularly. But this difference would be offset by the upsurge of payments under new social security legislation now in the promotional stage: expansion of coverage, temporary disability and compulsory health insurance.

The fact that such new provisions are being groomed for public acceptance makes it all the more important that the real burden of their implementation be recognized. Even under the social welfare programs now in operation, more and more of a net drain is being made on current product. Perhaps the least complicated way to indicate this is by relating all transfer or "dependency" payments made to individuals, to the total of personal income received by individuals, of which transfer payments are a part. The following dollar figures were reported by the Social Security Administration, but unfortunately this relationship and its significance were not mentioned.

	(Dollars in millions)			
	1929	1933	1940	1946
Personal income	$85,127	$46,629	$78,347	$177,217
Transfer payments	1,499	2,113	3,119	11,319
Ratio	1.8%	4.5%	4.0%	6.4%

Source: Social Security Bulletin, Federal Security Agency, December, 1947, p. 40.

In a time of peace when wartime tax rates are still imposed and will probably be increased to meet the demands of enveloping government, this is a trend which cannot help but diminish the real income of the producers and render relatively smaller all the cuts from the current-product pie. Nearly a dozen billions for dependents at home, the already depleted Marshall Plan billions for those abroad, several anticipated additional billions for the social security plans that are already laid but not yet out of the legislative shell, and the $50 to $55 billion it now costs to support our Federal, State and local governments, combine into a net[2] burden which requires the utmost of the nation's productive capacities.

It is not that we *cannot* have all this, or that we shouldn't; it is merely that doing is prerequisite to having. The materials for security at home and abroad must be produced before their promise can be fulfilled. And yet the trend is more toward promise than fulfillment. For example, there is an enlarging proportion of aged persons in the population, and a diminishing proportion of the age groups which supply the labor force; yet there is continued pressure for retirement at an age earlier than the 65 that is now common. Workers want longer payments of larger unemployment benefits, which must come out of the product of employment; and yet there are demands for various kinds of payments to employed workers for time which is not devoted to the creation of product. There are demands for health and welfare benefits to be provided by industry as well as by government; but there are also demands for a reduction of the working hours which produce the wherewithal for such benefits, without any adjustment of wages to offset the loss of potential product.

The vital question is not the catchy refrain, "Where's the money coming from?" The answer to that is taxes, and "There shall be appropriated . . ." If legislation legerdemain is to pull anything but Harvey out of the hat, the decisive question is, "Where's the *product* coming from?"

1 Includes retirement and disability payments under Railroad and Civil Service Retirement Acts, veterans' pensions and sickness benefits in Rhode Island and California.

2 There is a certain duplication of government transfer payments in the total government expenditure figure here given.

B. Seligman Joins Townsend, Graff & Co.

Bertram Seligman has become associated with Townsend, Graff & Co., 15 Broad Street, New York City, members of the New York Stock Exchange, as manager of the firm's unlisted trading department. Mr. Seligman was previously with Ward & Co.

Bertram Seligman

Young & Gersten Formed in NYC

Theodore R. Young and Henry B. Gersten announce the formation of Young & Gersten with offices at 40 Exchange Place, New York City, to transact a general brokerage and unlisted securities trading business.

Formation of the new firm was previously reported in the "Chronicle" of Dec. 23.

Henry Blair Opens

Henry Blair has opened offices at 41 Broad Street, New York City, to engage in the securities business. Mr. Blair was formerly a partner in Alvin V. Filer & Co.

Bank and Insurance Stocks

By H. E. JOHNSON

This Week—Insurance Stocks

It will be a number of weeks yet before annual reports and detailed information are available on the operations of the leading five insurance companies for 1948. The interim period provides an opportunity to review other happenings for the year just ended. One of the most important factors in this connection, from the standpoint of the stockholders, is the market fluctuation and trend of security prices for the various insurance shares.

After a considerable period of trendless fluctuations during 1947 and the first quarter of 1948, the general market for insurance stocks turned firm and moved upward. By June it had reached the highest level in over a year and a half, possibly in anticipation of improved operating results for the first half of 1948.

Following the rise there was a general reaction and most shares declined until the end of August or for about two months. After this there began an upward movement which continued until the end of the year and carried insurance shares to the best levels in over two years.

While these comments reflect the general movements of a selected list of insurance stocks, there have been considerable variations in the shares of various companies. A number of stocks are still selling below their 1947 highs. Others have surpassed their previous peaks and in some cases are near the levels reached in 1946.

In considering the individual shares, however, it should be remembered that a number of companies have issued rights to subscribe for additional shares. In some cases this has reduced the market value of existing shares because of the matter of dilution.

For purposes of comparison the following tabulation presents the market record over the past two years for a selected list of leading fire insurance stocks. In addition to the price range for 1947 and 1948, the market price at the end of the respective years is shown. Also the change in the market value of the shares between Dec. 31, 1947 and December 31, 1948 is included.

	—1947— Price Range High Low $	—1948— Price Range High Low $	—Bid Price— Dec. 31 1947 $	1948 $	Change from 1947 to 1948 $
Aetna Insurance	56½-42¼	49½- 41	47½	49	+ 1½
Agricultural Insurance	76 -57	67 - 51	58½	61	+12½
American Insurance	20 -13¼	18½- 14⅞	15⅛	17⅞	+ 2¾
Boston Insurance	68 -56	72 - 52	64	65½	+ 1½
Continental Insurance	55½-44	64 - 48½	55	63⅞	+ 8⅞
Fidelity-Phenix	59¼-46¾	69½- 53	57	68½	+11½
Fire Association	61 -44	61 - 44½	44½	60	+15½
Fireman's (Newark)	14⅝-10	15⅜- 11¼	12⅛	15¼	+ 3⅛
Glens Falls	51¼-38½	48¾- 40¼	41½	48½	+ 7
Great American	31⅝-24¾	32¾- 26	26⅛	31½	+ 5⅜
Hanover Fire	27 -23½	32 - 23¾	23¾	31¾	+ 8
Hartford Fire	110½-94½	122 -100	105	121	+16
Home Insurance	28¾-22¾	30 - 23	23	29	+ 6
Ins. Co. of No. America	100¼-85½	108 - 92	95½	106	+10½
National Fire	55 -40	49½- 41	41½	49	+ 7½
New Hampshire	51¾-41	45 - 40	42	42	--
North River	25 -20¾	25½- 21	22½	25	+ 2½
Phoenix Insurance	95 -72½	90 - 73½	77½	87	+ 9½
Providence-Washington	37 -30¼	35 - 30½	31¼	33½	+ 2¼
St. Paul Fire & Marine	73½-63	81 - 66	68	76	+ 8
Security Insurance	32½-23	31½- 23	23	31½	+ 8½
Springfield Fire & Mar.	45½-37¼	46¾- 40	41¾	44	+ 2¼
U. S. Fire	53½-43½	60½- 45½	46	60½	+14½

It is of interest to note that all of the above stock prices with the exception of New Hampshire were higher at the end of 1948 than at the beginning of the year. While a few show only small changes, there are some that show substantial gains. Another point of interest is the fact that a considerable number of the shares in the above list ended 1948 near the high range for the year.

This is in contrast to the action of the Dow-Jones Industrial Average which stood at 181.16 at the end of 1947 and closed the year 1948 at 177.30. While it must be recognized that undivided stocks in the Averages have done better than the composite would indicate, it is felt that the performance of insurance stocks during 1948 was favorable and considerably better than other industrial groups.

Correction—In compiling the figures on bank stocks for last week's column an error was made in one of the deposit totals of the First National Bank of New York. Instead of deposits of $523,323,000 at the end of 1948 and $465,321,000 at the end of 1947, the correct figure for 1947 should have been $591,578,000. Considering this correction, the deposit trend of First National for 1948 is the same as for most other banks.

F. L. Putnam & Co. Appoint, Ellis, Pope

BOSTON, MASS.—F. L. Putnam & Co., Inc., 77 Franklin Street, members of the Boston Stock Exchange, have promoted Harold J. Ellis to Sales Manager and Robert W. Pope to Assistant Sales Manager. Both have been with the firm for some time. Mr. Ellis in the past conducted his own investment business in Boston.

Firm Name Changed to Aal and Golkin

Announcement is made that the firm name of Young, Aal & Golkin, 115 Broadway, New York City, has been changed to Aal & Golkin. Partners in the firm, which acts as dealer and broker in listed and unlisted securities, are Clarence J. Aal and Saul Golkin.

Jerome C. Aal

Janareli Co. Admits Peyser as Partner Eckstein Rejoins Firm

Joseph Janareli & Co., 120 Broadway, New York City, announce that Benjamin F. Peyser has been admitted to general partnership and that J. Francis Eckstein is now associated with the firm. Both were formerly with Montgomery, Stone & Peyser, as President and Secretary-Treasurer, respectively, prior to the dissolution of this firm at the year-end.

Howard G. Paterson has retired as a general partner of the Janareli organization it was announced.

Meridian Industrial & Financial Company

Announcement is made of the formation of the Meridian Industrial and Financial Company, Inc., with offices at 30 Pine Street, New York. Among other activities is the purpose of purchasing and financing European investments and deblocking of accounts. L. D. Silberstein, formerly associated with banking firms in Amsterdam and London, is President of the corporation.

Giles Montanye With Frederick L. Free Co.

Frederick L. Free & Co., 19 Rector Street, New York City, announce that Giles Montanye is now associated with the firm.

Allan MacDuffie Opens Own Law Firm

Allan MacDuffie will open his own offices to specialize in securities and corporate law. Mr. MacDuffie has recently been with McLanahan, Merritt & Ingraham and prior thereto was an attorney with the Securities and Exchange Commission.

Firm Name Is Now Doll & Isphording, Inc.

CINCINNATI, OHIO—Effective Jan. 3 the firm name of Van Lahr, Doll & Isphording, Inc., Provident Bank Building, was changed to Doll & Isphording, Inc. Officers are Willis E. Doll, President, and Robert B. Isphording, Vice-President. The new corporation will continue to specialize in general market municipal bonds in which it has been engaged for over 18 years.

LETTER TO THE EDITOR:

Philip Cortney States Position On Excess Profits Tax

Replies to A. Wilfred May's "Observations" and Again Defends His Attitude.

The Editor, "The Commercial and Financial Chronicle":

The letter you were good enough to print in your issue of Dec. 30 was intended for Wilfred May, the economist, and for other economists. In last week's "Commercial and Financial Chronicle" I got an answer from "Naughty Will," as we call him affectionately among friends.

Philip Cortney

I am willing to stand by what I said before the American Statistical Association and what I have written in my letter to you dated Dec. 28. I must refute, however, Wilfred's presentation of my thesis. He says that I "enthusiastically endorse" the excess profits tax. Now, anyone who reads the "Commercial and Financial Chronicle" may have seen a number of statements by me against any abuse of taxation. There is no doubt that the power to tax is the power to destroy and confiscate property. Quite recently in a meeting sponsored by the National Conference Board I stated that there ought to be a limitation on taxation in the Constitution.

Then he proceeds to argue that I am advocating "under the guise of an excess profits a punitive wartime backlog impost."

Strangely enough, Wilfred May doesn't answer any of the economic reasons advanced in the preference I expressed for an excess profits tax against an increase in the general corporate tax, **in case we have to choose between two evils.**

My argument was simply that the maladjustments and distortions created by the war have left us with a situation making for a very defective operation of the price mechanism and for the punishment of those industries who have not enjoyed a backlog of demand pent up during the war. I then added that any increase in taxation, or for that matter in wages, could only accentuate the imbalance of our economy due to an abnormal demand for certain goods (automobiles, in particular) pent up during the war.

There is no doubt that one of the worst effects of inflation and deflation is that it distorts the normal relationships between prices, costs, etc. To the extent that the Government interferes with the economic processes, it is its duty to help as prompt a restoration as possible of the normal relations between the various segments of our economy.

This is all I said and nothing else. In the light of these considerations I expressed a preference, for economic reasons, for a reasonable excess profits tax rather than a general increase in a corporate tax, much as I am opposed to the very principle of an excess profits tax. For the corporations enjoying a privileged situation as a result of abnormal backlog of demand built up during the war, I doubt that it will make much of a difference whether they pay 20% excess profit rather than an increase of 10% on the total profit. The Government seems to be aware of the situation because I find, in Truman's economic message to Congress, the following statement comparing the relative merits and demerits of an excess profits tax versus an increase in general corporate tax **in the present economic circumstances:**

"The excess profits tax has these advantages: It is sensitive to changes in business conditions, and therefore will rapidly reduce its demands on taxpayers in the event of a recession; it is difficult to shift to the consumer; it reduces incentive to increase prices; it may reduce the pressure for increases in wages of a kind that would be inflationary.

"An increase in regular corporation rates has certain advantages, too, 'provided the increase is moderate,' the Council added. It has administrative simplicity; it avoids the high marginal rate that would exist in some concerns under an excess profits tax, and that might lead to a relaxation of marginal efficiency; and it avoids some of the inequities which might result under the excess profits tax.

"In any event, the non-economic elements involved in the choice between these two types of taxes, or in a combination of the two, make it clear that the decision should rest on the broadest grounds of policy."

Sincerely yours,
PHILIP CORTNEY

Jan. 10, 1949
New York City.

La Salle Street Women To Hear Dr. M. Palyi

CHICAGO, ILL. — La Salle Street Women are looking forward with interest to hearing Dr. Melchior Palyi's views on "The European Loophole Economy" at their next dinner meeting on Thursday, Jan. 20, at the Cordon Club, 410 South Michigan Avenue, inasmuch as Dr. Palyi has recently returned from a two months' sojourn in Europe where he studied conditions in the Marshall Plan countries.

Dr. Palyi was born in Hungary and educated in Switzerland and Germany. He has lived in this country since 1933 and is an American citizen. His varied career in Continental countries, Great Britain and the United States, combined practical business activities with academic work in some of the leading universities both here and abroad.

His work as visiting professor and research economist for three of our large universities has developed into broad literary and platform pursuits. He has broadcast on the University of Chicago Round Table of the Air and the Northwestern University Reviewing Stand; and for a year was news commentator for a Chicago radio station besides having written many articles for the "Commercial and Financial Chronicle."

Gaines With Day, Stoddard

(Special to THE FINANCIAL CHRONICLE)

NEW HAVEN, CONN.—William W. Gaines has become associated with Day, Stoddard & Williams, Inc., 95 Elm Street. Mr. Gaines in the past was an officer of Edward M. Bradley & Co., Inc.

With Steiner, Rouse & Co.

NEW ORLEANS, LA.—George R. Andry is with Steiner, Rouse & Co., Maritime Building.

The Forgotten War Debts

By PAUL EINZIG

Commenting on failure of the British Government to enter into negotiations to scale down its foreign war debts as required by the Anglo-American Loan Agreement, Dr. Einzig points out because of shifting of ownership and the commingling of these debts with others, the dividing line between wartime and postwar sterling balances has disappeared and, because of this, Britain is now in worse position to demand scaling-down than at end of hostilities.

LONDON, ENGLAND.—The temporary agreement on Egypt's wartime sterling balances expires on Dec. 31, and negotiations have been initiated in Cairo for its renewal. The report announcing this has passed almost unnoticed; indeed very little attention is paid nowadays to the problem of the £3,500,000,000 war debt owed by Britain to overseas countries. The gross mismanagement of this problem by the Socialist government, and by Sir Stafford Cripps in particular, goes a long way towards nullifying their claim of achievements on the road to Britain's reconstruction.

Dr. Paul Einzig

It is a pity the United States did not insist in 1945, when the Loan Agreement was negotiated, that before the $3,750,000,000 loan is placed at Britain's disposal, all war debts would have to be in accordance with the principles laid down in the Loan Agreement. This would have meant that the claims of overseas countries would have had to be scaled down, and the balance, apart from a reasonable amount to be released, would have had to be funded for a long period. Even though most creditor governments would have been reluctant to agree to terms acceptable to Britain, the British Government, thanks to moral support by the United States Government, would have been able to take a strong line, and the creditor governments would have had to fall in line eventually with an American-British funding scheme, as an alternative to a complete blocking of their claims for an indefinite period.

Instead, the British Government allowed things to drift. An unduly large part of the sterling balances was repatriated in the form of purchases in Britain, as a result of which Britain's capacity to export to countries which paid in goods or hard currencies was correspondingly reduced. Further large amounts were released in dollars in a series of temporary agreements. Britain has thus used up the dollars available for this purpose without securing in return either the funding of the debt or its scaling down. As a result, its bargaining power to secure the creditors' consent to funding or scaling down has dwindled down considerably. Further, large amounts have been converted into dollars during the period of sterling's convertibility, as a result of the inadequacy of the control that should have prevented the conversion of old sterling balances.

In spite of such reductions in the size of individual wartime balances, the grand total of Britain's external floating debt does not seem to have changed very much since 1945. This is because Britain has been borrowing from Peter to repay Paul. This is only natural, seeing that her trade balance has been adverse, and that the dollar assistance has barely sufficed for meeting the deficit. The net result of the decline of the sterling balances of some countries and the increase of those of other countries has been that the sterling balances have lost their original character. They can no longer be regarded as war debts. Even within the totals held by any particular country there have been extensive changes of ownership. To a large degree the dividing line between wartime and postwar sterling balances has disappeared. This means that Britain is now in a much worse position to demand a scaling down than she was immediately after the termination of the hostilities. At that time the sterling balances constituted a political debt. Now they constitute largely a commercial debt.

The government's attitude in the matter of sterling balances underwent a perceptible change when Sir Stafford Cripps replaced Mr. Dalton as Chancellor of the Exchequer. Mr. Dalton repeatedly declared his intention of putting forward counterclaims for the services rendered by Britain to the creditor countries during the war by helping to maintain their independence and integrity. The Prime Minister endorsed this attitude, which had thus become the declared government policy. Since the advent of Sir Stafford Cripps very little was heard of counterclaims. He appears to have abandoned the idea of insisting on a scaling down of the balances. Any Parliamentary questions trying to elicit information as to when the government will present counterclaims are met with the usual evasive answers.

And yet, under the Loan Agreement, Britain has definitely undertaken to obtain a scaling down of the sterling balances. It is to be hoped that Washington will remind London that the undertaking is in force and must be honored.

Roy H. Warme Joins Investors Syndicate

MINNEAPOLIS, MINN. — Roy H. Warme, formerly General Sales Manager for the Moduflow Division of Minneapolis Honeywell, has just joined the sales force of Investors Syndicate, Roanoke Building. Grady Clark, General Sales Manager of Investors Syndicate, in making the announcement added that Mr. Warme would be connected with the Minneapolis office of the company.

Roy H. Warme

Mr. Warme started with Honeywell as Sales Promotion Manager, and had been with them for eight years. Past President of the Sales Managers Association of Minneapolis, he is presently Regional Director of The National Federation of Sales Executives.

Albert R. Spearow Opens

BUTLER, MO. — Albert R. Spearow is engaging in a securities business from offices at the Inn Hotel Building.

COMING EVENTS

In Investment Field

Jan. 14, 1949 (Baltimore, Md.)
Baltimore Security Traders Association 14th Annual Banquet at the Lord Baltimore Hotel.

Jan. 17-18, 1949 (Sea Island, Ga.)
Meeting of Board of Governors of the National Association of Securities Dealers, Inc.

Jan. 20-22, 1949 (Buffalo, N. Y.)
Board of Governors of Association of Stock Exchange Firms Annual Winter Meeting.

Jan. 20, 1949 (Chicago, Ill.)
La Salle Street Women Dinner Meeting at Cordon Club.

Jan. 25, 1949 (Chicago, Ill.)
Chicago Bond Traders Club party at the Bal Tabarin Inn of the Hotel Sherman.

Jan. 26, 1949 (Minneapolis, Minn.)
Twin City Security Traders Association Winter Party at the Radisson Hotel.

Jan. 28, 1949 (St. Louis, Mo.)
Security Traders Club of St. Louis Winter Party at the Chase Hotel.

Feb. 12, 1949 (New York City)
Friday Night Bond Club Annual Dinner Dance at the Hotel Pennsylvania.

Feb. 14, 1949 (New York, N. Y.)
New York Curb Exchange Annual Election.

Feb. 15, 1949 (Detroit, Mich.)
Detroit Stock Exchange Annual Dinner at the Hotel Statler.

Oct. 5-9, 1949 (Colorado Springs, Colo.)
National Security Traders Association Annual Convention at The Broadmoor Hotel.

Dec. 4-9, 1949 (Hollywood, Fla.)
Investment Bankers Association Annual Convention at the Hollywood Beach Hotel.

Walter Thomson Opens

HOUSTON, TEX. — Walter P. Thomson is engaging in a securities business from offices at 4033 Homestead Road.

Foresees Predominance of Air Travel

Ralph S. Damon, President of American Airlines, tells Investment Association of New York there will be no transcontinental rail travel quarter century hence.

The air transportation industry is getting a constantly bigger piece of a constantly shrinking travel pie, Ralph S. Damon, President of American Airlines, told members of the Investment Association of New York at a luncheon meeting at Oscar's Oldelmonico Restaurant on Jan. 11th.

Ralph S. Damon

The total travel market, railroad, bus and plane, which was fairly constant at about 30 billion passenger miles per year from 1920 to 1940 except for a dip during the worst depression years, and which peaked at 120 billion passenger miles during the war, including troop movement and all travel, may be expected to run about 61 billion passenger miles this year, Mr. Damon said.

Pointing out that no one can foresee how far the current total travel market will shrink, Mr. Damon ventured a prediction that it would ultimately get down nearly to its pre-war level of 30 billion passenger miles. "With our industry getting about 6 billion of the current total of passenger miles, we can begin to see ahead to a normal ceiling for air transportation," he said.

Looking ahead, he stated that within five years the operational regularity of the air lines may be expected to be up from the present 95% to between 97 and 98% and within 15 years to 99%. He also expressed the opinion that there would be no transcontinental rail travel twenty-five years hence. The greater convenience of air travel will result in the gradual discontinuance of rail service, which will then be limited to commuter service and similar special shorter services. The air transportation industry's losses will be further reduced in 1949 even without any additional air pay increments, he said.

Mr. Damon described air transportation as a high personal service industry which in a period of rising costs feels severely the squeeze of higher operating expenses. American Airlines, he stated, is flying more plane miles and more passenger miles than three years ago but with less personnel. Greater efficiency has reduced the seat mile cost with a resultant lowering of the break-even load factor. That factor, which stood at 50% in 1938, soared to 82% in 1946 after the war's end, dropped to 74% in 1947, to between 65% and 66% in 1948, and will be less in 1949.

Last month American Airlines reached an all time high in air freight, according to Mr. Damon. As an example of the ever growing use of air transport of freight, he pointed to the fact that a number of the New York stores with branches in Hollywood and other California cities are now flying plane loads of merchandise from New York to the West Coast every night.

Touching on the future of international air transportation in reply to a question, Mr. Damon expressed the view that the greatest hazard to the growth of that phase of the industry is the present day trend to nationalism and to the practice of making air transport the tool of national policy. When asked whether privately owned air lines can compete with government owned and sponsored foreign lines, Mr. Damon said, "I think they can because I have never seen a government operated business of any kind anywhere that could compete with a privately owned and operated one."

E. H. Bright Adds

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS. — Judson J. Cutler has become affiliated with Elmer H. Bright & Co., 84 State Street, members of the New York and Boston Stock Exchanges. He was previously with Townsend, Dabney & Tyson.

Canadian Securities

By WILLIAM J. McKAY

Rapidly strengthening support for the St. Lawrence Seaway and Power project suggests that action may be forthcoming at last on this long mooted scheme. Urgent power requirements in the Province of Ontario and the State of New York have accentuated the necessity for the development of additional sources of supply. The U. S. Administration has long envisaged the ultimate development of the Seaway and the local practical demand on both sides of the St. Lawrence gives appropriate impetus to the long range plan.

Until recently strenuous opposition to the scheme had emanated from the powerful iron-ore producers of the U. S. Great Lakes region. Previously these interests were of the opinion that insufficient tonnage could be moved over the Seaway to benefit the Midwest section of the United States, apart from consideration of competition from the Canadian side of the border. Now however the alarming decline of the iron-ore reserves of the great Mesabi range and the glowing promise of the Quebec-Labrador deposits as a main future source of supply has completely changed the picture.

Without the Seaway there would be the probability of Labrador ore moving down from the St. Lawrence to the Atlantic Seaboard to existing or new plants in that area. On the other hand with the completion of the Seaway, ore could be transported 300 miles by rail to tidewater on the St. Lawrence and then 1,000 miles to Cleveland, Ohio. (Lake Superior ore now moves 850 miles by water from Duluth to Cleveland.)

From the Canadian angle the possibility of securing an existing stable outlet for the huge potential production of the Quebec-Labrador field is a powerful factor in itself in favor of the Seaway. In addition to iron-ore Canada would also be able to ship at low cost directly to the industrial heart of the U. S. Midwest other natural resources with which the Dominion is so lavishly endowed. It is also possible that prairie grain might eventually be delivered from Port Arthur to European ports without transhipment.

Although Canadian opinion is not unanimously in its favor, nevertheless the implementation of this ambitious plan could have a revolutionary effect on the Canadian economic scheme. The new sealane connecting the Atlantic with the Great Lakes industrial hub would become the most active shipping route in the world. Impetus would be given to the construction of new Canadian ports which would provide access to markets for Canadian raw materials which are now immobilized for lack of transport facilities. This would further encourage the establishment of new rail connections to tidewater and thus lead to more active development of the Canadian hinterland bordering on the Seaway. In view of accessibility to cheap sources of raw materials, low-cost power, and the availability of convenient factory sites, industrial activity on the Canadian side of the Seaway would soon commence to rival that of its U. S. counterpart.

As far as general considerations are concerned a great constructive enterprise of this kind could not fail to stimulate economic activity on both sides of the border. Moreover with growing indications in this country of a natural trend in the direction of economic recession and increased unemployment, it is timely to consider the St. Lawrence Seaway and Power scheme as a constructive public works project. It would also play a notable role in the general scheme of U. S.-Canadian defense, in the operation of which the coordination of U. S.-Canadian industry and the greater development of Canadian natural resources are important factors.

During the week there was a minimum of activity in the external section of the bond market but Dominion internals displayed a steadier tone following their recent decline. Free funds were also firmer and there were indications of a cessation of the sustained selling pressure that has been in evidence since the heavy November bond redemptions. The corporate-arbitrage rate also showed notable strength. Among the stocks the gold issues were again the best performers. Although recurrent rumors of an impending rise in the official price of gold assisted this movement the real basis of strength in Canadian gold shares is the improved technical situation of the Dominion gold-mining industry, the deflated condition of this section of the market, and the underlying belief that in a world of uncertain values gold offers stability and certainty of ultimate profit. Western oils on the other hand showed a reactionary tendency after their long sustained advance, and the basemetal and industrial issues were dull and irregular.

Cooke, Jenkins & Co.

NASHUA, N. H.—Cooke, Jenkins & Co. has been formed with offices at 71 West Pearl Street, to engage in the securities business R. L. Cooke, Jr., a principal of the new organization, was formerly in business for himself in Nashua

Reynolds & Co. Offers Affiliated Gas Stocks

A nationwide group of 94 underwriters headed by Reynolds & Co. is offering today (Thursday) new issues of 40,000 shares of $3 cumulative preferred stock, with non-detachable common stock purchase warrants, and 1,000,000 shares of common stock of Affiliated Gas Equipment, Inc. The preferred stock is offered at $50 per share and the common at $9.25 per share.

In addition, the company has placed privately, through Reynolds & Co., $4,000,000 of 4% 15-year sinking fund notes, due Feb. 1, 1964.

Proceeds to be received through the sale of the preferred and common shares will be used to purchase all of the assets, subject to certain of the liabilities, of Bryant Heater Co., Day & Night Manufacturing Co., and Payne Furnace Co., three wholly-owned subsidiaries of Dresser Industries, Inc. The proceeds to be received from the private placement of notes will be used in part to pay for all the assets, subject to all the liabilities, of Bryant, Day & Night and Payne; to finance the capital expenditures of Affiliated Gas during the next 12 months; and for working capital and general corporate purposes, including the repayment to Dresser of borrowings by Day & Night and Payne.

The non-detachable warrants entitle preferred holders to purchase one share of common for each share of preferred at a price of $11.25 per share up to Jan. 15, 1954. Net proceeds from the sale of common shares pursuant to the exercise of the warrants, will be applied exclusively to the purchase or redemption of the $3 cumulative preferred stock.

The three corporations whose business and properties are to be acquired by Affiliated Gas upon completion of this financing, are engaged primarily in the business of manufacturing and selling gas heating equipment, water heaters, water coolers, and allied miscellaneous products used by the gas heating industry for the residential, commercial and industrial markets. It is the intention of the company to continue this business and to expand into the production and sale of similar equipment using allied fuels.

Through the integration of the business of Bryant, Day & Night and Payne into Affiliated Gas, the problems of engineering and design, production, sales distribution, and advertising to national markets should receive closer control and coordination than has been possible heretofore.

Pro forma balance sheet of Affiliated Gas Equipment, Inc. as of Oct. 31, 1948 after giving effect to this financing and the acquisition of Bryant Heater Co., Day & Night Manufacturing Co. and Payne Furnace Co., shows total current assets of $13,821,032, and total current liabilities of $3,908,596. Combined net profit for the year ended Oct. 31, 1948, was $2,246,314, versus net profit of $1,890,540 for the year ended Oct. 31, 1947.

Public Utility Securities

By OWEN ELY

General Public Utilities

General Public Utilities recently announced that it was filing with the SEC a new integration plan which would eventually eliminate the New York and Philippine subsidiaries. This would leave five major operating subsidiaries in Pennsylvania and New Jersey, which in turn would control four smaller companies. The system would still be a large one, with annual revenues of about $100,000,000, supplying electricity to 743,000 customers and gas to 65,000 customers.

GPU is the successor to Associated Gas & Electric which in 1940 controlled 182 companies in 27 states and the Philippine Islands. Three years ago the number had been reduced to 36 in five states and the Philippines, and at present there are 20 subsidiaries. The new plan would cut this to nine, in three areas.

Reasons for the latest plan are: (1) Probable reluctance of the SEC to approve a three-state system, or to permit gas services to be retained by the New York companies; (2) sale of at least one of the New York subsidiaries (Staten Island) had been contemplated for some time; (3) Pennsylvania subsidiaries are now controlled by the sub-holding company, Associated Electric Company, with $53,000,000 bonds outstanding, and because of indenture provisions Associated cannot pay dividends to GPU; (4) it is also difficult to finance the present construction program of Associated Electric subsidiaries because of other restrictions in the bond indenture; (5) it will be necessary for GPU to provide some $15,000,000 equity money for the system construction program in 1949, and probably more in later years.

Total system cash needs therefore appear to be $81,000,000 if all debts were to be retired. But the program is flexible and need not be completed at any particular time limit. The most pressing requirements are of course the construction program and GPU's near-term bank maturities. Substantial reduction of the Associated Electric debt, it may be conjectured, might permit refunding the balance and thus getting rid of the bothersome indenture provisions. It might also be possible to merge Associated Electric and GPU which should facilitate retaining some holding company debt. Such debt might well be a convertible debenture issue, possibly with a sinking fund. However, the present GPU plan makes no mention of these possibilities.

At any rate, two immediate steps are contemplated if the SEC approves: sale of part or all of the common stock of New York State Electric & Gas Corp. by an offering to GPU stockholders; and an accounting reorganization of Associated Electric which would facilitate resumption of dividend payments to GPU. Sale of the common stocks of Rochester Gas & Electric Corp. and Staten Island Edison Corp. may have to await clearing up of certain issues which have arisen between GPU and the New York Public Service Commission, with respect to accounting and financial readjustments (some of these questions have been successfully appealed to the New York courts). And sale or distribution of the Philippines properties (principally Manila Electric) remains in the indefinite future, because the rehabilitation program following the war has not been completed and the expansion now taking place is bringing substantially improved earnings.

While GPU is thus not committed to any early sale of properties (except for the initial sale of part or all of the New York State E & G stock), and the eventual decision might be to distribute some of them to GPU stockholders, it may be of interest to estimate how much cash could be realized currently from their sale. System earnings in 1948 are estimated at $2 a share, exactly the same as in 1947. Nineteen forty-seven equity earnings of the subsidiaries to be disposed of were as follows:

New York State Electric & Gas	$4,064,596
Rochester Gas & Electric	2,172,510
Staten Island Edison	575,747
Canada Power	79,363
Philippine Subsidiaries	1,515,491
Total	$8,407,707

All of these stocks are fully owned, so that there are no markets in minority stock to serve as a guide. If New York State E & G, the largest property, is to be sold through an offering of GPU rights the net yield to the company may be slightly lower than if it were offered by direct sale to the public. Also, the Philippine subsidiaries cannot be valued on as high a market basis as the New York subsidiaries. Judging from current market prices of unseasoned utility stocks sold or distributed to the public in 1948, it appears likely that the above securities could only be sold to average about eight times earnings, after allowing for banking commissions and expenses. On the basis of eight times 1947 earnings, therefore, the total amount realized would approximate $67,000,000. This is just about the amount required to retire the combined debt of the two holding companies, and does not allow anything for the construction program. However, System earnings are expected to improve as the result of the present construction program, the recent rate increases, and future growth (particularly in the Philippines). Also, present market multiples of earnings are well below normal and any future improvement should permit realization of a substantially larger amount than the $67,000,000 estimated above.

It would of course be advantageous to GPU stockholders to retain as much holding company debt as is permissible. Other integrated holding companies such as New England Electric System and Central & South West have been allowed to retain debts and New England Gas & Electric has both bonds and preferred stock. Sale of common stock holdings at eight times earnings, with proceeds used to retire debt at (in effect) some 20 times earnings, works to the disadvantage of stockholders by reducing share earnings sharply. In the present instance it is estimated that consolidated system earnings might shrink from $2 to around $1.38 per share and parent company earnings from $1.02 to an amount barely sufficient to cover the 80¢ dividend rate, if the whole plan were immediately consummated. Retention of some holding company debt would permit greater flexibility in the sale of New York and foreign holdings, and would also improve the earnings picture.

President Tegen, in announcing the plan, stated that it is impossible to calculate pro forma earnings at this time because of the indefinite character of the program and its timing. He stated "Such security sales are not expected to affect adversely earnings of General Public Utilities Corporation available for common dividends since earnings of Associated Electric Company upon lifting of the dividend restriction may become available to GPU in an amount approximately equal to the dividends on the securities which may be sold from time to time." Furthermore, he said, the reduction of bank debt of General Public Utilities Corporation will relieve the company of the necessity for amortization of such bank debt.

NSTA Notes

TRI-CITY PARTIES

The Tri-City parties of the National Security Traders Association will begin with the annual winter party of the Bond Traders Club of Chicago at the Bal Tabarin of the Hotel Sherman, Chicago, on Jan. 25.

The Twin City Security Traders Association will be host on Wednesday, Jan. 26, when special cars arrive from Chicago, and will entertain out-of-town traders and guests at the Hotel Radisson, Minneapolis. A cocktail hour will precede the dinner and a lively program has been arranged.

Special cars will leave the next afternoon for St. Louis. The Security Traders Club of St. Louis will entertain the visitors on Thursday, Jan. 28, with the annual dinner at the Chase Hotel.

TWIN CITY SECURITY TRADERS ASSOCIATION

The Executive Committee of the Association of Twin City Security Traders Association has appointed the following committees:

Membership—C. C. Rudd, Chairman, Piper, Jaffray & Hopwood; E. R. Gearino, Marquette National Bank; P. E. Matche, Paine, Webber, Jackson & Curtis, St. Paul.

Executive—D. N. Anderson, First National Bank of St. Paul; D. F. Goodman, Kidder, Peabody & Co.; R. S. McNaghten, Williams-McNaghten Co.

Entertainment—H. L. Field, Chairman, Jamieson & Co.; A. H. Rand, Jr., Woodard-Elwood & Co.; R. K. Pillsbury, First National Bank.

Publicity—Irving J. Rice, Chairman, Irving J. Rice & Co., St. Paul.

CIO Reveals Tax Program

Education and Research Department issues brochure recommending substantial tax cuts "for the average man" and increased levies on corporations and wealthy individuals. Defends capital gains and undistributed profits taxes.

The Congress of Industrial Organizations (CIO) on Jan. 9 released its proposals for tax revisions in an elaborate brochure prepared by its Department of Education and Research, headed by Stanley H. Ruttenberg. According to the document, "the Federal tax system is now so constituted that even relatively small tax cuts benefiting the average taxpayer would involve large revenue losses. Thus no mere dickering with expenditures will result in savings sufficient to reduce taxes for the average man and retain the budget in balance unless at the same time other taxes are increased.

S. H. Ruttenberg

"It does not follow, however, that substantial reductions in income tax for low-income individuals must await decreased budgetary requirements. Alternative sources can be found to compensate for the revenue reduction attributable to tax cuts for low-income persons.

"During the war, primary emphasis was placed on the individual income tax. Corporation tax increases were concentrated mainly in the excess profits tax. That the excess profits tax did not remove all the wartime excess profit may be seen by comparing condition of corporations now and in 1939. Cash on hand has increased from $10.8 billion to $21.8 billion, government securities from $2.2 billion to $13 billion, and net working capital from $24.6 billion to $59.8 billion, by the second quarter of 1947. The trend of accumulated corporate savings has continued since mid 1947. By the middle of 1948, working capital of American corporations, excluding banks and insurance companies, according to data compiled by the Securities and Exchange Commission, increased to $63.9 billion. Cash on hand of corporations increased slightly to $22.4 billion while the holdings of United States Government securities declined to $12.6 billion.

"While not much change occurred in current assets such as cash on hand and United States Government securities, large increases have occurred in the value of inventories in the past year. Instead of corporations' further improving their liquid asset position through cash and government securities, increased assets have gone into enlarged inventories. It is clear from developments of the past year that increasing of inventories has not been at the expense of reducing cash on hand and government securities. Corporations continued to show a strong favorable position as a result of: (1) elimination of excess profits taxes, and (2) the continued pricing policies which have resulted in the highest profit levels in the history of American corporations.

"The favorable savings position of corporations may be compared with the fact that for 1946 the lowest 40% of families, ranked by asset holdings, held 1% of total individual savings. The backlog of savings by corporations, plus the fact that corporate profits are at an all-time high, suggests strongly that an increase in corporation taxes to compensate for reduced taxes for low-income persons is necessary.

"Low income individuals continue to be victims of inflation. Their savings are being liquidated in order to meet current living expenses and to buy many of the things for which they waited during the war. Many more individuals in the $5,000 and lower income class are saving less and less, according to a recent study made by the Board of Governors of the Federal Reserve System. Since the end of the war, current net savings have become rapidly concentrated in the higher income levels.

"Thus, while corporations have been able to maintain a favorable liquid asset position, individuals not amongst the top 10%, as a matter of fact the many American individuals earning less than $5,000 a year, have not been able to maintain a favorable savings position. It is essential, therefore, that a shift in the burden of taxation be made."

The "conclusions" drawn from the above analysis are:

"(1) Immediate, substantial tax cuts for the average man are possible within the framework of the proposed budget.

"(2) Substantial reductions in expenditures are not possible until national defense, international obligations and veterans' costs are sharply curtailed.

"(3) The present debt is comfortably within the range of safety, as generally recognized by experts.

"(4) As long as employment and production hold up, operation within the bounds of a budgetary surplus seems advisable, i.e., maintenance of revenues at least to equal expenditures.

"(5) Revenues should be obtained, however, by a revised tax structure which redistributes the taxes among corporations, wealthy individuals, and low income groups."

Among the CIO recommendations are: (1) increased personal exemptions; (2) carry-over for low-income groups; (3) reduced rates for lower incomes and higher rates on large incomes; (4) closing loopholes on higher income brackets; (5) doubling the rate on capital gains; (6) removal of tax-exempt interest; (7) an integrated estate and gift tax; (8) elimination of wartime excise taxes, and (9) higher corporate taxes along with excess profit and undistributed earnings taxes.

Is the "Fair Deal" Socialism?

Keyserling and Rukeyser to debate question at New School

"The New Truman Administration—Will Its Policies and Planning Lead Us Toward Socialism?" will be the topic under discussion

Leon H. Keyserling Merryle S. Rukeyser

at the third forum dinner of the season of the New School Associates to be held at the New School for Social Research, 66 West Twelfth Street, on Tuesday, Jan. 18, at 6:30 p.m. Merryle Stanley Rukeyser, widely syndicated columnist, will speak on the affirmative; Leon H. Keyserling, Vice-Chairman, Council of Economic Advisers, Executive Office of the President, will speak on the negative. A. Wilfred May, economist and publicist, will preside.

Boren Bill Revived

Representative Carl Hinshaw introduced bill in House to amend SEC Acts to remove all regulations from exempted securities.

Carl Hinshaw

Representative Carl Hinshaw, Republican Congressman from California, on Jan. 3 introduced in the House of Representatives a bill (H. R. 420) to amend the Securities Exchange Act of 1934 so as to limit the power of the SEC to regulate any or all transactions in exempted securities. A similar bill had been introduced on Jan. 23, 1943 by Congressman Lyle H. Boren of Oklahoma which specifically aimed to remove dealings in State and municipal securities from regulatory action by the SEC under Sec. 15 (c) (1) of the Securities and Exchange Act of 1934, but failed to reach the floor of the House and thus died with the Committee on Interstate and Foreign Commerce.

The text of Congressman Hinshaw's bill is as follows:

A Bill

To amend the Securities Exchange Act of 1934, so as to limit the power of the Securities and Exchange Commission to regulate transactions in exempted securities.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That paragraph (b) of section 10 of the Securities Exchange Act of 1934, as amended, is amended by adding at the end of such paragraph a new sentence as follows: "No rule or regulation adopted pursuant to this paragraph shall apply to any transaction with respect to an exempted security."

Sec. 2. Paragraph (1) of subsection (c) of section 15 of the Securities Exchange Act of 1934, as amended, is amended by adding at the end of such paragraph a new sentence as follows: "No rule or regulation adopted pursuant to this paragraph shall apply to any transaction with respect to an exempted security."

Mohawk Valley Sells East. Rock Prods. Bds.

The Mohawk Valley Investing Co. Inc. of Utica, N. Y., has successfully placed an issue of $295,000 Eastern Rock Products, Inc., first mortgage 5% sinking fund bonds due 1954. The bonds were offered at 100 and accrued interest from Jan. 1, 1945. Proceeds will be used to retire a like amount of outstanding bonds. The company operates several stone quarries, as well as lime kilns, and sells sand and gravel. Company's business includes contracts for furnishing such supplies for new highways, etc.

NEWS ABOUT BANKS AND BANKERS

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED
CAPITALIZATIONS

Arthur S. Kleeman, President of **Colonial Trust Co. of New York,** announces the appointment of Harry S. Rowley as Assistant Secretary and Treasurer, and of Robert J. Bulkley, Jr., as Public Relations Officer. Mr. Rowley has been with Colonial Trust Co. for the last two years. He formerly was Assistant Treasurer of the Luckenbach Steamship Co., Inc., and for several years was a member of the staff of the Guaranty Trust Co. Mr. Bulkley, who has been in charge of Colonial's public relations and advertising, is a former member of the editorial staff of the New York "Herald Tribune."

* * *

Henry Morgenthau, Jr., Chairman of the Board of **Modern Industrial Bank of New York** announced on Jan. 12 the election of Rudolf G. Sonneborn to the board of directors at the annual meeting of the bank. Mr. Sonneborn has been associated since 1920 with L. Sonneborn Sons Inc. (specializing in refined petroleum, chemicals and building products) and has been an officer and director of the company since the middle twenties. A Navy pilot in World War I, Mr. Sonneborn attended Johns Hopkins University and the Harvard Graduate School before entering his present business. Mr. Sonneborn is a trustee of National Petroleum Association, a director of the Pennsylvania Grade Crude Oil Association and has served on many committees of the American Petroleum Institute. He was President of the Oil Trades Association of New York during 1935 and 1936 and thereafter served as Treasurer for ten years.

The election of Mr. Morgenthau as Chairman of the board of directors of the Modern Industrial Bank was noted in our issue of Dec. 30, page 2760.

* * *

Barnard Townsend, President of **Title Guarantee and Trust Co. of New York,** announced on Jan. 11 that Henry M. Corsa has joined the company's Bronx office in the banking department. Mr. Corsa was Assistant Vice-President of the National Bronx Bank, having been associated with the latter for the past 25 years. In his new capacity he will be located at 370 East 149th Street, the Bronx office of Title Guarantee and Trust Co.

* * *

At a meeting of the board of directors of the **Trade Bank & Trust Company of New York** held following the stockholders meeting on Jan. 11, Maxwell Hauser was elected Vice-President; Louis Schiff and Herman G. Cooperman were elected Assistant Vice-Presidents, and Charles J. Schor was elected Assistant Secretary.

* * *

Roy W. Israel, for many years Manager of the Credit Department of the **Federation Bank and Trust Co. of New York,** was appointed Assistant Secretary of the bank on Jan. 11, according to an announcement by Thomas J. Shanahan, President.

* * *

Raymond C. Ball, Vice-President of the **Chemical Bank & Trust Company of New York** on Jan. 11 was elected First Vice-President and Director of the **Phoenix State Bank and Trust Company of Hartford, Conn.,** effective Feb. 1. Mr. Ball has been associated with the Chemical Bank & Trust Company since 1926 and since 1942 has been Vice-President in charge of the bank's New England Division. He is a Director of the Bullard Company, Bridgeport, Conn.

* * *

The new Kew Gardens Hills Branch of the **Queens County Savings Bank, Flushing, N. Y.,** the oldest savings bank in Queens County, opened for business on Jan. 8 at 76-02 Main Street, Flushing, it was announced by Joseph Upton, President. William C. Rollauer, Assistant Secretary, is Manager of the branch and Carl A. Van Dusen Assistant Manager. With the new office, the bank, which will observe its 90th anniversary on April 14, will have three branches. The main office is at 38-25 Main Street, Flushing, and the other two branches are located in Corona and Little Neck.

* * *

Purchase of a controlling interest in the **Valley Stream National Bank & Trust Co. of Valley Stream, Long Island, N. Y.,** by a syndicate formed by John W. Lake, President of the Brooklyn Real Estate Board, was noted in the Brooklyn "Eagle" of Jan. 9. Mr. Lake is also Regional Vice-President of the New York State Association of Real Estate Boards. Another member of the syndicate is Thomas H. Quinn, President of the Inter-County Title Guaranty & Mortgage Co.; George Auslander, President of the National Combustion Engineering Corp., is also one of the syndicate members. From the "Eagle" of Jan. 9 we likewise quote:

"As a result of the reorganization, the new officers to be installed on Tuesday will be Mr. Auslander, Chairman of the Board; Mr. Quinn, President; Mr. Lake, First-President and mortgage officer and Grant Van Sant as Executive Vice-President. The cashier of the bank is W. Kenneth Regan.

"The Valley Stream National Bank and Trust Co. was organized in 1920. Its deposits are in excess of $11,000,000 and capital, surplus and undivided profits are over $950,000."

* * *

Augustus D. Kelsey retired as President of the **Lynbrook (Long Island, N. Y.) National Bank** on Jan. 11, continuing, however, it is said, his connection with the bank as Chairman of the board of directors. A testimonial dinner was recently tendered him by the officers and directors in recognition of his 41 years of service, Lynbrook advices to the Brooklyn "Eagle" stated.

* * *

Albert E. Cluett, Chairman of the Board of the **Troy Savings Bank, of Troy, N. Y.,** died on Jan. 3 at the age of 76 years. Before becoming chairman of the bank last July, Mr. Cluett had been Executive Vice-President since 1936. He had also been associated in an official capacity with Cluett, Peabody & Co. Inc., shirt and collar manufacturers before his retirement.

* * *

The **High Street Bank & Trust Co.,** with main offices in **Providence, R. I.,** and a branch in Cranston, changed its name at the close of business on Dec. 31 to **Citizens Trust Co.,** Lovett C. Ray, President, announced, it is learned from the Providence "Journal." The new name, it is stated, reflects the close relationship of the institution with the **Citizens Savings Bank,** with which it occupies joint banking quarters.

* * *

FIRST NATIONAL BANK AND TRUST COMPANY OF PATERSON, N. J.

	Dec. 31,'48 $	June 30,'48 $
Total resources	127,052,787	75,937,158
Deposits	117,197,705	69,684,025
Cash and due from banks	20,186,222	13,050,352
U. S. Govt. security holdings	61,586,246	35,657,700
Loans and bills discounted	18,650,509	11,898,417
Undivided profits & reserves	3,832,696	2,253,134

* * *

Kelley Graham, President of **The First National Bank of Jersey City, N. J.,** announced on Jan. 12 the election of Karl Keller, President of Keuffel & Esser Co., to the bank's board of directors at the annual stockholders' meeting on Jan. 11. Mr. Keller has been associated with Keuffel & Esser Co. for 39 years and became President of the firm in 1946.

* * *

The **Fidelity-Philadelphia Trust Co. of Philadelphia** on Dec. 26 announced the election of two Vice-Presidents in a series of 12 promotions approved by the board, according to the Philadelphia "Inquirer," which indicated that three Assistant Vice-Presidents, two Trust Officers, two Investment Trust Officers, two Assistant Secretaries and one Assistant Trust Investment Officer were included in the promotions. The new Vice-Presidents are Maurice D. Hartman and Henry D. M. Sherrerd, who were both promoted from Assistant Vice-Presidents.

The "Inquirer" also said:

Frederick H. Belfield, Raymond T. Parker and James A. Barnes were named Assistant Vice-Presidents; Conrad D. Barto and William Gauer, Trust Officers; Herbert F. Gretz and Milton H. Carr, Trust Investment Officers; Frederick G. Rogers and Walter R. Hagey, Assistant Secretaries, and Davenport Plumer, Jr., Assistant Trust Officer.

* * *

FIDELITY-PHILADELPHIA TRUST CO. PHILADELPHIA, PA.

	Dec. 31,'48 $	June 30,'48 $
Total resources	222,292,241	214,069,151
Deposits	194,004,072	185,834,819
Cash and due from banks	55,295,390	48,977,248
U. S. Govt. security holdings	59,085,762	66,895,640
Loans and bills discounted	67,797,173	61,505,842
Undivided profits	5,045,851	4,309,845

* * *

The merger of the **Liberty Trust Co.** and **the Peoples Bank,** both of **Cumberland, Md.,** became effective at the close of business on Dec. 28, under the name of the Liberty Trust Co. Charles A. Piper, President of the latter, will continue as executive head of the merged bank, said the Baltimore "Sun" of Dec. 29, from which we also quote:

"Other officers include John J. Robinson, Vice-President and Trust Officer; Thomas L. Keech, Treasurer and Assistant Trust Officer; Thomas J. McNamee, Assistant Vice-President; Edward H. McNamee, Comptroller, and C. Morgan Smith, Assistant Vice-President.

"The board of directors consists of 15 leading businessmen of Cumberland, eight of whom have served as directors of the Liberty Trust Co. and seven of the Peoples Bank. The Liberty Trust Co. had assets of around $16,000,000 and the Peoples Bank around $5,000,000 at the time of the merger. Both banks were organized in 1920."

Reference to the proposed merger appeared in our issues of Dec. 2, page 2298, and Dec. 23, page 2267.

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The Comptroller of the Currency reports that **the First National Exchange Bank of Roanoke, Va.,** increased its common capital stock on Dec. 17 from $1,600,000 to $2,000,000 through a $400,000 stock dividend.

* * *

Among promotions in the official staff of the **Central Trust Co. of Cincinnati,** recently announced by President Charles W. Dupuis, are the advancement to the office of Vice-President of Arthur E. Kluener and Alan M. Cooper, who came to the bank from the New York Trust Co. as Assistant Vice-President in 1946, was also appointed a Vice-President, it was made known in the Cincinnati "Enquirer" of Dec. 29. At the same time, the "Enquirer" stated that John O. Chappell Jr., who was elected Assistant Secretary in 1945 was promoted to Assistant Vice-President. O. D. Moore Jr., who joined the bank's staff in 1922 and held the post of Manager of the collection division of the bank's personal loan department, was named assistant cashier. President Dupuis also announced that Halsey G. Bechtel Jr., who joined the company in 1944 as Assistant Trust Officer, had been promoted to Trust Officer.

* * *

The capital of the **Farmers National Bank of Salem, Ohio,** was increased, effective Dec. 15, from $200,000 to $400,000; of the increase $100,000 represented a stock dividend of that amount, while the additional $100,000 came through the sale of new stock.

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THE FIFTH THIRD UNION TRUST CO. CINCINNATI, OHIO

	Dec. 31,'48 $	June 30,'48 $
Total resources	245,703,860	236,062,704
Deposits	225,622,849	216,416,729
Cash and due from banks	72,424,390	63,570,915
U. S. Govt. security holdings	86,300,205	67,221,385
Loans and bills discounted	69,122,244	85,981,788
Undivided profits	2,916,666	2,551,758

* * *

CHICAGO CITY BANK AND TRUST CO. CHICAGO, ILL.

	Dec. 31,'48 $	Sept. 20,'48 $
Total resources	107,790,529	108,076,553
Deposits	104,638,501	104,860,987
Cash and due from banks	22,585,654	22,402,424
U. S. Govt. security holdings	70,671,785	71,418,717
Loans and bills discounted	6,221,227	6,522,677
Undivided profits	713,486	744,135

* * *

CONTINENTAL ILLINIOS NATIONAL BANK AND TRUST CO. OF CHICAGO, ILL.

	Dec. 31,'48 $	June 30,'48 $
Total resources	2,356,427,996	2,275,210,573
Deposits	2,159,926,637	2,082,217,706
Cash and due from banks	674,458,774	629,772,380
U. S. Govt. security hold'gs	1,132,234,194	1,125,745,357
Loans and bills discounted	458,734,636	438,146,895
Undiv'ed profits	19,052,614	30,547,998

* * *

NATIONAL BANK OF DETROIT DETROIT, MICH.

	Dec. 31,'48 $	June 30,'48 $
Total resources	1,276,482,959	1,224,454,948
Deposits	1,208,312,934	1,158,836,197
Cash and due from banks	360,776,195	312,431,504
U. S. Govt. securities	600,518,487	599,435,417
Loans & discts.	231,508,406	229,383,782
Undiv'ed profits	7,712,432	6,286,998

* * *

Through a stock dividend of $100,000 the **North Shore National Bank of Chicago, Ill.,** increased its capital, effective Dec. 20 from $300,000 to $400,000.

* * *

Robert E. Straus was elected Executive Vice-President of the **American National Bank and Trust Company of Chicago** at the organization meeting of directors following the annual meeting of stockholders. Mr. Straus is a director of the company. Directors also announced the election of John H. Klug, Cashier, as Vice-President and Cashier. In the banking department, George D. Bushnell, Paul C. Raymond and Allen P. Stults, Assistant Vice-Presidents, were elected Vice-Presidents, and Weymouth Kirkland, Jr., and Frank J. O'Rourke were promoted to Assistant Cashiers. In the trust department, Clarence C. Morgan, Assistant Vice-President, was advanced to Vice-President, and Edward A. Berndt, Jr., Assistant Trust Officer, was made Assistant Vice-President. At the stockholders' meeting William G. F. Price was elected to fill a vacancy on the board. Mr. Price has resigned as Vice-President of the bank to accept the presidency of a large eastern corporation.

* * *

The stockholders of **The Northern Trust Company, Chicago,** at their annual meeting on Jan. 10 increased the number of directors of the bank from nine to ten members. William R. Odell, **Jr.,** Vice-President and Treasurer of International Harvester **Company,** was elected to fill the new place on the board. All other directors were re-elected.

* * *

Peter W. Herzog, Vice-President and cashier of **Industrial Bank of St. Louis,** has resigned, effective Jan. 7, the St. Louis "Globe Democrat" said. He had been with the bank 20 years. It is added that he plans to travel in South America.

* * *

FIRST NATIONAL BANK OF ST. LOUIS, MO.

	Dec. 31,'48 $	June 30,'48 $
Total resources	475,048,088	456,025,543
Deposits	442,113,631	423,401,310
Cash and due from banks	139,611,890	116,864,125
U. S. Govt. security holdings	142,477,429	150,810,702
Loans & discounts	178,559,506	173,763,616
Undivided profits	8,660,211	7,890,061

* * *

H. Lane Young announced on Jan. 1 his retirement as Vice-Chairman of the **Citizens & Southern National Bank in Atlanta, Ga.** His action, it is stated, ends a banking career of 50 years. Now 70 years of age, Mr. Young was eligible for retirement five years ago, but remained active through the period of postwar adjustment, said Associated Press advices from Atlanta, appearing in the Florida "Times-Union" of Jacksonville, of Jan. 2. Mr. Young was connected with the Citizens & Southern for 29 years, and had served the bank as Vice-President, Executive Vice-President, President and Vice-Chairman of the board. Among the several banks with which he had been connected before becoming identified in 1920 with the Citizens & Southern, was the National City Bank of New York.

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The promotion of Albert W. Lewis to a Vice-Presidency in the **Merchants State Bank of Dallas, Texas,** and the naming of Ted Hermann and William M. Isom as assistant cashiers was reported in the Dallas "Times-Herald" of Jan. 6, which also stated that President W. M. Beavers further announced that George Dahl and Zellner Eldridge were added to the board of directors.

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Year end promotions at **California Bank, Los Angeles,** recently announced by Frank L. King, President, included the following: To Vice-President, C. C. Pearson; to Assistant Vice-President H. V. Grice, Herbert C. House, Fred S. Huber, Rudolph Ostengaard, and Fred G. Tanner, Jr. W. H. Oliver was appointed Manager of the bank's San Pedro Office.

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Directors of **California Trust Company, Los Angeles,** at their December meeting elected Samuel S. Rolph a Vice-President, Virgil D. Sisson a Trust Officer, and William H. Light an Assistant Secretary.

New York Security Dealers Association Elects Officers for Year 1949

George Geyer, of Geyer & Co., has been elected President of the New York Security Dealers Association for the year 1949. Other officers elected at the annual meeting were David Morris, David Morris & Co., Vice-President; Herbert D. Knox, H. D. Knox & Co., Vice-President; John J. O'Kane, Jr., John J. O'Kane, Jr. & Co., Treasurer, and Chester E. deWillers, C. E. deWillers & Co., Secretary.

George Geyer

David Morris

H. D. Knox

John J. O'Kane, Jr.

C. E. deWillers

Expand Area of Mid-West Exchange Parley

According to the Associated Press, the New Orleans, Pittsburgh and Boston Stock Exchanges will sit in at the next parley of representatives of the Mid-West exchanges studying a proposed merger. As already announced in previous issues of the "Chronicle," the new organization would comprise several Mid-Western stock exchanges to be tied together by a central trading floor in Chicago. The original group comprised the exchanges in Chicago, Cleveland, Cincinnati, Minneapolis-St. Paul, St. Louis and Detroit. However, the Detroit Stock Exchange later announced its withdrawal from the proposed merger. The next meeting of delegates of the various exchanges concerned, according to James E. Day, President of the Chicago Stock Exchange, is to take place in Chicago on Jan. 21.

Pogue Decries Loss of Equity Markets

Vice-President of Chase National Bank says oil industry in 1948, used approximately $3 billion of new capital, of which only $116 million was obtained from common stock.

Only one-fifth of the new capital utilized by a group of 30 oil companies during the year 1948 was obtained outside of the industry, Joseph E. Pogue, Vice-President of the Chase National Bank, stated at a luncheon meeting of the Junior Investment Bankers and Brokers Association of Baltimore on Jan. 11.

Joseph E. Pogue

The 30 oil companies, representing about two-thirds of the petroleum industry, generated from internal operations some $2,992 million of new capital during the year as contrasted to $329 million borrowed or obtained through the sale of stock, Mr. Pogue reported on the basis of estimates prepared in collaboration with Frederick G. Coqueron of the bank's petroleum department.

Capital obtained outside the industry, Mr. Pogue said, came from the issuance of $513 million of long-term debt, supplied mostly by banks and insurance companies, and the sale of $116 million of common stock. Both borrowings from the public and the issuance of preferred stock were nil for 1948.

"The small share of capital needs obtained from public savings indicates that the equity markets are not functioning adequately in our economy," Mr. Pogue said. "The reasons for this are clear. The savings of the investing public are being siphoned off by high income taxes and the cost of living. Our equity markets also are handicapped by excessive regulations. In addition, our investment banking institutions have not yet devised means for attracting the savings of those groups whose income has increased, who are not heavily burdened by income taxes and who heretofore have not invested in American enterprise."

The high rate of capital formation in 1948, Mr. Pogue declared, enabled the petroleum industry to expand sufficiently to convert the oil shortage of last winter into an ample oil supply for all consumers in 1949.

Of the total of $3,646 million of capital available in 1948, $2,400 million or 66% were diverted to capital expenditures; $400 million or 11% went into building up working capital and $553 million or 15% were distributed in the form of cash dividends to stockholders and minority interests. The remaining $293 million or 8% were used for the redemption of debt and securities and for other investments.

Mutual Funds

By HENRY HUNT

Mr. Crabb Comments

"Based on extensive data developed by **Investor's Syndicate's** own Economic Advisory Board and research department, 1949 will be the third testing period of the American postwar economy.

"The first test in 1946 was evidenced by withdrawal of wholesale buying on the part of chain and syndicate stores in an effort to reduce merchandise prices.

"A sharp break in farm commodity prices in 1947 marked the second test of the economy.

"The third, and possibly final, phase of our postwar readjustment is already indicated by declining retail sales, disappearing backlogs, and the so-called 'cold war.'

"The ensuing year, based on present indications, will be a mixed one, economically speaking, marked by a mild recession, possibly in the first half of the year, followed by a substantial improvement later in the year. During the first half of 1949 two depressive elements are indicated:

"(1) An increase in unemployment.

"(2) A general decline in corporation earning power.

"To offset these negative factors and retard a severe economic decline are the following present favorable indicators:

"(1) Continued high level of new building and other construction.

"(2) Large government expenditures for European aid and armaments.

"(3) Increased money circulation through the payment of individual states' soldiers' bonuses.

"The outlook for the second half of 1949 is far more promising, based on the favorable indicators previously mentioned, plus these important encouraging factors:

"(1) A remarkable improvement in man-hour productivity may be expected. Since V-J Day American industry has appropriated nearly $50 billion for new plants and equipment. These reconstruction programs are nearing completion. Improved technical skill spurred on by the threat of further unemployment should result in more goods at lower costs; a boon for the consumer who once more will become a vital factor in our national economy.

"(2) The return of G.I. insurance premiums during the latter part of 1949. The size and significance of this financial disbursement has perhaps been underestimated. It should total between $2 and $3 billion, and with the bonuses paid by the various states, will greatly enhance consumer purchasing power."

An "Opinion" by the Late Justice Brandeis

"Louis D. Brandeis, late Associate Justice of the Supreme Court of the United States, a preeminent liberal of his day, espoused many ideas that were unpopular in the eyes of the 'money interests'; but he has since been recognized as a man of great wisdom and depth of intellect by a great many people—even many of those against whom his 'selfish interest' attacks were directed.

"Because he was a leading and forceful advocate of the principle of a fair deal to all—labor, business and investors alike—there must be many a 'conservative' member of our capitalistic system who would welcome Justice Brandeis as a champion of their cause today.

"Justice Brandeis died a millionaire—a rare individual on the strength of personal accomplishments these days. Few indeed can pay bills, taxes, etc., and become a millionaire; but there are a great many more people now than in Justice Brandeis' time who can provide for a comfortable retirement and a nest-egg for their children.

"Times have changed, but the wisdom of many of Justice Brandeis' utterances has become even more apparent with the passing of time. For example, on the subject of investments, he wrote in 1914, ten years before the first mutual investment company was organized:

"'The number of securities upon the market is very large. Only a part of these securities is listed on the New York Stock Exchange; but its listings alone comprise about 1,600 different issues . . . and each year [many] new listings are made. . . .

"'For a small investor to make an intelligent selection from these many corporate securities—indeed, to pass an intelligent judgment upon a single one—is ordinarily impossible.

"'He lacks the ability, the facilities, the training and the time essential to a proper investigation. Unless his purchase is to be little better than a gamble, he needs the advice of an expert who, combining special knowledge with judgment, has the facilities and incentive to make a thorough investigation'."—Quoted from **Vance, Sanders'** "Brevits."

A 34% Television Fund

"Television is the fastest growing industry in America. Its progress in the last 18 months has surpassed even the early days of the automobile, the motion picture and, yes, even radio itself. There has never been anything in the industrial history of America to equal it . . . and this is just the beginning!

"In March of 1947, there were only 25,000 video receivers in the United States. Today there are over 600,000 television receivers and David Sarnoff, President of RCA, estimates that 2,000,000 sets

Prominent Personalities

[Editor's Note—This is the first of a series of thumb-nail sketches about leaders in the mutual fund business. May we introduce Mr. Bullock?]

HUGH BULLOCK
President of Calvin Bullock

Hugh Bullock, only son and successor to the late Calvin Bullock, who founded the firm in 1894, takes his responsibilities seriously. Just turned 50 (although he doesn't look it), Hugh is a veteran of both World Wars and says that work is his only hobby. Tall, dark and handsome, he keeps his erect figure slender playing tennis, riding or swimming over weekends. During the week, he spends more time on the job than most of his employees.

Hugh Bullock

If you dropped in on Hugh at 1 Wall Street for the first time, you could be excused for mistaking the inner office for an historical museum, instead of headquarters for one of America's leading investment management groups, with some $200,000,000 under its supervision. Its walls are covered with tattered flags, military portraits and other war mementos dating back to Napoleonic times. Most of these mural decorations were collected by Hugh's father, for whom he holds a reverence that is rare in this day and age.

In the early '20s, Hugh and his father spent many months in England and Scotland studying the methods used by investment trusts in those countries. Possibly as a result of those visits with our British neighbors, Hugh is a confirmed Anglophile today and, like most of his English friends, is also a fresh-air fiend. Your correspondent, however, who keeps his apartment at a cool 65 degrees, found Hugh's office most comfortable.

Originally a Denver, Colo., firm, Calvin Bullock opened offices in New York in 1927, a London office in 1928 and a Canadian office in Montreal in 1932. Calvin Bullock sponsors the Canadian Investment Fund today, sold exclusively in Canada, in addition to its larger American funds of which Dividend Shares is the best known. Calvin Bullock funds also have a considerable number of shareholders in England.

Hugh Bullock feels that the mutual fund business is just beginning to grow and that "it is the nearest thing to democracy in American finance; it is in tune with the present trend toward a broader distribution of wealth; it fills the needs of men and women unaccustomed to investing surplus capital."

Inv. Association Luncheon Meeting

Ralph S. Damon, President of American Airlines and a Director of American Overseas Airlines, will be the guest speaker at the January luncheon meeting of the Investment Association of New York. Robert C. Baldridge of Morgan Stanley & Co., Chairman of the Program Committee announced. The luncheon will be held on Tuesday, Jan. 11, at 12:10 p.m. in Oscar's Oldelmonico Restaurant at 56 Beaver Street.

The Investment Association of New York was formed in May, 1947, as the Junior Investment Bankers and Brokers Association.

will be produced in 1949 and close to 5,000,000 annually by 1953 when it is expected that 18,000,000 video sets will be in use.

"By the beginning of 1954 it is estimated that television will be giving employment to over one million persons and will have placed over $7 billion into America's economic structure.

"Most investors realize the importance of including some 'growth' securities in their holdings but also realize the difficulties of picking the winners. This is just as true in the television business today as it was at a similar time in every new industry. The solution lies in careful selection; ample diversification and continuous supervision. **National Industrial Stocks Series** is a supervised investment in growth-type companies and currently includes these 20 issues (34% of current holdings) representing the television field.

"Admiral Corp.	"Motorola, Inc.
Cornell-Dubilier Electric	Philco Corporation
DuMont Laboratories	Radio Corporation
Emerson Electric Mfg. Co.	Raytheon Manufacturing
Emerson Radio & Phonograph	Sparks-Withington Co.
Farnsworth Television & Radio	Stewart Warner Corp.
Finch Telecommunications	Stromberg Carlson Co.
General Electric Company	Sylvania Electric Products
Magnavox Co.	Westinghouse Electric
Mallory & Co.	Zenith Radio Corp."

—From a **National Securities and Research** bulletin.

"D. G." Sees High Business Activity in '49

Corporate earnings may be expected to decline moderately in 1949, but there are no signs of an important recession in general business activity over the next 12 months, states Frank L. Valenta, Vice-President, in charge of investment research of **Group Securities, Inc.**, in the company's 15th annual report released Jan. 3.

Group Securities, Inc., reported a total of dividends paid on its various classes of shares during the year ended Nov. 30, 1948, at a record high, the regular dividends from net investment income alone totaling over $4,400,000.

Mr. Valenta cited various favorable factors in the present economic situation as a basis for optimism. He said: "An important and most heartening indication for the long-term outlook, and one that does not seem to be fully recognized, is that the sharply rising commodity prices of the past three years now appear to be leveling off and moving into a better balance. This anticipated stability and balance of commodity prices is a further step in the postwar adjustment of our economy to a normal peacetime basis."

Terming such an adjustment "necessary," Mr. Valenta continued: "It is fortunate that it probably will be achieved without involving any price collapse such as occurred in 1920-21. Continued government support will prevent any serious decline in farm prices, and a continued high level of business activity will achieve the same result for industrial prices."

New York Institute of Finance Adds Course on Selling Mutual Funds

"Retail Salesmanship of Mutual Investment Funds" is the title of a new course to be offered in the Spring Term by the New York Institute of Finance, 20 Broad Street, New York City. Ten recognized authorities in this fast growing segment of the investment business will give thorough training to salesmen of dealer and brokerage firms on "How to Sell Mutual Investment Funds."

Douglas K. Porteous, Vice-President and Sales Manager of The Cohu Corporation, instructor, will have the assistance of nine other executives in the Mutual Investment Fund field. They are: Arthur Wiesenberger, partner, Arthur Wiesenberger & Co.; Harold E. Aul, Economist, Calvin Bullock; Frank L. Valenta, Vice-President, Distributors Group, Incorporated; Louis H. Whitehead, Louis H. Whitehead Co.; Douglas Laird, Vice-President and Secretary, National Securities & Research Corp.; Hugh Bullock, President, Dividend Shares; James Bridges, partner, The Keystone Company of Boston; Vernon Vivian, Vice-Pres., Hugh W. Long and Co., Inc.; Kimball Valentine, partner, Vance Sanders & Co.

Other new courses are "Analysis of Public Utility Operating Company Securities" to be taught by W. Truslow Hyde, Jr., well-known utilities analyst, and "Commercial Law Applied to Securities" under Irwin W. Brodsky, Legal Advisor, J. & W. Seligman & Co.

Other courses being offered are:

Accounting Principles I—Melvin G. Ott, Robert Winthrop & Co.

Accounting Principles II—Jerome J. Kern

Business Finance — Irwin A. Brodsky, legal advisor for J. & W. Seligman & Co.

Money and Credit—William K. DeVeer, First National Associates of Florida, Inc.

Work of the Stock Exchange and Brokerage Office Procedure—John H. Schwieger, Department of Member Firms, New York Stock Exchange; A. P. Morris, Estabrook & Co.; George W. Elwell, Francis I. du Pont & Co.

Work of the Cashier's Department—Edward R. Rimmels, Eastman, Dillon & Co.

Advanced Margin Problems—Paul C. Fitzgerald, Hirsch & Co.

Transfer of Securities—Irwin A. Brodsky, J. & W. Seligman & Co.

Commercial Law Applied to Securities—Irwin A. Brodsky, J. & W. Seligman & Co.

Accounting Background for Security Analysis—Albert P. Squier.

Security Analysis I and II—J. M. Galanis, Shields & Co.; Charles F. X. McGolrick.

Investment Account Management—Stephen M. Jaquith, Investors Counsel, Inc.

Analysis of Railroad Securities—Pierre R. Bretey, Baker, Weeks & Harden

Current Developments in Utilities—Harold H. Young, Eastman, Dillon & Co.

Current Economic Developments Affecting Security Values—Louis H. Whitehead, Louis H. Whitehead Co.

Commodity Trading Principles—Victor L. Lea, Standard Brands, Inc.

Correspondence courses are also offered.

Registration for the Spring Term starts Jan. 10 at the office of the New York Institute of Finance, 20 Broad Street. Courses start the first week in February. The Institute is completing its seventh year as a private business school. It is the successor to the New York Stock Exchange Institute which discontinued operations in 1941.

Now James A. Leavens, Inc.

SHAMOKIN, PA.—The firm name of Leavens & Leader, Masonic Temple Building, has been changed to James A. Leavens, Inc. There is no change in personnel.

The NASD Surveys Geographical Distribution of Over-the-Counter Securities

Study covering 362 securities and 1,260,421 stockholders, shows New York in lead, followed by California and Connecticut.

The National Association of Securities Dealers, Inc., has completed a survey of the geographic distribution of stockholders of 362 over-the-counter securities. A total of 1,260,421 stockholders is included in the study. New York leads all states in the number of stockholders in those companies included in the survey, while California ranks second. The first eleven states in number and percentage of stockholders follows:

State—	Total No. of Stockholders	% of Total
New York	217,778	17.3
California	132,266	10.5
Connecticut	118,764	9.5
Pennsylvania	113,259	9.1
Massachusetts	110,615	8.8
Illinois	84,187	6.7
New Jersey	58,203	4.7
Ohio	57,998	4.6
Maryland	30,324	2.4
Missouri	27,202	2.2
Wisconsin	25,488	2.1

In the survey, no attempt was made to cover stocks of strictly local interest, or where ownership was concentrated in a single state.

The survey of stockholder residences was undertaken by the Association more than a year ago in connection with the work of its National Quotations Committee, in order that newspapers throughout the country would have more adequate information to help them determine the interest in their circulation territory in individual stocks traded over-the-counter.

The Quotations Committee, through the various district offices of the Association, supplies daily quotations to approximately 100 newspapers and the principal wire services, on an aggregate of slightly more than 3,000 individual securities.

As the basis for its study the New York Quotations Committee of the Association took 362 of those stocks most actively traded in the over-the-counter market. Being of the most active, it is also reasonable to assume that they are also representative of the stocks of the largest companies dealt in over-the-counter, and thereby indicative of the great extent of national and relative state interest in over-the-counter securities.

The results of the survey are being circulated throughout the 14 districts of the National Association of Securities Dealers, Inc.—in each district as it applies to same—in the expectation that this information will prove of constructive value in further adequate representation for the over-the-counter market in the nationwide financial columns of the press. Data will be available through Association offices to any newspaper, restricted in each case to the territory served by the newspaper concerned.

Officials of the Association believe that a by-product of this survey is the indication of the relative importance of each state to the over-the-counter market as a whole.

Securities Salesman's Corner

By JOHN DUTTON

It is "what you know" combined with the way "you use it" that builds confidence and thereby opens the door to new accounts. Combine a pleasant personality with background knowledge and you can't fail, providing of course, that you expose yourself to business. This week we are going to try and be specific and relate to you an actual case history of how an account was obtained in one call. It is true that circumstances were ideal for such a result to be accomplished so quickly as will be noted in the following:

As a result of a mail campaign an inquiry was received concerning a small lot of an unlisted common stock. The letter was answered and the owner of this stock stated that he would be in the city where this dealer was located for a week, and if the dealer was interested in purchasing this stock that he should telephone the owner of the stock at the hotel where he was staying. (Favorable circumstance number 1.) The dealer made the telephone call to the hotel and he was told that the party in question was located at a certain manufacturing firm and that he should call there. It so happened that the dealer knew one of the officers of this company, and had done some business with him. When he called the new prospect he tactfully brought out this fact during the conversation. This opened the door. The purchase of the stock was made over the telephone. Here the dealer made his own break (favorable circumstance number 2.) He stated that he had a call near the prospect's hotel the next day, and offered to meet him and have a check in hand if he had the stock for delivery, thereby saving the trouble and bother of either mailing it or taking the long trip to the dealer's office. The prospect liked the idea so much he invited the dealer to luncheon, and the invitation was accepted.

After meeting the prospect in his room they went together to the dining room and proceeded to have lunch. (Favorable circumstance number 3.) The prospect wanted to talk about his business of selling textile machinery. It was something he had been doing for over 40 years. The securities man let him talk. In fact, he encouraged him to talk. But here is where he began to SELL. Here is where the securities man really made a client. He asked about H & B Machine; he mentioned Warner & Swasey's new loom; he spoke of some of the mills with which he was familiar. He asked questions about the textile machinery business, about new innovations of which he had heard; and the machinery man began to say to himself—this fellow seems to know a few things. After they spent a friendly hour together they adjourned to the prospect's room, the stock was exchanged for the check, there were smiles all around, and our salesman made his pitch for business.

"I can appreciate, Mr. X," said he, "that you possibly have some good friends in the securities business that you have been favoring for quite some time, and probably I might be overstepping a bit this time to ask you if we can do business with you again. However, we do have a very fine staff, and we try to keep right up to the minute on all the changing developments regarding investments. Quite frankly, I want to invite you to call me personally any time you have any securities about which you want an opinion. I assure you we will try and do the best job we can for you. (Favorable circumstance number 4.) The prospect smiled and said, "That is right, I have had an account (though it is quite small) with an out-of-town firm and I had been thinking of making a change since it is inconvenient to do business by mail. If you don't mind a small account like mine I think I would like to have you take it over." They left with a promise of the new client to send in his list of holdings and an engagement two weeks hence when the securities dealer could even up on the luncheon date.

Timing, seeing an opportunity, and closing properly, all would have been to no avail if the salesman in this instance had not built CONFIDENCE. If you can talk about the other man's business intelligently enough to get him to talk about it for an hour, bud, you're in! It takes a combination of these three ingredients to open accounts: Timing . . . the ability to seize opportunities . . . and customer confidence.

But nothing can be done unless YOU SEE THE PEOPLE WHO CAN BUY, MAKE THOSE CALLS . . . MAKE THOSE CALLS . . . AND MAKE THOSE CALLS COUNT. That is the difference between success and failure in this business.

Sidney B. Hook With J. A. Hogle & Co.

LOS ANGELES, CALIF.—Sidney B. Hook has become associated with J. A. Hogle & Co., 507 West Sixth Street, as Manager of the Bond Department. Mr. Hook was formerly Municipal Manager for Turner-Poindexter & Co.

Thomas M. Hammond, who has been with J. A. Hogle & Co. for some time, has been appointed Manager of the Beverly Hills office, 335 North Beverly Drive.

Wadsworth V.-P. of Union Securities Corp.

Union Securities Corp., 65 Broadway, New York City, announced that George R. Wadsworth has been elected a Vice-President of the organization. Mr. Wadsworth has been associated with Union Securities from its inception in 1938, prior to which time he had been with J. & W. Seligman & Co. since 1928.

Miss. River Fuel Com. Offered at $30 Per Shr.

An underwriting group headed by Union Securities Corp. on Jan. 11 offered 144,200 shares of common capital stock (par $10) of Mississippi River Fuel Corp. at $30 per share. The offering does not represent new financing by the corporation. These shares were purchased from Standard Oil Co. (New Jersey) last July by a group of nine investment houses headed by Union Securities Corp.

Dividends of $1.75 per share were paid on the common stock of Mississippi River Fuel in 1948 and it is understood that earnings approximated $3.60 per share. The corporation, which was organized in 1928, owns and operates a natural gas pipeline from northern Louisiana to the Greater St. Louis area, and is engaged in an expansion program which will increase the average daily sales capacity of its line from about 175,000 mcf per day to 266,000 mcf per day.

Associated with Union Securities Corp in the underwriting are: Kuhn, Loeb & Co.; Stone & Webster Securities Corp.; White, Weld & Co.; A. C. Allyn & Co., Inc.; Equitable Securities Corp.; Hornblower & Weeks; Tucker, Anthony & Co.; G. H. Walker & Co.; Bateman, Eichler & Co.; Alex. Brown & Sons; Dewar, Robertson & Pancoast; Johnston, Lemon & Co.; and Walker, Austin & Waggener.

Also Boettcher & Co.; John W. Clarke, Inc.; A. G. Edwards & Sons; First Southwest Co.; Newhard, Cook & Co.; Reinholdt & Gardner; William R. Staats Co.; Stifel, Nicolaus & Co., Inc.; Bacon, Whipple & Co.; Blunt, Ellis & Simmons; J. M. Dain & Co.; Farwell, Chapman & Co.; Mason-Hagan, Inc.; Stix & Co.; Straus & Blosser and Wagenseller & Durst, Inc.

S. E. Firms' Ass'n to Hold Winter Meeting

The Board of Governors of the Association of Stock Exchange firms will hold its annual Winter meeting at Buffalo, New York, on Jan. 20, 21 and 22, 1949, it was announced by Harold P. Goodbody, President.

Among the many matters to be considered are: an interim report of the Pension Plan Committee, Federal taxation, margins, member firm operating economies and Association public relations activities. Business sessions of the Board will be held Thursday all day and Friday and Saturday mornings.

Buffalo members of the Association are holding a dinner meeting of Buffalo business men at the Statler Hotel in honor of the Board on Thursday, Jan. 20, which will be addressed by Mr. Goodbody and Mr. Robert P. Boylan, Chairman of the Board of Governors of the New York Stock Exchange.

The Board will also be guests of the Buffalo Forge Co. and Spencer Kellogg & Sons, Inc., at luncheon on Thursday. On Friday they will be the guests of the Niagara-Hudson Power Co.—visiting the plants of the company in the afternoon followed by dinner at the Buffalo Country Club.

Harry D. Miller Director

At a meeting of the board of directors of Allied Products Corporation held on Dec. 1, 1948, the membership of the board was increased from seven to eight and Harry D. Miller of Nugent & Igoe, East Orange, N. J., members New York Stock Exchange, was elected a director as of Jan. 1, 1949, to fill the vacancy occasioned by the increase.

Blunt Ellis & Simmons Opens in Chicago; Firm Members N. Y. and Chicago Stock Exchs.

CHICAGO, ILL.—Organization of a new investment and brokerage firm, Blunt Ellis & Simmons, the largest such company formed in Chicago in many years, is announced by John E. Blunt, 3rd, R. Winfield Ellis and Richard W. Simmons, formerly Vice-Presidents of


John E. Blunt, 3rd R. Winfield Ellis

Richard W. Simmons

Lee Higginson Corporation. The five other partners of the new firm are Eugene Hotchkiss, Gilbert H. Osgood, James D. Casey, Jr., G. Paul Miller and Stanley E. Cronwall. The new firm, with offices at 208 South LaSalle Street, is a member of the New York Stock Exchange and Chicago Stock Exchange and is the Chicago correspondent of Clark, Dodge & Co., New York.

Mr. Blunt is a native of Chicago and graduated from Dartmouth College in 1922. For a number of years he has been active in the affairs of the Investment Bankers Association of America, was a governor from 1942 to 1944, and served four terms on the Central States Group executive committee, including one term as Chairman. Mr. Blunt also has served on the IBA committees on over-the-counter rules, finance, business conduct and legislation. He is a trustee of Hull House Association.

Mr. Ellis is also a native of Chicago and graduated from the University of Wisconsin. He has been active in the business and civic life of Chicago and is a director of National Aluminate Corporation and The Rothmoor Corporation, both of Chicago, and The Canadian Management Co., Ltd. of Toronto. Mr. Ellis is a member of the executive board of the Chicago Council of Boy Scouts of America, and during the war years was active in the War Loan Drives, serving as Chairman of the first War Loan Drive in the Metropolitan Chicago District, Vice-Chairman of the Second Drive, and as a member of the National War Finance Committee. Mr. Ellis also was a member of the Board of Governors of the National Association of Security Dealers during 1944-46.

Mr. Simmons was born in St. Louis and is a graduate of Yale University. He was recently elected a governor of the Investment Bankers Association, after serving as Chairman of the Central States Group for the year 1948. Mr. Simmons is a Past President of the Bond Traders Club of Chicago and a director of The Drake and The Edgewater Beach Hotels of Chicago.

Mr. Hotchkiss, Mr. Casey and Mr. Cronwall were formerly associated with Lee Higginson Corp. in Chicago, and Mr. Osgood was previously associated with the Chicago law firm of Wilson & McIlvaine and during the war years served as Assistant General Counsel with the War Production Board in Washington. Mr. Miller will be the resident partner in Madison, Wisc., where the new firm will open a branch office on February 1.

Walter J. Fitzgerald, Jr. has become associated with the new firm as Manager of the municipal department. Mr. Fitzgerald was formerly head of his own firm, Walter Fitzgerald & Co.

New York Stock Exchange Weekly Firm Changes

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

Frederick H. Clarkson retired from partnership in Auchincloss, Parker & Redpath on Dec. 31.

Andre V. Smolianinoff withdrew from partnership in Cohu & Co., Jan. 1.

Robert C. Townsend will retire from G. C. Haas & Co. Jan. 14.

H. O. Wood, Jr., general partner in Wood, Walker & Co., became a limited partner Jan. 1.

Transfer of the Exchange membership of the late Loomis L. White to Paul Uhlmann, Jr. will be considered by the Exchange on Jan. 20. Mr. Uhlmann will act as an individual floor broker it is understood.

Transfer of the Exchange membership of the late James E. Bennett to Frank A. Miller will be considered by the Exchange on Jan. 20. Mr. Miller will continue as a partner of James E. Bennett & Co.

New School to Hear Benj. Graham Speak

Benjamin Graham, President of Graham-Newman Corp. and lecturer in finance, will speak on "The Stockholder as Owner of the Business" at the New School for Social Research, 66 West 12th Street, Thursday, Jan. 20, 5:30 p.m. Mr. Graham is guest lecturer in the course "Investment Today" given at the New School by A. Wilfred May, Economist and Editor.

Benjamin Graham

Now Johnson & Bailey

The firm name of Robert G. Johnson & Co., 61 Broadway, New York City, members of the New York Stock Exchange, has been changed to Johnson & Bailey. Partners, Robert G. Johnson and Anthony J. Bailey, remain the same.

Ungerleider Co. Admits

Ungerleider & Co., 41 Broad Street, New York City, members of the New York Stock Exchange, announce that David R. Seklir has been admitted to the firm as a general partner.

Stalin Making Hitler Seem Like a Baby: Hoffman

ECA chief declares "Politburo Gang" is driving to take over world. Maintains there must be military and political, as well as economic fronts, to contain Soviet operations. Cites ECA's emphasis on fiscal and monetary reform.

Stalinism is now putting on a world power drive far exceeding the scope of the Hitlerism of 10 years ago, is a basic conclusion reached by Paul G. Hoffman, Economic Cooperation Administrator, on his return from a survey trip through Europe and Asia. Mr. Hoffman expressed his views on our critical international position fully and frankly during a press conference held at the Chamber of Commerce of the State of New York, Thursday, Jan. 6.

Paul G. Hoffman

Warning of American complacency, the ECA head said: "I don't think we have this world conflict in focus—in a sharp enough focus. In other words, it seems to me that the impression has been—at least I had the impression up until fairly recently—that the Russians were really engaged in an effort to promote the spread of Communism.

"The point I want to make is (1) what we, the good people, call Communism is something different than what they call Communism. It is as different as day is from night, because the Communism they are trying to spread is a Communism of poison; something that you get going around talking to these people around the world everywhere is that the Russian Fifth Column is operating; they are spreading poison, hatred, just plain cussedness, you see, and they are stirring up chaos and confusion. That isn't even what the good people ever thought Communism was. They thought it was sweet and lovely, alight with brotherhood.

"There is nothing of that in this Russian plan and, secondly, that is only, in my opinion, a secondary objective. They use that for the purpose of getting a power position in that country for the Kremlin."

Hitler Was A Baby

"They use their own Communistic trappings for the purpose of winning for themselves a power position in these countries," he continued. "That is the real thing they are after—power. If there ever was a drive going on in the world—a power drive—Hitler was a baby compared with this gang. He didn't know what it was all about. He was talking and they were acting. They don't talk too much about this, but, believe me, when you see the countries that they have taken over, and when you see what they have done in China, then you realize what a menace this power drive is.

"Let's not talk about it as the danger of the spread of Communism. Let's talk about what it is—an attempt by the gang in the Politburo to take over the world. This is the last place they will succeed in doing it, but if it hadn't been for the Marshall Plan, they would have had Western Europe by now. You just put that right on the line. They would have had France and Italy, and the Marshall Plan simply came along and put them back."

Deficits

Asked the significance of the latest OEC report showing that at the end of the program they are going to have a deficit of $1 to $3 billion, Mr. Hoffman said:

"There was a statement made yesterday. It is quite clear. Number 1, these estimates that we are insisting on, which we perhaps don't know any better word for than 'plan'—these estimates and goals we are insisting on—

"Not only production goals, but goals—we are perhaps even more interested in the goals the government sets for itself from the standpoint of its getting its fiscal house in order and getting its monetary system in order, and knocking down trade barriers.

"There are two separate sets of goals. What everybody wants to talk about is, production and agricultural goals. What we want to talk about is goals by which these (European) economies will be basically sound, and that means there has to be fiscal and monetary reform in many countries. We want to know what to do about it when we get it.

"This isn't a case of how much steel they make in four years, but it is a case of knowing what their goals are, their objectives, both as to those areas in which the government has sole authority, as well as in the areas in which industry and agriculture, made up of individuals, have the major say-so. What they do is what counts.

"We want those to look at, and they have already proved their great value, because they have already shown in many cases the things that these countries had planned in the way of developments didn't fit into a program that would make for recovery in all of Europe."

Export Control

Asked whether goods are getting behind the Iron Curtain because of export controls, the Administrator replied:

"We have a responsibility under the Act to see that any raw materials we send abroad aren't used for the purpose of manufacturing goods that go behind the Iron Curtain, and we are trying to meet that responsibility adequately."

* * *

The transcript covering the balance of the interview, follows:

QUESTION: You said in your talk here—and I don't know whether you want to say it now—that you have to fight Communism three ways—militarily, politically and economically. What do you mean by that. Do you want to fight them militarily?

MR. HOFFMAN: I said you have got to have operations on all three fronts.

QUESTION: You don't mean U. S. operations.

MR. HOFFMAN: I didn't mean to say we are going to go to war. That is not the point at all. I didn't want any impression to get out that because I was putting the stress on the economic angle that I didn't realize that it was also important that we be militarily prepared. I didn't want them to interpret my talk downstairs as being an attack on any military expenditures.

QUESTION: Does that mean, Mr. Hoffman, that you don't anticipate any conflict between our military security preparations and our economic security preparations?

MR. HOFFMAN: You've got to have a balance. You must have a balanced program.

Post-ECA Aid

QUESTION: Do you see the need for any further aid after the program is over?

MR. HOFFMAN: I think any further aid then would not be on the basis of a program for all of Europe. It would be a case of certain countries which, if they send a case to us, might be O. K.'d.

QUESTION: Do you still feel the same about 50/50 shipping goods on American ships?

MR. HOFFMAN: That whole 50/50 thing was, I think, quite misinterpreted. It isn't up to me for a moment to say what proportion of goods we should ship in American ships. That is up to Congress. All I want Congress to do is give me a clear directive. Congress determines whether they should go on American bottoms, as far as it is practicable, providing the ships are available at market rates. You tell me what that means?

QUESTION: You want it cleared?

MR. HOFFMAN: I want a very precise directive from Congress.

ERP and Domestic Ideology

QUESTION: Mr. Hoffman, is it correct to make the answer to those Americans objecting to the Marshall Plan, both those on the so-called Right who object because we shouldn't propagate British Socialism, and those on the Left who object to the governments of Greece or Italy, to come out with the statement of policy that you are not interested in domestic economic ideology one way or the other? The only thing you are interested in is international political aggression?

MR. HOFFMAN: No, that isn't true at all, because we are interested to the extent that Congress has made it quite clear that they would not want aid extended to a country that was under Communistic domination. That generally means Russian domination.

I don't know what Congress wants to do now, such as in the case of a country like Yugoslavia, which is, according to Mr. Tito, not Communistic. It is up to Congress to say whether we want to extend aid or not.

QUESTION: That causes an awful lot of confusion. Your so-called "liberals" are raising hell because we might propagate the Greek Government, which they call Fascistic, and the Italian Government.

MR. HOFFMAN: This is personal. As long as the people of a country are free to express their views through a free ballot, then I would say that there are reasons why we ought to consider giving aid to them. I am not deciding this.

QUESTION: You know you can't pay for marine insurance under the Act in this country. There is going to be a lot of agitation to have it changed, I believe.

MR. HOFFMAN: Anything Congress tells us to do, we will do.

QUESTION: Any comment as to whether you are opposed?

MR. HOFFMAN: As far as I am concerned, in matters of that kind, we now have to ship 25% of the wheat in the form of flour. That is a Congressional decision. It isn't up to me to say yes or no. It takes so much out of our total recovery funds. If Congress wants us to ship 50/50 American bottoms, regardless of the differential in price, I am agreeable.

QUESTION: On the overall thing, would you say the Marshall Plan to date has been successful, and if you had it to do again, would you do it the same way?

Our Best Bargain

MR. HOFFMAN: My opinion is that the results to date makes the money we spent in support of the Marshall Plan the best bargain the people in the United States ever got.

The danger of Communism in Western Europe has been averted for the time being, at least, and if you have been out in Asia and see what that means—you see Asia drifting in that direction, and it gives you the heeby-jeebies.

QUESTION: If that 50/50 thing should not be decided by Congress, no action by February 1, would you then extend it for another month?

MR. HOFFMAN: If Congress asks us to.

QUESTION: If they don't take action?

MR. HOFFMAN: I couldn't answer that for you. I think they might not take formal action, but might act informally.

QUESTION: You wouldn't take any formal stand against anything like the insurance or the 50/50?

MR. HOFFMAN: All I want is clarification. I don't want them to leave me holding the bag, so that the American people come along later and say, "Listen, why did you spend $15 million more than you have to to ship these goods abroad?"

QUESTION: You expect some informal notification from Congress?

MR. HOFFMAN: If Congress asks us to hold off, I have no objection to it. All I want is clarification on these issues that are somewhat clouded.

QUESTION: There has been quite a furor in New York City and Washington in the last few days about the subject of our own metal being shipped back to us.

MR. HOFFMAN: See Mr. Bruce (of the State Department) on that one.

FHLB Notes on Market

A new issue of $43,000,000 Federal Home Loan Banks non-callable 1⅝% consolidated notes, series A-1950, was offered Jan. 11 by the Federal Home Loan Banks through Everett Smith, fiscal agent. A countrywide selling group of securities dealers participated in the offering. The notes, dated Jan. 20, 1949, and maturing Jan. 20, 1950, were priced at par.

Entire proceeds from the offering will be used to refund $43,000,000 of the $97,000,000, series A, 1¾% consolidated notes maturing Jan. 20, 1949. The remainder of that issue will be retired from the cash resources of the banks. The ability of the banks to pay off $54,000,000 of the maturing 1¾s from cash resources is due to the good inflow of savings into the savings and loan associations and savings banks which are members of the Bank system and to the seasonal decline in home financing and construction, according to Mr. Smith.

The banks' outstanding advances to member institutions at the end of 1948 totaled approximately $515,000,000, compared with $435,000,000 at the close of 1947.

The notes are joint and several obligations of 11 Federal Home Loan Banks.

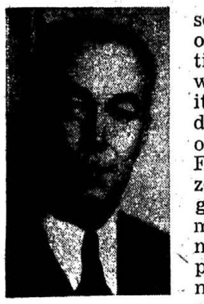
With Blankenship, Gould Firm

PORTLAND, ORE.—James H. Lynch has become associated with Blankenship, Gould & Blakely, Inc., Wilcox Building. Mr. Lynch was formerly for many years with Russell, Hoppe, Stuart & Balfour.

Viewing Europe

J. B. O'Connor, Executive Vice-President of Dresser Industries, Inc., after visit to European continent, says private enterprise has to play role in rehabilitation of Europe. Tells of needs of separate nations, and advocates lowering exchange rate of German currency to aid that country's exports.

Private enterprise has a role to play in the rehabilitation of Europe, which is quite apart from anything which can be accomplished by this or other governments, J. B. O'Connor, Executive Vice-President of Dresser Industries, Inc., reported in a statement issued on January 7.



J. B. O'Connor

Back from several weeks on the Continent, during which he visited the industrial areas of Italy, France, Switzerland, Belgium and Germany, O'Connor found the pace of economic recovery is being most accelerated where it has been possible to work out a combination of American engineering "know how" with the labor and materials available within the countries concerned.

"An arrangement at present being worked out by the Dresser Industries group for the exchange of South American hides, grains, coffee, etc., for Czechoslovakian machinery, which can be used in the construction of refineries in the South American countries, is as good an example as any," O'Connor said, "of the fashion in which Yankee ingenuity is helping break the stalemate created by lack of dollar exchange abroad. In other words, capital goods are being moved from East to West which the West needs, but could not otherwise secure because of the difficulties faced today in unfreezing currencies other than good American dollars.

"One South American country, for example, in undertaking a refinery building program, sought credits from U. S. Government sponsored sources. These institutions did not feel they could make such loans under prevailing conditions, hence a plan whereby goods shipped to Czechoslovakia could, in effect, be exchanged for materials useful to South American industries had to be devised. The successful execution of the plan depended in no small part on securing engineering talent to design and direct the manufacture of the industrial equipment involved in the exchange. This, we of Dresser Industries were glad to be able to do.

"Because foreign engineering and technology use the metric system instead of dealing with feet and inches, it has been found simpler for American engineers to confine themselves to the job of overall creative engineering, leaving the general engineering to be done abroad by engineers regularly working with the metric system."

The extent to which Italy has recovered from the ravages of war is of great significance, in the opinion of Mr. O'Connor. He reports, for example, that in the Po Valley, where most manufacturing in Italy is done, there are developing tremendous possibilities in the use of methane or natural gas for industrial purposes. Sufficient drilling of wells has already been done to indicate that supplies of petroleum products are more than adequate to supply the needs of a substantial amount of industry in that area, industry which will then be independent of coal imports, today numbering thousands of tons.

"Here, again, the greatest needs of the country," O'Connor asserted, "are the services of American technicians and American machinery. The ECA is very much interested in assisting industries in becoming established in this area and is doing everything it can to help the Italians who themselves have done a tremendous amount of work in clearing away the ravages of war. Typical of progress in this direction is Milan, which, although badly damaged by bombings and land mines, today shows few traces of the war's destructiveness.

"The Italian steel industry is another which is beginning to make extensive use of natural gas as a fuel. One open hearth furnace of the Dalmine Company, located at Bergamo, is already operating on natural gas and two additional furnaces are soon to follow. Operation of these three open hearths used to require the importation of thousands of tons of coal a year."

Equally interesting, in O'Connor's opinion, is the possibility of developing in Italy a great chemical industry. There is a great demand, he points out, for synthetic ammonia which is used in the manufacture of fertilizers. Synthetic gasoline, which can be manufactured from natural gas coming from fields under development in the Po Valley, would be equally valuable for industrial purposes.

"Indicative of the type of problem faced in the rehabilitation of the country," O'Connor said, "is a project by the ECA to use Italian lignite as a source of synthetic ammonia. Actually, the synthetic ammonia could be made more cheaply from methane, but this would not employ as many workers. Under the circumstances, the more efficient process has been shelved in favor of the method which assures the maximum employment—strip mining for the lignite."

Belgium, one European country to get off to a flying start following the end of the war, is today greatly in need of synthetic ammonia plants for the production of fertilizers, O'Connor discovered. Because Germany, which once used to be the source of such chemicals for the greater part of the Continent, is no longer able to meet the demand, he estimates that a score or more synthetic ammonia installations are needed, located all the way from southern Italy to northern France.

"In another activity Belgium is making great progress in experimental work in the underground gasification of coal," he said, "and is preparing to continue this work on a large scale."

In Germany, according to O'Connor, the No. 1 problem is re-employing the brains of the country—and in so doing getting manufacturers back on their feet. It is particularly important in this connection, he believes, to find employment once more for white collar experts—the technical talent—so needed in the development of engineering and chemical projects.

"Dresser Industries," O'Connor says, "has been exploring the possibilities of using these German brains for the benefit of other European and of South American countries, since U. S. technicians are already too heavily loaded with work to be spared.

"One of the difficulties faced by German engineering firms," he explained, "is the lack of working capital and the inability to secure other than short-term financing. In other words, two to three month loans at prohibitively high rates of interest. These firms, if they had the financial means of meeting payrolls, could put a great many technically-trained men to work on projects essential to the recovery of all of Europe."

In the Ruhr, O'Connor found, German synthetic gas-producing plants are all running in good shape. Most of them, he said, have orders from other industries striving to get back into production which will extend over the next three to five years.

Export business, which would help Germany to get back on a self-sustaining basis, is limited, O'Connor believes, because of the low ratio of three marks to the dollar, established by the military governments of the occupying powers. What is needed, as he sees it, is a more liberal ratio, possibly nine marks to the dollar, to encourage export trade, without which recovery will continue to be hamstrung.

First Boston Group Offers Koppers Com.

Marking the first major equity financing of the new year, The First Boston Corp. headed a group of 75 underwriters which offered to the public Jan. 10, 400,000 shares of common stock (par $10) of Koppers Co., Inc., at $31 per share.

Included among the major properties of the company are 17 tar distilling and refining plants; styrene, polystyrene and phthalic anhydride facilities; plants for the production of organic chemicals, alkylated phenols and cresols, protective coastings and plastic molding powders; two by-product coke plants; 20 wood preserving plants and two foundry and machine shop installations.

For the 10 months ended Oct. 31, 1948, the company's net sales were $163.301,525 and net income was $8,173,892, equal to $5.03 per share on the 1,525,825 shares of common stock to be outstanding on completion of this financing. For the full year 1947 net sales were $162,457,305 and net income $6,165,783 or $3.65 per share on the same basis.

Dividends on the common stock are currently being paid at the rate of 50 cents quarterly or $2 per annum.

The proceeds from the sale of these additional shares will be initially added to the company's general funds. It is intended that $783,750 will be used to retire the balance of the company's 4% purchase money mortgage bonds and that $2,604,000 will be used to provide for the balance of the purchase price of a newly acquired blast furnace and coke plant property near Granite City, Ill., when the purchase is completed.

The balance of the proceeds will be used in connection with the company's general program of expanding and improving its plants and reducing its indebtedness.

Albert D. Gauthier With Holton, Hull & Co.

LONG BEACH, CALIF.—Albert D. Gauthier has become associated with Holton, Hull & Co., 110 Pine Avenue. He was formerly Long Beach representative for Maxwell, Marshall & Co.

Blame Instalment Credit Curbs for Threatened Lay-Offs in the Automobile Industry

Henry J. Kaiser and Joseph W. Frazer in public statement charge Regulation W threatens "spiral of unemployment" in auto industry.

Following a disclosure that the Kaiser-Frazer Corporation was contemplating laying off more than 25% of its 15,000 employees at the Willow Run plant near Detroit, Henry J. Kaiser and Joseph W. Frazer, the company's chief executives, issued on Jan. 10 a statement ascribing the situation to Regulation W of the Federal Reserve Board, which restricts consumer credit. The automobile executives urged a modification of the regulation to avoid a "spiral of unemployment" in the auto industry.


Joseph W. Frazer Henry J. Kaiser

They charged that the regulation, which restricts auto financing to 18 months, results in the Reserve Board "virtually dictating that only the rich and high-income families can buy better automobiles."

The K-F officials pointed out that under Regulation W, instalment purchasers of cars must make payments in excess of $100 a month after a cash down payment of one-third.

Most purchasers, they said, do not object to the down payment, but only a select group of about 14% of the nation's family heads, who earn $5,000 a year or more, can afford the high 18-month finance rate. Extension of finance period to 24 months would cut payments to about $75, they asserted, and make it possible for middle-class families to buy the car of their choice.

"Under Regulation W," the statement continued, "86% of the people are prevented from owning better cars, with literally millions of families forced out of the mass market which has been the life blood of the great American auto industry."

Calling for immediate action against the "credit squeeze," Kaiser and Frazer stated that the Reserve Board should follow the instructions of the 80th Congress and "adopt flexible and sensitive policies to maintain the highest possible level of production and employment in the durable goods industries."

They asserted that the Board has so far failed to modify the regulation despite a flood of protests and the fact that sales of all cars have been reduced by it.

"The discriminatory blow against certain industries and the mass of American customers should be relaxed forthwith, before hardships spread much wider," the statement continued. Kaiser and Frazer pointed out that one out of seven persons employed in the United States has a job in the automotive industries and consequently inroads of unemployment in auto manufacturing would have wide repercussions through the whole economy.

"The danger signals to date make it imperative to heed at once the Congressional directive against undermining the national production and employment in order to avoid a man-made depression."

Guaranty Trust Co. Executives See Inflationary Tendencies Still in Ascendency

In Annual Report to stockholders for 1948, J. Luther Cleveland, Chairman of the Board and William L. Kleitz, the President, say, however, that in last few months there have been signs of an approach toward balance between supply and demand in some industries. Wants Federal Deposit Insurance law amended to eliminate assessments on participating banks when reserve fund exceeds billion dollars.

In their Annual Report to shareholders of the Guaranty Trust Company of New York, J. Luther Cleveland, the Chairman of the Board, and William L. Kleitz, the President, after furnishing data regarding the bank's operations for the year, comment on the "unusually obscure" business outlook.


J. Luther Cleveland William L. Kleitz

"The year just closed," say the leading officers of the institution, "has been one of large production and active business, with employment at or close to the maximum, but with inflationary tendencies generally in the ascendancy. In the last few months there have been signs of an approach toward balance between supply and demand in a number of industries, suggesting that, in those sectors of our economy at least, inflationary pressure is gradually giving way to improved stability. It is to be hoped that this trend will continue and broaden without developing sufficient momentum to tip the scales on the side of recession. Any tendency in the latter direction seems likely to encounter a powerful offsetting factor in large Federal expenditures for national defense and foreign assistance.

"These opposing forces, combined with the unsettled state of international relations, make the outlook for the coming year obscure. The new Congress and the National Administration about to take office will face problems of exceptional gravity and complexity. Barring further deterioration of international relations, our domestic affairs can be administered in the best interests of all the people if they are approached in a spirit of cooperation and devotion to the national welfare as a whole, with full recognition of the indispensable contribution made by industry and finance under a system of free enterprise. Only in this spirit can today's critical needs be met with due regard for the maintenance of the long-term soundness of our industrial and credit structure.

"The immediate objective of economic stability can best be attained by the extension of credit on a conservative basis, not by over-all restrictions that arbitrarily shut off access to legitimate loans for sound productive purposes. The management believes that the operations of the bank have been in harmony with this aim. The company enters the new year in a strong position to serve present and future customers and to contribute its share toward the preservation of a sound economy."

Commenting on the heavy assessments of banks for deposit insurance, the Guaranty executives state:

"In 1948 the Federal Deposit Insurance Corporation, pursuant to law, completed the retirement of the original capital of $289,000,000 which had been subscribed by the United States Treasury and the Federal Reserve banks. The law provided that the capital should be retired only with capital funds of the corporation in excess of $1,000,000,000. After the retirement, therefore, the corporation still had a surplus of at least that amount. Since this fund is equivalent to approximately 9% of total capital funds of all insured banks, it would seem appropriate to discontinue further assessments, thereby enabling banks to use the net saving to build up their capital accounts.

"On the basis of deposit losses by the public during the past 83 years and the loss experience of the Federal Deposit Insurance Corporation since its organization, it appears that capital funds of $1,000,000,000 are fully adequate to meet any emergency, and we feel that Congress should amend the present law so that assessments will not be required when the fund is in excess of $1,000,000,000. Any such change in the law could provide that assessment should automatically be reimposed if the capital funds of the corporation declined to $750,000,000."

According to the Annual Report, "the operations of the company in 1948 resulted in net operating earnings of $17,976,883.80, as compared with $17,420,474.07 in 1947. Including security profits, recoveries on loans, etc., and deducting provision for reserve for bad debts, net profits amounted to $18,223,667.68 in 1948, which is equivalent to $18.22 for each share of capital stock, as compared with $18,284,755.29 and $18.28 per share in 1947.

"Interest on loans increased $4,070,033.65, principally because of a rise of $139,000,000 in the average amount of loans outstanding and higher rates on loans. The average annual rate earned on all loans (exclusive of those of foreign offices) was 1.93%, as compared with 1.74% in 1947.

"Interest and dividends on securities declined $3,420,923.77 largely as the result of a decrease of $254,000,000 in the average amount of investments. The average annual rate earned, before taxes, on United States Government obligations was 1.16%, as against 1.20% in the preceding year.

"Other operating earnings were $1,908,504.51 larger than in 1947. Included in this item are Trust Department commissions, profits of Foreign Branches, Foreign Department commissions, profits of the United States Government Bond Trading and Municipal Bond Trading Departments, and other miscellaneous earnings. The 1948 total includes several large commissions received by the Trust Department."

Sees Support for Existing Real Estate Securities Values—Reviews 1948 Market

H. R. Amott, President of Amott, Baker & Co., Inc., holds market for real estate securities is in healthy condition and reflects substantial investor confidence. Urges care in selection of issues.

Harry R. Amott, President of Amott, Baker & Co., Inc., specialists in real estate securities, has issued the following statement on performance of real estate securities market in 1948 and its prospects for the current year: The performance of the real estate securities market in 1948, while favoring some investors was disappointing to many others. In any event, it fell considerably short of measuring up to the gains registered during each of the preceding years from 1941 through 1947, inclusive. For the most part, security prices in 1948 held within narrow trading limits during each month of the 12 months period. While the action of the market supports the belief that a leveling off process is under way, it does not necessarily follow that the next major trend will be downward. On the contrary, the present relationship between the prices of real estate securities and the current as well as prospective earning power of the underlying properties should provide a strong support base for existing values.

H. R. Amott

At the present level of the market it is readily apparent that it would be illogical to expect real estate security prices to record the same rate of gain from this point as was possible during any of the preceding eight years through 1947. The reason is a very simple one. For example, at the close of 1940 the average price of real estate bonds, as measured by the Amott-Baker Realty Bond Price Averages, an index of 200 issues, was $281 per $1,000 bond. On Nov. 30, 1948, the same 200 issues had an average price of $792 per $1,000 bond, or approximately three times greater than at the close of 1940. Thus, for the market to register the same percentage gain from a price of $792 as from a price of $281 it would have to advance just about three times as many points. To expect such results even in a relatively strong bull market is not logical. Moreover, at a level of $792 per $1,000 bond the market obviously is recording a better relationship between security prices and property values than when prices were down to a $281 level. The market today is a much healthier and realistic market than the market of 1941 and reflects a substantial degree of investor confidence in real estate securities as contrasted to the speculative distrust of eight years ago.

As a result of the leveling off of security prices in 1948, the market became very much more selective than at any time within recent years. In contrast to the stagnant condition of the averages certain individual issues and classes of real estate securities recorded relatively pronounced fluctuations price-wise. Among the various classes of securities we find that apartment hotel, hotel and apartment building issues are selling below their closing 1947 level while issues secured by office buildings have advanced in price. The advance in office building securities prices takes on a special significance when it is noted that out of a total of 200 issues constituting the price averages a minority group of 87 office building issues recorded a price rise sufficient not only to offset the losses of all of the other classes of securities but put the averages as a whole approximately 1% higher than at the close of 1947.

Among the individual issues to record creditable price gains it will be found, for example, that the Fifth Avenue and Twenty-Eighth Street Building income 4s, with stock, advanced between Jan. 1, 1948 and Nov. 30, 1948, from 86 to 110, the Broadway-New Street first 3s, with stock, went from 95 to 120, the Manqueen Corporation income bonds, with stock, moved from 88 to 108 and the New York Athletic Club second mortgage 1½s, 1955 advanced from 24 to 41. On the downside a few examples of the worst declines are: Broadmoor Corp. frst 4s, with stock, from 85 to 72; Savoy-Plaza income bonds, with stock, 94 to 80; Sherneth Corp. income 5¾s, with stock, from 76 to 61 and Bellevue Stratford first 5½s, 49 to 39.

These examples of wide price changes within the framework of a static market illustrate the importance of continuous research. In fact, the need for care in selection grows increasingly important as markets level off and become static in character.

The stability of office building issues can be attributed primarily to the ability of these properties to continue to increase rentals and earnings in the face of rising expenses. These properties have been more successful in the past year in attracting new capital for refinancing and in providing a steady and substantial stream of income for debt retirement. The apartment buildings, apartment hotels and hotels have been ravaged by rent controls on the one hand and a heavy increase in expenses on the other with the result that earnings have suffered. As a consequence, many investors have grown doubtful and fearful that before relief comes a radical change for the worse in the general business picture will have to occur. At such time, obviously, the opportunities for improvement will have passed.

As the New Year starts, I would surmise from the conditions which now exist and from what may, in some measure, be visualized for the near-term, that the pattern of the market—as it concerns real estate securities—in the year ahead will show little change from that of 1948. A high degree of selectivity will continue to be the cardinal rule. Only out of such selectivity as comes from careful research can investors hope to avoid the pitfalls and losses that inevitably results from following a market on the basis of a general average. It seems to me we have reached a point where it is becoming increasingly difficult to select the sounder investment issues and more promising speculations because (1) the clock, in a sense, is running down; no boom lasts forever and we have enjoyed, up to now, more than five good years in real estate and (2) the present level of the market obviates to a degree the possibilities for profit on a basis comparable to that of a few years ago. However, for those capable of intelligent research and careful analysis the opportunities for profit will continue to be present in 1949 as they were in 1948 even should the general average continue to record a static trend.

Paying the Other Fellow's Bills

"National health insurance is a method of paying for complete medical care by a prepayment plan. Ultimately the system would cover every form of physician's care, both in the home, physician's office and hospitals. It should meet hospital charges, dental and nursing charges, cost of eyeglasses, hearing-aid devices and the cost of prescribed drugs.

"In the beginning the system would apply to those persons covered by Social Security and their families—approximately 85,000,000 people at this time. When Social Security is expanded to cover agricultural and domestic employees, the self-employed and various Government employees, health insurance would then cover between 120,000,000 and 130,000,000 people.

"Under insurance, the expenditures would be made by all the people who work and earn and not merely by those who happen to be sick. They would be made in fixed and budgetable percentages of earnings, regardless of how often illness strikes or how severe it is and how much care is needed or how expensive it is."—Oscar Ewing, Federal Security Administrator.

How soothingly misleading this term "insurance" can be! One would almost suppose that in this, as in other instances, it assures us all something for nothing!

But, of course, it does not and can not do any such thing. Boil it all down and it is found to be the essence of "compulsory" plans to oblige some individuals to pay others' doctor bills and related costs.

Chas. Dinkey Pres. of Pittsburgh St. Exch.

PITTSBURGH, PA.—At the Annual Meeting of the Pittsburgh Stock Exchange Charles E. Dinkey, Jr., was elected President. Other officers named were Frank M. Tiernan, Preston, Watt & Schoyer, Vice - President; and William J. Bauer, John B. Barbour & Co., Treasurer.

Named as Directors for a three-year period were Joseph H. Fauset, Steele & Co.; Charles M. Lynch, Jr., Moore, Leonard & Lynch, and Francis J. McGuinness, Chaplin & Co.

William W. Reynolds, Reynolds & Co., has been named to fill the unexpired term of Mr. Dinkey on the Board of Governors.

Wrong Heroes Stealing Bows, says Rukeyser

Economic commentator castigates New Dealers for their current claims to credit for high activity in contrast to their previous complete misjudgment of the economic outlook. Insists good times depend on putting government economic house in order.

The wrong heroes are being singled out for decorations and honors in the American effort to lift living standards.

Merryle Stanley Rukeyser, economic commentator for International News Service and editorial writer for the Hearst newspapers, made this diagnosis on Jan 10, as the luncheon speaker at the annual convention of the New York State Publishers Association at the Hotel Syracuse.

Merryle S. Rukeyser

"Although after V-J Day the economic savants of the New Deal miscalled the shots, and misjudged the economic outlook," Mr. Rukeyser declared, "they are now publicly taking the bows for a high level of economic activity and a high level of employment. They imply that they planned it 'that way,' whereas the record shows that in the late summer and autumn of 1945 these Federal Government planners were predicting near-term deflation and unemployment running from 7,000,000 to 13,000,000 persons.

"Now counting on the shortness of the memory of the public, they are crowing about the fruits of their program for putting more government into business. The error is like that of the man who observed a log floating swiftly down the stream. On it was perched a squirrel wagging his tail. The observer fallaciously concluded that the motion of the squirrel's tail caused the log to flow down the stream. It was the old mistake of the cock in the play 'Chanticler' who thought that his crowing caused the sun to rise.

"It is time to get down to brass tacks and find out what ingredients have been put into the brew of national prosperity. With the politicians in the limelight, it is too easy to overlook the immense social contributions of an elite of creative men — the process engineers, the machine tool designers, and the brilliant men in management, not to speak of the thrift and industry of 60,000,000 self-supporting Americans. In addition to the long-term factors of supplementing the human muscle with increasing quantities of mechanical energy and better tools, several special short-term factors have given a vigorous lift to the national economy.

Bumper Crops a Providential Gift

"Among them is the fortuitous circumstance of a providential gift in the form of a succession of bumper crops at a time when needs and subsidies provided unusually high selling prices. Since farm income usually constitutes one seventh of the total national income, farm prosperity has proven a governor for the whole economy. The policy of balance and parity preceded the New Deal by many years, and was formulated immediately after the 1921 depression by the late George N. Peek, a Republican plow manufacturer, and the independent Hugh S. Johnson. Their brochure entitled 'Equality for Agriculture' published in 1922 was followed up by two McNary-Haugen bills, which were unwisely vetoed. Now both major parties are committed to a policy of farm parity.

"Further lift comes from the armament boom. The spending of an equivalent amount of money on leaf raking and boondoggling would not have a similar net expensive effect because if prudent and thrifty citizens do not approve Federal expenditures they tend to offset the effect by pulling in their own horns in spending for capital goods and other items. Thus the men in the Politburo unwittingly created psychological circumstances conducive to expansion.

"Of course, the pent up demand for durable goods, which was unobtainable during the war, has also been involved in the boom.

"With the economy in balance, the large number at work itself generates trade on a high level. If the gainfully occupied were engaged at the pre-New Deal ratio in making goods for the market, the availability of non-governmental goods and services would be vastly greater. In 1929, government, national, State and local, was expending one-sixth of the national income, compared with one-third today. Thus, we have shortages amidst 'full employment.' This springs from the fact that double the normal ratio of employed persons is working for government, instead of for those who are responding directly to the demands of customers. One-third of the population is building pyramids—goods and services channeled through government—and the other two-thirds are producing goods and services for themselves and their dependents, as well as for the pyramid builders and their dependents."

Must Put Government House in Order

Mr. Rukeyser, who is author of "Financial Security in a Changing World," declared that perpetuation of good times depends on putting the governmental economic house in order, and stopping inflation. He said that his own forecast for the coming months was predicated on the belief that a coalition between Northern Republicans, led by Senator Robert A. Taft of Ohio and Southern Democrats, headed by Senator Harry F. Byrd of Virginia and Senator Walter F. George of Georgia, would moderate proposals for reckless Federal spending, for institution of peacetime governmental controls, for punitive taxation, and for a backward step in labor-management legislation. In the circumstances, Mr. Rukeyser thought that, while corrective readjustments would proceed industry by industry, the total volume of trade and employment could continue on a high plateau.

Referring to the newspaper outlook, Mr. Rukeyser advised the Canadian newsprint suppliers to emulate the statesmanship and forbearance shown in pricing policies by such American industries as the steel and automobile manufacturers, in which, he said, "administered prices" were less than the traffic would bear. Mr. Rukeyser said that the skyrocketing of newsprint prices, with the resultant boom in newsprint company earnings, had resulted during 1948 in a sharp curtailment of profits of publishing newspapers in the United States.

"While it is not to be expected that the Canadian newsprint manufacturers will be self-denying philanthropists," Mr. Rukeyser declared, "it is suggested that they might show greater enlightened self-interest in taking a long term view. They will best serve themselves in the long run if they undertake to keep their costs and their prices at a level which will enable their customers to live and flourish. They should not overlook the fact that the newspapers are in competition with other advertising media, including radio and television, which do not use newsprint."

Mr. Rukeyser told the publishers that newsprint prices were probably levelling off at the prevailing peak. He warned that costs of producing publications had been frozen at a high break-even point, and urged elimination of waste so that newspapers could survive and continue their important public service.

"News writing," Mr. Rukeyser, who served for 17 years on the teaching staff of the School of Journalism at Columbia University, "needs to be modernized in this era of high pressure propaganda. If reporters guilelessly print within quotation marks the fallacies and errors of widely publicized propagandists, they unwittingly contribute to public misinformation. In view of the authority of print, it is important to provide the reader with psychological gas masks. For example, on the very first day Adolf Hitler announced in a speech that the Germans were a master race, newspaper reports should have read: 'Adolf Hitler, Chancellor of Germany, today bucked the preponderance of world scientific opinion, when he said that the Teutons constituted a master race.'"

Estimates Rise of Steel Ingot Capacity to 96 Million Tons

Walter S. Tower, President of American Iron and Steel Institute, says increased expansion in 1948 was 1,800,000 tons, with further growth on way.

Steelmaking capacity of the steel industry, at 96,000,000 tons per year, is now greater than ever before in war or peace, and further large expansion is planned during the next two years, it was announced Jan. 6 by Walter S. Tower, President, American Iron and Steel Institute.

Walter S. Tower

By pushing their programs of expansion and improvement, companies of the industry increased the total ingot capacity by 1,800,000 tons during 1948, Mr. Tower said. The increase in 1948 was substantially higher than expected under schedule reported a year ago.

Furnaces of the industry, operating fully, can now pour more than 180 tons of raw steel every minute for a full year, Mr Tower pointed out. The new record capacity is 18% higher than the capacity of 1940, compared with a population increase of 11% during the same period of time.

While the 1948 additions were being made, several new programs of construction and improvement were launched, Mr. Tower said. Cost of postwar expansion exceeds $2 billion.

Schedules now call for the addition of 2,200,000 tons in 1949 and 500,000 tons in 1950. Thus, a total capacity of more than 98,000,000 tons by the end of 1950 is indicated, barring any enforced retirement of facilities which cannot be foreseen or estimated at this time.

To support the great increase in steelmaking capacity, other producing facilities in the industry are likewise being expanded and improved. Blast furnace capacity was increased sharply during 1948 and as of Jan. 1, 1949 is rated at 70,500,000 tons a year, Mr. Tower said. More editions are planned over the next two years in blast furnace, coke and other departments.

CAPACITIES AS OF JAN. 1, 1949
(Subject to Minor Changes)

Blast Furnace Capacity (Net Tons)

Coke, Pig Iron, Charcoal	69,475,450
Ferroalloys	1,066,400
Total	70,541,850

(Capacity, Jan. 1, 1948 was 67,438,950 Net Tons.)

Steel Capacity (Ingots and Steel for Casting) (Net Tons)

Open Hearth	84,817,040
Bessemer	5,191,000
Crucible	20
Electric	6,112,870
Total	96,120,930

(Capacity, Jan. 1, 1948, was 94,233,460 Net Tons.)

Annual Coke Capacity of Pig Iron and Steel Producers (Net Tons)

By-product	61,572,750
Beehive	3,345,750
Total	64,918,500

(Capacity, Jan. 1, 1948, was 62,505,840 Net Tons.)

Werle Renominated as Chairman of Board of Govs. of NY Curb Exchange

Edward C. Werle, a partner in the firm of Johnson & Wood, has been nominated to the Chairmanship of the Board of Governors of the New York Curb Exchange for the ensuing year, Francis Adams Truslow, President of the Exchange, announced. It will be Mr. Werle's third consecutive term as Chairman of the country's second largest securities market.

Edward C. Werle

The slate presented to Exchange members for offices to be filled at the annual election of the Exchange on Feb. 14 names as class A members of the governing board Harold J. Brown of Brown, Kiernan & Co.; Charles J. Kershaw of Reynolds & Co.; Mortimer Landsberg of Brickman, Landsberg & Co.; Edward A. O'Brien; and Alexander R. Piper, Jr. of Paine, Webber, Jackson & Curtis. Mr. Piper will be a new member of the board. Mr. Brown and Mr. Landsberg have served as governors in the past, while Mr. Kershaw and Mr. O'Brien are current board members.

Jacob S. Eisinger of Cohen, Simonson & Co., Thomas F. Fagan of Moore & Schley; Charles Moran, Jr. of Francis I. duPont & Co., and Walter T. O'Hara of Thomson & McKinnon have been nominated for election to three-year terms as class B governors of the Exchange. Robert C. VanTuyl of Shearson, Hammill & Co. is named to serve for two years as a class B governor filling a vacancy created by the resignation of Bayard C. Hoppin of Hoppin Bros. & Co., which resignation was accepted by the Curb board of governors at its regular meeting on Jan. 4 to become effective with the organization of the new board in February.

Clarence L. Eckstein and George Herrel appear on the slate for re-election as trustees of the Curb Exchange gratuity fund to serve for three years.

Garry Onderdonk of L. A. Mathey & Co. is Chairman of the Nominating Committee which also includes Joseph J. Harris of Harris & Co.; Arthur C. Brett, of Goodbody & Co.; James F. Byrne, Jr.; O. Viking Hedberg of Auerbach, Pollak & Richardson; Charles J. Williams of Edward J. Duffy & Co., and Henry Parish, II, of Carl M. Loeb, Rhoades & Co.

Mr. Werle began his career in Wall Street in 1919 as a page boy on the floor of the New York Stock Exchange. He quickly became an order clerk for the stock exchange firm of Wade, Templeton & Co., worked for two years for Morin S. Hare & Co., and in 1923 joined the employ of Johnson & Wood. In 1928, Mr. Werle was appointed salaried market employee for Aymar Johnson of Johnson & Wood, and in that capacity represented the firm on the New York Curb Exchange floor until, in 1940, he acquired his membership on the Curb and became a partner of the firm.

A member of the Curb Exchange since July, 1940, and a governor for the past five years, Mr. Werle has been continuously active in Exchange affairs. He is at present Chairman of the Executive Committee and has served in the past on many of the standing committees of the Exchange.

Detroit Stock Exch. to Hold Annual Dinner

DETROIT, MICH. — Armin H. Vogel (A. H. Vogel & Co.), President of the Detroit Stock Exchange, announces that the Annual Dinner of the Exchange will be held at the Hotel Statler on Tuesday, Feb. 15, 1949. Dan Byrne (Paine, Webber, Jackson & Curtis), will be General Chairman, assisted by Edward T. Bennet, Jr. (M. A. Manley & Co.), C. Erroll Exley (Charles A. Parcells & Co.), George A. McDowell (Geo. A. McDowell & Co.), Wm. C. Roney (Wm. C. Roney & Co.), Wayne Spade (Watling, Lerchen & Co.) and Frank Voorheis (Goodbody & Co.).

It is expected that a nationally known economist and radio commentator will be the principal speaker. In addition to Exchange members and others from the brokerage and investment industry, bankers and corporate executives will attend.

Buffalo Bond Club Elects New Officers

BUFFALO, N. Y. — The Bond Club of Buffalo has elected Charles R. Staples, Halsey, Stuart & Co. Inc. President to succeed DeLancey Rochester, Jr., DeLancey Rochester Co. Other officers elected were: Homer Browning, Marine Trust Co. of Buffalo, Vice-President; Russell J. Hutton, Schoellkopf, Hutton & Pomeroy, Treasurer; Charles W. Dorries, Secretary; Directors in addition to Mr. Hutton and Mr. Dorries are William H. Reber, Reber, Mundt & Co. and Charles H. Wiest, Victor, Common, Dann & Co.

Municipal Bond Market Outlook

Kaiser & Co., members of San Francisco Stock Exchange, report average yield on municipals have practically doubled in last two years, and, because of prospect of higher Federal taxation and continuation of support of government bond prices, bond buyers with substantial taxable incomes appear fully justified in purchasing municipals at current levels.

Kaiser & Co., members of the San Francisco and Los Angeles Stock Exchanges, and dealers in state and municipal bonds, are issuing to their clients a circular on the outlook of the municipal bond market for 1949 and a statement of reasons why investors with large incomes should consider the purchase of tax-exempt bonds. Concerning the outlook for municipals, the circular states:

"As a result of the recent elections, it would appear that the 'atmosphere conducive to the acceptance of business risks,' lasted a scant two years. The campaign promises of President Truman, together with his possible political obligations to labor leaders, and the unexpected defeat of so many conservative members of Congress, is not, we believe, reassuring to businesses contemplating expansion of facilities, nor does it tempt the investor to place his capital at risk. The net effect of a shock to business confidence is deflationary, for borrowing for expansion is reduced and investors are inclined to seek high grade bonds as a haven for their capital rather than second grade bonds or equities. The Administration policy of pegging the Government market now appears likely to continue. Thus, of the major bearish influences on the municipal market noted in our 1944 memorandum, only the huge supply of municipal new issues remains in undiminished force.

"As a background for the remaining discussion see Table I.

"In the ten years 1931-1940, municipal new money financing averaged $951,000,000 annually, and in no year deviated more than 25% from this figure. Using this as a normal, the accumulated deficiency during 1941-1946, doubled to represent the new construction cost level, is $5,700,000,000. The above estimates of new municipal issues are based upon a normal level of $1,900,000,000 (2 x $951,000,000) plus a $600,000,000 annual discharge of the accumulated deficiency. Allowing 6% annual retirement, this calculation would place the total privately held State and municipal debt on June 30, 1952, some 65% in excess of the 1946 low, and 35% in excess of the 1939 level. Will there be buyers able to absorb this increase in supply? An analysis of the estimated distribution of the privately held State and municipal debt may be helpful. (See Table II.)

"In 1942, investors generally without income tax problems (governmental units, mutual savings banks, and insurance companies) held 37% of the outstanding State and municipal bonds, but holdings declined to only 26½% of the smaller aggregate supply at the market peak in 1946. Commercial bank holdings increased sharply after 1944, while all other groups contracted their portfolios. At June 30, 1948, commercial banks showed another $600,000,000 increase in such holdings, accounting for a large fraction of the increased supply last year. Life insurance companies are reported to have increased their State and municipal holdings slightly (by $32,000,000) in the 12 months to June 30, 1948. Other investors obviously increased their portfolios by substantial amounts in order to account for the net increase in outstanding debt.

"In order to absorb the larger supply of tax-exempt securities, the price of municipals relative to corporate bonds had to be reduced considerably last year. The ratio of the yield on "The Bond Buyer's" 11 municipals to Moody's Aaa utilities rose from an average of 46% in 1945-46 to 60% in 1946-47, and to 74% in 1947-48. Between 1919 and 1931 an increase in the supply of municipal bonds from 7 billion to 19 billion was absorbed by investors on an average municipal/corporate yield ratio ("Bond Buyer's" 11 municipal bonds/Moody's Aaa corporates) of 89%. In view of the much higher income tax rates now prevailing, both corporate and individual, a ratio between 70% and 80% seems ample to absorb the prospective municipal offerings of the next few years. The corporation income tax rate is 38%, and a high grade municipal bond yielding 1.90% is equivalent to a 3.06% yield on a taxable bond, assuming this income tax rate continues. Over the foreseeable future it would appear likely that the rate will rise rather than decline.

"So far as the individual is concerned, purchases of tax-exempt bonds can be made on a very attractive basis if his income is at all large. Take the examples as shown in Table III.

"An individual with $6,000 to $8,000 of taxable income ($12,000 to $16,000 combined income in the case of husband and wife) will thus be as well off with a high grade tax-exempt bond yielding 2.05% as with a high grade corporate yielding 2.78%. A municipal bond carrying a yield of 2.60% returns net as much as a 3.53% corporate bond, the average Baa yield. As income rises, the advantage of purchasing tax-exempt bonds increases rapidly. In the $20,000 to $22,000 income bracket, for instance, the average Aaa corporate will produce a net of only 1.41% after taxes, while high grade municipals will give a tax-exempt return far in excess of this figure.

"The above calculations again are based upon continuance of current income tax rate levels. However, the basis for future tax reduction is not now apparent. Notwithstanding the fact that the market has risen sharply since the election, investors in medium and high income tax brackets appear justified in the purchase of municipal bonds. So far as the huge potential supply of bonds is concerned, our recent experience indicates adequate buying power around 75% on our benchmark ratio ("Bond Buyer's" 11 bonds/Moody's Aaa Utilities), producing a support level not too far below the present market. The principal risk of market depreciation in 1949, therefore, lies in a higher interest rate level for corporate securities, but we believe the November election results will perhaps retard the forces that were operating to bring about such higher interest rates. The bond buyer with a substantial taxable income appears fully justified in the purchase of State and municipal bonds at current levels."

TABLE I

Year	(000,000,000) Privately Held State and Municipal Debt (June 30)	(000,000) New Long-Term State and Municipal Issues Less †Refunding	(000,000) New Domestic Corporate Issues for New †Capital	(000,000) —Member Bank Loans Dec. 31— Total	Real Estate	Other Than Real Estate and Carrying Securities
1929	*$14.5	$1,418	$8,002	$26,150	$3,191	$12,811
1930	*15.6	1,335	4,483	23,870	3,234	11,197
1931	*16.9	1,190	1,551	19,261	3,038	9,358
1932	*17.7	849	325	15,204	2,862	7,137
1933	*17.8	1,083	161	12,858	2,359	5,863
1934	*17.0	1,030	178	12,028	2,273	5,615
1935	*16.9	792	404	12,175	2,284	5,755
1936	*17.1	728	1,192	13,360	2,405	6,760
1937	15.1	790	1,225	13,958	2,547	7,709
1938	15.0	1,119	873	13,208	2,716	8,744
1939	15.5	856	383	13,962	2,957	9,515
1940	15.6	1,069	736	15,321	3,228	10,799
1941	15.3	680	1,062	18,021	3,494	13,335
1942	14.8	353	624	16,088	3,423	11,193
1943	14.0	155	376	16,288	3,274	10,777
1944	13.2	236	651	18,676	3,209	11,110
1945	12.9	497	1,264	22,775	3,455	12,809
1946	12.8	998	3,556	26,696	5,358	18,365
1947	13.6	2,228	4,716	32,628	7,130	23,622
‡1948	15.2	2,600	5,700	36,000	8,300	25,800
‡1949	16.7	2,500	----	----	----	----
‡1950	18.2	2,500	----	----	----	----
‡1951	19.6	2,500	----	----	----	----
‡1952	20.9	2,500	----	----	----	----

*Before deducting bonds held in state and municipal investment and trust funds. †Commercial and Financial Chronicle. ‡Estimated.

TABLE II

(000,000 omitted)

June 30	Individuals and Personal Trusts	Commercial Banks	Corpns. and Assns.	Insurance Companies	Mutual Savings Banks	Total Privately Held	Held by Federal, State and Local Governments
1937	$8,800	$2,800	$1,100	$1,800	$800	$15,300	$4,000
1942	7,600	3,600	1,100	2,200	400	14,900	4,600
1943	7,500	3,500	1,100	1,700	200	14,000	4,400
1944	7,100	3,500	1,000	1,600	200	13,400	4,000
1945	6,900	3,800	800	1,400	100	13,000	3,400
1946	6,800	4,100	700	1,200	100	12,900	2,900
1947	6,800	5,000	700	1,100	100	13,700	2,900

TABLE III

Surtax Net Income	Combined Normal Tax and Surtax in Bracket	—Net Return on Corp. Bds. After Inc. Taxes— 2.78% (Aaa grade)	3.16% (A grade)	3.53% (Baa grade)
$ 6,000-$ 8,000	26.40%	2.05%	2.33%	2.60%
$10,000-$ 12,000	33.44%	1.85%	2.10%	2.35%
$14,000-$ 16,000	41.36%	1.63%	1.85%	2.07%
$20,000-$ 22,000	49.28%	1.41%	1.60%	1.79%
$44,000-$ 50,000	63.36%	1.02%	1.16%	1.29%
$90,000-$100,000	76.56%	.65%	.74%	.82%
Over $200,000	82.1275%	.50%	.56%	.63%

Utilities as Investments

By ROGER W. BABSON

Mr. Babson places operating utilities as among safest stocks to hold, but says they should not be selected as hedges against inflation. Holds it is wise to confine purchase of electric company stocks to territory in which one lives, but stresses importance of diversification of investments.

During the past few days I asked many investment bankers: "In view of the business and market uncertainties, what are the safest stocks to hold?" The general answer was that the stocks of the operating utility companies offer the best combination of safety and income. Total kilowatt hour output of the utilities will decline with general business, but this decline will be from industrial customers. As many electric companies are now short of generating capacity, and cannot take on many new residential customers, this could be a blessing in disguise. Residential customers are much more profitable than large industrial customers. Therefore, by switching customers, the total output could decline without a decline in profits.

Roger W. Babson

Electric companies have very few labor troubles. In the case of water power companies, the labor expense is only 20%, compared with 80% in the printing industry. The labor expense for the entire electrical industry is low—equalled only by the chemical industry. Therefore, it has little to fear from the much-talked-of "fourth round" of wage increases.

General Operating Expenses

The electrical industry is a large purchaser of supplies, including millions of miles of copper wire, millions of poles, arms, and insulators, thousands of trucks, as well as great quantities of coal, oil and natural gas. Although there may be some further price increases on some of these products, yet the corner has turned downward on the average. This should benefit the utilities so long as we avoid war with Russia or the Chinese Communists.

The only "nigger in the woodpile" is the attitude of utility commissions regarding rates. Many utility companies are in need of higher rates, especially street railway and bus companies which have large labor expense. As, however, these rate-making bodies clearly understand that to take care of their customers the utilities must have more capital, and in order to raise more capital must give investors a reasonable dividend, they should gladly grant these needed rate increases.

Utilities as Inflation Hedges

Utilities of operating companies can be recommended for safety and for income, but they should not be selected as hedges against inflation. If considering only the cost of replacement, stocks of utility operating companies should be worth double what they were ten years ago provided they cannot be caught by the "Depreciation Formula." The fact, however, that utilities are not free to raise their rates without special permission, is a distinct handicap. Hence, for inflation hedges it is better to buy steel, oil or merchandising stocks. A live merchant can always keep one jump ahead of inflation.

It is wise to confine one's purchase of electric company stocks to the territory in which you live. You, yourself, should know the attitude of your public authorities on this rate-making problem; it is reflected by your local newspapers. If you believe that your public service commission is fair, then buy the stock of the company supplying your home with electricity; but not otherwise.

Importance of Diversification

Of course, you should not put all of your eggs in any one basket, however good that basket may be. This means that one should not have more than 20% of his funds in public utilities, and not more than 5% in any one company. An investor should have his funds divided amongst different industries, different companies and different sections. As a final thought, I urge you to avoid utilities in big cities that might be bombed in case of World War III.

Shareholders Told 1948 Bank Operations Reflect Tapering Off of Some Upward Trends

Executives of National City Bank of New York attribute deposits decline and reduced earnings' assets to government fiscal operations and higher reserve requirements. Say "we face today a period of low visibility," with some signs of industrial slowdown.

Reporting to shareholders in advance of the 137th Annual Meeting of the National City Bank of New York to be held on Jan. 11, Wm. Gage Brady, Jr., Chairman of the Board; W. Randolph Burgess, Chairman of the Executive Committee, and Howard C. Sheperd, President, stated that "The operations of 1948 in the banking system and in this Bank reflect the tapering off of certain of these strong upward trends. Deposits have been declining, mostly because the government has drawn down its deposits and paid off some of its securities held by the banks. Earning assets were also reduced by action of the Federal Reserve System in using its legal powers to increase the amount of cash reserves banks are required to carry in the Reserve Banks. In the Central Reserve cities, New York and Chicago, this meant turning government securities into cash to an amount of 6% of domestic demand deposits. Further changes in trend are to be found in slightly higher money rates, which have partly offset the reduced volume of earning assets. This change in rates, however, brought lower bond prices and smaller profits from sales of securities."

Wm. Gage Brady, Jr.

W. R. Burgess

Howard C. Sheperd

The combined net current operating earnings of the National City Bank and the City Bank Farmers Trust Company for the year, as stated in the Report, were $20,838,785 or $3.37 per share on the 6,200,000 shares outstanding compared with $20,163,976 or $3.25 per share for 1947. If net profits (after taxes) from sales of securities are added, the total was $21,531,971 or $3.47 per share in 1948 and $22,493,382 or $3.63 per share in 1947. These totals do not include recoveries which were relatively small and were credited directly to reserves.

Commenting on the slight decline in deposits, from $4,643 million at end of 1948 compared with $4,874 million a year previous, the bank officers ascribe this to reduction in government deposits and Federal Reserve increases in bank reserve requirements. In the same period, the bank's loans and discounts rose $206 million, and their proportion to the bank's total assets increased from 23% to a total of 28%. While business requirements for credit have continued large, much of this need was met through the security markets and especially through private placements with insurance companies. With other banks we have maintained a cautious lending policy in keeping with the inflationary trend.

"It is our belief," says the report, "that bank lending has not been an active inflationary force. The real causes of inflation lie more in government spending and subsidies, encouragement of the wage spiral, and the postwar pressure to rebuild America and the world all at once. Given these expansive influences, an increase in bank loans was inevitable simply to conduct current business."

Under the heading "Looking Forward," the National City officers still see inflationary trends, though with "some signs of industrial slow down."

"We face today a period of low visibility," concludes the Report. "Clouding every estimate of the future is the danger of a breach of world peace, which this country must make every effort to avoid by maintaining its strength both military and economic, as well as exercising great wisdom in its foreign relations.

"Nearer home are the inevitable doubts which arise from past experience with long continued periods of business expansion, rising prices, and free spending by government and people. In the past these movements have always come to an uncomfortable end. When a country starts along the inflation road it is difficult to draw back, because a majority of people find inflation very pleasant in its early stages. The white collar worker and the person of fixed income are notable exceptions. In the end the final collapse catches everybody.

"Ancient fallacies hailed as new discoveries are exhumed to justify continuing the inflationary course. Of these we are today receiving a liberal quota.

"There are some signs of industrial slow-down — the filling of supply lines, the completion of some business capital undertakings, some buyer resistance to high prices. But in other directions, the spending pressure continues, and especially government spending. Much will depend on the wisdom which the new Congress shows, under Administration leadership.

"Banking operations will reflect the state of business and of the people generally whom we try to serve. In the upward swing of the cycle over the past decade, the bank has strengthened its position. We have conserved our resources and are ready to give our customers sound banking service through fair and stormy weather.

"As citizens we are impressed with the need for reasoned judgment in both high places and low. It is a time for understanding, for restraint, for the subordination of immediate self interest to the long-term national welfare. In the long run no person and no business can prosper except as the national economy is sound and productive and at peace."

Railroad Securities

Many railroad analysts have been particularly impressed by the recent operating performance of St. Louis-San Francisco. The showing in this respect during the past six months or so contrasts sharply with the mediocre long term record of the properties. In the prewar years the company consistently carried a considerably smaller proportion of gross through to net operating income before Federal incomes taxes than did the Class I carriers as a whole. Its average pretax profit margin during the six years 1935-1940 was only 7.2% compared with 15.2% for the industry. Its best showing during the period (11.0% in 1940) was the same as the industry's poorest year, 1938.

The spread between the showing of the 'Frisco and that of Class I carriers narrowed sharply in 1941 as war influences were mounting, and in two of the next three years the road turned in a better performance than the industry. The years 1945 and 1946 were distorted by extraordinary influences but again in 1947 'Frisco had a wider profit margin (14.0%) than Class I carriers as a whole (12.4%). Despite this improvement in the company's showing during and after the war its transportation costs continued unduly high. The road's transportation ratio in 1947 was 41.7%. That of the Class I carriers was 40.0% which in itself is viewed by most railroad analysts as being too high under the existing high level of traffic.

During the opening half of 1948 the company's transportation ratio continued to deteriorate. It was up 2.3 points from a year earlier, to 44.1%. The industry ratio was up less than a point, to 40.8%. The marked change for the better started with the opening of the second half of last year. For a period of about two-and-a-half years the transportation ratio had each month consistently been running above 40%. In June 1948 it dipped to 39.2% and it has been tending consistently downward since then. November results have not as yet been published but for October the ratio hit a new low of 37.5%, which was more than three points below the like month of the preceding year.

The probable reason for the sharp turn for the better in the company's affairs is not difficult to find. At the end of 1947 the company had no diesel power. Around the middle of the year the company started getting delivery of the new diesel power. It is believed that by now the road has at least 11 diesel freight locomotives in service with twice that number still to be delivered. Probably at least half of the proposed 37 diesel switchers are also in use at this time. It is expected that the balance of those now on order will be delivered and in use within the next few months. Thus, there is great promise of even further cumulative improvement in the road's operating performance.

In 1947 earnings on the road's common stock amounted to $2.25 a share. For the first 10 months of last year per-share results climbed to $2.99. This was more than double those for the like period a year earlier. November net operating income was off from the showing of the preceding year but the cumulative results for 11 months were still well ahead of the 1947 period. Barring some unexpected and substantial year-end adjustments, it is now estimated that for the full year 1948 per-share earnings at least topped $3.00.

Although the stock has had earning power to justify some action, no dividend has been paid on the common since the road emerged from bankruptcy. Month by month some distribution has been expected by the financial community. Following the December directors' meeting it was stated that final consideration of a common dividend out of 1948 earnings had been deferred to Jan. 27 when the board next meets. While it is generally expected that some distribution will be authorized at that time the payment will presumably be held to modest proportions. Funds are needed for the equipment program and also for rehabilitation of the recently acquired Alabama, Tennessee & Northern. Regardless of any dividend at this time, analysts consider the stock to have interesting speculative potentialities on the basis of the substantial improvement in the road's operating status and the favorable earnings prospects.

Food Prices Downward: Willis

President of Grocery Manufacturers of America, Inc., says increasing supplies portend gradual price declines but warns all costs, including wages, must be held down. Denies high profits or monopoly have contributed to high food prices.

Paul S. Willis, President of the Grocery Manufacturers of America, Inc., on Jan. 6, released a statement reviewing the nation's food situation with a view "to help set the record straight." According to Mr. Willis, food prices rose to their peak during the postwar period because: (a) the demand was greater than the supply; there were more dollars than food; our own people were bidding for the supply while the whole world was bidding against them; and (b) prices went up because all production costs went up—farm products, labor, materials, transportation, everything. No one segment of this industry—farmer, processor or distributor—was responsible for the rising prices.

Paul S. Willis

"While we are still operating in an inflated economy," continued Mr. Willis, "the good news is that total food supplies are gradually catching up with demand, and prices are now moving downward. Food prices reached their peak last July and since then there have been substantial declines on butter, eggs, flour, soaps, shortening, and many others."

"Because food is the biggest item in the family budget, this reduction in prices is highly welcomed by each family," Mr. Willis added.

"While the price trend is downward," continued Mr. Willis, "this decline will be gradual and not by any big drops. Food prices as a rule do not move by jumps and drops. They go up slowly and come down slowly.

"Even though the large grain crops are helping to bring farm prices down, it will take time to fully reflect these lowered costs in food prices at the grocery store.

"While the outlook is for lower prices, these lower prices can only materialize if all costs are held down. If we have another round of wage increases, if we ship too much food abroad, if freight rates keep rising, if the military preparedness program draws too heavily on our supplies, these extra costs of necessity will be reflected in prices, and to that extent will slow up further declines.

Relationship of Profits to Prices

"The American people have been given so much misinformation about profits that they must be utterly confused. There have been charges to the effect that food prices are high because of exorbitant profits. Nothing could be further from the truth. Here are the facts: To start with, we must recognize that the American home-maker does not spend her dollar at the grocery store for a *single* grocery item. She spends her dollar for a basket of groceries. We have been keeping a running record of the sales and earnings of a representative group of 89 food and grocery manufacturers who manufacture products which normally make up the family grocery basket.

"In 1939 these 89 manufacturers did a total business of $5.3 billion, and earned $246 million, or 4.6¢ on dollar sales. In 1948, these same 89 manufacturers did a business of about $16 billion, three times the 1939 volume, with net earnings estimated at $500 million or about 3.2¢ on dollar sales. The homemaker is not so much interested in the total dollar profits of the manufacturer, which fluctuate with the amount of business done, as she is in the amount of profit the manufacturers take out of her grocery dollar. This now amounts to a little over 3¢. The record is that these 89 grocery manufacturers not only trebled their sales but their own net profit per dollar sale was reduced by 30%.

"The net profit on dollar sales of the distributors averages about 1.5¢. If both the manufacturers' and distributors' net profits were entirely removed, this would save the consumer somewhat less than 1¢ on a can of baked beans.

"Frequently when certain people attack the food industry they evidently plan their statements in order to arouse and confuse the American public. They will, for instance, compare 1948 profits with 1939 profits without stating that 1948 business was three times larger than it was in 1939. It would be just as unfair for us to point out that in 1939 the total compensation for all employees was $47 billion compared with about $148 billion in 1948, unless we quickly added that 16 million more people drew compensation in 1948; or to say that the farm income in 1948 was $30 billion compared with $9 billion in 1939 unless we also pointed out the fact that the total farm production in 1948 was much greater than in 1939.

Monopoly Charges

"Occasionally there are charges to the effect that the food industry is a monopoly. This is, of course, an utterly ridiculous statement. There are about 50,000 manufacturers producing food and grocery products, and all are in spirited competition for the grocery dollar. Some 400,000 retail grocers fight equally hard to get the people to come into their stores to buy their groceries. Products compete with products and brands with brands for the consumer dollar. No company or product stands alone in its field. There is a full freedom of choice as to where the shopper can buy, and a large family of products and brands at a wide range of prices to choose from."

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

The government securities market remains on the buoyant side with investors switching and making new commitments in order to improve income. . . . Demand for longer Treasury obligations is broad, with both the bank-eligibles and tap issues coming in for good buying. . . . Were it not for selling by the Central Banks, prices of the more distant governments would go substantially higher. . . . However, the Federal Reserve Banks by feeding issues into the market in an orderly manner have given the market an opportunity to advance somewhat, but at the same time are keeping it from getting too enthusiastic or bullish, until there is clarification of the economic trend. . . .

Savings banks have been sellers of short and long eligibles in order to buy higher yielding taps. . . . Demand for the longest bank 2¼s is strong with the 2¼s of 1956/59 also under accumulation by the deposit institutions. . . . However, selling by savings banks of the latter issue is adding to the floating supply of the eligible 2¼s. . . . The partially-exempts are meeting some resistance at present levels, despite their attractiveness when compared with the taxable obligations. . . .

SAME FISCAL POLICY

The messages and reports of President Truman, as far as the money markets are concerned, all add up to the same score. . . . A continuation of past policies, namely, a protected government bond market, with a 2½% rate for long Treasuries. . . . Also a certain amount of interference with the money markets to keep the forces of inflation on the defensive when such action is warranted. . . . Despite all the criticism that has been hurled at the monetary authorities in their support program of government obligations, there seems to be little in the various reports of the Chief Executive to indicate any change in the course that has been followed in the past by the money managers. . . .

As a matter of record, the Economic Report characterizes the policy of supporting prices of long-term government bonds at the 2½% yield level as "eminently successful." . . .

WHAT KIND OF "RESERVES"?

President Truman has asked for additional powers for the Federal Reserve System over not only member banks but all deposit institutions. . . . The authority to increase reserve requirements of commercial banks will no doubt be granted by the Congress. . . . Of great importance to the member institutions will be the type of reserve requirements that the authorities will be seeking. . . . If there are to be higher cash reserves, as in the past, then the earnings of banks will be cut, with restrictions on their ability to extend credit. . . . This should not be the case, since there seems to be no valid reason why the deposit institutions should be penalized from an income standpoint, because the credit base is being limited. . . .

On the other hand, an increase in reserve requirements through the use of "Special Reserves" or some kind of payment on funds of the banks immobilized through higher reserves, would be constructive and seems to be getting more than passing attention. . . . Although credit would be contracted just as effectively as through the use of cash reserves, there would not be a loss of earnings, if "Special Reserves" were employed by the authorities. . . .

As to the monetary authorities getting new powers over the life insurance companies, there seems to be considerable diffrence of opinion. . . . In some quarters, however, it is strongly believed that the money managers will get authority to regulate the investment policies of non-bank investors. . .

IF AND WHEN

Assuming the monetary authorities get new and additional powers over member banks and insurance companies, and many feel this will take place, will there be need to use these measures, if economic conditions continue the adjustment that seems to be under way? . . The inflation spiral appears to be losing its force and this means that the authorities will be more reluctant to take measures that will further limit the credit base. . . . To be sure, trends will be watched very closely, but if there should be greater deterioration of business conditions than had been anticipated, it would not be surprising to see a reversal of past actions, on the part of the money managers. . . .

While there is great fear of inflation, there is greater fear of deflation and a fairly sharp down-trend in economic conditions would no doubt result in a lowering of reserve requirements which would be a complete change from what has been going on. . . .

STRONG MARKET INDICATED

Higher taxes to bring about a balanced budget as well as to provide a surplus to be used to retire debt should not be unfavorable to the government market. . . . It seems as though practically all the recent developments out of Washington have been on the constructive side as far as the money markets are concerned. . . . The monetary authorities appear to have the situation well in hand, and evidently are intent upon keeping it that way, even if new or additional powers have to be obtained in order to carry out the program. . . .

The feeling now is that prices of Treasury obligations will improve gradually with the eligibles favored, although the tap issues will no doubt be well taken particularly by the savings bank. . . . A buoyant rising market should not be exactly distasteful to the money managers because it will give them an opportunity to unload some of the securities that were bought so heavily last year in support operations.

Chemical Bank Executives Defend Bank's Self-Policing Job In Our Inflationary Economy

N. Baxter Jackson, the Chairman, and Harold H. Helm, the President, tell stockholders commercial banks have not contributed toward inflation. Announce a net earnings gain in 1948 of $706,719.

The annual report to shareholders of the Chemical Bank & Trust Company, dated Jan. 11, and signed by N. Baxter Jackson, as Chairman, and Harold H. Helm, as President, criticizes severely the tendency to force further regulations on the banks, measured not by rules but by a "rubber yardstick."

N. Baxter Jackson Harold H. Helm

"In our opinion," say the Bank's executives, "shareholders should be alerted to the ever-increasing demands on Congress for greater power by bank regulatory bodies. If such increasing authority over bank operations and the extension of credit is granted, we fear what the ultimate result may be. This is a constant threat to our private banking system. The power to move reserve requirements up and down by any small group creates confusion and is a menace to banking and to business. Banking and business can be adjusted to almost any fixed set of rules, but not to rules measured by a rubber yardstick."

Continuing, the report states: "We wish again to repeat that we do not believe that commercial banks, because of loans made to their customers in the postwar period, can be charged with contributing in any important respect to the inflation which has resulted in our high cost of living. The figures on this subject of loans in relation to deposits and the national product we think support our belief. Throughout the year in all parts of the United States banks have done a most thorough self-policing job, and there is certainly no evidence to support any charge that speculative bank credit is being employed to raise the price of commodities or goods in our economy. Such artificial commodity prices as exist today are largely the result of government subsidies.

"We are gravely concerned by the heavy responsibility carried in our economic structure by business corporations and of the dangers that may come from overburdening them through increased corporation taxes. Necessary aid to foreign countries and heavy military defense expenditures should be more largely provided through budget savings in other categories. The current huge production figures and our all-time high national income cannot be indefinitely maintained. Our national economy and the balancing of our present budget depend so largely on the success and prosperity of American business that this should not be disregarded in the consideration of any new tax program. Instead, we should find ways to encourage business and to assist it in its constantly needed expansion.

"Dangers most certainly lie ahead if investments in business equities are not made more attractive. The holder of equity securities has indeed become the forgotten man. The small amount of capital expenditures in 1948 which was financed through the issuance of new common or preferred stocks is one of the serious features in our already unbalanced economic outlook. The answer is not in government spending but in the prudent management of Federal expenditures and a reduction in our tax requirements."

The report of operations of the Chemical Bank, now in its 125th year, shows net operating earnings, after expenses, taxes, Federal Deposit Insurance, and employees' welfare, were $7,232,409.22, an increase of $706,718.52 over the previous year.

There was added to the Undivided Profits Account the sum of $2,577,142.03, after paying dividends and providing for appropriate reserves.

Deposits of $1,435,190,391.55 at Dec. 31 were greater by $151,103,355.34 than on the same date in 1947.

Although the demand for commercial loans diminished during the last quarter, total loans and discounts showed an increase of $111,310,483.56 for the year.

Reynolds Co. Opening Cgo. Br. Under White

CHICAGO, ILL.—Reynolds & Co., members of the New York Stock Exchange, have opened an office in Chicago under the management of John G. White. Temporary headquarters are at 209 South La Salle Street.

Mr. White was previously with Hornblower & Weeks.

Business Man's Bookshelf

Dilemma of Postwar Germany—Julia E. Johnsen — The H. W. Wilson Co., New York City—fabrikoid—$1.50

Information Please Almanac 1949—Farrar, Straus & Co., New York—cloth—$2.50

Saving American Capitalism—A Liberal Economic Program—A. A. Berle, Jr., Chester Bowles, Alvin H. Hansen, Leon H. Keyserling, and others—edited by Seymour E. Harris—Alfred A. Knopf, Inc., 501 Madison Avenue, New York 22, N. Y.—Cloth—$4.00

Truman Program, The — Addresses and messages of Harry S. Truman, President of the United States—Public Affairs Press, 2153 Florida Avenue, Washington 8, D. C.—$2.95

Women — and Their Money—Maxwell S. Stewart — Public Affairs Committee, Inc., 22 East 38th Street, New York 16, N. Y.—Paper—20c

Clyde Keith Joins Cruttenden Co. Staff

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — Clyde H. Keith has become associated with Cruttenden & Co., 209 South La Salle Street, members of the New York and Chicago Stock Exchanges. Mr. Keith was formerly Manager of the trading and sales departments for Carter H. Corbrey & Co.

As We See It

(Continued from first page)

real world in which we all live, or those who have taken the time and the trouble to inquire more carefully into the course of history or to observe with greater care the essential nature of man, find some of these notions almost incredible—or would, at any rate, were it not for the fact that for a decade or two broadly similar nonsense has been bandied about in political circles from day to day.

Some Examples

A few passages from the President's "Economic Report" are enlightening in this connection. First of all, he seems to be quite certain that "our unparalleled prosperity has not been maintained by chance, and that we can lose it if we leave the future to chance. Courageous and positive action has contributed to our progress, and some of the most serious difficulties still confronting us exist because our thought and action have not been sufficiently clear and vigorous.

"As we work together in 1949 to combat the remaining dangers of postwar inflation, we should bear always in mind that our purpose is at the same time to build strong bulwarks against deflation and depression, and thus to consolidate our past gains and move forward to new levels of sustained prosperity for all.

* * *

"Now is the time to formulate and execute a practical program of immediate and long-range economic measures pointed toward stability and growth."

Then some paragraphs later he returns to much the same theme and proceeds to set forth his philosophy (or that of his advisers), as to the responsibilty of the National Government in the premises. Here is a sample:

"While the prosperity of the postwar years has been great, it has rested in considerable part on somewhat temporary factors which were the aftermath of war. In 1949, we are entering a period of harder tests. The momentum of war-created demand and war-created purchasing power has waned, and we must now rely more fully on currently generated purchasing power to absorb a full output of goods and services. We must be more than ever on the alert, to make sure that withdrawal or lessening of temporary demand factors is not accompanied by a reduction of productive activity and the mounting unemployment to which this would lead.

"I believe that prosperity can be continued and that, with proper action, the prospective volume of business investment, consumer spending, and governmental transactions should promote ample employment opportunities for the coming year.

"But many adjustments in price and income relations need to be made, and these must flow mainly from the wise action of the leaders in our enterprise economy. These leaders should draw sustaining confidence from the fact that it is the policy of the Government under the Employment Act of 1946 to use all its resources to avoid depression and to maintain continuous prosperity.

"These favorable prospects will not be realized automatically. The strength of our economy, the strength of our great nation, depends upon our capacity and willingness to adopt the salutary policies which are required by changing circumstances and to put them into effect."

More of the Same

Lest some easy reasoner gain the impression that these are but generalities with little practical significance, that no President would have the temerity (political as well as other) to proceed actively in accord with such a credo, we take a few paragraphs from a later section of the same message. Here they are:

"We should remember that the goal we seek is the greatest prosperity for the whole country and not the special gain of any particular group. That is why the Employment Act of 1946 calls upon the President to present an economic program aimed at continuous 'maximum employment, production and purchasing power.' I firmly believe that this goal is attainable.

"Maximum employment for 1949 means that nearly one million additional job opportunities should be provided for the growing labor force. Maximum production means that our increased labor force and modernized plant should strive for a 3 to 4% increase in total output. Maximum purchasing power means that the sum total of market demand by Government, business, and consumers, domestic and foreign, should be proportionate to our productive capacity. It must not be more or we shall suffer inflation. It must not be less or we shall suffer unemployment and under-utilization of our resources.

* * *

"We should think and work with a reasonably long look ahead, not keeping our eyes just on the problems of the moment. Our immediate tasks must be placed in the perspective of our long-range national objectives.

* * *

"In the annual economic review of the Council of Economic Advisers, transmitted herewith, there is a detailed treatment of our growth possibilities over the next few years. This shows how our employment, our output, and our standards of living can rise if we encourage and place major reliance upon our free enterprise system, conserve and develop our natural and human resources, retain our faith in responsible Government, and do not relax our efforts.

* * *

"We want the greatest amount of economic freedom that is consistent with the security and welfare of the people, but we do not want to sacrifice that security and welfare because of narrow and selfish concepts as to the acceptable limits of Government action.

"If we could have the amount of national defense that we need, make the contribution to international reconstruction to which we are committed, and at the same time maintain and expand our standards of living now and in the future without any kind of selective controls over the economy, that would be most highly desirable. And it is possible that we may not, in fact, be forced to use such controls. But we would rather have these relatively unpleasant restrictions on our freedom of action for a while than imperil our security or allow our human and material resources to deteriorate.

* * *

"The vigorous commitment by the Government to an anti-inflation policy should not obscure the fact that the Government is equally committed to an anti-depression policy. In fact, curbing inflation is the first step toward preventing depression. And in times like the present, when the economic situation has mixed elements, the Government needs both anti-inflationary weapons and anti-deflationary weapons so that it will be ready for either contingency. It may even be necessary to employ both types of measures concurrently in some combination, for some prices or incomes could rise too rapidly while others could be falling dangerously. The same dictates of prudent policy which call for higher taxes in a period of inflation would call for tax adjustments designed to counteract any serious recessionary movement."

The Real Meaning

From all this certain conclusions are unavoidable. Some of the more important of these are:

(1) The President believes that the National Government must assume, indeed has assumed, full responsibility for abolishing what is now commonly termed the business cycle.

(2) He plans to abolish it by keeping the state of business always at the top of what would be the cycle—if one must continue to think in terms of the cycle—that is he envisages a continuous upward movement without serious interruptions forever and a day.

(3) He is convinced that he and his advisers understand the economics of business cycles and have the key to their eradication.

(4) Worst of all, he evidently believes that all this can be accomplished by the application of a strange mixture of Keynesian (or pseudo-Keynesian) notions with those of Karl Marx and many other economic crackpots who have gained notoriety from the days of John Law down to the present.

So long as these notions prevail, it is idle to expect anything approaching sanity in public policy—and that is that.

Concerning Depression In Financial Industry

(Continued from page 4)

annual reports supplemented by interim quarterly reports and frequent pertinent remarks during the course of the year. Monthly reports are available on all the railroads and also on numerous public utility corporations. Furthermore, at least from my own experience, I have always found the officials of any publicly owned corporation available to any stockholder for discussion of their company's activities and agreeable to answering any reasonable and honest question.

To summarize, it would appear that if the public's attention could be sufficiently aroused to view the picture from the angles I have suggested, I cannot help but feel their interest in equities would be greatly increased.

Playing "Banker"

Most everybody in the world at one time or another has had a desire to play "banker." As a matter of fact he is as much a banker as the official of the bank every time he extends credit to a customer, discounts a bill or in fact borrows from or deposits money in a bank. The same thing occurs when he buys a bond. He is lending money to another enterprise and acting as a banker for them. The terms and contract are clearly stated, the credit rating easily determined. Again, however, the public may be influenced by what it deems the risk of market fluctuations and again I repeat that current quoted prices merely indicate the immediate liquidating value of his loan and not its ultimate value nor the continuance of his interest return. These items are still as they were at the time of his initial purchase, dependent on the earnings and balance sheet of the borrower. The point that should be borne in mind is that because some people desire an immediate return of the money they have lent, other people may take over a loan on apparently attractive terms; possibly more attractive than that offered by any private deal. Since the open market affords the public an opportunity to lend money on a wide variety of terms, it would be wise for them to give it their consideration whenever they are in a position, permanent or temporary, to gratify their desire to play at "banker."

It is fortunate that our financial setup is such that the industry can be patronized by the public on a sound basis, so that no one is called upon to make a sacrifice when it is pointed out to him that it has all but become a national necessity that immediate aid be given to the maintenance of this business if we do not wish to risk a change in our economic structure; a change which may prove adverse to our present day national philosophy.

George E. Stokes With Schirmer, Atherton

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS.—George E. Stokes has become associated with Schirmer, Atherton & Co., 50 Congress Street, members of the New York and Boston Stock Exchanges. Mr. Stokes formerly conducted his own investment business in Boston under the firm name of Stokes & Co.

Truman Budget Sets New Peacetime Peak

(Continued from first page)
the Budget, when approved by the Congress, becomes the plan of action for the Federal Government. It thus embodies decisions of tremendous importance, particularly in these times, to the American people and to the entire world. The preparation of the Budget is one of the most important duties of the President. It represents a carefully prepared plan for carrying out the many activities and services of government which the Congress has authorized, and others which I am recommending, in response to the needs and desires of the American people.

This is the fourth Budget prepared since the close of World War II. The character of the postwar world still presents many complex problems and unanswered questions. This Budget is the clearest expression that can be given at this time to the program which the Government of the United States should follow in the world today.

It is founded on the conviction that the United States must continue to exert strong, positive effort to achieve peace in the world and growing prosperity at home. Substantial direct assistance is provided for other members of the family of nations, and expenditures in support of our armed forces are materially increased. Funds are included for the necessary strengthening of our economy through the development and conservation of the Nation's productive resources. Increased emphasis is placed on the provision of badly needed measures to promote the education, health and security of our people.

To support this program, the Budget provides for expenditures of $41.9 billion for the fiscal year 1950, about $1.7 billion above the requirements for the present year. Under existing law and with continuing high levels of economic activity, revenues for the fiscal year would be $41 billion. This would result in an estimated deficit of $873 million.

In a period of high prosperity it is not sound public policy for the government to operate at a deficit. A government surplus at this time is vitally important to provide a margin for contingencies, to permit reduction of the public debt, to provide an adequate base for the future financing of our present commitments, and to reduce inflationary pressures. I am, therefore, recommending new tax legislation to raise revenues by $4 billion. Because of the normal lag in the collection of taxes, however, tax receipts in the fiscal year 1950 would be considerably less.

In presenting this financial program to the Nation, I have carefully considered the present economic situation of our country and the effect upon it of large government expenditures. The Economic Report, submitted recently to Congress, emphasized the compelling need for financial prudence by the government at this time. The actions taken in preparing this Budget reflect that policy.

Because of heavy prior commitments requiring larger expenditures for a number of continuing programs in the fiscal year 1950 and the presence of inflationary forces in our economy, it has been necessary to deny many requests for additional funds which would normally be desirable.

Necessary increases in our national defense program are expected to result in additional expenditures in 1950 of $2.5 billion, or 21%, over 1949. Public works already authorized and now under way also require higher expenditures. Despite these and other unavoidable increases, the total expenditures contemplated for 1950 are only $1.7 billion above the level of the present fiscal year.

Within the framework of this Budget, provision is made for inaugurating certain essential economic and social programs which should no longer be delayed. An estimate of 290 million dollars is included for aid to education. An additional 500 million dollars is included for such programs as housing and slum clearance, expanded social security and the national health program. In addition, there will be an increase in receipts and expenditures of trust accounts under my recommendation for strengthening the contributory social insurance system.

The plans of each Government agency have been thoroughly reviewed, and the amounts shown in the Budget represent, in my judgment, the minimum requirements for the next fiscal year. I believe that this Budget reflects the necessities of our national policy and the desires of our people and that an extensive review by the Congress will result in its acceptance as a sound program of governmental action.

The 1950 Budget, like all those since the end of the war, is dominated by our international and national defense programs. Together, they are expected to amount to 21 billion dollars, or half of all Budget expenditures.

International affairs and finance account for 6.7 billion dollars of expenditures in the fiscal year 1950, compared with 7.2 billion dollars in 1949. Most of these funds will be spent as part of the strong economic support we are extending to the free nations of Western Europe, whose recovery is the key to continued independence and to safeguarding freedom in many other parts of the world. Our investment in European recovery will repay us many times in terms of increased strength and improved organization for peace.

But in existing circumstances, economic strength is not enough to assure continued independence to free peoples. Under the Charter of the United Nations, therefore, we have been discussing with some of the Western European countries measures designed to increase the security of the North Atlantic area. To further this objective, I expect later to request funds for providing military supplies to those countries and to certain other countries where the provision of such assistance is important to our national security.

It is not possible now to predict accurately what will be needed, and I have therefore included no allowance in the Budget. The fact that additional funds will be required to meet the demands of this program emphasizes even more strongly the need for increased revenues in the years ahead.

While we believe that active participation in the work of the United Nations and support for the economic recovery and growing strength of free nations are the most important steps we can take toward peace, we must also maintain adequate national defense forces. In this Budget, expenditures for national defense are estimated to total 14.3 billion dollars in 1950, compared to 11.8 billion dollars for 1949.

New authorizations recommended for national defense in 1950 total 15.9 billion dollars. Defense expenditures to maintain the present program are expected to be higher in 1951, as a result of expanding programs now under way and the large orders already placed for aircraft, ships, and other material and equipment, which will be delivered and paid for in the next few years.

The military forces recommended in this Budget are the most powerful this Nation has ever maintained in peacetime. The principal objective we should have in mind in planning for our national defense at this time is to build a foundation of military strength which can be sustained for a period of years without excessive strain on our productive resources, and which will permit rapid expansion should the need arise. The recommendations in this Budget move toward this objective. I believe that they will permit this Nation to maintain a proper military preparedness in the present uncertain period.

Two other commitments of the government will continue to have a major impact on Budget expenditures in the fiscal year 1950. These are interest on the public debt and our program of services and benefits provided for veterans and their dependents. Together they total $11 billion, or 26% of the Budget.

A general decline in the number of veterans drawing readjustment benefits reduces expenditures for veterans to $5.5 billion, $1.3 billion below the current year. Interest on the public debt, however, shows an increase from $5.3 billion in 1949 to more than $5.4 billion in 1950.

Expenditures for all activities of the Federal Government, exclusive of those required for the four items—international, national defense, veterans, and interest on the public debt—total $10 billion or 24% of the Budget.

Programs devoted to social welfare, health, and security require expenditures of $2.4 billion. Of this amount nearly half is in direct grants to States for public assistance.

Development of our natural resources, including atomic energy, is estimated to cost $1.9 billion. Programs devoted to agriculture and agricultural resources require expenditures of $1.7 billion. Provision for transportation and communication facilities and services, many of them supporting our national defense activities, requires $1.6 billion.

All other activities of government—for housing, education, labor, finance, commerce and industry and the costs of general government—amount to $2.3 billion, or 5% of the total Budget.

Expenditures of $6.4 billion are included within the foregoing Budget totals for new legislation. Of this amount, $5.6 billion is directly concerned with international and national defense activities, while the remainder provides for domestic needs.

There are many activities of government, authorized at various periods, which impose continuing financial obligations and tend to represent fixed elements in the Budget. A careful review has been made of these programs to assure that they meet only the most essential needs in the light of present conditions. As a result, cutbacks have been recommended in the veterans' hospital construction program, recommendations for new public works have been included only where it is not in the public interest to postpone them, as in the case of some power projects, and an increase in postal rates has been recommended to lower the postal deficit. Similar changes are reflected in other areas.

In addition, a great deal of effort has been devoted to achieving the economies which should be obtained through more effective organization and conduct of government operations. There is no easy way of attaining this type of economy, but the size and complexity of our governmental activities require that we devote continuing attention to improving the management of the public business. Further, we must make it possible for responsible Federal executives to take the actions which will lead to increased efficiency, economy and closer coordination of activities.

To make more rapid progress toward this goal, to which I am firmly committed, this Budget includes a request for a management improvement fund of one million dollars to be appropriated to the President and utilized by him to carry on necessary and worth-while management improvement activities. The Budget also reflects certain anticipated savings which should result from management improvement activities now under way.

To strengthen further the management of the Government, I am recommending the immediate enactment of legislation to increase the salaries of the heads and assistant heads of the departments and agencies. The Budget includes a tentative estimate of the funds needed to provide these increases.

I also recommend that the Classification Act be revised to permit the payment of more realistic salaries to career employees and to correct the dislocations and inequities created in recent years. The Government and its employees should be assured that the salaries paid for positions at all levels are fair compensation for the work performed.

Fiscal prudence requires that we consider the Government's program, not on the basis of a single year alone, but in the light of the continuing national policies already adopted. It must be recognized that expenditures in the fiscal year 1951 are likely to be larger than those for 1950. Expenditures for national defense can be expected to rise substantially above the level estimated for 1950. We cannot except any material decline in our international responsibilities. We must face squarely the fact that we foresee a deficit in the fiscal year 1950 under existing tax laws,

(Continued on page 30)

BUDGET TOTALS

[Fiscal years. In millions]

	1948 Actual	1949 Estimated	1950 Estimated
Receipts	$42,211	$39,580	$40,985
Expenditures	33,791	40,180	41,858
Surplus (+) or deficit(—)	+8,419	—600	—873

NOTE—Estimated expenditures are based on existing and proposed legislation. Estimated receipts exclude new tax proposals. Throughout this Budget, payments of refunds of Government receipts are reported as deductions from total receipts; in the past, they have been reported as expenditures.

Truman Budget Sets New Peacetime Peak

(Continued from page 29)

even without any allowance for new military aid, and that even higher expenditures will probably be required in future years.

Furthermore, in the fiscal year 1950, the present large excess of receipts of trust accounts, with its anti-inflationary effects, will be sharply reduced by the scheduled payment to veterans of a dividend of about 2 billion dollars from the national service life insurance fund.

Finally, it must be apparent that in times like the present we must be in a position to make new plans if conditions change. I do not consider it prudent under such circumstances for the Government finances to be in unbalance, or even in precarious balance. In prosperous times like the present, we should take the necessary steps to reduce the public debt and place the Government finances on a sounder footing.

Therefore, I am recommending that the Congress enact new revenue legislation.

It is not an easy step for me to take to recommend new taxes. I do so with a double conviction, first, that under present circumstances a prosperous country cannot afford an unbalanced budget, and second, that after thorough review of the cost of each Government program my recommendations represent a level below which our responsibilities will not permit us to go in the next fiscal year.

The Budget of the United States Government is large because its responsibilities are large. The Budget reflects the realities of our international position and our concern for a strong and progressive domestic economy. This Nation is today the strongest bulwark of freedom in the world. The decisions we make concerning our national finances must be based on a sober understanding of this fact.

Budget Receipts

On the basis of existing tax legislation, Budget receipts for the fiscal year 1950 are expected to total 41 billion dollars, an increase of more than a billion dollars over receipts in the current fiscal year. The estimates assume the continuance of full employment and approximately the current levels of economic activity.

Income Taxes—Income taxes on individuals and corporations are the major source of revenue of the Federal Government. Receipts from these taxes represent over two-thirds of the Budget receipts at present.

The Revenue Act of 1948, passed over my veto, is causing a sharp reduction of individual income tax collections in the fiscal year 1949. Even though the continuation of the present high level of personal income is assumed, these receipts in the fiscal year 1950 will remain below the corresponding receipts in the fiscal year 1948.

Receipts from taxes on corporations are expected to increase substantially in the fiscal years 1949 and 1950. With the end of the war, the rates of these taxes were reduced and collections declined sharply from the high levels of the war years, but the general prosperity that followed the reconversion period has brought steadily rising profits and higher tax yields.

Excise and miscellaneous receipts—Excise taxes and miscellaneous receipts are the other major sources of Federal revenue. Excise taxes are expected to continue the gradual upward trend of recent years, reflecting the continued high level of business activity. Miscellaneous receipts have been declining from the peak reached in the fiscal year 1947. The disposal of war surplus is nearing completion, and consequently by the fiscal year 1950 miscellaneous receipts will be approaching a more stable level.

Employment taxes—The continuation of full employment brings gradually rising revenues from employment taxes. Furthermore, under existing legislation, the tax rate for railroad retirement increases in January, 1949, and that for old-age and survivors insurance in January, 1950. I recommend that the rate increase for the latter tax be moved forward to July, 1949.

I have recommended programs of health and disability insurance and expansion of coverage for the social insurance programs now in operation. These measures would result at the outset in added collections of employment taxes greater than the added payments for benefits, but the funds would be transferred to trust accounts and would not appreciably affect Budget receipts.

Refunds—This Budget reflects the recent change in Federal financial reporting, under which refunds of receipts are shown as deductions from receipts, rather than as expenditures. These refunds are not true operating costs of the government but are for the return of overpayments of taxes and duties. Such refunds are exceptionally high in the fiscal year 1949, because of the unusual "over withholding" of individual income taxes for January through April, 1948, resulting from the lower rates set retroactively by the Revenue Act of 1948. Interest paid on refunds continues to be shown as an expenditure.

Retirement of the Public Debt

The change in the Budget outlook in the last 12 months has meant a corresponding change in the rate of reduction of the public debt. Instead of the Budget surplus of nearly $5 billion estimated last January for the fiscal year 1949, we now face a deficit of $600 million. Accordingly, there will be no net reduction in the debt during fiscal year 1949, other than that made possible by a small reduction in the Treasury's cash balance during the year. The debt on June 30, 1949, is estimated to be $251.6 billion.

The major reason for the failure to achieve any sizable debt reduction in 1949 is the tax reduction enacted by the 80th Congress. The increase in taxes which I am recommending should permit us to make, in 1950, the minimum reduction consistent with responsible fiscal policy in prosperous times such as these.

Budget Expenditures and Authorizations

The complex Budget of the government can best be summarized in terms of major functions. These major functions—national defense, international affairs and finance, veterans' services and benefits, and so forth—set forth the broad purposes for which the government spends money, regardless of which department or agency carries them out. Estimated expenditures for the fiscal year 1950 of $41.9 billion include all expenditures from the general and special accounts of the Treasury as well as the net expenditures of government corporations and enterprises. They exclude expenditures made from trust accounts.

The full impact and direction of the government's program cannot be measured in terms of expenditures alone in any one year. Many of the commitments made under the appropriations and other authorizations enacted by the Congress for any year do not result in expenditures until a year later. For example, of the estimated 1950 expenditures, $34 billion will be made from new appropriations and authorizations recommended in this Budget, and $7.9 billion will be made from those enacted in prior years.

In order to give a comprehensive picture of the financial requirements of government programs, my Budget Message sets forth the net new appropriations and other authorizations requested. "Net new appropriations," totaling $38.5 billion for fiscal year 1950, represent total appropriations requested (including permanent appropriations), less those to be used to liquidate prior year contract authorizations.

"Other authorizations," totaling $6 billion for fiscal year 1950, include contract authorizations which permit the placement of specific contracts but require later appropriations to liquidate these contracts, and special authorizations to use the proceeds of Treasury borrowing to finance certain types of government programs. Together, "net new appropriations" and "other authorizations," totaling $44.6 billion, represent the new obligational authority recommended for carrying on the government's business.

BUDGET RECEIPTS

(Including proposed changes in employment taxes and miscellaneous receipts.)

[Fiscal years. In millions]

SOURCE—	1948 Actual	1949 Estimated	1950 Estimated
Direct taxes on individuals:			
Individual income taxes	$20,997	$18,530	$19,135
Estate and gift taxes	899	797	653
Direct taxes on corporations:			
Corporation income taxes	9,851	11,515	12,112
Excess profits taxes	323	194	140
Excises	7,402	7,715	7,900
Employment taxes:			
Existing legislation	2,396	2,610	3,324
Proposed legislation:			
Health insurance	---	---	260
Expanded coverage, old-age & survivors insurance	---	---	1,700
Customs	422	407	407
Miscellaneous receipts:			
Existing legislation	3,809	2,276	1,750
Proposed legislation	---	---	81
DEDUCT—			
Appropriation to trust funds:			
Existing legislation	1,616	1,754	2,420
Proposed legislation:			
Health insurance	---	---	260
Expanded coverage, old-age & survivors insurance	---	---	1,700
Refunds of receipts	2,272	2,709	2,097
Budget receipts	$42,211	$39,580	$40,985

NOTE—Payments of refunds of Government receipts are now reported as deductions from total receipts; previously, they were reported as expenditures. Overpayments by taxpayers are not true receipts of the Government nor are they, when refunded, properly chargeable as operating costs of the Government. Payments by wholly owned Government corporations and enterprises for retirement of capital stock and surplus, which were formerly reported as miscellaneous receipts, are also excluded from both receipts and expenditures, since they do not represent operating costs or true receipts of the Government. These improvements in reporting practice result in reducing Budget receipts and expenditures for each year by equal amounts, and therefore have no effect upon the amount of surplus or deficit.

BUDGET EXPENDITURES AND AUTHORIZATIONS BY MAJOR FUNCTIONS

[Fiscal years. In millions]

	Expenditures			1950	
Function—	1948 Actual	1949 Estimated	1950 Estimated	Net New Appropriations	Other Authorizations
International affairs and finance	$4,782	$7,219	$3,709	$6,349	---
National defense	10,924	11,745	14,268	13,219	$2,455
Veterans' services and benefits	6,567	6,799	5,496	5,701	---
Social welfare, health, and security	1,853	1,963	2,358	2,271	92
Housing and community facilities	82	349	388	227	1,987
Education and general research	75	85	414	452	18
Agriculture and agricultural resources	575	1,805	1,662	745	350
Natural resources	1,091	1,616	1,861	1,549	482
Transportation and communication	1,267	1,757	1,586	944	648
Finance, commerce, and industry	88	102	107	82	---
Labor	183	184	187	187	---
General government	1,504	1,187	1,224	1,160	7
Interest on the public debt	5,188	5,325	5,450	5,450	---
Reserve for contingencies	---	45	150	200	---
Adjustm't to daily Treasury statement basis	—385	---	---	---	---
Total	$33,791	$40,180	$41,858	*$38,536	$6,039

*In addition, this Budget includes 3,036 million dollars of appropriations recommended to liquidate prior year contract authorizations.

Truman Delivers Economic Report

(Continued from page 6)

Advisors (transmitted to the Congress herewith), I shall first cover the high points in the current and prospective economic situation, and then propose both policy guides and a program to deal with the situation as I evaluate it.

High Points in the Economic Situation

Employment in 1948 ranged from 57 to nearly 62 million civilian workers and averaged more than 59 million. This included over a million workers who were added to the labor force. Unemployment remained at the low level of around 2 million.

Production for the economy as a whole was between 3 and 4% higher than in 1947. With bumper crops, agricultural output increased about 9%. Industrial output increased 3%, while employment in the service businesses rose 3% and in government 4%.

Prices ceased the broad upward movement which had persisted with few interruptions ever since the removal of price controls. The trends of prices became more irregular and more selective. Metals and metal products, building materials, fuel and lighting materials, and most durable goods moved upward, while some other groups weakened, with farm products leading the decline. Lower food prices brought the consumer price index down a little in the late months of the year, although other components of the index continued to rise throughout most of the year.

This halt in the upward march of prices has been a welcome sign in the battle against inflation. I hope that it proves more enduring than similar pauses during the past two years. But the sharply divergent movements of prices—both up and down—confront us with urgent problems of adjustment to sustain maximum employment and production throughout the economy.

Wages went up during 1948, but there was considerable disparity in the increases obtained by workers in different lines. While some groups managed to keep ahead of rising living costs, others fell behind.

Work stoppages in 1948 were at about the same level as in 1947. In most industries, settlements were obtained without prolonged negotiations or strikes. Nevertheless, considerable loss of production resulted directly and indirectly from strikes, especially in coal mining and in east coast and west coast shipping and trucking.

Profits in 1948 again surpassed all previous records and were rising throughout the year. Corporate profits after taxes amounted to about $21 billion, contrasted with a record level of about $18 billion in 1947. With sales booming, the ratio of profits to sales was again maintained at around 5% after taxes. As I pointed out a year ago, such profits are in excess of the levels needed to furnish incentives and equity funds for industrial expansion and to promote sustained economic health, although some businesses have not thrived nearly so well as others.

The supply of money and credit, which increased enormously during the war, continued to expand thereafter. During 1948, however, partly as a result of restrictive actions adopted by governmental authorities and voluntary restraints observed by banks, and partly because of a decline in the demand for short-term capital, the expansion of bank credit was substantially slowed. A large government surplus used to retire bank-held debt, together with the slackened growth of credit, resulted in a slight decrease in the amount of privately held bank deposits and currency. While bank loan expansion was less in 1948 than in 1947, this was in good part offset by increased lending by other financial institutions.

Credit expansion has been an important element in the process of inflation. In the first months of 1948, it was offset by the large

Treasury surplus. When that surplus disappeared, the Government did not have authority to take other action which would effectively restrain inflationary expansion of bank credit and at the same time assure the maintenance of an orderly market for the vast public debt.

Consumer income in 1948 increased per capita about in proportion to the increase in consumer prices, which meant that consumers had no appreciable gain in real incomes despite an increase of 3 to 4% in total national output. Income from most major sources was greater than in 1947. But in the latter half of 1948, income from farming fell relative to the normal seasonal pattern and that from other unincorporated business and from rents ceased to rise, while that from dividend payments increased sharply. Income distribution is less unequal than it was in prewar years, but this improvement has probably been halted as a result of inflation and of changes in income taxes in 1948.

Consumption expenditure went up less than income in 1948. While personal saving increased, this was not reflected in the rate at which people accumulated liquid assets — currency and bank deposits, insurance policies, and securities. A larger proportion of saving was invested in housing, unincorporated businesses, and farms.

Business investment continued at a high level throughout 1948. Plant and equipment outlays by businesses other than farms totaled about $19 billion, slightly above the level reached in the latter half of 1947, although with higher costs the physical volume of such investment was not quite maintained. Expansion to catch up with postwar demands appeared to be nearing completion in some lines, but substantial further increases in capacity are planned in a number of industries —chemicals, petroleum, metals, utilities, and transportation. Even where expansion goals have been met, modernization to reduce costs and improve products should continue to require substantial investment, though at a rate of growth lower than that of the past two years.

Inventories of nonfarm businesses likewise continued to increase in value throughout the year, the increase amounting to about $7 billion. Of this amount, $4 billion was accounted for by price increases. Restocking after wartime shortages appears to have been virtually completed except for metals and some building materials.

Corporate financing of investment in plant and equipment, inventories and customer credit required $26 billion in 1948, $2 billion less than in 1947, but that part of new investment which went into plant and equipment increased. Of the total, 65% was internally financed. For the part externally financed, bonds were a more important source, and bank loans and stock issues less important sources, than in 1947. While stock market financing has been less important during the postwar years than in the late 1920's, this has been offset by greater retained earnings so that equity-debt ratios are generally more favorable now than in the last two decades.

The housing supply was increased by well over a million residential units during 1948. But since last May the number of new housing starts has been falling off rapidly. This does not mean that the housing shortage has been overcome. Rather it means, as I have pointed out in previous reports, that the construction industry has been pricing itself out of the market for all but expensive homes. A continued decline in home building would constitute a threat, not only to the improvement of living standards for millions of low-income families who are still inadequately housed, but also to the maintenance of maximum employment over the years.

The housing shortage is one that calls for prompt and bold action by Government and by industry—action by Government that will produce low-rent public housing, slum clearance, and rural housing for families of low incomes; action by industry to reduce costs so that decent homes can be built at prices that wage earners with moderate incomes can afford.

The major portion of the housing job must be done by private industry. Here the bottleneck is cost. At this time of national stock-taking I urge all elements of the building industry substantially to lower costs so that housing production may reach new record levels. The present decline in housing starts points up the danger that inflated building costs can bring down upon the industry. If housing costs are lowered and the consumer gets better value, builders will be able to continue to build in volume and the building industry need not fear a continued downward trend.

Municipalities can perform a major role in reducing costs by modernizing their obsolete building codes, which add to costs unnecessarily.

The surplus of exports of goods and services in 1948 was substantially less than in 1947, being $6 billion compared with $11. This reflected in part an increase in imports, a necessary development for placing our international transactions on a sustainable basis. It reflected even more a decrease in exports, because foreign purchasers lacked dollars with which to buy from us, and because of increased supplies of needed goods produced abroad. The impact of this decline has been selective. Foreign countries have continued to buy products which they consider essential, like wheat, petroleum, agricultural and industrial machinery, and chemicals. Other items have been cut very drastically.

As shipments under the European Recovery Program continue to expand, some increase in the level of exports can be anticipated. For certain products, especially those for which the domestic market is tight, countries are being authorized to use European Recovery Program funds for purchases outside the United States. This will not reduce total export demand, since the sellers of such goods will generally spend here the dollars they receive. However, the expansion of exports under this program will, it is hoped, be offset in part by further increases in imports.

Government fiscal transactions were again a strong anti-inflationary factor in the early part of 1948, due to the excess of receipts over expenditures. But this factor declined substantially during the year. Federal receipts from the public exceeded cash payments by about $6 billion in the calendar year 1947. Measured after adjustment for seasonal factors, the excess ran at an annual rate of $12.5 billion in the first half of 1948, and only at a rate of $4 billion in the second half. One of the main supports of an anti-inflation policy is a large Treasury surplus. As a result of the tax reduction of last year and the necessary increase in government expenditures, this powerful weapon is not now available. Tax receipts, it is true, have been rising but this has been largely due to the inflationary rise in incomes, profits and pay rolls. This inflationary rise, in turn, was aggravated by the effects of the tax reduction. Rising expenditures of State and local governments are expected to add to deficits in 1949, and these deficits increase the general inflationary pressure.

In the **Nation's Economic Budget**, retained earnings of business and business investments showed the largest percentage increase from 1947 to 1948. Among the other components, consumer incomes and expenditures increased less, government payments rose only moderately, and net foreign investment declined substantially. Expectations of continued inflation have added to the incentives for business investment, while the price rise has acted as a brake on the demand of consumers with relatively fixed incomes. The proportion of consumer expenditures in the total national product has never been lower in any peacetime year for which statistics are available. This is not an immediate problem so long as the sum of government expenditures, business expenditures, and net foreign investment is still rising. It could become a critical problem as these other factors begin to turn down or even to assume a declining relative importance in a constantly growing total economy. This situation calls for a vigorous anti-inflation program now, while at the same time we must pursue those policies of adjustment and expansion which will be needed to promote balanced economic growth over the years.

Guides to Economic Policy

As we turn from consideration of the facts of our economic situation to a program of action, there are several broad principles which I believe should guide us. These principles should help us to keep clearly in mind where we want to go and how certain roads rather than others are the surest and quickest way of getting there.

First. We should remember that the goal we seek is the greatest prosperity for the whole country and not the special gain of any particular group. That is why the Employment Act of 1946 calls upon the President to present an economic program aimed at continuous "maximum employment, production, and purchasing power." I firmly believe that this goal is attainable.

Maximum employment for 1949 means that nearly 1 million additional job opportunities should be provided for the growing labor force. Maximum production means that our increased labor force and modernized plant should strive for a 3% to 4% increase in total output. Maximum purchasing power means that the sum total of market demand by government, business, and consumers, domestic and foreign, should be proportionate to our productive capacity. It must not be more or we shall suffer inflation. It must not be less or we shall suffer unemployment and under-utilization of our resources.

Second. We should think and work with a reasonably long look ahead, not keeping our eyes just on the problems of the moment. Our immediate tasks must be placed in the perspective of our long-range national objectives. While we must deal promptly with the problem of inflation, we must not unduly hold back undertakings that are needed to preserve and develop our employment opportunities and our productivity in later years. Policies needed to develop our resources and to prevent depression in the long run must be reconciled with policies needed to curb inflation in the short run.

We must pursue affirmative programs for housing and health, for education and resource development. Yet the fight against inflation prevents us from undertaking these long-range programs with the speed and on a scale that would otherwise be desirable. In the recommendations made in this Economic Report and in the Budget which will be transmitted to the Congress in a few days, I have sought to reconcile these objectives in a way that strikes the safest balance.

Third. In order to have a yardstick for appraising strength and weaknesses in our economy and the adequacy of government programs, we need concrete objectives for economic growth, and particularly standards for a better balance between production and consumption, income and investment, and prices, profits, and wages which will be conducive to sustained economic progress. In the Annual Economic Review of the Council of Economic Advisers, transmitted herewith, there is a detailed treatment of our growth possibilities over the next few years. This shows how our employment, our output, and our standards of living can rise if we encourage and place major reliance upon our free enterprise system, conserve and develop our natural and human resources, retain our faith in responsible government, and do not relax our efforts.

This study by the Council of Economic Advisers shows that action is now needed on the long-range programs which I set forth in the concluding section of this Economic Report.

Fourth. We are dedicated to the principle that economic stability and economic justice are compatible ends. The fact that our total purchasing power is now at record levels cannot blind us to the equally important fact that the incomes of many people have not risen apace with the cost of living and that they have become the victims of inflation. A prosperity that is too uneven in the distribution of its fruits cannot last.

Fifth. We must fulfill the requirements of our essential programs—national defense, international reconstruction, and domestic improvements and welfare—even if doing so may require the temporary exercise of selective controls in our economy. We want the greatest amount of economic freedom that is consistent with the security and welfare of the people; but we do not want to sacrifice that security and welfare because of narrow and selfish concepts as to the acceptable limits of government action. If we could have the amount of national defense that we need, make the contribution to international reconstruction to which we are committed, and at the same time maintain and expand our standards of living now and in the future without any kind of selective controls over the economy, that would be most highly desirable. And it is possible that we may not, in fact, be forced to use such controls. But we would rather have these relatively unpleasant restrictions on our freedom of action for a while than imperil our security or allow our human and material resources to deteriorate.

Sixth. The vigorous commitment by the Government to an anti-inflation policy should not obscure the fact that the Government is equally committed to an anti-depression policy. In fact, curbing inflation is the first step toward preventing depression. And in times like the present, when the economic situation has mixed elements, the Government needs both anti-inflationary weapons and anti-deflationary weapons so that it will be ready for either contingency. It may even be necessary to employ both types of measures concurrently in some combination, for some prices or incomes could rise too rapidly while others could be falling dangerously. The same dictates of prudent policy which call for higher taxes in a period of inflation would call for tax adjustments designed to counteract any serious recessionary movement.

Legislative Recommendations

With these principles as a guide, I turn now to the recommendations which I am presenting to a new Congress invested by the American people with enormous responsibility for their welfare and security. We are pledged to prompt action when needed. We must not wait to act only in the eleventh hour of crisis. Moderate measures, taken in time, can save us from drastic action later on.

1. Policies to Combat Inflation and to Promote Production in Certain Industries

Fiscal policy—It is essential to sound fiscal policy to have a budget surplus now. This is our most effective weapon against inflation. It will enable us to reduce our debt now; it would be much more difficult to do so in less prosperous times.

I recommend legislation to increase the government revenue from taxation by $4 billion a year. The principal source of additional revenue should be additional taxes upon corporate profits, which can be applied without unduly interfering with prospects for continued business expansion and with assurance that profits, after taxes and dividends, will be sufficient for investments and contingencies.

Another source of additional revenue should be the tax upon estates and gifts. The already small yield from this tax was reduced by one-third by the Revenue Act of 1948. Careful study should also be directed to the increase of rates of individual income taxes in the upper and middle brackets. Some additional excise taxes may be desirable, but some excise taxes, particularly on oleomargarine, should be repealed.

I also recommend an increase in social security contributions under existing and extended social insurance programs. This would exert an anti-inflation effect in addition to that of the $4 billion increase in taxes which I have recommended above.

The national tax policy should be flexible and should be promptly adjusted to the changing needs of business and consumers in the course of evolving economic events.

Increased taxation is only one of the means by which we can accumulate a budget surplus. The other is a careful limitation of Federal expenditures. It is essential that our fiscal policy under present circumstances contemplate not only a surplus of revenues over expenditures, but also a surplus achieved at the lowest level of expenditures which is consistent with our needs. The implications of this policy requirement will be discussed at length in my Budget Message.

Debt management—The public debt will continue to be managed in a manner that will make a maximum contribution to the stability of the economy. An important factor in this program will continue to be the maintenance of stability in the government bond market.

Such stability in the government bond market has been a most significant element in the smooth reconversion from a wartime economy to a civilian peacetime economy. It contributes to the underlying strength of the financial structure of the country. It engenders business confidence. It has made it easier for business and industry to obtain the capital funds necessary for their reconversion and expansion projects.

The stability of the government bond market was maintained throughout 1948 by the joint effort of the Treasury Department and the Federal Reserve System.

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(Continued from page 31)

Despite the necessity for market support at times during the year, there was only moderate increase in the total government security holdings of the System as a result of the support program. There were occasions, however, when the bond price support policy proved its value in stabilizing the market and the need for continuance of the policy was demonstrated.

Only during the last few years have we had experience in dealing with the problems of managing a public debt of the size the country now bears. The policy of supporting the price of long-term government bonds at the 2½% yield level has been eminently successful.

Through its vigorous promotion of savings bond sales during the year, the Treasury has placed a large volume of bonds in the hands of individuals, who have thereby aided in the battle against inflation by adding to their savings. The most gratifying aspect of this situation is that the amount of series E bonds outstanding was brought to the new high level of $32 billion, and that this was accomplished with the cooperation of the banks of the country, thousands of business firms and their employees, and an army of patriotic volunteer workers.

Credit policy—On previous occasions I have recommended that adequate means be provided in order that monetary authorities may at all times be in a position to carry out their traditional function of exerting effective restraint upon excessive credit expansion in an inflationary period and conversely of easing credit conditions in a time of deflationary pressures. The temporary authority to increase reserve requirements of member banks of the Federal Reserve System, granted by the Congress last August, will expire on June 30, 1949. The expiration of this authority without further action of the Congress would automatically release a substantial volume of bank reserves irrespective of credit needs at the time. The Congress should promptly provide continuing authority to the Board of Governors of the Federal Reserve System to require banks to hold supplemental reserves up to the limits requested last August, 10% against demand deposits and 4% against time deposits. This authority to the Board of Governors should not be confined to member banks of the Federal Reserve System but should be applicable to all banks insured by the Federal Deposit Insurance Corporation.

Authority for the regulation of consumer installment credit, which likewise expires under present law on June 30, 1949, should be continued in order to exert a stabilizing influence on the economy.

Promotion of supply ond production—There are shortages of supply in certain critical areas which are so serious as to impede maximum production in an expanding economy and to limit programs related to national security.

I recommend immediate legislation to deal with this problem of capacity and supply. It should impose upon the government the specific responsibility and provide the funds to make careful surveys of future supply needs and productive capacity. It should further require that these specific studies be correlated with the general requirements of an economy operating at maximum employment, production, and purchasing power. To the extent that facts reveal the need, it should provide additional authority to deal more effectively with inadequacy of capacity and supply.

Allocation powers—In my Economic Report of last year, I stressed the need for the supplementation of voluntary action with mandatory controls over key materials in short supply. The need for mandatory controls still exists. I propose the temporary extension of the law under which voluntary agreements are now permitted. However, there is grave danger that the problems of acute shortage cannot be adequately met by voluntary agreements. I therefore recommend that the use of mandatory allocation powers be authorized so that they may be employed on a selective basis without delay where they prove to be needed.

I also recommend that the Congress continue the priorities and allocation authority in the field of railroad transportation.

Selective price and related wage controls—I recommend tnat selective price control authority should promptly be made available to the government. My reasons for this have repeatedly been set before the Congress and the country. I have not earlier and do not now propose general or over-all price control of the wartime variety. But we are still in a situation where the prices of certain critical materials or commodities of vital industrial or consumer importance are moving upward for the third consecutive year or longer. Sharp rises in the prices of essential products may be harmful to the economy even when the general price level is fairly stable. Further, we cannot be certain that another upsurge of general inflation will not reappear this year under the composite pressures which are at work throughout the economy.

Legislation to authorize selective price control should encourage voluntary adjustments without the actual imposition of price control. It is in this spirit that I would administer the authority. But I am firmly convinced that such voluntary efforts, which have been tried with partial but insufficient results since the middle of 1946, cannot meet the problem unless the Government possesses the authority to act firmly. With such authority available, however, its actual application might not be required. It should be supplemented with a provision permitting the Government to order the withholding of price advances for a reasonable period while public inquiry into their justification is being made.

In my message to the special session of the Congress in July 1948, I said: "Where the Government imposes a price ceiling, wage adjustments which can be absorbed within the price ceiling should not be interfered with by the Government. The Government should have the authority, however, to limit wage adjustments which would force a break in a price ceiling, except where wage adjustments are essential to remedy hardship, to correct inequities, or to prevent an actual lowering of living standards." I then stated my belief, which I still firmly hold, that wage increases based upon productivity and designed to provide a rising standard of living embody the American way. The facts show some current situations where non-inflationary wage increases can be granted by employers without price increases. I firmly believe that the normal processes of collective bargaining will result in sound wage adjustments without the actual application of any governmental authority related to wages if business and Government make genuine efforts to hold down excessive prices and profits and to reduce the cost of living.

Rent Control — The present housing shortage makes it necessary to continue rent control for at least two years, and to strengthen its enforcement. I recommend that this be done.

Even if the most optimistic interpretation is placed upon the slight reduction in the cost of living in recent months, it would be unwise to lift living costs again by rent increases even larger than the moderate ones taking place under the present system of control. Such a course would inflict further hardship upon the families who have already been the prime victims of inflation, and would make it harder to exercise moderation in wage demands.

Export Controls—In view of the large volume of exports required to carry out our program of aiding economic reconstruction abroad, it is essential that those exports be controlled, both to minimize their adverse impact on the domestic economy and to make them most fully conformable to our foreign policies. I therefore recommend that the existing powers of control over exports be extended, and that the machinery for enforcement be strengthened.

Commodity Exchanges—Excessive speculation in grains, cotton, and other agricultural commodities results in wide and harmful fluctuations in prices. The experience in the fall of 1947, and in the winter and spring of 1948, demonstrated the need for more effective governmental supervision over speculative trading on the commodity exchanges. I recommend that the Congress grant more specific and more adequate authority to prevent excessive speculation or the manipulation of prices.

2. Policies to Protect the Victims of Inflation

While we are fighting further inflation, we should recognize that severe hardship has already been imposed on those whose incomes have lagged far behind the increase in the cost of living. Whatever is feasible to alleviate this hardship should be accomplished without delay. I recommend specifically:

That the benefits under the old-age and survivors insurance be substantially increased in order to bring them in line with the increase in the cost of living;

That the coverage of the Fair Labor Standards Act be broadened and the minimum wage increased from the present 40 cents an hour —a figure determined in 1938— to at least 75 cents an hour. It should be permissible to provide higher minima by tripartite action of employers, unions, and the Government on an industry basis;

That the public assistance program for relief be improved to meet the basic human needs of the less fortunate.

The housing program which I recommend will make a start toward providing decent housing for those whose low incomes confine them to slums in these days of grossly inflated housing prices.

3. Policies to Promote Balanced Economic Growth

While alleviating the hardships of inflation and overcoming maladjustments which threaten our future prosperity, we must continue to develop our resources for healthy growth. We should press forward at once with some programs of high priority needed now to conserve and increase the strength of our nation. In addition, we should be prepared with fully formulated plans for others. We cannot accept the dangerous idea that inflation's end will automatically bring about a period of stable prosperity. The continuing need for prudence in Government expenditures must not be translated into false economy.

Natural resources. The Federal Government has an important role in the development of our natural resources which is essential to the achievement of programs to relieve shortages which threaten economic development. These shortages include many of our most essential minerals and metals, our energy resources, especially electric power and oil, and some chemicals and fertilizers.

Present shortages of electric power in many areas are not temporary; our long-range needs require enormous expansion of existing capacity. It is essential that public power programs be expanded this year, even where this requires use of scarce materials for construction of dams and generators. Such expansion should include the construction of transmission lines where needed. A start on the St. Lawrence River waterway and power project should be made immediately. The programs in the important river basins should be examined and prompt action taken where needed to provide improved coordinated development plans.

Agriculture — With certain abnormal postwar demands for farm products diminishing, problems of adjustment to longer-range conditions are becoming more pressing. We need to fit a prosperous and equitably treated agriculture consistently into an economy seeking to operate continuously at maximum levels of employment, production, and purchasing power.

We must make sure that our long-range price-support legislation moves toward the goal of farm living standards comparable to those of the rest of the population. We need farm production even more abundant than we have yet attained to supply the industrial and consumer needs of a full employment economy. But at the same time, we need measures to encourage shifts in the composition of farm output realistically adjusted to our domestic and export needs. We should supplement such measures with others, including the provision of adequate storage facilities, the improvement of distribution, and adequate credit facilities.

Even with farm production and national income at their present high levels, many families lack adequate diets. We should assure maintenance in the future of a level of consumption consistent with real food needs. This will help to stabilize domestic markets for farm products.

To stabilize foreign markets, consultations are already under way toward preparing a new International Wheat Agreement.

I urge the Congress to reexamine existing and proposed farm legislation in the light of all these objectives.

International economic relations —The European Recovery Program is designed to further world recovery and reconstruction. It must be continued. Its success will facilitate a return to reasonable freedom of world trade. The proposed Charter of the International Trade Organization, which was signed by 54 nations last year, lays the foundation for this return.

The present inadequate authority for the conclusion of reciprocal trade agreements expires June 30, 1949. I urge that immediate action be taken to restore the Trade Agreements Act to full effectiveness and to extend it for three years.

Housing—The steady decline in new housing starts since last May adds fresh evidence of the need for housing legislation. I again recommend immediate passage of the unenacted portions of the comprehensive housing bill; and the need has now become so great that its meager quota of 500,000 units of low-rent housing over five years should be increased to provide for 1,000,000 units within seven years.

If we are to achieve levels of housing production adequate to our needs, construction materials in the necessary volume must be available continuously and in balanced proportions. If it proves necessary, I shall not hesitate to use the allocation authority, which I have requested, to channel such materials into home building.

Urban redevelopment and community facilities — The comprehensive housing bill includes substantial Federal aid to the States and localities to enable them to make more rapid progress in clearing slums and in assembling land for balanced redevelopment. Such action can be taken now without adding significantly to inflationary pressures, and it is an essential basis for future progress.

While the Annual Economic Review of the Council of Economic Advisers this year does not deal at length with programs, such as education, health, and social security, which are directed toward the improvement of our human resources, my Economic Report last January stressed the intimate connection between the conservation and improvement of these resources and the prosperity and productivity of our economy. The Council this year firmly reiterates this principle.

Because the programs flowing from this analysis have not yet been authorized, I submit the following recommendations:

Education — The crisis facing education must be met, and the basis for the continued improvement of our system of education made firm. Only with Federal resources can we meet adequately the increased cost imposed by expanding enrollments and the general rise in expenditures for maintenance and operation. I recommend that a Federal program for aid to elementary and secondary education be initiated. We should make plans whereby the opportunities for higher education would be expanded through cooperation between the Federal Government and public agencies and private institutions, including a system of general scholarships and fellowships. And a study should be initiated to determine authoritatively our national needs for educational facilities and the most feasible methods of providing them.

Health—The high percentage of rejections under the military recruitment programs has provided striking evidence of the unsatisfactory state of the nation's health. National health insurance is the only workable way to assure that all individuals have access to the medical care they need. I recommend the enactment of such a program this year. Federal grants in support of hospital construction are an indispensable support to such a program. We also need to augment the number of doctors, dentists, and nurses in order to overcome the present serious national shortage of medical personnel.

Old age, disability, and unemployment insurance—Millions of workers are excluded from the benefits of our old age and unemployment insurance systems. Such exclusion denies to individuals protection to which they are entitled by every consideration of equity. I urge that the coverage of these systems be widened this year and the benefits made more adequate.

Few of our workers enjoy systematic protection against loss of income through temporary or permanent disability. We should inaugurate a system of insurance against such loss.

I have included in this Economic Report only those legislative recommendations which have significance for maintaining maximum employment, production, and purchasing power and which require the immediate attention of the Congress. There are a number of other important projects on which we should make further progress this year. Our conservation practices in many areas require improvement, including the regulation of timber cutting, the protection of public range lands, and the develpment of our tidelands oil resources. We should press forward with our programs of basic research and exploration. We should seek continually to encourage the bargaining of labor and management along lines most consistent with national progress and stability.

This is a period in which our ability to master our affairs in our own way will be rigorously tested. Abundant resources and rapidly advancing technology are both a blessing and a responsibility. Our strength lies, however, less in these resources themselves than in our will to use them effectively. This task requires adapting our private and Government institutions to changing circumstances.

We are committed to working out our economic problems in a way that combines economic and social progress with democratic self-responsibility. This is the spirit in which the Employment Act of 1946 was conceived and in which we shall attempt to live up to its high purpose.

The Stock Market in 1949

(Continued from first page)

the level of business activity, earnings, dividends, commodity prices, or book values—one comes to the same conclusion: the stock market has been conservative during this postwar inflationary period. As compared with prewar (1935-1939) price levels, $1,000 will buy only $580 worth of food, clothing, housing, and other cost-of-living items, but the same money will buy $840 worth of stock today.

One often hears the remark that the stock market is selling at an historically high level. It is true that it is now selling at a level that has been seen in only eight of the last 49 years. It seems fairer, however, to take into consideration the long-term uptrend of the market which is evident in the Standard & Poor's chart of 365 industrial stocks. This long-term uptrend reflects the reinvestment of part of their earnings by corporations, as well as the longer term inflationary trend that has been evident since 1900 in this country. At present the market is selling about 9% above that long-term trend. Most of the important bull markets of the last 50 years have not ended until the higher of the two parallel trend lines has been tested. At present the line drawn through important bull market highs since 1900 is 60% above the current level of the market.

Reasons for Market Conservatism Since 1946

Perhaps the best explanation of this conservatism of the stock market in the face of general inflationary forces is found in the fears of the 1940's — the fear of a repetition of the 1920-21 postwar readjustment — the fear of Russia — the fear of a liberal government. If the old axiom that the stock market "only discounts the news once" is correct, one might well ask "What ammunition can the bears bring forth now?" In its present condition the market would only be surprised if news turned out to be favorable. It is surprise news that causes the best market movements.

Differences in Two Postwar Periods

How different the two postwar periods have been is evident in the figures on corporate profits:

Earnings on the Dow Jones Industrials

Post-war Year	After World War I	After World War II
1st	$13.77	$13.63
2nd	6.74	18.86
3rd	0.00	*21.00
4th	8.20	?

*Estimated.

Usually postwar booms have followed the same course, and can be divided into two parts. In the first, business is active because many deferred demands have to be filled regardless of prices. After these needs are taken care of, business and prices decline. In the second phase of the boom, the lower prices stimulate demand for products needed at more realistic price levels. Adjustments to a peacetime basis have been going on in some industries during the last two years. They will come in the future in other industries. It still may not be necessary however, to have a sharp and widespread correction such as we had early in the 1920's because farm commodity prices are still supported, wages of many people have advanced faster than the cost of living, the cold war has necessitated a defense program, and the European relief program has kept up the demand for goods abroad.

Naturally many of the pent up demands have been filled during the last two years, but the fact remains that we need new homes, automobiles, schools, public utility equipment and highways in this country to take care of our greatly expanded population. The unfilled demands for our machinery in foreign countries is substantial. The influence of style and the power of advertising and salesmanship have yet to be turned on in full force. They can uncover considerable demand as competition increases and products are more available. Public psychology is, of course, the unmeasurable element. As prices start down there is a tendency to delay purchases. General expectation of falling prices might become an emotional thing that could make public spending decline sharply for a short time. Many corporations are also completing expansion plans so it is quite possible that there will be some decline in demand from that source. If by chance the European picture changes there might be less money spent for defense and relief.

Even if we were sure that business would decline it would not be possible to predict the same course for the stock market however. If we compare the trends of the business indices and the stock averages from Jan. 1st to Dec. 31st during the last ten years, we find that the two have been the same in only three years. If we compare the monthly trends of the two since the war ended we find they have moved together in only 9 our of 39 months.

In 1949 business and the market will be influenced greatly by what goes on in Washington. At present the spending by the government accounts for 20% of the national income so its activities are of major importance. Furthermore the power to tax gives the power to build up or tear down an economy. Since 1937 there has been an understandable suspicion that the government can "plan it that way" and make corrective phases of our economy come after election years. This year, however, the tense foreign situations will make it necessary for the Administration to keep business as healthy as possible regardless of political strategy.

The Market Is Healthier Than It Was in 1946

One of the difficulties in 1946 was that many distortions had developed within the market. Particularly unhealthy at that time was the fact that many of the stocks of marginal and smaller companies had been forced to such high levels that they were relatively unattractive for holding in a peacetime economy. An index of low priced stocks advanced 3⅓ times as much as the general market from 1942 to 1946—to a level that was almost 3 times its prewar (1935-1939) average. During the last two and a half years, however, these vulnerable stocks have lost 72½% of their 1942-46 gains and are now selling at about the same percentage above prewar levels as the general market.

The same sort of a corrective phase was seen during both of the big bull markets of the 1920's and 1930's. Low priced stocks declined for twenty months in 1926 and 1927, and they declined for twenty months from 1933 into 1935 before they were able to start another advance. Such corrections of over-optimism are necessary in the strongest of bull markets. The decline in this more vulnerable section has new lasted for 34 months. Low priced stocks made their highs three months before the general market did in 1946 and went to a new low in December of 1948.

Just as in business itself, the last two years have seen piece-meal adjustments within the market. While the Dow Jones industrial average changed only 10c in value from the close of 1946 to the close of 1948 there were large advances and large declines in stocks of the different industries—

	% Advance 1946-48		% Decline 1946-48
Coals	up 42%	Leathers	down 46%
Televisions	up 40½	Amusements	down 40
Rayons	up 24	Drugs	down 39
Oils	up 15	Ptg. & Publishing	down 35½
Fire Insurance	up 13½	Glass Containers	down 40½
Shipbuilding	up 13	Meat Packing	down 30

In general, the groups that have acted the worst in the last two years are those that got most out of line with prewar values from 1942 to 1946.

There are still great differences in the purchasing power of the dollar within the market itself when comparisons are made with prewar levels. As measured by the Standard & Poor's group indices, it ranges from 30c for the shipping stocks to $2.19 for Canadian gold stocks. Figures for some of the leading groups are as follows—

Purchasing Power of $1 Today as Compared with 1935-1939

Greatest		Least	
Canadian Golds	$2.19	Shipping	30c
U. S. Golds	1.71	Rayon & Cotton	32
Containers (Metal)	1.63	Distillers	36
Leather	1.44	Paper	38
Tobacco	1.30	Coal	40
Mining & Smelting	1.22	Air Transport	50
Containers (Glass)	1.20	Cotton Goods	50
Rail Equipment	1.16	Shipbuilding	54
Miscellaneous Food	1.15	Department Stores	56
Sugar	1.15	Mail Orders	56
Drugs & Cosmetics	1.10	Tires & Rubber	59
N. Y. Banks	1.10	Brewers	59
Finance Companies	1.09	Food Chains	59
Operating Utilities	1.08	Radio-Television	62
Telephone & Telegraph	1.07	Dairy Products	63
Electric Equipment	1.03	Casualty Insurance	63
Miscellaneous Building	1.02	Lev. Inv. Trusts	65

Major Groups

Industrials	80¢
Rails	96¢
Utilities	$1.04
High Priced Common Stocks	88¢
Low Priced Common Stocks	84¢

Naturally, no experienced investor would use such figures as the sole basis for buying or selling stocks. Some of the industries have been growing and becoming more profitable. Others have retrogressed and deserve to sell low in relation to others. Conservative investors however, will be interested in the values that seem to exist in such groups as the containers, tobaccos, drugs, banks, operating utilities and electric equipments. Before buying the groups where the dollar shows the least purchasing power compared with 1935-39, the investor should make sure that the progress and the future outlook of the industry justifies such a condition. The growth of some industries—rayon, television, airlines, ethical drugs, and natural gas will no doubt justify higher ratios to the general market than they had in prewar years.

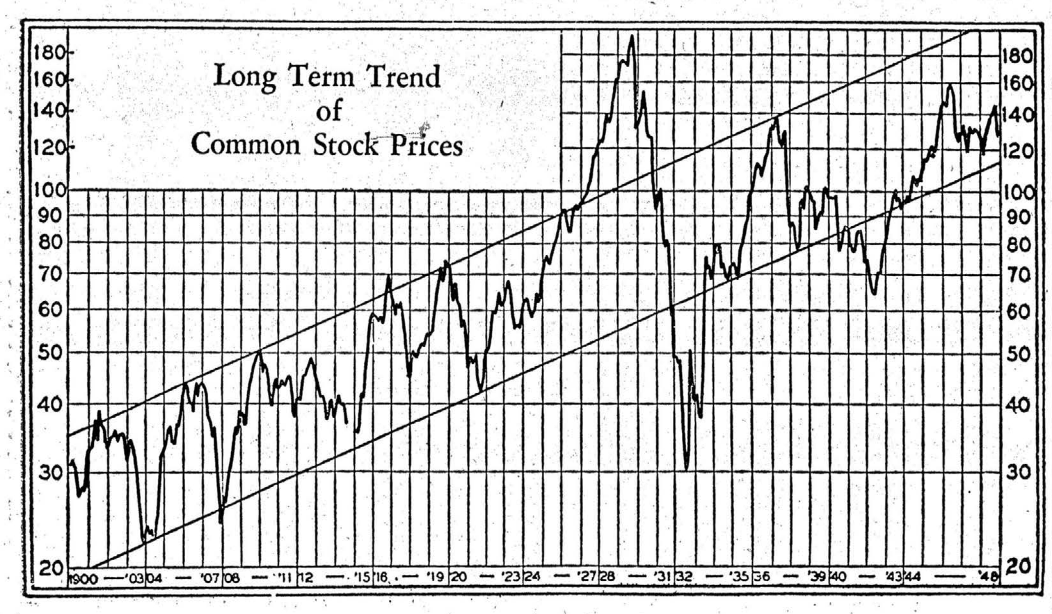
Pychological and Emotional Influence

During 1949 the market will be affected by the usual psychological and emotional influences. At present there is doubt among the Dow Theorists as to the major trend of the market. Selling after the election was too hasty and emotional to give a clear cut case to those who believe the major trend is down. Some new converts to the bear side might be made if the industrial and rails both broke their lows of last November. Others would sell if they broke the lows of 1948, while a rather clear cut decision in favor of the bears would be given if the lows of the last three years were broken. In the meantime it seems wise to favor the bullish interpretation of the movements of the industrial and rail averages since 1947.

Also of psychological influence during the year will be the predictions of some cycle students, many of whom are convinced that 1949 will be the last year of this bull market. There is some background for their belief. The records show that the ninth year of each decade since 1890 has shown the culmination of a bull market and the start of a new bear market.

The January rally expresses relief that the President's messages were not as unfavorable as they might have been. Judging by the type of stocks that have done best recently the advance is a belated year-end rally that was delayed because of the uncertainty as to the President's proposals. In general, the stocks that had the most year-end selling to establish tax losses, have shown the greatest display of strength.

Some uncertainty will be over-hanging until the action of Congress on the various proposals by President Truman is known. However, considering its conservatism during the period of postwar inflation and considering the adjustments that have gone on within the market itself since 1946 there should be a good chance that the lows of the last three years will not be broken and that the market wil stage another of its typical six-month rallies before the end of the year.



Standard & Poor's Index of Industrial stocks, 1935-39 = 100

F. B. Hutchinson With McMaster Hutchinson

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — Frank B. Hutchinson has become associated with McMaster Hutchinson & Co., 105 South La Salle Street, members of the Chicago Stock Exchange. Mr. Hutchinson was formerly with Braun, Bosworth & Co. and prior thereto with Harris Trust and Savings Bank.

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

Advance checked by budget message. Expect higher prices after all alarms are digested.

This would be a good time to join the crowd, throw my hands up in horror at Truman's budget message, and join the majority of business leaders who say that Truman's plan is the end of free enterprise.

* * *

But while everybody is either shaking their heads or viewing with alarm, I can't but help noting that the stock market is taking all this pounding in good stride. I don't pretend to say that the market is the beginning and the end of all of everything that industry knows about the future. But over the years it has been a fairly good barometer of what people were willing to believe and who were willing to back that belief with cash.

* * *

Since the budget message the market has drifted off a little from the top. Perhaps when Congress comes up with something that will really hurt, prices will go down considerably more. But until I can see that, or see any indications of it, I'll go along and feel that the outlook for earnings isn't as bad as many people seem to think.

* * *

How high prices will go is something I wish I could answer. There are yardsticks I use that point to about 180-185 in the Dow averages. But that doesn't mean that it will happen, or that this range will be the top of any new move. I merely throw it in to show you what I think I see.

* * *

For the past few weeks I have been harping on the cheap stocks. In the past week you saw what happened to them. True, none of them went up so much that you have to bite your fingernails down to the elbow for not buying them. But they went up some, and in their cases "some" isn't at all bad.

* * *

A few months ago it was inflation that was going to take stocks up to hell and gone. Well, it didn't. So then it was something else that was going to take them down to the subcellar. That didn't happen either—or at least not so far. I wish I was clairvoyant enough to tell you what would take them up or down. I can't do either. All I know I see on the tape and that says stocks are going higher.

* * *

The reason I chose the cheap stocks is because in going down as they did they have discounted their future headaches. By the same token I didn't think the higher priced issues have done it. In a market collapse I thought the blue chips would break badly, while the cheaper ones would do little. In a rally the higher priced stocks, already top-heavy with longs, wouldn't do much while their step-brothers would have plenty of room to advance. My opinion hasn't changed. Stocks I mentioned last week are still showing higher potential prices.

More next Thursday.

—Walter Whyte

[The views expressed in this article do not necessarily at any time coincide with those of the Chronicle. They are presented as those of the author only.]

Santa Monica Land & Water Co.

PACIFIC PALISADES, CALIF. —Santa Monica Land and Water Co. has been formed with offices at 14800 Sunset Boulevard to engage in a securities business. Officers are A. L. Loomis, President; C. L. Bundy and F. E. Lee, Vice-Presidents; Lois E. Flagg, Secretary; and Dorothy G. Loomis, Assistant Secretary. Mr. Loomis was formerly with Blyth & Co., Inc.

Paul C. Rudolph Co. Opens

(Special to THE FINANCIAL CHRONICLE)

SAN JOSE, CALIF.—Paul C. Rudolph has formed Paul C. Rudolph and Company with offices at 40-D South First Street to engage in the securities business. Mr. Rudolph was formerly local manager for Bailey, Selland & Davidson.

Preston Holt Now With Russell, Hoppe, Stewart Co.

(Special to THE FINANCIAL CHRONICLE)

PORTLAND, OREG. — Preston Holt, formerly of Holt, Robbins & Co., has become associated with Russell, Hoppe, Stewart & Balfour, Wilcox Building.

Paul Fund a Director

Paul A. Fund, a director of The First Guardian Securities Corp., 20 Pine Street, New York City, has been elected a director of Fansworth Television & Radio Corp.

With Wm. R. Staats Co.

SAN FRANCISCO, CALIF. — Arthur H. Markwart has become associated with William R. Staats Co., 111 Sutter Street.

Natural Gas—An Industry With a Future

(Continued from page 3)

totaling 14,600 miles of pipe line now pending FPC approval, 3,675,000 will be required.

Super-Abundant Reserves

While the oil industry has been hard put to maintain its reserves, the natural gas reserves are tremendous and still growing. At the beginning of 1948, the American Gas Association's reserves committee estimated that the proved recoverable reserves totaled 165.9 trillion cubic feet compared with 160.6 trillion cubic feet on Jan. 1, 1947. Since 1916, the reserve figure has soared from 16 trillion cubic feet to 60 in 1935, to 110 in 1943, and finally to the present all-time peak of 165.9, a gain of nearly 940%. The reserves are located mainly in the Southwest, with Texas holding 54.3% of total, Louisiana, Arkansas and Mississippi together holding 16.2%, and Oklahoma and Kansas together having 15.6%. With production at the current rate of about 6 trillion cubic feet annually, reserves are currently equal to about 30 years' supply.

Tremendous Expansion Creates Some Difficulties

The natural gas industry's current expansion is not being undertaken without difficulties. It has been estimated by the American Gas Association that $2.65 billion will be spent in the next 5 years on construction and enlargement. Of this, it is expected that over 25% will come from internal sources, thus leaving approximately $2 billion to be gotten from outside sources.

However, Edmund M. Hanrahan, Chairman of the SEC, has injected a note of warning into the picture. In a study made by the SEC it was shown that older natural gas companies since the end of 1945 have raised some $305 million of which 87% came from bond sales, 3% from preferred stock, and 10% from common stock flotations. Traditional, sound capitalization for major utilities has been in the proportion of 50% in bonds, and 25% each in preferred and common stock. In the natural gas industry, the rule, for the most part, has been 40% in bonds, small amounts of preferred stock or none, and the remainder in common stock. However, in the newer companies large funded debts amounting to 70% to 80% of total capitalization are not uncommon. The argument for the larger funded debt has been found mainly in the currently poor market for preferred or common stock, the business stability achieved through the long-term contracts both for the purchase and sale of natural gas, and the sound investment merit of the funded debt. Furthermore, considerable speculative attraction is afforded common stocks by the leverage factor of the large debt. Nevertheless, despite temporarily boosting earnings, a large debt could conceivably cause trouble in a period of recession. Even at a time of high profits, Mr. Hanrahan warns, depreciation requirements would necessitate conservative dividend policies.

Industry Abounds With Growth Factors

Despite the problems facing it, the natural gas industry has embarked on an era of unprecedented growth. Because of its cleanliness and ease of use, the demand for it is virtually insatiable. However, primarily responsible for greatly augmented demand is the fact that natural gas costs less now than other fuels, having declined in price since the early 1930s. The cost of coal and oil, on the other hand, has doubled, with coal hitting new highs recently. Also, natural gas with twice as high a British Thermal Unit heat rating as manufactured gas, costs but 63.5¢ a thousand feet against $1.055 a thousand feet for manufactured gas. Then, too, instead of attempting to enlarge facilities at a time when costs are high and materials scarce, manufactured gas companies are converting to the use of natural gas with its higher heat value, as a means of meeting their expanded demand. Increasing use of natural gas as a source of organic chemicals to make such things as plastics, ammonia, alcohol, printing inks, and natural gasoline also spell an era of expanding natural gas markets.

Owing to the high level of industrial activity, there has resulted a big boost in gas consumption by industries. Industrial consumption now accounts for about two-thirds of total natural gas utility footage sales, although, because of lower rates, only accounts for 31% of total revenues. Residential consumption provides 55% of dollar sales and equals a quarter of total consumption. These sales, at a higher rate, are expanding at a rate more rapidly than for the industry as a whole, and it may be expected that this will continue for several years. Such a trend is strongly indicated by the fact that in 1947 production of gas ranges was up 40% over 1946, and in the first four months of 1948 was up 22% over the like 1947 period. Production of gas-type water heaters was up 44% over 1947. While limited by winter shortages of gas in regions of high demand, as fuel becomes available gas burner installations for home heating, too, will increase quickly. A boom in the building of new homes and the extension of transmission facilities to the East Coast Middle Atlantic states, a huge market not previously supplied, will greatly accelerate the demand for natural gas.

A Federal-and-State Controlled Utility

In 1938, passing of the Natural Gas Act brought the industry under Federal control. It has been stated by the Supreme Court that while producers and gatherers are exempt from regulation, production and gathering of natural gas which ultimately goes into interstate commerce falls under FPC jurisdiction and earnings may be restricted to a 6% rate on an original cost basis. FPC also regulated the interstate transmission companies, limiting annual returns to the same 6% rate. Often transmission companies, to boost earnings, maintain "off-the-line" sales, such as to industrial consumers, which are not subject to regulation. Natural gas prices to consumers are controlled by state utility boards. The new Congress is not likely to be as sympathetic to the industry as was hoped, and among other bills to be considered will be one to grant more control over conservation—or production—and end-use.

Classification of Natural Gas Companies

In our June 25 Bulletin we broke natural gas companies into five classifications: (1) *Producers*—The majority of these companies are small, and are not listed or actively traded except as natural gas is a by-product of an oil company's business; (2) *Transmission and Wholesale;* (3) *Transmission and Retail;* (4) *Exclusively Retail;* and (5) *Integrated.* At that time we discussed only older, established companies with stocks listed on the New York Stock or Curb Exchanges. Below we have tabulated pertinent data on these companies and have reviewed those companies which we feel have outstanding growth and profit opportunities. To these companies we are adding thumbnail sketches of three of the newer unlisted transmission companies in view of the current interest in them.

Natural Gas Stocks Show Superior Action

A study of the comparative action of the average of four natural gas stocks and the Dow Industrial Average from 1937 to 1948 is shown in Chart II. The four stocks making up the Natural Gas Average are El Paso, Pacific Lighting, Northern, and Southern. It is easy to see that over the 12-year period, natural gas stocks have consistently out-performed the Dow Average. In 1939, when the Dow dropped from its 1938 high, the Natural Gas Average high jumped 26% above its 1938 high. From 1939 to 1942, while showing relatively the same action as the Dow, the Natural Gas Average lost only 18% while the Dow high in 1942 declined 24% from its 1939 high. Both averages showed sharp gains from 1942 to 1946, but Natural Gas stocks moved much faster, gaining 166% against the rise of 78% for the Dow. In 1948, again excelling the Dow, Natural Gas stocks made a new high, while the Dow showed a big decline from its 1946 high.

SALIENT STATISTICS ON NATURAL GAS COMPANIES

	Gross Revenue (Millions)		Earnings Per Share		Dividends Per Share		1948 Price Range	Approx. Price	%
	1936	1947	1947	¶1948	1947	1948	†High Low	†1/1	Yield
*Arkansas Natural	$21.2	$86.3	$0.80	$1.25	nil	$0.40	8.3- 4.6	5.7	3.0
Columbia Gas	‡68.8	111.7	1.36	1.00	$0.75	0.75	14.7-10.2	10.7	5.5
*Consolidated Gas	2.1	4.7	1.05	1.60	0.50	0.77½	11.2- 8.1	10.0	6.3
Consol. Natural	§49.9	94.2	4.51	4.10	2.00	2.00	51.0-37.4	42.0	4.9
El Paso	3.2	10.5	5.14	7.50	2.40	2.40	76.0-55.2	67.6	3.6
*Lone Star	26.1	40.6	1.87	2.30	1.00	1.00	24.1-18.0	22.2	4.5
*National Fuel	14.7	26.5	0.97	0.80	0.80	0.60	12.2- 8.4	8.6	7.2
Northern Natural	9.0	23.6	3.23	3.00	1.60	1.80	26.2-25.6	22.2	5.5
*Oklahoma Natural	‡8.1	17.2	3.30	4.56	1.87½	2.00	39.5-30.1	38.4	5.6
Pacific Lighting	‡47.9	77.0	4.86	4.80	3.00	3.00	55.3-47.2	51.4	6.0
Panhandle	6.0	30.4	4.49	4.90	3.00	3.00	66.0-46.0	50.6	5.3
Southern Natural	‡7.1	22.1	2.66	3.20	1.50	1.75	30.3-20.1	29.2	7.1
*United Gas	‡46.8	77.1	1.50	2.00	0.85	1.00	20.7-16.0	20.6	5.2
Washington Gas	7.5	16.3	1.88	2.00	1.50	1.50	27.1-20.2	24.0	6.4

*N. Y. Curb. †Decimals represent eighths of a point. ‡1937 figures, 1936 not available. §1940 figures, 1936 not available. ¶Estimated.

El Paso Natural Gas (66)—Serving southeastern New Mexico, Arizona, Texas and California, El Paso is one of the fastest-growing natural gas companies. The company is a wholesale pipe line dealer operating 1,182 miles of transmission lines. Approximately 41% of its total income is derived from sales to 35 copper, utility and other companies at fixed rates, and high copper production and refining activity should continue to be reflected in earnings. In addition to the 26-inch pipe line from the Panhandle and Hugoton Fields, Texas, to Blythe, Calif., connecting with a line of Pacific Lighting Co. which was opened late in 1947, El Paso is now laying a second line to boost California deliveries. When completed in 1951, deliveries will be increased to 405 million cubic feet daily from the current 100 million cubic feet daily. These two lines should lessen the effects of sales to the highly volatile copper industry. An increase in the capacity of the Texas-New Mexico-Arizona lines from 80 million cubic feet to 246 million cubic feet scheduled for completion by 1950 is also in progress. Approximately 22% of its natural gas requirements is produced by El Paso, the remainder being purchased under long-term contracts. Purchased and owned reserves are estimated to be sufficient to supply the Southwest and California until 1980.

Earnings for 1948 are estimated at nearly $7.50 a share compared with $5.14 in 1947. Since 1936, as shown by the table, total operating revenues have grown from $3.23 million to $10.47 million, or 224%. During the same period per share earnings have gone quite steadily from $1.76 to the estimated 1948 earnings of $7.50 While the company is heavily capitalized, finances seem to be adequate to meet expansion needs. The high proportion of debt to total invested capital (79%) make the stock speculative, but a more balanced position should be achieved through gradual retirement and accumulation of surplus. A 3-for-1 split will be made some time in 1949.

Lone Star (22).—Lone Star, an integrated natural gas company, has shown good, but not spectacular growth, doubling its gross revenues from $20.1 million to $40.6 million in the 1936-1947 period. At the same time, earnings per share, although held down by high costs and revenue charges, have risen fairly steadily from $1.02 to an estimated $2.30 in 1948. The company is conservatively capitalized, about equally divided between long-term debt and common stock. Dividends are conservative, yielding about 4.5%, but may be raised.

Lone Star, in addition to operating 5,262 miles of transmission and gathering lines serving north central and central Texas, including Dallas and Fort Worth, and southern Oklahoma, owns extensive reserves in the Panhandle Field. About 18% of its gas needs were produced in 1947, the remaining 82% being purchased. Natural gas is sold retail to about 410,000 customers, of which 87% are domestic consumers. Approximately 60% of the gross natural gas income is derived from residential sales, a factor contributing to stability. While the area served is large and sparsely settled, the growth trend of the company should continue upward as the Southwest becomes more highly industrialized. Also adding to the growth prospects is the planned $35 million transmission line expansion, and gas and oil development program for 1948 through 1952. Lone Star in September raised $25 million of new capital for construction by refinancing its $25 million bank loans through a $50 million serial note issue, and it is not anticipated that further financing will be necessary.

Northern Natural Gas (31⅞).—Northern Natural is primarily a wholesale pipe line company, owning and operating 3,912 miles of pipe line serving 220 communities in Nebraska, Iowa, South Dakota and Minnesota. Increasing demand and a good outlook for the service area, mainly agricultural, should mean the continuation of the long-term growth trend for the company. Since 1936, Northern Natural has shown a steadily upward and fairly rapid growth, with total gross revenues rising from $9.04 million to $23.57 million in 1947, a gain of 161%, and earnings from $1.08 a share to $3.23 in the same period. Under a planned expansion program, the company will spend about $12.9 million in 1949, $20.5 million in 1950, and $19.5 million in 1951 or a total for the three years of $52.9 million, to meet the greatly augmented demand. Pipe line capacity will be boosted from the current 390 million cubic feet to 600 million cubic feet by 1951 and, as a result, higher earnings are in view. Of the total revenues, approximately 84% is provided by gas for resale, the rates of which are under F.P.C. jurisdiction. Industrial consumers take about 13% of the total natural gas load. The bulk of the natural gas requirements is purchased under long-term contracts, and controlled reserves are estimated at about 4 trillion cubic feet.

It is expected that 1948 earnings will drop to about $3 a share from the $3.23 earned in 1947 due to a rate reduction. For the shorter term, because of a planned sale of 406,000 common shares in 1949, earnings will probably continue to show some decline, although the recently raised annual dividend of $1.80 should be maintained. The yield on the common is now about 5.5%. Over the longer term, as pipe line deliveries are boosted, earnings should again rise. Northern Natural's financial position is strong and capitalization simple with a relatively small long-term debt of $41 million and 2,030,000 shares of common outstanding.

Oklahoma Natural Gas (37½) —Distributing natural gas at retail to 95 communities including Tulsa and Oklahoma City, and at wholesale to 36 communities, Oklahoma is an intra-state pipe line company serving Eastern Oklahoma. Pipe lines include 2,580 miles of transmission lines and 2,840 miles of distributing lines. Of the company's total revenues, 31% is provided by the residential sales, 27% by industrial and 17% by commercial. Industrial consumers take about 55% of the total gas sold. Because of rates which are thought to be among the lowest in the country, any increase in gas costs could readily be passed on to consumers. While the area served is primarily devoted to oil producing, livestock raising and agriculture, greater industrialization and population growth is expected, spelling further company growth. A good degree of resistance to cylical fluctuations will be maintained in spite of an increased industrial load due to high residential and commercial sales. Oklahoma purchases about 85% of its natural gas requirements, and its supply is sufficient to meet requirements for 40 to 50 years. In addition, the company is beginning to develop its own reserves.

Earnings for the fiscal year ended Aug. 31, 1948 equaled $4.56 a share compared with $3.30 earned in 1947. The yield on the common is about 5.60% and the $2 annual dividend may be raised in the current fiscal year. Since 1934, gross revenues have increased nearly 3 times, from $6.58 million to $19.12 in 1948, while earnings have gone from a deficit of 37c to $4.56 in the 1948 fiscal year. Despite a fairly heavy capitalization (long-term debt $22.7 million, preferred 180,000 shares, common 827,013 shares), finances appear adequate. New financing may be undertaken by the company to fund $6.5 million short-term loans due April 1, 1949.

Panhandle East. Pipe Line (49¾)—Of all the companies reviewed here, Panhandle has shown by far the most outstanding growth, and future growth is strongly indicated. Except for a slight decline in 1943, total operating revenues rose in 1947 to about 10 times what they were in 1935, from $3.61 million to $30.43 million, a gain of 743%. With but two interruptions, earnings have gone from a deficit of 68c a share to an estimated $4.90 in 1948. A wholesale pipe line company, Panhandle serves, Kansas, Missouri, Illinois, including Detroit, Indiana and Ohio. Already operating an extensive system, lines and capacity are being greatly expanded to meet the surging demand of growing Mid-West agriculture, commerce and industry. A daily capacity of 425 million cu. ft. will be increased to 600 million cu. ft. by 1950. In 1948 and 1949, Panhandle plans to spend $26 million on new construction. The enlargement of facilities to serve the Appalachian area will also serve to increase revenues. Since 1938, natural gas sales have increased from 41,185,762 thousand cu. ft. to 165,056,436 thousand cu. ft. for the 12 months ended Sept. 30, 1948. The company's natural gas reserves, half-owned and half-purchased, are tremendous, estimated at 6½ trillion cu. ft. on Jan. 1, 1948. Recently it was announced that $30 million of the company's sinking fund debentures due in 1973 were offered to the public. Proceeds from this sale will be used to prepay $17.8 million of promissory notes and the remainder to be used for the 1948 and 1949 construction and expansion program.

Thumbnails of 3 Unlisted Transmission Companies

Tennessee Gas Transmission (23½) — Operating a 2,500-mile pipe line, the company sells natural gas at wholesale. Principal customers are Consolidated Natural Gas and Columbia Gas. Since the beginning of 1948 deliveries to the East have been about doubled and the 1948 expansion program has been completed. Deliveries now total about 660 million cu. ft. daily. In 1949, the system's capacity will be boosted another 111 million cu. ft. at an estimated cost of $50 million. By 1951, it is estimated that, if approved by the FPC, deliveries will be more than 300 million cu. ft. daily. Since 1945 gross revenues have climbed from $14.31 million to $20.41 million in 1947. Earnings for 1949 are estimated at about $2.60 against an estimated $1.60 for 1948. Growth outlook for the company is excellent.

Texas Eastern Transmission (12¾)—This company is the owner and operator of the 1,254-mile Big Inch and the 1,479-mile Little Inch lines serving Pennsylvania, New Jersey and Arkansas. A boost in capacity of the system from 433 million cu. ft. to 508 million cu. ft. early in 1949 and progressive increases thereafter is planned. Subject to FPC approval, a $152 million duplicating line would raise capacity to 933 million cu. ft. daily. Company sells natural gas at wholesale to five companies in the Appalachian area and to two Philadelphia utilities, as well as to Columbia Gas and Consolidated Natural Gas. As operations began in 1947, no comparative data is available. Earnings, it is anticipated, will continue to hold to the $1.20 annual rate. Because of large expansion needs, dividends probably will not be paid for an indefinite period. Company's long-term growth prospects are good.

Texas Gas Transmission (10¾). —Two non-connected wholesale pipe line systems in the South and Central West are operated by the company. If approved by the FPC a new 840-mile line from Texas to Ohio would be laid at an estimated cost of $73½ million. Against a current daily capacity of 243 million cu. ft., the new line would raise daily deliveries to 392 million cu. ft. The present company was formed as a merger of the holding company of the same name, Memphis Natural Gas and Kentucky Natural Gas in April, 1948. Earnings for 1948 are expected to equal about 70c a share on the larger capitalization compared with 91c in 1947 and 39c in 1946. Dividends have not been paid on the present stock and may not be for an indefinite period due to cash needs for construction. Stock is not as well situated as either of the other two companies.

Conclusion

Of the five major natural gas stocks reviewed here, we believe that El Paso offers clients **the best profit opportunity, but carries the greatest degree of risk.** Both Northern Natural and Oklahoma have **good profit possibilities and at less risk.** Lone Star is probably **the most conservative issue. Continuing to combine all desirable features** is, we believe, Panhandle Eastern. With the exception of El Paso and Panhandle, the stocks are still close to their 1948 highs and probably are not "buys" for near-term speculative profits. However, an excellent long-term profit-possibility position should be attained by accumulation around present prices or at any important corrective reaction. Of the three unlisted transmission companies, Tennessee Gas **appears to have the outstanding long-term growth outlook.** Texas Eastern's growth prospects are good, but as **the issue is unseasoned, it is highly specuative.** The stock of Texas Gas has little to offer clients, and should, for the time being, we believe, be avoided.

CHART I

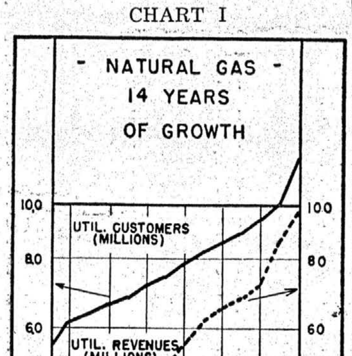
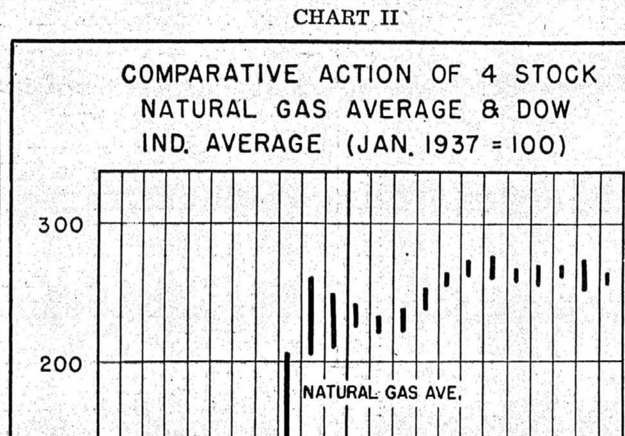


CHART II



World Bank Sells Last of Guar. Mortg. Notes

Dollar Savings Bank of New York takes $1 million of loan made to Dutch shipping companies. World Bank sends missions to four member countries.

The International Bank for Reconstruction and Development announced on Jan. 12 the sale to the Dollar Savings Bank of the City of New York of $1,000,000 2½% guaranteed serial mortgage notes held in the Bank's portfolio since last August, when a $12,000,000 loan was made to four Dutch shipping companies. The loan, guaranteed by the Kingdom of the Netherlands, was for the purchase of six ships. Of the $12,000,000 in notes received by the Bank, $8,100,000 were purchased immediately by a group of ten United States commercial and savings banks.

Dollar Savings Bank paid par and accrued interest for the notes which mature as follows: $300,000 July 15, 1955; $600,000 Jan. 15, 1956; and $100,000 July 15, 1956. The notes are guaranteed by the International Bank.

The Dutch shipping loan was the first mortgage loan made by the International Bank and it was the first time that the Bank had used its guarantee powers. Under the Articles of Agreement, the Bank, in addition to making direct loans, may guarantee or participate in loans, and may sell with its guarantee, securities held in its portfolio.

The four shipping companies to whom the loans were made were Rotterdam-Lloyd, the Nederland Line, the Holland-America Line, and the United Netherlands Navigation Company.

Sends Missions to South America and Far East

Earlier in the week the Interational Bank announced that it is sending missions to four of its member countries: India, Turkey, Colombia and Peru.

The Bank's practice of sending missions to its member countries has become a very important element in its operations. According to the announcement a country may request a mission either as a result of preliminary conversations regarding a loan; or prior to loan discussions to examine the need for and possibilities of Bank financing; or in order to obtain the suggestions of Bank experts for the improvement of its fiscal policies or general financial situation; or to assist in the formulation of a long-range development program.

Indications of Business Current Activity

The following statistical tabulations cover production and other figures for the latest week or month available (dates shown in first column are either for the week or month ended on that date, or, in cases of quotations, are as of that date):

		Latest Week	Previous Week	Month Ago	Year Ago
AMERICAN IRON AND STEEL INSTITUTE:					
Indicated steel operations (percent of capacity)	Jan. 16	99.3	*97.8	*97.8	95.6
Equivalent to—					
Steel ingots and castings (net tons)	Jan. 16	1,830,600	1,802,500	1,802,500	1,723,200
AMERICAN PETROLEUM INSTITUTE:					
Crude oil output—daily average (bbls. of 42 gallons each)	Jan. 1	5,610,650	5,640,750	5,615,150	5,291,237
Crude runs to stills—daily average (bbls.)	Jan. 1	‖5,888,000	5,784,000	5,698,000	5,637,000
Gasoline output (bbls.)	Jan. 1	18,859,000	18,175,000	18,216,000	17,163,000
Kerosene output (bbls.)	Jan. 1	2,526,000	2,542,000	2,490,000	2,346,000
Gas oil and distillate fuel oil output (bbls.)	Jan. 1	8,200,000	7,776,000	7,269,000	7,405,000
Residual fuel oil output (bbls.)	Jan. 1	9,249,000	9,121,000	8,897,000	9,392,000
Stocks at refineries, at bulk terminals, in transit and in pipe lines—					
Finished and unfinished gasoline (bbls.) at	Jan. 1	104,063,000	100,286,000	95,235,000	94,039,000
Kerosene (bbls.) at	Jan. 1	24,373,000	24,306,000	26,537,000	15,983,000
Gas oil and distillate fuel oil (bbls.) at	Jan. 1	77,151,000	79,271,000	83,993,000	49,924,000
Residual fuel oil (bbls.) at	Jan. 1	86,284,000	86,181,000	86,381,000	51,425,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	Jan. 1	584,623	609,239	804,183	632,119
Revenue freight rec'd from connections (number of cars)	Jan. 1	514,690	590,534	642,663	543,202
CIVIL ENGINEERING CONSTRUCTION — ENGINEERING NEWS-RECORD:					
Total U. S. construction	Jan. 6	$124,485,000	$78,100,000	$83,693,000	$85,675,000
Private construction	Jan. 6	45,627,000	31,683,000	30,500,000	34,834,000
Public construction	Jan. 6	78,858,000	46,412,000	53,193,000	50,841,000
State and municipal	Jan. 6	44,628,000	35,451,000	46,968,000	38,747,000
Federal	Jan. 6	34,230,000	10,961,000	6,225,000	12,094,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	Jan. 1	8,676,000	*9,536,000	11,485,000	11,470,000
Pennsylvania anthracite (tons)	Jan. 1	931,000	967,000	1,137,000	786,000
Beehive coke (tons)	Jan. 1	120,000	*139,700	151,400	127,900
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100	Jan. 1	205	*473	435	204
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	Jan. 8	5,691,770	*5,562,232	5,704,823	5,277,680
FAILURES (COMMERCIAL AND INDUSTRIAL)—DUN & BRADSTREET, INC.	Jan. 6	123	123	122	87
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	Jan. 4	3.75628c	3.75628c	3.75628c	3.22566c
Pig iron (per gross ton)	Jan. 4	$46.82	$46.82	$46.82	$39.00
Scrap steel (per gross ton)	Jan. 4	$43.00	$43.00	$43.00	$40.00
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	Jan. 5	23.200c	23.200c	23.200c	21.200c
Export refinery at	Jan. 5	23.425c	23.425c	23.425c	21.425c
Straits tin (New York) at	Jan. 5	103.000c	103.000c	103.000c	94.000c
Lead (New York) at	Jan. 5	21.500c	21.500c	21.500c	15.000c
Lead (St. Louis) at	Jan. 5	21.300c	21.300c	21.300c	14.800c
Zinc (East St. Louis) at	Jan. 5	17.500c	17.500c	17.500c	10.500c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Govt. Bonds	Jan. 11	101.10	101.04	100.82	100.69
Average corporate	Jan. 11	112.75	112.00	111.25	110.88
Aaa	Jan. 11	118.80	118.00	117.00	116.22
Aa	Jan. 11	116.80	116.22	115.24	114.08
A	Jan. 11	111.25	110.70	110.15	110.15
Baa	Jan. 11	104.66	104.14	103.47	103.97
Railroad Group	Jan. 11	107.98	107.27	106.56	105.52
Public Utilities Group	Jan. 11	113.12	112.75	111.62	112.75
Industrials Group	Jan. 11	117.00	116.41	115.82	114.85
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Govt. Bonds	Jan. 11	2.42	2.43	2.44	2.45
Average corporate	Jan. 11	3.02	3.06	3.10	3.12
Aaa	Jan. 11	2.71	2.75	2.80	2.84
Aa	Jan. 11	2.81	2.84	2.89	2.95
A	Jan. 11	3.10	3.13	3.16	3.16
Baa	Jan. 11	3.47	3.50	3.54	3.51
Railroad Group	Jan. 11	3.28	3.32	3.36	3.42
Public Utilities Group	Jan. 11	3.00	3.02	3.08	3.02
Industrials Group	Jan. 11	2.80	2.83	2.86	2.91
MOODY'S COMMODITY INDEX	Jan. 11	392.8	394.0	394.1	452.8
NATIONAL FERTILIZER ASSOCIATION—WHOLESALE COMMODITY INDEX BY GROUPS—1935-39=100:					
Foods	Jan. 8	224.2	227.3	227.5	244.0
Fats and oils	Jan. 8	184.6	190.6	205.7	289.2
Farm products	Jan. 8	240.8	244.9	244.3	279.6
Cotton	Jan. 8	307.5	305.5	294.9	337.1
Grains	Jan. 8	203.2	210.8	210.2	310.8
Livestock	Jan. 8	241.9	248.4	250.0	270.1
Fuels	Jan. 8	243.5	239.6	242.3	223.8
Miscellaneous commodities	Jan. 8	172.1	172.1	172.1	178.8
Textiles	Jan. 8	195.2	195.2	194.1	220.4
Metals	Jan. 8	190.6	190.6	190.6	161.0
Building materials	Jan. 8	226.8	225.8	225.9	236.2
Chemicals and drugs	Jan. 8	148.4	149.0	149.7	154.5
Fertilizer materials	Jan. 8	143.6	142.8	142.9	135.9
Fertilizers	Jan. 8	150.8	150.8	150.1	141.8
Farm machinery	Jan. 8	155.2	155.2	153.9	134.5
All groups combined	Jan. 8	216.4	217.1	217.6	227.4
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	Jan. 1	116,925	139,123	218,071	187,093
Production (tons)	Jan. 1	81,780	174,319	190,868	136,219
Percentage of activity	Jan. 1	46	87	93	78
Unfilled orders (tons) at	Jan. 1	318,673	285,601	362,854	452,124
OIL, PAINT AND DRUG REPORTER PRICE INDEX — 1926-36 AVERAGE=100	Jan. 7	142.6	142.0	144.3	150.6
WHOLESALE PRICES NEW SERIES—U. S. DEPT. OF LABOR—1926=100:					
All commodities	Jan. 4	161.3	*162.2	*162.4	165.5
Farm products	Jan. 4	175.5	*179.2	*177.3	198.0
Foods	Jan. 4	168.1	*169.6	*169.7	182.9
All commodities other than farm and foods	Jan. 4	152.6	*152.5	*153.4	147.2
Textile products	Jan. 4	145.1	*145.1	*145.2	147.2
Fuel & lighting materials	Jan. 4	137.1	*137.5	*137.5	128.5
Metals & metal products	Jan. 4	175.2	*173.7	*173.7	152.9
Building materials	Jan. 4	198.7	*200.1	*203.0	193.5
All other	Jan. 4	132.8	*133.0	*134.7	137.8
Special indexes—					
Grains	Jan. 4	170.3	*170.9	*173.3	251.2
Livestock	Jan. 4	209.9	*221.4	*227.6	244.9
Meats	Jan. 4	225.9	*228.7	*235.4	245.8
Hides and skins	Jan. 4	192.6	*192.5	*206.3	236.1

*Revised figure. ‡Estimated—Subject to revision. ‖Includes 401,000 barrels of foreign crude runs.

	Latest Month	Previous Month	Year Ago
CIVIL ENGINEERING CONSTRUCTION—ENGINEERING NEWS-RECORD — Month of December:			
Total U. S. construction	$843,544,000	$451,112,000	$503,384,000
Private construction	505,899,000	208,441,000	272,367,000
Public construction	337,645,000	242,671,000	231,017,000
State and Municipal	265,901,000	188,476,000	144,347,000
Federal	71,744,000	54,195,000	86,670,000
CONSUMER PRICE INDEX FOR MODERATE INCOME FAMILIES IN LARGE CITIES 1935-1939=100—As of November 15:			
All items	172.2	173.6	164.9
All foods	207.5	211.5	202.7
Cereals and bakery products	169.9	170.0	167.9
Meats	246.7	256.1	227.0
Dairy products	199.5	203.0	198.4
Eggs	244.3	239.0	224.7
Fruits and vegetables	189.4	193.5	199.6
Beverages	206.4	205.9	194.7
Fats and oils	189.4	193.0	196.4
Sugar and sweets	173.3	173.1	183.2
Clothing	201.4	201.6	190.2
Rent	118.8	118.7	115.2
Fuel, electricity and refrigerators	137.9	137.8	126.9
Gas and electricity	95.4	95.4	92.5
Other fuels	191.6	191.4	169.1
Ice	138.0	137.9	129.9
Housefurnishings	198.7	198.8	188.9
Miscellaneous	153.9	153.7	143.0
EMPLOYMENT AND PAYROLLS—U. S. DEPT. OF LABOR—Month of October:			
All manufacturing	13,367,000	*13,477,000	13,143,000
Durable goods	6,813,000	*6,792,000	6,681,000
Nondurable goods	6,554,000	6,685,000	6,062,000
Employment indexes—			
All manufacturing	163.2	164.5	160.4
Durable goods	188.7	188.1	185.0
Nondurable goods	143.1	145.9	141.1
Payroll indexes—			
All manufacturing	381.5	381.7	350.1
Durable goods	432.9	422.6	339.9
Nondurable goods	331.2	341.7	311.2
Estimated number of employees in manufacturing industries—			
All manufacturing	16,576,000	*16,683,000	16,209,000
Durable goods	8,306,000	*8,280,000	8,126,000
Nondurable goods	8,270,000	*8,403,000	8,083,000
GRAY IRON CASTINGS (DEPT. OF COMMERCE) — Month of October:			
Shipments (short tons)	1,148,422	1,088,051	1,154,192
For sale (short tons)	642,485	615,978	654,426
For producers' own use (short tons)	505,937	472,073	499,766
Unfilled orders for sale at end of month (short tons)	2,522,831	2,587,385	2,668,731
METAL PRICES (E. & M. J. QUOTATIONS)—Average for Month of December:			
Copper (per pound)—			
Electrolytic, domestic refinery	23.200c	23.200c	21.200c
Electrolytic, export refinery	23.454c	23.425c	21.438c
Lead (per pound)—			
New York	21.500c	21.500c	15.000c
St. Louis	21.300c	21.300c	14.800c
Silver and Sterling Exchange—			
Silver, New York (per ounce)	70.000c	73.566c	74.625c
Silver, London (pence per ounce)	42.500d	45.023d	45.000d
Sterling Exchange (Check)	$4.02750	$4.02750	$4.02750
Tin (per pound)—			
New York Straits	103.000c	103.000c	85.385c
New York, Chinese or 99%	102.400c	102.400c	84.156c
Gold (per ounce U. S. price)	$35.000	$35.000	$35.000
Quicksilver (per flask of 76 pounds)	$82.154	$77.913	$79.000
¶Antimony (per pound) (E. & M. J.)	41.670c	41.670c	36.030c
Antimony (per pound), bulk, Laredo	38.500c	38.500c	33.000c
Antimony (per pound), in cases, Laredo	39.000c	39.000c	33.500c
Antinmony (per pound), Chinese, Spot	Nominal	Nominal	Nominal
Platinum, refined (per ounce)	$93.000	$93.000	$65.692
†Cadmium (per pound)	$2.00000	$1.95652	$1.75000
‡Cadmium (per pound)	$2.05000	$2.00652	$1.77500
§Cadmium (per pound)	$2.10000	$2.05652	$1.80000
Aluminum, 99% plus, ingot (per pound)	17.000c	17.000c	15.000c
Magnesium, ingot (per pound)	20.500c	20.500c	20.500c
Zinc (per pound)—East St. Louis	17.500c	16.786c	10.500c
**Nickel	40.000c	40.000c	Not avail.
PRICES RECEIVED BY FARMERS — INDEX NUMBER — U. S. DEPT. OF AGRICULTURE August, 1909-July, 1914=100—As of Dec. 15:			
Unadjusted—			
All farm products	268	271	301
Crops	228	224	281
Food grain	236	234	318
Feed grain and hay	184	181	305
Feed grain	191	189	350
Tobacco	415	412	377
Cotton	239	246	275
Fruit	164	157	149
Truck crops	209	186	294
Oil-bearing crops	283	283	367
Livestock and products	305	313	320
Meat animals	339	351	352
Dairy products	233	284	311
Poultry and eggs	260	272	262
Seasonally adjusted—			
Fruit	181	172	164
Truck crops	192	204	271
Dairy products	262	265	288
Poultry and eggs	232	243	232
RR. EARNINGS — CLASS I ROADS (ASSOC. OF AMER. RRS.)—Month of November:			
Total operating revenues	$825,325,812	$878,120,864	$755,876,093
Total operating expenses	637,471,662	651,909,449	595,462,585
Operating ratio—per cent	77.24	74.24	78.78
Taxes	$90,304,661	$100,778,745	$80,131,333
Net railway operating income before charges	84,065,711	110,876,857	65,954,487
Net income after charges (est.)	63,000,000	85,000,000	44,000,000
UNITED STATES GROSS DEBT DIRECT AND GUARANTEED—(000's omitted):			
As of Dec. 31	$252,854,401	$252,562,994	$256,981,254
General fund balance	4,208,411	4,385,070	3,097,078
Net debt	$248,645,990	$248,177,924	$253,884,176
Computed annual interest rate	2.215%	2.214%	2.144%
WINTER WHEAT AND RYE—U. S. DEPT. OF AGRICULTURE—As of Dec. 1, 1948			
Winter wheat—			
Acreage	61,370,000	------	58,161,000
Production	964,808,000	------	990,098,000
Rye—			
Acreage	3,381,000	------	3,790,000
Productions % of crop of 1948	89.2%	------	------

*Revised figure. †Based on the producers' quotation. ‡Based on the average of the producers' and platers' quotations. §Based on platers' quotations. ¶Domestic, five tons or more but less than carload lot packed in cases, f.o.b. New York. **F.O.B. Port Colborne, N. S. U. S. duty included.

What Changes Ahead in Business?

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veterans, state veterans' bonus payments, and so forth.

Will People Continue to Spend?

We may in fact conclude that if people themselves continue to spend, no developments are threatening elsewhere that will seriously reduce their income. Will they do this? There is little art in the forecasters' ruminations on this point. At present they still have jobs and money, and many still have liqued assets. We have already witnessed their rejection of distributors' offerings of some goods at take-it-or-leave-it prices. But we have also seem them reenter the market when prices for those same goods were reduced. We may still see them spend elsewhere the free funds that they decide to withhold from goods not combining the right price and desirability. The ratio of consumer spending to disposable income in the third quarter of 1948 was almost 93%; in the fourth quarter it was still in excess of 92%. Even a further drop of a point or two could not ruin the picture thus far taking form. Candidly, a drop of 4% or 5% would invalidate it and might necessitate a drastic revision downward. A guess must be made, and on that clearly unscientific basis no substantial change is being assumed.

For a relief, on the question of the probable trend of government expenditures, the prophet's voice can ring forth loud and clear. They will be up (the relief is felt only in his forecasting function) and will tend to turn back on itself any serious decline elsewhere should it eventuate. State administrators and legislatures have already taken the opening steps in the routine usually followed in raising outlays. The latter may well rise from a $16 billion annual rate in the fourth quarter of 1948 to $18-19 billion or thereabouts by the same time this year. Net Federal expenditures, even barring the foreign aid component and assuming only the present defense plans, may also rise at an annual rate of nearly a half-billion dollars per quarter during the current year. And if by chance the Congress should speedily enact and effectuate any part of the President's new spending program, that rate would obviously accelerate toward the end of the year. Some part of the increase now in prospect, both Federal and state, will be for construction. The Federal share would include housing for the armed forces.

The upshot of the foregoing observations is that insofar as concerns the economy in general, no important set-back is likely during 1949. On the basis of the synthesis I have developed the first half 1949 Gross National Product could reach $265 billion, with that for the second half moving slightly above this level. At the same time I think that unemployment will be slightly higher than in 1948 on the average, and that wholesale prices and the cost of living will decline moderately. These expectations are not inconsistent, since both the labor force and productivity per manhour will increase, raising the volume of output consistent with any given level of employment.

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crease in supplies and building materials. But overall, the housing program is nothing for us to be worried about, as we see it.

Rent controls he wants continued. I think we all expect that.

National health program, including expanded medical research, hospitals and insurance for medical and surgical services, we think will be started this year. It will be a long-term program and similar to the educational program, which we think also will be started this year.

Social security will be expanded. We expect they are going to include the farmers, the domestics and others under the Social Security program, not included now. Also we think the minimum Social Security benefits of $25 a month, which he referred to in his speech this morning, will probably be increased.

On the matter of repeal of the Taft-Hartley Act and the reenactment of the Wagner Act, with some amendments; we think we have not a very bad situation at all because of the provisions that the President has suggested be included in it, namely, that it be so drawn as to prevent strikes to vital industries. If we can prevent strikes to vital industries, then our industrial activity can continue.

On the matter of the minimum wage increase, he has asked for 75 cents per hour. As you know, he has been asking for that for some time. The present rate is 40 cents an hour. It is our conclusion that he will get about 60 to 65 cents an hour.

The legislation on price ceilings on scarce commodities we think will become effective.

The matter of control of speculation on commodity exchanges we expect will become law.

On government subsidies and aid to produce materials in short supply, such as steel, as he referred to, we question very much whether the manufacturers of these supplies, such as steel, would want government aid as a subsidy. However, it may be that the government will be able to bring some pressure on these companies to increase their production under the threat that if they don't do so the government will finance somebody else in the steel industry, or other critical industries.

On the matter of farm supports, the President came out definitely for the maintenance of parity income to improve the national farm program, and we expect that that will come about. He also mentioned that he was going to ask the Commodity Credit Corporation to supply storage for crops. We would expect that they would do so.

On credit controls, we believe that the consumer credit controls and also the bank credit controls, particularly with respect to reserves, will be included in some legislation during the year. However, we doubt very much whether they would use those controls this year.

As to the foreign policy, as you recall, he said he wanted to expand the foreign support, and we think he will do so.

One of the most interesting things to us in the President's message was that in speaking of the foreign situation, he did not mention Russia in any way. Thus, he did not emphasize that there was a great fear on the part of the Administration about a Russian war.

As you recall, he recommended for the third or fourth time the St. Lawrence Seaway, and we think that that will probably go through. It is a long-term program. Probably some funds will be appropriated to start it going.

Reciprocal trade agreements, which he recommended to be enacted for a period of three years, we also think will be re-enacted. We lived through them before, I see no reason why we can't live through them again.

The aid to small business and the strengthennig of the anti-trust laws, we have all expected. There is nothing new about that.

On the civil rights program, we think that that will probably go through after a long fight. However, from an economic standpoint it is of very little importance.

As to displaced persons legislation that he recommends, we see no reason why that shouldn't go through.

The development of natural resources was referred to, such as flood control, reclamation program and reforestation, and his comment that the development be similar to that of TVA in other regions, to us was a threat to our utilities; but it is so far off before those things could be really put into effect, and be competitive to our present utility operations, that we don't think there is any immediate concern about them.

You people here in California are interested in the next point, which was that the petroleum under the sea is to remain under Federal government control and ownership; we would think that if legislation was needed to assure this that it would go through.

So much for the high spots of the President's talk. It was probably much more favorable than most people expected. The market, I think, is reflecting it today. And it is good news to have the message back of us.

Following consideration of the message we have carried on to the next step, which is to give you our ideas of what the business situation is going to be over the next six months.

Over all we expect business in 1949 to be off 4% or 5% from the peak levels that have prevailed in '48. The first half of '49 will, in our opinion, probably be the best half of the year. However, the second half of the year 1949 will compare favorably with most good prewar years. Business is currently on such a high plateau that we should not judge a 5% or 10%, or even 15% decline as catastrophic, but rather as a normal expectation following industry's catching up with the backlogs, the filling up of inventories and the current transition from a seller's to a buyer's market.

As we view 1949, it will be a poor year for wishful thinking, but a good one for realistic appraisement of changing conditions. Here are our specific views on the economy for the first six months of 1949. We feel it unwise at this time to forecast beyond the first six months.

On the matter of industrial production as measured by the Federal Reserve index, we expect a decline of about 5% between now and June 30. The current figure is 194. If we get this 5% decline it will bring it down to 184 or 185 on the index, which is a very high peacetime level.

On the matter of construction, there has been some difference of opinions, but we are quite unanimous in the belief that construction on a dollar-value basis will reach a new high record this year.

The actual volume of construction in 1949, we believe, will be about the same as last year. However, the increase will be accounted for by the increase in construction costs. We don't think the decline in construction costs which the President wants will become an important factor in the next six months. We expect there will be approximately a 25% increase in public building, that is, schools, hospitals and institutions, while we believe residential and business construction will be somewhat lower.

Personal income in 1948 is indicated to be around $215 to $220 billion. During the first six months of 1949 we expect the rate will decline very slightly, possibly down to $212 billion annual rate or off about 1½%. 1941 personal income was $95 billion, so if we get our decline to $212 billion this year, we will still have a 123% increase over what it was in 1941.

At the present time the labor force is about 61 million persons. By June 30 we do not expect the unemployment, which is now about 1,750,000, to increase to more than 2½ million. So there will still be around 60,000,000 people employed and at high wages.

On the cost of living, as measured by the Bureau of Labor Statistics Consumers Price Index, we expect a decline of 3 to 5% between now and June 30. It is currently at 173; if we get a 5% decline it will bring us down to a rate that will be higher than any previous period up to January, 1948.

In the matter of wages and strikes, we expect a fourth round of wage increases in some industries, of perhaps 8 to 10 cents an hour. We do not expect strikes will increase this year.

On price trends generally, we think farm products will be down about 5% the first six months, manufactured products down about 3 to 5%, semi-manufactured products down about 3 to 5%, with wholesale prices for raw materials to remain unchanged. The wholesale commodity price index, which is the 900 series, we expect will be off about 3 to 5% during the first half of the year. Thus on the matter of prices generally, you might say, over all the declines will be moderate, with the largest drop in the farm products.

Speaking of the farm, the 1948 farm income reached a new high, estimated at $31.1 billion. The first six months of '49 we expect it will be down about 5%, as compared with the first six months of '48. This decline would only bring farm income down to the record annual rate up to that time of $30 billion, which prevailed in 1947. So even if you do get the 5% decrease, it will still be up at near record high levels.

Retail trade in 1948 is expected to approximate $129 billion as compared with $117 billion in 1947. The rate for the first six months in 1949 is expected to be off 5 to 7% from the rate prevailing in the first six months of 1948. Note this reduced rate would far exceed the 1947 rate. In 1941 retail trade was $55 billion, whereas now we are expecting it to be $122 billion.

In the matter of inventories, new orders and shipments, we have a little concern, particularly on the subject of inventories. We think inventories will increase slightly over the next six months. New orders, we expect, will decline up to 3 to 5%. And we believe shipments will decline 3 to 5%. Current inventories are approximately $55 billion, a new all-time high. We feel there may be some trouble ahead in the inventory situation, not so much, maybe, the first quarter, possibly the second, and more likely the third quarter of the year.

We expect both short-term and long-term money rates to advance very slightly over the next six months. Municipal bond yields should advance fractionally, and yields on high grade corporate bonds should move likewise; but no appreciable change in yields is expected during the next six months, as it is believed the support peg of Government 2½s will remain at par.

On common stock yields, the Moody's Index of 200 stocks shows currently a yield of 6½%, which you know is historically a very high yield. We think there will be little change in that yield over the next six months.

On the matter of domestic financing, we expect the volume of corporate bond financing will hold up during the next six months comparable to the first six months last year, but we believe equity financing will be less than during the same period last year.

The Budget and Banking

On the question of government budget and debt, it is our opinion that the budget for the fiscal year ending June 30, 1949, will probably result in a small surplus. Between now and June 30th we expect a slight debt retirement of about $1 billion. But the new budget for the fiscal year ending June 30, 1950, which the President will tell you about in a few days, we expect will provide for expenditures of about $43 to $45 billion. Of course, if that is so, it would necessarily result in deficit financing, if we didn't have increased tax rates. The government debt, at the end of '48, is $252 billion, down $27 billion from Feb. 1, 1946, when it was at its all-time high of $279 billion.

Money in circulation has remained at about the same level the last three years, $28 billion. We think it will continue at that level for the first six months this year.

U. S. gold stock has had a continuous increase in this country for several years—currently $24 billion. We think it will continue to flow into this country but at a slower rate for the first six months of this year. I also want to mention that we see no change in the price of gold for the foreseeable future.

On the matter of bank loans and investments, total earnings assets of banks are presently estimated at $63 billion. We expect to see them increase about 5% during the next six months; the increase due largely to the advance in loans, which currently are $25 billion. They are up $2,-200,000,000 since last year.

We do not think that there will be any further increase in the bank reserves. You recall originally reserves were 20%, advanced to 22, currently at 24, and the Federal Reserve Board has the power to bring them up to 26%. We don't think the additional increase in bank reserves of 2% will become effective the next six months.

On the matter of instalment credit, regulation W, don't think there will be any change in the next six months.

For just as another indication of where we are economically, I have a note here about savings of individuals, that is, currency, demand deposits, time deposits and U. S. government securities. Individual savings are expected to advance during the first six months of this year. The rate of increase will probably be slightly higher than during the same period last year. Personal savings currently are estimated at $170 billion dollars. We think they should reach at least $175 billion by June 30th.

On the matter of foreign trade, imports for 1948 are expected to be up about 25% over '47 imports, whereas exports for '48 were down about 15%. We expect a continuation of the rising trend in imports and in the declining trend of exports, in spite of the E. C. A. shipments.

Business in General

As to business generally, taken on an over-all basis, our views as to the outlook for the next six months add up to a moderate decline when compared to the same period last year. But let me make it clear that we do not expect a severe recession or a depression, but more of a transition period. Soft spots are occurring now in a number of industries, while many other industries are going ahead full blast and have a favorable outlook. Also we have in

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mind the cushioning effect of our huge money supply, high governmental spending, full employment at high wages, record private savings, relatively high farm income and the near record personal income. Such conditions are not the background for a severe recession or a depression.

I would like to give you our view as to the outlook of railroads, public utilities and industrial corporations, just briefly.

As to railroads, we expect a further increase in freight rates of about 3% over the average of 5% recently granted. We do not expect wage increases during the first six months of the year. We think the President's State-of-the-Union message today was favorable to the railroads from the standpoint of continuance of O. D. T. and allocation of steel for railroad equipment. Taking the railroad industry and assuming a 45% total corporate normal and surtax, the railroad net operating income for the first six months of '49 is expected to exceed by a considerable amount that for the same period of 1948.

In the public utilities industry we expect certain rate increases will become effective during the first six months. Pre-tax operating income of utilities for the first six months is expected to be up about 10% over the same period last year. However, if corporate taxes are increased to 45% the tax increase will about offset the pre-tax increase in income.

The amount of excess taxes is offset by the amount of their increased income. Thus we estimate that the utility corporations' net income after taxes the first six months this year will be at least equivalent to that of last year.

As to the net income of industrial corporations we found it difficult to generalize. They vary so widely as to industry and corporation that it just doesn't seem possible for us to make a general statement on industrial corporation earnings. However, I am going to cover them in this manner:

The pre-tax earnings of the heavy industries, such as steel, auto, railroad equipment and industrial machinery, should for the first six months of 1949 at least equal last year's first six months earnings. The same applies to the oil industry, rayon, nylon, auto parts, chemicals and construction industries. However, a 45% corporate tax rate would be expected to reduce the net from 10 to 15% for the first six months this year, when compared to the same period last year.

Some of the less favorable industries appear to be amusements, radio (not including television, of course), furs, jewelry, liquor, textiles, lumber, household equipment and retail trade. Earnings after taxes for some of these corporations may be off up to 20% the first six months of this year, as compared with the same period last year.

Let us assume the earnings of all American corporations are off 20% in 1949—what is likely to be their dividend policies? The 1947 dividends of all American corporations amounted to 39% of their earnings after taxes. In 1948 it is estimated that the dividends of all American corporations amounted to 40% of their income after taxes. In 1949 we believe dividends will represent 50% of the corporate net income as a minimum. Our basis for this belief is that it will not be necessary, with the exception of a few industries such as the utilities and the oil industry, for corporations to continue to plow back earnings into huge plant construction programs, the building up of inventories or the carrying out of large expansion programs.

Let us look at the figures on this basis: 1948 net earnings, all corporations, after taxes, are estimated between $20 and $21 billion. Let us take $20 billion as an easy figure. They paid out 40%, or $8 billion dollars in dividends. If in 1949 net earnings are off 20% from the $20 billion dollars for this year, net earnings will be $16 billion; and if they paid out 50% of their net earnings of $16 billion they would pay out $8 billion this year, which is the exact same amount of dividends they paid out last year.

I think there is good economic justification for corporations to increase the per cent of their earnings that they pay out in dividends. If they just jump it from 40 to 50%, we can stand a 20% reduction in earnings after taxes and still pay out the same dividends. And if stocks sell on a yield basis, it is very likely that they are now attractive.

I want to say a few words about what we think of some of the types of securities. First as to bonds. We don't like the highest grade corporates, we don't think they are attractive. We like the medium grades and some of the railroad income bonds, affording high yield and appreciation possibilities.

On the matter of preferred stocks, our position is about the same as on bonds. We don't like the high grades, we do like the medium grades; but we prefer the discount preferreds.

As to common stock prices for the next six months, we don't think that the Dow-Jones industrial average will be a good measure of stock price movements. In our opinion issues should be judged on an individual basis.

The low price-earnings ratio prevailing for a great many of the stocks of corporations that have stood the prewar test of keen competition, in a buyer's market, make them very attractive to us even if earnings are to decline 10, 15 or even 20%. The common stock outlook on a selective basis is therefore favorable, particularly if you believe as we do, that dividends next year will be 50% of earnings rather than 40% as in the past year.

Business Outlook for 1949

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getting which are which. And so I am afraid that what I will have to say might be properly characterized by the comment which Richard Sheridan, the famous Irish dramatist and politician, made of a speech by one of his rivals: "The gentleman has said much that was good and much that was original but what was good was not original and what was original was not good."

But regardless of hazards, here goes. As a spring-board for this discussion let us take a look at the year which has just passed. The national income for 1948, according to preliminary estimates, may reach an all time peak in excess of $220 billion. From whatever business angle you look back on it—national income, physical volume of production, employment, dollar volume of sales, unit volume of sales, corporation profits—from every aspect 1948 was a boom year of tremendous proportions. Furthermore, it was the third successive year of a postwar boom.

The $64 question now confronting American business is simply this: "Is the bloom off the boom?" Since in a system of private enterprise the volume of business at any given time depends upon many psychological as well as physical factors, a question such as this can never be answered with a categorical yes or no. There are a number of forces pulling in both directions—upward and downward on the economy. Many signs indicate that the boom is over.

(1) Domestic farm products are about 25% off from one year ago. When farmers are not prosperous the country as a whole cannot be prosperous. Prices generally appear to have reached their peak and show a considerable decline from the levels of last year. Cost of living figures so far have recorded only a modest decline, but prices of industrial raw materials as well as farm products, and spot commodity prices, all reveal a sizable drop from the levels of a year ago.

(2) Employment has declined in recent months for the first time during the postwar period. There has recently been a sharp increase in claims for unemployment compensation.

(3) Freight car loadings are off 3.5% and passenger traffic is down 10%. There is a distinct slowing up in the chemical and iron foundry trades.

(4) Housing construction seems to be wobbling. New starts have decreased for the last seven months and were lower in July, August, September, and October, 1948 than in the same months of 1947. Commercial building also is slowing up.

(5) Department Store sales, which had shown a consistent gain for each of the past several years, appear to have leveled off during the fourth quarter of 1948. On the average, they may be about equal the sales volume of the previous year. This is the first year since 1941 that there has not been a sizable increase in Department Store sales. There is a slowing down in consumer buying, particularly in consumer durables such as washing machines, vacuum cleaners, radios and refrigerators.

(6) Used car sales are off at least 50% on postwar models. Used car prices have fallen rapidly. The premium on the so-called "new used car" has almost become a memory. Most of the high priced new cars can be had for immediate delivery upon the payment of nothing but cash.

(7) Following the elections in November a severe break in the stock market reflected the general anxiety over the future of corporate earnings. The market is still languishing. Incidentally, the market reflects the apprehension, not so much of big business and wealthy individuals, as that of millions of people of modest incomes. According to a recent study of the national income and its distribution, almost 70% of dividends and interest go to people with an annual income of less than $5,000. Those in the $5,000 and over group, after Federal income taxes, get only about 17.3% of the total. What is not generally realized is that the masses of our citizens are steadily getting a larger proportion of total national income, not only from salaries and wages, but also from the profits of industry distributed as dividends.

(8) And finally, even the marriage rate is falling off. This is not mentioned facetiously. When there are fewer new families coming into existence there is less demand for housing and everything that goes into housing. The birth rate is automatically lowered, and the increase in population reduced.

These and many other signs indicate that at long last the exciting and pleasant ride up the spiral of inflation is over and that a drop on the other side of the curve is about to start.

If it were not for counterbalancing factors and influences at work we could be certain that we were entering a year of real depression. When we look at the other side of the picture, however, we find many strong forces capable of maintaining a large volume of business activity at a relatively high price level.

(1) Although employment has declined a little from the peak there are still almost 60 million people at work at high wages in this country. A few years ago 60 million jobs was considered a Utopian goal—an ideal for which to strive although the chances for reaching it seemed remote. These people are making more money than ever before in the history of the country. As I said earlier, the national income is currently running at the annual rate of about $220 billion. A year ago it was at a rate of about $205 billion; in 1940 it was about $78 billion and in the so-called boom year of 1929 it was about $85 billion.

(2) Farmers are in the best financial condition in which they have ever been. Their mortgage debts are smaller and their cash and other forms of savings greater than at any time in the history of American agriculture. Furthermore, the Federal Government is virtually committed to support, for the next four years at least, farm prices at profitable levels. Farmers may never have another year as good as 1947 or 1948 but they are in excellent shape, their future is rosy, and it will continue to be so long as the Federal Government guarantees them high prices for their products. It is hard to get a depression going when the farmers of the nation are faring so well.

(3) Although soft spots are showing up in many liens of consumers' goods, there is firmness in the heavy industries such as steel, non-ferrous metals, farm equipment, freight cars, and heavy electrical machinery. As pointed out recently by the American Bankers Association, we have never had a major depression in which these items did not give the first warning, lead the decline and reach almost a complete stop. Nothing of the kind is in sight today. The steel industry produced a record total of more than 88 million tons of steel in 1948. This is more than all the rest of the world combined and still the demand exceeds the supply. An even greater volume is predicted for 1949.

(4) While private construction, with the exception of public utility structures, will run lower than in 1948, it appears certain that public construction will show at least a 10% gain over the '48 rate which was high. There is a tremendous backlog of local municipal projects such as schools, hospitals, utilities, etc., which can't be postponed indefinitely. Furthermore, any great slack in private construction can and will be taken up quickly with major State and Federal projects such as highways, public buildings, flood control, and the like.

(5) Government spending will be tremendous. The budget will be somewhere between $40 and $50 billion depending upon how far Congress goes with new social legislation and military expenditures. The minimum for rearmament and capital and military aid to nations this side of the Iron Curtain will be $17 billion, and the figure might go as high as $22 or $25 billion, depending upon developments in Europe. This huge spending by government will constitute a tremendous inflationary force.

(6) The savings of our people are at a very high level. Present holdings of liquid asssets are about $175 billion or about $125 billion more than in 1940. These savings are in the form of currency, checking and savings accounts, savings and loan shares, and United States Government securities. That constitutes a tremendous pool of reserve buying power. A significant fact about these savings is that the distribution is wide spread—60% or over $100 billion are owned by families making under $7,500 a year.

(7) There is one final roadblock against a severe depression. Our Nation is fighting a cold war against Communism. Nothing could hurt our cause more than a serious depression. We may be certain, therefore, that our government will use every financial and economical power it has to combat any serious business slump. These powers are broad now. Congress would make them much broader, if necessary.

Deflationary Factors

These are the main inflationary factors in the current economic picture. When we weigh them against the deflationary factors, what is the result? While the opposing influences seem to be about equally balanced, most impartial business analysts think that the deflationary forces have the stronger pull. They believe that, barring unforseen developments such as war or an unexpected increase in government spending, inflation on the price front has come to an end, and that a basic readjustment is already under way—that the supply of goods in most lines will be sufficient to overcome inflationary pressures and thus bring into a sounder balance price relationships unduly distorted as a result of war-induced shortages and scarcities.

As to how far the readjustment will go, the opinion of analysts is divided. A few think we are headed for a real bust—not a panic like 1929-32, but something similar to 1920-21. Most of them, however, think the readjustment will be of mild proportions.

What is happening is that which must inevitably take place when the civilian economy replaces the war economy. At the end of the war we were faced with accumulations of demands in almost every line of consumer goods as well as in the heavy industries. At the same time industry was faced with both material and labor shortages. The combination of short supply was made particularly acute because of the great increase in purchasing power accumulated during the war period, which resulted in an enormous effective demand in the market. This created our postwar boom which was furthered by th continuance of heavy military expenditures and the requirements of the European Recovery Program.

The problem of the immediate postwar economy, therefore, was a problem of catching up with the backlog of demand for goods in short supply. That is exactly what has been done in many industrial lines, and was the only means of successfully preventing a run-a-way inflation. As each successive industry catches up with the backlog of demand and completes restocking, production in that industry must necessarily drop back to normal replacement requirements. Labor and materials are then diverted to those industries where shortages still exist, thus accelerating the process of catching up in those lines so as to restore a sounder and better balanced economy.

The fact that restocking has been completed in a number of industrial lines removes abnormal demand, reduces inflationary pressure and lowers the current level of production. Wherever backlogs exist in industry, a difficult problem is presented to the businessman in estimating the time required to meet them—without producing a temporary oversupply, which may force distress merchandise on the market. First one industry, then another, has slowed down to the normal replacement level plus growth, and in numerous instances the market for particular products has been temporarily glutted. The immediate results are price weaknesses, a decrease in overtime payments, high inventories, and then layoffs.

First Real Test to Business Management

In 1949, therefore, business management is going to have its first real test since prewar days. Without the aid of artificial stimulants the going will be tough for many companies, especially those with executive personnel who have had little experience with the normal up-and-downs of prewar business.

We will probably see a return of seasonal swings in business. Already we are witnessing the return of January clearance sales by department stores with substantial mark-downs, something we have not heard much about in recent years.

As we pass from a sellers' to a buyers' market in one industry after another, companies with high break-even points which have no leeway in their budgets for added promotion and selling costs may find themselves hard-put to make a profit.

Barring developments which are unforeseen at the moment, the outlook for 1949 is for a downward trend in business. It will not amount to a depression unless the government unwisely adopts tax policies which would so discourage investment in American industry as to stifle its normal growth. It will amount to a readjustment—a leveling off and settling back of production and prices. Is this something to be feared or deplored? Not at all. Rather it is to be welcomed. Some businesses will lose money, some will fail, some people will be thrown out of work, but the Country as a whole will be economically healthier. There is nothing abnormal in this process. Our economy is just shifting gears—changing to a speed which it has a better chance of maintaining. The readjustment and the leveling off in industrial lines should lay the foundation of a revival based on an expanding economy which would be sounder than the postwar boom based on the abnormal requirements of the last three years. Only by this process can we eliminate the maladjustments and achieve a solid economic equilibrium.

Don't Postpone Corrective Process

The longer this corrective process is postponed, the more painful it will be. After a period of protracted inflation such as we have experienced a readjustment cannot possibly be avoided—it can only be delayed by artificial stimulants. Why should we want to delay it longer? American business is strong—American agriculture is strong—the American people as a whole have a big backlog of savings. Now is the best time for such a readjustment when we are financially strong and healthy. As a matter of fact, to one great class of our people—those with incomes either fixed or virtually fixed—such a settling back to lower living costs will bring relief sorely needed. And it is the person in this class—a very large and important class—who is the real forgotten man of these postwar years.

Certainly, you Sales Managers should not regret the transition from a sellers' to a buyers' market. If prices should keep on going up much longer, you fellows would all be out of jobs—your companies could get along without you. We have had a sellers' market for so long that salesmanship has just about become a lost art. You are about to come back into your own again. Ever since 1940 the production manager has been the hero on the economic stage. The sales manager has been a supernumerary, appearing only in mob scenes. Now it is your turn to take over. And so, I congratulate you salesmen and wish you Happy Selling in 1949.

The State of Trade and Industry

(Continued from page 5)

lower prices for No. 1 heavy melting steel scrap and other grades. The declines ranged from $2 to $2.25 a ton.

Discussing the wide decline in scrap prices, this trade authority sets forth the reasons for the drop as being due to general uncertainty in the business outlook, increased scrap imports, slow buying by steelmakers and unseasonably warm weather in the East and Middle West.

There was this week no sign that a wide-open and drastic break in scrap prices was in the making. But there was evidence that gray market and conversion support which has often helped to keep scrap prices high was fraying badly around the edges. This fact alone has made some scrap brokers and dealers attempt to move what they have at prices they think are reasonable, states "The Iron Age."

The pressure gage on steel demand is going down slowly. But it will not reach a comfortable level for steel people for many months. There has been a general scampering of customers in the past week to look over their inventories, tone down some gray market purchases and take a second and third look at their conversion deals which cost much money, this trade magazine adds.

The gray market this week has lost a lot of its steam, but hasn't become too badly deflated. It is, however, definitely working towards that stage. Prices on some gray market material are down anywhere from $80 to $110 a ton from what they were early in 1948. Worse than that (for those having such steel for sale) is the absence of buyers. Some gray market tonnage is finding no takers even at the new lower prices. The latter are still $100 or so above the present mill price.

In the face of current steel shortages and the government trial balloon on more steel capacity—at government expense and control—it means that steel is rapidly going back to a normal market and that the extra pressure upon steelmakers is due for quite a change. It also means that holes will appear on schedules, but they will be filled by other steel demands.

The big "ifs" that bother all those who try to make more out of the current signs in business than appears on the surface, concludes "The Iron Age," are more defense spending; more government spending; rearmament for Western Europe; the fluidity of consumer demand and probability of a fourth round of wage increases.

A few of these factors could tighten up pressure for steel; discard fears of a recession; make the outlook for higher wages and prices more clear-cut and generally halt deflationary thinking.

The American Iron and Steel Institute announced that steel production this week is scheduled to set a new record which will be 26,300 tons larger than the previous peak reported in the week beginning Nov. 29, 1948. The operating rate of steel companies having 94% of the steel-making capacity of the industry will be 99.3% of capacity for the week beginning Jan. 10, 1949, as against 100.0% (old rate) in the preceding week. Basing its comparison on the new rate at the start of 1949, the Institute reports the schedule of operations is up 1.5 points, or 1.6% from the previous week.

This week's operating rate is equivalent to 1,830,600 tons of steel ingots and castings compared to 1,802,500 tons a week and a month ago, and 1,723,200 tons, or 95.6% of the old capacity one year ago and 1,281,210 tons for the average week in 1940, highest prewar year.

The current percentage rate of operation is based upon the total annual steel-making capacity of 96,120,930 tons as reported by the producing companies at the start of 1949.

ELECTRIC OUTPUT MAKES FURTHER GAINS IN WEEK ENDED JAN. 8

The amount of electrical energy distributed by the electric light and power industry for the week ended Jan. 8 was estimated at 5,691,770,000 kwh., according to the Edison Electric Institute. The final figure for the week ended Jan. 1, 1949 was revised upward to read 5,562,232,000 kwh. as against an estimated figure of 5,470,000,000 kwh., thus reflecting a gain for that period instead of a loss as reported last week. This was an increase of 129,538,000 kwh. above output in the preceding week and 414,090,000 kwh. or 7.8% higher than the figure reported for the week ended Jan. 10, 1948. It was also 839,257,000 kwh. in excess of the output reported for the corresponding period two years ago.

CARLOADINGS DECLINE FURTHER IN LATEST WEEK

Loadings of revenue freight for the week ended Jan. 1, 1949, which included the New York holiday, totaled 584,628 cars, according to the Association of American Railroads. This was a decrease of 24,611 cars, or 4% below the preceding week and a decrease of 97,491 cars, or 14.3% under the corresponding week in 1948. It also represented a decrease of 102,800 cars, or 15.0% below the similar period two years ago.

AUTO OUTPUT OFF DUE TO SHUTDOWNS FOR MODEL CHANGEOVER AND YEAR-END INVENTORY

Production of cars and trucks in the United States and Canada was placed at 97,862 units compared to 81,968 (revised) units in the previous holiday-shortened week, according to "Ward's Automotive Reports."

Plant shutdowns for model changeover and year-end inventory adversely affected output for the week.

Output in the similar period a year ago was 111,276 units and in the like week of 1941, 115,936 units.

This week's output consisted of 71,147 cars and 24,360 trucks built in the United States and 1,290 cars and 1,065 trucks in Canada.

BUSINESS FAILURES UNCHANGED FOR WEEK

Commercial and industrial failures remained unchanged at 128 in the week ended Jan. 6 reported Dun & Bradstreet, Inc. Casualties, however, were considerably heavier than in the initial weeks of 1948 and 1947 when 87 and 30 occurred, respectively, but they were far below the 312 reported in the same week of 1939.

Retail failures rose to 54 from 50 in the preceding week and compared with 31 a year ago. In wholesaling, they rose to 18 from 16 and in construction to 16 from 13. Commercial service failures dropped to 7 from 15 and manufacturing to 33 from 34.

The Middle Atlantic States reported 34 casualties compared with 38 a week ago and 26 a year ago; failures in the Pacific States fell to 27 from 40 a week ago. New England failures totaled 21 and in the East North Central States 19. In the South Atlantic States failures rose to 13 from 2.

FOOD PRICE INDEX TOUCHES NEW NINETEEN-MONTH LOW

The downward trend in foods continued in the first week of 1949, with the wholesale food price index, compiled by Dun & Bradstreet, Inc., falling 9 cents to stand at $6.12 on Jan. 4, against $6.21 a week earlier. This represented a drop of 1.4% in the week and marked a new low point since June 3, 1947, when it stood at $6.09. The current figure is 15.1% below the $7.21 recorded on the same date a year ago.

Only two commodities, sugar and potatoes, showed advances over a week ago, while declines occurred in flour, wheat, corn, rye, oats, barley, lard, butter, milk, cottonseed oil, cocoa, eggs, currants, steers, hogs and lambs.

COMMODITY PRICE INDEX MOVES LOWER AS A RESULT OF MIXED AND UNCERTAIN TRENDS IN LEADING COMMODITIES

The Dun & Bradstreet daily wholesale commodity price index fluctuated unevenly during the past week as the result of mixed and uncertain trends in leading commodity markets in the final days of the old year and the opening days of the new year.

The index dipped to a new 17-month low of 267.91 on Jan. 3, and closed at 268.36 on Jan. 4.

This compared with 269.53 a week previous and with 303.73 on the like date a year ago.

Grain markets were irregular with trading extremely dull during the holiday period. Cash wheat was inactive with prices holding in a narrow range. Corn prices were steady to firmer aided by heavy government purchases of the yellow cereal. Trading in oats was slow and prices declined moderately under scattered liquidation. Domestic flour business continued in small volume with aggregate bookings comprising only a small percentage of mill capacity.

Influenced by extremely heavy receipts, all livestock values declined.

Hog prices fell more than $2 per hundredweight to lowest levels since the ending of price controls. Demand for cocoa was quiet and prices dropped 2 cents under a week ago. Reflecting mounting supplies and the sharp break in hog prices, the lard market continued easy with current quotations at the lowest of the season. Trading in butter was limited in volume with prices comparatively steady.

Cotton markets were seasonally quiet last week. Prices were irregular and somewhat lower for the week. Trading volume in the ten spot markets fell sharply to 97,700 bales in the holiday period, from 190,500 the previous week, but were above the 61,900 bales sold in the same week a year ago.

Export inquiries were quite numerous but buying by domestic mills remained slow.

The mid-December parity price for cotton was reported at 30.63 cents per pound. This was unchanged from a month earlier, contrary to a generally expected decline in trade circles. The average farm price of the staple on Dec. 15 was 29.63 cents per pound, the lowest since June, 1946. It was almost 1 cent below the November average, and 4.42 cents lower than in December a year ago. Entries of cotton into the government loan stock for the week ended Dec. 23 rose slightly to 202,000 bales, compared with 197,500 bales the preceding week. Total entries for the season to date were placed at 3,789,000 bales. Cotton exports during October, according to the Bureau of the Census, totaled 246,000 bales, and for the first quarter of the current season they were 532,000 bales, against 294,000 a year ago.

RETAIL AND WHOLESALE TRADE CONTINUES TO REFLECT SLIGHTLY HIGHER VOLUME THAN FOR LIKE PERIOD OF 1948

The traditional prewar pattern of numerous post-holiday clearance sales began to reappear last week. Retail dollar volume in the period ended on Wednesday of the previous week fell slightly below that of the week before which included two Christmas shopping days. The past week's volume slightly exceeded that of the corresponding week a year ago, and consumers continued to be selective, but responded favorably when prices met their approval, states Dun & Bradstreet, Inc., in its current summary of retail trade.

Stimulated by cold, inclement weather and encouraged by many clearance sales, shoppers flocked to apparel stores in large numbers.

Retail volume for the country in the period ended on Wednesday last was estimated to be from unchanged to 4% above that of a year ago. Regional estimates varied from the corresponding levels of a year ago by the following percentages: New England up 1 to up 5, East and Northwest unchanged to up 4, South up 1 to up 5, Midwest up 1 to up 4, Southwest up 2 to up 5 and Pacific Coast down 4 to unchanged.

Wholesale order volume rose fractionally in the week, with total dollar volume approximately even with that of the corresponding week a year ago. The number of buyers attending many wholesale markets increased seasonally to more than three times the number in the previous week, but was moderately below the number in the comparable week of last year.

Department store sales on a country-wide basis, as taken from the Federal Reserve Board's index for the week ended Jan. 1, 1949, showed no change from the like period of last year. This compared with an increase of 32%* recorded in the preceding week. For the four weeks ended Jan. 1, 1949, sales increased by 6% and for the year to date increased by 5%.

Retail trade here in New York the past week showed some falling off in sales with department store volume estimated at about 4% under the corresponding period of 1948.

According to the Federal Reserve Board's index, department store sales in New York City for the weekly period to Jan. 1, 1949, advanced by 8% from the same period last year. In the preceding week an advance of 48%* was registered over the similar week of 1947. For the four weeks ended Jan. 1, 1949, a rise of 6% was recorded over that of last year and for the year to date volume increased by 4%.

*The large increases shown for this week reflect in part the fact that in 1948 Christmas fell on Saturday and the week therefore included five days of heavy pre-Christmas shopping as compared with three days in 1947 when Christmas fell on Thursday.

Securities Now in Registration

• **INDICATES ADDITIONS SINCE PREVIOUS ISSUE**

• **Aid Investment & Discount Inc., Akron, Ohio**
Jan. 3 (letter of notification) 12,000 shares of 5½% cumulative convertible preferred stock, series A (par $25). Price, par. **Underwriter**—Otis & Co., Cleveland. To be added to working capital.

Albion (Mich.) Gas Light Co.
Dec. 31 (letter of notification) 500 preferred shares (par $100). Price, par. **Underwriter**—Berrien Securities, Inc., Benton Harbor, Mich.

American Box Board Co. (1/24-26)
Jan. 5 filed $5,400,000 15-year 4¼% convertible sinking fund debentures. **Underwriter**—Paine, Webber, Jackson & Curtis. **Proceeds**—To pay off a long-term obligation and to pay for part of the costs involved in a program to improve and expand a pulp and paper mill.

• **American Light & Traction Co., Chicago**
Jan. 10 United Light & Railways Co. filed 634,667 shares of American Light common ($25 par). **Underwriter**—None. **Offering**—The shares will be offered at $12 per share to holders of United Light common of record at the close of business Jan. 31, on the basis of one share of American Light common for each five shares of United Light common.

American Steel & Pump Corp.
Sept. 21 filed 200,000 shares ($2 par) convertible class A stock. **Underwriters**—Herrick, Waddell & Reed, Inc. and Sills, Minton & Co., Inc. **Price**—$8 per share. **Proceeds**—To retire indebtedness and for working capital. Indefinite.

Argus, Inc., Ann Arbor, Mich.
Nov. 1 filed 115,315 shares ($10 par) 5½% cumulative convertible preferred stock. **Offering** — To be offered initially for sale to stockholders at the rate of one preferred stock and purchase warrant for each 3½ shares of common stock held. With each share of preferred purchased company will issue a purchase warrant entitling the holder to buy 80/100 of a share of the company's ($1 par) common stock on or before Dec. 31, 1950. **Underwriters**—Leason & Co., Inc., and First Securities Co., Chicago. **Proceeds**—For working capital.

Badid Insulating Boards Corp. of Palestine, New York City
Jan. 4 filed 57,144 shares of 5% cumulative ($21 par) convertible preferred stock and 57,144 shares (no par) comomn A stock, to be sold in units of eight shares of each class at $169 per unit. No underwriting. **Proceeds**—To buy equipment and set up plant ready for operation.

Bethlehem Steel Corp. (1/19)
Dec. 30 filed 627,960 shares of common stock (no par). **Underwriters**—Kuhn, Loeb & Co. and Smith, Barney & Co. **Proceeds**—For construction costs of corporation and its subsidiaries. Expected after Jan. 19 depending on market conditions.

Bethlehem Steel Corp. (1/19)
Dec. 30 filed $50,000,000 consolidated mortgage 30-year sinking fund bonds, series K, due 1979. **Underwriters**—Kuhn, Loeb & Co. and Smith, Barney & Co. **Proceeds**—For construction costs of corporation and its subsidiaries.

• **Blackmoors Plantation, Inc., Marion, Ala.**
Jan. 5 (letter of notification) 365 shares of common stock. **Price**—$100 per share. No underwriter. To convert a private operation with indebtedness in form of mortgage and other loans into a corporation with only one long term farm mortgage.

Bradshaw Mining Co., Tonopah, Nev.
Oct. 8 (letter of notification) 1,500,000 shares (5c par) common stock. **Price**—20 cents per share. **Underwriter**—Batkin & Co., New York. To repair and renovate mine of company and to exercise option to purchase processing mill and move and erect such mill on the company's property and for working capital.

• **Bundy Lead & Silver Mines, Inc., Fairfield, Idaho**
Dec. 31 (letter of notification) $25,000 of production notes plus 500,000 shares of common, non-assessable stock. To be sold in units of 20 shares of common with each $1 of production notes at a unit price of $1. No underwriter. For exploration, development and equipment.

• **Capital City Boating Corp., Washington, D. C.**
Jan. 4 (letter of notification) 50,000 shares ($2 par) 6% non-cumulative preferred stock. Price, $3 per share. **Underwriter**—Lawrence R. Shepherd & Co., Washington, D. C. To operate company, purchase an excursion boat and invest in the securities of other transportation or amusement companies.

• **Carolina Mountain Telephone Co., Asheville, North Carolina**
Jan. 7 (letter of notification) 46,250 shares of common stock. Price $1.75 per share. **Underwriter** — Interstate Securities Corp., Charlotte, N. C. To acquire all of the capital stock of Weaverville Electric & Telephone Co. and Madison Telephone Co.

Cenco Corp., New York, N. Y.
Dec. 23 filed $846,400 5%, 10-year debentures and 846,400 shares ($1 par) common stock. **Offering**—These securities were sold by the company last September to 135 persons. This is an offer of recession, permitting original purchases to cancel their subscriptions and receive the amount paid, as the SEC has decided the transaction was not exempt from the registration requirements of the Securities Act of 1933.

Central Illinois Public Service Co.
Dec. 31, 1948, filed $10,000,000 first mortgage bonds, series C, due 1979. **Underwriter**—Names to be determined through competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc., The First Boston Corp., Salomon Bros. & Hutzler, Lehman Bros., Kuhn, Loeb & Co., Glore, Forgan & Co., Blyth & Co., Inc., Kidder, Peabody & Co., Smith, Barney & Co., and Merrill Lynch, Pierce, Finner & Beane (jointly.) **Proceeds**—For construction.

Central Maine Power Co.
Nov. 1 filed 303,330 shares ($10 par) common stock. **Offering**—Company proposes to offer the stock to its stockholders for subscription for a period of approximately 30 days on the following basis: For each two shares of common, right to subscribe for one share of common; for each share of 6% preferred, right to subscribe for one share of common; for each two shares of preferred, 3.50% series, right to subscribe for one share of common stock; and subject to the foregoing rights and subject to allocation, the right to subscribe for any number of shares of common stock which any stockholder of the applicant may desire to purchase. New England Public Service Co., owner of 77.8% of presently outstanding common stock, has waived its preemptive right to subscribe for 232,076 of the 303,330 shares of common stock to be issued, on condition that such shares be made available for subscription by all stockholders on the foregoing basis. **Underwriting**—Stock will not be underwritten. Any shares not subscribed for by stockholders will be disposed of in a manner to be determined after the close of the subscription period. Company proposes to enter into a contract with an investment banker or security dealer to act as manager in the solicitation of subscriptions for the proposed issue. **Proceeds**—The net proceeds are to be used to reduce outstanding short-term notes payable to First National Bank, Boston, the proceeds of which were used for the acquisition of property, construction, completion and extension of facilities, and other lawful purposes.

• **Central Utah Gas & Oil Co., Salt Lake City**
Jan. 3 (letter of notification) 250,000 shares of non-assessable (no par) capital stock. To be sold by the Utah State Securities Commission at 25 cents per share. No underwriter. To finance drilling operations.

• **Citizens Credit Corp., Washington, D. C.**
Jan. 3 (letter of notification) 2,200 shares of Class A common stock ($12.50 par) and 2,200 shares of Class B common ($25c par). To be sold in units of one share of Class A and one share of Class B at $15 per unit. **Underwriter**—Emory S. Warren & Co., Washington, D. C. For general funds of company.

Clarostat Mfg. Co., Inc., Brooklyn, N. Y.
Aug. 26 (letter of notification) 37,400 shares of 50¢ cumulative convertible preferred stock. **Underwriter**—Cantor, Fitzgerald & Co., Inc., New York. **Price**—$8 per share. Working capital, etc.

Coleraine Asbestos Co. Ltd., Montreal, Canada
Aug. 16 filed 200,000 shares of capital stock. **Price**—50 cents per share in Canadian Currency. **Underwriter**—P. E. Frechette. **Proceeds**—For drilling operations.

Consolidated Edison Co. of New York, Inc. (1/25)
Dec. 29 filed $50,000,000 first and refunding mortgage bonds, series E, due Jan. 1, 1979. **Underwriters**—Names to be determined through competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc. and The First Boston Corp. (jointly); Morgan Stanley & Co. **Proceeds**—To pay $40,000,000 of short-term notes and reimburse the treasury for outlays made to acquire property and for construction. Bids tentatively expected to be opened Jan. 25.

• **Consumers Gas Co. of Georgia, Inc., Albany, Georgia**
Jan. 5 (letter of notification) $200,000 7% bonds. No underwriter. For additional equipment, working capital and to retire all or part of outstanding bank loans.

• **Cribben & Sexton Co., Chicago, Ill.**
Jan. 7 (letter of notification) 1,500 shares ($5 par) common. Price, at market. **Underwriter**—Swift, Henke & Co., Chicago.

• **Emery Air Freight Corp., New York**
Jan. 6 (letter of notification) 2,000 shares of common stock (par 20c). Price, $2.25 per share. **Underwriter**—Reynolds & Co. **Proceeds** to selling stockholder.

Erndale Mines Ltd., Toronto, Canada
Dec. 14 filed $100,000 5-year 6% first mortgage bonds (convertible into common shares at rate of four shares to dollar, or at a price of 25 cents per share). **Underwriter**—James T. De Witt Co., New York. **Price**—95. **Proceeds**—To pay off, in part or in full, outstanding indebtedness and for general working capital.

Front Range Mines, Inc., Denver, Colo.
Nov. 29 (letter of notification) 150,000 shares of common stock. **Price**—$2. **Underwriter**—John R. Marple & Co., Westfield, N. J. For development construction and pay bank loans.

• **General Plywood Corp.**
Jan. 4 filed voting trust certificates for 895,000 shares of common stock (par 50c).

Harwill, Inc., St. Charles, Mich.
Oct. 27 (letter of notification) 125,000 shares of common stock (par $1). Price, par. **Underwriter** — Charles E. Bailey & Co., Detroit. To pay current liabilities, purchase property, building and equipment and for working capital.

Hastings (Minn.) Gas Co.
Dec. 27 (letter of notification) $14,000 first mortgage sinking fund 5% bonds, due Aug. 1, 1960. **Underwriter**—Braun, Monroe & Co., Milwaukee, Wis. For working capital.

Heidelberg Sports Enterprises, Inc., Pittsburgh, Pa.
June 25 filed 5,000 shares of class B common stock (par $100). **Price**—$100 per share. **Underwriter**—None. **Proceeds**—$600,000 to be used for spectator grandstand and balance for related purposes.

Heyden Chemical Corp., New York, N. Y.
June 29 filed 59,579 shares of cumulative convertible preferred stock (no par) to be offered common stockholders in the ratio of one share of preferred for each 20 shares of common stock held. **Price**—By amendment. **Underwriter**—A. G. Becker & Co. will acquire the unsubscribed shares. **Proceeds**—To be used in part for improvement and expansion of manufacturing facilities. Offering postponed.

Horwood Lake Gold Mines Corp., N. Y. (1/18)
Dec. 27 (letter of notification) 100,000 shares of capital stock. **Price**—$1 per share. **Underwriter**—Charles W. Warshoff & Co., Newark, N. J. For development of mining properties.

Hotelevision, Inc., L. I. City, N. Y. (1/24-27)
Nov. 3 filed 160,000 shares ($1 par) class A stock. **Underwriter** — Cantor, Fitzgerald & Co., Inc., New York. **Price**—$3 per share. **Proceeds**—To develop, exploit and distribute a television innovation.

Humphryes Manufacturing Co., Mansfield, O.
Dec. 20 (letter of notification) 4,500 shares ($10 par) stock. **Price**—$22 per share. **Underwriter**—Robert Garrett & Sons, Baltimore, Md.

Idaho-Montana Pulp & Paper Co., Polson, Mont.
Nov. 23 (by amendment) 258,675 shares ($10 par) common stock. **Underwriter** — Tom G. Taylor & Co., Missoula, Mont. **Price**—$10 per share. **Proceeds**—To erect and operate a bleached sulphate pulp mill with a 200-ton per day capacity.

Insurance Exchange Building Corp. (1/18)
Dec. 30 filed 82,500 shares ($10 par) common stock to be offered for sale by five selling stockholders. **Underwriter**—Central Republic Co. of Chicago will underwrite all but 41,500 shares of the offering.

Jersey Central Power & Light Co. (1/24)
Dec. 22 filed $3,500,000 first mortgage bonds, due 1978. **Underwriters**—Names to be determined through competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Harriman Ripley & Co.; Glore, Forgan & Co.; Merrill Lynch, Pierce, Fenner & Beane; The First Boston Corp., Salomon Bros. & Hutzler; Otis & Co. **Proceeds**—For construction or improvement of new facilities and betterments of existing facilities. **Bids**—Bids for purchase of bonds will be received up to 11:30 a.m. (EST), Jan. 24, at Room 2401, 61 Broadway, New York.

• **KoolVent Aluminum Awning Corp. of Virginia, Washington, D. C.**
Jan. 5 (letter of notification) 38,500 shares of capital stock (par $1). Price par. No underwriter. For business expansion.

• **Michigan Public Service Co., Traverse City, Michigan**
Jan. 7 (letter of notification) 18,000 shares of common stock (no par). Price $16.375 per share; (no par). **Underwriters**—Cray, McFawn & Co., Detroit and A. C. Allyn & Co., Inc., Chicago. For construction and to reimburse treasury for construction expenses.

Mid-States Equipment Co. (1/17-18)
Jan. 5 filed 98,750 shares ($3 par) 7% cumulative convertible callable preferred stock. **Underwriter**—Greenfield, Lax & Co., Inc. **Proceeds**—Of the proceeds, it is

NEW ISSUE CALENDAR

January 13, 1949

Ocean Downs Racing Assn., Inc.____Debs. and Com.

January 17, 1949

Mid-States Equipment Co.______________Preferred
Rohm & Haas Co., 3:30 p.m. (EST)_________Stocks
Southern Indiana Gas & Electric Co._____Common

January 18, 1949

Horwood Lake Gold Mines Corp.______________Stock
Insurance Exchange Bldg. Corp.__________Common
Mississippi Power & Light Co.______________Bonds
Pennsylvania RR. (Noon, EST)_______Eq. Tr. Ctfs.
Public Service Co. of N. M.______________Preferred

January 19, 1949

Bethlehem Steel Corp.____________Bonds and Com.
N. C. & St. Louis RR. (Noon, EST)____Eq. Tr. Ctfs.

January 24, 1949

American Box Board Co.______________Debentures
Hotelevision Inc.____________________Class A Stock
Jersey Central Power & Light Co.
11:30 a.m. (EST)_____Bonds
Northern Pacific Ry.________________Eq. Tr. Ctfs.
Public Service Co. of Ind., Inc.________________Bonds

January 25, 1949

Consolidated Edison Co. of N. Y., Inc._______Bonds

January 27, 1949

Maywood Chemical Works (N. J.)____________Stocks

February 15, 1949

Monongahela Power Co._____________________Bonds

the present intention to retire an indebtedness of the company's wholly owned subsidiary, Modern Atlas Corp. The balance will be used for expansion and additional working capital.

Miller Manufacturing Co., Detroit, Mich.
Dec. 20 (letter of notification) 2,260 shares ($1 par) common. **Price**—$4.25 per share. **Underwriter**—George A. McDowell & Co.

Mississippi Power & Light Co. (1/18)
Nov. 30 filed $7,500,000 first mortgage bonds, due 1979. **Underwriters**—Names to be determined through competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Glore, Forgan & Co.; Equitable Securities Corp. and Shields & Co. (jointly). **Proceeds**—To finance in part company's construction program and other corporate purposes. Statement effective Jan. 6. Expected about Jan. 18.

● **Monarch Lumber Co., Minneapolis, Minn.**
Jan. 3 (letter of notification) $52,000 debentures. No underwriter. To reduce bank note indebtedness.

Monarch Machine Tool Co.
Sept. 13 filed 26,000 shares of common stock (no par). **Underwriters**—F. Eberstadt & Co., Inc. and Prescott, Hawley, Shepard & Co., Inc. **Proceeds**—Stock being sold by certain stockholders. Offering indefinitely postponed.

● **Monongahela Power Co. (2/15)**
Jan. 10 filed $6,000,000 30-year first mortgage bonds to be sold through competitive bidding and 67,000 shares of common stock to be sold to West Penn Electric Co. (parent). Probable bidders for bonds: Halsey, Stuart & Co. Inc.; Merrill Lynch, Pierce Fenner & Beane and Hallgarten & Co. (jointly); Harriman Ripley & Co. and Lazard Freres (jointly); Blyth & Co., Inc. and Goldman, Sachs & Co. (jointly); Kidder, Peabody & Co.; Glore, Forgan & Co.; Lehman Brothers; Salomon Bros. & Hutzler. Bids for the bonds expected to be opened on or about Feb. 15.

● **Morris Petroleum Co., Inc., Seattle, Wash.**
Jan. 4 (letter of notification) 40,838 common capital non-assessable shares (par $1). Price, par. No underwriter. For operating capital.

● **Mountain Mines Co., Salt Lake City, Utah**
Jan. 7 (letter of notification) 200,000 shares of common stock. **Price**—50c per share. No underwriter. For operating expenses and additional equipment.

● **New Electric Razor Corp., Baltimore, Md.**
Jan. 3 (letter of notification) 5,000 shares of Class A common stock ($1 par). Price, $10 per share. No underwriter. For the manufacture of electric razors and purchase of equipment.

● **New Stages, Inc., New York**
Jan. 7 (letter of notification) 293 shares of voting profit-participating stock (par $10). Price, par. **Underwriting**—None. This is an offer of recession, the shares having been sold Dec. 2, 1948, without a filing with SEC.

Ocean Downs Racing Association, Inc., Baltimore, Md. (1/13-19)
Dec. 16 filed $600,000 6% income debentures due Jan. 1, 1974, and 60,000 shares (50¢ par) common. **Offering**—To be offered in units of $100 of debentures and 10 shares of stock. **Underwriters**—Harrison & Co.; Bioren & Co., Philadelphia; C. T. Williams & Co., Inc., Baltimore, and Woodcock, McLear & Co., Philadelphia. **Proceeds**—To construct a racing plant.

● **Ohio Galvanizing & Manufacturing Co., Niles Ohio**
Jan. 3 (letter of notification) 2,500 shares of preferred stock (par $100). Price, par. No underwriter. For capital structure.

● **Pacific Mining Co., Inc., Seattle, Wash.**
Jan. 6 (letter of notification) 50,000 shares (25c par) common stock. Price, par. No underwriter. For exploration and development of mining leases, working capital and for purchase of equipment.

Paper Associated Products Corp., Ramsey, N. J.
Jan. 3 (letter of notification) 29,000 shares of capital stock (par $10). Price, par. **Underwriter**—Charles W. Warshoff & Co., Newark. Expansion of sales territory.

Pepsi-Cola Bottling Co. of Washington, D. C.
Dec. 21 (letter of notification) 31,500 shares (10¢ par) common stock to be sold to public at $3 per share; 40,000 shares to be offered to trade accounts; 27,500 shares to be offered on behalf of a stockholder at $3 per share and 10,000 options at 1¢ per share. **Underwriter**—Willis E. Burnside & Co., Inc., New York. For working capital and payment of taxes. Expected about March 1.

● **Personal Industrial Bankers, Inc., Wash., D. C.**
Jan. 6 (letter of notification) 496 shares ($100 par) 7% cumulative preferred stock. To be offered as in exchange share-for-share for 6% preferred stock (par $100) of Standard Loan Service, Inc. No underwriter.

● **Pitney-Bowes, Inc., Stamford, Conn.**
Jan. 7 (letter of notification) 10,000 shares of common stock, as may be subscribed under the employees' stock purchase plan. No underwriter. For general working capital.

Playboy Motor Car Corp., Tonawanda, N. Y.
Dec. 29 filed 1,000,000 shares of class A 20-cent preferential dividend series ($3 par) common stock and 1,000,000 shares of class B (5¢ par) com. stock. **Offering**—To be offered in units of one share each. **Underwriting**—By amendment. **Proceeds**—For purchase of equipment and working capital.

Public Service Co. of Indiana, Inc. (1/24)
Dec. 21 filed $12,000,000 first mortgage bonds, series H, due 1979. **Underwriters** — Names to be determined through competitive bidding. Probable bidders: Blyth & Co., Inc.; Halsey, Stuart & Co. Inc.; The First Boston Corp.; Harriman Ripley & Co.; Glore, Forgan & Co.; Merrill Lynch, Pierce, Fenner & Beane; Kidder, Peabody & Co., and White, Weld & Co. (jointly). **Proceeds**—For construction costs. Expected about Jan. 24.

Public Service Co. of New Mexico (1/18)
Dec. 28 filed 15,000 shares ($100 par) cumulative preferred stock. **Underwriter**—Allen & Co., New York. **Proceeds**—For construction and to increase general funds.

Renaissance Films Distribution, Inc., Montreal, Que.
Oct. 29 filed 40,000 shares (par $25) 5% cumulative convertible class B preferred stock and 10,000 shares of C stock (no par). **Underwriting**—None. **Offering**—Class B preferred will be offered at $25 per share with one share of class C given as a bonus with each 4 shares of class B purchased. **Proceeds**—To pay balance of current liabilities and working capital.

● **Rochester Consolidated Mines, Reno, Nev.**
Jan. 6 (letter of notification) 100,000 shares 10c par) common stock. **Price**—50c per share. No underwriter. To develop claims.

Rockland Light & Power Co., Nyack, N. Y.
Dec. 30 filed $7,500,000 first mortgage bonds, series C, due 1978. **Underwriting**—Names will be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc., Harriman Ripley & Co., Merrill Lynch, Pierce, Fenner & Beane and Kidder, Peabody & Co. (jointly). **Proceeds**—For construction and the retirement of bank borrowings.

Rohm & Haas Co., Philadelphia, Pa. (1/17)
Dec. 2 filed 15,816 shares of 4% cumulative preferred stock, series "A" (par $100) and 197,697 shares of common (par $20). Offering being proposed by U. S. Attorney General, Office of Alien Property Custodian. **Underwriters**—Names to be determined through competitive bidding. Probable bidders include Kuhn, Loeb & Co.; Lehman Brothers, and Glore, Forgan & Co. (jointly); Kidder, Peabody & Co., and Drexel & Co. (jointly); A. G. Becker & Co., and Union Securities Corp. (jointly). An additional 5,410 shares of preferred and 67,627 shares of common are included in the registration but they are not being offered at this time because of a pending suit for return of these shares under the Trading with the Enemy Act. Registration statement effective Dec. 13. **Bids**—Bids for purchase of stocks will be received at Department of Justice, Office of Alien Property, 120 Broadway, New York, up to 3:30 p.m. (EST) Jan. 17.

St. Anthony Mines Ltd., Toronto, Can.
Aug. 6 filed 1,088,843 common shares (par $1). Price, 40 cents per share. **Underwriter**—Old Colony Securities Ltd. of Toronto. Proceeds for gold mining operations.

Smith (C. D.) Co., Grand Junction, Colo.
Nov. 22 (letter of notification) 1,500 shares ($50 par) 5½% cumulative preferred stock. **Price**—$51 per share. **Underwriter**—Peters, Writer & Christensen, Inc., Denver, Colo. For additional working capital and to reduce amount of short-term bank loans.

● **South Gate (Calif.) Newspaper Co.**
Jan. 5 (letter of notification) 1,000 shares of common stock (par $100) and 600 shares of preferred (par $100). Price, $100 per share. No underwriter. For the purchase of South Gate Newspapers and for purchase of equipment and for operating capital.

● **Southern Alberta Oil & Gas Co., Pullman, Wash.**
Jan. 5 (letter of notification) 300,000 shares of capital stock. Price, 25 cents per share. No underwriter. For development of oil and gas land.

Southern Indiana Gas & Electric Co. (1/17)
Oct. 20 filed 600,000 shares (no par) common stock owned by the Commonwealth & Southern Corp. and 75,000 additional shares of stock for the benefit of the company. **Underwriter** — Smith, Barney & Co. Price, by amendment. **Proceeds**—Commonwealth will use its proceeds to reduce indebtedness and Southern Indiana will use its proceeds for property additions and betterments.

Southern Union Gas Co., Dallas, Tex.
Dec. 16 filed 107,430 shares ($1 par) common stock. **Offering**—To be made to holders of outstanding stock of record Jan. 3, on basis of one new share for each 10 shares held, plus the privilege of subscribing for additional shares not purchased by other stockholders. **Underwriting**—None. **Proceeds**—For construction and betterments.

● **Supplee-Biddle Co., Philadelphia**
Jan. 6 (letter of notification) 2,725 shares of non-convertible preferred stock (par $100). Offered for subscription at par, first by holders of first preferred stock of record Jan. 15; then by holders of preference shares, and then by common stockholders. Shares not subscribed for by Feb. 15 may be offered to other persons. No underwriting. Working capital.

● **Supplee-Biddle Co., Philadelphia**
Jan. 6 (letter of notification) 211 shares of non-convertible preference stock (no par) and 211 shares of common stock (no par). **Price**—Preferred, $100; common $30 per share. This is an offer of recision, the stock having been sold about Dec. 27, 1948. No underwriting. Working capital.

Taylor Food Co., Raleigh, N. C.
Dec. 17 (letter of notification) 17,000 shares ($1 par) common stock, of which 7,000 shares would be sold at $1.12½ and 10,000 shares at $1 per share. **Underwriter**—Griffin & Vaden, Inc., Raleigh, N. C. For additional working capital.

Mrs. Tucker's Foods, Inc., Sherman, Texas
Nov. 26 filed 200,000 shares of common stock (par $2.50) of which 80,000 will be sold by the company and 120,000 shares by certain stockholders. **Underwriter**—Rauscher, Pierce & Co., Inc., Dallas, Texas. **Proceeds**—For general corporate purposes.

Union Light, Heat & Power Co., Cincinnati
Dec. 30 filed $5,000,000 first mortgage bonds. **Underwriters**—Names to be determined through competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; W. E. Hutton & Co. **Proceeds**—For prepayment of first mortgage bonds owned by parent, Cincinnati Gas & Electric Co., and for construction.

● **United States Plywood Corp., New York**
Jan. 10 (letter of notification) 14,000 shares of common stock. To be offered to employees of company at 10% below market price, payment to be made by monthly payroll deductions. Estimated subscription price, $21.25 per share. Working capital.

United States Television Mfg. Corp., New York
Dec. 23 (letter of notification) 1,000 shares common stock (par 50¢). **Price**—$2.25 per share. **Underwriter**—Willis E. Burnside & Co., Inc., New York. Working capital.

United Utilities & Specialty Corp.
Oct. 15 (by amendment) 125,000 shares of common stock (par $1) and 33,000 stock purchase warrants (to be sold to underwriter at 10 cents each). **Underwriters**—George R. Cooley & Co., Inc., Albany, N. Y., and others to be named by amendment. Price, market. **Proceeds**—To repay bank loans, working capital, etc.

Upper Peninsula Power Co.
Sept. 28 filed 200,000 shares of common stock (par $9). **Underwriters** — Names to be determined through competitive bidding. Probable bidders include Kidder, Peabody & Co., Merrill Lynch, Pierce, Fenner & Beane and Paine, Webber, Jackson & Curtis (jointly). **Proceeds**—Will go to selling stockholders. Consolidated Electric & Gas Co. and Middle West Corp. will sell 120,000 shares and 34,000 shares, respectively; Copper Range Co., 34,000 shares and several individual owners 11,200 shares.

Waukesha (Wis.) Motor Co.
Dec. 7 filed 200,000 shares of common stock ($5 par). **Offering**—Offered to stockholders of record January 3 at rate of one new for each two shares held at $10 per share. Rights expire Jan. 24. **Underwriting**—Company will pay fees to selected investment dealers for securing the exercise of subscription warrants. Robert W. Baird & Co. Inc. will be dealer-manager. **Proceeds**—To carry possible increase of accounts receivable and inventories and to provide for plant improvement.

● **Western Oil Fields, Inc., Denver, Colo.**
Jan. 5 (letter of notification) 1,000,000 shares (1c par) common. Price, 10 cents per share. **Underwriter** — John G. Perry & Co., Inc., Denver, Colo. To drill a well and acquire additional properties.

Wichman Philippine Mindanao Development Co., Cebu City, Philippine Islands
Jan. 5 filed 2,000,000 shares of voting capital stock, one centavo par value. **Price**—25 cents per share (U. S. currency). **Underwriter**—F. T. Andrews & Co. **Proceeds**—To provide funds for plant construction, diamond drilling, exploration and repayment of loans.

Wiegand (Edwin L.) Co., Pittsburgh
Sept. 28 filed 200,000 shares (no par) common stock. **Underwriter**—Hemphill, Noyes & Co., New York. Price, by amendment. **Proceeds**—Will go to selling stockholders. Offering postponed.

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Prospective Offerings

● **Delaware Power & Light Co.**
Jan. 5 reported company has under consideration sale within the next few months of approximately 232,520 shares of common stock, to be first offered for subscription by stockholders in the ratio of one additional share for each five shares now held. Probable bidders: The First Boston Corp. and Blyth & Co. (jointly); Morgan Stanley & Co.; Harriman Ripley & Co.; White, Weld & Co. and Shields & Co. (jointly); Lehman Brothers.

● **(J. H.) Hines Co.**
March 24 stockholders will be asked to approve a resolution whereby the company could incur indebtedness up to $20,000,000. While no plans have yet been made as to how much, or when, the company will borrow, it is expected that additional funds will be required for the $15,000,000 building program already announced.

● **Kentucky Utilities Co.**
Jan. 10 company asked SEC permission to sell competitively $10,000,000 new bonds. Proceeds for construction. Probable bidders include: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Harriman Ripley & Co.; Equitable Securities Corp.; Union Securities Corp., and Merrill Lynch, Pierce, Fenner & Beane (jointly).

Maywood Chemical Works (N. J.) (1/27)
Bids for the purchase of 6,930¼ common shares (no par), 56,562⅕ shares of participating preferred stock (no par) and 8,081 shares of cumulative preferred stock (no par), constituting 23.10%, 29.28% and 32.85%, respectively, of the stocks, will be received up to 1:30 p.m. (EST) Jan. 27 at office of Alien Property, 120 Broadway, New York. The company itself has formally agreed to submit a bid of $847,500 for the stock.

● **Mississippi River Fuel Corp.**
Jan. 11 corporation is negotiating for sale of approximately $20,000,000 first mortgage pipe line sinking fund bonds. Sale may be negotiated through Union Securities Corp. Reported Halsey, Stuart & Co. Inc. has formed group in event issue will be sold competitively.

● **Nashville Chattanooga & St. Louis RR. (1/19)**
Bids for the purchase of $4,320,000 equipment trust certificates, series E, maturing serially in 1 to 15 years, will be received at Room 901, 17 Broadway, New York, up to noon (EST), Jan. 19. Probable bidders: Halsey, Stuart & Co. Inc., Harriman Ripley & Co. and Lehman Brothers (jointly); Salomon Bros. & Hutzler; Harris, Hall & Co. (Inc.).

● **New York State Electric & Gas Corp.**
Jan. 11 the General Public Utilities Corp. has asked the SEC for authority to sell 880,000 shares of common stock of the corporation as a first step in compliance with the Holding Company Act. Probable bidders include Blyth & Co., Inc., and Smith, Barney & Co. (jointly).

● **Northern Pacific Railway (2/24)**
Jan. 12 reported company will issue invitations shortly for bids to be received Feb. 24 for $6,000,000 in equipment trust certificates, to be dated March 15, 1949, and to mature in 15 equal annual instalments from March 15, 1950, to March 15, 1964. Probable bidders: Halsey, Stuart & Co. Inc.; Harriman Ripley & Co. and Lehman Brothers (jointly); Salomon Bros. & Hutzler; Harris, Hall & Co. Inc.); Kidder, Peabody & Co.

● **Northern States Power Co. of Wis.**
Jan. 11 reported company has plans under consideration for sale of $10,000,000 bonds, the proceeds to be used for construction, etc. Probable bidders: Halsey, Stuart & Co. Inc.; Kidder, Peabody & Co. and White, Weld & Co. (jointly); Glore, Forgan & Co.; The First Boston Corp.; Blyth & Co., Inc.

Pennsylvania RR. (1/18)
Bids for the purchase of $7,965,000 equipment trust certificates, series V, dated Nov. 1, 1948, and due in 15 annual instalments of $531,000 from Nov. 1, 1949-1963, will be received by company at Room 1811, Broad Street Station, Philadelphia, up to noon (EST) Jan. 18. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Harriman Ripley & Co. and Lehman Brothers (jointly); Salomon Bros. & Hutzler.

● **Staten Island Edison Corp.**
Jan. 5 reported action is expected by the New York P. S. Commission shortly on a petition by corporation to issue $2,750,000 first mortgage bonds and $5,000,000 in new preferred stock. Proceeds from the bonds would retire the company's short-term indebtedness and provide funds required for expansion. Proceeds from preferred stock would be used by company to carry out its plan of recapitalization. Probable bidders on bonds: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Harriman Ripley & Co.; Kidder, Peabody & Co. On preferred: W. C. Langley & Co.; Kidder, Peabody & Co.; Stone & Webster Securities Corp. and White, Weld & Co. (jointly); Lehman Brothers.

● **Wisconsin Electric Power Co.**
Jan. 7 reported company has plans under consideration for sale, possibly in March, of $10,000,000 bonds, the proceeds to be used for expansion, etc. Probable bidders: Halsey, Stuart & Co. Inc.; Equitable Securities Corp.; Lehman Brothers and Salomon Bros. & Hutzler (jointly); Merrill Lynch, Pierce, Fenner & Beane; Union Securities Corp.; The First Boston Corp.; Blyth & Co., Inc.; Glore, Forgan & Co.

● **Worcester (Mass.) Gas Light Co.**
Jan. 6 expected company to issue $2,150,000 20-year mortgage bonds in near future, to be sold at competitive sale. Proceeds would be used to refund $1,000,000 bonds; retire $1,000,000 bank loans and the balance to replace funds borrowed for company's extension program. Probable bidders include Halsey, Stuart & Co. Inc.

Television—A New Impetus To Motion Picture Industry

(Continued from page 8)

matter of no more than half an hour, but with television, there will be shows of such fine scope and quality that they will be shown for a week on the same hook-up, three times a day, and each show will be from two to three hours or more in length.

It will be as much of an event for people to sit down in their hometowns and see the latest and finest entertainment as it is now for New Yorkers to go to a Broadway opening or premiere.

But if some gadget should be found whereby the government would permit a toll for entertainment in homes, that might change the whole form of this entertainment.

It would mean better entertainment for the home, of course, but I believe profoundly that the theatres and concert halls will be the nucleus of a new and great amusement network.

There will be a boom in entertainment beyond my powers of description.

There will be large circuits of theatres, numbering as many as 3,000 or more, receiving simultaneously programs derived from the latest and best the arts can offer—the finest in motion pictures, operas, plays, sports, along with current events of great import.

There will be programs of such variety and quality that an entirely new entertainment-seeking public will be created.

When a great artist appears in Carnegie Hall, people will be able to hear and see him in Halls in probably 200 other cities.

Out in Washington State, a music-lover can hear and see Toscanini or Rubenstein as readily as his fellow American in New York. He may enjoy a whole opera.

Patrons of the theatre, who now may wait for months or years to enjoy a Broadway stage success, will do so at the same time the first nighters in New York acclaim such a theatre production.

Our country's culture will attain a new unity because the latest genius or the newest talent discovered at home or abroad, will be shared by the metropolitan resident and the Main Streeter alike and at the same time.

Large screen television, of course, will convey to the multitude a current history of the time, some of it, perhaps, while it is happening.

And the finest product of Hollywood will be part of this overpowering new combination of stage, screen and television—a giant indeed.

This giant, gentlemen, you must look squarely in the eye. For television will enable the world to watch itself go by.

Public enlightenment and education will be carried to extraordinary levels.

We are not prepared to say how soon all the technical problems connected with large-screen television and long-distance transmission will be conquered.

We do know that many obstacles already have been overcome.

Meanwhile, motion pictures will continue to serve as the greatest medium of mass entertainment the world knows, with our art ready to lend its experience and talents to television, and ready to receive, in return, the tremendous stimulus that television must impart.

Together, they will cherish another God-given blessing and turn it to the good of peoples everywhere.

Illinois Brevities

(Continued from page 10)

earnings of $3.09 per share on 369,978 shares of class A common stock and $1.54½ per share on 618,120 shares of class B common stock for the previous fiscal year. At Oct. 31, 1948, current assets amounted to $9,726,867 and current liabilities totaled $1,862,775.

* * *

Oak Mfg. Co., with factories in Chicago and Crystal Lake on Dec. 15 exercised its option to purchase the Crystal Lake plant it has been leasing from Edward F. Bessey, President of the company, for approximately $200,000. This purchase, it was stated, will effect an estimated saving to the company of $36,900 annually in rental and amortization.

* * *

During the year ended Sept. 30, 1948, Woodward Governor Co., Rockford, had a net income of $527,416, which amounted to about $2.77 per common share outstanding. This was about 19% more than that of the preceding year when the earnings were $2.32 per share. Net sales totaled $5,311,196, about 22% over the year ended Sept. 30, 1947. Unfilled orders at Sept. 30, this year, amounted to approximately $5,600,000, with current assets at $3,136,311 and current liabilities at $611,190.

* * *

Outboard, Marine & Manufacturing Co., Waukegan, reports that during the year ended Sept. 30, 1948, the company sold the largest volume of its products, in dollars and in units, ever sold by it for civilian purposes. Consolidated net sales total $31,534,311 or $2,415,367 higher than the consolidated net sales of $29,118,944 for the preceding fiscal year. Consolidated net earnings of the company and its Canadian subsidiary for the fiscal year just closed were $2,011,845, or $3.39 per common share, while for the year ended Sept. 30, 1947 consolidated net earnings were $2,605,192, or $4.38 per share.

* * *

The consolidated net income of Wilson Jones Co., Chicago, and its subsidiaries for the quarter ended Nov. 30, 1948 was $109,000, equal to 37 cents per share on 294,830 shares outstanding, after estimated provision of $67,000 for Federal income taxes. In the first quarter of the preceding year the net was $182,000, equal to 69 cents per share on 263,500 shares, after provision of $107,000 for Federal income taxes. Net sales were $2,791,000 and $2,760,000, respectively, in the 1948 and 1947 quarters.

For the fiscal year ended Aug. 31, 1948, net income, after all charges and Federal taxes, was $743,830, equal to $2.52 per share on 294,830 shares of common stock, as against $896,714, or $3.40 per share on 263,496 shares of common stock for the preceding fiscal year. Net sales for the 1948 year were higher totalling $11,347,147, compared with $10,172,417 for the year ended Aug. 31, 1947.

Our Reporter's Report

There seem to be two school of thought on the market for equity securities these days. One made up of brokers who execute customers' orders on the regular exchanges, probably will tell you that business is not so good and that the public's interest is at a low ebb.

But this is not so with the second group the distributors of securities and underwriters, who make a business of carrying their business direct to the customer.

The latter group has had something of a field day what with two large issues of new common equities having been disposed of in short order and a third seemingly assured of success.

This element long has contended that the public has money to invest, that it is interested in equities for the reason that bonds offer insufficient return and are pointed chiefly to institutional investors, but that they must be cultivated.

Their contention is that you can't wait for people to come in and buy that you must go out and do a real selling job.

Evidently they have been taking their own advice seriously for this week has witnessed the distribution of a total of more than 822,000 shares of common stocks for the account of three companies, two utilities and one an industrial-chemical firm.

The results of their efforts, it appears, leave little room for argument with their premise.

Proving Their Point

The group which brought out 400,000 shares of common stock of Koppers Co. found its greatest difficulty in assuaging the feelings of distributors who complained of not being able to get enough of the stock.

Offering at $31 a share the entire offering was disposed of within two hours so well had the preliminary spade-work been handled. Here again, of course, the sponsors had the advantage of a well-known firm name.

Another group marketing 144,200 shares of Mississippi River Fuel Corp., common, was likewise able to announce quick oversubscription of the issue.

And it appeared that a third syndicate which took on 278,479 shares of Gulf States Utilities Co. common would dispose of that block with comparative ease.

Never Really Satisfied

Those who managed the Koppers offering actually found themselves in considerable "hot water" with their distributors as a consequence of the heavy demand for the issue.

Some 75 firms were in the group which handled the distribution of the stock and it appeared that only a handful got enough stock to satisfy their customer demand.

As one of those interested put it, "this is a case of where the issue appears to have been too well sold," and added, "here's a real success that brings down almost as much wrath as if it had been a bust."

New Issues in Sight

Mississippi River Fuel Co., which just completed a piece of equity financing, reportedly has plans afoot involving the sale of $20,000,000 of new bonds and, if the Federal Power Commission approves construction plans, may be seeking a larger amount via the same type of security later.

The currently discussed issue is expected to go direct to institutional buyers and provides funds for the retirement of $15,000,000 in bank loans along with funds for construction.

Meanwhile Monongahela Power Co., has gone into registration with SEC for an issue of $6,000,000 of new mortgage bonds, plus 67,000 shares of new common stock.

Sale of these issues would provide the company with funds needed for new construction and contemplated improvements.

Have Prices Risen More Than Incomes?

(Continued from page 7)

sumers' Price Index was rising from 100 in 1935-39 to 159.2 in 1947 and 169.1 in the first half of 1948. From this comparison it appears that our per-capita real income has risen 47.5% since the prewar period of 1935-39.

But, if we examine the meat situation we are forced to modify our above conclusion. The meat component of the Consumers' Price Index rose from 100 for the 1935-39 average to 217.1 in 1947 and 236.7 in the first half of 1948. A comparison of the index of meat prices with the index of per-capita disposable personal income reveals that our ability to buy meat has increased 6.7% on the average. According to "Fortune" (October, 1948, p. 83) our average annual meat consumption has increased from 142 lbs. prior to the war to 145 lbs. now. The fact that we are consuming more meat although its price has risen relatively is an indication of higher real incomes.

If we direct our attention to the subject of autos where the production index has approximately doubled (Federal Reserve Board) when compared to the 1935-39 average we may conclude that at least five times as much money is being spent since the war. Because of the "used car" situation a more accurate measure is difficult to obtain but it seems to be a safe assumption that the prices actually paid for autos have risen more than disposable personal income.

Thus general indexes do not show accurately our position in regard to prices, money income and real income. With reference to meat we are consuming more than before the war and, accordingly, we are enjoying a higher standard of living. But in the case of autos we are buying a larger number annually than prior to the war although, probably, we have a lower standard of consumption because of the wartime deterioration of our stock of motor vehicles. Apparently, we have bid up the relative prices of certain items such as autos and meat which play an important part in a rising standard of living. The very fact that we can bid up those prices relatively while spending a smaller portion of our disposable personal income (Table III) should indicate that, in general, the people of the United States are better off now than before the war.

III

When viewed from the standpoint of value aggregates in a closed smoothly functioning economy with a fixed physical volume of production it will be noted that prices will not rise more rapidly than income because a price which represents a cost of living or cost of production to one person will be the sum of an equal amount of income to other persons. This smoothly functioning economy will exist when the aggregate of income is paid out in prices for goods and services and is reconverted into income according to some fixed pattern. Where irregular habits of corporate and personal saving and investment, taxation, loans abroad, etc., interfere with the regular operation of this pattern it is possible for prices and incomes to rise disproportionately. Your attention is called to the behavior of certain specified income flows in the United States where such irregular habits are more the rule than the exception.

Since we are concerned primarily with a comparison between the present and the prewar period of 1935-39 we reduce our statistical work to a comparison of 1947 and 1948 (first six months) with the average of the five year period from 1935-39. We shall set about this task by pointing out the percentage changes in some constituents of the gross national product through the periods named above. These data are summarized by Table II below.

TABLE II

Gross National Product in the United States With Indicated Components

(Figures are in billions of dollars except percentages)

	Average 1935-39	%	1947	%	1st Half 1948	%
Gross national product	84.0	100.0	231.6	100.0	264.0	100.0
Personal income	68.6	81.8	195.2	84.3	208.0	84.6
Disposable personal income	66.2	78.7	173.6	75.0	185.5	75.4
Consumption expenditures	63.6	75.7	164.6	71.1	173.6	70.6
Payments to governments (from personal income)	2.47	2.9	21.6	9.3	22.6	9.2

Source: **Department of Commerce "Survey of Current Business" National Income Supplement, July, 1947, and appropriate recent numbers.**

The personal income component of the gross national product increased from 81.8% of the total in 1935-39 to 84.3% in 1947 and 84.6% in 1948 (first six months). While personal income was rising in percentage disposable personal income was decreasing from 78.7% in 1935-39 to 75.0% in 1947 and 75.4% in the first half of 1948. Like disposable personal income, consumption expenditures dropped from 75.7% of the gross national product in 1935-39 to 71.1% in 1947 and to 70.5% in the first six months of 1948. These percentage changes are explained in part because of the increase in payments to governments from personal income. From 1935-39 this sum was $2.47 billion (2.9% of the gross national product) but by 1947 it had increased to $21.6 billion (9.3%). It helps little that payments to governments from personal income declined to 9.2% of the gross national product in the first six months of 1948. In summary, it will be observed that, in spite of the fact that personal income has increased proportionately since 1935-39, disposable personal income and consumption expenditures have comprised a smaller portion of the gross national product in the last year and one-half. This increased proportion is explained by the increased proportion taken from personal income by the various governments.

Owing to the drop in percentage of gross national product spent on consumption it may be said that as a nation we have experienced a decline in the propensity to consume. Inasmuch as the decline occurred because of the increasing share taken by governments the argument may be advanced that since this increase was voted by the elected representatives of the people it denotes a decrease in the propensity to consume. In ordinary times an increase in government services favored by the people would provide, in itself, a good reason that these additional services were preferred to marginal increments of other goods and services consumed. However, since these government services, those brought about by war and its aftermath, were forced upon us by conditions beyond our control and do not improve our living standards, payments to governments from personal income will be eliminated from consideration; i.e., disposable personal income will be employed instead of personal income.

A further comparison of disposable personal income and consumption expenditures will be helpful; see Table III below for summary. During the five year period 1935-39 we consumed 96.2% of our disposable personal income. This percentage dropped to 94.8% in 1947 and to 93.6% in the first six months of 1948. This fall in the percentage of disposable personal income consumed indicates that the pressure on our income recipients to spend for consumption is diminishing. A decline of this type will exist when real incomes are increasing and its presence seems to be good evidence that prices are not rising as fast as incomes.

TABLE III

Disposable Personal Income and Consumption Expenditures in United States

(Figures are in billions of dollars except percentages)

	Average 1935-39	%	1947	%	1st Half 1948	%
Disposable personal income	66.2	100.0	173.6	100.0	185.5	100.0
Consumption expenditures	63.6	96.2	164.6	94.8	173.6	93.6

Source: Table II.

The conclusion that real incomes have risen because of a reduced proportion of disposable personal income consumed is based on one of the main tenets of the economics of J. M. Keynes. Space is not available here to prove that Keynes is correct in his statement that increasing real incomes leads to increasing proportions of those incomes saved. General observations seem to confirm this belief.

There is, also, the question of how present expenditures for consumption are affected by the accumulated savings of the war years. During the first 13 years that income accounting by the Department of Commerce was in effect (1929-41 inclusive), our savings from personal income averaged annually $2.5 billion or 2.9% of the disposable personal income. In the years dominated by war, 1942-46, personal savings skyrocketed to an annual average of $25.6 billion or 18.0% of the disposable personal income for the period. Since the war we have been saving only approximately 6% of our disposable personal income (see above for percentage consumed). The presence of this accumulated sum of personal savings should decrease the marginal propensity to consume but should increase the amount of money available for consumption and the amount spent for consumption. Hence, the existence of this unusual fund of purchasing power should cause consumption expenditures to become a larger percentage of disposable personal income or even to exceed disposable personal income. Without doubt many people have used wartime savings to finance current consumption to the extent of dissaving during the past two years. Although we have had the incentive of a surplus cash fund to consume a higher percentage of our disposable personal income since the war, we have consumed, actually, a lower percentage! This conclusion affords further reason for believing that aggregate real income is higher now than prior to the war.

It may be worthwhile to add that the so-called savings from the war years may not be real; they may be part of the monetary illusion surrounding war financing. At any rate if those savings are spent at a time when there is full employment otherwise, the effect will be one of increasing inflation. An attempt to spend such savings for consumption at a time of full employment would have a negative effect on capital accumulation in the aggregate.

IV

The conclusion may be stated briefly: prices have risen less than money income in comparison with prewar years, hence real income is higher now than then. There are two reasons advanced in support of this statement: (1) consumers are spending a smaller percent of their disposable personal income (Section III) and (2) the prices paid by consumers have risen less than incomes (Section II) as evidenced by a comparison of price indexes with incomes.

Labor leaders who are planning a drive for a fourth round of wage increases should take into consideration the fact that our system is producing high real incomes for almost everyone. A wage increase at this time could result in labor pricing itself out of the market and start a downward spiral of income.

Symes Elected Gov. of San Francisco Exch.

SAN FRANCISCO, CALIF. — John P. Symes of Henry F. Swift & Co., has been elected a member of the Board of Governors of the San Francisco Stock Exchange.

John P. Symes

Halsey, Stuart Offers C. B. & Q. Equip. Issue

Halsey, Stuart & Co. Inc. and associates were awarded Jan. 11 $3,210,000 Chicago, Burlington & Quincy RR. equipment trust of 1949, 2¼% equipment trust certificates, due $107,000 semi-annually July 1, 1949 to Jan. 1, 1964, inclusive. The certificates, issued under the Philadelphia plan, were immediately re-offered, subject to ICC authorization, at prices to yield from 1.30% to 2.525%, according to maturity.

The certificates will be issued to provide for not more than 75% of the cost, estimated at $4,318,500, of the following new standard-gauge railroad equipment: one 4,000 h.p. diesel-electric passenger locomotive; eight 2,000 h.p. diesel-electric passenger locomotives; and nine 2,000 h.p. diesel-electric road-switching locomotives.

Associated in the offering were A. G. Becker & Co. Inc.; Freeman & Co.; Gregory & Son, Inc.; The Illinois Co.; Otis & Co.; and McMaster Hutchinson & Co.

Washington . . . And You

Behind-the-Scene Interpretations from the Nation's Capital

WASHINGTON, D. C.—President Truman's burgeoning message factory has fallen short of giving hard-headed observers in Washington any clue upon which they really feel they can count at this time as to the scope and nature of legislation the President actually desires and expects he can get from the new Congress.

In his Annual Message on the State of the Union, the President did as expected. He wrapped up all his many glittering campaign promises in one package and sent them to Congress. True, the President stressed objectives a little more than specific projects. His language was naturally a little less pugnacious than when he was on the political platform.

In his "Economic Report" message, the President borrowed bodily a lot of the tony lingo of his hired Ph.D.'s in economics, to give an aura both of the inscrutable and the universal to the very Utopia the President himself had outlined only a few days before.

* * *

Some observers saw in the Budget message the indication that Truman actually desires a most restricted New Deal, for the President budgeted for very little of the many things he called Congress to enact "this year," throughout his Annual and Economic Report messages. Many people expect the President to actually work for a relatively moderate program, simply because action on all the schemes the President requested would start several cat-and-dog fights in Congress, even if it didn't also throw the country into a tailspin.

On the other hand, the Budget is a much more liberal document than the other messages. In the Budget if you put down a firm order for one Class A Utopia, you are supposed to estimate the cost thereof and suggest its means of financing. That would be a little strong even for Mr. Truman. Hence one has got to expect a President's free-wheeling style to be cramped by the technicalities of a budget.

* * *

As for the Budget itself, it must be considered less as a literal document than as a sort of general guide to White House thinking on fiscal affairs this January. The budget as outlined Monday by the President is held to be unrealistic on several counts. As the President himself points out, it includes no guess as to how much the forthcoming military aid program will cost.

In general, it is believed at the Capitol that the President still underestimates tax receipts. Unless Congress is completely cockeyed in its own guesses, anything like the $4 billion of additional taxes requested by the President has no chance. The present inclination of those who count in Congress is to raise not more than $1,200 million from a hike in corporation income taxes — if this later proves to be absolutely necessary.

Mr. Truman budgeted $600 million for universal military training, which is a project likely to get little beyond the conversation stage in 1949. Mr. Truman's budget, in a nutshell, tried to make room for the beginning of public housing, slum clearance, prepaid medical insurance, and Federal aid to education, by chipping and chiseling away at other expenditures. One of the cuts, for instance, is in veterans' benefits. It remains to be proved that Congress will give veterans less instead of more.

Democrats keep adding to their political blunders. The most important recent boner of the last several days was the decision to lower the minority representation on the Senate Foreign Relations Committee. Republicans kept the composition of Foreign Relations seven Republicans to six Democrats, to emphasize the so-called bi-partisan nature of the foreign policy. Democrats immediately re-stacked the Committee to eight Democrats and five Republicans.

This was a boner, first, because it was another kick in the teeth at Republicans who have been tagging along on the "bi-partisan" foreign policy, and aroused Senator Vandenburg to anger more than even he indicated in protesting this move.

Second, by cutting down on the minority, the Democrats kept Senator Wayne Morse from his heart's desire, a seat on Foreign Relations. Only a scant few days before this, Morse had been the most outspoken of the group of a dozen "progressives" who sought to kick over the relatively conservative leadership of Republicans in the Senate. Morse could have been counted upon as almost a sure vote, although a Republican vote nominally, for almost anything of a New Deal nature. A semi-progressive, Senator Ives of New York, was kept off the Labor Committee.

This and other slights suggest the incredible view that the Democrats are purposefully acting as sensibly as a merchant with a good trade who feels he can enjoy insulting customers at will. Democrats instead say they were just making committee places for their own little eager boys and girls.

* * *

In all this news about the House Democrats cutting down the power of the Rules Committee to kill radical legislation, it may be noted that the leadership did not in any way vitiate another of the most important functions of that committee. That is the power to prevent the House from voting upon amendments or modifications to major Administration legislation. The Rules Committee could not only call a measure up ahead of its regular order (the regular order of business might take months) but could provide also, and did as a matter of course usually also provide, that no amendments of any consequence could be offered from the floor.

So long as Truman's leaders in the House do not feel they have to by-pass the Rules Committee on their more extreme proposals, they can get bills considered with iron-clad rules barring amendments. In the Senate, it is different. Almost anything can be proposed as an amendment even if irrelevant to the subject matter of the bill.

* * *

Tough-minded industry observers here are advising taking a long and careful look at the Johnson bill presumbaly legalizing freight absorption. This bill was designed, by changing the law, to end the fear of industry that any freight absorption is illegal under the cement case decision of the Supreme Court, and as this decision is interpreted or likely to be interpreted by the Federal Trade Commission. The bill grew out of the long and noisy hearings of the Capehart subcommittee of the Senate Interstate Commerce Committee. Senator Ed Johnson of Colorado, a Democrat, took over the chairmanship both of the full committee and the "Capehart subcommittee" with the 81st Congress.

Observers are advising a "stop, look, and listen" approach toward the Johnson bill because they fear that the cure of legalizing the use of basing points may be worse than the disease of their presumed illegality. It is noted, for example, that one thing the bill does is to strengthen the enforcement procedures and powers of FTC. Time, it is advised, and careful study, will disclose whether or not there is a net merit to the Johnson bill.

* * *

New 1949 car models now coming out represent for the most part the first "complete" model change since 1939, 10 years. There are important exceptions of smaller producers making drastic changes a year or so previously, but the biggest producers have not gone in for sweeping changes until this year. The automobile industry found that re-tooling for more extensive model changes has cost them just about three times as much as before the war. These re-tooling costs will show up and are showing up in higher prices.

* * *

Best available guess is that the automobile replacement parts industry, which ran along at just under $600 million of output, based on manufacturers' prices prewar, and zoomed to $2.5 billion last year, will begin to settle down in '49. This is the purely replacement parts output, and takes no account of parts for new automobiles.

It is estimated that output this year will shake down to around $1.5 billion, based on manufacturers' prices. The boost to this industry arose, of course, from the war holiday in pleasure car production. Before the war the average age of cars was five years. It was nearly nine years last year, but may drop down to around eight years for '49. For the past several months retail sales of replacement parts have dropped while manufacturers increased their production to fill low inventory.

* * *

For the most part the Air Forces leaders have privately reconciled themselves to defeat of the 70-group plan before first session of the 81st Congress. If their outlook is correct, Federal orders for aircraft will not be the thing the industry expected last year. This outlook, however, is purely private. The fly boys in khaki will not lose a chance to "sell" the 70-group plan on every occasion which offers.

* * *

Having licked the problem of the shortage of big radio tubes, the television industry has been outstripping its expectations productionwise, of only a few months ago. It is now guessed that output of TV sets this year will run around 2 million sets. The output for '48, when finally tallied, will run around 975,000 units.

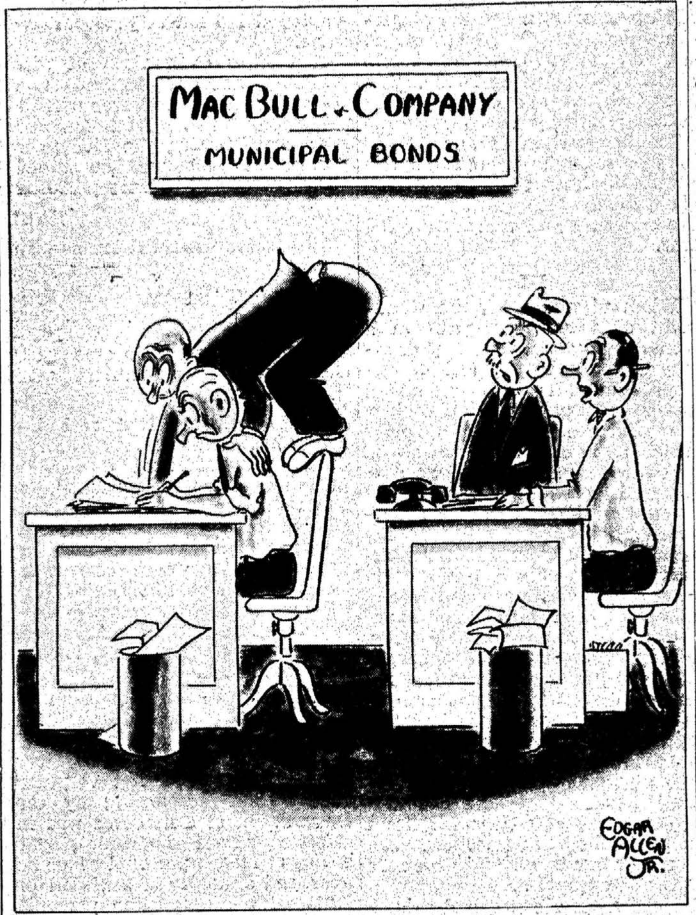
While television production is going up, other radio production is going down. It is "guestimated" that against an output of around 16 million conventional radio sets expected to be reported for '48, the outturn for '49 will drop to 10 million.

More and more will be heard about the effect of television on printed periodicals, and even upon the design of homes. Whereas radio competed for advertising, TV competes also for the time people might otherwise spend in reading their newspaper, their magazine, or a book.

While the glass industry produced the tubes for TV that earlier in the year were short, the industry has run into another problem. That is the lack of trained service and maintenance men. Retailers lacked sufficient men qualified to install and service television sets, and this shortage is giving the industry a headache.

(This column is intended to reflect the "behind the scene" interpretation from the nation's Capital and may or may not coincide with the "Chronicle's" own views.)

BUSINESS BUZZ



"Oh, he's a good manager, but I wish he had a bit more confidence in his men!"

Hayes With Bache & Co.

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS. — Gerald J. Hayes has become associated with Bache & Co., 21 Congress Street. Mr. Hayes was formerly with Trescott, Griffin & Co.

Joins Clayton Securities

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS. — John M. Verrochi has been added to the staff of Clayton Securities Corp., 82 Devonshire Street.

Two With E. E. Mathews

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS.—Paul L. LaFrance and Waldo H. Richardson are with Edward E. Mathews Co., 53 State Street.