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We Hope There Are Others

"There will have to be a lot more of the Taft-Hartley Law in the Administration bill before I would vote for it. * * * "I am for the original Taft-Hartley Law and I am for the injunction against national emergency strikes.

Harry F. Byrd

"It would be little short of tragedy to repeal the present law. It would invite strikes and thus slow down production. And that could lead to another depression. * * *

"The President used the Taft-Hartley injunction power to stop the last John L. Lewis strike. * * *

"In my opinion he has no parallel constitutional powers. It just doesn't make sense to give up the authority he does have."—Senator Harry F. Byrd.

Thank Heaven for this one Democrat who will not be stampeded. We hope there are a number of others in Congress.

More Equity Investment Essential

By WINTHROP W. ALDRICH*

Chairman, Board of Directors, The Chase National Bank of New York

Stressing the need of more equity capital if utilities are to continue to progress and furnish their vital services to the nation, Mr. Aldrich warns against rising debt ratio in utilities' capital structure. Lays difficulty in obtaining equity capital to burdensome and unreasonable regulation and inadequate rates as well as threat of public power competition. Cites difficulties experienced by railroads in consequence of failure of ICC to grant necessary rate adjustments.

I am glad of the opportunity to stand up and be counted as believing in certain fundamentals and in urging that for the public benefit your industry be allowed to render in full measure the services which the nation so greatly needs. The utilities can render these services if they are permitted to continue with the dynamic policies, the technical advances, and the long-range economies, that are the fruits of our American system of incentives and rewards for risking capital in business. If there is a flow of capital—I do not mean debt, I mean equity capital—to the utilities they will exhibit the vigorous economic virtues that go with risk capital. If there is no such flow of equity capital to the utilities they will be obliged to go further into debt and will run down hill not only in financial health but in their capacity to render those services to the public for which they are chartered.

W. W. Aldrich

More Utility Capital Needed

There is nothing better calcu-

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*An address by Mr. Aldrich at a dinner sponsored by the Westinghouse Electric Corporation, Pittsburgh, Pa., Feb. 16, 1949.

The Bold New Program

By MELCHIOR PALYI

Dr. Palyi contends ECA countries are not recovering ability to pay for what they buy, and U. S., by taking care of their adverse balances, relieves pressure that might otherwise bring effective cure. Claims American military guarantee is admission U. N. has totally failed and it will not add anything new to the international picture and will not stop the Russians. Holds Europe could be made self-supporting if internecine commercial welfare ceased. Decries theory dollars sunk abroad will produce democracy, prosperity and peace.

The Presidential "cat" is out of the big. In his State of the Nation message, the Budget message, and the Inaugural Address, Mr. Truman has outlined the content of the "bag"—or rather has set the upper limits of his do-good ideas, equalitarian reforms, and other wholly admirable desiderata.

Dr. Melchior Palyi

Close observers of the Washington scene seem to agree that reality will fall short of the "paradise on a platter," as Henry Hazlitt called the outpour of promises to almost everybody. Congress may water down much of the demogogy, and wash out some entirely, Congress already has shown that it does not blindly take orders from the White House, although a majority of the new Congressmen has been elected on on the kind of platform for which the President stands. Even the latter's economic planning team is deeply split over vital questions of policy.

The "biggest" of the President's ideas is the Number One target of the skeptics. It is the fantastic-

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EDITORIAL

As We See It

That "Deadest Pigeon"

Governor Dewey has issued a challenge to his party, particularly to those members of that party who serve in Congress, and who in recent years have often pursued courses different from those which Governor Dewey would have selected, and sometimes at least in contrast to party platforms. The "honestly" held opinions of these latter individuals are characterized as "personal prejudices" which should not be permitted to get in the way of the progress of the party, which under the leadership of such men would soon become "the deadest pigeon in the country."

We should like to see Governor Dewey succeed—in reverse. That is, we should like to see the party dedicate itself sincerely and fully to common sense in this age of Alice-in-the-Wonderland economics—and, of course, concede to those members holding views such as Mr. Dewey's the right to get elected whenever and wherever they can, but not under the Republican banner. Governor Dewey has definitely and clearly raised the issue, and in so doing has created an opportunity for the party to shake off "me-too-ism" wherever it has appeared. If then the Democrats could find a way to separate their sheep from their goats, it might be pos-

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Orthodox Investing Methods Are Out-the-Window

By MAJOR L. L. B. ANGAS

Market analyst maintains the more one now follows orthodox market precepts—such as business trends, earnings and asset tests—the greater are one's losses. Says it is now time for market followers to find some new-fangled unorthodox approach. Declares practice of cyclical concept for timing market has been rendered obsolete by government intervention and public's out-anticipating of each other. Concludes one must be an economic and psychiatric detective, and buy at the peak of the "anticipatory fear wave."

What, *gentlemen*, is the use of fooling ourselves? Someone or something, apparently unknown, has in the last decade robbed us of all our standard investment signposts and landmarks. You, doubtless, all of you, feel it in your bones. None of the *old accepted rules* for wise behavior seem any longer to hold good. Look for example at the recent let-downs in the practice of orthodox theories.

Major L. L. B. Angas

(1) In the last ten years, for two-thirds of the time, stocks have moved in the opposite direction to trade and profits. *So what is the use of earnings statistics, or the accurate forecasting of profits?*

(2) The top in stocks came (in 1946) two years before the top in trade (1948). *So what is the use of business forecasting?*

(3) Despite rising earnings (often up 40%), many stocks have in the last two years slumped inversely (sometimes 40%)! *What is the use of economics? You can be right about trade, but wrong on stocks.*

(4) *Book values and assets* are no longer a sound statistical guide: —General Motors (price $60, book value $28); General Electric $36 (book value $16); U. S. Steel $71 (book value $150); Illinois Central $23 (book value $195); Radio $11 (book value $1.46); Western Union $15 (book value $129). *Nominal assets and net worth are no guide whatsoever! Nor are the current replacement-costs of plant.*

(5) Neither net *quick assets* nor *forward orders* seem to help. *What is the use of being an accountant?*

(6) *Monetary economics* have also let us down. Stocks do not move either with the quantity of money; or rates of interest; or money saved on the sidelines! Nor with gold supplies; nor with the budget. *What is the use of monetary theory?*

All of our most revered signposts have been stolen or puckishly turned to point in the wrong way. To do what was "orthodox" has proved most costly. *What is the use of "studying the record" when stocks take no notice and move incoherently?*

Indeed the Stock Exchange Committee seems out of step (out of date) when it continues to advise a now utterly frantic public to "study the record," and to "know your company," and to "investigate and then invest."

The more you obey these orthodox precepts, the greater seem to grow your losses. One seems to be punished for being "conservative" and for following respectable (though apparently outworn) shibboleths.

Our financial world is in utter chaos. *None of our old rules seem to hold good!*

Something Peculiar Going On

Something peculiar is going on somewhere. Yet nobody seems to understand quite what. The popular habit of vaguely blaming "the dislocation caused by the war" is merely a convenient excuse for our obvious collective ignorance. There is clearly something brewing much more fundamental than that. To blame the war is weakly to shirk the whole real question.

Actually it is we ourselves who have changed—and who, by our curious mental changes, are rapidly changing our economy. *The alert investor has got to keep pace. Time marches on . . . at a gallop.*

Investment history seems to suggest that, every two or three decades, orthodox investment theory also seems to change.

Fifty years ago the banking panic in England in 1893 suggested the wisdom of spreading one's investments internationally especially favoring young growing countries.

Fifteen years later, around 1907 numerous defaults upset this theory.

People, it is true, continued to "diversity" and spread their eggs in different industries (the strongest).

Later came the craze for romantic "growing" industries—the prices of whose stocks reached dizzy levels.

Then (in the Twenties) came the theory (my beloved theory) of the alternating Business Cycle, and the Semi-Cyclical switch from bonds to common stocks. This has now become the fashion of the day. One sells in the booms—to re-buy in the panics. Tinkers tailors and soldiers do it. Everyone now knows the secret for success.

Conclusion:—It takes the public ten years (a) to realize that its accepted orthodox theories of investment are unprofitable; and (b) another ten years for it to learn some new-fangled unorthodox approach—which in its turn also later becomes orthodox, and unprofitable.

Too much company for an investment theory automatically makes that theory dangerous! You have got to have someone on whom to unload (or to buy from at the bottom); for if all try at once, most must miss the bus, for only a fraction can be successful. You have got to out-cycle the other cyclists, and pre-forecast all other wise forecasters.

Market Two Years Ahead of Trade

This is the stage now reached today. The market moves (apparently) two years in advance of trade! (At least, it did in 1946!)

Meanwhile politicians have learned just as much about the business cycle as have erudite investors. They plan artificially to iron out—and thus shorten—the "natural" booms and slumps. The result may be to reduce each leg of each swing from around four years down to two, or thereabouts.

Observation:—The elected politician (whose tenure depends on continued prosperity is—despite his verbal outbursts against profits) is the natural friend of the bull, and the mortal enemy of the bear (in early recessions).

Paradox:—Thus if future cycles are now to last only two years and if smart discounters are to forecast them two years ahead the tops in stocks may merge with the bottoms of trade, and the tops in trade coincide with the bottoms in stocks! Competition to buy foresightedly in incipient slumps, may make stocks boom when trade first starts slumping.

Indeed the arrival of a mild slump in trade may make the majority of investors believe that the slump will quickly induce self-interested politicians to turn on the gas and make trade revive. Being now "super" cyclical theorists, investors will super-discount the future—and probably stage their booms during slumps . . . just as in 1946 they crazily (not a bit of it!) staged a slump in a boom.

This perhaps is the modern "logic" of our only apparently illogical market.

In all your forecasting realize this:—The danger of the investment ice increases pro rata with the number of skaters.

Majority opinions are bound to prove wrong (in finance) because too much company *automatically* makes both sound buying and sound selling *mathematically* impossible!

The Death of a Theory

We live in a world of perpetual change, and in order to survive financially one must adjust oneself harmoniously—not too fast, nor too slowly—to the ever-changing economic environment.

No quotes: No phones: No Cyclical Theory—Nearly 20 years ago I wrote an eccentric unorthodox book, which was then a best seller entitled *"Investment For Appreciation."* It was based on the then more or less novel philosophy of investing (gambling) for cyclical profit. It presumed to predict the "natural" business cycle—as analyzed first by the great Wesley Mitchell of Columbia University and by Sir William Beveridge in his book "Unemployment."

This novel and then unorthodox "positivist" theory was totally opposed to the preceding popular "agnostic" theory of (a) geographical distribution in different countries, (b) similar dispersion among different industries, and (c) spreading part in bonds and part in common stocks.

The Archaic "Tortoise" Theory of Investment (Agnostic Dispersion)—Without much pretense of knowing what would happen in any one country or industry or company, one spread one's risks, one diversified widely, and afterwards hoped for the best. One invested primarily for annual income; one stuck oneself with one's chosen stock; one held forever; one had no telephone; one knew not the stock market; and one did not watch prices. Those were the

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Why More Monetary and Credit Controls Are Needed

By THOMAS B. McCABE*

Chairman, Board of Governors of the Federal Reserve System

Though acknowledging reappearance of buyers' market, Federal Reserve Chairman urges additional powers to curb credit as security against renewal of price spiraling. Says Federal Reserve should be equipped to prevent deflation as well as inflation, and contends current inflation may be merely interrupted rather than ended. Upholds support of government bond market and asserts heart of credit control problem is in higher bank reserves. Requests Federal Reserve be given power to require supplementary reserves for all banks, and defends curbs on instalment buying.

Inasmuch as I have just returned from an 8,000-mile trip on which I visited the offices of the System in Seattle, Portland, San Francisco, Los Angeles, El Paso, Dallas, and Houston, it may be of interest to this Committee if I preface what I have to say on credit policy by summarizing the impressions I brought back from this trip.

Thomas B. McCabe

You are aware, I think, of the unique nature of this Reserve System, with its 12 Banks and their 24 branches throughout this country, a system tailor made for the economic expansion of our country. I have often referred to it as a great pyramid with its base in the grass roots of our economy and its apex in the Board of Governors. The breadth and strength is in its base, with the member banks and the Reserve Banks as elevations in the slope toward the top. There are more than 250 directors, who serve without compensation and represent not only banking but most of the widely diversified industrial, commercial, agricultural, educational and other occupations of this country. I submit here a list of the directors and their business or professional affiliations.

The Board here in Washington has the very great advantage of close contact with the vast fabric of the entire economy, by direct communication with these men, with the presidents, other officers and staffs of the 36 System offices, through periodic meetings with the presidents, with the chairmen of the Banks, with the Federal Advisory Council consisting of representative bankers from each Federal Reserve district, and through frequent System staff meetings. The System has constantly available current information, factual and statistical, drawn from this great network as well as from many other sources. This is in addition to the vast masses of economic data regularly compiled and analyzed by the Board staff. I am sure that all members of the Board in Washington feel as I do, that the accumulation of facts, figures, as well as opinions, which we are thus able to assemble is invaluable. It is supplemented from time to time by visits such as the one I have just made, which gave me an opportunity for frank, face-to-face discussions with informed men in business, banking, agriculture, and the many different interests linked together in this Reserve System. Since I took office less than a year ago I have visited 10 Federal Reserve Banks and seven of their branches, primarily for this purpose. In addition I have have talked in different cities with scores of business and professional men not directly connected with the Federal Reserve.

*Statement of Chairman McCabe before the Joint Congressional Committee on the Economic Report, Washington, D. C., Feb. 14, 1949.

Reappearance of Buyers' Market

Partly because of the shift in emphasis brought about by reappearance of conditions of a buyers' market since my previous trips, I found businessmen more alert and sensitive to the major external influences — international, legislative, and monetary — which bear upon the activity, profitability and soundness of the enterprises with which they are connected. For instance, most all of them, when commenting on business prospects, spoke about the dangers in the international situation, the implications of a Federal surplus or deficit, their concern about future Congressional legislation, and the importance of credit and monetary policies.

I found a very general opinion of optimism that we are in the midst of a healthy leveling off adjustment and that the inflation may have run its course. Quite naturally those engaged in agriculture or the manufacture of items which have suffered the greatest price decline were not happy about their positions in relation to other producers whose prices have not declined and in some instances have risen. It is the rapid changes in price relationship in the over-all picture that causes concern to so many people. I found few who excluded the possibility of a renewal of inflation. Among factors mentioned that might bring this about were (1) deficit financing, (2) reappearance of critical shortages, (3) further substantial wage increases, (4) excessive spending by State and local governments, (5) resumption of rapid credit expansion and if expenditures for military and foreign aid, by local and State governments, and by industries and consumers, were to increase.

I have found an increasingly better understanding and appre-

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The State of the Federal Finances

By HON. JOHN W. SNYDER*

Secretary of the Treasury

Asserting objectives of Federal finance are to attain excess of Treasury revenues over expenditures and, at same time, manage public debt so as to assure confidence in government credit and promote economic stability, Treasury Secretary approves pegging of Government bonds and using fiscal policy as stabilizer of nation's economy. Points out probable 1949 and 1950 budget deficits are hidden by Treasury cash operating surplus, and urges increased taxes to balance budget and reduce debt. Notes reduction in government bondholdings of insurance and savings institutions, but denies expansion in Federal Reserve holdings of U. S. bonds.

As you know, the Secretary of the Treasury since the creation of the Department, has been submitting to the Congress at its opening session each year an annual report on the state of the finances of the Federal Government for the preceding fiscal year. I submitted such a report for the fiscal year 1948 a few weeks ago. I should like at this time to present what might be termed an interim report, and to discuss in some detail the outlook for the Federal fiscal position for the calendar year 1949.

John W. Snyder

In the 2½ years that I have been in the Treasury, my first objective has been the sound financial position of the U. S. Government. This period has been a particularly critical one in our economic life. It has covered in major part the reconversion to a peacetime economy, the restocking of war-depleted inventories, the easing of accumulated shortages, and, to a considerable extent, the transition back to an economy of buyers' markets and normal competition. The speed of reconversion is a tribute to American management, technical skill and good will on the part of labor, management, and the consuming public.

The contrast with the experiences after World War I is sharp. That war was followed by a period of rapid inflation, speculation in commodities and inventories, followed by a sharp crisis and depression. The collapse of the speculative boom after World War I also broke the market for government bonds, and in this way helped to undermine confidence in the stability of our economy.

This time, we have been able to avoid these disasters. Our Nation today, is in a far stronger financial position. There is no evidence of more than normal speculative holdings of commodities. In fact, speculation recently, both in commodities and in the stock market, has not been cause for concern. Inventories in most lines have been kept low by cautious inventory policies, and by continuing shortages of many types of goods.

Must Have Confidence in Government Credit

Economic stability at the present high levels of employment and production depends to a great degree on continued confidence in the government's credit.

The importance of confidence in the financial soundness of national governments, as a powerful economic factor, is clearly evident among the countries of the world today, when even moderate differences in national credit confidence are plainly reflected in differences in the rate of economic progress.

The objective of sustaining the sound financial position of the United States Government has involved two separate lines of action. The first has been to develop a sound fiscal policy, which must be based on a revenue system that will not only meet the cost of prescribed government functions, but which will yield a surplus for a gradual retirement of the public debt.

The second line of action has been to manage our public debt in such a way as not only to assure confidence in the government's credit, but to promote economic stability.

The accumulation of a large public debt is inevitable in war time and the cost of the last war was so great that the public debt of the United States reached unprecedented levels. Fortunately, the economy of this country expanded during the war period so that this huge public debt did not constitute too great a burden on the national income of the people. Nevertheless it represents a serious annual cost, and the existence of a large debt requires careful management so that it can contribute to economic stability rather than stimulate speculation on the one hand, or precipitate financial stringency on the other.

When I came to the Treasury in June, 1946, I felt that stability in the markets for government securities would encourage business confidence and would aid materially in promoting our industrial development.

Therefore, in cooperation with the Federal Reserve System, the Treasury has sought to maintain the stability of the bond market in both directions. It has been our objective to keep bond prices from going up too rapidly or going down too sharply. In the Spring of 1947, we took steps to arrest a boom in government bonds When conditions were reversed and selling pressure on the government bond market developed, we changed our practice and purchased bonds. In recent months, there has again been upward pressure on the bond market and we are again selling to stabilize prices. Such actions are important not merely from the standpoint of government finance and role of government debt in the monetary system, they are important for the whole level of the security markets, since the prices of other bonds are, to a large degree, influenced by the prices of United States securities.

Fiscal Policy as a Stabilizer

Our aim has been to use fiscal policy as a stabilizer to the economy of the nation. While this is important at all times it is imperative at the present time when the United States is undertaking such an important role in promoting international economic cooperation and reconstruction.

The law vests responsibility for the management of the public debt in the Secretary of the Treasury, who must, with the approval of the President, make the decisions of policy involved. Therefore, I wish to discuss the Treasury's debt policy—particularly the budget position of the government as it affects the cash position of the Treasury, and the effect of our policy actions on the various classes of investors. To facilitate the presentation, there is a booklet of charts to which I will refer from time to time to make some of the points clearer.

The basic factor influencing the Treasury's financing outlook is the budget picture. As you know, the budget forecasts a deficit for 1949 and 1950, despite the fact that economic activity is high and is likely to continue so for some time.

Expenditures reached a peak of $99 billion for 1945, dropped to a low of $34 billion in 1948, and are estimated in the President's budget at $40.2 billion for 1949 and $41.9 billion for 1950.

Receipts rose to a peak of $45 billion in 1945, and are estimated at $39.6 billion for 1949 and $41 billion for 1950. Both the receipts and expenditure figures are on the new basis of Federal financial reporting, whereby tax refunds are deducted from the total revenues during the year, instead of being included in the expenditure totals.

The budget surplus or deficit of the Federal Government is represented by the difference between the receipt and the expenditure figures. As you know, a budget deficit was incurred during each year from 1931 up through 1946. In 1947, there was a surplus of three-quarters of a billion dollars. In 1948, there was a surplus of over $8 billion. The President's budget indicates that, because of tax reduction and in the absence of new tax legislation, deficits will occur in both 1949 and 1950—in the amounts of approximately $600 million and $900 million, respectively.

More Taxes Needed

The President said in his Budget Message that it was not sound public policy for the government to operate at a deficit in times of high prosperity. I have, as you know, always taken this view; and I feel that I cannot emphasize its importance too strongly. It is vitally important that the Federal Government have a substantial surplus in periods of prosperity to permit a reduction in the public debt. I feel it to be essential that a tax program, as suggested by the President, be enacted by the Congress as soon as possible.

The development of tax legislation, as you know, is within the jurisdiction of the House Ways and Means Committee and the Senate Finance Committee. The Treasury has been working with these committees. The objective of the Administration is to increase revenues by $4 billion; and the need for these additional revenues for the Federal Government is imperative. We must have a surplus during times of prosperity with which to reduce the debt; for if we do not, we shall never be able to reduce the debt in the manner which I feel is necessary and desirable.

In considering the Treasury's financing outlook, it is necessary to examine the budget figures with a view toward determining their effect on the Treasury's cash balance. The Treasury cash balance is not only affected by the budget surplus or deficit, but also by aditional items which bring cash into the Treasury. The cash operating surplus is typically higher than the budget surplus. This is primarily because of the money flowing into trust accounts which is then invested in government securities.

The cash operating surplus stood at $6.7 billion in 1947 and $8.9 billion in 1948. It will drop to $2.8 billion in 1949, and to $1.5 billion in 1950. There are a number of items in the reconciliation between the budget surplus and the cash operating surplus for fiscal years 1947 to 1950.

The most important item [in the cash operating surplus] for 1949 and 1950 is "trust fund investments." This represents the money flowing into the trust funds. The Treasury invests this money in Government securities. The amount involved is approximately $3 billion for the fiscal years 1947, 1948, and 1949.

For 1950, the figure is $2 billion. It would have been higher except for the fact that there is likely to be a large outflow during the fiscal year 1950 from one of the trust funds, the National Service Life Insurance Fund. This is a result of a cash dividend of about $2 billion to be paid to veterans.

Among the other reconciliation items, are the savings bond interest accruals, which are a budget expenditure but which require cash from the Treasury only when savings bonds are redeemed for cash, or mature.

Also in the reconciliation are items referring to the notes issued to the Monetary Fund and International Bank, and the bonds issued in connection with the Armed Forces Leave Act. In both cases, the items were budget charges when the notes and bonds were issued. They affect the cash balance only on occasion of their redemption. There were large redemptions in 1948. Redemptions in 1949 and 1950 are expected to be relatively small.

There are some other minor items in reconciling the two concepts; but I have discussed the principal ones. The net of the situation is that there will be a cash surplus during the fiscal years 1949 and 1950, nothwithstanding the fact that there is a budget deficit during those years.

This net addition to cash will not permit us, however, actually to reduce the public debt—which, as I mentioned a few minutes ago, is of most importance at this time. This cash will represent increases in the Government's liabilities, on one account or another. That is, we issue public debt obligations to our trust funds when money is

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*Statement of Secretary Snyder before the Joint Congressional Committee on the Economic Report, Washington, D. C., Feb. 10, 1949.

Schram Announces NYSE Advertising Campaign

In annual report to members he deplores current lack of interest in ownership of corporate shares. Reports net loss of $435,597 for 1948, due largely to new policy of spreading listing fees over period of years.

In releasing his annual report to members, Emil Schram, President of the New York Stock Exchange, announced a net loss on operations in 1948 amounting to $435,597 compared with a net loss of $116,171 in the previous year. The increase in the deficit, Mr. Schram explained, was caused mainly by a change in policy of crediting income from listing fees. The present policy is to spread these payments over a period of years instead of crediting the full amount to year when paid. As a result, the gross income of the Exchange in 1948 was reported as $6,890,140, a decrease of $171,389 compared with 1947. The listing fees credited in 1948 were $1,139,161, against $1,466,148 in 1947. The purpose of spreading the payments made by listing corporations, Mr. Schram stated, was to assure "a more stable flow of revenue to the Exchange in subsequent years."

Emil Schram

Mr. Schram in announcing the plan for a national advertising campaign to create more interest in listed stocks stated:

"It is a disturbing fact that under the conditions of our postwar economy, the ownership of shares in industry does not seem to have the attractiveness to most Americans that it should have.

"The weakness does not lie in lack of savings, as there are ample unemployed funds to produce an equity market of adequate proportions to finance all the needs of industry. Part of the weakness lies in the lack of confidence in equities on the part of a great many people. This would not be a matter of national consequence but for the fact that the American economic system is built upon private investment and revolves upon the assumption that a sound proportion of equity capital will be maintained.

"Our people have come to take for granted that industry can give them a higher standard of living year after year; that each year its productivity can increase through better tools and better equipment, and that this improvement can be translated into better living.

"Without the participation of the investor, this continuing betterment is, of course, impossible. . . . Consequently, the time has come for Americans to do a new kind of thinking about the causes of American industrial production which now supports them and contributes substantially to the support of the civilized world. The time is here for the majority to understand the process of business expansion and to evaluate the conditions that motivate it so that new national policies designed to foster progress will bear the approval of the majority.

"We believe the time is here to interest millions of people in the satisfaction inherent in owning a part of industry and we hope to stimulate this kind of thinking in a series of advertisements to appear in national magazines and newspapers."

Observations . . . .

By A. WILFRED MAY

THE HUMAN ELEMENT IN BUYING POWER
— A Two-Way Stock Market Factor —

Particularly true now is the stricture laid down by Major Angas elsewhere in this issue that the timer of stock market movements must primarily be a Sherlock Holmes operating as a detective in the psychiatric as well as the economic spheres.


A. Wilfred May

Apart from the growing tendency of "the crowd" to concentrate on trying to outanticipate the rest of "the mob"—itself a questionable investment (?) process—is its return in this bear period to the proclivity of chasing the ticker with conforming interpretations of the news.

Exemplifying such rationalization-after-the-fact is the great emphasis now being laid on the deteriorated demand elements in the supply-and-demand equation in the common stock picture. This follows the habit of market observers and participants ever since the 1920s of recurrently proclaiming during bull markets the dearth of available stocks and over-supply of money, and conversely in bear periods (as now) the inadequacy of investible funds.

Surely the writer would be the last one to deny the existence of the paralyzing inroads on the traditional investors' available capital of taxation and other government "interventions." But he would offer as a cause for reflection the community's opinion reversals—**always after the market event**—before day's great emphasis on the markets' supposed demand and supply element.

New Era "Scarcity Value"

In the late 1920s one of the chief bull arguments in support of the fantastically rising markets, advanced alike in economic treatise, board room, golf club locker, and barber shop, was the alleged great *scarcity value* of the stocks being gobbled up at 200 times earnings. There could never be enough good equities to supply the permanent New Era demand, it was then proclaimed.

"Surplus"

During the aftermath of "1929" and the extinction of this "insatiable" demand along with the $12 billion of broker loans from which it was created, by 1932 that demand had become recognized as having been somewhat fictitious and not-so-"insatiable." Midst the popping-off of 15,000 of the nation's banks before the New Deal's revival, the demand for securities faded away. By March 3, 1933, when all the country's depositors were barred from even entering their institutions' buildings, the investor's frame of mind was typically portrayed in the rhetorical question "who will ever bother to spend his money for common stocks when a man can be glad he's eating?"

"Scarcity" Again

But — immediately thereafter the market entered into one of its greatest rises in history, prices quadrupling during the next four year bull market. By 1937 the excited speculative public to the tune of 3-million-share days raised equity share prices to 40 times their upper-cycle earnings. The market rise far outran business improvement; in fact, during the first quarter of 1936, while the market was rising by 8%, production indexes were actually falling by 27%.

The explanation given for that market boom was the excess of money-seeking investment over new offerings of securities; with the large quantity of investment funds having been made available in the form of increased bank deposits resulting from the government's expansionary borrowing and spending policies. The simple credo was that as there were insufficient securities to make use of the funds, they simply circulated around Wall Street raising the prices of those that did exist.

But this favorable "sellers' market" situation for the available supply of securities was perversely followed by another market decline, which between November 1936 and March 1938 entailed a drop in the D-J Industrial Average from 185 to 99. **And that precipitious decline occurred during an actual rise in buying power, as reflected in the statistics of demand deposits-plus-currency outside the banks.**

Money Up—Price Down

Also showing the same inverse correlation between supply-and-demand and price:—between 1929 and 1938 stock price averages fell by two-thirds, but concurrently demand deposits and currency (market buying-power) showed a net *rise* of 14% during the period.

And in the interval between 1937 and 1942 a further swelling of currency and deposits by 40% resulted not in a stock rise, but actually in a market fall of almost 50%.

Likewise, public fear of stock scarcity in relation to the swollen and "inflated" money supply was again widely voiced in 1945 after three years of bull market (and critically commented on by the writer in this vein). Yet—stocks thereafter suffered a precipitous decline of 25%, into a trough in which they have floundered ever since. But the demand as reflected in our deposit-currency figure during this period from June 1946 to the present, has *risen* further, from $105 billion to $111 billion.

The complete answer to the current emasculation-of-investing-capital thesis, this writer does not presume to know. But he would offer as additional conflicting evidence the $12 billion of public financing (other than private placements) consummated during the past three years, representing over twice the sales during the three years preceding the War.

* * *

Of this capital financing no less than $1.9 billion has been in the form of common stock, compared with merely $580 million so raised in the three prewar years 1937-39.

Also casting doubt on the alleged disappearance of an equity market are the $911 million of open-end mutual funds sold directly to the public in the past three years as well as the plethora of funds pressing for realty investment.

* * *

A Matter of Mental Earmarking

From the above-cited reversals of monetary-cause and market-effect, one must conclude that the determining influence on the effective demand for securities is the *human activation* of the available funds. Short of this the effective demand may be conceived of merely as consisting of individuals' *mental earmarking* of their savings for securities purchasing.

In any event, the investor should desist from embracing the supposed supply-and-demand element as an over-simplified single-cause explanation of stock market movements. It must be realized that just as with other commodities, the amount of available purchasing power in relation to the supply is distorted in both directions by the public to explain price movements after they have taken place.

Urban Alexander Co. Is Merging With Lyons

LOUISVILLE, KY.—The investment firm of Urban J. Alexander & Co., Inc., has been absorbed by W. L. Lyons & Co., 235 South Fifth Street, members of the New York Stock Exchange. Urban J. Alexander and Edward L. Birchler will be associated with the Louisville office of W. L. Lyons & Co. Frank M. Bush will represent the Lyons firm in Paducah.



Urban J. Alexander Edward L. Birchler

Herbert B. Paquet to Open Own Inv. Firm

BOSTON, MASS.—Herbert B. Paquet will shortly open offices to engage in a securities business He was formerly Vice-President of Trusteed Funds, Inc.

Casebolt With Davies & Mejia

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF.—Bernard Casebolt has become associated with Davies & Mejia, Russ Building, members of the New York and San Francisco Stock Exchanges. He was formerly with Wilson, Johnson & Higgins and Denault & Co.

The State of Trade and Industry

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

Notwithstanding a slight falling off in total industrial output for the country in the previous week, production moderately surpassed that of the comparable period one year ago.

For the week ended Jan. 29 it was found that continued claims for unemployment insurance were again on the increase, rising 2% while initial claims continued to recede, falling about 4% for the latest week.

This was the third consecutive week in which initial claims declined. They were, however, 19% higher than last year with continued claims about 68% above those of a year ago.

* * *

Final tabulations show 1948 U. S. factory sales of motor vehicles reached a total of 5,285,425 units, it was announced on Monday of this week by the Automobile Manufacturers Association.

The second highest total in the industry's history, it was exceeded only by 1929, when factory sales amounted to 5,358,420 motor vehicles.

Truck producers established an all-time record in 1948, with factory sales of 1,363,856 units, according to the AMA. Total output of passenger cars for 1948 reached 3,909,270 units; motor buses, 12,299 units.

Although 1948 factory sales exceeded those of 1947 by 10%, exports decreased nearly 15%. In 1948, 436,217 motor vehicles were exported, as compared with 512,333 units in the preceding year. Exports in 1948 accounted for only 8% of total output.

* * *

The change from a seller's to a buyer's market can be essentially a healthy development for chemical, as well as other industries, according to a current issue of "Chemical Engineering," a McGraw-Hill publication.

"A buyer's market is but a challenge for more efficient and economical production and distribution," says the magazine, adding:

"And that, in the final analysis, is the only sound basis for progress in industry and profession."

The publication notes that it is faulty reasoning to view the transition period apprehensively and conclude that the end of good times is near.

"How wrong we are in that conclusion is evident from some of the wholesome changes that have already occurred in tires, textiles and plastics, to mention but a few products of process industries," the article observes. "Here lower prices have served to stimulate demand and bring back a balance with efficient production."

* * *

Pressure for mandatory government controls over distribution of steel and other materials that have been in short supply is noticeably off as soft spots in the economy show a tendency to fan out, states "Steel Magazine," in a summary of latest news developments in the metalworking industry. However, voluntary steel allocations authority has been extended through September so that well over 500,000 tons monthly will continue to move into consumption under preference orders. Beyond that date the fate of allocations presents a question mark. At the moment, steel is the only major material under consideration for allocation extension, though a study also is being made of the aluminum supply situation.

* * *

Despite unfavorable weather in many parts of the nation, total retail dollar volume increased slightly in the past week. Consumer buying was approximately even with that of the corresponding week last year. Most consumers continued to be selective as they responded to promotional events.

Total wholesale dollar value last week was approximately equal with that of the previous week and very slightly above the level of the similar week a year ago. Spring bookings increased in volume. As in recent weeks, collections were not as prompt as they were a year ago.

STEEL OUTPUT AGAIN SCHEDULED AT SLIGHTLY LOWER RATE FOR WEEK

Record-breaking steel production continues to make news this week. For the fifth consecutive week the operating rate has been at 100% of rated capacity or more and equivalent to an annual rate of more than 97,000,000 tons, according to "The Iron Age," national metalworking weekly, in its current review of the steel trade.

Since the first of the year the operating rate has not been below 98% of rated capacity with all-time weekly production records established only to be broken on following weeks. The month of January was an all-time high, too, of more than 8,000,000 tons of ingots and steel for castings. This week's operating rate of 100% of capacity indicates that the first quarter will probably also be an all-time record for production of steel, states this steel trade authority.

Every week the industry continues this tremendous production

(Continued on page 32)

Mixed Trends in the Economy

By LEON H. KEYSERLING*

Vice Chairman, Council of Economic Advisers

Stressing need of cooperation among all economic groups and denying lack of sympathy toward American business, President's economic expert states there is still need to cope with inflationary forces despite downward trend of some prices. Does not look for immediate depression but sees factors which threaten maintenance of economic stability and growth and indicates another big depression might cost nation $800 billion. Lists as "emerging maladjustments" (1) high cost of living in relation to personal incomes; (2) growing disparity between industrial and agricultural sectors; (3) continuing price inflation in certain key industrial areas; and (4) distortions in relation between business income and consumer income.

I deeply appreciate your invitation to appear at these hearings, through which representatives of the Congress and of the Executive Branch undertake a legally-prescribed process of cooperation under the Employment Act of 1946. In this process, policies vitally affecting our domestic economy are suggested, carefully sifted, and then adopted or rejected depending upon the degree of merit which they seem to contain. At the outset, let me assure you of the keen realization of the membership of the Council of Economic Advisers that the role of the economist is only to suggest policies, because he has some tools suited to that purpose. It is not his function to decide policies, because the people have not entrusted him with that responsibility, and because such decisions involve a broader perspective and a wider variety of measurements than are confined within the tool chest of the economist. If at any point in my testimony I do not recognize this line of demarcation, the error on my part will be unintentional and I ask your tolerance in advance.

Leon H. Keyserling

To succeed fully in the task before us, it is essential that everyone, everywhere, and particularly every segment of the businesss community, appreciate the spirit in which this task is being undertaken. The idea that any responsible person anywhere in our governmental structure should harbor ill-will or show lack of sympathy toward American business and its problems has always seemed to me unthinkable. Yet we know that this idea sometimes gains at least a partial currency. The Employment Act of 1946 was in itself a repudiation of this idea. It was written, and I know it is being administered, by men who know that our economy cannot remain prosperous unless business remains prosperous, and that business confidence is a factor in business prosperity. Far-sighted businessmen know that such prosperity cannot be maintained without their help, but they also know that they alone cannot do the whole job. They are aware that, under modern conditions, the role of government is tremendously significant even if not decisive. For this reason, nothing could do more to promote business confidence than the firm assurance that the pledges contained in the Employment Act will have applied to their fulfillment all the wisdom and fairness and sustained determination that our form of government above all others is competent to exert.

The purpose upon which we are mutually embarked is clearly defined by the Act itself. It is to endeavor, through all the resources available to a free people, to make our economy more stable and more secure by protecting it to the best of our ability from the boom and bust cycle. Never was this task more challenging than today. All those who agree even in broad outline with the depiction of our world position and responsibilities, set forth in the Inaugural Address of the President, will gather a new sense of the urgency of increasing the strength and securing the stability of the American economy.

The President has frequently underscored another equally important purpose of the Employment Act. This is to promote the growth and to enlarge the productive prosperity of our economy at the most rapid rate our resources permit consistent with our traditional liberties. The dynamic American economy cannot achieve stability by standing still; and stability would not be worthwhile, even if it could be attained, at that price.

Once we recognize that our task is a two-fold one—stability **plus** steady growth—we shall not be satisfied with anyone's easy assurance that "the boom is leveling off of its own accord." We shall instead concern ourselves immediately with these further questions: Is the boom sloughing off the dangerous ingredients of inflation so that we may achieve continuous maximum employment through the full absorption of a growing labor force and continuous maximum production through growth in our national output from year to year? Or is the boom going to "level off" in the traditional fashion, so that constant instead of growing amounts of employment and production will be only connecting links on the road that leads ultimately to serious unemployment and business decline? These are the key questions upon which we need to centralize attention in the current economic situation, in order to find workable answers before it is too late.

We are now in an excellent position to act to protect and advance our economy before it is too late. Civilian employment, according to the January, 1949 figures, exceeds that of January or February, 1948. Unemployment in January of this year was higher than in January, 1948 but about the same as in February, 1948, and 1948 was considered a boom year. Industrial production is fluctuating within about 1½% of its postwar peak. The latest available figures, some on a quarterly and others on a monthly basis, show consumer incomes, personal incomes, national income and total national output at higher postwar levels than ever before. Total savings are large. The best estimates for business investment this year are very high, and government demands for goods and services will increase considerably throughout the year. Sensational magnification of a few soft spots in the economy, and of some very recent increases of unemployment in some places, should not be permitted to distort judgment or to produce a "fear of psychology." The outlook for 1949 is still bright, and by optimism combined with the right course of action we can keep it bright. But optimism so unquestioning as to produce further neglect, or unwarranted pessimism to the effect that it is too late now to do anything, could convert this bright outlook into a gloomy one within the year.

No one should confuse justifiable confidence with soothing syrup. The increasing concern about whether our prosperity is going to last should be transformed into constructive channels. The fundamental economic situation is still strong, but it is not as strong as it would have been if we had taken positive and sufficent steps a year or more ago to stop the maladjustments being caused by the process of inflation. Fortunately for us, despite this neglect the process of inflation has not yet created a serious downturn of employment or production. But the forces of inflation which operate toward that disastrous ultimate outcome have not disappeared. Under present circumstances, it would be palpably inconsistent to have said last year that inflation was dangerous on the theoretical ground that it might some day lead to extreme declines in employment and production, but to stop worrying about inflation now that we are beginning to see the first concrete although as yet very moderate signs that this theory is valid in fact. Instead, it should be frankly recognized that there are some strong elements of increasing danger in the current economic situation, that a comprehensive program for stabilization and growth is even more needed now than six months ago, and that such a program can still be effectively applied. Such a program must reflect the fact that inflationary forces working their evil but as yet unfulfilled purposes are still vigorous in many parts of the economy and still predominant in some very important parts.

Those who said that inflation "always takes care of itself in time" are not in a position to say "I told you so" now that inflation has barely begun to "take care of itself" by resulting in slight unemployment and slight hesitancy in production. Let us not tarry until inflation "takes care of itself" *fully* by bringing on an actual recession or depression. Then inflation would indeed be over, but in a manner that would leave us with problems infinitely more difficult to surmount.

When I make the statement that there are some elements of increasing danger in the current economic situation, it may prompt the following question from many sources: "If great danger was seen in the situation six months ago, when almost all types of prices were rising and when inflation was general, why do you say that there is an even greater danger in the situation today, when some prices are leveling off or declining and when some soft spots are appearing in the economy?"

The answer to this question seems to me clear. In the first place some very important prices at some very vital spots in the economy have not been leveling off, but instead have continued to rise at an accelerating rate, are now at their all-time peaks, and threaten to rise still further. In fact, according to the latest fig-

(Continued on page 26)

*Part of statement of Dr. Keyserling before the Joint Committee of Congress on the Economic Report, Washington, D. C., Feb. 8, 1949.

From Washington Ahead of the News

By CARLISLE BARGERON

There is seldom a day that our pundits do not point out some example of Russian propaganda. We had better look to what is being done to us by our own propagandists.

On Monday morning of this week, the Washington correspondents, the horde of them along with the radio correspondents, were in an unusual state of excitement. In the afternoon they were to be accorded the unusual privilege of being shown a lot of the Military's scientific secrets, how they had advanced in jet propelled planes, in guided missiles. The youngsters of the newspaper corps told their wives of how glad they were they had gotten into such an interesting game, assured these young wives that although they were not married to men in the higher brackets and therefore, could not sport minks, they were married to men who led fascinating lives. Even the oldsters of the corps, cynical and lazy, felt a rise of their blood pressure as they contemplated what was in store for them.

Carlisle Bargeron

They all had to be carefully screened, of course. Yet it was amazing how many passed the tests. During the forenoon high braid appeared at such convenient places as the National Press Club, the Congressional press galleries and the White House where the journalists could check in and get the coveted badges. The few correspondents who had been inclined to dismiss this army show with a shrug, upon seeing the pomp of the officer giving out the badges, decided they might be missing something and made haste to get checked and sign up.

Well, it was a very worthwhile afternoon for the Military. Military busses carried the journalists to the show and returned them. Jet propelled planes screamed and dived and guided missiles exhibited as much discipline as GI's. The journalists came back wild-eyed, and the radio that night and the following morning papers shouted the miracle of it all.

One radio commentator reported solemnly that the Military needed a 3,000 mile strip of land for further experimentation. This is the approximate distance from New York to California. It wouldn't be long, we were assured, when these guided missiles, equipped with human minds and radar, would reach the moon.

It so happens that the Military appropriation bill is pending and the Big Brass don't intend to stay within Mr. Truman's prescribed $15 billion limit if they can possibly help it.

Your correspondent has read with interest the explanations of why Dwight Eisenhower has been called back. If you would stop to analyze them you would find some amazing things. He has come back, we are told, to bring about unification of the services so that we will be more effectively prepared to meet the enemy. His prestige with the American people will make this accomplishment on his part possible—so the propaganda goes.

This is to say that neither the Secretary of National Defense, Mr. Forrestal, nor the President of the United States, the Commander-in-Chief, the man, incidentally who doesn't need any law to deal with labor in national emergencies because of the inherent power of the Presidency—neither of these men can carry out the law calling for a merger.

It is a fact that they seem not to have been able to do so. But Ike, on account of his great stature, will be able to accomplish it.

Sheer bunk! Eisenhower has been called back as part of the propaganda game to get additional appropriations. It is the plan for him to lend his great build-up to this. He has, bluntly, come back to save the jobs and the rank and the power of the men with whom he was educated and trained, with whom he has served his whole life. Watch and see if I am not right. Watch and see if he doesn't appear before Congress and testify "reluctantly" that the threat to our security is great.

Now, in the name of heaven, against what enemy is it that we are spending $15 billion a year, that we are pressing our scientific genius, that we are calling for universal military service, that enemy against which we are developing supersonic weapons, are discussing an encircling net of radar? If I were to say to you that it is China, you would laugh. You have just as much laugh coming because the enemy is a nation only slightly more civilized, a degree or so, perhaps; is only a degree or so stronger in military might.

There is scarcely a day around here that we do not observe a hack or broken down newspaperman, or a similarly equipped lawyer getting a job back with the Military. They have been unemployed since shortly after V-J Day, or if not unemployed, on much shorter rations than they were accustomed to during the prosperity of the war. Seldom a day passes that some newspaperman or editor hasn't euchred himself a trip by plane to Europe, to Asia, or even just across the country.

The whole conduct of the Brass and what they are getting by with these days is a gigantic racket, the like of which the country has never experienced, even in the Harding days.

With Brainard-Judd Co.

(Special to THE FINANCIAL CHRONICLE)

HARTFORD, CONN.—Helen F. Madden has joined the staff of Brainard-Judd & Co., 75 Pearl Street. Miss Madden was previously with Fahnestock & Co. and Robert C. Buell & Co.

With Coughlin & Co.

(Special to THE FINANCIAL CHRONICLE)

DENVER, COLO.—Charles W. Appel has become affiliated with Coughlin & Co., Security Building. He was formerly with Boettcher & Co.

Cornelius Ryle With Harris, Upham & Co.

(Special to THE FINANCIAL CHRONICLE)

KANSAS CITY, MO.—Cornelius G. Ryle has become associated with Harris, Upham & Co., 912 Baltimore Avenue. Mr. Ryle was formerly Abilene, Tex., Manager for Bush & Co.

Bache Adds Two

(Special to THE FINANCIAL CHRONICLE)

MIAMI, FLA. — Victor Clifton and Fred W. Hager have been added to the staff of Bache & Co., 96 N. E. Second Avenue.

Unstable Money, A Hindrance To Job Making Inventions

By PHILIP M. McKENNA

President, Kennametal, Inc., Latrobe, Pa.

Mr. McKenna, revealing story of his own inventions and their role in industry building, points out how deteriorating value of monetary unit discourages and prevents inventive genius and individual enterprise. Says depreciation of dollar would be stopped by return to gold coin standard.

How do new jobs come up in your town? Somebody has an idea. Very often it's an invention. Sometimes it's what we may call an innovation, that is, trying out something brand new in your town. If the inventor or innovator has enough money on hand, already saved for such an opportunity, he is able to buy what is needed to try it and to pay people to operate the idea to see if it works out and pays off. If he doesn't have enough money himself, to start, he may take in a few partners who have enough money among them which they can risk.

Philip M. McKenna

When Henry Bessemer in 1856 believed it practicable to make steel by blowing air through molten pig iron he had already earned and saved considerable sums of money by use of his earlier invention, notably the manufacture of bronze paint. He says in his Autobiography, "After a full and deliberate consideration of the whole case I resolved to continue my researches until I had made my process a commercial as well as a scientific success . . . there were duties which I owed to myself and to my family. Having thought over thoroughly the risks and powerful opposition I had to fight, I came to the conclusion that it was my duty to settle the sum of £10,000 ($50,000) on my wife, under trustees, so that I could not be ruined absolutely in the further pursuit of my invention or by litigation in defense of my patent rights. After this investment I still had £12,000 ($60,000) to spend in perfecting my process if found necessary. My partner, Mr. Longsdon, who had implicit faith in me, intimated his resolve to go heart and soul with me in bearing his share of the cost."

Within five years of this decision over 1,000 men were employed making Bessemer steel, and in constructing new furnaces and Bessemer converters and within 12 years over 20,000 persons in various companies in England had jobs that hadn't existed before, and steel was plentiful enough to build railways and bridges of high strength compared to wrought iron or to wood.

Now suppose Bessemer and his partner at the start had not had the £12,000 or that it had been in irredeemable paper money deteriorating so that it was only one third enough in buying power in 1856 compared to its value when saved, 10 years previously. Bessemer could not have made the attempt and built his first furnace. I assure you that the big firms represented in the British Iron & Steel Institute were not favorable to this innovation in steelmaking, which rendered their plants obsolete. But by the power of a little real money the inventor with courage can create new industry and give profitable employment to many people.

At the risk of being personal I'll tell you my own story as an inventor. In 1937 at the little town of Latrobe, Pennsylvania, I had made an invention of a new tool material, which I called Kennametal. I believed it would solve the problem of providing America with a hard carbide tool material which would cut steel, in lathes, boring mills and milling machines with three times the speed feasible with then known tool steel. The companies with whom I had worked did not believe my inventions were practical. I saw that the only way they could be brought into use and the benefits proved to business men was to do it myself. I had saved up $71,500 during the many years I had worked as a metallurgist and chemist. I resolved to risk it in trying out my inventions. I rented a storage garage in our small town of 10,000 people and to the amusement of members of the established carbide industry employed 12 men in 1938 and started to make and sell "Kennametal." The first year I did not go "broke" although no profit was made. The second year I had proved the superiority of our steel-cutting metal in so many shops that we had 50 people making tools from it and that year earned enough money to expand operations. By 1940 our sales reached $5,000,000 a year, the cost of cemented hard carbide was reduced to one-third of what it had been when I started and we were employing 300 people who thus had an opportunity to earn and save in our town when they hadn't had these jobs before that.

But if I hadn't had the initial cash to risk, in 1938, or if it had been deteriorating in value as rapidly as money has gone down in buying power recently I shouldn't have been able to make the start. Thus jobs may come from savings in the hands of workers and inventors. A grave danger threatens all who earn and attempt to save today. America is not on the gold standard so far as American citizens within the country are concerned. A thousand dollars saved in 1938 is today worth only about one-third as much in buying power as it was then. Suppose my invention had not been thought of until 1949. Then my $71,500 would have been insufficient to pay the workers to construct my furnaces and equipment. I could not have started with only $18,000 in buying power. The busy workman or inventor hasn't time and knowledge to protect his savings by speculation. He has to save in safe forms, such as savings bank accounts, bonds, or insurance. But so long as the paper dollar is not redeemable by payment into anything of any particular value as exists now and since Mar. 6, 1933 in the U. S. A., economists realize it will continue to deteriorate in the long run, very likely buying only half as much in another ten years. A deteriorating dollar stops the opportunities for new jobs in America. Restoring the gold coin standard of money in the U. S. A. now, with all paper money to be made good on demand into gold at the rate of $35 an ounce, will stop deterioration of the buying power of the dollar. This will restore the confidence of savers and enable inventors and innovators to lay aside money for their useful projects which in turn spell jobs and opportunities for many.

Thomas C. Bowles Opens

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Thomas C. Bowles has opened offices at 8941 Santa Monica Boulevard to engage in the securities business. Mr. Bowles was formerly a partner in MacDonald & Bowles.

J. Earle May Adds

(Special to THE FINANCIAL CHRONICLE)

PALO ALTO, CALIF.—Edward J. Demson has been added to the staff of J. Earle May & Co., 601 Bryant Street.

Sills, Minton Opens New Office in New York

Sills, Minton & Co., Inc., members of the Chicago Stock Exchange, have opened a branch office at 52 Wall Street, New York City, under the direction of Eugene L. De Staebler, who has been elected a Vice-President of the firm. Mr. De Staebler was formerly in the municipal department of F. S. Moseley & Co. with which he had been associated for many years.

With W. E. Hutton & Co.

BOSTON, MASS.—William A. Barron III is with W. E. Hutton & Co., 75 Federal Street.

With Allen & Co.

LAKELAND, FLA.—Frederick W. Stopford is with Allen & Co., 211 East Lemon Street.

With Thomson & McKinnon

MIAMI BEACH, FLA.—Francis M. Brady is with Thomson & McKinnon, 927 Lincoln Road.

Television—The Giant

By RAYMOND C. COSGROVE*

Executive Vice-President, Avco Manufacturing Corporation

Though holding television will not displace radio, Mr. Cosgrove asserts it is growing into one of nation's top industries, and its dollar volume will in next few years far overshadow everything radio has achieved. Says advertisers are flocking into television and predicts 400 video stations by 1953.

Having said that television is not replacing radio, I should like to go into that very important point a little further. Television is perhaps the most interesting, certainly the most significant, and I am sure the most mobile, of the subjects we are talking about today.

R. C. Cosgrove

A few people are flatly saying that television has completely doomed radio. I respect these opinions, but I put them in the same category as those announcing in the past that radio would kill the phonograph, cripple our newspapers, and knock the wind out of motion pictures. Talking pictures, you may recall, were to blight the legitimate theatre. The airplane was to put the railroads out of business. The telegraph was to wither the postal system, and the telephone would obsolete the telegraph. And so it went.

Actually, we know that in every one of these cases the competition of the new service spurred the established one to heights it had never reached before.

There are 75,000,000 radio sets in use in American homes and cars, and anything this big must be something the public deeply wants and needs. Even if a new service were to duplicate it exactly, which television does not, it would stay with us a long time.

Television adds sight to sound —and that certainly gives it a wider scope than radio. But radio does some things well which television cannot do well. Television is a demanding instrument—if you are to enjoy it properly, you must give it your attention. Radio does not ask for attention. You can work, read, play, drive a car and enjoy your radio at the same time.

I should say that 95% of broadcasters and manufacturers interested in both radio and television believe, as we do, that radio definitely will feel the impact of television, but that radio will continue to be an important service.

Broadcasters have expressed their conviction in radio through a most expressive medium—hard cash. The number of radio stations has risen steadily even as television has developed, until 2,600 radio stations are operating at the present time. But even more significant, 3,300 concerns have announced their plans to build radio stations and have obtained FCC permission to do so!

In Avco, we are continuing to strengthen Radio Station WLW at Cincinnati and WINS in New York and, as mentioned, we have contracted to purchase Radio Station WHAS at Louisville.

With respect to manufacturers, I know of no radio producers who are rushing to convert their facilities entirely to television, or who have any plans to do so. Rather, they are working out a balance which puts the emphasis on television, but still maintains a substantial place for radio.

Now, before you begin to suspect that I am a little bearish on television. I want to go on record about this new industry. Television is growing into one of the nation's top ten industries, and its momentous services and its dollar volume of sales in the next few years will far overshadow everything radio has achieved. The whole television picture is developing and expanding so fast that strange things are beginning to happen in certain segments. At the moment, we are seeing the spectacle of considerable price-cutting of receivers at the dealer level, while at the same time television merchandise is in short supply and is among the most sought-after by the public on the market!

This kind of activity is, of course, injurious to everyone, including the dealers who practice it, and I believe that as soon as the smaller marginal dealers learn that television receivers have been standardized and that they can have three or four sets on their floor more than a day or two without panic, this situation will tend to disappear.

We also are seeing manufacturers, full of enthusiasm, racing to put sets with larger and still larger picture tubes on the market, even before their sets with the next smaller size have come off the lines. The current trend is toward the 12- and 16-inch picture tube. The bigger pictures are excellent, of course, but pictures provided by 10-inch tubes are fully adequate for small family groups.

We at Crosley are beginning production of 16-inch receivers, but we are not abandoning the smaller sets in the process, because we know that their prices are more in the range of the thousands who are shopping for television receivers today.

Because of the very physical space required by these large tubes, I do not believe the general trend in direct-view sets will go beyond the 16-inch. We will have still larger pictures, when we want them, at such time as a fully practical projection system is developed.

Television is expanding at a rate equalled by no other major industry in our history. In the year just ended, the industry produced 975,000 television receivers. That was five and one-half times the total in 1947 and 150 times the total in 1946. The postwar total is now about 1,250,000 receivers, and the current monthly rate is 175,000.

During the present year we expect the industry to turn out at least 2,000 000 receivers. This total probably will be higher if we can obtain a substantial increase in output of cathode-ray picture tubes. Production is being limited by a shortage of these key components. Our Crosley Division, for example, now has a production capacity of 20,000 receivers a month, but is actually producing less because sufficient picture tubes are not available. All signs now point to a sizable increase in the supply of these tubes beginning in June or July.

Television Networks Growing

Fifty-six television stations are now operating in 32 cities, an expansion of 500% over the total a year ago.

Intercity television networks today consist of some 5,000 miles of channels, linking 34 stations in 15 major cities from the East Coast to the Mississippi. A little over a year ago, there were just 450 miles of channels, joining three cities — Washington, Philadelphia and New York.

An East Coast network is made up of Boston, New York, Newark, Albany-Schenectady, Philadelphia, Baltimore, Washington and Richmond, Va. A Midwest network includes St. Louis, Chicago, Milwaukee, Toledo, Detroit, Cleveland and Buffalo.

Just one month ago today, a coaxial cable between Cleveland and Philadelphia, passing through Pittsburgh, linked these two systems together. This means that 30% of the nation's population has been brought into a single television pool, in which the same programs can be shown, whether originating in New York, Chicago or elsewhere along the line.

As a result, the program potentialities that have been envisioned for television for years are nearer realization. For example, the Jan. 20 inauguration of President Truman was watched by people as far away as the President's home State of Missouri. More people saw Mr. Truman's inauguration than saw President Lincoln during his entire tenure in the White House.

Actually, this network is simply the nucleus of a nation-wide web that will continue to the West Coast and will spread through the major cities of the Midwest and the South.

In Avco we are building a regional network around Cincinnati. In addition to WLW-T, we will soon be operating stations in Columbus and in Dayton. Our purchase of WHAS in Louisville, if approved by the FCC, will give us a television construction permit there. We have applied for a construction permit in Indianapolis. We envision, in the not too distant future, a spur from the New York to St. Louis cable, coming down through Cleveland, or Toledo which will pass through Columbus and Dayton to feed Cincinnati and these other stations. This will give television homes in this broad area both regional and national network service.

Two years ago, 20 advertisers were sponsoring television time. Today the number is 800. Already an average of 40% of the time of operating stations is sponsored. Three New York stations have successfully gone into day-long programming and we may expect this trend to continue as increased sponsorship makes it possible.

Advertisers are flocking into television, not merely to experiment, but because experience has shown that it is very rapidly growing into an effective and profitable medium. Viewer response to advertised offers on television programs is running as high as 40%, and sponsor identification for regular weekly shows is averaging 70%. These percentages, as you know, are far above corresponding figures for radio or any other advertising medium.

Practically all television stations are operating at a loss, but the most enterprising are moving steadily toward the other side of the ledger. Avco has been making rapid progress with Station WLW-T, and we have found that we are losing less money proportionately than other large television stations on which we have operating figures. However, each of our new stations will have to go through at least a two-year

(Continued on page 32)

*Part of an address by Mr. Cosgrove before the Association of Customers' Brokers, New York City, Feb. 11, 1949.

Dealer-Broker Investment Recommendations and Literature

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

Airlines—Circular with data on **American Overseas Airlines, Continental Airlines, Mid Continent Airlines** and **Delta Airlines**—Schwamm & Co, 50 Broadway, New York 4, N. Y.

Also available is a memorandum on **Maxson Food Systems.**

Bank Stocks — Tabulation on banks of New York City and Westchester, Suffolk and Nassau Counties—Edwin L. Tatro Co., 50 Broadway, New York 4, N. Y.

Dividend Arrears—List of 20 preferred stocks with dividend arrears—A. M. Kidder & Co., 1 Wall Street, New York 5, N. Y.

Equipment Trust Certificates Isued During 1948—Tabulation—Union Securities Corp., 65 Broadway, New York 6, N. Y.

Foreign "Investments" vs. Opportunities at Home—Analysis—Elworthy & Co., 111 Sutter Street, San Francisco 4, Calif.

Natural Gas—Analysis—Fridley & Hess, First National Bank Building, Houston 2, Tex.

New England Municipal Letter —Current developments — First National Bank of Boston, 45 Milk Street, Boston 6, Mass.

New York City Banks—Breakdowns of government bond portfolios and sources of growth income 1948 on 19 New York City Bank Stocks — Laird, Bissell & Meeds, 120 Broadway, New York 5, N. Y.

Preferred Stocks—Data—Bennett & Palmer, 165 Broadway, New York 6, N. Y.

St. Lawrence Seaway & Power Project—Review—James Richardson & Sons, 80 King Street West, Toronto, Ont., Canada, and 367 Main Street, Winnipeg, Man., Canada.

Stock and Curb Exchange Commission Charts—Charts and method of using—Goodbody & Co., 115 Broadway, New York 6, N. Y.

Also available is an analysis of **Baltimore & Ohio** Junior Bond issues and leaflets on **American Radiator, Brooklyn Union Gas, Chicago, Milwaukee, St. Paul & Pacific, Dome Mines, Farnsworth, General Motors, Great Northern** and **U. S. Steel.**

* * *

Amalgamated Sugar Company —New analysis—Edward L. Burton & Company, 160 South Main Street, Salt Lake City 1, Utah.

American Can Co.—Memorandum—G. H. Walker & Co., 1 Wall Street, New York 5, N. Y.

Also available are memoranda on **American Cyanamid Co., American Power & Light Co., American Steel Foundries, Baltimore & Ohio Railroad, Coca-Cola Co., Commercial Credit Co., Continental Can Co., S. H. Kress & Co., Phillips Petroleum Co., Sterling Drug, Inc., Texas Co.** and **Tide Water Associated Oil.**

H. C. Bohack Co., Inc.—Circular —Peter P. McDermott & Co., 44 Wall Street, New York 5, N. Y.

City of West Palm Beach, Fla.—Circular—Allen & Co., 30 Broad Street, New York 4, N. Y.

Cooper-Bessemer Corp.—Analysis of common stock—Hayden, Stone & Co., 25 Broad Street, New York 4, N. Y.

Electric Power & Light Corporation—Discussion of plan for dissolution in "Fortnightly Market and Business Survey"—E. F. Hutton & Co., 61 Broadway, New York 6, N. Y.

In the same issue is a discussion of **Natural Gas Pipe Lines.**

Erie Railroad Co. — Study — Smith, Barney & Co., 14 Wall Street, New York 5, N. Y.

Koppers Co. — Analysis — Bendix, Luitweiler & Co., 52 Wall Street, New York 5, N. Y.

Lindsay Light & Chemical Co.—Analysis—Fahnestock & Co., 65 Broadway, New York 6, N. Y.

Mexican Gulf Sulphur Co.—Analysis—George B. Wallace & Co., 15 William Street, New York 5, N. Y.

Missouri Pacific — Report — Bache & Co., 36 Wall Street, New York 5, N. Y.

New England Public Service Co. —Analysis—Ira Haupt & Co., 111 Broadway, New York 6, N. Y.

Northern States Power—Memorandum—Sutro Bros. & Co., 120 Broadway, New York 5, N. Y.

Pennroad Corp. — Circular — Newburger & Co., 1342 Walnut Street, Philadelphia 7, Pa.

Pennsylvania Dixie Cement Corp. — Memorandum — Walston, Hoffman & Goodwin, 265 Montgomery Street, San Francisco 4, Calif.

Also available is a memorandum on **Pressed Steel Car Co.**

Pinellas County, Fla.—New issue of revenue bonds—Circular—Allen & Company, 30 Broad Street, New York 4, N. Y.

Standard Steel Spring Co.—Analysis—Eastman, Dillon & Co., 15 Broad Street, New York 5, N. Y.

Also available is a bulletin on current developments in **Railroads and Greyhound Corp.**

United Kingdom 4% Funding Loan—Special write-up—Zippin & Co., 208 South La Salle Street, Chicago 4, Ill.

Victor Fuel Co. — Descriptive literature—George Birkins Company, 40 Exchange Place, New York 5, N. Y.

Missouri Brevities

Hussman Refrigerator Co., St. Louis, for the year ended Dec. 31, 1948 reported net earnings of $1,648,654, equal to $4.06 per common share after preferred dividend requirements, which compares with a net of $1,602,516, or $3.99 per common share, for the year preceding. Net sales for 1948 were $15,054,844, against $15,154,856 for 1947. On Dec. 27, 1948, the company purchased 100% of the outstanding capital stock of the Ruddy Freeborn Co., Ltd., of Brantford, Ont., Canada, manufacturers of commercial refrigerators. Working capital at Dec. 31, 1948, was $5,145,881, an increase for the year of $877,703. The ratio of current assets to current liabilities was 4.10-to-1. Net worth increased $892,738 to $6,477,493, equivalent to a book value of $13.77 per share for the 392,706 shares of common stock outstanding at Dec. 31, 1948, compared with $11.28 per share at Dec. 31, 1947, on the lesser number of shares then outstanding.

* * *

Stifel, Nicolaus & Co., Inc., St. Louis, was included in the group of investment bankers who on Jan. 20 publicly offered $10,000,000 Central Illinois Public Service Co. first mortgage bonds, series C, 3⅛%, due Jan. 1, 1979, at 102.375% and accrued interest. Stifel, Nicolaus & Co., Inc., also on the same date, participated in the public offering of $7,500,000 Mississippi Power & Light Co. first mortgage bonds, 3⅛% series due 1979, at 102.06% and accrued interest.

* * *

Mid-Continent Airlines, Inc., on Jan. 20 filed with the SEC a letter of notification covering 13,273 shares of its common stock which are to be offered to its employees at $6 per share, the net proceeds to be used for additional working capital. No underwriting is involved. Employees will have three years to pay for the stock.

* * *

Scherck, Richter Co. of St. Louis, and Martin - Holloway - Belcher of Kansas City on Jan. 26 participated in the public offering of 82,500 shares of common stock (par $10) of Insurance Exchange Building Corp. at $14.75 per share.

* * *

Cook Paint & Varnish Co., Kansas City, for the year ended Nov. 30, 1948, reports a net profit, after income taxes, of $2,165,682, or $9.23 per common share, as compared with $2,857,690, or $12.38 per common share, for the preceding fiscal year. There has been set aside in a sinking fund $45,000 for purchase and retirement of a like amount of prior preference stock, which amount will be retired on March 1, 1949.

Stern Brothers & Co., Stix & Co., Newhard, Cook & Co., Reinholdt & Gardner and Dempsey-Tegeler & Co., were included in the large list of underwriters who on Jan. 18 publicly offered 685,000 shares of Southern Indiana Gas & Electric Co. common stock (no par value) at $19.50 per share.

* * *

The Household Plastics Co., St. Louis, on Jan. 26 filed a letter of notification with the Securities and Exchange Commission covering 11,000 shares of its 6% preferred stock to be offered at par ($25 per share). The net proceeds are to be used for additional working capital and for general corporate purposes. There will be no underwriting.

* * *

Included in the group of underwriters who on Jan. 20 publicly offered 15,815.80 shares of Rohm & Haas Co. 4% cumulative preferred stock, series A, at par ($100 per share) and dividends, were Edward D. Jones & Co., Newhard, Cook & Co., Reinholdt & Gardner, I. M. Simon & Co. and Stern Brothers & Co.

* * *

As a result of negotiations with the officers and directors of Southern Acid and Sulphur Co., Inc., Mathieson Chemical Corp. is contracting to purchase the business and assets of that company. Under terms of the agreement, Mathieson will distribute 265,000 shares of its authorized but unissued common stock to the holders of the 384,000 shares of Southern Acid common stock presently outstanding. The executive offices of the Southern Acid firm are located in St. Louis.

* * *

Participating in the public offering on Jan. 19 of $50,000,000 consolidated mortgage 30-year sinking fund 3% bonds, series K, due Jan. 1, 1979, at 100½ and interest, and 627,960 shares of common stock (no par value) at $32.50 per share, of the Bethlehem Steel Corp., were the following Missouri bankers: Newhard, Cook & Co., Reinholdt & Gardner, I. M. Simon & Co., Smith, Moore & Co. and Stern Brothers & Co.

* * *

Net profit of Illinois Terminal Railroad Co., St. Louis, after charges and Federal income taxes, amounted to $1,399,681, or $2.80 per common share, for the full year 1948, compared with $1,263,689, or $2.52 per common share, for the year 1947. During 1948, the company acquired 300 new box cars, nine Diesel locomotives and one streamline electric passenger train (delivery of the two remaining on order is expected within the next 40 days).

* * *

For the calendar year 1948, Western Auto Supply Co., Kansas City, reports net earnings, after Federal income taxes, of $5,750,418, or $7.65 per share, as compared with $4,205,014, or $5.60 per share, for the year 1947. Net sales for 1948 were $125,987,662, as against $121,395,031 for the previous year.

* * *

Johnson, Stephens & Shinkle Shoe Co., St. Louis, for the fiscal year ended Nov. 30, 1948, reports a consolidated net income, after taxes, of $320,458, or $1.55 per common share, as compared with $420,087, or $2.07 per common share, in the preceding fiscal year. Net sales, excluding inter-company sales were $10,118,694 in the 1948 year, as against $10,716,449 in the preceding 12 months' period.

Halsey, Stuart Group Offers Duke Pow. Bonds

Halsey, Stuart & Co. Inc. and associated underwriters offered publicly Feb. 16, $40,000,000 Duke Power Co. first and refunding mortgage bonds, 2⅞% series due Feb. 1, 1979 at 101.31% and accrued interest. The group was awarded the bonds at competitive sale Feb. 15 on its bid of 100.803.

Net proceeds will be used for the purpose of financing in part the completion of the company's construction program and for the purpose of reimbursing the company's treasury for expenditures in connection with the construction program made subsequent to Aug. 31, 1948 (estimated at approximately $10,550,000 of net additions as at Dec. 31, 1948), including the repayment by the company of any bank borrowings made for the purpose of providing funds necessary for such construction program pending the sale of the new bonds.

General redemption prices for the new bonds are scaled from 104.31% in the 12 months ending Jan. 31, 1950 to 100% in the 12 months ending Jan. 31, 1979. Special redemption prices range from 101.31% in the 12 months ending Jan. 31, 1950 to 100% in the 12 months ending Jan. 31, 1979.

Following the sale, the company's funded debt will comprise the $40,000,000 of new bonds and $40,000,000 first and refunding mortgage bonds, 2.65% series due 1977.

The company's principal business is the production, purchase, transmission, distribution and sale of electric energy in the Piedmont sections of North and South Carolina. It also operates manufactured gas systems serving 15 municipalities, local transportation systems serving 12 municipalities, and water supply systems serving three municipalities. In 1947, electric business accounted for 87.24% of the company's operating revenues.

Investment Salesmanship in 1949

By CHARLES B. ROTH*
Charles B. Roth and Associates
Sales and Public Relations Counselors, Denver, Colo.

Asserting investment salesmanship is touching bottom so far as skill and application is concerned, Mr. Roth urges salesmen to re-learn and repractice old fashioned virtue of hard work.

For close to 10 years investments have practically been selling themselves, with the investment salesman going along for the outing. But as of now that condition has changed, and there will be more and more changes as the months of 1949 unfold themselves, until salesmen will find themselves once more in the middle of what is known as a buyer's market. That is a market in which the buyer toughens up, becomes harder to convince, and says "No" far oftener than "Yes" when the salesman urges him to buy.

Charles B. Roth

A buyer's market sounds pretty harsh to salesmen who are used to the easy and lush conditions which characterize a seller's market, and a good many investment salesmen are pondering their fate even now. Well they might. Many such salesmen are not going to survive. But to a real salesman, to a salesman who has either kept himself tough or who will toughen up, the buyer's market is an opportunity to do his best.

The advent of the buyer's market, of course, is not news. For two years investment men have been expecting it and going through the motions of preparing for it. And it may not have struck us in full force yet. But you may believe the signs that it is now setting in. Its coming poses new problems for every investment salesman, sets up new difficulties, creates new hazards.

The fact is that investment salesmanship in this country today—in common with every other form of salesmanship—is just about touching bottom, so far as skill and application are concerned. American salesmen are soft. They have forgotten how to sell. During the past decade they haven't needed to know how, so a swift process of degeneration set in and ran its course, with the result that salesmen are, well, no salesmen any longer.

To sell investments successfully in 1949, however, every investment salesman is going to have to re-learn and re-practice some age-old selling virtues, if he is going to remain in the investment business.

He is going to have to forget the traditions foisted on him by the lush, easy, lazy days of the past five years. He is going to have to disabuse his mind of his cherished credo which contains such interesting and attractive beliefs as these: "You should not make calls on a prospect before 11 in the morning—he is busy with his mail." "You cannot very well call after four; your prospects quit early." "Do not attempt to call when it is raining—rain dampens enthusiasm, discourages the prospect and he won't buy." "Don't work on Saturday morning—nobody is in on Saturday morning." "It isn't hard work that sells investments — it's contacts." "No man can make more than four calls a day and be at his best, because making sales calls takes a lot out of a salesman."

Those beliefs work very well when buyers are clamoring to buy investments and salesmen can afford to be independent. But now . . .

Now the only solvent for the investment salesmen's problems, as they grow, is an old-fashioned virtue known as work. So the first rule for any investment salesman who wants to make the grade in 1949 is simply this: Work harder; make more calls.

There is nothing new in this doctrine, and there's nothing very attractive in it either, which must account for the fact that the doctrine is so well avoided. But, regardless of conditions, regardless of the time of the day or the month of the year, any investment salesman who will make the calls will make the sales.

One brilliant investment banker, now head of his own firm, went into the business a quarter of a century ago with a good deal against his chances to succeed. To begin with, he had no charm or poise and hadn't even been to an expensive college. He was farm-bred, a stranger in town, so he had no contacts and no uncle with memberships in the exclusive clubs. And, a farmer boy, he was no wizard as a natural-born salesman. Those things he saw, because he was alert. He was looking for some advantage he could call his that would at least give him an even chance with the smarter, better-connected lads who were his competitors on the Street.

He found it. He found it in studying those boys and their working habits. He discovered that the average investment salesman made four calls a day. He told himself he would make twice as many, which would make him and the bright boys about even. But then he decided he didn't want merely to be even—he wanted to be out ahead. He would make 20 calls a day, if it took him 24 hours.

So 20 calls a day he made. He started to work at eight in the morning. He worked till six. Some nights he worked till eight. On many nights he worked till 10. But he worked—that is the main point—he worked.

And the inevitable happened. He began making sales where the other pleasant chaps were making what they called "wonderful contacts." Presently he was outselling the rest of the staff. An assistant salesmanagership was his first step up, then the salesmanagership, then a partnership, and eventually the presidency—all because he worked, worked, worked.

Obviously, a salesman who is well trained, who knows the principles of salesmanship, who will practice scientific methods in his work, will outsell the man who uses rule-of-thumb methods. But the best salesman will fail unless he links up his skill with that solvent of all selling problems—the good old-fashioned work I am recommending here.

If I were to narrow down the rule for investment selling success in 1949 to one simple rule, my rule would be this: Between nine in the morning and five in the evening of every day of the week, either be in the presence of a prospect explaining your investments, or on the way to see a prospect.

That one rule will handle any problems 1949 can throw in the way of an investment salesman.

*A talk by Mr. Roth before a joint meeting of Rocky Mountain Group of Investment Bankers Association and Bond Club of Denver, Denver, Colo., Feb. 15, 1949.

Atomic Energy and Investment Opportunities

By J. H. ALLEN
Special Partner, Cohu & Co.
Members New York Stock Exchange

Asserting there seems little doubt that atomic energy and its many ramifications will play important part in future economy, Mr. Allen analyzes industrial applications of atomic research and corporations which are likely to be its users. Holds most immediate profit possibilities lie in stocks of small concerns supplying atomic materials.

The world stands today on the threshold of the Atomic Age, a new era in which the peacetime blessings of nuclear fission may greatly overshadow the destructive effects of the atom bomb. Progress to date is much more extensive than many realize. The most immediate result so far is a vast potential increase in scientific knowledge, with important implications for industry, medicine and agriculture. Revolutionary changes in the world's economy over a period of years are well within the range of possibility. Atomic power is a long way off. But atomic materials known as "radioactive isotopes" are already commercial realities. These are used as "tracers" by hospital, university and industrial laboratories, including a growing list of oil, steel, machinery, rubber, gasoline, plastics, rayon, chemical and drug manufacturers. A new research tool, much more effective than those now in use, they are rapidly uncovering new information on industrial processes, adding to industry's understanding of natural and chemical reactions and increasing industrial "know-how." Their possibilities in the field of research are almost unlimited.


J. H. Allen

Scope of Program

The atomic industry now consists of 1,270 different projects employing 75,000 people. David Lilienthal, Chairman of the U. S. Atomic Energy Commission, recently summarized the situation by saying, "We are currently engaged in a tremendous undertaking . . . the largest scientific, educational, industrial and weapon-making project in the history of the world." Now in its fifth year, the government's program gains momentum steadily. Expenditures in 1948 totalled approximately $500,000,000, are scheduled to rise to $700,000,000 this year. Contrary to public impression a reasonable portion of this huge sum is directed toward peacetime developments. As an indication of growing interest, it is noteworthy that New York City and Rhode Island will soon include atomic energy courses in their public schools.

In short—there seems little doubt that atomic energy and its many ramifications will play an increasingly important part in the future economy of the country.

The field and its related activities, many in their early stages, include:

(1) Nuclear fission. "Atom splitting" and the production of weapons.

(2) "Tracer" chemistry, a field of unusual promise.

(3) Medical therapy such as the treatment of thyroid cancer.

(4) Benefits to agriculture, principally in fertilizing, plant growth and animal diseases.

(5) Production of uranium and thorium ores, graphite, beryllium, cadmium, bismuth, aluminum, lead, and to a lesser extent, zinc and copper.

(6) Equipment required by atomic energy plants Electro-magnets, valves, precision instruments, control piping, industrial screens, et cetera.

(7) Measuring, analyzing and control devices for industry. Industrial applications, now in their infancy, are expected to increase.

(8) Atomic power for electricity and the propulsion of aircraft and warships, now under study by leading companies.

Tracer Chemistry

The advantages of "tracer" chemistry and "radioisotopes" have been known to scientists for some years. Radioactive materials, however, such as radium, were available only in small quantities at extremely high prices. This situation changed at the end of World War II. The government's atomic plant at Oak Ridge then began releasing a wide variety of radioisotopes at reasonable prices. This is a boon to research and industry, opening up hitherto unexplored fields of science and creating an expanding demand for entirely new types of instruments.

In simple, non-technical language, a "radioisotope" is a radioactive variation of a basic element, an "unstable" form of the element itself. Radioactive carbon, copper, cobalt, sulphur and radiosodium are examples. Their value lies in the fact that they give off characteristic radiations which reveal their location and degree of concentration. Such data are ascertained by means of instruments utilizing Geiger-Müller tubes and electronic devices which count the number of impulses. The radiochemist mixes a radioactive isotope with its ordinary element. This "tags" or labels it, enabling him to "trace" the material through each step of an industrial process or chemical reaction. Using instruments, he can see exactly what happens, no matter how complicated the process may be. Infinitesimal amounts, much smaller than those detectable by ordinary analysis, can be located and measured. The result is a new and far more effective research tool. The American Research & Development Corp. is authority for the statement that this method possesses "a sensitivity several million times greater than conventional laboratory analysis." Using isotopes, industrial laboratories are almost daily uncovering new information of importance. For example, the Shell Oil Co. is analyzing the changes undergone by crude oil in modern oil-cracking processes. Oil problems which could not be solved in any other way are under study. According to Shell, "These experiments will lead to a better understanding of chemical reactions involving petroleum products." The Texas Co. uses radiocarbon to analyze the manufacture of synthetic gasoline from coal and natural gas, to cite only two examples out of many.

Tracer chemistry is in its infancy. Interesting developments lie ahead. Profound changes and rapid progress in new fields as well as old may result.

Industrial Applications

The greatest use for radioisotopes at present is still in research They appear to have a brilliant future, however, in new measuring, analyzing and production-control devices for industry. In the future it is expected isotopes will be at work in factories doing a number of jobs which cannot be done at all at the present time. They will measure thickness, weight and size to a millionth of an inch or gram, reveal the internal condition of equipment such as corrosion within pipes, analyze the quality of products and even control production machinery. They are already providing a source of high-radiation energy requiring no external supply of power.

A partial list of industrial users, together with comments, include:

Industrial Users

Allied Chemical & Dye, American Cyanamid Co., American Scientific Co., American Smelting & Refining, Amperex Elect. Corp., Arthur D. Little, Inc., B. F. Goodrich Co., Bell Telephone Laboratories, Brush Developing Co., Consolidated Engineering Corp., Corning Glass Works, Detroit Edison Co., Distillation Products, Dow Chemical Co., Eastman Kodak Co., E. I. du Pont, Fairchild Engineering Corp., Ford Motor Co., General Aniline Film, General Electric, General Radio Company, Goodyear Tire & Rubber, Gulf Research & Developing Co., Hercules Powder, Houdry Process Corp., Humble Oil & Refining Co., Industrial Radio Laboratories, Merck & Company, Metal Hydrides, Inc., Monsanto Chemical Co., National Research Corp., National Technical Laboratories, North American Phillips, Parke, Davis & Co., Phillips Petroleum Co., Pittsburgh Plate Glass, R. C. A. Laboratories, Raytheon Manufacturing Co., Shell Oil Co., Sinclair Refining Co., Socony-Vacuum, Standard Oil of Indiana, Stuart Oxygen Co., Sun Chemical Corp. Sun Oil Company, Sylvania Elec. Products, The Texas Co., Union Oil Co. of California, U. S. Rubber Co., Vickers, Inc., Westinghouse Electric.

B. F. Goodrich — Uses radiosulfur to anlyze the vulcanization of rubber. This is one of the fundamental problems in the science of rubber and is practically unsolved in the sense that what happens is not now understood. By using radiosulfur it is hoped to determine the disposition of the vulcanizing agent in the final product.

Goodyear Tire & Rubber Co.— The problem of gauging the thickness of extremely thin transparent film has long been a headache in the industry. Mechanical gauges now on the market are difficult to use since the smallest change in pressure gives a false reading. The average thickness of a sheet of pliofilm is about one one-thousandth of an inch. Present gauges read with dubious accuracy to a ten-thousandth of an inch. The new radioactive gauge, using radiocarbon, reads with accuracy to one one-hundred-thousandth of an inch. It is hoped to obtain accuracy to a millionth of an inch. In addition, the radioactive gauge can be used to check thickness continuously as the film comes from the rolls without interrupting production, a big advantage not always possible with mechanical gauges.

Petroleum Industry — The uses of isotopic tracers, both actual and potential, range all the way from surveying the location and quantity of underground materials to the testing of the final product in engine operation. Possibly the oldest application is in oil-well logging. Radio-active materials are lowered into wells along with detection instruments. The isotopes give off radiations which hit the sides and "bounce back" into the instruments. The manner in which materials lining the walls are reflected back reveals valuable information on the underground formations. The Sinclair Oil Co., as well as Shell, uses radiocarbon to determine the mechanisms of catalytic oil cracking. A subsidiary of Gulf Oil uses radiocobalt to determine the settling rate of rust inhibitors and other material added to lubricating oil. The Texas Co. says "Research with radiocarbon may result in increased production of synthetic petroleum."

Rayon Industry—Lubricants are used on textile materials as an aid in spinning and weaving. In one case a rayon manufacturer desired to determine the distribution of lubricant on rayon yarn. Radiosodium was used successfully for this purpose, measuring the coating on thread so light it weighs less than an ounce to a mile.

Paper Industry—An instrument using isotopes as a source of high-energy radiation helps to dissipate static electricity on moving webs of paper.

Metallurgy — Tracer investigations are under way in the structure, manufacture, durability, corrosion, friction and alloying of metals.

Arthur D. Little, Inc. — Radiosulfur is used to study the role of sulfur in coking processes for the steel industry. This could not have been carried out without radioisotopes and is aimed at the ultimate production of better steel.

General Electric — Metals are not as solid internally as they appear to be. Atoms migrate inside. This has been demonstrated in the General Electric laboratories. A block of silver was electroplated with a radioactive isotope and heated at 500 degrees C. for several hours. Slices thinner than a human hair were then cut from the face of the block and tested for radioactive atoms. It was found these migrated along the internal face of crystals in the metal at the rate of one-tenth of an inch a week. An investigation of high-tension alloys as applied to the gas turbine field is also being carried out, using radioisotopes as tracers. General Electric is the largest government contractor in atomic energy, operating the plutonium plant at Hanford, Washington, and the Knolls Atomic Laboratory near Schenectady.

Westinghouse Electric — Uses radioactive carbon for research in metallurgy.

Ford Motor Co.—Ford uses isotopes for research in determining the thickness of steel sheets, as a means of locating the slag line within the cupola in the process of making steel and in determining when the molten metal is ready to pour.

Dow Chemical—Uses radiocarbon for research projects which could not otherwise have been

(Continued on page 33)

Michigan Brevities

"The Detroit Edison Co. has embarked upon the largest expansion program in its history, the effect of which will begin to be felt in the summer of 1949 when a new 100,000 kilowatt generator will go into service," Prentiss M. Brown, Chairman of the board, and James W. Parker, President, state in the company's annual report for the year ended Dec. 31, 1948. Other facilities needed to transmit and distribute this power will be ready also. The program calls for adding to the system three other generators of the same capacity and related facilities. The report, in this connection, also adds: "The construction program, as now contemplated, will require some further long-term financing in 1949. The type of security which will be issued at that time will be determined later."

The Detroit Edison stockholders will, at their annual meeting, scheduled for March 15, "consider increasing the authorized capital stock, par $20, from 10,000,000 shares to 15,000,000 shares. It was explained that the purpose of this increase is to have sufficient stock available for the conversion of the recent issue of $46,641,400 3% convertible debentures, due Dec. 1, 1958, and to have stock available for sale, if necessary, to carry on the company's $150,000,000 plant expansion program.

Net income for the year 1948, after all charges and Federal income taxes, amounted to $10,450,641, or $1.49 per share, as against $1.59 earned in 1947 and $1.67 in 1946. Although gross revenues in 1948 were 12.4% of those of the preceding year, costs of doing business also reached a new high so that net income was 5.9% below that of 1947.

* * *

Joseph S. Sherer, Jr., President of Reo Motors, Inc., on Jan. 28 announced completion of negotiations with the Reconstruction Finance Corporation and the Michigan National Bank of Lansing for a $5,700,000 five-year term loan. Of this total, $1,694,000 will be used for settlement of 1945 renegotiation refund to the Government and the balance of the loan for facilities to produce a new truck engine.

* * *

The Detroit Stock Exchange reports that trading volume in January was 201,545 shares, having a dollar value of $3,347,173. These figures compare with 294,474 shares, having a dollar value of $3,546,783, which changed hands in December.

The ten most active stocks during January were: Detroit Edison Co., Electromaster, Inc., McClanahan Oil Co., Packard Motor Car Co., Friars Ale Brewing Co., Commonwealth & Southern Corp., Parke, Davis & Co., General Motors Corp., Detroit & Cleveland Navigation Co and Gerity-Michigan Corp.

The Exchange also announced that the name of Tivoli Brewing Co. has been changed to Altes Brewing Co.

* * *

Watling, Lerchen & Co. and First of Michigan were included in a large group of investment houses which on Jan. 18 publicly offered 685,000 shares of Southern Indiana Gas & Electric Co. common stock (no par value) at $19.50 per share. The net proceeds are to be used to pay for new construction, etc.

The two Detroit bankers also on Jan. 20 participated in the offering of 15,815.80 shares of Rohm & Haas Co. 4% cumulative preferred stock, series A, at par ($100 per share) and dividends. Rohm & Haas manufactures and sells a diversified line of chemical products.

In addition, First of Michigan Corp. on Jan. 19 participated in the offering to the public of $50,000,000 of Bethlehem Steel Corp. consolidated mortgage 30-year sinking fund 3% bonds, series K, due Jan. 1, 1979, at 100½ and interest, and of 627,960 of the steel firm's no par value common stock at $32.50 per share.

* * *

Continental Motors Corp. and consolidated subsidiaries, including Wisconsin Motor Corp., had net earnings of $3,378,123 in the fiscal year ended Oct. 31, 1948, C. J. Reese, President, recently reported. This was equal to $1.02 per share on outstanding common stock. It compared with net loss of $1,292,874 for the same companies in the preceding fiscal year. Consolidated net sales for the 12 months ended Oct. 31, 1948, were $108,157,527, against $91,505,042 in the 1947 fiscal year. Net working capital at Oct. 31, 1948, was $20,486,835, against $19,053,117 a year earlier.

The directors of Continental Motors Corp. on Feb. 2 declared a dividend of 10 cents per share on its common stock, payable March 3 to holders of record Feb. 11, 1949. The previous payment was 15¢ on May 29, 1946.

* * *

An issue of 98,750 shares of 7% cumulative convertible stock of Mid-States Equipment Co., Detroit, was publicly offered on Jan. 19 at par ($3 per share) by Greenfield, Lax & Co., Inc., New York, N. Y., a member of the National Association of Securities Dealers, Inc. The net proceeds are to be used to retire indebtedness to finance company, to pay for expansion and for additional working capital.

The Mid-States firm owns all of the stock of Modern Atlas Corp. (Mich.), which is engaged in the retailing of household equipment, furnishings, and specialists, on the budget plan, principally through sales agents. Modern operates in Michigan, Ohio and Indiana.

* * *

Net income of Michigan Consolidated Gas Co. and its subsidiary, Austin Field Pipe Line Co., for the calendar year 1948, after taxes and all other charges, was $2,328,668, as compared with $3,139,965 for the year 1947. Operating revenue increased from $39,432,346 in 1947 to $39,733,318 for 1948. Operating expenses, including taxes and depreciation, increased 2.7%. "This rise in expenses was due, in large part," the company states, "to the necessity of manufacturing more than five billion cubic feet of gas to meet customers' demands, particularly during protracted cold weather in January and February." The company expects to manufacture about six billion cubic feet this year.

* * *

Of the 18,000 shares of Michigan Public Service Co. common stock, no par value, recently offered to its stockholders, 11,298 shares were subscribed for at the subscription price of $16.37½ per share. The 6,702 unsubscribed shares have been sold by the underwriters, Cray, McFawn & Co. of Detroit, and A. C. Allyn & Co., Inc., of Chicago, Ill. The net proceeds are to be used to pay for construction expenses.

* * *

The directors of Michigan Bumper Corp., Grand Rapids, have authorized the purchase by the company of shares of its common stock from time to time on the New York Curb Exchange and the Chicago Board of Trade where the stock is listed. Any shares so acquired will be held in the treasury for general corporate purposes.

* * *

The directors of the Pfeiffer Brewing Co., Detroit, on Feb. 1 established a $2 dividend rate for the common stock by declaring a quarterly dividend of 50 cents per share, payable March 10, 1949, to holders of record Feb. 19, 1949. The previous year the annual dividend rate was $1.40 per share. Sales for the first month of this year were reported to be approximately 40% ahead of January 1948.

* * *

Packard Motor Car Co., Detroit, is investing approximately $100,000 in new equipment and improvements at the Portland (Ore.) zone office, according to C. E. Briggs, Assistant General Sales Manager, who added that Packard expects to do a wholesale volume of nearly $13,000,000 in new cars, parts and accessories during 1949 in this zone.

* * *

Net earnings of Industrial Stamping & Mfg. Co., Detroit, for the fiscal year ended Nov. 30, 1948, after all charges and Federal income taxes, were $238,476, equal to approximately 31 cents per share on the outstanding common stock. During the second half of the year the company took steps to reimburse its treasury for expenditures made in the plan expansion program, and to further strengthen its financial position. This was accomplished through the sale of 150,000 shares of common stock, and a term loan secured by a mortgage on plan and equipment. As a result of this financing, together with net income retained for use in the business, working capital increased from $232,357 on May 31, 1948, to $421,967 on Nov. 30, 1948. Current assets at the close of the year totaled $734,827, and current liabilities $312,860.

* * *

On March 1, 1949, Hudson Motor Car Co. will pay a 5% stock and an extra cash dividend of 10 cents per share in addition to the usual quarterly payment of 10 cents per share, all to stockholders of record Feb. 4, 1949. Scrip certificates will be issued in lieu of fractional shares. In each of the last three quarters of 1948, the company paid an extra cash dividend of 10 cents per share, which brought total distributions made last year to 70 cents per share.

* * *

Sales of the Gerber Products Co., Fremont, producers of baby foods, for the nine months ended Dec. 31, 1948, amounted to $27,874,733, compared to $19,840,733 in the corresponding period in 1947. Earnings for the 1948 period totaled $1,665,834, equal to $3.11 per common share (on 520,000 shares of common stock), as against $1,359,598, or $5.03 per common share (on 260,000 shares), in the 1947 period. The company split-up its common stock on a two-for-one basis as of March 30, 1948.

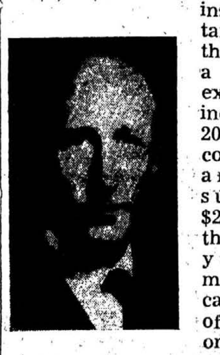
* * *

The directors of Plywood Inc., have declared a quarterly dividend of 7½ cents per share, payable Feb. 25 to stockholders of record Feb. 15. Previous payment made on Nov. 26, 1948, consisted of 5¢ per share regular and 2½¢ per share extra.

N. Y. Curb Exchange Reports Deficit in 1948

Annual Report of Francis Adams Truslow, its President, shows expenses over income of $80,204, compared with an excess of income of $28,728 the previous year. Reduction in surplus was less, however, due to real estate loss of approximately $610,000 in 1947. President Truslow tells members public faith in free business is increasing and nation is seeing need for equity capital.

According to the report of Francis Adams Truslow, President of the New York Curb Exchange to the Board of Governors covering the year 1948, the New York Curb Exchange had consolidated receipts of $1,419,926.97 and expenses of $1,500,130.76, before adjustments for insurance and tax reserves, thus showing a deficit of expenses over income of $80,203.79. This compares with an income surplus of $28,727.70 for the previous year, but mainly because of a loss of $609,990.57 on sale of real property charged off in 1947, the reduction in the surplus account in 1948 was less, amounting, after adjustments, to $79,854.30, compared with $583,142.87 in 1947. On Dec. 31, 1948, the surplus of the Exchange was reported at $4,859,138.56.



Francis A. Truslow

In his report regarding operations and outlook, President Truslow stated:

"The year 1948 reflected little change from the pattern established in our business during 1947. The average of stock prices was about the same at the year end, $18.05 per share, as it was at the beginning of the year, $18.59 per per share, and the volume of stock transactions in the two years remained almost unchanged, 1947—72 million shares, 1948—75 million shares.

"Measured by volume of transactions, the use of our exchange facilities in 1948 was only 8% above the average use during the preceding ten years, despite the fact that in 1948, the index of our national production reached a new high.

"In many ways 1948 exhibited in our exchange markets, and in the related markets for new capital, the basic attitude of our country toward the future—an attitude of hopeful waiting for some clearer indications of where we are going. The purchase of stocks is the purchase of shares in the business future of the country. During 1948 that future was made uncertain by domestic conflict over policies of government spending and taxation and by an international conflict which held the possibilities of active warfare, economic war or merely an uncertain peace.

"We waited to perceive more clearly whether the trend at home would run more strongly in favor of our ancient freedoms or be diverted toward greater socialization of the incentives, if not the ownership, of business.

"We waited to see whether freedom and honesty or slavery and

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SEC Files Complaint Against New York Brokers

Charges Junger, Anderson & Co., together with several individuals with operating a scheme to defraud Keystone Custodian Funds, Inc. Latter concern as well as J. R. Williston & Co. issues statement recoveries and insurance will fully cover their losses.

The Securities and Exchange Commission announced that it had filed a complaint in the United States District Court for the Southern District of New York, demanding a final judgment enjoining Gabriel Caplan, Samuel Howard Junger, George Theodore Anderson, Robert Selig Junger, and the brokerage firm of Junger, Anderson & Co. and William A. Hancock, from directly or indirectly, by the use of the mails or any means or instruments of transportation or communication in interstate commerce or the facilities of any national securities exchange, using or employing in connection with the purchase or sale of any security, any devices, schemes or artifices to defraud the funds for which Keystone Custodian Funds, Inc. was acting as trustee in violation of Section 17(a)(1) of the Securities Act of 1933 or Section 10(b) of the Securities Exchange Act of 1934 and Rule X-10B-5(1) thereunder.

According to the complaint, between Jan. 1, 1946 and Jan. 18, 1949, the defendant Gabriel Caplan, a securities trader employed in New York City by the New York Stock Exchange firm of J. R. Williston & Co., and William A. Hancock, a securities trader employed in Boston by Keystone Custodian Funds, Inc., an investment company, and the brokerage firm of Junger, Anderson & Co., who conducted a securities business in New York City (but who is not a member of the New York Stock Exchange), operated a scheme whereby they profited to the extent of an amount approximating $300,000 from trading profits and commissions.

It is charged in the complaint that the defendants employed a scheme to defraud the Keystone Custodian Funds in the following manner: Hancock, without the knowledge or consent of his employer, Keystone Custodian Funds, Inc., delayed the entry of orders for purchases and sales of securities for the portfolio of the Keystone Custodian Funds, and informed Caplan and Junger, Anderson & Co. of the particular securities for which he (Hancock) intended to place purchase and sale orders on behalf of the Keystone Custodian Funds, together with the prices and the amount of the securities for which such orders would be entered, and the time when he (Hancock) proposed to place such orders with the executing brokers. Prior to the placement of purchase orders by Hancock on behalf of the Keystone Custodian Funds, the defendants other than Hancock effected purchases in dummy accounts in the same securities which Hancock proposed to buy on behalf of the Keystone Custodian Funds and after effecting such purchases, the defendants other than Hancock placed orders to sell out of such dummy accounts such securities at higher prices, with the intended and natural consequences that the Keystone Custodian Funds bought such securities from the dummy accounts when its purchase orders were entered and executed (except when somone else happened "to get ahead" of Keystone in the market). Conversely, prior to the placement by Hancock of sales orders on behalf of the Keystone Custodian Funds, the defendants

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Current Stock Market Prospects

By JOHN L. ROWE

Mr. Rowe contends stocks will be in a buying area between March and June and high grade bond market will remain stable throughout year. Predicts, despite international and domestic political and economic fears, Dow-Jones Industrial Averages will end year in the 190-200 bracket.

When we relate business activity to the present level of stock prices a new channel for discussion is opened. It is my studied judgment that stocks will be in a buying area between March and June. Anyone who listened to the Town Hall debates preceding the November elections will remember the heated discussions between conservative businessmen on the one hand and the labor leaders and politicians on the other. This was merely a preview to the big show which commenced with the convening of the Eighty-first Congress.

John L. Rowe

Organized labor has a strong militant lobby. They are amply financed. Many of labor's friends were elected to Congress. Lack of confidence can manifest itself in the stock market very quickly. The market is thin. The short interest is negligible. There will be some savage attacks from certain quarters on the business community in general and Wall Street's maleficent giants in particular. This is always a popular though meaningless crusade. The public loves it! We could have a series of shocks which could uncover some grand bargains. Those with cash should be alert and eager. Private enterprise has always shown the vitality to bounce back under any kind of attack. Just remember, the wisdom of the ages is to be found outside the newspaper headlines. "All the rivers run into the sea—yet the sea is not full."

The re-election of President Truman undoubtedly means a continuation of our managed Federal debt. Many bank and insurance executives have been frantically urging withdrawal of Federal support on long-term government bonds. The point to remember is that should long-term governments fall below par there is little doubt that the Treasury would be called upon to redeem a great portion of the savings bonds which have been acquired by small investors. There are some 50 millions of Series E, F and G bonds in the hands of the public. The Treasury is obligated to redeem these bonds at par. Obviously if investors could buy long-term governments below par why should they not redeem the savings bonds at face value and purchase other governments at a discount? So the debt managers are on the horns of a dilemma unless they deliberately wish to deliver the financial community into a short-lived panic.

With the Democratic victory we can safely conclude that the high-grade bond market will remain stable throughout this year. Long-term Federals will command a premium over par. Because of threatened tax increases in the upper brackets, the municipal market will be very firm. Where the basic security is strong the existing yield spread between taxable Federals and tax-free top-name municipals should widen as the year progresses. High-grade utility, industrial and railroad issues should remain not far from current levels. The exception will be those situations where easing in business activity or earnings becomes apparent or when new capital borrowing is undertaken.

There should be a tremendous Congressional battle over the President's request for four billions of new taxes. The utility and railroad lobbies will fight any increase in normal taxes, tooth and nail. With few exceptions neither industry was subject to excess profit taxes during the lush war years. Upping the normal tax would adversely affect their earning power whereas they would escape the inequity imposed by the excess profit tax. My guess is that the excess profit tax idea will be wholly discarded. The compromise could be a two or four percent boost in the normal tax which in itself would yield a sizable sum.

Commodity prices and the general retail price level should ease during the year. There will be many business failures among the small fry. There will be furious business competition during 1949. Farm incomes will be slightly lower, but Federal price supports on farm output will be maintained. Since business is now becoming highly competitive, some price concessions are inevitable. This will result in lower earnings for many companies, a factor the stock market has been taking into account for some time.

It is unfortunate that so-called intelligent people become inured to such as the Dow Theory or these fanciful schemes to indicate selling and buying pressure. For example, the investment trust so ably managed by Lehman Bros, the New York banking house, would have long since passed into oblivion had their investment committee yielded to current hysteria or the fleeting despair which the chart hounds can muster at a moment's notice. The sound investor need never stray from proven fundamentals. History repeats itself in trade cycles and other proven phenomena in a manner that no individual, be he genius or demagogue, can long upset. Just because 1929 saw the end of a phenomenal era it doesn't necessarily follow that history need repeat itself in 1949.

For one thing we are not on 10% margins, nor do we have 14 billions of brokers' loans to haunt us as this new year commences. Unfortunately, we do have an ambitious Stalin, whom Mr. Paul G. Hoffman, Economic Cooperation Administrator, has described as making Hitler seem like a baby. Says Mr. Hoffman, ". . . If there ever was a drive going on in the world—a power drive—Hitler was a baby compared with this gang."

So when we talk about the Dow-Jones Industrial averages as we inevitably do when referring to the stock market, the actions of Messrs. Stalin & Co. cannot be ignored. Were it not for him, a good many of our common stocks could be the most liquid inflationary hedge in the world—even at present levels. Despite the Russian leader, it is my guess that the Dow-Jones Industrial averages will end 1949 in the 190-200 bracket. The upward movement should not commence until late spring or early summer. It will be an intensely selective affair just as it has been since 1946. Meanwhile, near term pressures against speculation can be enumerated as follows:

(1) International fears—primarily fear of a show-down with Soviet Russia either over China or Tito's Yugoslavia. The shown-

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Loan Problems in a Dynamic Economy

By T. W. JOHNSON*

Vice-President, Security-First National Bank of Los Angeles

West Coast banker points out, because our economy never has and will not remain stable, effect of violent changes must be always considered in extending credit. Urges banks to put and keep their houses in order, and says time to be pessimist, is in a boom and optimist in depression. Advises business management to check inventories, watch credits, and keep in liquid condition. Foresees a "shake-out" starting.

Before talking on the specific subject, it would be well to get a proper over-all perspective as applied to our economy and without which our conclusions as loan officers and credit men may be faulty. A constant review and perspective is particularly needed for those whose business life has not extended through a depression or at least have not been in the banking business through such a cycle, and it is particularly important when we have been in such a long cycle of good economic climate as we have experienced for, say, the last ten years. We should constantly remember that our economy is and always has been in a constant state of flux; that there is no status quo, and that we should always remember that what goes up must come down, and vice versa.

T. W. Johnson

Our generation has witnessed several catastrophic events, all affecting our economy. This has been a very significant period in world history. Those within this room have witnessed some of the world's greatest convulsions. No previous single generation ever experienced such cumulative upheavals. All of these events have necessarily had a tremendous effect on our national and local economy. They have had their effect and will continue to leave their marks for generations to come on our every-day life, and certainly are of utmost importance in our analysis and consideration of loans and credits. Each and every one of these factors has had a profound effect on business, and especially banking, and more particularly has had a violent effect on prices and costs of doing business. These factors have had to be considered in every decision made by management, and necessarily have complicated management's problems as well as those of the loan officer.

Let us review only a few of those events which are outstanding in our minds at the present time.

What Has Happened in Last 25 Years

We saw and participated in two world-shaking wars and, needless to add, they were the most costly and sacrificial wars in recorded history.

We saw two large world empires completely destroyed and eliminated as world powers.

We saw and participated in the most violent depression in the modern history of man.

We saw our national income—that is, all wages and other income of the people in the United States—drop from $83 billion in 1929 to a mere "existence level" of $40 billion in 1932; then build up in successive years to $77 billion in 1940, only to skyrocket to $96 billion in 1941; to $122 billion in 1942; $149 billion in 1943; and $160 billion in 1944, the last full year of the war—four times our national income during the depression years. Income in 1946 was 146 billions. Now we are running at the rate of over $210 billions—more, by far, than any other income in this or any other country in the world. Our economy cannot possibly be the same economy with a $210 billion income as it was at a $40 billion income.

We saw our national debt rise from $25 billion at the close of World War I, to $37 billion in 1938. We crossed $40 billion in 1939, and in 1942 (six months after the war had started) it had risen to $72 billion. Within the next year (by June, 1943) we soared to $140 billion, and by June, 1944, to $202 billion. It now stands at about $250 billion, having reached a high of approximately $270 billions. When we talk of our debt, taxes, balancing of budgets, etc., the conception many times is that this is only of interest to financiers—or "talking their language." Far from it! One must realize it affects your every-day life and well-being—your own and your family's welfare and happiness. Our national debt is a definite factor in the number of jobs open—the wages or income people will receive — what and how much they can buy—and what their savings will be worth. These are quite personal matters, don't you think? Incidentally, it is also quite a burden to pass on to our children.

In this matter of perspective, it is significant to realize that we spent more money for the 12 months ending Sept. 30, 1944, than we did in the first 150 years of our nation's existence.

Generations of accumulation of savings and money have been doubled in total in the short space of four years. The credit potential and inflationary pressure in this structure is tremendous.

As a result of all these stupendous upheavals, and this is the point I wish to emphasize again and again, our ordinary conception of what is normal in that economy, based on the rule of thumb we used in the "old days," has entirely changed. We must throw away the old ruler or other guides and weigh the answers and decisions in the light of these staggering changes in our economy, for they go to the very heart and roots of our everyday life and, as I have stated, affect each daily decision we may make as individuals; as loan officers and credit men.

(Continued on page 34)

*A talk by Mr. Johnson at the Bankers Forum and Seminar, American Institute of Banking, Los Angeles, Calif., Jan. 21, 1949.

Connecticut Brevities

The annual report of **Russell Manufacturing Company** for the fiscal year ended Nov. 30, 1948 shows that sales for the year were $13,043,-428, slightly below the 1947 record level. The drop occurred in the first half, for second half sales were 5.2% higher than the 1947 volume. Net income of $404,255, or $3.41 a share, was somewhat below the previous year's net of $4.71.

Directors of the **Hartford Electric Light Company** and the **Simsbury Electric Company** have recommended the merger of the two firms, effective March 31. The merger must first be approved by stockholders of both companies and by the Public Utilities Commission. The plan provides for the exchange of four shares of Hartford Electric Light ($25 par) for each share of Simsbury Electric ($100 par.) A total of 4,000 additional shares of Hartford stock will be required. If the merger takes place, a rate decrease will be put into effect for Simsbury customers.

The **Connecticut Light & Power Company** has filed a registration statement with the SEC covering 163,133 shares of no par value common stock and $8,156,650 of 3% convertible debentures, due 1959. Stockholders will be offered the right to buy either one share of new common stock at $50 or purchase $50 principal amount of debentures for each eight shares of common stock held. An underwriting group headed by Putnam, Charles W. Scranton & Co. and Estabrook & Co. will buy any unsubscribed debentures.

A new Chance Vought fighter plane for the Navy has shown speeds "of more than 600 miles an hour" during recent tests according to the **United Aircraft Corporation's** quarterly magazine. Known as the XF7U-1 Cutlas, the new plane features sweptback wings, two jet engines and no tail at all. The plane, which looks more like a guided missile than an airplane, "is potentially capable of flying faster that any other service type jet aircraft now in operation, land or carrier-based."

The **Eagle Lock Company** of Terryville has purchased the **Bell Lock Company of Michigan City, Indiana**, and will transfer manufacture of the Bell Lock to Terryville. The lock, which will be called the "Bell-Eagle" Lock, is used by more than 70% of the vending machine industry and is "unique in its pickproof design."

The annual report of **Bigelow-Sanford Carpet Company** shows earnings for 1948 equal to $8.11 a share compared to $5.97 in 1947 on the present stock. Sales and earnings of $2.34 in the fourth quarter of 1948 were at record levels. Profits in both years were equal to 6.1% of sales and do not include inventory profits. The President stated that the market value of the inventory on Dec. 31, 1948 was about $31 million, which is $10 million above the amount stated in the balance sheet.

Stockholders of **Billings & Spencer Co.** have been offered $7.50 a share for their stock by the Hartford-Connecticut Trust Co. acting as agent for the **Bingham-Herbrand Corporation, Toledo, Ohio.** The offer will expire on Feb. 28, 1949. Plans have been announced to reorganize or liquidate Billings & Spencer. Stockholders not accepting the cash offer are expected to receive two shares of Bingham-Herbrand for each three shares of Billings & Spencer owned.

The annual report of **Connecticut Power Co.** shows that earnings for 1948 were $1,380,683, or $1.93 per share. If the rate increase, which became effective Jan. 15, 1949, had been in effect throughout 1948 earnings would have been increased by about $226,000 to $2.25 per share. Dividends paid were equal to $2.25 a share. Total operating revenues for 1948 were $12,874,665, an increase of 6.8% over combined 1947 revenues.

The Hartford-Empire Co.'s net income for 1948 was $771,903, equal to $2.86 a share after a special charge of $478,022 or $1.77 per share to write down the item of goodwill. The price paid for Standard-Knapp Corporation in 1947 was $1,912,088 in excess of fair value of the underlying assets and this amount was included as goodwill. It was planned to amortize this by charges to income at the rate of 25% in 1948 and thereafter at the rate of 15% per year applied on a declining balance basis. The annual report also reveals that Federal income tax returns for the year 1935 to 1944 inclusive have been adjusted, resulting in a net reduction of $817,072.

Business Man's Bookshelf

Basing-Point System, The—An Economic Analysis of a Controversial Pricing Practice — Fritz Machlup — The Blakiston Company, Philadelphia, Pa.—cloth.

Consumer Buying Habits in the Crab Orchard Area of Illinois—David J. Luck—College of Commerce and Business Administration, University of Illinois, Urbana, Ill.—paper.

Farm Market, The—Some Basic Trends and Changes—Vergil D. Reed—J. Walter Thompson Company, 410 Lexington Avenue, New York 17, N. Y.—paper.

Monetary Reconstruction in Italy — Bruno Foa — Columbia University Press, Morningside Heights, New York, N. Y.—cloth —$2.25.

Security Dealers of North America 1949 Edition — Entirely revised edition of complete directory of stock and bond houses in the United States and Canada—fabrikoid—$9.00.

Surety Rate-Making — A study of the Economics of Suretyship—Jules Backman—Surety Association of America, 60 John Street, New York 7, N. Y.—cloth.

The Outlook for Prices

By WALTER E. HOADLEY, JR.*

Senior Economist, Federal Reserve Bank of Chicago

Dr. Hoadley analyzes broad forces underlying general price developments, and stresses increasing productive efficiency as cost reducing force, which, if passed along to consumers instead of in wage increases, will mean lower prices. Foresees in 1949 a leveling to slightly declining trend in prices along with sales-price adjustments by individual companies.

There is no basis for expecting the years ahead to be free of cyclical variations in prices and employment, but the severity of future price declines promises to be lessened somewhat by a combination of institutional price "floors" already in existence and others likely to be adopted by government whenever widespread price breaks occur or seriously threaten. All major wars in which the United States has had a part have been followed by deep and commonly prolonged price declines. The present situation, however, differs in many important respects from previous postwar periods. This is particularly true in the (1) persistence of economic conditions marked by defense preparations and possibly new war rather than peace and disarmament, and (2) rising general fears of deflation, largely rooted in the depressed era of the 1930's with increasing public belief that in government lies the responsibility for meeting the economic insecurities of life.

W. E. Hoadley, Jr.

Three broad forces currently underlie general price developments: (1) the volume of purchasing power and its rate of turnover, (2) the level of production, and (3) the economic power of government and certain special interest groups. Changes in each of these forces promise to determine the over-all course of prices in the years ahead.

The total money supply, including currency and bank deposits subject to check, nearly tripled during the war years, greatly facilitated the enlarged volume of total money expenditures arising from war needs. During 1946-47 aggregate purchasing power leveled, and declined slightly in 1948, but total spending nevertheless has continued to increase as velocity of money turnover or use has expanded as well. The total money supply seems less likely to decline in the future than in the past, principally because of the greatly increased importance of the public debt in influencing the amount of over-all purchasing power.

Although physical production is now double the prewar level, it seems reasonable to anticipate still rising national production requirements in coming years because of expanding population, desired advances in living standards, defense needs, and perhaps still greater foreign commitments. There is no question about this nation's ability to expand its level of output, but considerable doubt whether prices generally could be reduced in doing so.

Although natural resource supplies were heavily drained during the past decade, there appears to be little real danger that major resource scarcities will interfere with peacetime needs during the next generation. The costs of obtaining raw materials, however, almost certainly will increase as supplies become more difficult to acquire from domestic or nearby source areas. Recent increases in manufacturing capacity point to still closer balance with available resources. Slowly rising productivity, which long characterized national production, was interrupted during the war years, but recent evidence points to a resumption of the prewar upward trend. Increasing productive efficiency is an important cost-reducing force, but does not necessarily mean lower prices unless cost savings are passed along to consumers rather than — more probably—paid out in the form of higher wages or retained in the business. This general appraisal would seem to lead to the conclusion that higher resource costs arising from limited supplies and secularly expanding demands for finished products will tend to offset expected cost reductions from improved productivity, thereby minimizing the possibilities of longer-run price reductions.

Since the early 1930's a fundamental shift appears to have occurred in public economic thinking—from a basic concern over inflation and its adverse effect upon dollar purchasing power to a deep-rooted fear of deflation and accompanying losses in employment and income. Whereas there was little or no vigorous government action to forestall price declines in all previous postwar periods, a broad swing now is everywhere evident toward increased public responsibility for mitigating downward price and allied economic trends. Moreover, government, in contrast to its comparatively weak status in earlier years, at present constitutes a major economic force in the nation, being responsible for more than one-fifth of total money expenditures. In addition, various special interest groups, notably unions, farmers, and management representatives, evidence widespread interest in obtaining protection from the exigencies of economic distress. It is far from clear, however, that government action can be so properly timed and independently forceful as to eliminate future cyclical disturbances in prices and other economic measures.

The best prospects now seem to be that prices generally will follow a leveling-to-slightly declining trend during 1949. Neither a sharp increase nor an abrupt drop appears probable.

For the remaining months of this year to be marked by noticeably more inflation would require an unlikely combination of individually possible developments such as: record-breaking private investment, immediate heavily expanded government expenditures at all levels, further important credit expansion, widespread substantial fourth round wage increases not offset by rising productivity, and several far-reaching events aggravating present or creating new shortages, e.g., crop failures, strikes, war scare. In contrast, for coming months to be marked by sharp general price breaks would seem to necessitate a combination of circumstances such as: substantial contraction in private investment, delayed timing or limited magnitude of actual expanded government expenditures, tightening of credit availability, new burdensome agricultural output threatening the price support program, and any of a number of shocks to personal and business expectations leading to a contraction of expenditures, e.g., large-scale tax increases, spectacular business failures, widespread lay-offs, sudden appearance of a buyers' market in steel. A middle ground position between these extremes seems more tenable.

There can be no question but that the postwar inflationary tempo has slowed down appreciably, but most prices and the economy generally seem supported by underlying tones of strength. Not all backlogs have disappeared, replacement demand — even of items purchased since the end of the war—is enormous, considerable further plant expansion and modernization is scheduled for competitive reasons alone, consumers are demonstrating that they can and will spend freely when confronted with goods and services which they want at prices they can afford to pay, housing requirements remain large and can be expected to expand in relation to whatever cost-price reductions are achieved, and rising government expenditures and institutional "supports" have important inflationary or anti-deflationary implications which cannot be ignored.

Sales-price adjustments seem almost certain to continue and to spread to more and more individual companies and products. Such adjustments have become more numerous in recent months as output has caught up with demand backlogs and consumer budget problems have increased price-quality consciousness. The cumulative effects of these shifts from abnormal-sellers' to customary buyers' markets have been fairly limited to date and may well continue so if positive action is taken quickly and wherever possible in advance by managements to improve products and production-distribution efficiency. The current year will not be a happy one for producers of high cost-high price-fair quality goods and services.

Most upward price pressure remains in metals, utility rates, and some forms of freight transportation. The price trend in foods is downward but price supports limit much further decline in coming months, with spotty shortages offering new price strengths for a few items. Clothing prices are dropping as excessive inventories are being liquidated, but curtailed production in many lines points to new price firming if current demand persists. Most fuels are in adequate supply and some scattered price breaks are reported, but continued heavy demand promises to limit price cuts this year. Household furnishings face a determined buyers' market but widespread price distress is not foreseen in this field which has encountered buyer resistance for well over a year.

*Summary of remarks by Dr. Hoadley at University of Chicago Executive Program Club lecture-discussion series, Chicago, Ill., Feb. 8, 1949.

The Far-Reaching Implications Of the Investment Company Idea

By ARTHUR WIESENBERGER*
Arthur Wiesenberger & Co.

Investment company expert traces contraction in closed-end, and the contrasting enormous expansion in open-end, funds. Maintains the much larger number of holders and dollar savings left with competing investment media, as life insurance, savings and loan associations, etc., should incite confidence in Mutual Funds' further growth. Declares investment company business can make tremendous contribution to national welfare by enabling millions of middle-income citizens to supply needed equity capital.

There is a great challenge facing the investment company business today. It can make a tremendous contribution to the economic welfare of this country by extending its service to the millions of individuals who can provide the greatly needed equity capital from their savings. President Truman and various government agencies have repeatedly stated during the past year that $50 billion is needed for the expansion of U. S. industry. It is generally conceded that this sum must be raised through equity capital.

Arthur Wiesenberger

During the past three years the net sales of open-end shares were equivalent to about 30% of the total money raised from the sale of common stock for new capital.

	Common Stock Financing for New Capital	Net Sales of Open-End Companies
1948	$477,246,205	$146,616,000
1947	623,253,018	178,192,000
1946	729,656,742	226,741,000
	$1,830,155,965	$551,549,000

Millions of people who do not know about security investments and who can best be served by properly chosen investment company issues that will give them diversification, expert continuous supervision, and a liberal return on their investment must be solicited to provide a large part of this $50 billion.

Much needs to be done to reach the men and women who hold the money bags of the nation today and don't know anything about securities or investments.

Too little attention has been paid by the average broker to the man or woman who has an income of less than $5,000 because he or she does not represent a worthwhile trading or investment account. Yet these are the ideal people for investment company sales. The U. S. Census Bureau just reported that 89% of the families in this country had an average income of less than $6,000 in 1947. These are the people who save their money by putting it in savings banks, government bonds, life insurance and savings and loan associations. Our studies indicate that they are investing $100 in these well promoted forms of investment for every $1 that they are now putting in mutual funds.

Open-End Versus Closed-End Funds

There have been two divergent trends with respect to open-end funds and closed-end funds. The former have been expanding while the latter have been contracting.

The 37 leading closed-end funds **have retired** $206 million of capital during the past eight years and the number of shareholders has decreased from 463,000 to 309,000, a decline of 34% for the period. Various factors contributed to this (1) greater conservatism in their operation with large retirements of senior capital; (2) substantial repurchases of common stocks at large discounts.

Adams Express and American International retired $19 million of debt and are now non-leverage funds; Atlas Corporation likewise eliminated its senior obligations by calling $21 million of 6% preferred stock; Blue Ridge and its affiliate, American Cities, retired about $33 million of preferred, and U. S. & Foreign and its subsidiary U. S. & International repurchased over $13 million of their preferreds—these are the more notable examples. Among the companies consistently retiring their common stock at substantial discounts are—Atlas, Niagara Share, and Pennroad. The logic of a company buying in its own common stock at 30% to 40% discounts seems sound, in my opinion—it certainly looks like an easier profit than making a new commitment with the same amount of money.

Despite the retirement of $206 million of capital and the 34% decline in the number of stockholders, the closed-end funds showed assets of $744 million at the 1948 year-end compared with $613 million eight years earlier. This is a very creditable showing considering the depletion of capital with the large capital gains distributions in the past few years that probably totaled over $100 million.

The future growth of investment companies is unquestionably in the open-end type. As stated previously, some $950 million of new capital has been invested in these funds since 1940 and assets of the 87 leading funds have increased from $448 million to $1.5 billion at the 1948 year-end. The number of stockholders has increased from 296,000 to over 722,000 in the same period.

While these growth figures are impressive it is my humble opinion that the real potentials are far beyond any present day totals. Just compare these other forms of savings:

	No. of Owners (in millions)	Present Value (in billions)
Life Insurance	78	$47.5
U. S. Sav. Bds.	80	55.0
Sav. Bk. Deps.	64	57.3
Sav. & Ln. Assns.	6	10.8
Invest. Cos.	1	2.2

*Excerpts from a lecture by Mr. Wiesenberger in the course, "Retail Salesmanship in Mutual Funds," at New York Institute of Finance, Feb. 1, 1949.

Television

By ROGER W. BABSON

Commenting on radio and television stocks, Mr. Babson sees television production taking up slack in output of radio sets. Says television will not put movies out of business and looks for better and cheaper TV sets.

It is estimated that some 850,000 television sets were sold during 1948 and that double this number will be sold during 1949. Considering the fact that 15,150,000 other radio sets were sold in 1948, this does not seem a serious matter. However, the radio sets sold in 1948 are considerably less than those sold in previous years. Radio manufacturers are much disturbed as to the outlook for 1949, believing that 2,000,000 television sets will come on the market this year.

Roger W. Babson

Are they a good investment at this time? They may be, I do not know. Remember, however, that most of the stable television manufacturers are also radio manufacturers. Therefore, although this growth of television may seem spectacular, yet it may only succeed in taking up the slack which these companies have lost from radio sales. In view, therefore, of the large profits which some holders of these stocks must have, it may be wise to sell half of them.

Television may break up Hollywood's monopoly of the amusement industry. Highly paid stars will not be necessary for television exhibits. Hence, the income from the business will be spread over a much larger number of people. Most radio programs will need very little rehearsing and no expensive scenery.

How Will TV Affect Movies?

Television will not put movies out of business. Here is my reason: For many years I have been very much interested in public forums; that is, groups that meet in cities Sunday nights with one or more speakers who discuss public problems. I once feared that when people could sit at home and hear even more important speakers discuss these same problems by radio they would not come to our forum meetings. Yet, people flock to these forum meetings today in greater numbers than ever.

People like an excuse to get out, away from home and a change of scenery. Movie theaters are cool in summer, warm in winter, and have comfortable seats. We instinctively like to be with groups of people. Movie receipts may fall off, yet I doubt if the industry will be seriously handicapped.

Books and Magazines

From the first I forecasted that radio would not interfere with the sale of books and magazines, and my forecast has been true. I can read a book or magazine while listening to the radio, *but I cannot do so while looking at a television screen.* Therefore, I feel that television will be a competitor to the book and magazine publishers. The above especially applies to the new picture magazines which have become so popular.

Although newspapers are using many more illustrations in order to compete with these picture magazines, I see nothing for newspapers to fear from television. Remember that newspapers have completely survived radio news releases and columnists. It is even possible that the television sets will put many of the radio columnists and news features out of business. Therefore, television may be a help to the newspaper industry.

Looking at the Future

Great improvements in television are "around the corner." Moreover, some day TV sets will sell for half what they are selling for now and have very much larger screens. When I was a boy, we had only a magic lantern; then we had the stereopticon; then came the silent movie; then the sound movie; to be followed by the colored movie.

The next step will be the "Three Dimension Movie" which may again revolutionize the entire entertainment industry. Personally, I would rather have my money in good newspapers than in movies, radios, television, book or magazine publishing. This is especially true now while the laboratories of the American Tel. & Tel. are at work on something else which may make us all sit up and take notice!

Bank and Insurance Stocks

By H. E. JOHNSON

This Week—Bank Stocks

During and since the war many of the banks outside of New York City have shown favorable trends in deposits, earnings and dividends.

One of the primary reasons for this has been the rapid growth in deposits of banks away from the financial centers. National income has become more widely distributed with agricultural areas receiving considerable benefits. Population has tended to move South and West. At the same time, the decentralization of industry has proceeded at an accelerated rate with favorable business and trade results in the areas effected. Nevertheless, investment interest in most of the smaller banks continues to be localized. Even in the case of some of the larger banks only a limited market exists for the stock.

However, in order to show some comparison of operating results and figures for a selected group of the more widely known banks outside of New York, the following tabulation has been prepared. It shows operating earnings and dividends for the past two years, together with the 1948 price range, current price and yield for 12 banks located in various parts of the country.

	Net Operating Earnings		Dividends		Price Range	Current	Yield
	1948	1947	1948	1947	1948	Price	%
American Trust, San Fran.	$7.09	$6.17	$2.00	$2.00	$51⅜-$44½	$45½	4.4
Bank of America	5.51	4.64	2.50	2.25	46 - 39¼	46½	5.4
Cleveland Trust	42.44	31.20	8.00	8.00	267 -233	254	3.1
Continental Illinois National	6.84	6.90	4.00	4.00	82½- 73	76	5.3
*First National Bank, Boston	3.94	4.13	2.25	2.25	50¾- 44½	48	4.7
First National Bank, Chicago	12.23	11.66	†8.00	6.40	240 -173	184	4.3
Harris Trust, Chicago	23.69	21.75	12.00	12.00	340 -300	300	4.0
Mellon National, Pittsburgh	17.45	16.00	9.00	9.00	302 -274	270	3.3
National Bank of Detroit	3.69	3.25	‖1.60	§1.30	33½- 29½	31¼	5.1
Northern Trust, Chicago	34.04	35.13	18.00	18.00	580 -500	500	3.6
Philadelphia National	6.72	5.87	5.00	5.00	102½- 95	96½	5.2
Security-First Nat'l, Los Ang.	7.58	6.24	‖3.00	2.40	62 - 52¾	59¾	5.0

*Including Old Colony Trust Co. †Present rate—$6.40 paid on present outstanding shares. §Plus 20% in stock. ‖Present rate—National Bank of Detroit paid $1.70 in 1948; Security-First National paid $2.70 in 1948.

The above earnings have been adjusted to the shares outstanding at the end of 1948. Since that time Cleveland Trust has paid a stock dividend of one share for each 11½ shares held.

In general the above results are similar to those of New York banks. In a number of instances 1948 operating earnings show moderate improvement over the previous year. Only three show declines. Several changes in dividend payments between the two years are indicated and payments are conservative in relation to operating earnings. Yields vary from a low of 3.1% to a high of 5.4%.

The following table presents a comparison for the same 12 banks of the deposits, loans and capital funds at the end of 1947 and 1948.

	(000's Omitted) Total Deposits		Loans & Discounts		Capital Funds	
	1948	1947	1948	1947	1948	1947
American Trust, San Fran.	$927,884	$945,511	$377,497	$326,120	$37,761	$32,488
Bank of America	5,639,523	5,467,199	2,807,070	2,492,980	279,518	257,172
Cleveland Trust	1,044,600	1,030,169	257,402	263,902	50,158	50,196
Continental Illinois Nat'l	2,159,927	2,229,664	458,735	490,001	169,053	162,400
*First Nat'l Bank, Boston	1,370,657	1,337,883	502,053	540,878	107,966	105,463
First Nat'l Bank, Chicago	2,078,526	2,153,198	844,049	797,885	143,934	133,559
Harris Trust, Chicago	508,577	508,356	169,572	167,471	27,042	26,107
Mellon National, Pittsb'gh	1,202,077	1,131,028	408,001	373,753	171,844	167,442
National Bank of Detroit	1,208,313	1,177,121	179,860	172,345	57,712	54,953
Northern Trust, Chicago	656,262	622,270	91,571	104,376	21,158	20,677
Philadelphia National	656,777	698,794	176,977	155,156	59,711	58,486
Security-First Nat'l, L. A.	1,619,817	1,650,555	418,458	377,167	84,000	80,000

*Includes figures of Old Colony Trust Company.

Loans at the end of 1948 compared with a year earlier were higher in most cases. Deposits showed little change—being higher for some banks and lower for others. Capital funds continued to grow from retained earnings and in one case by the sale of more shares.

In general, results for the past year are similar to those of New York banks, indicating that some of the same forces were present and at work throughout the banking system during the period.

Robert S. Lord Joins Holley, Dayton & Gernon

(Special to THE FINANCIAL CHRONICLE)

MADISON, WIS.—Robert S. Lord has become associated with Holley, Dayton & Gernon, First National Bank Building. Mr. Lord for many years was with Paine, Webber, Jackson & Curtis.

With National Co.

(Special to THE FINANCIAL CHRONICLE)

OMAHA, NEB.—Robert K. Knox is with The National Company of Omaha, First National Bank Building.

Problems of Air Transport Industry

By W. L. McMILLEN

Assistant Secretary and Assistant Treasurer, American Air Lines, Inc.

Asserting air transport industry has no economic problems that cannot be solved by greater net revenues, Mr. McMillen lays losses and low earnings of aviation companies to non-recurring expenses and replacement costs arising from new and better equipment as well as to excessive competition. Says situation is improving and unit costs are coming down and it appears unwise to push up fares to higher levels. Blames bolstering of weak carriers through payment of high mail subsidies, as well as toleration of non-certified passenger carriers in scheduled field, for unsatisfactory competitive situation.

There is nothing much wrong with the air transport industry that some more net revenues wouldn't cure. Losses since the end of the war have been record breaking. Yet it is a mistake to attribute the results to runaway unit expenses or increased breakeven point resulting from inflation. The fact that the industry was in an unhealthy state during the late war years was obscured by the abnormally high load factors.


W. L. McMillen

Shortly after the end of the war American undertook the most ambitious and burdensome transition ever known to our industry and I dare say to almost any other—that of complete replacement of every revenue producing unit (its airplanes) as well as a large expansion in capacity.

Inasmuch as the new postwar airplanes would not be available for an extended period, the company purchased 46 DC4's as a transition fleet to tide it over that period. Purchase, modification and inauguration of service with these planes was in itself a major undertaking requiring the entire year of 1946.

This job was scarcely completed when deliveries started on the new postwar DC6, and this service was inaugurated in April, 1947. Yet all of them were not in service until May, 1948 due to temporary withdrawal and modification of all of them. In the meantime, deliveries of the new postwar two-engine Convairs had started. Service was inaugurated in June, 1948.

All passenger DC4s were retired by the first week of 1949 and all DC3's will be replaced by April 1, at which time American will be the only airline in the world which has completely replaced its obsolete passenger planes.

The introduction of even one new fleet of planes is expensive business and the company during the last three years has introduced three new fleets. Large but non-recurring training expense, unusually high depreciation charges, and the tedious and expensive job of proving and perfecting the product imposes heavy burdens. It makes the maintenance of efficient service very difficult. Add to this the fact that the volume of business was about five times that of prewar years and we begin to understand some of the difficulties of this period.

Unit Cost Coming Down

On the other hand, these efforts are beginning to bear fruit. Besides being faster and more comfortable the new equipment is much more efficient, and our unit costs are coming down even during a period when we have been burdened with heavy non-recurring expenses.

The postwar record of my own company may not be entirely representative of the industry, but progress has been remarkable during the past two years. In 1946, American's expense per available ton mile was 30.6c, in 1947 it was 31.5c, in 1948 it was 28.9c, and during the last half of 1948 it was reduced to 27.5c.

Another measure of this progress is the breakeven passenger load factor. In 1946 it was 82%; in 1947, 74%; in 1948, 62%, and during the last six months of 1948 it was 57%.

A still further measure is the number of personnel per 10,000 available ton miles flown. We find that to be 7.1 in 1946; 5.7 in 1947, and 4.6 in 1948.

This progress was made in the face of rapidly increasing wages and prices. Confirmation of the improvement is the profit and loss data. American showed a profit in every quarter of 1948, except the first when the DC6's were not operating. Each month of the last quarter was profitable for the first time since 1944. There remains much to be done in improvement of procedures and otherwise reducing expenses but to understand fully the plight of the airlines we must examine the revenue side of the picture as well as the expense side.

Since the war there has been a sharp decline in total common carrier passenger travel from the abnormal war level. Rail passenger miles have declined from about 90 billion annually to about 40 billion. Against this rail decline of more than 50%, air travel has increased, except for the year 1948. I believe the slight decline in 1948 can be attributed to the withdrawal of the DC6 which affected very adversely the first half results. Although American Airlines transported more passengers in 1948 than in any previous year the average trip was slightly shorter resulting in a small decline in passsenger miles. Although the rail decline is expected to continue in 1949, it is expected that air travel will hold its own or show slight gains. Industry volume should be between 55% and 60% that of first class rail, or about 6 billion passenger miles.

In 1948, American's scheduled freight showed an increase in excess of 80% in ton miles over that of 1947.

Air express and mail volume increased moderately. Total revenues were the highest in our history and a further increase is expected in 1949.

Unrealistic Competition

In the past some of our rates and fares were too low and have been increased, but it appears that it would be unwise to push present rates much above those now existing. Current load factors at the present fare level are none too high.

More aggressive selling and experimentation with promotional fares designed to fill empty space and attract new business have improved our revenues to some extent. But an unrealistic competitive situation makes it difficult for many carriers to achieve satisfactory loads.

A public utility pays a pretty high price for a franchise or certificate for it gives up many privileges which other businesses consider important to profitable operation and self-preservation. Among the things it surrenders is its (a) freedom to change prices at will, (b) right to operate when, where and as it pleases, (c) the right to withdraw quickly those services it finds unprofitable, and (d) right to discriminate between persons, groups or sections of the country.

In return for the surrender of all of these rights and privileges the utility expects some benefits. Some utilities are given freedom from any competition and it is expected that in any utility business competition will be carefully controlled or regulated.

The airlines have paid their price but have not received the benefits. So much competition has been permitted and encouraged by the Civil Aeronautics Board that the scheduled airline industry operates in the competitive atmosphere of an unregulated business, yet with all the restrictions of a utility.

There are two distinct types of competitors: (a) those known as scheduled airlines and holding regular route certificates or franchises, and (b) those known as non-scheduled or non-certificated carriers. Most of the latter became regularly scheduled operators illegally. The passenger carriers are still operating illegally, but the Board legalized the operations of the freight operators by a temporary exemption order.

Let us refer first to those in the first category, the certificated airlines. During the years 1943-1947 the CAB went on a certification spree and the result was a ridiculous amount of competition among certificated carriers. Duplication was piled on top of duplication until there were in many cases four carriers where business was not sufficent for two, and many more cases where several lines were competing for only one. The fact that the new and more efficient planes were larger planes aggravated this situation. Now, this would not have been so bad had the Board been willing to take the consequences of such competition, but it was not.

Weaker Carriers Bolstered

In most industries such mistakes would have been self-correcting. Weaker companies would have had a strong incentive to correct their situation and by this time the situation would have been greatly improved. But the mistakes have been perpetuated by repetitive mail pay increases to the weaker carriers in order to bolster them. Incentive for more efficient operation disappears as this continues. As a result, too many carriers still compete for too little business so that by now the strong ones have become weak and now they, too, require substantially higher mail pay.

Imposed upon this already chaotic competitive structure are the noncertificated carriers. The cargo carriers entered scheduled service illegally. Many filed applications for certificates. The Board then legalized their operation by exempting them from them the provisions of the Civil Aeronautics Act. They have lost 20c to 50c for each dollar of revenue taken in. They have provided no new services inasmuch as all of their service is between a dozen or so major cities where there are already from two to four certificated lines. They have achieved their volume by rates

(Continued on page 35)

*Talk by Mr. McMillen before the Analysts Society of Providence, Providence, R. I. Feb. 10, 1949.

United States Aid in British Colonial Development

By PAUL EINZIG

Commenting on prospects of World Bank loan to British Colonial Development Corporation, Dr. Einzig points out its beneficial effect in making available supplies of Rhodesian copper and other important raw materials. Foresees difficulties in trying to make East Africa another Argentina as source of food supply.

LONDON, ENG.—The prospects of a loan by the International Bank of Reconstruction and Development to the British Colonial Development Corporation are viewed with much satisfaction in London. Following as it does close on President Truman's reference to American assistance in the development of backward countries, it conveys the impression that the President's words will soon be translated into deeds. The utmost importance is attached here to accelerated colonial development, as practically the only hope for Britain to balance her international trade with hard currency countries. It is now realized that in the absence of such colonial development the Marshall Plan in itself could not achieve that end by 1952, if only because Britain is bound to be drawn into arrangements under which she will have to make considerable sacrifices for the sake of helping other less favorably placed Western European countries.

Dr. Paul Einzig

Beyond doubt there are very considerable possibilities within easy reach. It is generally known that, with the aid of American rolling stock the railroads of Central Africa could make very large supplies of Rhodesian copper immediately available, and that in West Africa there are very large immobilized stocks of groundnuts which could be brought to Britain with the aid of additional transport facilities. There are many other similar instances. The sum total of easily mobilizable resources in terms of earnings or savings in hard currencies is believed to be very large.

When it comes to long-term schemes, quarters well-connected with Africa inclined to feel that the government is over-optimistic about the extent of the possibilities. Recent official statement foreshadowing the conversion of East Africa into a second Argentina from the point of view of cattle breeding are looked upon with skepticism among experts. The idea of extending the zones on which cattle breeding is possible, through the extermination of the tse-tse fly is causing some uneasiness in quarters which regard soil erosion as the most important problem of Africa. It is feared that, while at present the fly-infested regions are at any rate protected against overstocking of livestock leading to soil erosion, there would be no such restraining factor in operation if the extermination of tse-tse fly were proceeded with before the native population can be induced to change its present attitude towards livestock.

The root of the evil is the widespread practice in East and South Africa to regard cattle, sheep or goats as a form of currency. It is because of this that natives are inclined to keep much larger herds and flocks than is justified by grazing facilities and water supplies. It is because cattle are employed as the main store of wealth that the natives are reluctant to sell them for export. Unless this deeply-rooted custom is changed the extension of grazing land would merely enable the natives to increase further the size of their uneconomic herds and flocks. And the fact that it is the number of the animals that matters and not their quality would effectively prevent the breeding of good quality cattle for the requirements of meat export.

How is this problem to be tackled? There is a simple practical device which would go a long way towards the reduction of the monetary use of domestic animals. One of the reasons why they are so used is that their owners derive satisfaction by the visible evidence of their wealth. The solution of the problem would have to take into account this attitude. Banks in backward areas in Africa and elsewhere where livestock is used as currency should attract deposits by the issue of ornamental badges indicating the size of deposits. It seems reasonable to assume that a great many natives would acquire the banking habit if some such device were to be adopted. At present they derive no satisfaction from possessing large deposits with banks, as there is nothing to show for such deposits.

This is only one instance of the kinds of practical devices which could and should be applied before embarking on a large-scale extension of animal breeding as part of the projected development of Africa. What matters is that politicians and financiers should take the advice of anthropologists acquainted with local conditions, instead of trying to proceed on the basis of popular but false analogies, such as that of the creation of a second Argentine in Africa amids conditions utterly unlike those prevailing in the Argentine.

Any grand schemes require careful preparation. Even the resources of the United States, large as they are, are not inexhaustible, and should be employed for practical schemes promising immediate return instead of being risked in magnificent but dubious enterprise.

Two With Chilson Newbery

KINGSTON, N. Y.—Chilson, Newbery and Co., Inc., 48 Main Street, announce the association with them of Samuel Markson in their Albany territory and of A. Jerome Pratt in Poughkeepsie and southern Duchess County.

New York Stock Exchange Weekly Firm Changes

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

Transfer of the Exchange membership of Newell B. Whitcomb to Candler Dobbs will be considered on Feb. 24. Mr. Dobbs will continue as a partner of Dobbs & Co.

Interest of the late Frank M. Hardt in Montgomery, Scott & Co. ceased Jan. 30.

With Harris, Upham Co.

(Special to THE FINANCIAL CHRONICLE)

OMAHA, NEB.—Robert J. Ferguson is with Harris, Upham & Co., 1620 Farnum Street.

Sound Financing of Air Transportation

By HAROLD A. JONES*

Member, Civil Aeronautics Board, Washington, D. C.

Stressing importance of sound financing of civic air transportation as a national polciy, Civic Aeronautics Board member points out conflict between profit motive and national objectives. Holds law requires Board to fix mail pay to efficiently managed airline that will give fair return on investment and lays financial distress of many airlines to excessive competition rather than poor management. Says difficulty is being remedied and looks for more efficiency in air operation. Suggests emergency loans to air transportation companies by RFC.

I hardly think it necessary to remind you that I am speaking tonight as plain "John Citizen" and not as a member of the Civil Aeronautics Board. The opinions I express are entirely my own. The subject assigned to me tonight was "The Outlook in Air Transportation." I have changed it to "Sound Financing in Civil Air Transportation."

Harold A. Jones

This is fitting, for after all the financial structure of any business venture is the very foundation of that venture. The outlook in air transportation must depend on a solid, sound financial foundation. We will never attain the broad objectives of the Civil Aeronautics Act unless the airlines are financially sound, because the airlines are the tools of our National Civil Air Policy.

Forgive me if at the outset I seem to be employing the Socratic method. Believe me if I state that the answers to my questions are not implicit in the questions themselves. Most probably the correct answers will only be found by the practical consequences of activated policies.

Basic Problems and Policy

Certain basic characteristics of the air transport industry must be stated before we can even talk about airline financing. The difficulty, of course, is to define these basic characteristics correctly.

Just what kind of a corporate creature is an airline?

(1) Is it a free enterprise business in free competition operated for the profit of management and investor?

(2) Is it a public utility analogous to a power company, a telephone company, or other such utility?

(3) Is it primarily an instrument of national policy—economic, diplomatic and military?

(4) Or, finally, is it a composite of all these factors?

Public Utility

The answer should be apparent. Congress spelled it out in the Civil Aeronautics Act.

The airline was to have some of the characteristics of a public utility, i.e., "the promotion of adequate, economical, and efficient services by air carriers at reasonable charges (regulated by the Board) without unjust discriminations, undue preferences or advantages, or unfair or destructive competitive practices."

Competition was to be permitted only to the extent necessary to assure the sound development of an air transport system properly adapted to needs of commerce, the Postal Service, and the national defense.

Routes were to be granted by the Board only on a showing of public convenience and necessity, and impliedly, the Board was not to grant them if by so doing unnecessary competition might result.

Private capital invested and used in the system was promised a fair return under honest and efficient management.

These are all characteristics of a public utility — a regulated business, the price for its product regulated by government, obliged to perform services whether profitable or not, but in return promised protection from unnecessary competition, and an assurance of a fair return on private money invested in the enterprise.

Instrument of National Policy

Congress also intended the airlines to be instruments of national policy — economic, diplomatic and military. They were to be "adapted to the present and future needs of the foreign and domestic commerce of the United States, of the Postal Service, and of the national defense." These are all national objectives designed for the common welfare and not for the profit of the individual.

It is hard to assess the value of rapid movement of persons, property and mail to the common welfare. Materially, however, by speeding up the production of goods and materials it must increase the national income many times over its cost to the government. Of course, in a war economy when the winning of the war depends on the speed of production of war materials, rapid communications and rapid transportation of essential personnel within the zone of the interior is of a value beyond estimation.

Nor can we estimate its value as an adjunct of the Military Establishment. It is a reservoir of airlift, trained personnel, and know how. It permits the airframe manufacturers to keep in being manufacturing facilities readily convertible to the building of military aircraft.

It sometimes seems a petty matter when we consider the relatively small amount paid in mail pay to the airlines in relation to the contribution made by the aviation industry to the national defense in this last war. It was certainly worth more to the national defense than the many, many millions of dollars invested in battleships sunk at Pearl Harbor.

Expressed in another way — what would have been the cost to us if at the time of our entry in World War II we had not had an American airline industry and an aircraft manufacturing industry? The answer is apparent. It would have cost us billions more to win the war—if we could have won it under such circumstances.

Airline a Composite Creature

We must then come to the conclusion that the domestic and foreign airline, as a matter of basic national policy, is a composite creature with the characteristics of a public utility, combined with the characteristics of a government instrumentality, financed with private capital and managed by private individuals.

When we later consider airline financing, and with the national welfare in mind, we must answer this question: **Whose primary duty is it to see that these national security objectives shall not be placed in jeopardy because of unsound airline financial conditions?**

The reports of both the President's Air Policy Commission and the Congressional Aviation Policy Board emphasize the absolute necessity of maintaining and promoting a financially sound air transportation system, pointing out that the rapid transportation and communication furnished by the airlines, and the reservoir of trained personnel and airlift, are vitally necessary and invaluable in the event of war. The President's Air Policy Commission said:

"As a potential military auxiliary, the airlines must be kept strong and healthy."

The Congressional Aviation Policy Board said:

"National security requires a financially sound, and technically modern air transport industry."

Let us remember this special emphasis.

Conflict Between the Profit Motive and the National Interest Objectives

In a composite corporate creature such as an airline there must necessarily be some conflict of interests. The investor is naturally interested in profits and reasonable security for his investment.

The national welfare demands utility service for its citizens, a great deal of which must be performed at an operating loss. Otherwise, only the principal cities generating traffic in profitable volume would be served. Likewise, rapid communication by the carriage of passengers and mail demand that many points must be served which would not be served by an airline operating as a free enterprise in open competition. It costs approximately $60,000 a year, $166.00 a day, to serve each of the smaller cities and towns on an airline's system. The business generated at these points seldom pays half this cost. It isn't good business to serve them, but they must be served.

This condition is recognized in the Act. As I said before, in my opinion, the Act requires that the Board allow mail pay to an honestly and efficiently managed airline sufficient to permit it to break even, and, in addition, to earn a fair return on its used and useful investment, so long as the airline carries out its part of the bargain: that is — maintains and continues the development of its system to the extent necessary to furnish an honest utility service to the citizens at reasonable charges without unjust discriminations, perform the postal service required of it, and keep itself ready to aid in the national defense.

Inherent Economic Characteristics of an Airline

Having determined just what kind of corporate creature the airline is, and before we can determine what kind of a financial structure it should have, we may next ask ourselves this question:

What are its inherent characteristics from an earnings and investment standpoint?

We have a sufficient background of experience to recognize many of these economic characteristics, although in the airline business we can expect surprises almost daily. We do know that the business is one of high variable expenses. Under normal conditions it should be free from large fixed investments, since the Federal government has erected and now maintains its right-of-way, and Federal and local funds have

(Continued on page 31)

*An address by Mr. Jones at Third Annual Meeting of Air Transport Institute of the American University, Washington, D. C., Feb. 2, 1949.

News About Banks and Bankers

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED
CAPITALIZATIONS

W. H. Stalder, New York representative at 14 Wall Street, of the **Union Bank of Switzerland**, announced on Feb. 14 receipt of advices from the bank's head office at Zurich stating that at the stockholders' meeting on Feb. 25, the directors will propose the distribution of a dividend of 7% on the stock capital of Sfr. 60,000,000. Last year's dividend was 6%. The board will also propose an increase of the stock capital from Sfr. 60,000,000 to Sfr. 70,000,000, the increase to be accomplished by the issuance of new shares of Sfr. 500 par value, the new shares to be issued to the stockholders at Sfr. 600, as compared to a market price of Sfr. 830 quoted on Feb. 11. The premium will be added to the reserves of the bank which will thereby be raised to an amount of approximately Sfr. 45,000,000.

The directors at their meeting on Feb. 11 approved the bank's statement of condition as of Dec. 31, on that date the total resources amounted to Sfr. 1,461,492,982, compared to Sfr. 1,413,591,668 at the end of 1947. The net profit for 1948 amounted to Sfr. 5,248,106, which is added to the carry-over of undivided profits of 1947 in the amount of Sfr. 3,798,900. The corresponding 1947 figures were, net profit Sfr. 4,137,629, and undivided profits carry-over Sfr. 3,406,271.

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The appointment of Edgar L. Marston as Assistant Vice-President of **Empire Trust Company of New York** is announced by Henry C. Brunie, President. Before the war Mr. Marston was with Glore, Forgan & Company, investment bankers. Commissioned in 1941 as a First Lieutenant in the U. S. Army, he served with the Army Air Forces overseas in the North African and European Theaters and was discharged from active duty as a Lieutenant Colonel in 1946. Since then he has served Pan American World Airways in the Azores, Belgian Congo and Africa. He is a son of Hunter Marston and a grandson of Edgar L. Marston one of the founders of Blair & Company.

The election of George S. Leisure to the board of directors of Empire Trust Company has also been announced by Mr. Brunie. Mr. Leisure, who is a partner of Donovan, Leisure, Newton, Lombard & Irvine served overseas in World War I as pilot in A.E.F., was chief of Criminal Division in Office of U. S. Attorney.

* * *

Frank Wolfe, Vice-President of **Central Hanover Bank & Trust Co. of New York** will retire under the bank's retirement plan on March 1, after almost half a century with the bank. Known as the dean of corporate trust officers, Mr. Wolfe has watched the institution grow with the years. He started as an office boy in 1900 with the Central Trust Company, which at that time had 37 employees and resources of $53 million. Today Central Hanover has more than 2,600 employees and one and one-half billions in resources. Mr. Wolfe served as head of the Corporate Trust Department of Central Hanover. After his retirement from the latter, he intends to continue as a director of several corporations.

A resident of Merrick, L. I., for the past 40 years, Mr. Wolfe was one of the organizers of the First National Bank of Merrick and served as its President, and later helped to organize the South Shore Trust Company in Rockville Center.

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On Feb. 21, the Union Square Office of **Manufacturers Trust Company of New York** which has been located at 44 Union Square East for 20 years, will move to its new quarters at Fourth Avenue and 18th Street. This new office is more spacious than the present location, and increased safe deposit facilities will be made available through Manufacturers Safe Deposit Company. William H. Hill, Jr., Assistant Vice-President is the Officer-in-Charge, assisted by Frederick Becker and Russell B. Wilkes, Assistant Secretaries and John Cagney, Assistant Branch Manager.

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Thomas J. Shanahan, President of the **Federation Bank and Trust Company** of New York announced on Feb. 9 that William B. Oakes, Treasurer of the Charles Francis Press, has been elected a director of the bank. Mr. Oakes has been director of the Federation Safe Deposit Company for a number of years.

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Emil Kuster has been elected Assistant Treasurer of **J. Henry Schroder Banking Corporation** and **Schroder Trust Company of New York.**

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Lawrence Schacht, President, Schacht Steel Construction, Inc., with offices in New York, and plants in the Bronx and Hillside, N. J., has been elected a director of **The National Bronx Bank of New York,** it was announced on Feb. 13 by Harvey L. Schwamm, President of the bank. Mr. Schacht, a mechanical engineering graduate of the Stevens Institute of Technology has been in the structural steel and building fields for the past 20 years.

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The Bowery Savings Bank, chartered in 1834 and the **North River Savings Bank,** chartered in 1866 both of New York were merged on Feb. 15 as The Bowery Savings Bank. Deposits are in excess of $787,000,000. Depositors number more than 500,000. Combined assets total more than $888,000,000. Four offices are located at: 110 East 42nd Street, opposite Grand Central; 34th Street and 5th Avenue; 130 Bowery, at Grand; and at 34th and and 33rd Streets, just west of 7th Avenue, opposite Pennsylvania Station. The Bowery is the only mutual savings bank with an office directly opposite each railroad terminal. The new officer set-up is as follows: Henry Bruere, President and Chairman of the board; Harris A. Dunn, Vice-Chairman of the Board; Earl B. Schwulst, Executive Vice-President; Robert W. Sparks, First Vice-President; P. Raymond Haulenbeek, Administrative Vice-President; Vice-Presidents: J. Watson MacDowell, F. Donald Richart, R. Benson Ray, Fred C. Smith and Henry G. Raab.

"The purpose of the merger of these two old and well-known banks," according to President Bruere, "is to permit increased service to its present and prospective depositors. The union will also enable the greater institution to serve the entire community better—through broadened opportunity for useful investment of savers' deposits. The greater Bowery will continue to devote special effort to financing new housing, notably in the New York metropolitan area and in other nearby localities." It is announced that every officer and employee of the merging banks is being retained on the staff of the merged bank. Plans for the proposed merger, announced on Dec. 20, were referred to in our issue of Dec. 23, page 2612.

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Whitfield C. Coates was elected Trust Officer of the **Lafayette National Bank of Brooklyn in New York** at the directors' meeting on Feb. 8, according to an announcement by Col. Walter Jeffreys Carlin, President. A former President of the South Brooklyn Savings and Loan Association and the Metropolitan League of Savings and Loan Associations, Mr. Coates became associated with the Lafayette National in 1943 and for a number of years has been Assistant Trust Officer.

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Henry H. Hegel was elected Secretary of the **Federal Trust Co. of Newark, N. J.,** on Feb. 10. He succeeds in that post Albert T. Martin, resigned, who was also Vice-President. Mr. Hegel, who was with several New York banking institutions before going with the Federal in 1926, became Assistant Secretary of the latter in 1945, according to the Newark "News."

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In a joint statement issued on Feb. 15, William G. Semisch, President of **Second National Bank of Philadelphia,** and Wesley S. Smith, President of **Tioga National Bank and Trust Co., Philadelphia,** announced that the directors of the two banks had unanimously approved a proposal under which Second National will purchase the assets and assume the deposit liabilities of Tioga National. At meetings to be called shortly, stockholders of both institutions will be given an opportunity to vote their approval of this action. A complete commercial banking service will be available at the Tioga office of the Second National Bank of Philadelphia, and the customers can continue to do business with the same officers and personnel. Upon completion of the purchase, Second National Bank will have deposits of $25,000,000 and total resources of $27,000,000.

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George A. Malcolm, President of **The Drovers National Bank of Chicago,** announced on Feb. 9 the following promotions: Frank M. Covert and Robert Lough, Vice-Presidents; Leo R. Gruber, Vice-President and Cashier; Fred D. Cummings, Assistant Vice-President, and Wesson S. Hertrais, Assistant Cashier.

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Joseph F. Verhelle was named at the initial meeting of the directors as the first President of the new **City Bank of Detroit,** to be located in the Penobscot Building. At the same time, John H. French, Jr., Vice-President of the French Mortgage and Bond Company, who is also a member of the Board of Directors of the City Bank, was elected Vice-President and Secretary to the Board. Also elected Vice-President of the City Bank was Laurence P. Smith, who was President of the Central Savings Bank up to the time of its merger with the First National and later was a partner of the firm of Bennett, Smith & Company. He also served as President of the Detroit Stock Exchange and was a member of the Board of Governors of the Association of New York Stock Exchange firms. Charles D. White, former Vice-President and director of the Peoples State Bank of Hazel Park, Mich., was named Cashier. Mr. White's banking experience extends over a 20-year period, beginning with the Peoples State Bank in 1928. Mr. White joined the armed services in 1942 and on his return became one of the organizers of the Hazel Park State Bank. He was named Cashier and a director at the opening of that bank and was later promoted to Vice-President. The opening of the bank is scheduled for the latter part of this month.

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At the annual meeting in January of the **Marquette National Bank of Minneapolis,** Lyle J. Stotesbery, brother of President Russell L. Stotesbery, was promoted to Vice-President. The new Vice-President had been Cashier since June, 1948. The Minneapolis "Star" also reported that before joining the bank last year, he had been President of the Union Savings Bank at Grand Mound, Iowa, for 16 years. The same paper also said George S. Coonrod, an Assistant Vice-President, was elected Vice-President of the Marquette. Paul Petterson, who joined the Marquette staff in 1930, was promoted from mortgage loan officer to Vice-President. Ronald B. Harrison, Assistant Vice-President, was elected Cashier to succeed Lyle Stotesbery. Signor R. Silverness, Assistant Cashier, was named an Assistant Vice-President.

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The State Savings Bank of Memphis, Tenn., plans to double its capital through the sale of new stock and the declaration of a stock dividend, it has been announced by Joseph B. Montedonico, Chairman of the Board and President. In reporting this the Memphis "Commercial Appeal" of Feb. 5 said:

"With the new stock subscriptions and the payment of the stock dividend, the bank will have a capital stock of $100,000, surplus of $86,000 and undivided profits of $63,000. Total capital assets will be $249,000."

In furtherance of the plans the stockholders, it is said, have subscribed to 360 shares (par $100) at $200 per share; the stock dividend of 140 shares will, it is said, be the final step in increasing the outstanding shares from 500 to 1,000. The bank was founded in 1887 with J. S. Montedonico, father of the present head of the bank, as one of the organizers.

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The boards of directors of the **Federal Reserve Banks of Atlanta, Dallas** and **St. Louis** have elected W. S. McLarin, Jr., President of the Federal Reserve Bank of Atlanta, as a member of the Federal Open Market Committee for the year beginning March 1 and have elected Chester C. Davis, President of the Federal Reserve Bank of St. Louis, as an alternate member to serve on the Committee in the absence of Mr. McLarin. R. R. Gilbert, President of the Federal Reserve Bank of Dallas, is serving as a member of the Committee for the year ending Feb. 28, 1949.

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At the annual meeting on Jan. 25 of the **Barnett National Bank of Jacksonville, Fla.,** President W. R. McQuaid announced the promotion of E. G. Haskell from Assistant Vice-President to Vice-President; A. B. Davis, from Assistant Cashier to Assistant Vice-President; O. L. Johnson, from Assistant Cashier to Assistant Vice-President, and D. G. Stoddard to Assistant Cashier, it is learned from the Florida "Times-Union" of Jacksonville.

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The South Texas Commercial National Bank of Houston, Tex., has dropped the word **Commercial** from its name as a matter of convenience to the customers, the bank announced, according to special advices from Houston, Feb. 5, to the Dallas "Times Herald." The bank had borne the long name since 1912, when the old South Texas National Bank and the Commercial National Bank were merged, said the advices from which we quote.

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K. M. Sedgewick has been appointed as Assistant General Manager of **The Royal Bank of Canada.** Mr. Sedgewick has been manager of the bank's Montreal branch for the past three years and will be succeeded there by G. B. Neapole.

Lowenfels Pres. of Curb Clearing Corp.

Following the resignation of Fred C. Moffatt from the Presidency of the N. Y. Curb Exchange Securities Clearing Corp., an office he had held almost continuously since the organization of the corporation in 1931, Bertram R. Lowenfels, a regular member of the Curb Exchange since 1925, was unanimously elected to that executive post at a directors' meeting last night. Mr. Moffatt, who resigned for reasons of health, will continue as a director of the corporation, according to Francis Adams Truslow, President of the Curb Exchange, who made the announcement. Mr. Lowenfels will also be Executive Committee Chairman.

Mr. Lowenfels became a director of the Clearing Corp. in March, 1944, and has been serving as Assistant Treasurer and a member of the Executive Committee since March, 1946.

Active in the brokerage business since 1915, Mr. Lowenfels has been a partner in the firm of Richard K. Kaufman, Alsberg & Co., since 1942. The partnership of Byck & Lowenfels was formed in 1927 and dissolved in 1935. In the latter year Mr. Lowenfels became a partner of Richard K. Kaufman & Co. which eventually became the present day firm.

The resignation of Mr. Moffatt, one of the principal organizers of the Curb Exchange Clearing Corporation in 1931, was received by the Board of Directors with deep regret. Mr. Moffatt became first President of the corporation and had held that post continuously except for a period of four years from 1935 through 1938, when he was President of the Curb Exchange. During this period he was a Director of the Clearing Corp. At the time of his resignation, he was also Chairman of the Executive Committee of the Clearing Corp.

Mr. Moffatt also served as Chairman of the Board of Governors of the Curb Exchange from 1941 through 1944 and as its President pro tem from July, 1942, through 1945. He is at present a Governor of the Exchange and Chairman of the Committee on Public Relations.

Beginning his Wall Street career in 1904 as office boy with Sternberger, Sinn & Co., Mr. Moffatt shortly became a telegrapher for Edward B. Smith & Co. He soon thereafter joined J. W. Davis & Co., as telegrapher, and remained with that Stock Exchange firm, with the exception of his army service during the 1st World War, until Sept. 12, 1923, when he acquired his membership on the New York Curb Exchange.

With Merrill Lynch Co.

(Special to THE FINANCIAL CHRONICLE)

GREENSBORO, N. C.—Chester W. Hill has joined the staff of Merrill Lynch, Pierce, Fenner & Beane, 107 West Gaston Street.

With Ralph E. Petersen

(Special to THE FINANCIAL CHRONICLE)

BERLIN, WIS.—Lloyd Watters is with Ralph E. Petersen & Co., 180 North Adams Avenue.

Public Electric Power—Permanent Part of American Life

By HON. J. A. KRUG*
Secretary of the Interior

Secretary Krug, stressing critical shortage of electric power, urges public development of water resources with Federal Government in power business chiefly as a wholesaler. Holds public and private water power ownership can be reconciled and private equities and interests can and should be protected fully. Sees need for doubling present electric power capacity in next decade, and advocates government power marketing be on a businesslike basis.

Public power, in the broad sense, is now a permanent part of American life. But we are a dynamic people and we keep our economic, social and political patterns alive by constant change. To survive, public power will have to be as good as and a little better than private power. We've got to run fast to stay where we are in the competitive field. And, we've got to run very fast to improve our position.

J. A. Krug

The drive which your organization is conducting to guarantee itself a supply of aluminum conductor, is the most recent evidence that you are in there fighting every minute. I believe that you will get your needed conductor and other equipment and you have the full backing of the Interior Department in that activity.

But the country's record in rural electrification is the most striking evidence. Unprecedented rural line building in less than 15 years has jumped the number of United States farms with central station electric service from one out of 10 to seven in 10 and what is equally important, you have perfected the distribution "know how" to reach the other three. The recent political decision by the American people in favor of candidates running on full public-power platforms is another. The idea advanced last summer that public power should be developed only as "incidental" to irrigation met with little favor and I believe it will meet with even less favor in the present Congress.

There are tremendous opportunities and responsibilities facing us. We are now in a period of critical shortage of electric power. In some regions of the country, consumers are voluntarily reducing their use during peak hours to keep the power systems from breaking down completely. Any industrialist who wants to build a plant to use a large block of power will search the nation only to find that he must wait two years or more before he can get it. We are far from having any cushion of reserves to meet new loads or emergency requirements.

Certainly, an essential part of our national power policy should be that our power supply must be sufficient to meet all of the requirements of a full employment economy and provide reserves for all emergencies whether those of an operating character or those threatening our national security and welfare.

When we start to put that policy into effect, we find that it involves the construction by the United States of more hydro-electric dams and power houses and the facilities for marketing their output. And that will bring another very critical barrage from certain segments of the power industry. What are the basic elements of this controversy?

*An address by Secretary Krug at the Annual Convention of the National Rural Electric Cooperative Association, New York City, Feb. 2, 1949.

Federal Water Power Development

The water resources of America belong to all the people. Since the days of Theodore Roosevelt, our national policy has been to conserve and develop these resources for the people's benefit. The first Roosevelt had bitter opposition, especially from his own party. During the intervening period before 1933, many battles were fought between the representatives of special interests who wished to exploit these resources and the champions of the people's rights and in most of them, the people lost. The late Franklin D. Roosevelt renewed the fight in this great tradition and brought the public interest into action to a degree surpassing all previous progress. And now President Harry S. Truman has added new strength to the movement in his forthright stand for public power and publicly-owned transmission lines as part of his program to develop the nation's resources.

Faced with the clear decision of the people—as expressed many times by the Executive and the Congress—that our water resources are to be developed for the benefit of the people and are not to be monopolized by limited groups, the segments of the power industry to which I refer have elected to follow a "rule or ruin" policy.

In the face of growing power shortages, one after another of the Federal power developments has been subjected to attack. The new Johnsonville steam plant of TVA, the steam plant and marketing facilities for the great Central Valley Project in California, the marketing program of the Southwestern Power Administration—every one projected in areas where power needs are great—have all been hampered and hamstrung.

Some high-priced lobbying talent and some vicious propaganda have been employed. Most of you know that the top power lobbyist in Washington receives a larger annual salary than the combined and total annual pay of any five of the President's nine Cabinet officers. Only last week this gent commanded news headlines in our leading newspapers by damning the President's proposal for a Columbia Valley Authority.

Many of you have seen the power lobby's motion picture, "The Power of a Free People." In it a swastika was used to characterize the government's representatives working for a public power agency. In order to complete the confusion, cries are raised of "socialism" or "communism." It is charged that the government's power activities are the advance guard of an army that will socialize American industry.

I am sure that this opposition will fail, as it rests on false assumptions. It tries to pervert the language of liberty and freedom to cover privilege and monopoly. It strives to prevent the development of low-cost hydro-electric power and its sale at low rates where that kind of development is just the kind of support and encouragement which private enterprise needs for rapid progress and expansion. No one could go down to the Tennessee Valley and take a poll of businessmen or even bankers as to whether private enterprise has prospered with the TVA program without getting an overwhelmingly favorable reply.

Federal Role in Power Business

The Federal Goovernment's role in the power business is properly that of a wholesaler Local agencies, such as your cooperatives, should distribute the government's power. In order that the wholesaler can operate on a businesslike basis, Congress has authorized construction of transmission facilities to take power to the load centers from which it can be distributed. Without that authority the only buyers would be those who could come to the dams, or principally the utilities already operating in the region.

Of equal importance to businesslike operation, in most regions of the country, is a supplemental source of energy, such as steam generating plants, to "firm up" hydroelectric energy which otherwise would have to be sold at bargain basement wholesale prices as secondary or dump power to be resold at retail at the existing rate of the private utility Clearly that generation is of no benefit to the consumer.

It is good business for the country, too, to develop its constantly-renewed water resources in order that their energy potential may help conserve our exhaustible energy resources—oil and coal.

These considerations, while important to the nation and its future welfare, cannot determine the decisions of private management in the power business. As witness to this fact, the private companies of the Southwest are installing over 1,000,000 kilowatts of fuel-burning generating plants in the next three years, while several times as much water power could have been available if its development had been carried forward in time.

Reconciling Private and Public Power Ownership

In a few cases, there has been an encouraging demonstration of the kind of industrial statesmanship which is required to reconcile the interests of private management and the public. The latest of these occurred a few months ago when the Interior Department executed a contract with the Georgia Power Co. for the sale to that company of the output of the Allatoona Dam, being built by the Corps of Engineers for flood control on the Etowah River, near Cartersville, Georgia.

That contract will yield the United States over $1,000,000 a year. It will also permit the government at any time to withdraw firm power to meet the requirements of public bodies and cooperatives which may desire to purchase directly from the government.

This contract is good for both sides. It leads me to hope that the blind opposition of parts of the power industry to the government's program for development and marketing of power will be abandoned in favor of a good-faith effort to develop workable arrangements which both meet the requirements of public policy and yield a fair deal to private management.

It may well be that in some areas, as in the TVA region, the predominance of the power resources to be developed by the Federal Government may be such that the entire power market will ultimately be served from Federal projects. In still other areas, relationships may be entirely different. In either case, private equities and interests can and should be protected fully.

In the TVA area, and I speak from personal experience, the private owners of the electric systems acquired by TVA and the cooperatives and municipalities which it serves, received 100 cents on the dollar for their investments. This precedent can be followed elsewhere if Federal power sources predominate and communities desire to undertake their own power distribution business. In other areas, arrangements such as the one with the Georgia Power Co. may suggest the answer.

Electric Power Capacity Should Be Doubled

I believe that there should be the same kind of change of pace in hydro-electric development as there was in rural electrification. The total capacity of the power industry must at least be doubled in the next ten years or so. During the last 15 years, we added 6.3 million kilowatts of hydro-electric capacity in this country. In the next 15 years, we should add at least 25 million kilowatts. Most of this additional capacity will be built as an integral part of our Federal multipurpose river control programs. Much of it will be developed in our western regions where cheap power will make it possible to use the now undeveloped mineral resources and where additional power development can provide the basis for financing badly needed new irrigation facilities.

We need to be as decisive about our power supply as we were about our electrification of rural America. We need great efforts over the next decade on the part of the entire power industry, both public and private, to provide enough electric power to meet America's needs.

We should provide a substantial part of our additional capacity out of our inexhaustible water power resources. The power developed by the United States should continue to be marketed on a basis which will assure its widespread use by the ultimate consumer at the lowest possible rates.

Government Power Marketing Should Be on Business Basis

Obviously, the power marketing operations of the Government should and will be conducted on a businesslike basis.

We will continue to uphold the principle that power from Federal projects in a region is developed for the benefit of the people of the region as a whole and is not to be monopolized. This is the purpose of the provisions of law which direct preference in the sale of power to public bodies and non-profit cooperative organizations.

In carrying on the electric business, your cooperatives must recognize increasingly the importance of assisting their members to develop their use of electricity. It is not enough to deliver electrical energy at the customer's meter and then forget about it. In order for your service to do the job it can do in the home and on the farm, you must effectively discharge your responsibility to advise your members of ways to put your service to work more and more effectively and thereby to improve their level of living. In this work, there are great opportunities for cooperative action with other interested agencies, such as the Agricultural Extension Service and the Federal agencies marketing power to you at wholesale.

As I said earlier, these opportunities and responsibilities are tremendous. Public power—and by that I mean not only generation and transmission by the Federal Government and other public agencies, but also public and co-operative distribution—is going to have to be organized and prepared for the job. It is going to have to start now the operational planning and research which will allow it to shoulder effectively this new load.

I think that the National Rural Electric Cooperative Association at this meeting should take positive steps to prepare for this future of expanded power needs and expanded public power supplies. If you or any of the other public power groups in the country are not ready when the need is at hand, you will be by-passed. Your past progress has not been achieved because of any magic in "public power" but through the initiative and resourcefulness of your leaders. In that lies our hope for future progress. You should be ready to double your activities just as the country doubles its power activity.

Again I want to pledge to you the wholehearted cooperation of the Interior Department and its power agencies. The power using public has benefited much in the past from our association with you and we expect the benefits to "snow-ball" in the future.

Equipment Trust Ctfs. Tabulated by Union Sec.

Union Securities Corporation, 65 Broadway, New York City, has prepared a tabulation giving details of the equipment trust certificates sold by the principal railroads last year. The tabulation lists 78 individual certifcates issued in an aggregate face amount of $426,502,000 by 37 railroads.

Pennsylvania Railroad sold certificates in the principal amount of $70,050,000, the largest total for any single railroad, and covered by seven (7) trusts. Chesapeake & Ohio Railway, with eight separate issues, topped the list numerically.

With the exception of one issue which was purchased by a bank, all of the issues were acquired by investment bankers. Two issues were placed privately while there was no reoffering of the issue bought by the bank. The remaining 75 issues were reoffered to the public.

The tabulation gives, for each issue, the date of sale; principal amount; maturity dates; Moody rating; name of successful bidder; coupon rate; successful bid price; interest yield by year; average reoffering price, and average yield.

Newburger Exhibit On General Mills

PHILADELPHIA, PA. — Newburger & Co., 1342 Walnut Street, members of the New York and Philadelphia Stock Exchanges, are continuing their "Visualization Program" of Exhibits of the latest products of companies whose stocks are listed on the New York Stock Exchange.

General Mills, Inc., is the third of a series of exhibits, the first having been Philco Corp., the second Radio Corp. of America, future schedules being Cluett, Peabody, Westinghouse Electric & Manufacturing Co. and I. B. M.

Mutual Funds

By HENRY HUNT

Formula Plan Investing

Devotees of formula plan investing will be interested to know that First Mutual Trust Fund, sponsored by National Securities & Research Corp., has been operated on such a plan for more than a year. To quote from a recent "National" folder:

"A formula plan of investment is not a means of forecasting future stock prices but simply a method of predetermining the general levels of stock prices at which (a) a certain proportion of stocks held are to be sold and the proceeds invested in bonds, or (b) a certain proportion of bonds held are to be sold and the proceeds invested in stocks.

"It is designed to take emotionalism out of investing by automatically forcing action when stock prices, as determined by a recognized index, attain certain levels in both up and down cyclical price movements.

"The objective is (1) to preserve accumulated capital by selling stocks at high levels and investing in bonds to protect capital during periods of declining stock prices; (2) to obtain an increase of capital by selling the bonds and purchasing stocks when stocks are at low levels and offer appreciation opportunities.

"The 'National' formula plan was originated and developed during 1947, especially for National Securities & Research Corporation, sponsors of First Mutual Trust Fund by Dr. Frederick R. Macaulay, economist and noted authority on cyclical movements of securities prices. The Plan is now being used as a guide to effect changes in the percentages of assets invested in bonds and stocks in accordance with changing levels of general stock prices.

"The results for the first full years of operation of First Mutual Trust Fund under the 'National' formula plan, have been most gratifying. Difficult periods for security evaluation were passed through with confidence based on a sound balance between bonds and stocks regardless of security price trends. A satisfactory income position was maintained, and the year-end position of capital assets was favorable to any comparable index or investment portfolio. We believe that results in the future will be equally satisfactory. The Plan allows for adjustment in the event that there are major changes in security price levels resulting from a changing economy."

250 for the Dow?

A study made by **Karl D. Pettit & Co.**, managers of the Knickerbocker Fund, indicates that the "Dow" will break out of its "valley of indecision" this year and may hit 250 before a bear market develops. According to Mr. Pettit, the 165 level will not be penetrated before the upswing in prices gets under way. If he's right, it's about time to get aboard some common stock funds.

An Untapped Source of Capital

"Speaking in Los Angeles, Professor Sumner Slichter asserted that in 44 of the 60 years between 1889 and 1929, inclusive, the national product, expressed in dollars of constant purchasing power was greater than in the preceding year.

"Output per man hour has increased on the average of about 2% a year—in some decades considerably more. Output per capita has grown almost as fast. Between 1889 and 1929, output per capita more than double. It is plain that such a large increase can be accomplished only by giving men more and better equipment with which to work. In 1929, for example, capital per worker, expressed in dollars of constant purchasing power, was about 2.1 times as large as in 1889.

"It is the use of large and increasing amounts of capital and constant improvement in the equality of capital which has permitted the people of this country, who comprise only 6% of the world's population to produce between one-third and two-fifths of the world's goods. . . .

"It is a sobering fact that ownership of shares in American Industry seems to have so little attraction for most Americans. Outside of the one-fifth of the labor force represented by the self-employed, savers do not, as a rule, seek to invest their savings in equity capital of industry. Consequently, the time seems to have come for Americans to begin to do a new kind of thinking.

"If the other four-fifths of the labor force are to invest their savings in industry, the first and most logical place for these investments is with the investment companies. While funds so invested would not and should not find their way into new, venture capital, they would release the funds of others for more speculative enterprises."—From a bulletin issued by **The Parker Corporation.**

End of "Scarcity Boom"

"Are we on the verge of a sharp decline in business activity and commodity prices?" asks **Group Securities** in its current monthly report, and answers:

"We expect industrial production to decline, but only moderately." The Group report continues, "we see no reason to expect any serious decline in prices, but rather a readjustment of farm and industrial prices to a balanced relationship. These overall corrective developments are highly constructive. They should diminish considerably the constant demands for higher and higher wage rates. As costs of food and clothing decline an increased proportion of national income should become available to maintain the present high level of the important durable goods industries. Working capital and expansion problems of businessmen should ease, or in any event stabilize. And also highly important, the change in the outlook will probably prevent contemplated government controls on business and may substantially modify, if not entirely eliminate, proposed increased corporate and Social Security taxation."

The report concludes that "the passing of business from a scarcity boom to a peacetime prosperity will affect favorably our economy as a whole."

Nice Odds!

A Britisher recently wagered six pence (a thin dime) on a difficult football parlay and hit. His winnings: $295,000, all tax free! The odds: 2,950,000 to 1.

Prominent Personalities

(Sixth of a Series)

WOODFORD MATLOCK
President, Broad Street Sales Corporation

"Woody" Matlock, also known as "Tot" (Yes, his mother wished that one on him), has three claims to distinction:

(1) He is a demon on statistics.

(2) He occupies the smallest private office of any mutual fund president.

Woodford Matlock

(3) He regularly invests part of his salary every month in his own mutual funds and, incidentally, pays the full retail price.

Born in Denver, Colorado, 50 years ago last November, Woody graduated from Princeton in 1920 where he shone as a southpaw pitcher on the varsity baseball team. Shortly after graduating, thanks to his proficiency in his studies at college, he was offered a job by a Denver bank at twice the normal starting salary. (Editor's Note—The bank also had a baseball team which needed a left handed pitcher.) Although Woody no longer curves them over the corners, he bowls a very respectable average of 170. He also goes in for gardening in his leisure moments. Mr. Matlock is an old hand at the mutual fund business, having started retailing these shares in 1930. From 1927 to 1944 he was associated with Sidlo, Simons, Roberts & Co., in Denver; the last seven years as Vice-President. Since 1945 he has been President of Broad Street Sales Corporation, sponsors of National Investors, "Broad Street" and the Whitehall Fund, all managed by the Union Service Corp., a Seligman affiliate.

Woody married at an early age and is the father of two and a grandfather of one already. He commutes from Scarsdale and may be seen every evening on the 5:44. When asked what he likes to eat best, he replied, "Be it ever so smelly—just give me a hunk of good ripe cheese!"

To get back to brass tacks, Mr. Matlock believes that the mutual fund business today is in the same position from a growth standpoint that the life insurance business was in 1914. He also believes that the time will come when the purchase of mutual funds will be as accepted a procedure as opening a savings account or taking out life insurance.

Lord, Abbett & Co. Partnership Formed

H. I. Prankard, II, Leon Abbett and A. R. Hughes announce the formation of the partnership of Lord, Abbett & Co., 63 Wall Street,

Harry Prankard, 2nd

Leon Abbett

Albert R. Hughes

New York City, to manage and be the national distributor for Affiliated Fund, Inc., American Business Shares, Inc., and Union Trusteed Funds, Inc., with total assets in excess of $100,000,000. These activities were formerly carried on by Lord, Abbett & Co., Inc., which is being dissolved.

Mr. Prankard, formerly Executive Vice-President of the corporation, will be managing partner of the new firm.

Leon Abbett is one of the founders of the original firm with which he has been associated as an officer and director since its organization in 1929.

A. R. Hughes, formerly President of the Chicago investment firm of A. R. Hughes & Co., has more recently been a Vice-President and director of Lord, Abbett & Co., Inc. He will be in charge of national sales.

Public Utility Securities

By OWEN ELY

New York State Electric & Gas

General Public Utilities Corp. has decided to divest itself of its New York State subsidiaries, as part of its broad program to conform to the Utility Holding Company Act. Accordingly, the company is filing with the SEC an application to offer to its own stockholders substantially all the common stock of New York State Electric & Gas Corp., for subscription in the ratio of 1-for-10. The subscription price will be determined just prior to the mailing of the warrants to stockholders, which may be around March 10—15. Stockholders whose rights would call for a fractional share will be permitted to subscribe for a full share.

The subscription program is being handled in somewhat the same manner as that of Columbia Gas several months ago. The offering is not underwritten, but a large group of dealers is being formed to obtain subscriptions on a per share fee basis. This will be headed by The First Boston Corp., and will include Lehman Bros., Wertheim & Company, and Merrill Lynch, Pierce, Fenner & Beane.

New York State Electric & Gas has annual revenues of about $45,000,000. Electric revenues last year were about 85% of the total, gas 14%, and miscellaneous operations 1%. The company purchased a very substantial amount of its electricity and gas in 1948 at a cost of $10,839,533.

The company provides electric or gas service or both within areas of the State of New York aggregating approximately 16,700 square miles, or about 35% of the area of the State. It serves 13 cities, 146 villages and 388 towns, as well as numerous rural areas, in the central, eastern and western parts of the State. The population of the territory provided with one or more services by the company is estimated, on the basis of the 1940 Federal census, at approximately 1,128,000, of which about 70% is estimated to be outside the corporate limits of cities.

The territories served by the company include large areas devoted to dairying and farming, particularly within the south-central part and along the eastern edge of the State, and vacation and resort areas in the Adirondack Mountain regions, in the Catskill Mountain regions, in the Harlem Valley region and in the Finger Lakes section. Manufacturing activities, located in various parts of the territory served, generally consist of diversified plants devoted to many different kinds of operations, including the manufacture of shoes, business machines, photographic supplies, steel products, glass and glass products, gypsum, chemicals, machinery and other items. The most important manufacturing industry located within the territory is the boot and shoe industry in and about Binghamton, Endicott and Johnson City.

As of June 2, 1948, when the company issued $5,500,000 new 3s and 35,000 shares of 4.50% preferred stock, the capital ratios approximated 59% debt, 18% preferred and 23% common stock equity. However, this was after setting aside in "Unearned Surplus—Special" some $13,970,000 for write-offs and adjustment of depreciation reserve, in accordance with an order by the Public Service Commission. Since the company had already restated its plant account on the basis of original cost through a charge of $10,870,000, it is possible that part or all of the earmarked portion of surplus can eventually be restored, if the courts find that the Commission is unauthorized to require further changes in depreciation reserve or plant account. Restoration of this reserve would of course lower the debt ratio, and would step up the equity proportion of capitalization to about 32%. The book value of the common stock is $25 per share and book value would approximate $43 a share including the earmarked portion of surplus. When the new prospectus on the common stock is available some time in March the 1948 data may become available on rates, power generation, etc. In 1947 the average residential rate per kwh. was 3.3 cents, which seems reasonable considering the large proportion of rural areas. Average residential use per annum was 1,513 kwh.

In the calendar year 1948 the company earned $4.61 a share on the common stock compared with $4.63 in 1947. In the fourth quarter, however, earnings were $1.40 vs. $1.05 indicating a favorable recent trend. Based on the 1948 earnings, it is conjectured that the stock may be offered to stockholders somewhere in the neighborhood of 35-40, but it is difficult to appraise market value until the dividend policy is known. It is unfortunate that the number of shares could not be split up, to place the stock in a more popular price range.

SEC OKs Baltimore-Philadelphia Exch. Merger

The Securities and Exchange Commission on Feb. 14 announced its approval of the merger of the Baltimore and Philadelphia Stock Exchanges by permitting the Baltimore Exchange to withdraw its registration as a national securities exchange. In its announcement approving the merger, the SEC gave notice that the merged exchange must notify all firms having trading privileges on the Baltimore Exchange of its merger with the Philadelphia Exchange and, in addition, must maintain its own records for a period of three years.

G. H. Walker & Co. Opens Syracuse Office

SYRACUSE, N. Y.—G. H. Walker & Co., members New York Stock Exchange, announce the opening of an office in Syracuse, New York, in the Lincoln Bank Building, under the management of C. Wesley Roberts. Established in 1900, G. H. Walker & Co. maintains offices in New York, St. Louis, Providence and Hartford, where it conducts a general brokerage and investment banking business.

Before joining G. H. Walker & Co., Mr. Roberts was Vice-President of Management Planning of Washington, Inc., and was also formerly sales manager of Bond & Goodwin, Inc. During the late war Mr. Roberts served as a major in the U. S. Army Air Force. Prior to army service, he was a general partner in the investment firm of Roberts & Morgan at Watertown, New York, of which he was co-founder in 1932.

Rural Electrification—A Check to Monopoly

By CLAUDE R. WICKARD*

Administrator, Rural Electrification Administration

Contending REA program is outstanding financial success, after use of over $1 billion of government funds, its chief administrator holds it is basic bulwark of free enterprise system and a check to monopoly concentration in electric utilities services. Assails private power companies for utilizing high-priced lobbyists and high pressure propaganda, and asserts free enterprise system is jeopardized by big corporations. Contrasts REA success with "long record of failure of utility industry."

This occasion gives me an opportunity to carry out one of the responsibilities that I have under the REA Act. Section 2 of the Act says: "The Administrator is authorized and empowered to make loans . . . for rural electrification . . . to make . . . studies, investigations and reports concerning the condition and progress of the electrification of rural areas."

Claude R. Wickard

This is one of the best opportunities I have to make such a report and to discuss the condition and progress of rural electrification. I am most grateful to you for it.

The calendar year just closed was by all odds the greatest in REA history. A total of 147,000 miles of line and 468,900 consumers were added on REA-financed systems. That is 106,700 consumers more than the highest previous record established in 1947.

Today 70% of American farms have central station electric service—as against 11% when REA was started less than 14 years ago. There are now a total of 2¾ million consumers on REA-financed systems.

These are impressive figures, but they are not the sole measure of the progress that has been made. The most important thing, of course, is the tremendous increase in the happiness, health and economic well-being of rural people which the program has brought about. Rural people are using electricity in ever more ways and in ever greater amounts to achieve a better life. We estimate that REA co-op members who were getting service five years ago have about doubled their consumption since that time.

Program Outstanding Financial Success

I am proud to report that the REA program continues its record of outstanding financial success. Our financial record must command respect even here in New York, the financial center of the world. Since the start of the program we have advanced $1,100,000,000. I want to call attention to the fact that approximately 60% of this amount has been advanced in the last three years. This means that much of the REA-financed construction is so new that it has not yet had a chance to contribute toward the amortization of the indebtedness. Despite this fact, REA borrowers have paid, as part of their debt service, a total of $185,000,000 of which $106,000,000 has been paid on principal. Does anyone know of a better record in the electrical utility business?

From every standpoint this program has made a remarkable record. How that record contrasts with the prophecies of failure which were made by the people who opposed this program! The prophets of doom said that farmers would not use enough electricity to make it profitable to serve them. They also said that only men of long experience in the utility field could make a success of managing an electrical enterprise. They predicted that they would have to take these systems off your hands, after a great financial loss to the taxpayers. They have been wrong on all counts. Incidentally, one company learned the hard way, down in Virginia, that it couldn't take over—even by slipping up on the blind side.

Looking Ahead

Let us look ahead to the future. You directors and managers have shown what can be accomplished when a conscientious, intelligent and determined effort is made to reach a worthy objective. We are going to need that same kind of effort to attain our ultimate objective, which is to make plenty of reliable, low-cost power available to every rural community of this nation. There are many difficult problems to solve; there are many important decisions to make.

Many of these decisions involve not only the success of the REA program but the welfare of the nation and even its leadership in world affairs.

Let us consider first those problems which pertain directly to the bringing of service to every rural community. There is the matter of loan funds. Although the Congress has made large amounts available for loans in the postwar years, substantial amounts are still needed if construction is to continue its rapid progress.

Materials are needed in larger quantities. The availability of aluminum conductor is the controlling factor in construction for many REA borrowers. The supply situation on other types of conductor has been tightening. The Wisconsin Electric Cooperative's contract with the Reynolds Metals Co. for aluminum conductor offers a bright ray of hope on what otherwise is a darkening picture in this field. It deserves your careful consideration.

Despite our combined efforts to hold costs down, construction and operating costs have gone up, increasing the difficulty of establishing economic feasibility in areas of low financial return. This places on us the responsibility for being ever more persistent in our efforts to resist the inflationary tendencies and to find economies wherever possible all along the line. We may have to look to other solutions as well. In some instances a lengthening of the amortization period from thirty-five to fifty years would help to insure economic feasibility.

Of vital importance to REA consumers everywhere is the problem of power. In fact, solution of this problem on a broad front is vital to the welfare of our entire nation. We find sometimes that we cannot make loans for distribution lines until the power problem is solved. The energization of lines already completed has been delayed in some places because of lack of power. In other areas service is poor because of power shortage. Rising wholesale power costs are hampering the program in many ways.

Shortage of Electric Power

Steady growth of our national economy to meet the expanding needs of our people is essential to our national welfare. This growth is being restricted today by the shortage of electric power. That shortage must be eliminated by nation-wide action. We have the natural resources. They must be developed to insure that our national well-being will not continue to be jeopardized again by power shortages.

First, we must develop our great hydro-electric resources. This can be done effectively only through the Federal agencies which are charged with responsibility for flood control, navigation, irrigation and reclamation. We can double our generating capacity by proper development of these resources. Fortunately, in many instances, they are situated adjacent to plentiful supplies of cheap fuel which can and should be used for firming up the hydro-generators.

Second, the power from our river developments must be made available to the consuming centers at low and equitable rates if the country is to get maximum benefit from its own resources. This can best be accomplished through the Federal financing of the necessary transmission systems. The decisions in all these matters must be made in the interest of the consuming public and not for the benefit of the power monopolies.

The growing needs of REA cooperatives and the shrinking supply of low-cost wholesale power has made it necessary for REA to make an increasing proportion of its loans for the construction of generation and transmission facilities. From July 1, 1948 up to the middle of January we have loaned $45 million for generation and transmission systems. We anticipate we will have to more than double this amount of loans before the end of the fiscal year because of the inadequacy of low-cost power. The increase in these loans is not due to any change in REA policy. That policy, as you know, is to make such loans only when it is necessary to solve a power shortage or to effect savings for consumers. It was established at the very beginning of the REA program and has been discussed and confirmed in Congressional debates.

Despite the strict standards we are following, virtually all of the generation and transmission loans which we have made recently have been violently opposed by the commercial power companies. It is apparent that they are going to continue to seek legislative action to stop us from following our policy. Your representatives in Congress are the only people who can make a change in the policy. Until there is a change I am going to follow conscientiously our present policy in regard to these loans.

So far I have reported to you briefly on the condition and the progress of rural electrification. I have pointed out some of the problems and decisions facing us and our fellow citizens as we continue to move forward in this program. Now I would like to discuss with you some of my thoughts as a farmer and as a citizen about this program in which we are engaged.

In the future we should devote more thought and effort to gaining a better understanding of the opportunities and responsibilities that we REA members and officials have in this great program. The principles and objectives of our program are basic to our democracy.

As many of you know, I am a

(Continued on page 33)

*An address by Mr. Wickard at Annual Convention of National Rural Electric Cooperative Association, New York City, Feb. 1, 1949.

Canadian Securities

By WILLIAM J. McKAY

While Canada continues to adopt a relatively passive attitude on the subject of immigration, the Dominion risks to miss an outstanding opportunity to pave the way towards the solution of other chronic problems. The undeniable fact that so much has been achieved in spite of the low level of population only serves to aggravate a vulnerable situation. The high per capita volume of Canadian production is certainly gratifying during periods of boom and sellers markets, but with the inevitable subsequent recession and declining export markets, Canada's limited domestic market provides an inadequate cushion against the impact of the forces of depression.

This harsh truth is now becoming only too apparent. With the end in sight of the sellers market and with growing competition in export markets from other producers of primary products, Canada is faced with the acute problem of securing outlets for her considerable surpluses in this field. Despite wartime generosity towards Britain in the shape of Mutual Aid, and long-term contracts at prices well below the world level, the difficulty of the British economic situation prohibits any sentiment in British-Canadian commercial relations. Similarly the lack of any hard and fast economic agreement with this country will jeopardize U. S.-Canadian trade as soon as Canadian exports to this country seriously compete with domestic production. While the U. S. producer can fall back upon the vast domestic market and has wide scope for export in the various schemes for foreign aid, the Canadian producer on the other hand can only turn as a last resort to a grievously inadequate internal market.

This unsatisfactory state of Canadian economic affairs will persist as long as Canada is obliged to chart an uncertain economic course governed by the influences exerted by her great neighbor to the South on the one hand, and her traditional British economic partner on the other. Without breaking any of the time-honored U. S.-British ties, a virile policy aimed at greater Canadian economic independence would ultimately prove not only beneficial to Canadian interests but it would also tend to remove causes of possible friction in the Dominion's relations with Britain and this country.

No better method of achieving this desirable objective could be devised than the adoption of a vigorous immigration policy; never were world conditions more propitious. In addition to the natural urge of the countless would-be emigrants from Europe and elsewhere, there is now a universal new appreciation of the tremendous possibilities for Canadian development in the field of industry. Also previous Canadian inhibitions born partly of fears of loss of racial dominance, partly of doubts of Canada's ability to support a greatly expanded population, have been largely replaced by a new confidence in the high destinies of the country. The majority of enlightened Canadians no longer visualize their country as a strip of habitable territory limited to some 200 miles north of the U. S. border. It is likewise no longer believed that Canada is obliged as an economic necessity to link its fortunes with any other country. On the contrary, a healthy nationalism has sprung into being which can induce a new era of dynamic expansion.

Without an adequate population however Canadian expansionist dreams will not be realized. The Dominion should consequently not only remove the barriers to immigration, but should also take active steps to bring immigrants into the country; if necessary to expand the merchant marine and air-transport facilities for this purpose alone. The previous open-door immigration policy that laid the foundations of the economic greatness of the United States can well serve as a constructive example to its northern neighbor.

During the week there was a relaxation of the previous sustained demand for external high-grade bonds but prices were well maintained. Internal Dominions were quiet with the longest 3's in demand at 91. Free funds also showed little animation and have once more stabilized around 7½%. The corporate-arbitrage rate following its recent decline displayed a firmer tendency in the neighborhood of 14%. Canadian stock markets were mostly lower with the industrial issues leading the decline. The golds however proved a strong exception to the general trend, and Western oils, inspired by reports from Calgary of a new field in the Woodbend area, were also notably steady.

William H. Boggs Joins Gimbernat & Sellwood

Gimbernat & Sellwood, 111 Broadway, New York City, members of the New York Stock Exchange, announce that William H. Boggs is now associated with the firm as registered representative.

Wm. H. Boggs

Spahr Says Investments Abroad Requires Adoption by United States of Gold Standard

Points out proposed Truman policy of aiding undeveloped nations with American capital could not be attained without international monetary stabilization on gold basis.

"Adoption by the United States of a gold coin standard at $35 per ounce should provide an effective start toward international monetary stabilization and, by reducing uncertainty as to the quality of money in which long-term loans abroad are to be repaid, should encourage private investments in productive projects in other countries," Dr. Walter E. Spahr, Executive Vice-President of the Economists' National Committee on Monetary Policy, remarked in a statement issued Feb. 9.

Walter E. Spahr

"Such an action on the part of the United States, so essential if private investments abroad are to expand, as recently proposed by President Truman," Dr. Spahr contends, "should lead to the realization in other countries of those undertakings that have merit when appraised from the points of view of need, costs of operation, and possible profits to private institutions or individuals risking their capital in them.

"The proper procedure to pursue in the attainment of international monetary stabilization involves the following steps:

"(1) Introduction by the United States of a gold coin system on the basis of $35 per fine ounce which would make 35 paper or silver dollars freely interchangeable on demand with gold at that rate. This step would make immediately available a currency in gold or interchangeable in gold—which is universally acceptable—and which is needed if private investments are to be made in other nations.

"(2) After the United States leads the way by the adoption of a fixed gold coin standard and system, other nations, possibly one at a time, should be more inclined to link their paper money to gold at a fixed rate.

"(3) Removal of foreign trade and exchange controls should be undertaken at approximately the same time that a nation establishes the gold coin system.

"(4) Appointment of commissions of monetary experts to concern themselves with the monetary matters of single nations rather than with a group on a global basis should assure proper procedure in the establishment of sound money systems adapted to the needs or limitations of each nation.

"With only about eight countries unhampered today by foreign exchange controls," Dr. Spahr concluded, "it becomes increasingly important that the United States lead the way toward international monetary stabilization by creation of a gold coin standard at $35 per fine ounce, thus making our gold and other dollars readily usable throughout the world by individuals as well as by central banks, and thereby making effective our desire to invite private investments of all types everywhere that capital can profitably go."

World Fund Denies Approval of Gold Sale at Premium Prices by South Africa

Insists on safeguards that sold gold will be used only for industrial, professional and artistic purposes. Sen. McCarran wants gold trading in United States Resumed.

With reference to reports about a gold sale at premium prices made by South Africa, the International Monetary Fund has issued a statement to make it clear that it has never approved any specific gold sales at a premium price. According to statement the Fund was consulted four months ago by the South African Government with regard to a proposed plan to sell semi-processed gold at premium prices for industrial, professional or artistic purposes. The Fund advised the South African Government that it was "disturbed by the fear that the trade in semi-processed gold which it contemplated by the South African Government would involve considerable sales of gold at premium prices for other than legitimate industrial, professional or artistic purposes. It felt that this would almost certainly be the consequence if the proposed transactions are to be on a scale sufficient to ensure an appreciable profit to gold producers.

"In these circumstances," the Fund added, "the Fund believes that South Africa should not engage in the proposed plan unless it is satisfied that it can take effective measures to ensure that gold sold under the plan will in fact be used for bonafide and customary industrial, professional or artistic purposes."

The South African Government informed the Fund last week that it had agreed to sell a quantity of semi-processed gold at a premium price. In the light of the information submitted to the Fund by South Africa, including that on the prices and quantities involved, the Fund has found it necessary to get in touch with the South African Government with a view, particularly, to determining whether the safeguards adopted are, in the Fund's opinion, adequate to ensure that any gold sold will, in fact, be used for bonafide and customary industrial, professional and artistic purposes.

In connection with the foregoing attitude of the International Monetary Fund regarding gold sales, it is interesting to note that, despite U. S. adherence to the world monetary compact, Sen. Pat McCarran (Dem., Nev.) on Jan. 5 reintroduced his bill to permit trading in newly mined gold in the United States and its territories. Senator McCarran's bill (S. 15) reads as follows:

A BILL

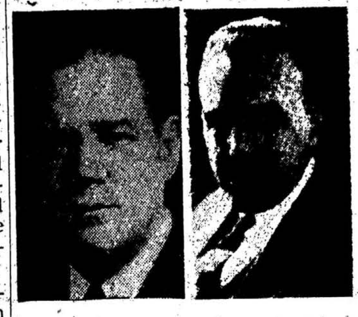
To permit the sale of gold within the United States, its Territories and possessions, including Alaska, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That, notwithstanding any law or Executive order, gold in any form, mined subsequent to the enactment of this Act within the United States, its Territories and possessions, including Alaska, may be bought, held, sold, or traded upon the open market within the United States, its Territories and possessions, including Alaska, for any purpose whatsoever, and may be exported without the imposition of duties, excise taxes, the requirement of licenses, permits, or any restrictions whatsoever.

Sec. 2. Gold imported into the United States after the effective date of this Act may be held, bought, sold, or traded upon the open market within the United States, its Territories and possessions, including Alaska, for any purpose whatsoever, and may be exported without the imposition of duties, excise taxes, the requirement of licenses, permits, or any restrictions whatsoever.

STANY Alumni Ass'n Honors John O'Kane

The Alumni Association of the Security Traders Association of New York held its annual meeting on Feb. 6 at Whyte's Restaurant. John J. O'Kane, Jr., John J. O'Kane, Jr., & Co., retiring President of STANY, was honored at the dinner and a gift was presented to him by the Association.



John J. O'Kane, Jr. John E. Kassebaum

All former Presidents of STANY were at the dinner with the exception of Bill Summers, Troster, Currie & Summers, who has been at home for several months on account of ill-health. The members are all looking forward to having him with them as heretofore at the next annual meeting. Bill lives at 177 Wallace Street, Freeport, L. I., and we are sure he will be glad to hear from any of his old friends while he is recuperating. The Association sent him a box of cigars labeled with a large band on which all of those present signed their names, indicating in many cases with a few lines the affection and esteem in which they hold him.

John E. Kassebaum, of Van Alstyne, Noel & Co., is perennial President of the Alumni Association; Frank Mackessy, Abbott, Proctor & Paine, acts as Secretary and Treasurer.

Ebasco Services Appoints D. U. Pinder

Ebasco Services Incorporated announces the appointment of Daniel U. Pinder to its staff of business consultants. Mr. Pinder previously was engaged in research and analytical work for Kalb, Voorhis & Co., F. J. Young & Co., Inc., and Dun & Bradstreet, Inc.

Smith Barney Co. Adds

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—Charles D. Turgrimson is with Smith, Barney & Co., 105 West Adams Street.

With J. Arthur Warner Co.

(Special to THE FINANCIAL CHRONICLE)

PORTLAND, MAINE—Roscoe A. Wing has joined J. Arthur Warner & Co., Inc., Clapp Building.

With Lincoln E. McRae

(Special to THE FINANCIAL CHRONICLE)

ROCKLAND, MAINE—Howard W. Rice is associated with Lincoln E. McRae, 449 Main Street.

Sees Fed. Publications A Spending 'Soft Spot'

Senator Styles Bridges says Uncle Sam maintains a Book-of-the-Minute Club, Unlimited.

In a recent address on the Senate floor, Senator Styles Bridges (R., N. H.) called attention to the heavy expenditure and waste in government printing and publication.

"My attention," said Sen. Bridges, "was first drawn to this field of government activity during Budget hearings when I noticed ever-increasing estimates for printing and binding, when I heard Budget officers justify larger printing and binding appropriations on the grounds of large backlogs of unpublished material, and when a large number of Federal publications began streaming across my desk whose very titles indicated that the government bureaus had virtually taken all knowledge as their field.

Sen. Styles Bridges

"I asked the staff of the Appropriations Committee to investigate and a wealth of information was uncovered. Some of this I want to pass on to you today.

"No one knows the number of publications which are printed and processed yearly by the Federal departments and agencies," the Senator added. "Much of this is done through the Government Printing Office, and of these we have complete records. But much more is done by the agencies themselves, in their own printing plants throughout the country, and through contracts with outside printing firms.

"For the Committee, I asked each Federal agency to submit to the Committee one copy of each publication issued during the past fiscal year which went to the general public. The response was overwhelming. The Committee actually received 83,723 different publications. As you can see, I have with me here a few of these publications. I did not dare bring all of them to the floor with me. There just isn't room enough.

"Even the 83-odd thousand publications which the Committee received do not comprise more than a fraction of the total publications of the government last year. They do not contain any of the multitude of publications which were issued solely for the internal workings of the government. They exclude also thousands of publications which the agencies indicated would be expensive to collect. One bureau begged off on a stack of publications estimated to be 52 feet high. Another begged off on a group which would fill, according to their own estimates, seven file cabinets of four draws each. A third estimated that just one type of publication from that agency would fill a warehouse, if they could ever be collected. Remember, what I am talking about is just one copy of each publication going to the general public in the past fiscal year.

"The Government Printing Office told me that in the past 10 years—from 1939 through 1948—they delivered 133,582,867,587 copies of printed matter. This includes work done for all branches of the government. And it includes all types of printed matter—not exclusively publications. Last year, in 1948, there were over 12,000,000,000 such copies of printed matter delivered, a marked reduction from the war year totals, but still nearly double the 1939 figure.

"This does not include the immense quantities of material turned out by the departments and agencies themselves. No one can tell, no one can even estimate the colossal magnitude of what these establishments have processed and printed on their own presses. However, some slight indication of the volume may be gleaned from a survey made at the instance of the Joint Committee on Printing in 1947. This showed that at that time there were 133 government printing plants and 256 government duplicating plants located throughout the country. One department had 44 printing plants. Another 41. Another 23. One agency had 100 duplicating plants. Another 43. In all, there were 32 departments and agencies with printing or duplicating plants located all over the country. One city had 25 plants. Another 23. Washington had 61.

"And all this—mind you—does not include the Government Printing Office operation itself, which had 15 plants, since reduced to nine. Do you wonder when I told you that it is impossible to estimate — impossible to over-estimate—the volume of government printing and processing that is done outside the Government Printing Office?

It's Free—Or Would You Rather Pay?

"One of the amazing characteristics of our government is that it can carry on contradictory activities at the same time. I am not referring to the lady who wrote to me complaining that the Department of Interior's publication, *How to Control Vagrant Cats*, contradicts the purposes of National Cat Week sponsored by the Department of Commerce, although she may well have a good point there.

"No, I am referring to the seemingly paradoxical situation whereby one agency of the government will offer the same publication free of charge to the public which another agency of the government is attempting to sell. This is not true of just one publication. It is a general practice for the departments and agencies to offer free of charge—as long as the supply lasts—copies of publications which the Superintendent of Documents is attempting to sell at a nominal charge. Even then the government loses money, for his sale is based, not on total cost—which, as I have indicated, is unobtainable—but on the reprint cost plus a markup.

"Last year the Superintendent of Documents issued free of charge for the agencies—I repeat, free of charge, 61,979,102 publications. How many million publications which the agencies themselves issued free of charge. We can't even surmise.

"Now I would be remiss in my duties if I made this a blanket condemnation. And I do not wish to be so understood. Many of these publications undoubtedly are highly necessary to the workings of our government and the welfare of our citizens. Many of them, in all justice should be distributed free of charge. Items on rat control and the prevention of forest fires, to mention only two are of such nature that one could not expect general dissemination if a price were asked for them.

"But this is not to condone the vast flood of free publications which daily clutter our mails. A businessman, for example, can conceivably secure 465 publications from the Department of Commerce free of charge by merely mailing a penny postcard to the department. And the Congress itself is not above criticism in this respect, as we all know.

"Recently, all of us Senators received a communication from a government agency which apologized to us because only 100 copies a month of a popular government pamphlet could be furnished for the next several months on account of higher publishing costs. I don't know how the rest of you feel about it, but I'm willing to take a dose of my own medicine. I'm willing to take a lesser number of publications for free distribution to help the cause of lower publications cost. In the long run, the people are not getting these publications free of charge; the cost isn't paid directly, but it is paid indirectly in higher taxes.

"In consequence, I hope my colleagues here and in the House of Representatives will join with me in a conscientious endeavor to order only those publications for distribution to our constituents that will really be of use to them. Let's continue to send the *Infant Care* and let's think twice before we send them publications on *Eliminating Bats from Buildings*. That last one, incidentally, is worthy of comment. The trick which is passed on to the American taxpayer who is plagued by bats in his home or barn is to first close up all but one or two of the openings that the bats use in getting in and out of the building. After this he is advised to wait until about midnight when the bats should all be out for the night, and then, to complete the 'bat proofing,' the remaining holes should be plugged. The bats are locked out. It's remarkably simple—but do we need a government brochure to pass on this hint?"

Blunt Ellis & Simmons To Admit Fitzgerald

CHICAGO, ILL.—On March 1, Blunt Ellis & Simmons, 208 South La Salle Street, members of the New York and Chicago Stock Exchanges, will admit Walter J. Fitzgerald, Jr., to partnership. Mr. Fitzgerald is manager of the firm's municipal department.

W. J. Fitzgerald, Jr.

G. Paul Miller is withdrawing from partnership on Feb. 28.

Duncan to Manage Dickson Chicago Office

CHICAGO, ILL. — Sidney V. Duncan has been appointed resident manager of the Chicago office of R. S. Dickson & Co., 135 South La Salle Street, after 15 years' association with the New York office of he firm. Mr. Duncan is a Vice-President of the organization.

Gaines & Co. to Admit

Thomas A. Gaines will acquire the New York Stock Exchange membership of the late Chester Gaines, and on Feb. 24 will be admitted to partnership in Gaines & Co., 1 Wall Street.

Jos. J. Rice Dead

Joseph J. Rice, partner in Daniel F. Rice & Co., Chicago, Ill., died on Feb. 8.

Railroad Securities

January railroad earnings reports, which will begin to appear next week, are going to present a particularly mixed picture. For western roads the results are obviously going to be pretty grim in many cases. For one thing, for many of these roads the opening quarter represents the seasonal low, with operating deficits normal for the period. This condition will be aggravated in the current year by the worst winter weather on record. Traffic was completely disrupted in many areas and expenses for snow removal, etc. have naturally been heavy. These adverse influences have carried through to date.

In contrast with the rather depressing early 1949 outlook for roads in the affected areas, many roads in other sections of the country should show quite favorable comparisons. Weather in the eastern territory has been particularly mild. From a traffic standpoint this has had its unfavorable repercussions in slowing down the movement of coal. On the other hand, there will not be the heavy storm expenses with which these roads were saddled in the opening months of 1948. It has already been announced in the press that Erie's January earnings were slightly above a year earlier and substantial earnings improvement is expected from the New England roads.

One of the best comparative showings in the opening month of the year is expected to be that of Illinois Central. The road got off to a rather poor beginning in January 1948, with net income of $472,761. Unofficial reports indicate the likelihood that net for the month of January 1949 was more than double that of a year earlier. Despite these expectations that the road is off to such a good comparative start this year the common stock has not been immune to the growing pessimism surrounding the entire rail market in recent months. The stock under recent pressure has declined well below two times 1948 earnings. It hardly seems reasonable that it will continue indefinitely to ignore present high earnings as well as the vast improvement that has taken place in the road's basic status in the past few years.

One of the outstanding accomplishments of the Illinois Central management has been the progress with respect to the debt maturity schedule which not so many years ago was considered well nigh unsurmountable. Since the beginning of 1941 the company has reduced its non-equipment debt by roundly $128 million. This alone is equivalent to more than $94 a share of common outstanding. The once formidable 1950-1955 mortgage maturities have been reduced to approximately $84 million. As of the end of last November the road had cash and equivalent of slightly more than $84 million. Obviously these maturities no longer constitute a threat.

Naturally, the heavy debt retirement program, the necessity to build up cash, and the funds needed for property improvements dictated very conservative dividend policies. Payments were resumed on the small 6% preferred issue last year after a lapse since 1931. The common is one of the few of its class on which distributions have not even yet been resumed. It is difficult to judge just when any dividend may be expected. Representatives of the preferred shares have instituted suit to establish the dividend as cumulative when earned. Obviously it will not be feasible to pay common dividends while this suit is still pending. Even if the preferred stock holders should win, however, it should not delay resumption of common dividends too long as the total preferred dividend requirement amounts to only $1,118,742 a year.

Illinois Central's long-term earnings record has been quite favorable. In particular, the management has shown outstanding ability to get expenses quickly under control with any signs of declining business. Without any allowance for the interim reduction in fixed charges from $16.5 million to $10.7 million, average common share earnings for the 10 years 1938-1947 amounted to $7.77. Last year, with charges reduced further to $10,344,000, earnings on the common hit $14.60 a share.

Earnings in January were probably $0.45 to $0.50 a share above the $0.28 a share earned a year earlier. Obviously it is too early in the year to make any intelligent estimates of 1949 possible share earnings. Even if business declines sharply as the year progresses, however, it is difficult to visualize earnings this year dropping as low as $10 a share. Moreover, further substantial debt retirement is expected this year, with a possibility that some plan may be devised for settling the entire 1950-1955 maturity problem. The main difficulty in achieving this end is that most of these maturities are non-callable.

NYSE Nom. Committee To Hold Meeting

An open meeting of the Nominating Committee of the New York Stock Exchange will be held in the Board of Governors' Room on the Sixth Floor of the Stock Exchange Building at 3:15 p.m. on Tuesday, March 1, 1949, for the purpose of receiving suggestions for the positions to be filled at the Annual Election to be held on May 9, 1949.

All members and their partners are invited to attend this meeting to suggest nominees. Those unable to attend may suggest nominees by letter. For the convenience of any members or partners who may wish to appear individually, the Nominating Commitee will hold meetings on March 8, 15, 22 and 29. Appointments may be arranged by communicating with John C. Korn, Secretary of the Exchange.

Vacancies will occur in the nominations are to be made for the following positions:

Chairman of the Board of Governors, five governors, two trustees of the Gratuity Fund, five members of the Nominating Committee.

Members of the Nominating Committee for 1949 are: Augustus B. Field, Jr., Jos. Walker & Sons, Chairman; Francis Kernan, White, Weld & Co., Secretary; I. W. Burnham II, Burnham & Co.; Basil B. Elmer, Eastman, Dillon & Co.; and Stuart R. Reed, Paine, Webber, Jackson & Curtis.

Securities Salesman's Corner

By JOHN DUTTON

When you meet a prospect for the first time you can save much wasted effort if you properly qualify your man. The faculty of judging people comes as a result of trial and error. Yet, there are some definite reactions that you will encounter if you look for them. Good selling also depends upon alert observation. You judge your man by the things he says. That is why it is important to give him an opportunity to have his say. There is also the attitude he assumes when he talks. It may be an inflection of the voice, or a physical response such as arising from a chair, or relaxing. It may be even a glancing look in his eyes, or a moment of hesitation. Selling intangibles is not based upon a sort of hypnotism as some are wont to believe. But it is important that clues to another's mood, or prejudices can be discovered. Selling securities particularly, demands that sort of attention to the other fellow's personality traits that enables the salesman to steer his course around the obstacles that are always present when you try to persuade another to do anything.

In the securities business we must first establish a friendly, cordial and trustworthy relationship. We don't go out to make a SALE. Not if we are trying to build a business and do a good job for our customers. There are some lines of selling where the objective is to make one call and make the sale. This, too, is a specialized field wherein the salesman has to size up his man. But in our business the main approach is to eliminate the barriers of distrust, strangeness, and sometimes the bad taste in our prospect's mouth that has been left by another salesman.

Last week a case of this kind came to our attention and it illustrates the point very well. A certain salesman whom we know made a call on a new prospect and almost received an invitation to "get out and sty out," all because someone else had been there a few days before and had made a general nuisance of himself. It is too bad that some men go out and try to ride roughshod over their prospects. It doesn't happen very often anymore, but there are still a few high-pressure bunglers around who think they are salesmen. The securities business doesn't have very many of them within its ranks, but in this particular case, whoever had been there before our friend, fixed things so that the reception that awaited him when he called was about as follows:

Our salesman was making a Saturday afternoon call in answer to a respones that had been received from a newspaper advertisement which his firm had run several weeks before. The prospect told him that he had just answered the advertisement out of curiosity, that he really didn't have any interest in securities, and he arose from his chair and started to edge the salesman toward the door. Our man noticed annoyance and a slight touch of belligerency in his prospect's speech and manner. But there was something else—he saw that this man was ready to meet him half way, but that he was hurt and annoyed. He took a shot in the dark—he guessed this man was sore about something. He started to walk right out of the house, he put on a good, broad, smile and he made no effort to cut off the torrent until it had subsided.

Then he said that it was alright with him, that he was glad he had made the call and had the chance to meet his prospect. He put on the low pressure—he took the salesman right off the carpet and replaced him with a friendly fellow who didn't need business, who had a job to do, but was not the least interested in any high-pressure selling. He said he wouldn't even think of trying to do business with anyone until they got acquainted, until he found out that he could be of some assistance. He told his man that his firm wasn't that kind of a concern—that, of course, his main idea in working was to do business, but that came later—after he proved up, so to speak.

And he was right. His prospect warmed right up—invited him back into the house. Told him that a high-pressure fellow had been out to see him just a few days before and had tried to get him to sell a certain security which he owned and to buy something else. (We thought that sort of security selling went out of vogue years ago, but apparently here was the old first call, trade and switch, proposition still going strong.) After a very satisfactory first interview our salesman left with a job to do. He checked up on one of the customer's securities and told him he thought it would be wise to HOLD IT, not to SELL. As a result of his service, he received a friendly letter of thanks and an invitation to keep in touch for future business.

Now the roadway is clear and the possibilities of opening this new account are good. All because our salesman sized up his man properly and eliminated a hazard which some blunderer had left behind him.

Redemption of Brazilian Bonds

Mario Da Camara, Delegate of the Brazilian Treasury in New York, announced on Feb. 11 that two outstanding issues of Brazilian dollar bonds will be redeemed in their entirety on April 1, 1949. Mr. Da Camara, at a press conference held in the Brazilian Treasury Delegation's office in New York presented to Schroder Trust Co., fiscal agent, a check for $10,413,505.33 representing funds for the redemption of all outstanding State of San Paulo (Brazil) 7% secured sinking fund gold bonds, Coffee Realization Loan 1930 (Reconstituted as "Plan A bonds") and United States of Brazil 3¾% external dollar bonds of 1944, series 6, issued in exchange for bonds of State of San Paulo Coffee Realization Loan 1930. The State of San Paulo bonds will be redeemed at a price equal to the principal and accrued interest, which interest, with respect to stamped bonds, will be paid at the rate of 3.5% per annum to the redemption date, and with respect to unstamped bonds, will be paid at the following rates per annum: from Oct. 1, 1938 to April 1, 1942, at 3.5%; from April 1, 1942 to and including Oct. 1, 1943, at .875%; and thereafter to such redemption date at 3.5%, to the extent that payments or settlements at such rates have not previously been made. An amount equal to ⅛ of 1% of the principal amount of unstamped bonds presented will be deducted and paid to the Foreign Bondholders Protective Council, Inc. as provided by the offer to holders of dollar bonds, dated Jan. 1, 1944, made by United States of Brazil upon behalf of itself and certain of its states and municipalities. The United States of Brazil 3¾% bonds, series 6, will be redeemed at the principal amount thereof, together with accrued interest to the redemption date. Holders of both issues are asked to surrender their bonds at the office of the Schroder Trust Co., 48 Wall Street, New York. In London, Vicira Machado, as special representative of the Brazilian Government, deposited with the fiscal agents for the British tranche of the same loan the amount of 2,229,680 pounds sterling for the redemption thereof.

Industrialists See Business Decline in 1949

National Industrial Conference Board survey indicates business leaders, however, do not look for violent recession.

A general business decline in 1949 is foreseen by most of the industrial executives who participated in the latest survey of current business practices conducted by the National Industrial Conference Board. The executives foresee a "mild adjustment in the economic picture" rather than "the oft-heralded depression or violent recession."

Despite general pessimism, however, three out of five executives believe that the 1949 level of operation in their own companies will equal or top the 1948 figures.

The Pessimist Side

New orders will be lower in the first half of 1949 than in either half of 1948 in the opinion of more than half the executives queried. Only a quarter of the businessmen surveyed expect new orders to increase.

Inventories are expected to be larger in half the companies, while only one company in five expects to have lower inventories. Smaller backlogs of orders are reported by six out of ten companies included in the survey while only one company in seven expects backlogs to increase during the first half of 1949.

Adding to the general air of pessimism are predictions as to higher labor and material costs (with resultant higher break-even points), a probable increase in corporate taxes, a drop in the general level of business activity because of the completion of many postwar expansion programs, and the prospect of a larger share of sales being diverted to government agencies with attendant lower profits.

Foreign shipments and government-sponsored allocation programs are cited as having made the procurement of important raw materials, like copper and lead, more difficult.

The Optimist Side

In addition to feeling that their own volume "will hold up quite well in 1949" (despite pessimism over general business conditions), a number of executives see a basis for an optimistic outlook. They cite the "improvement that has taken place in the supply of labor" during the past year. A minority (less than 25%) expect difficulty in obtaining labor during 1949. The material situation has also "shown some improvement" although steel is still reported as being in short supply.

Plant Expansion

Capital expenditures in 1949 will be made by only 40% of the companies surveyed and in many cases, these will be for "the concluding phases of building programs undertaken earlier in the postwar period." Most companies report that plant expansion programs will be financed out of earnings. The next most-frequently mentioned source for such funds is stock and bond issues. Others include short-term bank loans, depreciation reserves, working capital and long-term insurance company notes.

General satisfaction of pent-up demand and the resultant drop in backlogs are reasons given as to why many companies are curtailing plant expansion. Others, who believe that potential markets warrant further expansion, state that they are "delaying building at this time because of high costs."

Effect of the Buyer's Market

Increased emphasis in improved sales methods and plans are reported by many companies. This has been brought about "by growing resistance to higher prices, evidence of receding consumer demand, and more critical buying by both consumers and industrial companies."

Forecasts by Industry Groupings

While favorable comments on the 1949 outlook are made by representatives of primary, metal and other manufacturers, the companies "most encouraged" are those in the petroleum, aircraft equipment, automobile equipment, miscellaneous metals and chemical industries.

A lower level of activity, however, is anticipated in all but a few firms in the industrial machinery, machine tool and textile fields.

Prospects in Pricing

Upward price adjustments in the face of higher labor costs are generally accepted as necessary by the majority of the executives included in the survey. Reluctance to charge higher prices is evident and some companies report that they plan to make an effort to absorb higher costs.

Now Proprietorship

LOS ANGELES, CALIF.—Hans Klehmet is now sole proprietor of Klehmet & Co., 215 West Seventh Street.

January Building Contracts Off 31%

Contracts awarded for building and heavy engineering projects in the 37 states east of the Rocky Mountains last month showed a sharp break from the volume reported in December and in January of last year, it was reported by F. W. Dodge Corporation, a fact-finding organization for the building industry.

A statistical summary of investment commitments reported in field reports showed a total contract volume last month of $482,984,000. This total was 31% less than that reported in December and 22% lower than the volume reported in January of last year.

The over-all decline in building and construction contracts was least severe in New England, the Middle Atlantic and Southeastern states, and the region comprised of northern Illinois, Indiana, Iowa, Wisconsin and northern Michigan.

Residential Awards Down Sharply

The decline was especially pronounced in residential and heavy engineering awards. The Dodge corporation reported a residential contract volume in the 37 states of $159,128,000 last month, reflecting a 38% drop from December and a 33% decline from the total reported in January of last year. The declines affected apartment house building as well as single-family houses. The decline was less pronounced in houses built to owners' orders for their own occupancy, last month's volume being down 33% compared with December but up 2% compared to January of last year.

Residential awards were down last month compared with December in all 15 major reporting regions east of the Rockies, with exception of Louisiana and Mississippi, and were down in January compared with the corresponding month of last year in all but three regions, namely, New England; upstate New York; Minnesota, North Dakota and South Dakota.

Heavy engineering awards last month aggregated $101 973,000 to show a 40 per cent drop from December and 25% decline from January, 1948. Only three of the 15 reporting regions showed an upswing in heavy engineering awards compared with December and with January of last year, namely, the Middle Atlantic States; southern Michigan; and the region comprised of northern Illinois, Indiana, Iowa, Wisconsin and northern Michigan.

Nonresidential Drop Less Severe

Increases in awards for hospitals, institutional buildings and churches last month lessened the severity of the drop in nonresidential buildings as a group, the Dodge corporation reported. The volume of nonresidential awards last month was $221,883,000. This total was 17% less than December's and 8% less than in January of last year. Manufacturing building awards, and contracts for educational and science buildings showed the sharpest declines among nonresidential classifications. Nonresidential building gains were reported in New England, in the Southeastern states, in Ohio, Kentucky, Minnesota and the Dakotas.

Approximately one-third by dollar volume of all commitments made last month was for projects classified as publicly owned, according to an analysis of contracts by the Dodge statistical division. The percentage of total contract volume reported under public ownership last month for the three major classifications is as follows: nonresidential 28%; residential 8%; public works and utilities 82%.

E. F. Hutton Makes Far-Reaching "Freedom Award" Proposal

Recommends $4,000,000 Fund for Awards of $1,000 to $25,000 Annually for Basic Contributions to Freedom and Liberty. Plan a challenge to all who seek dictatorial privileges, or desire overthrow of Constitutional government.

MIAMI, FLA.—Speaking before the Rotary Club of Miami on Feb. 10, E. F. Hutton, former Chairman of the Board of General Foods Corporation, proposed a startling and forthright plan for defense of freedom and liberty. He proposed that an annual prize fund of $4,000,000, 100 times larger than the Nobel Peace Prize, be permanently established to reward, in a competitive manner, the efforts of individuals in all walks of life in behalf of the basic rights and freedoms of American life.

Edward F. Hutton

The awards would go to any citizen, whether worker, manager, teacher, preacher, Congressman, businessman, student, whose contributions most effectively preserved the liberties, rights, freedoms and privileges of the people as expressed in the philosophy of the Constitution and Bill of Rights. Mr. Hutton recommended 200 awards of from $1,000 to $25,000 each to be awarded on "Constitution Day" each year with awards for every State and Territory.

Mr. Hutton proposed that every American be given opportunity to subscribe a dollar or more to "A Freedom Foundation"—and that all patriots with adequate income express their support by subscribing $1 a day in the fight against the creeping death through Socialism to Communism.

Mr. Hutton declared that "No documents written by mortal man are as important to civilization as our Constitution and Bill of Rights. The purpose of my proposal is to defend and extend our cherished philosophy of freedom and liberty given us, if we keep it, by our Constitution and Bill of Rights."

Mr. Hutton also proposed that every business in this country should increase its advertising appropriation by 1% to carry out General Dwight D. Eisenhower's suggestion, made in New York to the Association of National Advertisers and the American Association of Advertising Agencies on Oct. 27, 1948, that "*If business is going to continue to sell through the decades, it must also promote an understanding of what made those products possible, what is necessary to a free market, and what our free market means to the individual liberty of each of us, to be certain that the freedoms under which this nation was born and brought to this point shall endure in the future . . . for America is the product of our freedoms.*"

Mr. Hutton said that the Yankee Doodle Communists — those who profess to be true Americans but advance socialistic ideas to destroy freedom, liberty and personal responsibility, will object to such proposals. But every objector will be putting himself squarely in the limelight as opposed to Constitutional law, opposed to defense of the freedom philosophy of the Constitution and Bill of Rights, and in favor of scrapping Americanism for a socialistic government designed to rule, not serve our people.

As part of the plan, a nonpartisan and non-sectarian awards jury could be drawn from officials or patriotic societies and from State Supreme Court jurists to select the annual recipients of the "Freedom Awards."

Mr. Hutton emphasized that liberty has been defeated in a score of nations, and that faith has been scorned, hope has been abandoned, and treachery has been rewarded as fear has spread all over the world. Personal responsibility, freedom and liberty are just and possible. Hope need not die, but a great dramatic event is needed to lend tangible support to the people whose faith is sorely tried and women, to rise to full dignity and happiness. As our great elder statesman, Herbert Hoover, has by current attacks on freedom.

These awards will provide such a needed and dramatic inspiration to put all Americans in competition to undergird our Constitutional human values as free men said, "It is those moral and spiritual qualities which rise alone in free men, which will fulfill the meaning of the word AMERICAN. And with them will come centuries of further greatness to our country."

Although Mr. Hutton revealed his plan in terms of proposal only, he indicated that steps were already under way among a widespread group of people from all walks of life to make it a reality.

Contrasts in Postwar Public Debt Management

C. F. Childs and Company, specialists in Government Securities, lists similarities and differences in handling of the Public Debt after World War I and World War II.

In its January Bulletin, C. F. Childs and Company, New York City, specialists in Government securities, lists and analyzes the similarities and differences in the two postwar periods in public debt management. According to the bulletin:

"In finding the solution for a problem, it is often helpful to look at the record and see how a similar problem was handled in the past. A problem of the present day is the handling of the Federal public debt. For comparison, we will have the record of how a previous great postwar debt was handled, and it is possible that from such a comparison something of value can be learned about what may be expected in the way of management from here on.

"Such comparisons may be pushed too far. In seeking similarities we may be led to overlook the contrasts, some of which may be of even greater importance. We should examine and compare very carefully the background of circumstances against which decisions were made.

"Perhaps the two points of greatest practical interest to the government securities market of today are the probable future course of interest rates and the disposition which will be made of issues becoming due or callable hereafter. Will the floating debt be funded with long-term bonds, or will it be increased by the replacement of redeemable bonds with additional short-term paper? At what rates of interest will short paper or long-term bonds be sold?

"A really exhaustive study of the similarities and dissimilarities between the postwar periods following World War I and World War II obviously could be reported only in a lengthy book. We shall confine ourselves to a consideration of the main points of resemblance and contrast having most direct bearing upon the problem.

"We find at once that the dissimilarities are more numerous and of far greater importance than the similarities. Practically the only points at which the experiences of the two periods coincide are that each followed the most costly and destructive war in history up to their times, and each war was accompanied by unprecedented expansion of the public debt to new high record levels.

"There the resemblance ends. The main contrasts are:

"(1) The first war was followed by relatively complete world disarmament, and by a peace which lasted for 20 years. No peace now exists but a state of undeclared war carried on by methods short of actual hostilities.

"(2) Roughly three and one-quarter years after the cessation of fighting in the second war, our economy is still poised near the peak of a continuous boom carried over from the war. At a comparable time after the first war, we had been through a primary postwar depression, and many of its effects were behind us.

"(3) The government, during the 11 years following November, 1919, reduced the public debt continuously and substantially, and followed a policy of funding a large additional part of the floating debt with bonds. The postwar issuance of long-term bonds was not begun, however, until nearly four years after the end of the first war, and so the possibility is not barred that this operation may be seen again.

"(4) The funding operation, after it was begun, was carried forward in an environment of declining interest rates. In the present period, thus far, there has been a strong tendency for interest rates to move toward higher levels. The tendency has been countered by monetary measures adopted as a part of official policy.

"(5) The Federal debt was differently distributed among the various classes of holders. At the end of the first war only about one-fifth was held in the banking system, including Federal Reserve and commercial banks. At the end of the second war more than two-fifths of the total debt was in the banking system. Furthermore, the innovations of special issues and of public securities nonmarketable but payable on demand of the holder had been adopted. If these are deducted and marketable securities comparable to those existent during the earlier period are considered alone, the banking system held more than one-half of the public marketable debt.

"(6) After a brief drop accompanying the first postwar depression, the money supply began a rise which continued steadily almost to the end of the 11-year period of Federal debt reduction. Several factors were involved here, but the end-product clearly contrasts with the present postwar period in which there has been thus far a considerable decline in the money supply, the current boom notwithstanding.

"All of these matters are inextricably related to each other, and no single one can be explained by itself. There are other factors such as, for example, the large growth in recent years of the so-called "welfare economics" school of thought and the changed politico-economic atmosphere in general. But these may be regarded as outside the scope of the present investigation, although their presence must be noted and their significance borne in mind."

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

The government bond market's display of strength goes on in an orderly way, with investors and traders adding to their holdings, especially the longer-term higher-income obligations. . . . As was the case in the previous week, the 2½s due June and December 15, 1967/72 are the market leaders with the eligible issues not far behind. . . . A minor setback that was short-lived took place in the paritally-exempts, without important price changes being noted after the flurry was over. . . . Economic forces which have an important bearing on the government market are displaying a trend that is favorable to the money markets. . . .

Activity in Treasuries is sizable, the market is broad and switches and new money purchases are keeping the dealers and Federal busy. . . . Although there is caution in the market and a minor reaction would not be unexpected, it is believed that any setback will be largely technical and a buying opportunity. . . . New highs for the move were made by the longer taps as the Central Banks again marked up selling prices of these securities. . . .

TAX OUTLOOK

Partially-exempt governments moved up sharply because of the favorable tax-free yield and uncertainty over taxes. . . . However, changes in economic trends and the appearance of maladjustments on the horizon make less likely important modifications of the tax law, despite requests by President Truman and Treasury Secretary Snyder for higher taxes. . . . Declining commodity prices, increasing unemployment and a rapidly receding stock market indicate the period of readjustment is here and the inflation spiral is broken. . . . Deflation is not cured by deflationary measures, which is what a sizable increase in taxes would do. . . . Although politicians say they fear inflation there is no doubt they are scared to death of deflation. . . .

With only very minor changes (if any) in taxes expected, are not the partially-exempts at levels now that give them only limited attractiveness? . . .

TAXABLES GAIN FAVOR

The shorter partially-exempt obligations have lost all of the tax-free yield advantage over the taxables and when the higher premium is considered they are less attractive than the taxable issues for many institutions. . . . This has resulted in switches from the partials into comparable short maturities of the taxables. . . . The yield spread between the longer tax-protected bonds and the taxables has narrowed to the point where a number of institutions are no longer interested in the partials. . . . The large premium the partially-exempts carry is also a deterrent. . . . Since the trend is toward longer maturities in order to maintain income several switches have been made from the 2⅞s due 1955/60 into the 2½s due Sept. 15, 1967/72. . . . Trades from the 2¾s due 1956/59 and 1958/63 into the longest bank 2½s are also being carried out by some institutions. . . .

Although the partially-exempt bonds, especially the longest maturity, will continue to have attraction for many institutions and will not react much in price as long as the taxables are on the constructive side, it is believed that these tax-protected issues have lost a great deal of their appeal, because of changed economic conditions. . . .

EXCESS RESERVES AT WORK

Excess reserves of the banking system belong to the out-of-town institutions and they continue to put them to work in order to maintain earnings. . . . Since the first of the year bond holdings of the banks in the 12 Federal Reserve Districts have increased by $329,000,000, with each of these areas showing an increase except for the New York City district which reported a decrease of $53,000,000. . . .

The largest increase was in the Chicago district, followed by San Francisco, Cleveland, Boston, Atlanta, Richmond, St. Louis and Kansas City. . . . Many of the deposit banks in the southwest and far west were reported to have been heavy buyers recently of the longest eligible issue. . . .

INFLATION AND CREDIT CURBS

With rearmament expenditures evidently to be contained within budget limits and European relief not likely to go beyond estimates, it is believed in many quarters that the inflation spiral has run its course. . . . This means that the long postponed transition in economic conditions is taking place and further downward adjustments in business will be witnessed in coming months. . . . The pressure is off the money markets and this should be favorable to government securities. . . .

Because the politicians and money managers have a real fear of deflation it would not be surprising if important developments were in the making so far as the credit picture is concerned. . . . These may come all at once or as a series of changes, with Regulation W, and bank reserve requirements being watched most closely. . . .

ADVANCING "ELIGIBLE" DATE

The ending of the inflation is a favorable factor for the government bond market and this is being reflected in the uptrend in prices of all Treasuries especially the longer maturities. . . . The market has been orderly and price advances have not been sharp on a day-to-day basis. . . . There has been some minor backing and filling, but the longer eligible issues have shown a very steady advance. . . . This has raised the question as to whether the authorities have enough of the bank issues to supply the sizable demand that seems to be around for the higher income issues. . . . Since an orderly bond market is the policy of the authorities they must be in a position to temper a move on the way up as well as to cushion it on the way down. . . .

If long eligibles should not be as plentiful as they might be with the monetary authorities, could this situation not be met by making some of the tap bonds eligible for purchases ahead of time by the deposit institutions? . . . This is a point that is being given much consideration by some money market followers. . . . Such action would increase the amount of bonds that commercial banks could buy in order to maintain income.

Mixed Trends in the Economy

(Continued from page 6)

ures, the average of wholesale prices for other than farm and food products is now at approximately its all-time peak. Continued and disproportionate price increases are now an even greater danger to the economy, at a time when some soft spots are beginning to show in other areas, than they were when the pulse throughout the economy was uniformly strong. In the second place, the leveling off or softening of some prices has been exaggerated or misinterpreted. The cost of living has declined only about 2% from its all-time peak, is still 74% higher than in June, 1939, and we cannot be sure that it will not go up again. Furthermore, when some prices begin to soften or decline, not primarily because supply has increased but rather because demand has weakened, we must pause to examine carefully whether these changes are bringing the economy into better balance for sustained growth and stability, or whether these changes are merely the first warning signs that we could be moving toward a more general business downturn and should take preventive action before it comes.

Of course, if we waited until the neglect of inflation caused a serious deflation with heavy unemployment, it would then be too late for an anti-inflation program and we would need an anti-deflation program. Fortunately, we have not yet arrived at this stage, and those who now say, "Let's worry about deflation instead of inflation," are like the doctor who looks up the address of the undertaker instead of realizing that the patient can be made completely whole by effective treatment.

If we were now faced with either the extreme of all-out inflation or the extreme of all-out deflation, we would need to apply an all-out anti-inflation program or an all-out anti-deflation program as the case might be. But it is a dangerous over-simplification to characterize the current economic outlook as being either wholly "inflationary" or wholly "deflationary," and the remedies which are required for the present situation cannot be derived from such an unwarranted simplification. There are, it is true, some economic situations which are clearly and violently inflationary, such as the current one in France. There are others which are clearly and violently deflationary, such as were our own troubles in 1932. But in a period of high prosperity such as we now enjoy, the economy contains a mixture of trends. Some prices are too high and rising too fast and some activities are too hectic, and these have an inflationary cast. Other prices may be too low or falling too rapidly and some activities are softening too much or not expanding rapidly enough, and this has a deflationary cast. The problem is at one and the same time to prevent either the inflationary cast or the deflationary cast from becoming so pronounced and so prominent that the whole economy becomes seriously affected.

For these reasons, we need a discriminating and selective combination of policies, to deal with the inflationary cast and deflationary cast at the same time, and we should not look for the all-out one-way solutions called for during a period of galloping inflation or paralyzing deflation. The best time to act is before we are caught in either of these extremes, and if we act in time we can prevent them both.

Action in time means action now, based primarily upon what we can already observe or already know. It is not based primarily upon indulgence in general or sweeping forecasts as to the economic outlook for 1949 or for future years. While forecasting has very valuable usages, and while I shall necessarily attempt it to a degree in the course of my analysis, I think that much damage can be done to sound policy if we forget where economic analysis ends and clairvoyance begins. I cannot bring before you, and I do not think that anyone else can bring before you, any perfect and guaranteed judgment as to exactly what prices and employment are going to be this year. Nor can I or anyone else prove beyond question whether so-called "inflationary" or so-called "deflationary" forces will gain ground in the near future. This does not mean that we cannot study recent economic trends and make some useful projections; it does mean that we should carefully distinguish between what we observe and what we predict.

But our inability to view the future with absolute certainty, a gift never granted to any man, is no reason for throwing up our hands in despair and allowing matters to drift. The main task of economic policy under current conditions is to address ourselves vigorously to trends that have already appeared and facts that are already known. This gives us a sound foundation on which to stand, and if we are both clear and courageous in dealing now with the situation confronting us now, we may with some confidence rely upon our ability to deal with any changed situation which may appear later on. But if we underestimate the importance of what we know has happened, and overestimate the importance of what we think is going to happen, our perspective may become distorted and our decisions unsafe.

The Employment Act of 1946, in truth, reflects the sound action of a Congress which had confidence in affirmative policies applied currently to unfolding events. The Act goes even further: It assumes that in the pragmatic American fashion of dealing with concrete problems as we meet them, we can help to mold our own future instead of waiting helplessly to see what befalls us through some act of uncontrollable fate. That is why the Act calls for the setting of objectives toward which we should strive, even though we may not be completely successful in reaching them.

Above all, it is perilous to delay action until we think we know just *when* a serious business downturn is going to occur, or to set action aside if we think that the downturn is some months or years away. That kind of delay or temporizing violates both reason and experience. The significant fact is that we know that the economy will not automatically and perpetually stabilize itself; it requires policies directed toward that end. If the evil of a serious downturn is not imminent in terms of months—and I do not believe that it is—that is all the more cause to use the time available to us to act before the hour is late. One thing upon which we can all agree is that it is easier and more profitable to maintain prosperity than to recapture it after it is lost. An ounce of prevention is worth a pound of cure.

With these basic considerations always in mind my treatment of the subject before us is divided into five main parts:

First, I shall attempt briefly to outline the significance of the problem of maintaining maximum economic growth and stability in the United States;

Second, I shall cover quickly, and I hope dispose of, a few of the current fallacies which interfere with the perception and application of sound general principles;

Third, guided by these general principles, I shall identify areas of maladjustment or danger in the current economy which should not be neglected until they bear their evil fruit. These maladjustments arise out of the relationship between the cost of living and the income structure, the relationship between divergent price trends such as industrial and agricultural, and the relationships among various main groupings of expenditures and income within the framework of our total national output and income;

Fourth, I shall deal with the problem of maintaining maximum production and the adequacy of capacities required for that purpose;

Fifth, I shall in summary fashion describe the current economic situation in its main phases, touch upon such aspects of the economic outlook as seem discernible at this time, and identify some of the most pressing problems;

Sixth, I shall endeavor to apply economic analysis toward a general evaluation of some of the main specific proposals directed toward economic growth and stability which this Committee and the Congress now have or will shortly have before them for consideration.

Significance of Problem of Economic Growth and Stability

Viewed in any long-time span, the productivity of the American economy and its capacity for progress have not only out-distanced the rest of the world but have also out-distanced even our own expectations. This has reflected a growing labor force, combined with unequalled resources, managerial skills and enterprising spirit.

The growth of the labor force and its utilization is shown in this chart. Civilian employment, which was about 47.6 million in 1929 and about 45.7 million in 1939, averaged nearly 59.4 million in 1948. The second chart shows employment and unemployment by months since 1946. Unemployment has been very low during this whole period, and I shall refer later on to the most recent trends in 1949. Civilian employment rose above 61 million during the summer of 1948.

The third chart shows that our national output over the last few decades has grown much faster than the number of people at work, not only in terms of dollars of changing value but also in terms of actual goods and services. In dollars of constant value (1939), our total output rose from $67.2 billion in 1919 to $84.3 billion in 1929, to $90.4 billion in 1939 to $146.7 billion in 1948. This is a vivid demonstration of what people mean when they say that we have the best economic system in the world; and this is one reason why I believe so profoundly that we should contemplate nothing to alter fundamentally the essential character of that system.

Nor have we come to the last frontier of our growth. Chart 3 also shows the further progress that we may reasonably and conservatively expect to make over the next decade, even without any startling technological changes, if we maintain maximum employment and avoid the ravages of the business cycle. At an average annual growth of about 3%, we can lift our output (1939 dollars) from $146.7 billion in 1948 to about $200 billion in 1958. How far beyond this the progress of invention and discovery might carry us, no one can tell.

Our economy, while preeminently strong, has not been preeminently stable—and its high degree of instability in peacetime has robbed it of some of its potential strength. In almost every peacetime decade since the middle of the last century we have had business downturns, and these downturns have become progressively more severe as our economy has become more highly integrated and interdependent. A chart here shows the dollar cost to us of the depression which started in late 1929. This cost was well over $300 billion, or approximately the dollar cost to us of World War II. Further, this chart undertakes to estimate the total difference in our national income over the next 10 years, depending upon whether we achieve a stable rate of growth or repeat the pattern of boom and bust. Depending upon which of these two courses we follow, the total difference in our national income over the next decade might come to about $800 billion, or an average of about $80 billion a year. All of us should realize that these are not precise estimates, but rather the use of broad strokes to paint a picture which has great meaning even if its details are not clear.

Let me repeat this figure, $800 billion, as the possible difference between 10 years of stable prosperity and 10 years of bust and slow recovery. This difference, which might be called the cost of another big depression, is more than 2½ times the total money cost to us of World War II. It is more than 3 times our total national debt. It is more than 9 times our total national income in the highest income year we ever had before the war. It is enough to lift those in the lowest income groups to a decent American standard of living, provide plenty of profits for those who invest and do business, clear all our slums, provide decent housing and adequate medical care and education for all our people, cover any foreseeable needs for national defense in peacetime, finance a progressive program of resource development, and leave a big surplus after all these things are done. And all this, I firmly believe, can be accomplished under our existing economic system without departure from the American principle of enterprise and unequalled reward based upon varying degrees of ability and initiative.

And another major depression might not only cost us this $800 billion. It would certainly cost us our leadership in world affairs. It would certainly strengthen abroad the voices of those who say that our democratic system of free enterprise cannot work, and here at home it would produce millions of people who would join in that dismal chorus of despair. I believe that our democracy would survive even such a crisis, but not without changes which none of us would like to contemplate and which all of us should dedicate our best efforts to avoid.

If we concentrate upon this $800 billion question, we see the real problem before us in a perspective which rises above partisanship, petty differences, or selfish interests. We see a task—the task of economic stability—which calls for and should receive the eager and generous cooperation of every citizen in every walk of life.

In the setting of this $800 billion question, we may turn to a consideration of some of the basic principles which may guide us toward improved economic stability and some of the fallacies in current thinking which may stand in the way.

Basic Principles and Current Fallacies

The period since the war, generally speaking, has been characterized by rising prices, wages and other incomes, accompanied by rising costs. This is popularly called "inflation." With this as a starting point, a frequently heard argument runs somewhat as follows: "Inflation is dangerous because whatever goes up rapidly must eventually come down rapidly, and when prices come down rapidly there will be sharp drops in employment and production—in other words a recession or a depression. Therefore, the way to prevent a serious recession or depression is to stop the rising prices and costs which are called inflation. And since this inflation reflects a demand for goods in excess of the supply of goods, which in turn reflects a money supply unusually high in relation to the volume of available goods, the cure for inflation and its real or supposed dangers is to contract the money supply and thus reduce the price level."

It is true that the total money supply, which was $54.6 billions in 1929, rose to $63.3 billions in 1939, to $170 billions in 1947, and stood at $168 billions December, 1948. Manifestly, the money supply has increased much more than the volume of available goods, and the proposition that the relation between the money supply and the available supply of goods has a basic influence upon the level of prices and incomes of all kinds is obviously correct as a statement of fact.

But it is a fallacy to derive from this the conclusion that a main approach to economic stability should be through the drastic contraction of the money supply. For it is not demonstrable that a generally rising price level interacting with a generally rising money supply is bad *per se*. We had a falling price level after 1929, and the country was certainly not on the way to prosperity. We had a rising price level after 1932, and yet the country was on the way to increasing employment and production. We had a fairly stable price level in the later 1920's, and yet obviously something must have been wrong with the economy in view of what resulted although everyone will not agree as to just what was wrong. In short, there is no arbitrarily sound or even preferable price level or course of price movements—such as those of 1926 or 1939 or 1948—as distinguished from some other price level or course of price movements; and, therefore, there is no arbitrarily sound or ideal relationship between the size of the money supply and the available supply of goods.

To be sure, a drastic contraction of the money supply would bring prices and incomes downward, but it would also drive employment and production downward and probably injure most those who already have been hurt most by inflation. Those who propose this "remedy" admit its results. However, they seem to assume that we are suffering from an excess of employment and production as well as certain excesses in the price structure, and they would try to cure both at the same time. But there is no salvation to be found in curing inflation by generating a depression, even a "small" one. The central problem is to maintain maximum employment and production, and the central reason for being concerned about the price structure is that it threatens this objective. The only kind of price and income adjustments that we want are those which will further this objective and not defeat it.

This turns our primary attention away from any arbitrary or absolute levels or trends of prices and wages and other incomes, and focuses our interest instead upon the relationships among various types of income as these are affected by prices and wages and by national policy. For it is the relationships rather than the absolutes which determine mainly whether our economy can continue along a path of stable growth. If business receives too large a share of national income and consumers too small a share, the eventual result is either "frozen savings" which are not invested, or a rate of investment so high in relation to consumer buying power that so-called "over-production" finally results.

Conversely, if the share of national income going to business is too small and the share going to consumers is too large, then we are eating away our sustenance too fast and impoverishing the productive plant and equipment upon which the basic growth and progress of our economy rests. Likewise, unsound relationships between industrial and agricultural income, or excessive maldistribution of personal income, jeopardize the full functioning of the whole economy. These are fairly accepted propositions, although different people call them by different names. The more technical people refer to the problem of keeping savings and investment in equilibrium. Less technical people call it keeping supply and demand in balance or keeping production and consumption in balance—but it all comes to the same thing.

Turing then to this central problem of relationships, a chart shows the enormous changes that have taken place since the last prewar year. To select a few items, employment from 1939 to the end of 1948 increased about 30%; consumer prices about 72%; wholesale prices about 114%; weekly earnings in manufacturing about 123%; gross national product in current dollars about 180%; prices received by farmers about 202%, and corporate profits after taxes about 316%. The base year that I have chosen, 1939, is used only to illustrate the point generally that relationships have changed greatly. The use of this base year should not be taken as an assertion that it is the best base year for all purposes of comparison or analysis.

In directing our attention to this problem of changing relationships, we need again to guard against certain fallacies.

First, it is fallacious to assume that dangers or maladjustments exist simply because the indexes of various items have moved upward, or that the cure lies simply in holding them all where they now are or moving them downward. For example, it is certainly desirable that employment and production are much higher now than in 1939. Likewise, it is to be expected that both wages and profits should be higher now than in 1939.

The second fallacy to be avoided is the idea that there is any danger or maladjustment in the current situation simply because some of these items have moved upward faster than others. In a changing and growing economy, some items must move upward faster than others. For example, wages should be expected to move upward faster than consumer prices over the period since 1939 when there has been vast increases in production and civilian use. Profits should be expected to move upward faster than prices over a period which has carried us from large-scale unemployment to full employment. It is well that farm income has moved up more rapidly since 1939 than some other types of income, because it was relatively too low in that prewar year. If changes in relationships are needed to make the economy more stable, we cannot identify these desirable changes simply by saying that the items which have moved up fastest should be brought down, or that those which have moved up more slowly are *per se* not too *high*. Adjustments are needed selectively both upward and downward, but they cannot be derived simply by comparing past trends.

For the same reason, it is fallacious to assume without analysis that the economy is being brought into better balance because certain prices are now leveling off in response to a softening in demand. As I have already pointed out, the fact that some prices and incomes are falling, while others are still rising, may be generating an even worse set of relationships than when almost all types of prices and incomes were rising. A softening of demand in some parts of the economy, accompanied by a lowering of prices, may not indicate an improvement in economic health but may indicate instead the spotty development of unfavorable conditions which, should they become more generalized, would turn the whole economy downward. And even were there to be a leveling off in all major lines of prices, which is far from the case at present, that would leave unanswered the question of whether we were then undergoing anything different from the traditional intervening phase between what we call a boom and what we call a bust. Most prices leveled off between 1921 and 1928, but this did not produce a sustainable relationship among incomes; on the contrary, it crystalized maladjustments which finally led to a catastrophic economic breakdown.

It is essential to apply a far more discriminating analysis to the relative movements of prices, wages and other incomes, and to see whether by soundly derived objective tests they reflect an economy moving into a state of better balance or worse balance; whether these movements are curing discernible maladjustments or causing further discernible maladjustments; in short, whether they are moving us nearer to a zone of safety or further and further into a zone of danger.

In the current situation, this discriminating approach to basic economic analysis should warn us against relying upon over-all averages which conceal differentiated trends. It should equally warn us against the over-simplification of calling the situation or outlook "inflationary" and relying solely upon a uniform set of retarding or contracting measures, or calling it "deflationary" and relying solely upon a uniform set of accelerating or expanding measures. Instead, we need not only some general overall measures but also some highly selective measures to move some items upward and others downward at the same time, and to cause contraction at some spots and expansion at others, in order to correct maladjustments which have not yet interfered with our very high prosperity but nonetheless constitute a threat to it.

I believe that some of these maladjustments are now discernible; that they are now inflicting hardship upon millions of individuals; that they are now interfering with essential national objectives; and that through their distorting effect upon price-income relationships they are affecting the pattern of production, consumption and national income in ways which threaten a general economic decline if they are not corrected.

But I believe with equal conviction that these maladjustments can be corrected in time, and toward that end it is urgent to examine just what they are.

Areas of Current or Emerging Maladjustments

The first serious maladjustment to which attention should be directed arises out of connected developments in the cost of living and family standards of living.

Since June 1939, as Chart 7 shows, the cost of living index for all items has risen 74%, and for food it has risen 119%. The most rapid increases occurred after June 1946; since then the rise has been 29% for all items and 41% for food. Looking at the Chart as a whole, it appears that there has been a slight downturn in the line representing all cost of living items since early autumn of 1948. But it should be noted that we have as yet no assurance that this slight downturn will be continued or augmented; for example, the Chart shows several downturns since the middle of 1946, each of which was followed by a resumption of the upward trend.

This chart shows on a larger scale the trends in consumer prices during 1948 alone. A word of warning is called for in connection with this chart: the scale is so large that slight percentage changes upward or downward seem very big. Looking at the line representing all items in the cost of living, the chart shows a decline of about 2% since the middle of September, 1948. With this decline, the cost of living index is now about 1½% higher according to the most recent figures than at the beginning of 1948. It is very significant to note that this recent downturn is due almost entirely to the drop in food prices since July, 1948, although these food prices are still at a higher level than the level to which they had dropped in March, 1948. On the other hand, the rent item in the cost of living moved steadily upward about 3% during 1948, and apparel moved upward about 5% during the first three quarters of the year and then declined less than ½ of 1% in the fourth quarter. I do not attach too much significance to the very short-run swings in the lines from month to month or from quarter to quarter; I do attach much significance to the fact that the cost of living is still hovering within about 2% of its all-time peak, has shown no pronounced trend downward, and is now about 74% above June, 1939.

In 1949, if maximum employment is maintained, the weight of opinion is that the cost of living is not likely to deviate substantially from its very high current level. With normal crops, the total supply of food should be about the same per capita in 1949 as in 1948. The total supply of meat is estimated to be about the same for this year as for last year with supplies increasing in the last quarter. Barring a further substantial decrease in demand, it is within the range of probability that meat prices will start to rise seasonally in the near future and continue upward through the summer. Representatives of the Department of Agriculture will undoubtedly be able to present the food supply situation much more fully than I. In short, however, it seems unlikely that anything on the supply side will change the cost of living much this year, which means that a much lower cost of living would come only through a large drop in demand resulting from lower employment in consequence of some of the maladjustments now operating within the economy.

This cost of living outlook for 1949 makes it extremely pertinent now to evaluate the effect of the vast increases in living costs since 1939, and particularly since mid-1946, in terms of facts relating to income distribution. As the chart shows, there was undoubtedly an improvement in income distribution between 1941 and 1947, the latest year for which full details are available. Looking at the situation after taxes, which is most significant, the average income of families in the lowest income fifth increased 42% from 1941 to 1947, while the average increase in the second income fifth was 34% and in the highest income fifth 18%. Part of this gain in the lower brackets, no doubt, was due to higher levels of employment and output and to a larger number of workers per family. Unfortunately, these figures, while allowing for Federal taxes, do not include the effects of other taxes. Not since the TNEC studies have all types of taxes been included in examination of the income distribution picture.

Since 1946, however, when the cost of living began to increase more rapidly while total output has increased more slowly, it appears that improvement in income distribution has been arrested and that a contrary trend has commenced to appear. My chart shows that between 1946 and 1947, while a majority of the families in the middle income and upper income brackets have received dollar increases in income as the cost of living has advanced, a majority of those in the lowest income brackets have either received no increases in dollar income or have actually suffered decreases in dollar income. Among all families with incomes under $2,000, about a quarter suffered actual decreases of dollar income during this period, and an additional 45% of these families received no increases in dollar income. Thus, the families who have been the worst victims of the advancing cost of living because their incomes are low are also the families who have been least able to hold their ground during the process of inflation. Further, the trend since 1943 is more significant than the trend since 1939, because our total national output now is rather close to what it was in 1946 but very much higher than it was before the war.

Another chart here is highly significant because it relates family income distribution to living costs. Depending upon the size of the family, studies indicate that an income of about $3,000 to about $3,450 a year was necessary in 1947 to maintain reasonably adequate living standards in urban areas for a family of four, and between $2,000 and $2,300 for a family of two. Yet, as the lower curve on this Chart shows, more than 53% of all urban families of 2 or more had incomes below $3,500 and almost 20% had incomes below $2,000. The upper line on the Chart shows that, taking all families throughout the country, including families of 1 person, about 46% had incomes below $3,000 and about 29% had incomes below $2,000.

The people who have been hardest hit by the rising cost of living, as we all know, are those living on fixed or relatively fixed incomes which have not followed the price level upward. Our chart shows that, while wage earners in manufacturing have about kept pace with the rising cost of living since mid-1946, clerical and professional workers have lost substantial ground. This disparity becomes even more pronounced when the whole history since 1939 is considered. Wage earners in manufacturing have lifted their real incomes about 30% since 1939, and those in mining have lifted their real incomes more than 51%. These developments are in no way extraordinary because our total national output now is about 62% higher than in 1939. But the real earnings of clerical and professional workers are almost 3% lower than in 1939. Not only have they failed to share in the increasing prosperity; more than that. their absolute standards of living have gone downward.

It is perfectly clear, even allowing liberally for errors in statistics and other measurements, that millions of families throughout the country are literally unable to make ends meet with the cost of living what it is. This is demonstrated by another chart, which indicates (although the statistics are imperfect) that about 56% of the families with incomes below $1,000 and 41% of the families with incomes between $1,000 and $2,000 either spent more than they earned or barely broke even. And by early 1948, as Chart 14 shows, about 27% of all spending units had no liquid assets, while another 15% had liquid assets of less than $200 and still another 13% had liquid assets between $200 and $500. Cumulatively, about 55% of all spending units had liquid assets of less than $500.

It is true that rather tentative and incomplete figures for 1948 show an increase in the rate of saving by consumers as a whole, compared with 1947. But when an analysis is made of the nature of these savings, it seems that they are converging more largely in upper-income and middle-income groups while the loss of ground by lower-income groups is continuing.

These relationships between family incomes and the cost of living may be called by some a social rather than an economic problem. But even as a social problem, they demand the attention of those concerned with national economic policies. Further, I am convinced that these conditions portend also serious economic maladjustment because they may contribute ultimately to an inadequacy of consumer demand which might throw our whole economic machinery out of gear. The full implications of this will be treated more fully when I come to discuss more general problems raised by the composition of national income and expenditures.

A second area where serious maladjustments are present or brewing is in the field of wholesale prices.

According to the chart, the wholesale price index for all commodities has risen by 112% since the middle of 1939, 42% since the middle of 1946 when the sharpest rise commenced, and 8% since the middle of 1947. From the beginning of 1948 up to the present, as the heavy black line on the chart shows, the index for all commodities rose to an all-time peak in the late summer of 1948, and since then has declined until it is now about 3% lower than at the beginning of last year although less than 1% lower than the low point for that year reached in February after the break in commodity prices. Viewed in the aggregate, it is clear that wholesale prices are still extremely high, and that the net changes in the general average during 1948 and the first month of 1949 were slight.

As to the outlook for 1949, there are some who think that the over-all average of wholesale prices will remain fairly stable, others who think that it may go down, and still others who think that it may go up. There are strong arguments in support of each of these views, but for reasons that I have given and for others that I shall now give, I believe that the relationships among various wholesale prices, and the relationship of wholesale prices to the income structure, are vastly more important than the absolute trend of the index reflecting all wholesale prices averaged together.

The most important of these changing relationships has to do with the prices of farm products and foods on the one hand, and the prices of industrial products on the other. As the chart shows, since the middle of 1939 the price rise has been 175% for farm products, 143% for foods, and 91% for other than farm products and food. However, since mid-1946, when the most rapid increases in the over-all average of wholesale prices have taken place, the increases in farm products and food have assumed a diminishing importance and the increases in industrial products an increasing importance. Thus, since the middle of 1946 the wholesale price index for all commodities has risen 42%, for farm products it has risen 22%, for foods 45%, and for industrial products 45%. Since the middle of 1947, the rise has been 8% for all commodities and 16% for industrial products, while foods have risen only 1% and farm products have declined 4%. And since the beginning of 1948, as Chart 16 shows, the index for all commodities has gone down about 3%, but this has reflected a decline of almost 14% for farm products and almost 9% for foods, while industrial prices have gone up about 3%.

These sharp and divergent trends of agricultural and industrial prices seem to me to be of high and unfavorable significance. It is no answer to say that the prices of farm products and foods have increased more since the

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Mixed Trends in the Economy

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prewar year 1939 than other prices, because we would all admit that the farmer was very disadvantageously positioned in 1939 and that this was not good for the economy as a whole. Even if farm prices were relatively too high in 1947, the trends since then show clearly how quickly agricultural prices respond to changes in conditions of supply or demand. Actually, I believe that recent trends show the clear emergence of the farm problem in its more traditional aspects. This problem is to maintain farm prices and incomes in a high enough relationship to other prices and incomes to do justice to the farmer, to further the desirable objective of bringing his standards of living into a closer proximity to those of other groups, and thus to maintain his share of demand for the products of industry and contribute to the full prosperity of the country at large.

In 1919, as this Chart shows, net income derived from agriculture was at the unusually high level of 17.9% of total national income. By 1921, it sank to 9%, and in 1932 it was only 7.4%. Consistently the farmer has lost ground fastest when the economy has run downhill, because he is less favorably positioned in the economy than other groups. By 1946, net income derived from agriculture had risen again to 11½%, but this percentage dropped slightly in 1947 and dropped at a faster rate in 1948.

This loss of relative position by the farmer hardly seems desirable when, as any chart shows, the per capita net income of persons on farms was estimated at only $909 in 1948, contrasted with $1,569 for persons not on farms. This is far better than the 1935-39 average when the figures were $243 for farm individuals and $603 for non-farm individuals, but it is by no means good enough. Nor is the loss of ground by the farmer to be justified by use of the mistaken theory that the demand for farm products has been abnormal during the past few years and should decrease in future years. If we maintain maximum employment and production throughout the economy as a whole, we shall need even higher farm output—though with same changes in composition—in the years ahead to keep industry running at full speed and to satisfy the dietary requirements for good standards of nutrition for all American families.

Our objectives for agriculture should not be to let forces drive farm incomes still lower in relation to other incomes, but rather to bring the two into better balance. This can be achieved consistently with a somewhat lower cost of living, if the farmer is helped to improved efficiency through a variety of agricultural measures, if the prices of durables and the incomes of those producing durables are not allowed to continue their disproportionate increase, and if there is a reduction of the spread between what the consumer pays and what the farmer gets through more attention to distributive costs and distributive profits. As the Chart shows, the farmers' share of the consumer dollar spent for a typical market basket has declined from 54% in 1946 to 53% in 1947, to 52% in 1948, and the marketing margin has correspondingly risen.

From January through November, 1948, the prices received by farmers for farm food products dropped almost 10%, while the retail prices of farm food products declined only 3%. From January through October, 1948, the farm prices of wheat dropped about 30%; the price of flour at the mill and the miller's margin after allowance for change in value of feed byproducts dropped by about 20%; but the price of bread rose slightly and the bakers' and retailers' margins increased 15%. This is but one example of what I have already called the revival of the farm problem in its more traditional aspects.

The prime problem of prices and incomes rising out of line with other prices and incomes is not now in the farm area, but rather in the industrial area. Thus, since the beginning of 1948, the wholesale price index for other than farm and food products has risen by about 3% while, as I have said, the wholesale prices of farm and food products have been declining sharply. In fact, the weekly figures for the last week in January, 1949, which are not shown on the chart, indicate that wholesale prices for other than farm and food products are at their all-time peak.

But these figures which give the average for all wholesale prices do not tell the most important part of the story. The most important part of the story, as shown by the same chart, is that such critically important items as metals and metal products and fuel and lighting materials have climbed almost steadily in price throughout 1948 and on into 1949, and have not been at all affected by the leveling off of the average index since the middle of 1948.

This solid continuation of price advances involving some of the most vital commodities in the whole economy during 1947 and 1948 is shown by our chart. Building materials increased 9.7% in the second half of 1947, 3% in the first half of 1948, and 2.6% in the second half of 1948. Fuel and lighting materials increased 19.8% in the second half of 1947, 6.8% in the first half of 1948, and 2.9% in the second half of 1948. House furnishings—an important cost of living item—increased 7.5% in the second half of 1947, 2.7% in the first half of 1948, and 3.6% in the second half of 1948. Metals and metal products, in some respects the most important category of all, increased 6.7% in the second half of 1947, 4.6% in the first half of 1948, and showed the biggest increase of all—9.7%—in the second half of 1948. In the second half of 1948, the price of zinc increased 44.4% and of lead 22.9%.

Between the week ending Dec. 28, 1948, and the week ending Jan. 25, 1949, while wholesale prices for farm products declined 6.3% and for foods 6.1%, the wholesale price index for other than farm products and foods, including about 115 items, reached their postwar peak. All major industrial categories, except textiles, showed increases, and the increase for metals and metal products was 2.4% over the four-week period.

The persistent upward movement of some immensely important key prices cannot be too strongly emphasized at this stage of the economic situation. Our studies show price increases for some of these selected commodities from June 1946 through January 1949. Using June 1946 as the base period, let me read some indexes covering June 1946, January 1947, June 1947, January 1948, June 1948 and January 1949 (or December 1948 where the January figures are not yet available):

Farm machinery—100; 114.8; 115.5; 123.9; 127.8; 139.7 for December 1948.

Brick and tile—100; 109.2; 111; 124.4; 126.4; 132.3 for December 1948.

Iron and steel—100; 116; 118; 131.3; 135.7; 150.2 for December 1948.

Plumbing and heating—100; 109.7; 112.4; 130.9; 137; 148.4 for December 1948.

Zinc—100; 126.4; 126.4; 134.5; 144.8; 209.2 for January 1949.

Lead—100; 157.3; 182.9; 182.9; 213.4; 262.2 for January 1949.

I should like to call particularly to the attention of the Committee that most of these price increases have not come at an even pace from month to month, nor even from half-year to half-year. Sometimes, for a few months there has been a substantial leveling off. After that, the upward sweep has been resumed. This process has been repeated several times, and therefore one should be careful not to draw great significance from a leveling-off period of a few months where separate analysis of general conditions indicates that the upswing may again be resumed.

These persistent price increases in vital areas of the economy present us with some clear short-run difficulties. They increase the cost of the preparedness and foreign aid programs and diminish their benefits. They provide fuel for extensive wage demands based upon high profits in sensitive areas and thus add momentum to the price-wage spiral in these areas. This price-wage spiral, in turn, has ramifying effects throughout the rest of the economy because it takes place at vital spots toward which the attention of the whole economy is directed.

But far more important in the long-run is the fact that these persistent price increases in vital industrial areas constitute a growing threat to the maintenance of economic stability and maximum employment and production. To indicate why this is so, it would be well at this point to summarize the conclusions to be drawn from the foregoing review of retail and wholesale price developments in various fields.

There has been in recent months a "leveling off" or slight reduction in the cost of living. This reflects in part a sharp decline in farm prices. However, while the problem now is that farm prices and incomes may decline too far relatively to other prices and incomes, only a small part of the decline in farm prices has thus far been translated into lower retail food costs. Another factor in the slight decline in the cost of living which has recently taken place besides some improvement in the supply situation, is a softening of consumer demand. This softening of demand is also reflected in the clothing area, and, as I shall shortly indicate, in the housing area. Since the consumer needs of a large part of the population are not yet adequately satisfied, this softening reflects an inadequacy of buying power among large segments of the population.

The softening of consumer demand in certain areas such as food does not lead quickly to reductions in employment and production, because agricultural prices respond quickly and sensitively to this kind of softening and an automatic adjustment takes place. But one of the reasons for this softening is that an excessive amount of income is being drained off by relatively high levels of prices and profits in certain key industrial areas. If the time comes when the softening of demand extends to the vital industrial areas where prices, unlike those in the agricultural area, do not respond quickly or sensitively, the typical reaction would be cutbacks in empoyment and production, and the down-spiral towards recession or depression is then under way. That is why, from the viewpoint of maintaining economic stability, the industrial price situation is so crucial and why the continuance of current price trends in some of these areas is so serious. The softening in other areas accentuates rather than mitigates the danger; it is a warning signal.

As I have said earlier, to stop worrying about rising and excessive prices in some areas of the economy because employment and demand may be softening in other areas would be to neglect the real problem of inflation just when it becomes most dangerous.

It is true that, if we maintain maximum employment and production in a stable and growing economy, the need for these vital industrial products should be even higher than it is now. But need and buying power are not the same thing. And full buying power cannot indefinitely be sustained at a rising price level when some of the backlogs and savings created during the war period have been further worked down, and when—we all hope—the extraordinary demands for national defense and foreign aid begin to taper off with an improved international outlook.

In fact, there is already one striking illustration of out-pricing the market. The residential construction industry in the past has been notoriously unstable, and this instability of a vast industry has contributed significantly to the boom and bust cycle throughout the whole economy. In 1948, we witnessed a serious decline in the monthly volume of house construction. In May of 1948, housing starts reached a postwar peak of 99,400 units, or an annual rate—allowing for seasonal variations—in the neighborhood of a million units a year. But then a decline set in, and in every month since August the number of starts fell below the corresponding month of the preceding year 1947. This sustained decline certainly does not reflect the satisfaction of our basic housing needs or the working down of the housing shortage to tolerable levels; it reflects instead a clearly unworkable relationship between the prices of building materials and finished houses on the one hand, and the buying power of those who most need houses on the other hand.

It is imperative in the national interest that this out-pricing of the market in one vital field receive prompt and decisive attention. It is even more imperative that similar out-pricing of the market not be permitted to spread to other vital fields. While this may not be imminent in the year 1949, it is unavoidable in the longer run unless adjustments are promptly made.

As We See It

(Continued from first page)

sible to have two parties in this country which sincerely and coherently hold respectively to two bodies of opinion. The voter, then, could decide which was the "deadest pigeon."

Let the Governor Speak for Himself

Lest someone gain the impression that we are misinterpreting what the New York Governor had to say in his Washington Lincoln Day address, we let some of his cogent passages speak for themselves. Here are some of them:

"We have in our party some fine, high-minded patriotic people, who honestly oppose farm price support, unemployment insurance, old-age benefits, slum clearance and other such programs. These people consider these programs horrendous departures into paternalism and would actually repeal them all. These people believe in a *laissez-faire* society and look back wistfully to the miscalled 'good old days' of the nineteenth century.

* * *

"This group also honestly believes and says with considerable vigor that all Republicans who support these forward-looking programs are 'me too' Republicans and no better than New Dealers.

* * *

"If, as a party, we try to go back to the nineteenth century, or even to the 1920's, you can bury the Republican party as the deadest pigeon in the country.

* * *

"It is perfectly clear that only a progressive, forward-looking Republican party can provide the leadership this country needs and must ultimately get. The overwhelming majority of all Americans in both parties believe that government today has to be more than a cold and impartial umpire.

"That has been the position of our party consistently, both in the Congress and in our party's platforms. That position has been repeatedly affirmed in national conventions. In 1948, our platform was unanimously voted without one dissent at the National Convention. It must mean something. Unless it was designed to deceive, its various sections say and mean that we are a liberal and progressive party.

"To be entirely specific, they say and mean that our party has solemnly declared that we believe wholeheartedly in unemployment insurance, in old-age assistance on an increased basis, in broader social security generally, in slum clearance and public housing, in public development of our water power resources, in farm price supports, in vigorous protection of the rights of labor.

"All these are good. They are necessary; they are right; they are the officially declared principles of the Republican party as solemnly adopted in convention assembled. I believe that we, as representatives of our party, are bound by these principles and are under a duty to carry them out.

"Those who disapprove of these principles and want to fight them ought to go out and try to get elected in a typical American community and see what happens to them. But they ought not to do it as Republicans. They ought not to get their personal prejudices confused with the basic aims the Republican party has repeatedly set forth in its platforms."

To the dispassionate observer it appears that the Governor has succeeded in getting a number of things rather badly confused—that much overworked "forward looking" attribute, political opportunism, "personal prejudice," and sound statesmanship among them.

But in one of his introductory generalizations he is on much firmer ground:

"It is now 20 years since our country last elected a Republican President. In that whole period we elected a Republican Congress once, two years ago. This is a dismal record that is important not merely to Republicans. It is of desperate importance to the country lest we slip unconsciously into the abyss of one-party government.

"Without seeking to find scapegoats or to make excuses, I would like to bring out in the open one basic problem. The Republican party is split wide open. It has been split wide open for years, but we have tried to gloss it over. We have tried to deny it to ourselves and conceal it. That doesn't work. I suggest that we face it, get it right out in the open and look at it. Then, let's see what we can do about it.

It is true, of course, that the Republican party is "split wide open." Indeed, it may even be splintered. It is also true, probably, that to this state of affairs may be attributed in substantial part at least the poor showing it has made during the past two decades. It certainly does not follow, however, that it should, and its membership should (or could) unite as a second version of the Rooseveltian New Deal organization. Neither does it follow that it would have been one whit more successful during the past two decades had it hastened to the last man to support all the weird collection of nonsense which today is regarded as "modern."

Not Inspiring

For a candidate to tell the voters that he can and will do all the things the other fellow thought up and do them better—which appears to be very nearly the essence of the Dewey idea—is not a particularly inspiring appeal. Certainly it is not when what the other fellow thought up is boots and baggage undesirable. We strongly suspect that the Dewey campaigns have failed chiefly because the millions who believe in the traditions of this country found it difficult to arouse themselves to much enthusiasm, while those who wanted to support the New Deal and its like could mostly see no good reason why they should desert the party which brought it into existence—particularly when, thank heaven, there was evidently a fairly strong element in Governor Dewey's party which was not very amenable to New Deal prodding.

But, politics aside, is there no leader of public thought in this country who has the convictions and the courage to undertake to lead the people rather than merely to sense what they are already thinking and cater to their sentiment without much regard to where it is leading? Certainly, such a thought appears remote from the mind of the Governor of the State of New York.

Orthodox Investing Methods Are Out-the-Window

(Continued from page 2)

days before the ticker, before the Dow Theory, and before the advent of the "crack-pot cult of the cycle." In fact one had no speculative agility. One bought; one held on; infact one "invested." One relied on growth and reasonably good management. One saved and "invested" (for one's grandchildren).

We Greedy Hare-brained Moderns—That was the old, and charmingly agnostic, tortoise policy of our telephoneless grandfathers—who invested for income and did not play the market. On the other hand we more depraved and hare-like moderns are interested more in quickish capital gains than in income—particularly if we are rather rich and in a rudely high income tax bracket. We need money fast for our (latest) spendthrift wives, who are trying to outshine the (latest) wives of the Joneses.

The Gambling Bacillus—Moreover since now-a-days few good stocks bring in an income of over 6% per annum, and since almost every stock fluctuates almost 6% per month, we most of us sort of kind of feel that we might, if we were lucky, make 72% per annum instead of only 6% if we played the market thoughtfully and cleverly. This lure (to destruction) is prepossessing. We modern moths get singed, by the thousand, in these flames . . . victims of greed and an infection called Hurry.

Prigs—Some of us, of course, are men of great austerity and prudish character, and will have nothing to do with the baudy vices of short-term board room trading . . . nor pollute ourselves with in-and-out, day-to-day operations. We are aristocratic and self-respecting enough to be eclectically high-hat, dubbing ourselves as calm thoughtful thinkers, as students of money, as cyclical theorists . . . the peerage of the investment world. We sin it is true, by gambling all right but we only do it twice a cycle We have the grand manner. We are not "habituals." Of course we don't "believe in" speculation.

Cads—Those of us of course who are not so financially well bred (and who are less dishonest intellectually)—i.e. the more middle minded and less snobbish classes—degrade ourselves and sink more frequently into speculative sin by trying to exploit the intermediates instead . . . leaving the lower and upper financial classes to their daily (minor) or cyclical (major) jiggles.

Nemesis

When everybody in financial society tries to skate on the same bit of economic ice at the same time, they habitually get a collective ducking.

Indeed too much company on the same idea automatically becomes unsafe . . . even if, for some decades before, the pursuit of that idea used to lead to much profit and much happiness, making gentlemen out of utter cads who 'ad discovered the secret trick of riding the cycle. *(It was everybody's secret!)*

True, there are still (even in 1949) quite a lot of old fogies, and new fogies, who have not yet quite awakened to the theory of cyclical investment; but the great mass of brokers, bankers, chorines and barbers have more or less got themselves that way.

Certainly they will not be able to describe to you in any convincing detail the subtle ins-and-outs of the cumulative Bank Credit Cycle; nor those curious economic bee-and-bird laws which cause depression to breed revival and boom to breed recession, automatically . . . with violent "cumulative" movements in between.

It Is All So Simple

But they do roughly know the nature of the bucking beast whose back they try to ride economically, even though it sometimes throws them inelegantly in eloquent rodeo manner.

The business cycle nevertheless is accepted as "here" and inescapable. Boom, slump, boom, is regarded as normal . . . and as part and parcel of the capitalist system. It is regarded in fact as pre-ordained dogma, and as an immutable law which is with us forever, like taxes and death and Bing Crosby's music. (And obviously any young bellhop or barber can make a fine fortune, by just playing the simple rules!)

50,000 Frenchmen! [Five Million Sheep]

The spread of this knowledge is both dangerous . . . and funny; for if all of us know it, it isn't much use.

To start with the blasted tinkering politicians and statesmen have (on paper) learned almost as much about the business cycle as have us investors and economists. The net result is that these, our well-informed masters, are now in the professional political business of trying to iron out both booms and slumps . . . and of deliberately trying to take our cycle away from us.

In fact politicians, particularly in the Roosevelt era, have more or less adopted all, or nearly all of the anti-cyclical nostrums invented by the whole tribe of cycle-hating economists (like myself). And now, in America, we have at this moment a galaxy of cushions and nets, and rescue gadgets to check each bust, and to save us from normal cyclical nosedives into the ugly rocks at the bottom.

The Invention of "Cushions"

The Padded Cycle—These are the 12 safety-first cushions . . . as Truman and Trade fly on the high trapeze:

(1) Unemployment insurance.

(2) Minimum wages and high wages.

(3) Support farm prices.

(4) Cyclically planned public works.

(5) A cyclical budget (perhaps). *Deliberately unbalanced to bring about reflation.*

(6) Cyclical taxation (perhaps). *Reduced to leave more buying-power with consumers.*

(7) Bank deposit insurance.

(8) Stock piling commodities. And enlarged defense.

(9) A policy of cheap money and bond-rescue inflation.

(10) Reconstruction Finance Corporation.

(11) European help.

(12) And the whole apparatus of managed money.

The Tinkering Politicians Have Robbed Us

Now if one or more of the foregoing cushions are effective in ironing out the business cycle and in saving us from normal cumulative cyclical slumps, the general theory of cyclical investment is probably not as sound (for us bell-hops and barbers) as she used to be, especially if inflationary booms are ironed out also . . . as they ought to be—though are not always.

Indeed it is axiomatic that the more successful the tinkering politicians are in ironing out the business cycle, the less valuable becomes the now-orthodox theory of cyclical investment, as expounded (rather as a novelty) 20 years ago in the writings of this author and his comperes.

Furthermore, my dear brethren, at the same time as the cycle is being ironed out—or at all events shortened—by the evil politicians, the number of investors who smugly understand the (now moribund) cycle is increasing!

The net result is that more and more of us have in fact less and less (profitably) to go for . . . since the politicians are cutting off the bottom portions of the troughs, and the peaks, thus making the economic country flatter, and less profitable to established cyclical traders.

Dow theorists are particularly likely to suffer since their mechanical system deliberately "plans in advance" to be late, and to miss a large part of each cyclical swing. The money managers are the mortal foes of Dow theorists.

Out-Cycling the "Orthodox" Cyclists

The Other Half of the Nutcrackers—But even if cyclical fluctuations in trade and profits were not now about to be ironed out, the spread of knowledge of cyclical investment (among 5,000,000 happily "trained" investors) itself tends to iron out the cyclical fluctuation in stocks. For if everyone knows the danger of booms and the safety of slumps, people are going to stop buying common stocks when booms begin to look fairly ripe.

Thus the Dow Index will never rise as high as it would otherwise have done if cyclical speculators had not possessed their new-found "orthodox" knowledge. It should have gone to 400 in 1948, if it had the good manners to behave itself historically. (The Dow is earning $22!)

Likewise, if slumps are theoretically the right time in which to buy (from a cyclical angle), foresighted riders of the investment cycle—who believe that all slumps eventually cure themselves automatically, even if the money managers do *not* lend a hand—will puckishly buy in and during business slumps, in a manner which would rudely shock the departed spirits of their grandfathers (if any).

Just imagine the financial blades of the Nefarious Nineties advising their followers, in defiance of the record, to buy stocks making losses! And yet that is (was) the way to make big money!

Out-Cycling the Cyclists (The New Jungle Law)

But time marches on . . . at a gallop, sometimes.

Today there are so many cyclists trying to ride the cycle simultaneously, that the exercise of the (now orthodox) principle of cyclical investment has become highly dangerous to would-be conservative practitioners thereof. *They are likely habitually to miss the last bus.*

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The Hunt of the Jackal Pack For Suckers

The trouble is this. If you are to succeed at any time in your venal quest of capital gains, you must always find some other *more innocent* sucker on whom to unload (before the boom ends) who is going to be wrong if you are to be right.

Conversely in the slumps, you must find some yellow-haired Nordic who will sell his stocks at quite the wrong time, thus enabling you (darkly) to buy them shrewdly. You need a victim-counterpart (a meal) to each deal. For if you are right, the other poor fellow *must* be wrong. This jungle game is one of dog-eat-dog; or of wolf-eat-lamb; or bull-eat-bear; and bear make-a-meal out of bull. A charming living delicatessen—this over-infested canyon of Wall Street. Passing the buck; passing the stock; finding some hick to hold the sinking baby.

It is quite an art: this survival of the fittest; this outwitting of one's less intelligent competing hyenas.

But time strides on . . . without blowing whistles.

How Spreading Knowledge Makes Itself Useless

The dismal dirge which I am trying for the *nth* time to ram through you is that if (a) the miserable patriotic money managers take away from us investors (wicked speculators) a large percentage of our precious BUSINESS cycle; and if (b) the spread of intelligence among us wicked intelligent investors at the same time itself lops off the tops and bottoms of our STOCK MARKET cycle, we speculators will suffer from a double disaster, and can no longer idly, by our wits, exploit our lovable fellowmen by getting rich on account of our knowledge (in relation to their own comparative ignorance).

Sherlock Holmes Needed

Of course, what actually makes prices move it NOT all the statistical factors—although the Stock Exchange Committee seems to think it is—but rather the "mental condition" of the public, and their "opinions about value" which fluctuate with fluctuating confidence . . . regardless of whether such "opinion" is soundly based, or otherwise.

This means that, in the short run at all events, our job is to forecast (guess) public opinion—

SENSIBLE OR OTHERWISE!

The professional guesser, in fact, must guess the guesses of millions of other guessers—who (probably) have even less data than himself!

It is interesting Sherlock Holmes work . . . being an economic—and psychiatric—detective . . . ALWAYS with inadequate clues.

We must specialize in waves and curves . . . of confidence, and fear.

In other words, you must buy at the peak of the (anticipatory) fear-wave!

The Bold New Program

(Continued from first page)

sounding Bold New Program of the Inaugural Address—its Point Four, the author of which is, supposedly, the new Secretary of State who fathered the Truman Doctrine and the Marshall Plan—to "foster" the use of American capital and know-how in a grandiose scheme for the development of backward areas and for raising their living standards.

At first, this program has been interpreted as one more of the pious enunciations of the Atlantic Charter or Four Freedoms type, an expression of high-flung humanitarian longings rather than of concrete objectives, a longer term vision rather than a plan of immediate action.

In other words, nothing much of a follow-up should be expected. If the Atlantic Charter is the pattern, an acute betrayal might be in store.

Such an easy-going interpretation, based perhaps on the record of the imaginative Mr. Roosevelt's ideological performances, is not warranted either by the personality of the new President and his subsequent comments or by the facts of the situation. As a matter of fact, the idea of embarking on a colossal capital expansion and industrial education program in under-developed regions follows with irrepressible logic as a sequence to our postwar international policies.

Originally, the Roosevelt Churchill conception of the post-war Utopia was based on two hypotheses. One was the expectation that Europe would restore itself, as it did after World War I, given a short transition period; given also American aid by way of UNRRA, Bretton Woods, Export-Import Bank, and the British Loan. The other was the political dream of One World with Russia, organized in and managed through the U. N.

The Age of Reason and Light was at hand.

The last shreds of the One World fantasy were rent asunder in the course of 1947. Marshall Plan, Truman Doctrine, and a stepped-up rearmament program, were as many admissions of the failure of the previous international planning, both diplomatic and financial. They signified a new "pattern of peace."

Has Anything Been Accomplished?

Since early 1947, our foreign policy is serving two essential purposes: to finance, the rehabilitation, within five years, of Western Europe as well as of the Far and Middle East, including Greece and Turkey, at the cost of spending another $20 billion or so; and to contain Russia, i.e., to discourage her armed intervention in adjacent countries, by "show of force."

In fact, the two objectives are closely tied together, as it is generally understood. Restoring bankrupt nations is supposed to keep them away from bolshevism. And keeping the bolshevik wolves from the doors of "democracies" is supposed to enable the the latter to restore themselves.

By 1949, unfortunately, little is left of both dreams: either of containing Russia by domestic rearmaments, or of restoring Europe's solvency in the visible future.

The recent Harriman report about Europe's inability to become self-supporting by 1952 has been suppressed. But the 19 recipient governments of the ECA themselves came out plainly proclaiming that they consider it impossible to balance their accounts with the Americans after the Marshall Plan ends.

They promise, however, to reduce their foreign trade deficits. Their hodge-podge "planning" was highlighted by the fact that their projected exports to each other added up to an annual $400 million excess over their imports from one another!

When the Marshall Plans ends, Europe will need at least $3 billion annually, and will need them, according to the experts, maybe for a generation.

The failure in Greece is obvious. The fiasco in China is complete. The occupied countries are more or less permanent wards of America. And new problems have arisen.

Latin America is in the throes of a foreign exchange crisis reflected in nine revolutions within one year—a far better than average performance for the junta-politicos. The Bogota conference offered a painful illustration of the fact that the Good Neighbor policy went on the rocks of the Latin dollar shortage.

To keep Israel and the Arabs from cutting each others' throats, it has taken lately $100 million Export-Import Bank loans to the one (on top of $250 million collected privately by the American Zionists last year alone), and substantial pipeline investments plus oil royalities to the other. It will take more than that.

To prevent Pakistan and Hindustan from fighting, Burma and Siam from being bolshevized, Sumatra and Java from boiling further—American funds will be needed. They may be too late already for Indo-China, but Korea, Japan and the Philippines are to be great consumers of dollars if they should be restored to anything like normal functioning.

Many signs indicate progress toward economic sanity in Europe—reconstruction of war damages and raising of consumption levels; partial control of the inflationary flood and (outside Britain) reduction of subsidies; partial elimination (outside France) of rationing and of related controls; even a moderate expansion of production facilities.

But much of the progress in one country was at the expense of another. And labor productivity is still sadly limping.

Man-day output in British factories is less than half of the American; scarcely one-fifth in British coal mines. French labor productivity is still only 85% of what it was in 1938—when it was much too low.

ECA Countries Not Recovering

Anyhow, the ECA countries are not recovering their ability to pay for what they buy. The exports of Western Europe as a whole match barely 50% of its imports.

Britain and Germany, between them, constitute the centers toward which normally the bulk of raw material and luxury exports gravitate. By restricting their imports as they do, they bankrupt the rest of the world, from Canada to Argentina and from France to Ceylon. Bankruptcy spreads: Portugal and South Africa are the latest comers in the ranks of dollar-beggars.

The fact that America takes care of all the sick balances of payments relieves the pressure that might otherwise bring the effective cure. It permits Europe's wasteful socialistic practices and commercial warfare which maintain the deficiency economies in a condition "hopeless but not desperate" (quoting a Viennese adage.)

As an example, most European governments would face bankruptcy if they had no deficit in foreign trade, and no American help to cover it. Take France: she sells the Marshall Plan goods to her citizens, and gradually uses the proceeds — the "counterpart" funds in "local" currency—to fill the hole in her budget, swollen as it is with political subsidies and excessive "social" spending. She has to have an unbalanced international trade so as to balance her domestic accounts!

What may be worse, the policy of armed preparedness neither stops Soviet expansion, nor does it eliminate the danger of eventual war. All it does is to raise the danger of ultimately bankrupting the United States.

Such is the background behind the President's (and Mr. Acheson's) Bold New Program. If anything, it means far more than just another long-term outlook on a Better World. Action is meant, prompt action along the same general lines as presently, but in a vastly intensified measure and in many more directions. Also, the procedure is to be changed, or supplemented, the diplomatic technique as well as the financial.

To begin with, the Atlantic Alliance, under negotiation in great secrecy, is essentially correlated with the new program. Its principle is simple; the difficult question is to package it so as to make it palatable to the Senate. It amounts in effect to the same trick with which Chamberlain tried to discourage Hitler in the spring of 1939: by offering the "little" powers Britain's territorial guarantee, plus arms. We now shall offer it to all comers, plus billions (not-as-yet-budgeted) lend-lease.

Military Aid Will Not Stop Russians

The trouble is that an American military guarantee—which is an admission that the U. N. has totally failed in its main purpose—does not add anything new to the international picture. Nor will it stop the Russians—who do not attack. They merely infiltrate. If Finland or Austria or Indo-China is taken over tomorrow by a Bolshevist revolution, as China is today: will the Atlantic Alliance declare war? Will we not prefer to recognize the new Soviet-controlled government, as we did so far each time, and as we apparently intend to do in China, too? France, for one, will be little inclined to become the battleground. And what if one of the countries we rearm swings over into the Soviet camp?

How, then, does one stop Bolshevist infiltration—especially in under-developed countries most exposed to Marxism (as experience shows)?

That's where the Truman-Acheson Plan of additional capital exports enter the scene—on top of the annual $5 to $7 billion already in the pot, and on top of the forthcoming lend-lease. Its prime purpose is: not to miss the boat in Indo-China, Siam, Burma, etc., as it has been missed in China.

Investments in those areas should alleviate recurrent starvation, the worst cause of social unrest, raise hygienic standards and strengthen the local governments against foreign-sponsored revolutionary movements.

The bitter irony is, however, that any such improvement will cut down their mortality rates—the only check on an otherwise boundless rise of population.

But the same stone is supposed to kill a second "bird" as well. Europe's ailment is—allegedly—an incurable dollar deficiency. If the dependencies in Asia and Africa would produce the badly needed food and raw materials—which they would have to sell to Europe, presumably, whether or not they like to do so—"hard money" could be saved. The deadly hole left in Europe's international accounts after the Marshall Plan's expiration would thus be filled.

In reality, Europe could be made self-supporting almost at once—if it would stop its internecine commercial warfare, illustrated by such facts as the accumulation of "unsalable" coal in Belgium while Italy has imported 3.5 million tons of American coal in the last nine months. Incidentally, we are forcing food and tobacco surpluses on Europeans who could make much better use of the Marshall funds. Denmark cannot pay for the coal she imports from Bizonia because our authorities force American flour on the Germans instead of letting them import the higher quality Danish farm products.

Thirdly, the U. S. itself is to profit—believe it or not! Here is how.

The Marshall Plan foresaw that we should get from Europe in exchange for our donations some amount of *strategic* raw materials. Of course, nothing came of it. Europe produces none, to speak of, and not enough grows in most colonies to take care of the mother countries. Also, the latter discriminate systematically against American venture capital going into the colonies.

Now, the Bold Plan would produce results for all and sundry: the indigenous populations shall benefit by rising living standards; the colonial powers would save dollars; and Uncle Sam would get the strategic materials—at no added cost—it needs for stockpiling.

If there ever was a method to skin a fox three times over, here it is.

Fourth: The Latin Americans. They, too, would be "developed." It remains unclear, so far: how we shall persuade our Good Neighbors to let us develop their natural resources when they are anxious to shake off that "colonial" stigma of one-sided economies and strive to become industrialized. Or who the eventual buyer of industrial products is going to be if everyone manufactures them.

The *fifth* objective is amed at the domestic front. The Administration faces most embarrassing issues: the Chinese catastrophe, the mess in Japan, no peace in Austria, cold war in Germany, and the increasingly evident failure of international spending.

A New Plan, and a Bold one at that, is a godsend to distract the American public — always ready to escape from unpleasant realities into general and vague but optimistic speculations.

Stalin's soft-speaking helps, too. His latest peacetalk offer makes it clear what he is after: he is willing to sign new treaties and raise the Berlin blockade (for a while) if we "postpone" creating a West German state. That, indeed, is his chief worry, after swallowing China: the threat a rehabilitated Germany means to Soviet hegemony in Europe.

A further (*sixth*) advantage is offered for the politicians and the economic pressure groups behind them: the possibility of boondoggling without burdening directly the Budget! By merely guaranteeing the capital (and interest), the cost to the taxpayer is postponed for later—to plague some future Congress and Administration.

Seventh: Shifting part or whole of the E. C. A. type of financing from Europe to its colonies provides the former with the same kind of benefits as under the Marshall Plan, but without the stigma of "beggaring" attached. Their socialist governments will be enabled to claim having freed themselves from American aid; the colonies have of course no "pride."

The Bold New Plan is bold indeed, but scarcely new. It is a continuation of the Marshall Plan and Truman Doctrine spending—just as they were continuing the charitable UNRRA, and the generous Anglo-American Loan—which in turn followed the wartime Lend-Lease. There is no getting away, apparently, from a principle once established: the lofty idea that dollars sunk abroad will produce Democracy, Prosperity, and Peace, in addition to raw materials.

But both the President and his Secretary of State emphasize that this time the approach would be different. No clear conception has emerged so far; some insiders hint that a global R. F. C.; other connoisseurs of the State Department's mind, notably Arthur Krock, ponder on "concessions" like that of the Arabian-American Oil Co. in Saudi Arabia and the United Fruit Company's semi-public treaties in Latin America.

Will Combination of Private and Government Investment Work

Anyhow, the emphasis is clearly on combining: private American investment with some sort of Administration guarantee; capital from the U. S. with local savings; governmental direction and supervision with business management; safeguarding of local interests ("no exploitation") with paying interest and repaying the principal; and the productive and long-term character of the "new" investments.

A wonderful Program, if there ever was one that should be satisfactory to everybody. The Planner comes into his right, and so does Free Enterprise. Government and the Individual, the destitute native and the rich capitalist, the colonial subject and the empire ruler—each gets his share.

But, of course, it all amounts to a revised edition of the much heralded International Bank for Reconstruction and Development. Constitutionally, that institution covers all the objectives and provides all the techniques implied in the Bold New Plan, including the Treasury guarantee and the productive purpose of each investment, etc. Why, then, is the Bank's multi-billion lending capacity virtually dormant (beyond nurturing an appalling number of highly paid and tax-exempt jobholders)?

Even with a (partial) U. S. Treasury guarantee, World Bank bonds—even of European countries, to say nothing of Siam or Paraguay—at a 3% yield cannot compete with a 2.75% return on first class American municipals. As to venture capital proper: what kind of a return would have to be expected (say) in Pakistan when best domestic corporations pay 8% and more in dividends?

With the one hand, Truman discourages American investment at home. With the other, he wants to canalize it into remote jungles and deserts—in the face of all adverse experience of the past, of war dangers, Bolshevik "peaceful" threats, and risks beyond the prudent capitalist's endurance.

Note that McCloy is looking for "good projects" to be financed by the World Bank—and cannot find them.

No doubt, some amount of genuine venture capital could be attracted into exotic undertakings by full guarantees, tax exemptions, and other "incentives." As a rule, it would have gone there anyway; if so, the new scheme merely provides a subsidy to the participants.

Basically, it makes little difference whether the money is disbursed by the bureaucrats as in the case of the defunct Anglo-American loan; or the spending is managed by a group of businessmen *a la* Hoffman-Harriman; or is just "guaranteed" by the government. In either case, it will be political spending. And the results will be, by and large, the same.

Harry V. Long Dead

Harry V. Long, oldest member of the Boston Stock Exchange, died at his home in Boston at the age of 91.

Sound Financing of Air Transportation

(Continued from page 17)

provided airports. Properly financed this should mean low fixed charges. An efficient management with a good expense control system should mean more to the success of the airline than large capital resources.

Probably the control of operating expenses is the most important of airline variables, but unfortunately there are many other variables in this intensely dynamic business, such as:

(a) Extent of competition.

(b) Safety and reliability of operations.

(c) Quantity and qualtiy of equipment.

(d) Current mail pay policy of the CAB.

(e) Current attitude of the Post Office Department and Congress.

(f) Technological advances in the art.

These variables seldom affect the long established public utility, but the airline must reckon with them and they do affect its earnings greatly and consequently airlines stock as an investment medium.

The financial distress of many airlines may in large part be traced to a blithe freedom from any effective expense control system prior to the year 1947, but that is water over the dam. It does no good to beat a dead horse. I honestly believe that from a standpoint of efficient and economic operations the record of the airlines as a group today compares favorably with private industries generally, and most certainly with any other transportation industry. The cost of operation per available ton mile in 1947 was approximately 31 cents. In the third quarter of 1948, this had been reduced to about 27 cents, although prices had increased about 30% during the same period. Of course, there is still room for plenty of improvement.

I am not going to deal at any length upon the variable listed as "Extent of Competition"—that is pretty thin ice. Suffice it to say that if the CAB was carried away by the wave of postwar optimism, so were the airlines, the banks and financial prophets. There may be too much competition over many routes, but the Board and Industry are working on it, and the condition will be remedied.

Safety and reliability of operations are, of course, a most important variable. A series of bad accidents or a period of bad weather is immediately reflected in the "revenue ton-miles" record and in that old devil "load factor." The national airways program when completed will make on-time, reliable, all-weather service available. But it will take time. After all this is a very young industry. The railroads were neither safe nor reliable for many, many years.

Quantity and quality of equipment can be coupled with technological advances. A new and improved aircraft purchased and operated over the airways of one airline places an immediate necessity upon a competing airline to acquire and operate new and improved aircraft, or otherwise it may soon be flying empty planes.

The mail pay policy of the Civil Aeronautics Board, and the attitude of the Post Office Department, and the Appropriations Committee on Capitol Hill, all have a definite bearing on airline earning prospects. There is no guarantee that the policy of Congress or the governmental agencies will remain constant.

All these ghosts rise up to haunt the investor of "risk money"—or the banker—when the subject of airline financing is mentioned.

The Ideal Finance Plan

If an airline were merely a private enterprise in open competition, free of large fixed investment, subject to high variable expense, but unburdened by public utility and national welfare obligations, the problem of corporate finance would be relatively simple. Such a business would be attractive to "risk capital" but would not be able to obtain any great amount of long-term loan money. Its great need would be for a large margin of free working capital and large liquid reserves for contingencies and new equipment. The "risk money" would place its bet on managerial efficiency and ability. If it won in the battle of free and unregulated competition, it would win handsomely. The modern aircraft is a highly productive vehicle when employed over a route segment of heavy traffic potential and reasonable competition.

Unfortunately, we are not starting from scratch. We are dealing with a factual situation and we must face it. The airlines now have financial structures and they are not at all the ideal structures which I just described.

In 1940 only 7.6% of the total capitalization of the domestic certificated airlines was in the form of debt. 92.4% of the capitalization was represented by common and preferred stock, mostly common.

As of Jan. 1, 1948, the picture was completely reversed. Approximately 50% of the financial structure was represented by bank loans—20% by cumulative preferred stock and 30% by common equity.

Much of the debt money was used to purchase equipment. Since the rate of depreciation and obsolescence on aircraft is rapid[1], the sinking fund requirements and the service charges have become a tremendous burden. Likewise, the loan agreements and chattel mortgages securing the debt often contain highly restrictive covenants limiting to a considerable extent managerial flexibility.

On top of this heavy burden of funded debt are three years of heavy losses. In 1946, the domestic airlines lost over $5,500,000; in 1947, they lost over $20,000,000, and in 1948, they will lose an estimated $8,000,000 or more.

Consequently, all the surplus and reserves of many important airlines have been wiped out. Free working capital has become almost non-existent and resort has been had to short-term borrowing and cash received from advanced sales. This is a precarious condition for an industry where the loss of only two passengers below the breakeven load factor means a loss of $2,500,000 a month.[2]

Moreover, not all the lines are fully equipped with new, modern aircraft. Funds are needed to acquire this equipment—not only to enable the partially equipped lines to compete with their fully equipped rivals, but also to reduce expenses by more economic operation, and to fulfill their obligations to the national defense. Thus, the question of airline financing is not a theoretical one, but a very practical one and very much in the national interest.

There was a very brief period immediately after the war when such financing could have been had. The sky was the limit—and no pun is intended. Investors, bankers, the airlines, and the aircraft manufacturers envisioned the carriage of the greater part of all first class traffic by air, and estimated air cargo by the billions of ton miles.

The domestic air routes (including feeder routes) were expanded approximately 235%. Enough new equipment was ordered to fly all this dream traffic. But it was only a dream. It will probably come true in large part eventually—but not just now.

It is easy to criticize the airlines for past mistakes and misjudgment, but it serves no good purpose. The "why didn't you" and "what might have been" approach does not provide the financially sound, operationally efficient, and technological modern air transport system declared to be so necessary by the President's Air Policy Commission and the Congressional Aviation Policy Board.

Nor is it in the national interest for a critic to say "first make a record of earnings and then we will help you." This evades the problem. The correcton of a route pattern, elimination of some duplicating facilities, and the tapping of new sources of traffic take time and resources. An airline faced with receivership cannot engage in speculative adventures or experiments. If haste and over-optimism created the situation, haste and over-pessimism cannot correct it. However, the critical financial situation of several of the airlines cannot wait on a carefully planned correction of the route pattern, and the working out or methods to eliminate duplicating facilities and attracting new sources of revenues.

A recession, even a short recession and modest in amount, would very probably reduce the load factor to the extent of those two vital passengers. The result might be financial chaos in the air industry.

Again, I repeat, this is a factual situation and not a theoretical one. This is a situation which not only affects the airline investor and the travelling public, but is vital to the national welfare and the national defense. It is a national problem and not a private airline problem alone.

Equity financing is not presently possible. Of course, after several years of good earnings at a time of good market conditions, equity financing at a price might be had. But that begs the question. There is no present possibility of obtaining sufficient equity financing to remedy the situation. Likewise, the possibility of obtaining large loans from banks or insurance companies is remote, if not nil. The banks and insurance companies are already in too deeply.

The present mail pay policy of the Civil Aeronautics Board is a help and will continue to be a help, but it is not the whole answer. Only approximately 8½% of the revenues of the domestic airlines comes from airmail. A 10% loss in airline revenues would mean an increase of 115% in airmail pay and the repercussions if such an increase were allowed would be immediate and severe.

A Suggested Interim Program

It is my belief that the airlines will continue to effect sound economies and to control expenses; and if they are permitted to take advantage of technological advances, and if uneconomic competitive situations are remedied, they will establish a record of regular earnings which will permit proper equity financing at a reasonable cost. But until this times arrives, some interim plan must be adopted. National security alone makes it unthinkable that the present critical financial conditions of so many of the airlines should continue. The plan I suggest is as follows:

A. Short Term Financing—Emergency Loans for Working Capital and Equipment

(1) I suggest that RFC loan sufficient sums to financially embarrassed carriers to supply (a) needed working capital (to the extent that the need is not met by mail pay actions of the Board); and (b) amounts necessary to service their commercial funded debt.

The RFC, in my opinion, has the authority to make such loans. The only requirements are (a) if approved by the Civil Aeronautics Board, and (b) if there is reasonable assurance of payment of interest, and repayment of the loan. The present mail pay policy of the Civil Aeronautics Board should give reasonable assurance to the RFC that the carrier will be provided with funds to pay the interest and principal of the loan.

(2) I suggest that the RFC make temporary equipment loans to those companies which are committed to the purchase of new equipment, the payment for which work an undue hardship during this financial emergency.

The RFC now has authority to make such loans if approved by the Civil Aeronautics Board. Most of the equipment under order for these carriers was purchased at a price below the present market price and that in itself should be sufficent security for the loan. In addition, the RFC has the assurance that under the present mail rate policy of the Board the carrier will under efficient and economical management receive sufficient funds to cover interest, depreciation (which could be put into a sinking fund), and insurance on the new equipment.

B. Long-Term — Voluntary Refinancing

(1) I suggest that new legislation be introduced, modeled after the former §605 of the RFC Act, which provides for the guarantee by RFC of railroad equipment trust certificates. This section was enacted in 1934 to relieve the plight of the railroads, and was repealed on June 30, 1947. It permits the RFC to guarantee equipment trust certificates.

Current commercial loans now secured by equipment could be refinanced and new RFC guaranteed equipment trust certificates sold to investors. Such a certificate would have all the security of a Treasury note and should not require much more interest. The retirement term could be prolonged and sinking fund requirements made less onerous.

(2) I suggest that until the legislation above suggested is enacted, all financially embarrassed carriers whose funded debt position is now such that it works an undue hardship on the carrier and jeopardizes it financially should be permitted to enter into a voluntary refinancing plan with approval of the Board; and that the RFC refinance the equipment loans which constitute the large part of such funded debt on a fair and equitable basis permitting more reasonable interest terms, sinking fund terms and repayment terms. Such refinancing could be accomplished by direct loans or the purchase of equipment trust certificates by RFC. It may do either or both under Section 604 of the RFC Act. The requirement of reasonable assurance of payment of interest and principal is present. Most of the equipment purchased with bank loans has a present value sufficient to secure the needed refinancing. In addition to that, the RFC may rely upon mail pay policy of the Board which should enable the carrier under efficient and economical management to receive enough mail pay to take care of all sinking fund or depreciation requirements and to pay the interest.

Conclusion

I think the national interest, national defense, and the welfare of the people generally is a compelling reason for the assistance recommended.

The amount involved would be about $250,000,000 even if all the airlines sought refinancing; and please remember, the RFC would not be giving away this money. It would only be lending it, or guaranteeing a loan. The RFC was created to meet exactly the contingencies which presently confront the airlines and the nation, and I am sure would cooperate whole-heartedly. The airline, as an instrument of national policy, is in an entirely different category than the ordinary private business seeking a government loan.

Full cooperation and agreement on the part of the bankers and the holders of the debentures of airline corporations would, of course, be necessary to accomplish any such voluntary refinancing, and it follows that if such cooperation be not present, then the bankers and debenture holders would have to look to the Bankruptcy Court should an airline's financial situation deteriorate further.

It is my opinion that the recommendations above set forth would effectively serve the interim purpose. The public purse would be protected in that all the refinancing would be under the supervision and with the approval of the Civil Aeronautics Board.

The airlines would be removed from any threat of receivership since practically all of the funded debt of the weaker companies would be in the hands of the RFC or guaranteed by the RFC.

As a matter of fact, this plan should effect a considerable saving to the government. The sinking fund payments and interest charges on the present funded debt of the airlines, amounts to over $20,000,000 annually. Insofar as it is not paid by other revenues it is paid by the government in the form of airmail pay. If the RFC refinancing reduces these fixed charges, it reduces the amount of airmail payments and saves the government just that amount.

Once the airlines have weathered this transition period they should resort to equity financing, except I believe it would be in the national interest to retain in RFC the authority to guarantee equipment trust certificates so that the airline, as a potentially military auxiliary, may take full advantage of every technological advance in planes and equipment.

[1] One 60-passenger aircraft, such as the Douglas DC-6 or the Lockheed Constellation, costs approximately $1,000,000 and is fully depreciated in seven years at something more than 12% per year, as compared with a 77-passenger train coach car which costs about $85,000 and is depreciated at about 3% per year of service.

[2] Revenue miles flown with passengers in 1948 were approximately 300,000,000, or 25,000,000 a month. If they lost two passengers, it would mean approximately 10 cents a mile, or $2,500,000 per month.

Geo. E. Rieber Honored At Testimonial Dinner

George E. Rieber of the National Association of Securities Dealers, Inc., was guest of honor at a testimonial dinner held Feb. 10 at Miller's Restaurant, to commemorate his appointment as Secretary of District No. 13 Committee of the NASD.

Mr. Edward C. Gray, Executive Vice-President of the New York Stock Exchange, acted as toastmaster. The dinner was attended by 150 friends of Mr. Rieber, representing all branches of the securities business. Alden H. Turton, Frederick H. Hatch & Co., was in charge of the arrangements.

Mr. Rieber has long been active with the NASD.

With Hornblower & Weeks

(Special to THE FINANCIAL CHRONICLE)

DETROIT, MICH.—Richard L. Mead is now connected with Hornblower & Weeks, Penobscot Building.

Television—The Giant

(Continued from page 8)

period of red ink before becoming a profitable operation.

Four Hundred Video Stations by 1953

Despite these losses, the same tremendous faith is being shown in television's future as has been shown by astute businessmen in the formative period of every great industry's development. FCC Station application records indicate that by 1953 at the latest, we will have 400 television stations on the air in 140 cities. This is the maximum possible in the present frequency band.

In this connection, there seems to be some misunderstanding as to the extent of the "freeze" action taken by the FCC last fall. This action did not halt the construction of stations for which permits already had been granted. Since that action was taken, 20 stations have been completed and put into operation and others are going on the air every week. The order did "freeze" applications pending for construction permits.

The purpose behind this step was a good one, and I believe every responsible member of the industry was in agreement with the FCC. It was found that under the present frequency setup, there simply was not enough room for the stations necessary to give this country the best possible television coverage and service. Unlike radio, television audio signals do not tend to follow the curvature of the earth, and consequently reception generally stops at the horizon giving most stations a 70-mile maximum coverage radius. The FCC put the "freeze" in effect so that means can be worked out to make room for additional stations and to avoid overlapping. The industry is confident that this will be accomplished.

As new television areas open, and as existing ones become more attractive with the opening of additional stations, television receivers continue to move rapidly. However, in this field too, the more alert companies are looking to the day when competition becomes more intense and are girding now for that time. The constant introduction of new sets and new features, even as current models are selling very well, is in effect a jockeying for position. At my latest count, there were around 185 different model television sets available. And here again, if I may use my own company to illustrate, we are prepared to maintain Crosley among the industry's leaders by giving good values in first-class performance and advanced design in our sets, and by conducting intensified merchandising programs through an expanded sales organization.

All in all, it is evident that television is growing into an element of primary importance in our entire national economy. While it means a new era in American entertainment and education, it also means — through its power to quicken the distribution of goods and services — new benefits to business, commerce, industry and agriculture alike, which is to say, the entire public.

King Merritt Co. Adds

(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, MO.—Joseph A. Grant is with King Merritt & Co., Inc., 408 Olive Street.

Merrill Lynch Adds

(Special to THE FINANCIAL CHRONICLE)

CHARLOTTE, N. C.—William H. Jones, Jr., is with Merrill Lynch, Pierce, Fenner & Beane, Liberty Life Building.

The State of Trade and Industry

(Continued from page 5)

pace it moves the market factors of supply and demand nearer to the point of balance. Results of the high output observed thus far are the almost complete reduction of the potency of the gray market; consumers' cancellations and growing hesitancy to extend conversion deals; cancellations by some lines of consumers of existing regular mill orders, and increased offerings of bonus tonnages by mills because of spot cancellations.

Demand, however, is still good with steelmakers believing that the steel business will be good this year with a further easing in demand for carbon steel as there has already been for alloy, stainless and tool steels. What they do not know is when carbon steel supply will balance demand. To guide their thinking this trade paper points out that their customers' customers are getting cautious, inventory conscious and, to some extent, price conscious.

Cancellations in certain products have been substantial and initial offers of extra alloy tonnages were well received at first by steel buyers. However, after checking with their customers, they found an increasing tendency to dig into inventories until they could get a clearer picture of business ahead. They are still viewing the "critical months," according to "The Iron Age."

Carbon steel buyers are not in this class at all, since demand for almost all carbon steel products still tops supply. Although a few buyers have cancelled or declined to accept quotas, others are still anxious to take all tonnage available with mills having no trouble disposing of it elsewhere.

Steel people believe the next 60 days will answer a lot of questions on demand. Meanwhile, production plans now being made by some companies contemplate capacity operations into June. They do not say June will be the turning point, but they simply are unwilling to guess too far ahead, concludes "The Iron Age."

The American Iron and Steel Institute announced this week that the operating rate of steel companies having 94% of the steel-making capacity of the industry will be 100% of capacity for the week beginning Feb. 14, 1949, as against 100.1% in the preceding week. The institute reports the schedule of operations is down 0.1 point or 0.1% from the previous week.

This week's operating rate is equivalent to 1,843,500 tons of steel ingots and castings compared to 1,845,400 tons a week ago, 1,845,400 tons, or 100.1% a month ago, and 1,667,300 tons, or 92.5% of the old capacity one year ago and 1,281,210 tons for the average week in 1940, highest prewar year.

CARLOADINGS SHOW SLIGHT IMPROVEMENT IN LATEST WEEK

Loadings of revenue freight for the week ended Feb. 5, 1949, totaled 682,143 cars, according to the Association of American Railroads. This was an increase of 2,888 cars, or 0.4% above the preceding week, but a decrease of 64,793 cars, or 8.7% under the corresponding week in 1948. It also represented a decrease of 85,158 cars, or 11.1% below the similar period in 1947.

ELECTRIC OUTPUT RECEDES FURTHER IN WEEK ENDED FEB. 12

The amount of electrical energy distributed by the electric light and power industry for the week ended Feb. 12 was estimated at 5,722,086,000 kwh., according to the Edison Electric Institute. This represented a decrease of 56,390,000 kwh. below output in the preceding week; 337,141,000 kwh. or 6.3% higher than the figure reported for the week ended Feb. 14, 1948 and 943,852,000 kwh. in excess of the output reported for the corresponding period two years ago.

AUTO OUTPUT SHOWS GAINS IN LATEST WEEK

Production of cars and trucks in the United States and Canada for the past week advanced to an estimated 109,033 units compared to 102,977 (revised) units in the week preceding, according to "Ward's Automotive Reports."

Increased passenger car output by Chevrolet and the Chrysler divisions accounted for the 6,000 unit increase, the reporting service said. All the big three manufacturers reported gains last week.

Output in the similar period a year ago was 83,996 units and in the like week of 1941, 127,510 units.

Last week's output consisted of 80,688 cars and 28,345 trucks built in the United States and Canada.

BUSINESS FAILURES EXTEND RISE IN LATEST WEEK

Commercial and industrial failures rose 32.4% to 192 in the week ending Feb. 10, reaching the highest level since June, 1942, reported Dun & Bradstreet, Inc. Casualties exceeded the 128 and 45 which occurred in the comparable weeks of 1948 and 1947, but continued below the prewar total of 318 reported in the same week of 1939.

Failures involving liabilities of $5,000 or more increased to 162 from 127 last week and were considerably more numerous than a year ago when 115 occurred. An increase also appeared among small failures with liabilities under $5,000; they rose to 30 from 18 in the previous week and 13 last year.

Retail casualties were higher in the current week, reaching the highest level in six years. Both wholesale and construction failures were twice as numerous as last week, while slight declines occurred in manufacturing and commercial services.

In the Middle Atlantic States casualties more than doubled last year's 26. In the New England States casualties rose to 35 from 18. Slight increases were reported in the Pacific and East North Central States.

FOOD PRICE INDEX REGISTERS SHARPEST BREAK IN YEAR

In its sharpest drop since this week a year ago, the Dun & Bradstreet wholesale food price index fell to $5.66 as of Feb. 8, from $5.88 a week ago. This represented a decrease of 22 cents, or 3.7%, in the week. The decline coincided with the sharp break that occurred in grains and foods in the corresponding 1948 week, when the index dropped from $7.14 to $6.83. The current figure of $5.66 is 23.1% below the record high of $7.36 recorded on July 13, 1948, and represents a further new low since Oct. 8, 1946, when it stood at $5.40.

The index represents the sum total of the price per pound of 31 foods in general use.

COMMODITY PRICE INDEX TURNS SHARPLY DOWNWARD IN LATEST WEEK

The downward trend in commodity prices, particularly farm and food products, continued at a somewhat accelerated pace in the past week. The daily wholesale commodity price index, compiled by Dun & Bradstreet, Inc., dropped to 254.74 on Feb. 8 to reach a new low since June 2, 1947, when it stood at 254.37.

This represents a decline of 2.7% from 261.72 a week earlier and compares with 278.92 on the corresponding date a year ago.

Activity in grain markets quickened last week as the result of general liquidation which carried prices sharply lower. The decline was the largest since the severe break in grains that occurred at this time a year ago. With holdings of most grains reported at record levels, demand was lacking and heavy offerings met with little support. Corn was the most active grain and except for rye, showed the largest decline in price. Trading in grain futures on the Chicago Board of Trade rose to the highest level in more than a year. Daily average sales of 48,300,000 bushels, compared with 35,000,000 the previous week, and 41,200,000 in the like week a year ago. Domestic flour business continued to be restricted to small quantities for quick shipment. Prices of wheat flours, however, were firm and showed moderate advances despite marked weakness in wheat futures. Demand for cocoa remained slow and prices turned lower late in the week following an early display of steadiness. The butter market revealed a better tone with prices up slightly for the week. The egg market was unsettled with prices generally lower on most grades.

Liquidation and selling continued to feature the lard market. With support lacking, prices dropped almost two cents per pound to reach a new six-year low in the cash market.

Livestock markets in the Midwest were deluged with the heaviest receipts of cattle in many months. Average selling prices of beef steers at Chicago were reported at the lowest levels since OPA. Sheep and lambs were also sharply lower, with hogs comparatively steady.

Following comparative firmness in recent weeks, cotton prices turned sharply lower toward the end of the week. Considerable selling pressure developed as the week progressed, with liquidation influenced in large part by weakness in outside markets, particularly grains. Foreign demand was fairly active, but continued uncertainty over the nearby export outlook was an unsettled influence. Declines were cushioned to some extent by price-fixing against export sales of the staple and a higher mid-January parity price than had been looked for.

The parity price was announced at 30.75 cents per pound, unchanged from the revised December figure.

Spot cotton markets were moderately active with inquiries fairly numerous, but volume of sales declined. Reported sales in the ten spot markets last week amounted to 178,300 bales, compared with 228,000 the previous week and 112,700 in the corresponding week a year ago.

RETAIL AND WHOLESALE TRADE SHOWS FAVORABLE COMPARISON WITH LIKE WEEK OF 1948

Although hampered by inclement weather in many parts of the country, retail dollar volume rose fractionally in the period ended on Wednesday of last week. The level of buying did not vary considerably from that of the similar week a year ago, Dun & Bradstreet, Inc., reports in its current survey of trade.

Promotional sales of apparel, furniture and housewares continued in most areas.

Shoppers decreased their apparel purchases during the week. The retail volume of women's winter coats dipped slightly; consumer interest shifted to spring suits in some areas. Sweaters and lingerie at reduced prices generally sold well. Promotions of men's and women's shoes were well received. The sales volume of men's heavy underwear rose fractionally. The demand for men's suits and overcoats continued to be limited.

Housewives increased their food buying the past week and total dollar volume continued close to that of a year ago. Price reductions for some foods occurred in many areas.

The demand for meat, poultry and pantry staples rose slightly. Consumers increased their purchases of canned and frozen foods. Supplies of fresh fruit and vegetables were curtailed by storms in some localities. Bakers' goods were sold at a high level close to that of the previous week.

Severe weather continued to affect adversely the response to clearance sales of furniture and housewares in many areas.

Lamps, cutlery and dishes were sold at a volume level close to that of the preceding week. Floor coverings continued to be eagerly sought by many consumers. There was a fractional rise in the retail volume of small radios following some sharp price reductions. The retail volume of many major electrical appliances continued to be below that of a year ago.

Retail volume for the country in the period ended on Wednesday of last week was estimated to be from 2% below to 2% above that of a year ago.

Regional estimates varied from the corresponding levels of a year ago by the following percentages: New England and Southwest down 2 to up 2, East down 3 to up 1, South down 1 to up 3, Midwest unchanged to up 4, Northwest down 5 to down 1 and Pacific Coast down 4 to unchanged.

The total dollar volume of wholesale orders last week continued close to that of the previous week and fractionally exceeded that of the comparable week a year ago. The number of buyers attending many wholesale markets rose moderately during the week and substantially surpassed that of the corresponding week last year.

Department store sales on a country-wide basis, as taken from the Federal Reserve Board's index for the week ended Feb. 5, 1949, showed a decrease of 4% from the like period of last year. This compared with a decrease of 7% in the preceding week. For the four weeks ended Feb. 5, 1949, sales decreased by 1% and for the year to date increased by 1%.

Retail trade here in New York last week again reflected declines for the period with department store sales estimated at about 8% under the like week of 1948.

According to the Federal Reserve Board's index, department store sales in New York City for the weekly period to Feb. 5, 1949, declined by 7% from the same period last year. In the preceding week a decrease of 8% was registered under the similar week of 1947. For the four weeks ended Feb. 5, 1949, a decrease of 2% was recorded below that of last year and for the year to date volume decreased by 2%.

Rural Electrification—A Check to Monopoly

(Continued from page 21)

member of an REA cooperative by choice rather than by happenstance. You see, before REA was created, I had tried for years to get the power company to build a couple of miles of line to serve my neighbors and me. The power company officials were not interested unless we would agree to build the lines and then turn them over to their company. When, in 1936, there was talk of REA in my neighborhood, the power company people suddenly changed their attitude and offered to put the lines in at their expense and do it immediately. I said, "No, I will wait until I can get service through my own cooperative." I waited a couple of years. I am very happy that I made that decision. Together with all of my neighbors, I am enjoying reliable and adequate electric service today. We have no complaint of any kind. Every year we have an annual meeting at which reports are made and policies and plans are discussed. The directors are democratically elected from the nominations which are made in our smaller district meetings. These directors are my neighbors and friends. They are capable, conscientious public-spirited men. They have selected a manager who is courteous, efficient and interested in our community. I know these men are always thinking and working in the interest of my neighbors and me.

I know, that none of the money I pay for electricity is being used for high-priced lobbyists, high-pressure propaganda, fancy entertainment, retainer fees, and other questionable activities which are completely unrelated to the service I use. I know that all money not needed for legitimate operating expenses is being used to retire the indebtedness of my cooperative. I know I am being credited for my contribution to the capital of my cooperative under the capital credits plan adopted by my cooperative.

I am pleased that my co-op is a member of the State Association for the purpose of representing my interests at that level. I am glad that it is a member of the National Rural Electric Cooperative Association which is so effectively and wisely protecting and promoting the REA program at the national level.

From a purely, self-interest standpoint I am very glad that I am a member of an REA cooperative. However, there is a broader and more important reason for my being proud to be identified with the REA program. I believe that this program offers a most effective way of preserving and promoting free enterprise and democracy.

As you know, we have in the world today two divergent and conflicting ideologies concerning the proper function of government. One is that government should dictate and dominate the lives and activities of all citizens —in the interest of the State. The other is that the true and only function of government is to provide opportunity and protection for its people—in the interest of the people. We liberty-loving Americans hold to the latter concept. We know it is sound and satisfying in practice as well as in principle. Under it we have enjoyed both liberty and prosperity.

But we must be ever alert if we are to preserve and promote democracy and free enterprise.

We Americans look after the political responsibilities pretty well. We exercise our voting privileges. We debate political issues in and out of our legislative halls. Our government, in my opinion, is more responsive to our wishes than ever before.

However, our free enterprise system is being jeopardized a little more all the time by big corporations and monopolies. For several decades we have worried about this problem. We have passed anti-trust legislation. We have set up regulatory bodies. We have sought remedies in our courts. These are all proper and in the interest of our people. Yet they have failed to halt the alarming concentration of power into the hands of the officials of a few big corporations. That increase in power is stifling free enterprise in many fields today and, ironically, is doing it in the name of free enterprise. In 1939, 1/10 of 1% of all business firms employed 40% of all wage and salaried workers outside agriculture. I suspect this concentration of economic power may be even greater today when 200 corporations own 55% of all of the assets of all the non-financial corporations of the country.

We are told that big corporations insure efficiency. That is the way defenders of big business rationalize the absorption and elimination of one after another of their competitors until they completely dominate the field. When there is a monopoly there usually is little incentive to try newer and more efficient methods. Moreover, under monopolistic conditions big corporations are in a position to dictate when and to what extent the public may have their services without being challenged by competition. These corporations have been known to hold back the use of patents and inventions to further their own ends. If steps are taken to introduce competition into their fields, corporation officials weep bitterly about the interests of their stockholders. What control does the average stockholder have over the big corporation? For all practical purposes—none. And neither does the customer.

We are told that it takes big corporations to fill our needs for goods and services, usually the basic goods and services. We are told to wait—that everything will be provided in proper time and in the quantities needed. Let us examine that theory in the light of the present situation—in the light of our own experience.

Steel is a monopoly that is big. Yet it has not produced the steel we need for national well being. Aluminum is a monoply that is big. Yet it is not giving us the aluminum we so sorely need. Perhaps the Wisconsin Electric Co-op-Reynolds plan is a step toward breaking this very type of monopoly.

The telephone business is in the hands of the biggest corporation of all. Yet the telephone monopoly has not given us farmers the kind of telephone service as far as coverage, rates and quality of service are concerned, which we must have in this modern age.

As a matter of fact, instead of promoting efficiency, monopoly too often stifles it. The electric power monopolies failed to use their opportunity to provide rural people with electric service. Not only have they failed to take care of the power needs of the Nation, they have vigorously opposed the efforts of the people to provide adequate power for themselves.

Further concentration of power in the hands of the officials of a few big corporations must be stopped if we are to satisfy the ever growing needs of our people, and in order to protect our competitive free enterprise system, which I consider in turn absolutely essential to the preservation of our democracy.

One effective way of counteracting this dangerous trend toward concentration of economic power into fewer and fewer hands is exemplified by the REA program. To my knowledge, this program is unique throughout the world in its demonstration of how a government nationally and the people locally can work together to promote the economic welfare of people and communities within the framework of the private enterprise system.

The REA Act contemplates no ownership or operation by the government. It is clearly designed to aid the people locally to own, operate and control the electric systems serving them. Instead of making for greater and more centralized ownership and control by the State, or by huge private profit cencerns of monopolistic tendencies, this program actually leads to decentralization of ownership and control back to the grass roots, back to the people who use the service and pay the bills.

The formula which made the REA program so successful is really a simple one. It is based on the belief that farm people are capable of working together effectively in their joint interest and that they assume obligations with an adequate sense of responsibility. It grows out of the philosophy that, in a democracy, it is the function of government to encourage, instead of suppress, the initiative and desire of people to do things for themselves through voluntary organization and action, provided such action is not in conflict with the public welfare. The formula itself merely provides for the government to supplement the limited financial and technical resources of a given group of people with loan funds and technical advisory services as needed until the group has developed its enterprise and has learned to operate it effectively without further need of governmental assistance.

Curiously enough, while I was organizing my thoughts for this talk, I received a rather unusual letter from Dr. Horace M. Gray, Professor of Economics at the University of Illinois Graduate College. I am sure you will be interested — as I was — in his appraisal of one aspect of the REA program. I quote:

"Aside from the sheer physical feat of making electricity available to rural people, I have always felt that the greatest social contribution of REA was the demonstration that the distribution of electricity is, after all, a rather simple undertaking which people can manage cooperatively for themselves without benefit of billion-dollar corporations, expensive legal counsel, public relations experts, New York headquarters, holding companies, utility commissions, and all the other elaborate impedimenta that are associated with large private utility organizations. Until REA proved this, I could never quite convince my students that large, complicated, expensive organizations were unnecessary to get electricity distributed. After all they have been brought up on a steady diet of propanganda designed to convince them that large-scale operation is always more efficient, and it requires a clear cut demonstration to shake them loose from this conviction."

That is what the Professor of Economics at the University of Illinois wrote me the other day. Far too few people seem to be adequately aware of what the REA program is demonstrating in actual practice.

How effectively the REA approach can be made to work is readily apparent if we contrast the utility industry's long record of failure with the records which have been established by your REA cooperatives in so short a time. You have extended an essential service to millions of rural people who otherwise might never have received it. You have set new standards for quality of service. You have made a financial success where officials of power monopolies said success was impossible. You have kept the ownership and control of your organizations in the hands of the members. You have made your organizations responsive to the welfare of the people dependent on you for service. You have gone about your business in an open, forthright and efficient manner.

Above all, you have demonstrated that it is possible to have opportunity and prosperity without sacrificing liberty and democracy.

Atomic Energy and Investments

(Continued from page 11)

undertaken, including the study of toxic effect of certain common chemicals.

Medicine and Agriculture

Significant advances are underway in the treatment of thyroid cancer, including the type which spreads through the body. This may pick up sufficient radioiodine to destroy the tumor partially or perhaps completely. Another interesting application lies in the detection of cancer. Cobalt 60 shows considerable promise as a cheap and plentiful substitute for radium in the treatment of certain types. Numerous other beneficial uses for radioisotopes in medicine are under study.

The Atomic Energy Commission claims that the atom can "set off a revolution in farming." New tests are showing the way to increase crop yields and cut costs. Tracers are employed to study the process by which plants turn the carbon dioxide of the air into sugars and starches. Fertilizing methods are being improved and cures for certain diseases of animals and plants worked out. Scientists assert they can see the time when some synthetic foods may possibly be made in factories instead of by plants and animals.

Health Hazards

Probably due to the publicity given the bombing of Nagasaki and Hiroshima, the public feels that atomic radiation is highly dangerous. This is true in the case of unprotected exposure. Actually, however, health hazards are small when radioactive materials are handled properly by trained personnel. For example, it is said they are no more dangerous than ordinary poison and high-voltage electricity, both of which have to be handled properly. The radiations emitted in the course of many activities are no greater than those given off from the luminous dial of an ordinary wrist watch or the small luminous buttons sometimes attached to the ends of electric light chains for easy location in the dark.

The Atomic Energy Commission states that the entire discharge of radioactive wastes into the Clinch River from the great Oak Ridge, Tennessee, plants creates less radioactivity in the river than exists in many mineral waters which are bottled and sold as beneficial. Radioactive materials cannot be used on many consumer products, in which they could prove harmful. In industrial and medical procedures, however, the danger comes largely from ill-advised exposure by people ignorant of proper protection methods. The hazards to informed personnel are not considered as extensive as generally believed.

Propulsion of warships and aircraft, now under study, will take time to perfect. Likewise commercial power, even in limited installations, is not imminent. But the importance of atomic energy to the future of the electrical industry was recently emphasized by Mr. Gwilym Price, President of Westinghouse Electric, who said: "The use of nuclear energy as a source of power is recognized as a possibility which may profoundly affect many lines of electrical equipment in the years ahead. Westinghouse now has an atomic division, concentrating solely on the harnessing of nuclear energy for the production of useful power." General Electric, the government's largest atomic contractor, will operate a new experimental power station in Saratoga County, N. Y., for the Commission. The plant is expected to be in operation as early as three years after construction starts.

The Commission is scheduling its power program to produce a commercial plant sometime around 1960. Throughout the following 10 years it contemplates additional plants so that by 1970 (they say), atomic energy may be suppying 20% to 25% of the country's power needs. It could prove cheaper than coal, more expensive than hydroelectric power. One advantage is that fuel costs are about the same, regardless of location. Hence its greatest importance could lie in areas where fuel is relatively scarce, such as the Balkans and Western Russia.

Although atomic power may take years to develop, its future possibilities cannot be ignored.

The ores of uranium and thorium are the only raw materials from which the nuclear fuel required for atomic energy is now obtained. In the words of the Atomic Energy Commission: "All manifold applications of atomic energy depend on uranium and thorium as primary raw materials." Since United States production is small, we are still largely dependent for these ores on other lands, principally the Belgian Congo and Canada. Domestic exploration, however, is under way. As knowledge of atomic matters increases, low-grade ores will probably be developed and new materials discovered. Graphite is an important item. Large blocks of this material are used in the "atomic pile." Beryllium is a good "moderator," a moderator being a substance used for slowing down the speed of neutrons. Control of the atomic reaction is obtained by inserting strips of neutron-absorbing materials in the piles. Cadmium is also excellent for this purpose. Liquid Bismuth is used to cool the tremendous heat generated in the fission process. Alumium, lead, zinc and copper are expected to become more important for various uses. Potassium may have some possibilities as a future fissionable material.

Stocks for Purchase

The government is fostering the development of atomic enterprises, providing support with government contracts. A healthy, flourishing and efficient industry is essential for defense. As a result, an increasing number of companies, large and small, are rapidly acquiring the atomic "know-how" which will form the basis for the profitable and far-reaching developments of the future. Some of the government's leading contractors, for example, will unquestionably attain leadership in the atomic field. Leadership which will extend far beyond the boundaries of the United States.

The most immediate profit possibilities appear to lie in the stocks of the smaller concerns supplying atomic materials to government contractors and developing new products and applications. We are conducting an intensive survey to ascertain which issues provide the best and most profitable opportunities. The "atomic stocks" with the greatest future profit possibilities. Many fields are involved, including chemicals, mining, electrical equipment, tracer chemistry, new instruments for industry and the various products needed for the erection and operation of atomic plants. Our study will soon be completed.

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

Market again showing up potentials. Important thing now is the recent low rather than how strong they can be from here on.

Whether or not the stock market can stand aside and watch the gyrations of the commodity markets without further being affected remains to be seen. Last week stocks sank rapidly on what was attributed to a commodity break. Logically, therefor, stocks should rise if commodities rally.

* * *

Experience, however, shows that logic and the stock market have little in common. One possible reason is that markets anticipate rather than reflect news. What reflection there is comes from a public which is constantly in a state of alarm.

* * *

One way of seeing if the recent break was due to public selling is if any subsequent rally from here will hold beyond normal retracing levels. A normal rally from here should carry the averages to about 176-177. On any new break, or set-back, the averages should hold at the recent lows at the outside. A refusal to go as low as that would be considered a favorable sign.

* * *

Going still deeper into the technical picture of the market, it might be pointed out that stocks (and markets) frequently move in cycles of ten. This figure "ten" refers to days, weeks and months. Time and again a stock action will forecast a move. Then something happens and the move doesn't materialize. Then ten days later it comes out and confirms its previous action.

* * *

In the old days when a heavy public attracted by thin margins, was in the market, ten days was the usual period for stocks to postpone their promised performance. Later the time period was stretched to weeks—still in units of ten.

* * *

For the past few months signs appeared that the unit of ten still obtained, though it was now stretched to include months. I realize this kind of reasoning can be carried to absurdity. If it is applied to days, later to weeks and now months, why can't it apply equally well to years, or centuries, or aeons? I can't argue the point. I'm merely an observer and not an exponent of any new rules.

* * *

Nevertheless, the market is now getting to a ten-month point and is recognizing it through positive action in various stocks. The news that accompanies this is, in my opinion, coincidental. Action of the public, however, on such news, is another thing. If there is a heavy public interest and unfavorable news occurs, the reaction is likely to be sharp. If there is good news and the public is in, a rally is likely to be equally sharp. But the profits aren't made on the news splurges. It is in between those periods that the so-called good buying and good selling occurs.

* * *

Cooper Bessemer is the only stock you still hold, the others have been stopped. So long as this one doesn't break its critical price of 25, hold it.

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.]

Current Stock Market Prospects

(Continued from page 13)

down will probably be delayed until the State Department is wholly manned by civilians instead of the military.

(2) Domestic business fears—the CIO will push for a 50% tax on capital gains and punitive taxation against unreasonable business profits.

(3) Domestic political fears—these will emanate from the new crop of Senators who rode to victory on the coattails of the AFL and CIO political action groups.

(4) Historical fears — that the stock market measured by the Dow-Jones Industrial averages is too high in relation to its 1942 lows.

It will be these fears which, when exaggerated by the press and radio, could provide capital opportunities for those who have the courage to act plus the knowledge to discern values based on careful research and analysis. Always remember, common stocks provide no hedge against the reduced purchasing power of the dollar unless you multiple those dollars. In other words, you simply don't carry Transcontinental and Western Airlines from 18 to 71 and still own it when it reaches 12, the present quotation. You can still pay the Federal Government 25% on long-term capital gains, yet tax collections on speculative profits are still a very minute part of the annual Federal take. This deplorable fact indicates that most investors just go along for the ride.

I daresay as this New Year commences, a lot of foolish people have again balanced stock market losses against gains so that the net result is a stand-off. As always a lot of others will continue to be confused by investment counsellors who can produce statistics by the mile and hopeful guesses from those multi-colored lines on elaborate charts. Believe it or not, the world will continue this year as last, to be a whispering gallery and rumors will again assume as importance which will be difficult to minimize. As always, the stock market will probably move in the direction least expected. As it does, the financial writers will grow glum and write resentfully of those idle conditions imposed when the market pauses to regain its breath, whether its direction be downward or upward.

Loan Problems in A Dynamic Economy

(Continued from page 13)

Applying these factors in our reasoning, we can glean a ray of light on the questions of whether real estate prices will go down to prewar days; whether there is a possibility that retail prices will fall to the days of 1936-1937, or 1938, etc.; are our taxes, either real estate or personal, apt to diminish greatly over the next several years; what can reasonably be the trend of purchasing power of the dollar, etc.

There Is no Stable Authority

I repeat, the point of all this is that our economy does not remain stable, and that the effect of these violent changes must be at all times considered in perspective when it comes to analyzing loans and extending credit.

I am sure that there can be no question but that the "economic climate outside of the bank" is a very vital factor in the extension of credit, and is another way of expressing the importance of "timing" in the extension of bank loans. In normal times, 90% of business is transacted through the use of credit instruments. Obviously, when the outside economic climate is rough and stormy, you can be sure that your bank will develop its share of loan problems and, I might mention, losses.

Now is the time to get your house in order. The time to be an optimist is in a depression; the time to be a pessimist is in a boom. Again, let me emphasize that timing is a most important factor in credit.

The question of whether we have war or not may be determined not by what Russia does, nor what our Military does, but what we do in America to maintain our economy in balance. If we can remain strong and work out our problems, war can be prevented. If we fail to do so, serious weaknesses in our economy may result and we may then be easy prey for "isms." It will be of no avail to be militarily strong but economically weak.

The Economy Is Basically Sound

Basically, the economy of the country is sound—we only have to eliminate the maladjustments. Business now appears to be entering the inevitable crucial testing period as our price level continues to adjust itself to the postwar plateau. While there is no indication of any immediate drastic adjustment, there are positive signs of a rapid return to real competition in business. The time is at hand when companies with weak, inefficient management and unsound financial policies will find it difficult to survive. Quality of management in this era will be of paramount consideration in judging bank credit. Business must promptly get its house in order, and small business, particularly, should heed these impending signals and plan accordingly while there may be time.

Management, particularly smaller business concerns, would be well advised to consider the following vital points in planning for the immediate future:

(1) Check your inventories. Be sure they are not over-valued and are moving out; avoid speculation.

(2) Watch credits more closely as increased failures can be anticipated.

(3) Consider only such plant expansion as will result in reasonably quick recovery of the cost.

(4) Keep in a liquid position. Get used to the idea of having a cash reserve for the present, if you are fortunate enough to be able to accumulate one.

(5) Be sure all war extravagances have been eliminated. Costs should be reduced so profit can be assured on your present volume or a further possible reduced volume. Reduce break-even point to lowest practical minimum.

(6) Inflationary statistics are misleading. Translate them into units of goods rather than dollars.

(7) Analyze your sales program with emphasis.

A "Shake-out" Starting

Until the "shake-out" is completed, and it certainly appears to be starting now after many false starts, clearly a credit policy should be one of caution. Better lose a little income than a lot of capital.

Let me say that all of us in the banking business have a tremendous opportunity and a vast responsibility with respect to our economy and the growth of the Southern California area. Most of the business customers of the banks in Southern California are so-called "small business." In the Los Angeles area, small enterprise has flourished. Do you realize that 72% of the business here is "small business" with 20 employees or less? It is a very fast-moving, virile growth section and, as is true in any growth section, the risks of doing business are much greater, and this is certainly true in the banking business. Our eastern banker friends throw up their hands in horror when they see some of the loans that are made by the banks in Southern California as a matter of day-to-day activity. Such action and thinking on the part of bankers here has, in a considerable measure, accounted for the rapid progress of business.

Business is a hard, competitive struggle, and the yearly mortality is high. Nearly as many businesses discontinue each year as start up. Obviously, most of these businesses started on hope and ambition, with a dreadful lack of knowledge and know-how. That is why nearly a third of these new concerns failed in the first year; another 14% or 15% in the second year; and as high as 70% are usually gone by the end of five years. These are figures a bank loan officer must ponder.

Apart from the terrific economic waste and heartaches, and the tragedy caused by such financial and business failures, it certainly is an indictment upon our collective intelligence in business matters. Endless study and research into the problems and ramifications will go a long way toward improving this blot on our economic life.

Lack of Business Knowledge

Lack of business knowledge on the part of management has been attributed to more than 90% of all business failures. Representing our profession, we have a great responsibility for these failures, and we should do a better job. More and more emphasis should be placed by the bankers on good, constructive advice to his customers, and the insistence that his customers follow sound business principles to avoid these pitfalls.

The establishment of the Pacific Coast Banking School, at the University of Washington at Seattle, and the support of that institution by all of the State bankers associations of the west, is another indication that banking, as a profession, has recognized these problems and is going to do its part in their solution.

If there were one single thought to leave with you, it would be that you also assume the role of "financial doctor." Our "body," business, needs this professional talent very badly. Let us be frank in telling our client that he is treading on thin financial ice—go over his statement with him—point out the weaknesses and the risks being assumed because of his unbalanced financial condition. If he needs permanent capital, explain why he needs it and why he should determine to get it rather than taking the precarious road of depending on his short-term creditors to furnish it. Make him conscious of financial planning and the danger of drifting on an uncharted sea.

War causes high prices always, and the wage advances of labor tend to become frozen into our economy and result in constantly higher prices. Labor is so strong that wages cannot be reduced in proper proportion in a decline; hence, when the time comes business will be compelled to absorb most of these increased labor costs out of its gross profits, and if it cannot do so it will be in trouble. This is the reason the break-even point we hear so much about these days is constantly assuming even greater importance. Some falling off of the volume of business is inevitable, and a business must be able to reduce costs so as to have a profitable operation on a reduced volume. The lower the break-even point, therefore, the more sound is the business, from a credit point of view, in the event of a drop in sales volume.

Study Causes of Business Ills

As previously stated, as bankers we must give considerable thought and constant study to the cause of business ills, as well as more study to the remedies for such ills. We must be business doctors—not undertakers.

Some losses must be expected, but they should be in relation and in proper proportion to loan activity. A loan officer is not fully qualified to make loans until he is thoroughly experienced in collecting them and, more especially, able to analyze the troubles and cure the patient. It is very simple, when a customer gets into difficulty, to deliver the "coup de grace" and liquidate the business realizing whatever may come therefrom, absorbing the loss, and being content to salve your conscience with the old bromide "the first loss is the smallest." Some bankers, for lack of courage, or possibly lack of knowledge, consistently follow that practice. It takes courage to bolster a business—to make new advances—and to step in and alleviate the shortcomings of management by propping up weak points in the business structure and, in many cases, increase the loan until the turning point or crisis may be reached and the business restored to health once more. Incidentally, a business cannot go through this crucible—this soul-searching experience—without its management benefiting and becoming a better future customer of the bank. Many are the instances where such firms have grown into nationally-known businesses, and no other bank could ever successfully solicit the business because help was given when it was sorely needed.

All businesses cannot be saved and, indeed, should not be. The elimination of many is socially useful, and a competitive society grows by sloughing off some of the weak sisters. It is not meant, either, that in all cases more money is a prime requirement to make the business a success. There is, certainly, great danger in thinking so. In too many instances, too much money has been loaned and it has aggravated the problem by enabling the business to expand and spread out far beyond any reasonable proportions.

Many times the problem is one of management deficiency. What is needed, in most instances, is for a bank to allow time for payment until the weaknesses may be cured by the enforcement by the banker of an intelligent and prearranged plan of procedure. The greatest opportunity in the banking business lies in this particular field of constructive credit. In this type of work a temperament, philosophy, and technique are required unlike general credit. It requires a profound study and a technical and practical knowledge of the fundamental factors of business, but the end is well worth any effort that one may make to so qualify himself.

Bankers' Responsibilities

As bankers, we know that aggressive and positive action by the banker entails some responsibility and, in some instances, legal liability, and moves must not be made without very careful consideration of these legal consequences. On the other hand, it is absurd that there should be some loan officers who would not risk attending a creditors meeting for fear of the legal consequences. However, it is certainly not suggested that you step in where angels fear to tread. If you have the knowledge, and know what you are doing, you will know just how far you can and must go to protect the bank's position and its loan, taking whatever practical legal risks there may be.

The path of a loan officer is not an easy one—he must make vital decisions, hoping that they may prove to be right. You need not be reminded, as bankers, what happens if your batting average in the matter of your judgment turns out too low.

Our economy needs more broad-gauged management and bankers—men who look beyond the figures and try to develop successful enterprises by sound counsel and advice on the ever-changing business perspective. Some business management is grossly inadequate when faced with changing problems. It is our job to help these concerns chart their course with regard to the then existing economic climate—to point out the dangers and weaknesses and endeavor to correct them—to sell the need for cash forecasts and financial planning and other managerial functions if needed.

If we continue to do these things, then, as bankers, we will make a real contribution to our way of life by saving what otherwise might be financial wrecks, on the sea of business.

Problems of Air Transport Industry

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considerably under cost, and have forced others to do the same.

The non-certificated passenger carriers entered the scheduled field illegally and continue illegally. It is an accepted fact that unit costs on long-haul flights are way below those on short-haul flights. Not having responsibility for a network of lines these carriers operate only the long-haul and confine their operations to a dozen or fewer major cities. They have no obligation to operate when the load is not satisfactory.

Nor do they have safety requirements even approaching those of the certificated carriers and their safety record shows it. Dispatchers are not required. They are not required to show financial strength to insure safe operations. They are not required to show that there are proper safety devices and facilities at airports. There is no requirement for check pilots or periodic pilot instruction. There is no requirement for overhaul of the airframe. Their pilots are not required to hold Scheduled Airline Transport certificates. There are dozens of other similar instances. Certificated airlines operating with the safety requirements of the non-certificated carriers would eliminate millions of dollars of expense and thus offer much lower rates. But that would soon mean the end of the industry. It has been estimated that if the safety record of the certificated carriers was comparable to that of these carriers there would have been thousands of passenger and crew facilities during the last three years.

The general public is not aware of these things and well-meaning but uninformed people wonder why the non-certificated passenger carriers can operate at such a lower fare. Sometimes they attribute it to the "frills" of scheduled transportation. It should be no mystery and there does not seem to be a single logical reason why they should be permitted to operate scheduled service even one day longer under the standards now permitted. The Board has belatedly started a move toward more strict law enforcement.

Scheduled Air Lines Recovering

In spite of these conditions, many of the scheduled airlines are gradually recovering. More enlightened regulation added to the current efforts of airlines to sell aggressively their product and the continued emphasis on cost reductions would do much to advance the day when the industry as a whole is in sound condition. In the meantime, if the investor is very selective in his buying, there should be substantial rewards for the risk he takes.

American will soon complete its postwar transition period. Besides our improved competitive position due to the new equipment, many special and non-recurring expenses are behind us.

Elimination of the obsolete planes has permitted the closing of the New York engine overhaul shop, as well as the Ft. Worth overhaul shop. Completion of transition training has enabled the closing of the Ardmore training facility. Retirement of the DC-4 has reduced sharply the depreciation charges. These unusual expenses alone accounted for several million per year.

January traffic was good. Opportunity for profit for 1949 seems good.

Why More Monetary and Credit Controls Are Needed

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ciation of the actions of the Federal Reserve in the field of credit, of the importance of arming it at all times with the authority to deal with changing economic conditions, and of its record, particularly in maintaining an orderly market for government securities in which all classes of our people have such great interest. I have emphasized and re-emphasized to various groups who have been subject to the System's regulations that our primary objective is to work for a stabilized economy, and that in doing so we must serve the broader interests of industry, agriculture, and commerce and not the limited interests of any particular groups. This purpose is fully in accord with the objectives of the Employment Act of 1946, namely, to promote maximum production, employment and purchasing power.

In his Economic Report, the President said:

"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 limit 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 instalment credit, which likewise expires under present law on June 30, 1949, should be continued in order to exert a stabilizing influence on the economy."

Insurance Against Renewal of Price Spiraling

The credit measures proposed at this time are a form of insurance against the possible renewal of the upward spiral. Let me say a word, however, about the downside of the business cycle. It should be very reassuring to member banks and to the entire banking community to recall that the Reserve System is far better equipped now than ever before to combat deflationary forces. Through open market operations, that is, by purchase of government securities, the System has virtually unlimited means of supplying the money market with additional reserves, if the situation should call for such action. The Reserve Banks have about $23 billion of gold certificate reserves, only half of which are needed at this time to meet gold reserve requirement. Accordingly, the System could more than double its note and deposit liabilities. Furthermore, the Banking Act of 1935, by freeing Reserve Banks from some of the technical limitations on their lending functions, placed the Reserve Banks in a position to lend to member banks on any assets that the Reserve Banks are willing to accept as security for advances. This is an important assurance of a liberal lending policy on the part of the Reserve Banks.

Also the Reserve Banks have authority to make so-called Section 13b loans for working capital purposes to business and industry when other credit is unavailable to the borrowers. And, of course, in a downswing the Reserve Board would lower reserve requirements and similarily adjust regulations on instalment and stock market credit in accordance with the needs of business and finance.

I have referred to the System's ability to deal effectively with credit problems on the downswing in order to emphasize and make clear why we say that if we are equipped with the proposed authority to deal with the problems of a further possible upswing, we will be in a better position to perform at all times the functions that are the primary responsibility of monetary authorities.

Reasons for Credit Curbs

Why is it necessary to ask Congress at this time for the monetary and credit measures to which the President refers? I shall not take your time to go over familiar ground which has been well covered by other witnesses before this Committee, but I should like to summarize, as we see it, the situation which calls for these protective measures.

War finance resulted in a huge and rapid expansion in the amount of liquid assets—bank deposits, currency, and government securities—held by the public. This expansion represented the accumulation of savings made possible and necessary by the excess of wartime incomes over the supplies of goods and services available for purchase. The result, as shown in the chart, is that deposits and currency increased from about $60 billion dollars in 1940 to $170 billion dollars at present. Nonbank holdings of government securities, which can be readily converted into money, increased from about $20 billion dollars to $130 billion dollars. The expansion in the combined total is more than three and a half times. Today, physical volume of production of all goods and services, including output of farms, mines, and factories and various other activities, so far as such a total can be measured, is only about half again as large as in the maximum prewar year.

Partly as a consequence of an excessive money supply relative to production, we have already experienced a large degree of inflation. Consumers' prices for all items as measured by the indexes of the Bureau of Labor Statistics rose by 75% above prewar and are still close to that peak. The dollar value of the annual gross national product, as shown on the chart has increased from about $100 billion dollars in 1940 to an annual rate of over $260 billion dollars in the last quarter of 1948, an expansion of over two and a half times. The existing and potential money supply could still generate strong inflationary pressures.

Easing of Inflatonary Pressures

Some easing of inflationary pressures has been indicated recently by marked declines in prices of various commodities, principally those that had risen most sharply. This easing was brought about in part by the record volume of production of both agriculture and industry in the past year.

Over-all consumers' incomes and holdings of liquid assets, nevertheless, have continued at high levels and are fairly widely distributed. Expenditures by businesses for capital investment, by State and local governments for public works, and by home owners and builders for new housing have continued large. Resistance to high prices and some abatement in the urgency of demands have been evident, however, in the case of housing and of many durable goods, now that the more pressing shortages have been overcome.

As for credit, the increase in bank loans, which had been very large in previous years, slackened considerably in the last quarter of 1948. Also there was an almost complete cessation late in the year of sales of government bonds to the Federal Reserve System by nonbank investors to obtain funds for other uses, a factor that had previously been an important inflationary influence. Taking the year as a whole, there was a small decline, amounting to a billion dollars, in the total volume of bank deposits last year, due to the Federal Government surplus early in the year and the use of part of that surplus to retire bank-held securities.

Further Inflation Uncertain

It is possible, but it is by no means certain, that postwar inflation has run its course and that additional restraints for anti-inflation purposes will not have to be applied. However, no one can be sure that inflationary dangers are over rather than merely interrupted. We have had a number of readjustments since the end of the war. Each was hailed by some as the end of the postwar boom. Each was succeeded, in turn, by renewal of the inflationary spiral. I recall so vividly the strong statements made to me by financial and business leaders just before I took office last spring that they were confident that the break in the commodity markets in early 1948 was the beginning of the long anticipated recession. You will recall that there was a similar feeling in the spring of 1947.

In view of the uncertainties in the outlook at this time, the temptation is strong to assume that inflationary forces have been dissipated. This may prove to be an unwarranted assumption.

The needs for enlarged defense expenditures, particularly if they involve the purchase of materials in short supply and if they lead to a budgetary deficit, are a continuing force making for inflation. Unless total production can be expanded, and the ability to expand in any short period is limited by available resources of materials, manpower and equipment, additions to the goods and services devoted to defense must be diverted from those going into private consumption and investment. If private demands for goods and services are not correspondingly adjusted, then higher prices will result. With such strains on the economy, it is important that governmental expenditures be fully covered by revenues.

Not only is the surplus or deficit in financial operations of the government important, the economy is also affected by cash surplus or deficit operations of the private sector. In a fully-employed capitalistic economy, business and other investment should be financed largely from current savings of the public. If, however, over-all expenditures for consumption and investment exceed current receipts—which is possible if they are financed from accumulations of past savings or from bank credit expansion—then the result is likely to be inflationary.

In view of the general liquidity of the economy, one can not be complacent about the possibility of renewed or continued deficit financing by businesses and individuals in the aggregate. We still have a tremendous potential for a further increase in deposits

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Why More Monetary and Credit Controls Are Needed

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and bank reserves as well as for a more rapid use of existing money. Commercial banks alone hold over $60 billions of marketable Government securities, which they could at will convert into reserves capable of supporting an enormous deposit expansion. The turnover of bank deposits is currently much less than it has been in many previous periods of high economic activity, and current spending for all purposes could be considerably expanded without any further increase in the amount of the outstanding money supply. Under these circumstances, we must be prepared at all times to cope with inflationary possibilities that may develop just as we must be prepared to move in the opposite direction by relaxing restraints when deflationary influences are dominant.

Must Maintain Stability of Government Bonds

We are also still confronted with the necessity of balancing our several objectives, one of the most important of which is maintenance of stability in the Government securities market. To accomplish this, the Federal Open Market Committee stands ready to buy such securities when there are no other buyers at established prices and also to sell securities when demand is heavy. I think the System's support of the Government securities market has been wise and necessary. It is one of the outstanding accomplishments of the postwar period. As the President pointed out in his Economic Report, such stability in the Government bond market "contributes to the underlying strength of the financial structure of the country."

At the same time we want to prevent any excess reserves supplied to banks by our stabilizing operations in the securities markets from becoming the basis for manifold expansion of credit and of deposits. We also need to absorb reserves made available from other sources, notably gold inflow. It would, of course, be possible to curb expansion of reserves by failing to support Government securities in the market. I am convinced, however, that the consequences which might result from abandoning the support program would be disastrous, although I fully realize that the program limits the System's ability to restrain credit expansion. The measures we are recommending are designed to deal with this situation.

Bank Reserves

The heart of the problem is bank reserves. If we are to deal at all effectively with the problems of inflation we must devote ourselves to the subject of bank reserves. There are other lenders in the market who compete with banks for loans, but banking is unique because bank deposits are the largest part of our money supply.

Let me emphasize as I have before that I am not singling out bankers for criticism. In my opinion this nation owes a debt of gratitude to commercial bankers generally for their service in the task of financing the war, and reconversion from war. I also feel that the bankers are indebted to the Federal Reserve System for the part it has played in this period of strain. Never before in the history of this nation has the banking system been in a stronger position.

Action by monetary authorities to prevent newly-created reserves from becoming the basis for further deposit and bank credit expansion is in no sense a reflection on the banking community. If effective restraint is to be exercised over the money supply and the credit situation, the Federal Reserve System must be concerned with changes in the volume of bank reserves, which have a direct bearing on the volume of bank credit and bank deposits. Responsibility for the over-all volume of bank deposits and, to some extent, for the general quality of bank credit rests primarily upon the monetary and banking authorities rather than on individual bankers.

The banking system today acquires reserves in three major ways: (1) imports of gold, (2) return of currency from circulation, and (3) purchases of government securities by the Federal Reserve Banks. If the volume of deposits is to be held in check, additional reserves arising principally from these sources have to be absorbed or immobilized. Monetary policy has been directed to this end.

During the year ending last October, large amounts of reserves were supplied to banks as a result of Federal Reserve purchases of bonds, largely from nonbank investors. These purchases amounted to about $10 billions. In addition, gold inflow and return of currency from circulation supplied banks with over $2 billion of reserve funds.

These additional reserves were largely absorbed or offset through fiscal and monetary measures. The most important of these was the large excess of cash receipts over expenditures by the Federal Government during the early part of 1948. The transfer of these funds to Treasury account at the Reserve Banks reduced privately-held deposits and also absorbed bank reserves. The Treasury used a large part of these funds to retire public debt held by the Reserve Banks. Banks in turn maintained their reserve positions by selling government securities to the Federal Reserve. The necessity to make these sales exerted a degree of restraint on the lending activities of banks.

The cash surplus of $6 billion in 1947 and $8 billion in 1948, used in the way I have described, was the largest single restraining force on the money supply. But, at best, the prospects for this calendar year, in view of our enlarged defense expenditures, are for a cash surplus of less than $2 billion, which is more than accounted for by the excess of receipts in the first quarter, leaving a deficit for the rest of the year. Thus this element of restraint is no longer available.

Another important means of absorbing reserves was the sale of short-term government securities by the Reserve Banks. Since the middle of 1947 interest rates on such securities have been allowed to rise somewhat from the very low levels that were reached in the depression and that had been maintained during the war and early postwar period. Investors were encouraged by these higher rates to purchase and hold short-term issues. Federal Reserve sales of short-term securities in the market, together with retirements by the Treasury, reduced the System's holdings of such securities by fully as much as System holdings of bonds were increased through the support program. It would be unwise, however, to rely on this means of absorbing additional reserves that might be made available from System purchases of bonds or from other sources, particularly if there should be a substantial demand for loans.

Still another means of dealing with the problem of reserves was to increase reserve requirements. Under authority of permanent law, the Board of Governors increased reserve requirements at central reserve city banks in New York and Chicago in February and again in June. Then, in the third-quarter, when nonbank investors were selling bonds in large volume and the demand for bank credit was active, the Board used part of its newly-acquired temporary authority to increase reserve requirements for all member banks. Let me emphasize that we have not used the temporary authority merely because we were given it. We have used only a part of it, cautiously and with discretion, to meet a specific development.

We should be prepared for whatever may develop. No one can know how the volume of reserves will change in the future. We should be prepared to deal with the problems that would arise if reserves increase significantly. That is why adequate continuing authority is needed to require banks to hold supplemental reserves in the form of balances at the Reserve Banks.

Supplemental Reserves

We are again asking, as we did last summer, for authorization to require supplemental reserves up to a maximum of 10% against demand deposits and 4% against time deposits. Congress granted authority up to 4% on demand deposits and 1½% on time deposits, applicable to member banks only, and expiring June 30, 1949. The present request would replace this temporary authority.

Since the temporary authority has been used in part to require member banks to hold additional reserves, expiration of the power on June 30 would immediately release about $2 billion of reserves that could be used as a basis for a manifold credit expansion.

It is vitally important that the requirements be made applicable to all insured banks, and not exclusively to member banks of the Federal Reserve System. Banks now subject to Federal supervision and enjoying the protection of Federal insurance of their deposits comprise 95% of all commercial banks and hold 98% of all deposits in commercial banks, while member banks of the Federal Reserve System include slightly less than half of the total number and hold about 85% of the deposits.

It would be grossly inequitable to limit the requirements to member banks alone. Member banks already carry higher effective reserves than nonmembers, while nonmember banks benefit by the strength which the very existence of the Federal Reserve System gives to the credit structure. It is unfair to have member banks bear the entire burden of actions in the monetary field undertaken in the public interest. I have found member banks, particularly small member banks, becoming restive because of the inequitable application of reserve requirements. Failure to include all insured banks would seriously impair the effectiveness of national monetary policy.

It is not suggested that the proposed supplemental reserve requirement is the perfect or final solution of the problem of arming the monetary authorities with adequate means of performing their primary function. The pending proposal, however, is a necessary step in the right direction. Together with other powers now available, it would equip our monetary mechanism with authority to cope with over-expansion of the money supply in case that danger again threatens us. As I have already indicated, we are amply forearmed to deal with the credit needs of the opposite swing of the business cycle.

The additional authority would be used to absorb future additions to reserves. It would not be used to force banks to liquidate outstanding loans. At present most of the banks of the country hold short-term Government securities in amounts more than adequate to meet their needs for liquidity, as well as to accommodate their customers or to set aside additional reserves. Moreover, it should be borne in mind that monetary policy is not a one-way street. It has always been flexible, adapted to changing requirements of the economy. Bank reserves immobilized in a period of inflationary pressure would be released when business needs require.

Continue Instalment Curbs

In addition to the authority with respect to bank reserves, we urge you to continue consumer instalment credit regulation.

Instalment credit is the volatile and dynamic element in consumer financing. It is subject to the widest fluctuations and exerts a pervasive effect on consumer demand and prices. During the past year, for example, nearly 80% of the $2.5 billion increase in total consumer credit was accounted for by instalment credit. The instalment credit portion has increased in the past two years from about one-third to one-half of the total of all consumer credit.

Consumer instalment credit, furthermore, is directly associated with the distribution and financing of durable goods. In an advanced and rich economy such as ours, the standard of living of the great mass of the people takes more and more the form of possession and enjoyment of a variety of durable goods. Instalment financing, thus, is subject to a growth force that is basic and persisting and is becoming a more important element in the economy.

The unregulated use of instalment credit financing tends to accentuate instability of demand for durable goods. Credit spending is stimulated during periods of business expansion when consumers are more inclined to make commitments for the future and lenders are more willing to extend credits. New instalment credits exceed repayments on old credits and outstanding credit volume grows. When economic recession sets in, accumulated credit remains to be paid off in the period of contraction. The drain on consumer income for debt repayment curtails current purchasing of consumer goods and services generally. The over-all effect is to amplify fluctuations in consumer expenditures, directly for durable goods and indirectly for all types of goods. This makes for greater instability of the entire economy.

We are interested in stability as well as growth in our economy. Regulation of instalment credit is designed to help maintain stability without preventing sustainable long-term growth in such credit.

Consumer instalment credit has risen since the end of the war from $2 billion to $8 billion at present. This is an impressive increase and has contributed to the heavy pressures of demand against available supplies of goods for purchase, which in turn have contributed to rising consumer prices. Were these rates of increase in consumer debt continued, we might eventually, and perhaps in not too long a period, exhaust our cushion of consumer borrowing power and thus endanger our economic stability.

Regulation W in its present form, which some have criticized as stringent, has not prevented expansion of instalment credit. But it has operated to restrain overly-ambitious instalment credit spenders and overly-eager instalment credit vendors, especially in the markets for consumer durable goods. The restraint has been on demand and on the merchandising of credit terms rather than quality and prices. Such restraint has served as a useful brake on further advances in retail prices in the consumer areas affected by regulation, as well as on the excessive expansion of instalment credit volume.

The all-important thing is that the authority to restrain be in hand when the need to restrain is present. In a dynamic economy, it is not feasible always to refer such needs to the Congress for special legislative action of a temporary character. The appropriate instrument to meet possible inflationary or deflationary developments must be constantly available to the monetary authorities for use as circumstances warrant.

In adapting the regulation to changing economic conditions, under continuing authority, the Board of Governors, by statutory direction, would have in view the prevention of excessive expansion or contraction of consumer instalment credit as well as the maintenance of sound credit conditions in this credit area and in the economy generally. It would thus help to carry out the objectives of the Employment Act of 1946.

Consumer instalment financing has played an important part in the development of the American system of mass distribution of consumer goods. We believe that it should continue to perform an important role in this area. It should be used but not abused. Sound credit conditions should be maintained at all times for the protection of consumers, of lenders, and of the entire economy. It should not be overlooked that its users are primarily low and middle income households. These economic units suffer most the hardships of instability. A regulation of credit terms in the field that will help maintain sound credit conditions and also help moderate excessive fluctuations in instalment financing can serve well the public interest. Also, smaller business enterprises in the affected areas can compete more equitably and safely when competitive credit factors are limited to reasonable standards.

The Board has consistently been mindful of the problems that confront those who have the job of carrying on a business. We have tried to achieve the purposes of Regulation W with the least possible interference with usual business operations. I believe we have achived reasonable success in that endeavor.

I want to say at this point that we have received strong and friendly cooperation from an overwhelming majority of those subject to the regulation. We have a sympathetic interest in their problems and we believe that in most cases they have made an honest effort to understand ours.

The Board is fully aware of the problems which consumer instalment credit regulation presents to retailers, as well as to sales finance companies, banks, and other credit-granting agencies. We are very conscious of the problems that increased reserve requirements raise for any bank that may have to obtain the additional reserves by liquidating others assets. We earnestly hope that the need will not again arise for use of further restraints. We would only use them because we felt it necessary to do so in order to protect the economy. I can assure you that we will modify these restraints as the economic conditions warrant it and will not hesitate to relax them when they have served their purpose. In the world of today the United States, occupying as it does a place of world leadership, should be equipped, at all times, with modern, effective means of carrying out appropriate monetary and credit policies, adapted to changing economic circumstances.

Most of my business life has been spent in private industry. I would be the last to want government to have power and authority merely for the sake of having power and authority. In the complex and fluid monetary field, the timeliness of policy moves is of critical import. That is why we think that, in the interest of a stabilized, progressive, economy, it is essential that our monetary machinery be prepared in advance to adapt itself to changing economic needs.

Indications of Current Business 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)	Feb. 20	100.0	100.1	100.1	92.5
Equivalent to—					
Steel ingots and castings (net tons)	Feb. 20	1,843,500	1,845,400	1,845,400	1,667,300
AMERICAN PETROLEUM INSTITUTE:					
Crude oil output—daily average (bbls. of 42 gallons each)	Feb. 5	5,351,200	5,438,850	5,453,850	5,332,575
Crude runs to stills—daily average (bbls.)	Feb. 5	‖5,389,000	5,490,000	5,752,000	5,348,000
Gasoline output (bbls.)	Feb. 5	16,464,000	17,531,000	18,278,000	15,476,000
Kerosene output (bbls.)	Feb. 5	2,274,000	2,588,000	2,493,000	2,468,000
Gas oil and distillate fuel oil output (bbls.)	Feb. 5	7,003,000	7,547,000	7,789,000	7,870,000
Residual fuel oil output (bbls.)	Feb. 5	8,221,000	8,178,000	9,153,000	9,154,000
Stocks at refineries, at bulk terminals, in transit and in pipe lines—					
Finished and unfinished gasoline (bbls.) at	Feb. 5	117,169,000	*114,970,000	107,111,000	105,100,000
Kerosene (bbls.) at	Feb. 5	21,239,000	21,873,000	23,368,000	11,119,000
Gas oil and distillate fuel oil (bbls.) at	Feb. 5	64,175,000	67,432,000	73,941,000	38,538,000
Residual fuel oil (bbls.) at	Feb. 5	82,383,000	84,462,000	85,544,000	50,257,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	Feb. 5	682,143	679,255	721,507	746,936
Revenue freight received from connections (number of cars)	Feb. 5	599,866	599,666	594,516	670,985
CIVIL ENGINEERING CONSTRUCTION — ENGINEERING NEWS-RECORD:					
Total U. S. construction	Feb. 10	$131,155,000	$209,703,000	$132,583,000	$133,534,000
Private construction	Feb. 10	85,375,000	143,290,000	59,243,000	68,319,000
Public construction	Feb. 10	45,780,000	66,413,000	73,340,000	65,215,000
State and municipal	Feb. 10	35,587,000	61,043,000	58,736,000	33,185,000
Federal	Feb. 10	10,193,000	5,370,000	14,604,000	32,030,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	Feb. 5	11,360,000	*10,480,000	11,585,000	11,350,000
Pennsylvania anthracite (tons)	Feb. 5	687,000	653,000	1,032,000	1,170,000
Beehive coke (tons)	Feb. 5	161,400	*150,600	149,200	131,200
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100	Feb. 5	231	*218	272	240
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	Feb. 12	5,722,086	5,778,476	5,726,708	5,384,945
FAILURES (COMMERCIAL AND INDUSTRIAL)—DUN & BRADSTREET, INC.	Feb. 10	192	145	127	128
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	Feb. 8	3.75628c	3.75628c	3.75628c	3.24816c
Pig iron (per gross ton)	Feb. 8	$46.74	$46.74	$46.82	$40.17
Scrap steel (per gross ton)	Feb. 8	$37.58	$40.42	$40.92	$40.50
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	Feb. 9	23.200c	23.200c	23.200c	21.200c
Export refinery at	Feb. 9	23.425c	23.425c	23.425c	21.450c
Straits tin (New York) at	Feb. 9	103.000c	103.000c	103.000c	94.000c
Lead (New York) at	Feb. 9	21.500c	21.500c	21.500c	15.000c
Lead (St. Louis) at	Feb. 9	21.300c	21.300c	21.300c	14.800c
Zinc (East St. Louis) at	Feb. 9	17.500c	17.500c	17.500c	12.000c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Government Bonds	Feb. 15	101.62	101.42	101.14	100.70
Average corporate	Feb. 15	112.93	113.12	112.93	110.70
Aaa	Feb. 15	118.80	118.80	118.80	116.0[illegible]
Aa	Feb. 15	116.80	117.00	117.00	114.27
A	Feb. 15	112.00	112.19	111.81	109.60
Baa	Feb. 15	104.83	105.17	104.66	103.47
Railroad Group	Feb. 15	108.52	108.70	108.34	105.17
Public Utilities Group	Feb. 15	113.31	113.31	113.31	112.37
Industrials Group	Feb. 15	117.20	117.40	117.20	114.85
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Government Bonds	Feb. 15	2.38	2.40	2.42	2.45
Average corporate	Feb. 15	3.01	3.00	3.01	3.13
Aaa	Feb. 15	2.71	2.71	2.71	2.85
Aa	Feb. 15	2.81	2.80	2.80	2.94
A	Feb. 15	3.06	3.05	3.07	3.19
Baa	Feb. 15	3.46	3.44	3.47	3.54
Railroad Group	Feb. 15	3.25	3.24	3.26	3.44
Public Utilities Group	Feb. 15	2.99	2.99	2.99	3.04
Industrials Group	Feb. 15	2.79	2.78	2.79	2.91
MOODY'S COMMODITY INDEX	Feb. 15	375.6	370.1	392.5	403.2
NATIONAL FERTILIZER ASSOCIATION—WHOLESALE COMMODITY INDEX BY GROUPS—1935-39=100:					
Foods	Feb. 12	212.8	218.2	223.8	229.9
Fats and oils	Feb. 12	154.5	166.4	175.4	231.5
Farm products	Feb. 12	223.4	232.0	239.6	245.1
Cotton	Feb. 12	305.9	311.5	307.8	300.6
Grains	Feb. 12	192.5	201.2	208.2	256.4
Livestock	Feb. 12	219.0	229.2	240.2	238.3
Fuels	Feb. 12	238.1	238.3	241.2	228.8
Miscellaneous commodities	Feb. 12	166.7	169.5	172.2	173.4
Textiles	Feb. 12	190.7	192.4	195.4	211.7
Metals	Feb. 12	190.1	190.4	190.4	162.2
Building materials	Feb. 12	217.9	217.9	227.1	233.5
Chemicals and drugs	Feb. 12	143.8	145.5	147.8	155.1
Fertilizer materials	Feb. 12	143.3	143.4	143.5	137.7
Fertilizers	Feb. 12	151.3	151.3	150.8	143.0
Farm machinery	Feb. 12	155.6	155.6	155.2	136.5
All groups combined	Feb. 12	207.1	210.8	215.6	216.2
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	Feb. 5	220,321	167,930	204,405	222,730
Production (tons)	Feb. 5	180,379	181,483	158,780	177,884
Percentage of activity	Feb. 5	87	88	79	100
Unfilled orders (tons) at	Feb. 5	343,983	304,146	361,252	477,216
OIL, PAINT AND DRUG REPORTER PRICE INDEX — 1926-36 AVERAGE=100	Feb. 11	140.4	141.1	142.1	147.3
WHOLESALE PRICES NEW SERIES—U. S. DEPT. OF LABOR—1926=100:					
All commodities	Feb. 8	156.9	158.8	160.5	160.9
Farm products	Feb. 8	162.5	168.9	174.3	182.5
Foods	Feb. 8	156.9	158.6	164.4	174.3
All commodities other than farm and foods	Feb. 8	152.9	153.5	152.9	147.7
Textile products	Feb. 8	143.1	143.5	144.3	149.5
Fuel and lighting materials	Feb. 8	136.0	138.0	137.1	130.8
Metals and metal products	Feb. 8	178.3	178.3	175.3	154.8
Building materials	Feb. 8	200.4	200.8	200.9	192.2
All other	Feb. 8	131.4	132.9	133.5	136.5
Special indexes—					
Grains	Feb. 8	148.4	161.6	170.1	209.0
Livestock	Feb. 8	195.1	206.8	217.4	214.7
Meats	Feb. 8	207.3	215.5	226.0	234.8
Hides and skins	Feb. 8	190.5	194.3	197.0	220.4

*Revised figure. ‖Includes 390,000 barrels of foreign crude runs.

	Latest Month	Previous Month	Year Ago
ALUMINUM (BUREAU OF MINES)—			
Production of primary aluminum in the U. S. (in short tons)—Month of November	50,714	54,526	43,461
Stocks of aluminum—short tons (end of Nov.)	8,075	10,263	19,650
AMERICAN IRON AND STEEL INSTITUTE:			
Steel ingots and steel for castings produced (net tons)—Month of January	8,172,236	*7,771,175	7,472,776
Shipments of steel products, including alloy and stainless (net tons)—Month of Dec.	6,056,282	5,732,256	5,613,036
AMERICAN TRUCKING ASSOCIATION— Month of December:			
Number of motor carriers reporting	271	*271	271
Volume of freight transported (tons)	2,572,410	*2,626,142	2,430,189
BANK DEBITS — BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM—			
Month of January (in thousands)	$105,204,000	$122,277,000	$105,193,000
CIVIL ENGINEERING CONSTRUCTION—ENGINEERING NEWS-RECORD — Month of January:			
Total U. S. construction	$565,826,000	$843,544,000	$441,955,000
Private construction	229,814,000	505,899,000	207,529,000
Public construction	336,012,000	337,645,000	234,426,000
State and Municipal	206,115,000	265,901,000	178,259,000
Federal	129,897,000	71,744,000	56,167,000
COAL OUTPUT (BUREAU OF MINES)—Month of January:			
Bituminous coal and lignite (net tons)	47,170,000	49,045,000	55,780,000
Pennsylvania anthracite (net tons)	3,719,000	4,499,000	4,921,000
Beehive coke (net tons)	662,000	*638,200	607,200
COKE (BUREAU OF MINES)—Month of Dec.:			
Production (net tons)	6,704,005	*6,417,179	6,534,000
Oven coke (net tons)	6,065,764	*5,806,939	5,920,000
Beehive coke (net tons)	638,241	*610,240	614,200
Oven coke stocks at end of month (net tons)	1,590,608	*1,588,884	1,019,856
CONSUMER CREDIT OUTSTANDING—BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM—Estimated short-term credit in millions as of Dec. 31:			
Total consumer credit	$15,957	$15,339	$13,426
Instalment credit	8,229	7,921	6,187
Sale credit	4,128	3,889	2,839
Automobile	1,963	1,922	1,151
Other	2,165	1,967	1,688
Loan credit	4,101	4,032	3,348
Noninstalment credit	7,728	7,418	7,239
Charge accounts	3,854	3,557	3,612
Single payment loans	2,902	2,893	2,707
Service credit	972	968	920
CONSUMER PRICE INDEX FOR MODERATE INCOME FAMILIES IN LARGE CITIES 1935-1939=100—As of Dec. 15:			
All items	171.4	172.2	167.0
All foods	205.0	207.5	206.9
Cereals and bakery products	170.2	169.9	170.5
Meats	241.3	246.7	227.3
Dairy products	199.2	199.5	204.9
Eggs	217.3	244.3	236.1
Fruits and vegetables	192.3	189.4	205.3
Beverages	207.8	206.4	198.5
Fats and oils	184.4	189.4	208.2
Sugar and sweets	173.0	173.3	183.7
Clothing	200.4	201.4	191.2
Rent	119.5	118.8	115.4
Fuel, electricity and refrigerators	137.8	137.9	127.8
Gas and electricity	95.3	95.4	92.6
Other fuels	191.3	191.6	171.1
Ice	138.4	138.0	129.8
Housefurnishings	198.6	198.7	191.4
Miscellaneous	154.0	153.9	144.4
COPPER INSTITUTE—For Month of January:			
Copper production in U. S. A.—			
Crude (tons of 2,000 lbs.)	69,973	*64,451	82,427
Refined (tons of 2,000 lbs.)	78,298	96,117	102,314
Deliveries to customers—			
In U. S. A. (tons of 2,000 lbs.)	96,070	102,292	118,855
Refined copper stocks at end of period (tons of 2,000 lbs.)	91,053	96,080	71,533
DEPARTMENT STORE SALES (FEDERAL RESERVE SYSTEM)—(1935-39 Average=100) Month of January:			
Adjusted for seasonal variation	290	*309	286
Without seasonal adjustment	228	*495	225
INTERSTATE COMMERCE COMMISSION —			
Index of Railway Employment at middle of January (1935-39 average=100)	†128.0	†130.1	134.2
LIFE INSURANCE—BENEFIT PAYMENTS TO POLICYHOLDERS—INSTITUTE OF LIFE INSURANCE—Month of December:			
Death benefits	$131,229,000	$118,358,000	$122,777,000
Matured endowments	42,975,000	37,644,000	31,168,000
Disability payments	8,812,000	8,212,000	8,118,000
Annuity payments	18,641,000	18,937,000	16,216,000
Surrender values	50,796,000	38,133,000	36,017,000
Policy dividends	80,727,000	36,687,000	69,114,000
Total	$333,180,000	$257,971,000	$283,410,000
MAGNESIUM WROUGHT PRODUCTS (DEPT. OF COMMERCE)—Month of December:			
Shipments (in pounds)	728,000	532,000	275,000
MONEY IN CIRCULATION—TREASURY DEPT.			
As of Dec. 31 (000's omitted)	$28,223,786	$28,331,043	$28,867,631
MOODY'S WEIGHTED AVERAGE YIELD OF 200 COMMON STOCKS—Month of Jan.:			
Industrials (125)	6.62	6.57	5.62
Railroads (25)	6.84	6.78	5.66
Utilities (25)	7.77	7.67	5.77
Banks (15)	6.04	6.09	5.80
Insurance (10)	4.67	4.74	4.63
Average yield (200)	3.33	3.34	3.49
MOTOR VEHICLE FACTORY SALES FROM PLANTS IN U. S. (AUTOMOBILE MANUFACTURERS' ASSOC.)—Month of December:			
Total number of vehicles	486,981	468,822	470,981
Number of passenger cars	378,455	364,440	366,939
Number of motor trucks	107,702	103,837	101,569
Number of motor coaches	824	545	1,721
RR. EARNINGS — CLASS I ROADS (ASSOC. OF AMER. RRS.)—Month of December:			
Total operating revenues	$806,553,949	$825,325,812	$804,316,810
Total operating expenses	648,741,565	637,471,662	631,369,661
Operating ratio—per cent	80.43	77.24	78.50
Taxes	$81,604,936	$90,304,661	$80,852,694
Net railway operating income before charges	64,661,939	84,065,711	76,669,093
Net income after charges (est.)	58,000,000	63,000,000	76,000,000
UNITED STATES EXPORTS AND IMPORTS—BUREAU OF CENSUS—Month of December (000's omitted):			
Exports	$1,283,700	$819,900	$1,172,000
Imports	721,400	550,100	602,841

*Revised figure. †Preliminary figure.

More Equity Investment Essential

(Continued from first page)

lated to enhance stability and prosperity than a continuous flow of capital to the utility companies. The spending of this capital for the production of more and better electric service will add to the comfort and convenience of our citizens and to the effectiveness of industry. It will employ people in making electrical equipment, in the utility business, and will stimulate employment in a great many other businesses which use electric power.

And this new capital has another advantage. Its earnings in large part flow back into the capital market ready to start some other wheel turning that will create jobs. It cannot fail to have a beneficial effect in limiting the extent of any recession that might be lurking around the corner. And because of the demands that are upon you and because of the nature of your business, it is perhaps more characteristic of the utilities than of other industries that if you get the money you will spend it constructively. The expenditure will not only be in the immediate public interest in mitigating recession but it has an equally great long-range advantage.

The electric utility industry has been an industry of rapid technological improvement which has resulted in a long-term downward trend in the cost of electricity. If the utilities get the money that they should have now and spend it, the processes of technological improvement and benefits will go on unabated. For instance, we have recently been informed by one of our utility customers that the installation of new units in one of its plants which we have helped to finance has resulted in reducing operating costs by approximately $5,000 a day. This example is typical of what new plant equipment means in reducing costs.

Record of Electric Utility Industry

Let us look at the utility industry for a minute to see if it deserves capital.

Its record is remarkable. With 7% of the world's population, the United States produces and uses almost half the electric energy in the world. Although government plants make some of this power, these state-owned plants are not responsible for the American habit of making and using electricity. The techniques by which that habit has been developed are not the result of government action.

What the industry itself has developed has been vital in American success both in peace and war. And the industry has had an almost unique record during and since World War II. It was among the few great industries which fulfilled every national need that arose during the war. It is almost unique in having since the war actually reduced rates to the public during a period of rapid inflation. Whether this was wise is open to question, but that it could be done at all is extraordinary. Here then is a business with a background of technological progress, with a remarkable record of public service in the war and after, with an ever-increasing demand by the public for its service—service which is worth what it costs many times over because of its usefulness.

That sounds like the definition of an industry that could not fail to be prosperous and one that could attract all the partners' money that it could put to profitable use.

Effects of Regulation and Public Power Competition

But this is not quite a complete picture, as you all know. There are two influences in the situation that require emphasis—regulation and public power.

If regulation seems to the investor to be a greater hazard than competition, the investors' dollars will veer away from the regulated industries. If the regulatory commissions do not allow earnings that will attract capital, all other favorable conditions will not avail. If the commissions' actions or failure to act cause doubts to arise in the investors' minds as to whether a particular company will have adequate earnings, then that company's financial position may be injured so that it will take some time to recover. If the commissions tend to assert the managerial role or assume unreasonable judicial powers, similar doubts will be reflected.

The development and production of power by the government has a similar effect. If there are plans to build public power systems in many parts of the country — steam plants as well as hydro-electric plants—the private investor begins to question the safety of investments in the electric utilities everywhere.

And he has reason to question, for it is easily within the power of the government to subsidize public plants which by means of unjust competition may destroy the investment values of privately owned electric utilities. The government indeed by its efforts to add to the electric energy available to the public may instead actually diminish it. For it might well happen that through the use of unfair methods in supplying 15% of the power, the government could reduce the effectiveness of the other 85%.

The bill now before Congress appropriating funds to build a steam-generating plant at New Johnsonville, Tenn., in the TVA system, is a specific illustration of this point. Such a project involves a departure from Congressional policy to date. That policy in substance is that hydro-electric power plants are to be erected as incidental to flood control, irrigation, and navigation. A steam-generating plant certainly is not within the limitations of such a policy and is a threat to the American system of free enterprise.

Others no doubt will discuss this matter, and also the blighting effects of double taxation upon capital investments in all industry, including the utilities. I wish to devote further attention to the matter of regulation.

Unreasonable Regulation

How much justification is there for apprehension concerning unreasonable regulation of the electric utilities?

There have been a number of recent decisions granting increases in rates to meet inflationary conditions which are hopeful signs that the apprehension may not be justified. There are many statements supporting this view.

In an address some months ago, Commissioner H. Lester Hooker of the Virginia commission stated: "When utilities are required to serve the public at miserly rates of return on their investments in property dedicated to public use, the public as well as the utility suffers."

Statements of a similar character have come from other State commissions. It has been said that a fair return is one that will attract new capital. The addresses made at the recent convention of the National Association of Railroad and Utility Commissioners in Savannah quite generally endorsed the need for such a return. Also, there was expressed a desire to cooperate with you and assist in your efforts to meet this amazingly expanding demand for your service.

At the same gathering Commissioner R. B. McIntire of the Securities and Exchange Commission said—"It is therefore of the utmost importance that we begin now to build and maintain this strong equity foundation under the capital structure of our utility companies as we go through this period of rapid growth. The time may come for some of them when it is too late to act. The industry's construction program can be financed successfully, of course, only if utility common stocks retain their 'investor appeal'. To do this, earnings and dividends must be attractive." Mr. McIntire concluded his address with the plea— "Let management and regulatory bodies work together in keeping common stocks strong and inherently attractive. Let management and the investment banker take the case before the investing public. The result, I believe, will be a great and strong industry which will ably serve the community, the investor, and the nation—and this result is certainly what we all desire."

Those engaged in unregulated enterprises usually are able to raise the prices of their products to meet increased cost of wages, fuel, and other materials. They have been able to cope with the decreased purchasing power of the dollar. Their appeals for further capital have been buttressed by larger profits, thereby creating a more attractive return on new capital investment. Therein lies the incentive for further capital investment as such need arises. By and large, the utilities have not been in that position. Your rate of return, in many cases, has been unduly restricted under the standards of the past. To meet the prevailing high costs and to provide the enormous capital required for new plant and equipment, a more realistic approach to the problem of an adequate rate of return for capital employed in your industry should be developed.

The Increasing Debt in Capital Structure

There is another problem of importance to your industry which I wish to discuss briefly. The trend toward an increasing debt ratio in the industry brought about by the sale of a disproportionate amount of debt securities should be a matter of managerial concern from this time on. True, this may have been the cheapest and easiest way to finance. I fully understand the attraction of extraordinarily low interest rates which, together with tax credits for interest payments, result in somewhat higher earnings for your stocks. The debt trend should, however, be reversed. When high need for construction comes along with high prices for construction — and they always come together—it becomes clear that if the borrowing capacity which is the last resource in emergency has been fully utilized before the emergency arises, it will not be available when most needed. And the common stockholder is not easily attracted to heavily indebted companies.

There are many reasons for this situation which I am not going to try to analyze. I am merely trying to point out where you are now and why you will need great exertion to be sure that you maintain the financial strength to serve the nation well.

The electric utilities are rapidly approaching a situation where prompt and affirmative action in their behalf by the commissions is essential. In many cases, the cost of providing electric service has been rising rapidly and that creates a real problem because net earnings now are being affected. Just by doing nothing or doing too little or acting too late, the commissions can make a momentous and even a disastrous decision.

The commissions for many years have been engaged in reducing your rates as your technological advances and increases in volume made it possible. It is quite a change to be suddenly confronted with requests for rate increases which are needed right away. Therefore, in spite of the actions of some commissions and the speeches of some commissioners, it would not be surprising if the needed rate increases were either not forthcoming in sufficient amounts or rapidly enough —unless some unusual efforts are made.

Experience of the Railroads

One of the things which makes me apprehensive about this situation is the experience of the railroads. Congress passed The Transportation Act, authorizing and instructing the Interstate Commerce Commission to initiate, modify, establish or adjust rates so that the carriers as a whole will earn a fair return upon the aggregate value of their property. That is as favorable a statement as anyone could want. At various times members of the I.C.C. have themselves made admirable statements about the necessity for equity capital in the railroad business. Yet the actual result of regulation for the last 20 years has been to give the railroads an average return of about 3½%. In fact, as a general rule, for 20 years the railroads have been chiefly financed by increasing debt intermingled with receiverships. The I.C.C. did not, I think, intend to follow this method of regulating the railroads that practically prohibits new capital and the advantages it brings. In the present situation there is more than minor danger that the state commissions may permit the electric utilities to slide into that same pattern.

The Utilities Investor Not Encouraged

The general theory of regulation has been that since regulated industries do not have the risks of competition, people will invest in them at a lower rate of return than in non-regulated industries because there is smaller risk of loss. On the other hand, the opportunities for capital gains are limited in comparison with such other industries as manufacturing chemicals, merchandising, etc. The utility investor must usually be content with only a dividend yield. However, under existing conditions the investor may not be willing to put his funds into electric utility common stocks unless there is some inducement beyond the income alone to make that investment attractive.

My guess is that unless there are continued extraordinary exertions on your part, what will be done about this situation will be too little and too late to allow the utilities to render their best service to the public. That means setting forth the facts about your business and the needs of your companies before the commissions, the governors and the appropriate legislative committees with great clarity and emphasis. It means telling the facts to the customers and the stockholders of your companies, and to the public at large.

These facts to my mind should be presented against a simple financial background:

(1) Long range economy is dependent upon constant technological improvement.

(2) This means constant expenditure.

(3) This is only possible if the companies can raise adequate funds.

(4) That can only be done when rates are sufficient to make earnings that will attract new stockholder capital.

(5) If a company risks its property by going in debt it deserves any extra profit that comes from taking the risk.

(6) But whether it wishes to take such risks or not, in the long run the ability to attract stockholders' money is the only practical test of adequate rates and the only insurance of good service to the public.

It is true, of course, that as vast pools of public savings are by law prevented from going into equities, the utilities can only reach this money by going into debt. A reasonable proportion of debt in the form of commercial bank loans and long-term bonds is desirable. But it also is essential that the capitalization of your companies should include substantial equity capital which actually provides a measure of protection for the debt. You must not be complacent about overloading your companies with debt even at prevailing low interest rates.

That your industry should be progressive and prosperous is of great importance to the general welfare of the country. It cannot be progressive long if it is not prosperous.

Essential to Attract Equity Capital

You have an obligation as I see it, to perform a service to the nation which you can do only if you can convince those in authority and the public, which both they and you serve, that it is essential for you to attract new equity capital into your business. In most parts of the country undoubtedly this can be done. However, in some States, that may well involve substantial changes in regulatory policy.

The capacity to attract equity capital seems to me the very essence of the safety of your business. It is a matter of the protection of your stockholders' values, a matter of protection for your employees, a matter of service to your customers. It is even more than that. It is a matter of great importance to the nation. We need every vital force that we can keep in action to maintain ourselves in strength to meet the burdens we now have and the uncertainties we face. We cannot afford any industries that do not pull their full weight in the boat. And we must not, by regulation, remove industries out of our capitalistic free economy when we are trying to establish that our freedom is better than the totalitarian conception.

You have, therefore, a great opportunity to serve this country. If you will make yourselves strong with equity capital you will be performing a vital service to the nation.

If the billions of dollars being put into the industries of Western Europe can rehabilitate the economies of those countries it is not reasonable to expect that billions of dollars needed by the utility industry here in this country would help to stabilize our economy? In the years just ahead the utilities could advantageously spend huge sums. And there is little doubt in my mind that they can get a substantial part of the money as equity capital if earnings are made sufficiently attractive and if the threat of government competition is minimized.

Increased earnings would attract increased investments in equity securities from investors. No government debt and no added taxes would be required.

The President of the United States in his inaugural address recently suggested that American private capital be encouraged to make investments abroad to help raise the living standards of other peoples and to foster a peaceful world. I believe this constructive proposal will receive earnest and sympathetic consideration, although the practical problems involved are exceedingly difficult.

The President also said that it is clear "we must have continued prosperity in this country and we must keep ourselves strong."

It seems to me that an essential factor in doing so is for the regulatory commissions to pursue policies which will enable our vital utilities to carry on as vigorous and prosperous enterprises. It is also essential that the utilities not be subjected to the threat of unjust competition from public power projects. That will stimulate confidence at home and enable our American utilities, which lead the world in the quality of their public service, to continue demonstrating the superiority of our American system.

The regulated industries that provide electric power, light, heat, communication, and transportation to the nation are the most vital services it has—either in peacetime or in war. It is essential to the safety and progress of the United States that these industries be enabled to retain their full vitality and render their utmost service to the nation.

The State of the Federal Finances

(Continued from page 4)

paid into them; and our liability on the savings bonds outstanding grows as their value increases through interest accruals. The cash operating surplus comes about, therefore primarily because the Government's liability is increasing through a series of public debt programs already in operation.

Besides the cash operating surplus, the Government receives money from the sale of savings bonds and notes.

Savings Bond Program

You are all familiar with the savings bond program. It has been a program of tremendous importance and significance for many years. Receipts from cash sales from savings bonds and notes will amount to $2.5 billion in 1949 and $1.5 billion in 1950; and these amounts, when added to the cash operating surplus, represent the aggregate amount of cash inflow which the Treasury will have available.

I should like to mention at this point that the reduction in the amounts likely to be received from the cash sales of savings bonds and notes in 1949 and 1950 does not represent any change in the promotion aspects of the program during these two years. The difference represents the amount received from the special offering of F and G bonds to institutional investors, which was made during the first part of July, 1948, and which is a part of the figures for the fiscal year 1949.

Special offerings are made to facilitate the investment of funds by some of the large institutional purchasers of Government securities when conditions warrant; and it is too early to determine whether there will be a need for an offering of this type during the next fiscal year.

In order to summarize the cash position for the calendar year 1949, I should like to direct attention for a moment to the Treasury Table which segregates the cash inflow into the Treasury for the fiscal years 1949 and 1950 by shorter time periods.

In the July-September quarter of the fiscal year 1949, the Treasury had a cash inflow of $2.7 billion.

In the October-December quarter of the fiscal year, there was a cash outflow of $500 million.

In the January-March quarter of this fiscal year—that is, the quarter in which we are now operating—the Treasury will have a cash inflow of approximately $4 billion.

In the April-June quarter, there will be a cash outflow of $900 million; and in the six months July-December, which is the first part of the fiscal year 1950, there will be a cash outflow of $1.4 billion.

Possibilities of Increased Government Expenditures

This picture of how the various operations affect the cash balance during the calendar year 1949 is one that I have before me daily as I consider the various policy decisions which have to be made in connection with the management of the public debt. If everything works out exactly as we now estimate, the balance would run down to $3.2 billion by next Dec. 31. There are, however, a number of factors which could have an important influence on the picture, which have not been taken account of.

There is, first, the possibility that expenditures might turn out to be higher than the Budget. For example, there is the possibility of expenditures for the security of the North Atlantic area. The President mentioned this possibility in his Budget Message, but he did not include any amount in his Budget because he wasn't sure what the amount is likely to be. If Congress should permit such expenditures during the calendar year 1949, they would have the effect of reducing the Dec. 31 cash balance figure of $3.2 billion by a commensurate amount.

There is also, as you know, the possibility that revenues might vary from the amount shown in the President's Budget. Revenues have been estimated on the assumption of high business activity and full employment. If unemployment should develop during the year and business should drop to a lower level than we now enjoy, revenues would be smaller. If, on the other hand, the business levels should advance, revenues would be higher.

New tax legislation may also affect the cash balance during the last part of the calendar year 1949. The effect would depend upon the type of tax legislation enacted, however. Many types of taxes applicable to 1949 would not be paid into the Treasury until the first part of the calendar year 1950. They would have no substantial efect on the cash balance picture during the calendar year.

Another factor affecting our cash position is the possibility that the dividend to be paid by the National Service Life Insurance Fund in the fall may be delayed in part by the many mechanical difficulties connected with the operation. There are some 16 million policies involved; and it may be that payments may run behind schedule and not be completed by the end of 1949. If this should happen, the cash balance would be higher temporarily by a commensurate amount.

With all these factors in mind, however, and on the basis of the necessary assumptions, this is about as realistic a projection as we can make for operating purposes at this time of the Treasury's cash outlook.

The movement of the cash balance from $4.2 billion on Dec. 31, 1948, to $3.2 billion on Dec. 31, 1949, will involve some sharp rises and falls. This will be in a manner similar to that experienced in previous years. The cash balance will probably reach a peak in March; but the level will drop rapidly.

A cash balance figure of $3.2 billion on Dec. 31, 1949, would be about as low as we should prudently drop the Treasury cash balance at the end of a year when the annual expenditure budget was running in the neighborhood of $40 billion. Please note that we have been discussing cash balances and not surplus balances.

Treasury Refunding

In addition to taking care of our cash requirements, the Treasury will have a large amount of refunding to do as issues mature. I should now like to spend a moment on the important Treasury maturities during the next few years. The Treasury Chart covers the bond, note, and certificate maturities in 1949. They total $37 billion. In addition, there are $12 billion of Treasury bills outstanding which mature at the rate of approximately $900 million a week. Because it is unlikely that there will be any significant volume of debt reduction during the year 1949 on these maturities—except for the tail-ends of maturing securities not turned in for refunding—the entire $49 billion on net balance is likely to be refunded into securities maturing in the future; and the maturities which are already scheduled for 1950 and subsequent years, will thereby be increased by the amount carried over from 1949.

The Treasury will thus have, as is evident, a substantial refunding problem this year, next year, and for many years to come. It will be expanded in the early 1950's by the maturity of the wartime issues of savings bonds. A positive refunding program on that account will have to be undertaken in 1951 and thereafter.

The decision on each issue as it matures is, as you know, a specialized problem, and will have to be handled separately; but this projection gives you a general outline of our position.

The maturities that I have been discussing are at the short end of the Federal debt structure. Most of the issues involved are owned by banks for the investment of their deposits and by industrial, commercial and mercantile corporations for the investment of their short-term balances. Our financing activities and debt management operations are conducted with the objective of providing the various investor classes with the types of securities and the maturities which best suit their particular needs. This helps us in our objective of spreading the ownership of the debt as broadly as possible.

Some reflection of the extent to which this goal has been accomplished is indicated by the following data. Two-thirds of the Federal debt, that is some $167 billion, is now held outside of the banking system. Over a quarter of the public debt, some $68 billion, is held by individuals alone. Insurance companies hold $21½ billion of Federal securities, mutual savings banks have $11½ billion, and corporations other than banks and insurance companies hold $13 billion. Government investment accounts—largely individuals' savings which are reinvested in the form of social security and military insurance funds — account for $37½ billion of the debt. State and local governments own $8 billion and nonprofit institutions and miscellaneous investors another $7½ billion. The remaining $86 billion is held in the banking system—that is, commercial banks and Federal Reserve Banks.

Size of Public Debt

The Federal debt at $253 billion represents more than one-half of the total debt of the country at the present time. Before the war the Federal debt was less than a quarter of the total debt of the country. As the result of the tremendous growth in the Federal debt during the war the Federal debt has taken a new place of importance in our economy. Accordingly, anything that happens to the Federal debt is an important factor with respect to the whole credit picture of the country. On the other hand, whatever happens with respect to the Nation's private debt and the position of the various investor classes is rather intimately connected with the management of the public debt, too.

We, of necessity, must keep close watch on the various developments in the financial world, and I should like to discuss some of them as they affect the position of the important investor classes.

One important class of investors in government securities is insurance companies. Life insurance companies have been liquidating a small proportion of their government security holdings since the end of the war as new investment opportunities unfolded. Present holdings of 49 leading companies, which hold 90% of life insurance assets in the country, have declined from $19 billion to $15 billion since the end of 1945. During this period, these same companies were, on the other hand, expanding their holdings of corporate securities and their holdings of mortgage loans. Expansion along these lines was to be expected as insurance companies entered actively in providing funds for postwar development of private industry.

Mutual savings banks also sold some government securities in 1948 in the process of meeting private demands for capital, but they still hold more Federal securities now than they did at the end of the war. In fact, mutual savings banks have 50% more of their funds invested in Federal securities than in all other types of loans and securities combined.

Holdings of government securities by insured savings and loan associations have shown some decline since the end of the war as residential mortgages expanded. As contrasted with insurance companies and savings banks, however, most of the decline took place in 1946 and 1947, rather than in 1948. A large part of these holdings are in long-term bank-restricted bonds. It is interesting to note that the holdings of these associations are still in excess of $1 billion, as compared to holdings of only about $50 million before the war.

During 1946, corporations other than banks and insurance companies liquidated about $6 billion of Federal securities in order to facilitate their early postwar expansion. Since the end of 1946 there has been little change in the holdings of government securities by these corporations. Corporate holdings of currency and bank deposits show an unusually stable level throughout the last three years. At the same time other current assets of corporations, principally inventories and receivables, have shown a significant increase.

Holdings of Federal securities by individuals are now at an all-time high of $68 billion. The fact that individuals' holdings have actually increased since the end of the war represents a trend that most of us would have guessed incorrectly three years ago. Savings bonds alone account for two-thirds of individual holdings of Federal securities. The savings bond picture is most encouraging. More than $32 billion of E bonds alone are outstanding—an amount you will be interested to know is more than $1 billion higher than at the end of our last wartime drive.

Savings accounts have also increased during the last three years. Currency and checking accounts, after early postwar increases, have recently shown some slight decline.

Our debt management activities since the end of the war have been directed toward the objective of increasing nonbank holdings of the public debt. We were able to pay off part of the debt, as you know; partly from cash balances available at the end of the war and partly from the budget surplus during the past two fiscal years. In managing these debt pay-offs, we have been successful in concentrating them entirely on the bank-held portion of the debt.

The debt has declined from a peak of $280 billion, on Feb. 28, 1946, to a current level of $253 billion. This is a decline of $27 billion. At the same time there has been a decline of $31 billion in holdings of Federal securities by the banking system—a decline greater than the reduction in the total debt.

Federal Reserve Bond Holdings Not Increased

The reduction in the bank-held debt for the period up through Dec. 31, 1948, is attributable entirely to a reduction in the holdings of government securities by the commercial banks of the country. Holdings by the Federal Reserve banks were, on net balance, practically unchanged between February, 1946, the peak of the debt, and Dec. 31, 1948. Since Dec. 31, 1948, Federal Reserve holdings of government securities have declined.

The government's debt management policy since the end of the war, it is obvious, has not resulted in an expansion of Federal Reserve holdings of government securities. All purchases of long-term bonds have been more than offset by the liquidation of short-term issues.

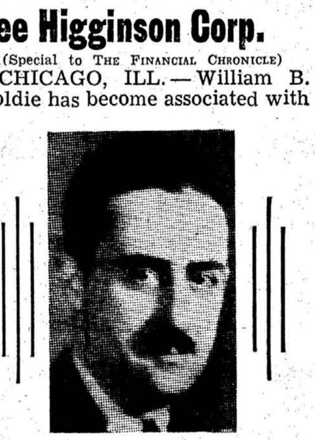
As bank-held debt declined in the period since the end of the war, nonbank holdings expanded in the aggregate, notwithstanding the sale of some government securities by some of the investor classes. Government security holdings by individuals increased. This was also true of fire, casualty and marine insurance companies, and of the trust and investment funds of state and local governments. Another important reason why nonbank ownership has increased has been the continued investment of the savings of individuals accumulating in Federal Government social insurance funds.

The bar at the right-hand side of the Treasury Chart sets forth my estimate of where the public debt will stand at the end of the calendar year 1949. The level is the same as it was on Dec. 31, 1948, and is arrived at on the basis of the budget, which forecasts a deficit for the fiscal year 1949 and another deficit for the fiscal year 1950. The main thing wrong with that bar is that it is too high. It should be lower, and the only way that it could be lowered is for the government to achieve a surplus of receipts over expenditures during this calendar year. The President has stated that new taxes will be needed, and must be enacted if the surplus is to be achieved. I strongly urge this course of action.

Wm. B. Goldie With Lee Higginson Corp.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—William B. Goldie has become associated with



W. B. Goldie

Lee Higginson Corp., 231 South La Salle Street. Mr. Goldie was formerly with Riley & Co. of Milwaukee and John Nuveen & Co. In the past he did business as an individual dealer in Milwaukee.

With Merrill Lynch Firm

(Special to THE FINANCIAL CHRONICLE)

ORLANDO, FLA.—Clarke Berdan has joined the staff of Merrill Lynch, Pierce, Fenner & Beane, 100 East Robinson Avenue.

Securities Now in Registration

• INDICATES ADDITIONS SINCE PREVIOUS ISSUE

• **American Bakers Cooperative, Inc., Ithaca, N. Y.**
Feb. 9 (letter of notification) 200 shares of common stock (par $100). Price, par. **Underwriting**—None. Working capital.

American Box Board Co. (2/21)
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**—Offered at $12 per share to holders of United Light common of record at the close of business Feb. 7, on the basis of one share of American Light common for each five shares of United Light common. Rights will expire March 9.

Animal Foundation, Inc., Buffalo, N. Y.
Feb. 3 filed 5,000 shares of 6% cumulative participating non-convertible preferred stock (par $100) and 1,000 shares of common stock (no par value). **Offering**—To be publicly offered in units of five shares of preferred stock and one share of common stock. **Price**—$100 per unit. **Underwriter**—None. **Proceeds** — To purchase property and equipment and to provide working capital.

Beneficial Industrial Loan Corp. (2/24)
Feb. 4 filed $20,000,000 15-year sinking fund debentures due Feb. 1, 1964. **Underwriters**—Eastman, Dillon & Co., New York, will head a group. **Price**—To be supplied by amendment. **Proceeds**—To reduce outstanding bank loans maturing over the next several months.

• **Big Tree Timber Co., Samoa, Calif.**
Feb. 9 (letter of notification) 2,950 shares of Series B common stock. Price—$100 per share. No underwriter. To purchase machinery, to make timber contract payments, to pay salaries and wages, and for other operating requirements.

• **Biltmore Beach Club, Inc., Massapequa, L. I.**
Feb. 11 (letter of notification) $12,000 10-year 2% (non-convertible) notes. Price, par. **Underwriting**—None. Construct new club.

• **Bureau of National Affairs, Inc., Wash., D. C.**
Jan. 26 (letter of notification) 1,000 shares of common stock. Price $15 per share. No underwriter. For current operating expenses or other obligations.

California Electric Power Co.
Jan. 24 filed 100,000 shares of 5½% convertible preference stock, 1949 series ($20 par). **Underwriter**—William R. Staats Co., San Francisco, Calif. **Proceeds**—To finance property additions and betterments.

California Electric Power Co. (2/23)
Jan. 28 filed $3,000,000 of 3% first mortgage bonds, due 1978. **Underwriters**—Names to be determined through competitive bidding. Probable bidders include Halsey, Stuart & Co. Inc.; Shields & Co.; Kidder, Peabody & Co.; Blyth & Co., Inc. **Proceeds**—To retire $500,000 of bank notes and to finance part of the construction program of the company and its subsidiaries. **Bids**—Bids for purchase of bonds will be received by company at Bankers Trust Co., 16 Wall Street, New York, up to 11:30 a.m. (EST) Feb. 23.

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.

• **Casa De Paga Gold Co., Seattle, Wash.**
Feb. 8 (letter of notification) $50,000 of promissory notes with which 50,000 shares of corporation's common stock will be sold. No underwriter. To purchase machinery, supplies and pay obligations.

Central Maine Power Co. (3/1)
Jan. 10 (by amendment) 286,496 shares ($10 par) common stock. **Offering**—Company's common and 6% preferred stockholders have preemptive rights to purchase such stock. New England Public Service Co., which holds 77.8% of common stock, will waive its preemptive right to purchase 219,196 shares of the total issue, making such shares available for immediate sale to underwriter. **Underwriter**—Harriman Ripley & Co. **Proceeds**—To reduce outstanding short-term notes. Expected first week in March.

• **Central Maine Power Co., Augusta, Me.**
Feb. 11 filed $5,000,000 30-year first and general mortgage bonds, series R. **Underwriters**—Names to be determined through competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Salomon Bros. & Hutzler; Kidder, Peabody & Co.; Harriman Ripley & Co.; Merrill Lynch, Pierce, Fenner & Beane and White, Weld & Co. (jointly); Shields & Co.; Otis & Co. **Proceeds**—To reduce notes payable to The First National Bank of Boston.

• **Chemical Crops, Inc., Mitchell, Neb.**
Feb. 10 (letter of notification) 7,100 shares of common stock. **Price**—$5 per share. No underwriter. For operating capital.

• **Cleveland (Ohio) Broadcasting Inc.**
Feb. 8 (letter of notification) 1,500 shares (no par) common stock. To be sold at $150 per share. No underwriter. For the development, capital expenses and operating expenses of the corporation's existing FM radio station and its proposed AM radio station.

• **Cleveland Electric Illuminating Co.**
Feb. 15 filed 464,912 shares of common stock (no par). **Underwriting**—None. **Offering**—To be offered to holders of outstanding common shares on the basis of one share of new stock for each five held at the close of business March 14. In addition company expects to offer shareholders the right to purchase at the same price any shares not taken on the original offering to stockholders. Rights will expire about April 5. **Proceeds**—To pay off loans and for construction.

• **Colorado Milling & Elevator Co., Denver, Colo.**
Feb. 10 (letter of notification) 500 shares ($1 par) common, to be sold at market on behalf of Thomas E. Murchison. **Underwriter**—Paul H. Davis & Co., Chicago.

• **Columbia Gas System, Inc., New York (3/15)**
Feb. 14 filed $20,000,000 25-year debentures. **Underwriters**—Names to be determined through competitive bidding. Probable bidders: Morgan Stanley & Co.; Halsey, Stuart & Co. Inc.; Merrill Lynch, Pierce, Fenner & Beane and White, Weld & Co. (jointly); Lehman Brothers, Goldman, Sachs & Co. and Union Securities Corp. (jointly); Salomon Bros. & Hutzler, The First Boston Corp. **Proceeds**—To be used to finance part of the 1949 construction program. Bids expected to be opened on or about March 15.

Connecticut Light & Power Co.
Jan. 31 filed an alternative to issue either 163,133 shares (no par) common stock at $50 per share or $8,156,650 of 3% convertible debentures, due 1959. **Offering**—Stockholders will be allowed to purchase, for each eight shares held, either one share of common at $50 or $50 of debentures for $50 in cash. Unsubscribed shares will be reserved for conversion of debentures into common stock. **Underwriters**—Putnam & Co.; Chas. W. Scranton & Co. and Estabrook & Co. will head a group of underwriters in purchasing the unsubscribed debentures. **Proceeds**—To be applied to the payment of $2,570,000 of bank borrowings and to future construction outlays. Expected about Feb. 18, with rights expiring March 4.

• **Continental Engineering Co. Carrizozo, N. M.**
Jan. 28 (letter of notification) 500,000 shares of common stock (par 50c). Price par. **Underwriter**—William C. Hitchman Co., New York. For equipment and expenses.

Delaware Power & Light Co. (3/3)
Jan. 31 filed 232,520 shares ($13.50 par) common stock. **Offering**—To be offered to common stockholders of record Feb. 28 in ratio of one new share for each five shares held. Rights will expire March 21. **Underwriting**—Unsubscribed shares will be sold at competitive bidding. 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; Otis & Co. **Proceeds**—For construction. Expected March 3.

• **Detroit & Cleveland Navigation Co., Detroit**
Feb. 8 (letter of notification) 15,000 shares of common ($5 par). To be offered to stockholders. No underwriter. To reimburse the issuer for shares purchased by the issuer.

• **Emery Hill Stores Co., Greenville, S. C.**
Feb. 8 (letter of notification) 5,000 shares of common stock. Present stockholders, other than the management, will be given until March 15, 1949, to buy at $5 per share, one share for each four shares now held. **Underwriter**—Frank S. Smith & Co., Inc., Columbia, S. C. For working capital.

• **Eureka, Inc., Central City, Colo.**
Feb. 11 (letter of notification) 8,375 shares of common stock. **Price**—$1 per share. No underwriter. For purchase of truck and mining equipment and part for salary payment.

Farnsworth Television & Radio Corp.
Jan. 12 filed 270,000 shares ($1 par) common stock. **Underwriter** — The First Guardian Securities Corp., New York. **Proceeds** — To pay past due debts, to reestablish the corporation's credit position and for general corporate purposes. Offering has been indefinitely postponed. International Telephone & Telegraph Corp. directors on Feb. 9 voted to enter the television field and expand in manufacture of other radio consumer goods through acquisition of Farnsworth Television & Radio Corp. An agreement has been reached in principle for an exchange of one share of I. T. & T. stock for each 12 of the 1,680,568 shares of Farnsworth stock outstanding.

• **Fuller & Smith & Ross Inc., Cleveland, Ohio**
Feb. 9 (letter of notification) 1,500 shares common stock (no par). Price—$153.60 per share. No underwriter. To increase working capital.

Gauley Mountain Coal Co., New York
Jan. 19, filed 10,666 shares of capital stock, of which 1,381 shares will be sold in behalf of the company and 9,285 shares will be sold by Norgreen Associates Inc. and others. **Underwriting** — None. **Proceeds** — Company will use its proceeds for additional working capital.

• **Geneva (Ill.) Electronic & Television Corp.**
Feb. 9 (letter of notification) 54,370 shares class A ($5 par) stock and 108,740 shares class B stock (10¢ par). To be offered in units of one share of class A and two shares of class B at $5.20 per unit. No underwriter. To purchase 11,664 shares of Continental Electric Co. common stock and for general corporate purposes.

• **Hall Building Co., Minneapolis, Minn.**
Feb. 11 (letter of notification) $23,500 4% first mortgage bonds and 500 shares (no par) common (to be sold at $100 per share). No underwriter. For addition and improvements to one of its present buildings.

• **Harrington, Righter & Parsons, Inc., N. Y.**
Feb. 10 (letter of notification) $200,000 10-year (non-convertible) notes, due Feb. 1, 1959, and 9,200 shares of common stock (par $1). **Underwriting**—None. Of the total $150,000 of notes and 4,500 common shares are offered in units of $1,000 of notes and 30 shares at $1,030 per unit and the balance of $50,000 notes and 4,700 shares will be purchased by three individuals at par. Pay salaries, corporate expenses, etc.

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.

• **Hastings (Mich.) Manufacturing Co.**
Feb. 9 (letter of notification) 780 shares ($2 par) common stock. **Underwriter**—First of Michigan Corp. Proceeds to selling stockholder.

• **Helicopter Air Service, Inc., Chicago, Ill.**
Feb. 11 (letter of notification) 30,000 shares (no par) common. **Price**—$3 per share. No underwriter. For working capital to be used for general corporate purposes.

Hotelevision, Inc., L. I. City (2/23-25)
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.

• **Hub Loan Co., Jersey City, N. J.**
Feb. 8 (letter of notification) $74,000 4½% debentures due July 15, 1974; 1,000 shares of 5% preferred stock (par $10) and 500 shares of common stock (par $10). The debentures will be offered at par, the preferred at $10.50 per share and the common at $11 per share. **Underwriting**—None. Working capital.

• **Idaho Consolidated Mines, Inc., Seattle, Wash.**
Feb. 4 (letter of notification) 187,500 shares of common stock. **Price**—50¢ per share. No underwriter. For exploration and development of properties and purchase of equipment.

Las Vegas (Nev.) Thoroughbred Racing Assn.
Jan. 25 filed 500,000 shares 6% cumulative preferred stock (par $5) and 500,000 shares common stock (no par). **Underwriting**—None. **Offering**—To be sold in units of one share of each at $5 per unit. **Proceeds**—To purchase land and construct racing plant and for working capital.

• **Macoil Corp., Paramount, Calif.**
Feb. 7 (letter of notification) 1,000 shares of common stock (par $1). Price, market. No underwriter. Proceeds to selling stockholder.

Macoil Corp., Paramount, Calif.
Jan. 26 (letter of notification) 1,000 shares ($1 par) common stock being sold by a director at over-the-counter market price. **Underwriter** — Dean Witter & Co., San Francisco, Calif.

Magma Copper Co., New York
Jan. 25 filed 204,000 shares of common stock (par $10). **Offering**—Offered for subscription by stockholders of record Feb. 15 in ratio of one new share for each two shares held at $16.75 per share. Rights expire March 8. Lazard Freres & Co. and Newmont Mining Corp. have agreed to purchase any unsubscribed shares, but have no intention of making any public offering thereof. **Proceeds**—Provide funds with which company may increase its investment in San Manuel Copper Corp., a subsidiary.

NEW ISSUE CALENDAR

February 21, 1949
American Box Board Co. — Bonds
Major Television Corp. — Common
Trad Television Corp. — Common

February 23, 1949
California Electric Power Co., 11:30 a.m. (EST) — Bonds
Hotelevision Inc. — Class A Stock
Rockland Light & Power Co., 2 p.m. (EST) — Bonds

February 24, 1949
Beneficial Industrial Loan Corp. — Debentures
Northern Pacific RR., Noon (EST) — Equip. Tr. Ctfs.

February 25, 1949
Southwestern Public Service Co. — Common

February 28, 1949
Worcester Gas Light Co. — Bonds

March 1, 1949
Central Maine Power Co. — Common
Pepsi-Cola Bottling Co. of Wash. (D. C.) — Common

March 2, 1949
New York Central RR. — Equip. Trust Ctfs.

March 3, 1949
Delaware & Hudson RR. Corp. — Equip. Trust Ctfs.
Delaware Power & Light Co. — Common

March 7, 1949
Minnesota Power & Light Co. — Bonds
Northern States Power Co. (Wis.) — Bonds

March 8, 1949
Missouri-Kansas-Texas RR. — Equip. Trust Ctfs.
West Penn Power Co. — Bonds, Pref.

March 9, 1949
Southern Ry. — Equip. Trust Ctfs.

March 10, 1949
Staten Island Edison Corp. — Bonds

March 15, 1949
Columbia Gas System, Inc. — Debentures

March 21, 1949
Eastern Gas & Fuel Associates — Bonds

March 22, 1949
Gulf Power Co. — Bonds
New England Telephone & Telegraph — Bonds

March 24, 1949
Staten Island Edison Corp. — Preferred

● **Magnavox Co., Fort Wayne, Ind.**
Feb. 7 (letter of notification) 3,500 shares ($1 par) common stock. Price at market. **Underwriter** — Cruttenden & Co., Chicago. Securities being sold solely for benefit of Richard A. O'Connor.

Major Television Corp., New York (2/21)
Jan. 28 (letter of notification) 299,600 shares of common stock (par 25¢). **Underwriter**—Mencher & Co., New York. **Price**—$1 per share. To finance manufacture and sale of television receivers and cathode ray tubes.

● **Mineral Resources Corp., Santa Fe, N. M.**
Jan. 26 (letter of notification) 250,000 shares of common stock. To be sold at $1 per share. No underwriter. To continue development, to purchase equipment and for operating expenses.

● **Mineralized Products Inc., West Palm Beach, Florida**
Feb. 11 (letter of notification) 100,000 shares ($1 par) capital stock. **Price**—$2.50 per share. No underwriter. For equipment, buildings and working capital.

Minnesota Power & Light Co., Duluth, Minn.
Jan. 27 (letter of notification) 59,090 shares (no par) common stock. To be sold to stockholders of record Feb. 3, 1949 on basis of one new share for each 11 shares held. American Power & Light Co. (parent) will exercise its right to purchase 50,000 shares. **Price**—$21 per share. **Underwriter** — None. **Proceeds** — For construction and other purposes.

Minnesota Power & Light Co. (3/7)
Jan. 28 filed $4,000,000 first mortgage bonds, due 1979. **Underwriters**—Names to be determined through competitive bidding. Probable bidders: Shields & Co.; The First Boston Corp.; Halsey, Stuart & Co. Inc.; Lehman Brothers; Kidder, Peabody & Co.; Glore, Forgan & Co.; Harriman Ripley & Co.; Otis & Co. **Proceeds**—For construction or to pay off short-term bank borrowings. Expected about March 7.

● **Navajo Petroleum Co., Glenwood Springs, Colo.**
Feb. 7 (letter of notification) 49,700 shares of common. **Price**—$1 per share. No underwriter. For leases, overhead, and development of property.

● **New York State Electric & Gas Corp., Ithaca, New York**
Feb. 11 filed 880,000 shares ($25 par) common stock held by General Public Utilities Corp., parent. **Offering**—Shares will be offered to stockholders of G.P.U. at the rate of one share for each 10 shares of G.P.U. common held. **Underwriters**—A fee is to be paid by G.P.U. to participating dealers who have been instrumental in obtaining subscriptions. The First Boston Corp.; Lehman Brothers; Wertheim & Co. and Merrill Lynch, Pierce, Fenner & Beane, will act as dealer managers.

Northern States Power Co. (Wis.) (3/7)
Jan. 28 filed $10,000,000 first mortgage bonds, due 1979. **Underwriters**—Names to be determined through competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Kidder, Peabody & Co. and White, Weld & Co. (jointly); Glore, Forgan & Co.; The First Boston Corp.; Blyth & Co., Inc.; Lehman Brothers and Riter & Co. (jointly); Harris, Hall & Co. (Inc.); Merrill Lynch, Pierce, Fenner & Beane; Harriman, Ripley & Co. and Union Securities Corp. (jointly). **Proceeds**—For construction or to pay off temporary borrowings. Expected about March 7.

Pacific Gas & Electric Co.
Jan. 28 filed 754,038 shares of common stock (par $25). **Offering**—To be offered at par to stockholders of record Feb. 25 at the rate of one new share for each 10 shares held. Rights expire April 8. **Underwriting**—None. **Proceeds**—For extensions, additions, etc.

● **Pathe Industries, Inc., Cleveland, O.**
Jan. 27 (letter of notification) 100,000 shares ($1 par) common stock. To be sold at market. **Underwriter**—Otis & Co., Cleveland. For working capital. Indefinite.

Pepsi-Cola Bottling Co. of Wash., D. C. (3/1)
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.

● **Radio Station WQQW, Inc., Washington, D. C.**
Feb. 3 (letter of notification) 2,000 shares of Class A common. To be offered at $25 per share first to each of the present common stockholders on a pro rata basis. No underwriter. For additional operating capital.

Rockland Light & Power Co. (2/23)
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); Carl M. Loeb, Rhoades & Co. **Proceeds**—For construction and the retirement of bank borrowings. **Bids**—Bids for purchase of bonds will be received at office of Bankers Trust Co., 16 Wall Street, New York, up to 2 p.m. (EST) Feb. 23.

● **Sound State Metals, Inc., Reno, Nev.**
Feb. 10 (letter of notification) 1,000,000 shares of capital stock. **Price**—25 cents per share. No underwriter. To equip and develop mining property.

● **Southeastern Factors Corp., Charlotte, N. C.**
Feb. 11 (letter of notification) 1,400 shares of common stock (par $100). Price, par. No underwriter. For working capital.

Southwestern Public Service Co. (2/25)
Feb. 3 filed 112,486 shares of common stock (par $1). To be offered to stockholders at the rate of one new share for each 11 shares held. **Price**—By amendment. **Underwriter**—Dillon, Read & Co. Inc. will head a group to purchase the unsubscribed shares. **Proceeds**—For construction and to repay bank loans. Expected about Feb. 25 with rights expiring March 8.

● **Standard-Thompson Corp., Dayton, O.**
Feb. 11 (letter of notification) 31,000 shares ($1 par) common, to be offered at market by Reginald N. Webster and Lillian M. Webster. No underwriter.

● **Stella Mining Co., Seattle, Wash.**
Feb. 7 (letter of notification) 2,989,001 shares of common stock, of which 680,000 shares will be sold to public at 10 cents per share and balance will be issued for money previously advanced for property development. No underwriter. To liquidate promissory notes and cash advanced, to acquire outstanding stock of the Mammoth Mines Corp. and for further development of properties.

● **Tiffin Art Metal Co., Tiffin, O.**
Feb. 8 (letter of notification) $200,000 15-year 4½% sinking fund debentures, due Feb. 1, 1964. **Underwriter**—The Ohio Co., Columbus, Ohio. To construct warehouse, pay off bank loans and provide additional working capital.

● **Trad Television Corp., Asbury Park, N.J. (2/21)**
Feb. 11 (letter of notification) 1,200,000 shares of common stock (par 1¢). **Price**—25c per share. **Underwriter**—Tellier & Co., New York. Organizational expense, purchase of component parts required for manufacture of projection receivers, working capital.

Transcontinental & Western Air, Inc.
Jan. 28 filed 404,112 shs. ($5 par) com. stock. **Offering**—to be offered stockholders of record Feb. 16 at rate of one-fifth new share for each share held. Hughes Tool Co. (owner of 74% of outstanding shares) will exercise subscription rights to purchase 297,304 shares. Rights are expected to expire on or about March 2. **Underwriter**—Merrill Lynch, Pierce, Fenner & Beane, will head a group of underwriters purchasing any unsubscribed shares of remaining 106,808 shares not taken by stockholders. **Proceeds**—For general funds.

● **Utah Phosphate Co., Clearfield, Utah**
Feb. 7 (letter of notification) 55,415 shares ($1 par) common. **Price**—$1.50 per share. No underwriter. To install equipment.

● **Walthall Natural Gas Co., Inc., Tylertown, Mississippi**
Feb. 4 (letter of notification) 6,500 shares ($25 par) 5% preferred and 26,000 shares ($1 par) common. To be offered in units of one preferred and two common at $30 per unit. **Underwriter**—T. J. Feibleman & Co., New Orleans, La. To construct gas line and natural gas system; for working capital and contingencies.

● **Water Well Journal, Inc., Chicago, Ill.**
Jan. 28 (letter of notification) 1,000 shares of common stock (par $100). Price par. No underwriter. To organize a publication.

● **West Indies Sugar Corp., New York**
Feb. 14 filed 74,880 shares ($1 par) common stock. **Offering**—To be offered in exchange for 16,000 shares ($100 par) common stock of Compania Azucarera Boca Chica, C or A. **Underwriting**—None.

● **West Penn Power Co., Pittsburgh, Pa. (3/8)**
Feb. 11 filed $10,000,000 30-year first mortgage bonds, series N, 50,000 shares of preferred stock, series C ($100 par), and 70,000 shares (no par) common. **Underwriters**—Bonds and preferred to be sold at competitive bidding. Probable bidders: Halsey, Stuart & Co Inc. (bonds only); Kidder, Peabody & Co.; Lehman Brothers; The First Boston Corp.; W. C. Langley & Co.; Smith, Barney & Co.; Harriman Ripley & Co. Common stock will be sold to West Penn Electric Co. (parent) and to public holders of outstanding common at $28.50 per share. **Proceeds**—To pay off bank loans and to finance construction. Bids for bonds and preferred about March 8.

● **Wisconsin Electric Power Co., Milwaukee, Wis.**
Feb. 14 filed $10,000,000 first mortgage bonds, due 1979, and 266,093 shares ($10 par) common stock. **Underwriters**—Bonds will be sold at competitive bidding. Probable bidders include 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. Stock will be offered to existing holders at the rate of one share for each 10 shares held, plus additional shares not taken by subscription by other stockholders. Lehman Brothers and Robert W. Baird & Co. are co-managers of a group of dealers which will solicit subscriptions. **Proceeds**—To reimburse the company's treasury for capital expenditures.

Worcester Gas Light Co. (2/28)
Jan. 26 filed $2,150,000 first mortgage sinking fund bonds, series A due 1969. **Underwriters**—Names to be determined through competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Kidder, Peabody & Co. **Proceeds** — To prepay short-term notes, refund 3½% first mortgage bonds due 1954 and pay short-term promissory note. Expected Feb. 28.

Prospective Offerings

● **American Telephone & Telegraph Co.**
Feb. 16 directors voted to recommend that the stockholders at their annual meeting April 20 authorize a new issue of convertible debentures which would be offered pro rata to stockholders. The amount is to be determined later but is not to exceed $100 of convertible debentures for each six shares of stock held. On the basis of the number of shares outstanding at Feb. 15, 1949, the amount of the issue would be approximately $391,000,000 if the maximum offering of $100 of debentures for each six shares of stock outstanding is made. It is expected that proxies for the meeting will be mailed early in March. Proceeds from the sale of the debentures and from conversions thereof into stock would be used to provide funds for extensions, additions and improvements to the plant of A. T. & T. and its subsidiary and associated companies, and for general corporate purposes.

The new debentures would be dated June 20, 1949. It is contemplated that they would bear interest at a rate of not more than 3½%, would mature not later than June 20, 1964, and would be convertible into A. T. & T. stock at a conversion price or prices not exceeding $150 per share. It is expected that final decision as to amount and terms of the issue will be announced at the annual meeting on April 20. If stockholder approval is granted, company expects that assignable warrants to subscribe to the convertible debentures at their face amount will be sent to stockholders on or about May 15, 1949, following registration of the issue with the SEC.

● **Arkansas Power & Light Co.**
Feb. 14 company asked SEC for authority to change its charter to increase its common stock capital and unsecured indebtedness. Company wants to increase its authorized ($12.50 par) common stock from 2,000,000 to 3,000,000 shares. The amount of unsecured indebtedness which may be issued under the present charter is limited to 10% of the sum of secured indebtedness, capital stock and surplus. Company would like to eliminate this 10% limitation on unsecured indebtedness which would mature in more than 10 years.

Company's parent, Electric Power & Light Corp., has agreed to vote its holdings of 1,780,000 shares of outstanding Arkansas common in favor of the proposed amendment. If company's preferred holders adopt these amendments, company plans to sell later this year $4,000,000 of common stock to Electric Power and to market publicly about $8,300,000 in long-term debentures. Proceeds would be used for construction.

Bell Telephone Co. of Pa.
Jan. 3 company filed with the Pennsylvania Utility Commission an application for authority to issue $25,000,000 25-year debentures on a competitive basis. Proceeds will be applied to the payment of advances from the American Telephone & Telegraph Co. for expenditures on additions and improvements to plant. Probable bidders: Morgan Stanley & Co.; Halsey, Stuart & Co. Inc.; The First Boston Corp.; White, Weld & Co. and Union Securities Corp. (jointly).

● **Bohack (H. C.) Co., Inc.**
Feb. 9 reported company arranging new long-term financing to take care of capital outlays and strengthen working capital. May be arranged privately.

Cambridge Electric Light Co.
Jan. 10 The Massachusetts Department of Public Utilities authorized company to issue $2,750,000 25-year notes, the interest rate to be determined through competitive bidding. Proceeds will be used to retire $1,750,000 bank notes and to restore replacement funds borrowed to fi-

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nance plant improvements. Probable bidders: Halsey, Stuart & Co. Inc.; Harriman Ripley & Co.; The First Boston Corp.; Kidder, Peabody & Co.; Otis & Co.

Chesapeake & Ohio Ry.
Feb. 1 reported planning sale of an additional block of equipment trust certificates early in March. Probable bidders: Halsey, Stuart & Co. Inc.; Harriman Ripley & Co. and Lehman Brothers (jointly) Harris, Hall & Co. (Inc.); Salomon Bros. & Hutzler.

● **Colorado Fuel & Iron Corp.**
March 21, stockholders will consider issuing approximately $12,000,000 first mortgage bonds.

Delaware & Hudson RR. Corp. (3/3)
Feb. 1 company asked authority of ICC to issue $4,800,000 of equipment certificates to help finance the purchase of 29 diesel locomotives and 600 freight cars which are expected to cost $6,492,925. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Harriman Ripley & Co. and Lehman Brothers (jointly); Harris Hall & Co. (Inc.). Date for opening bids expected to be March 3.

● **Detroit Edison Co.**
March 15 stockholders will vote on increasing the authorized capital stock from 10,000,000 to 15,000,000 shares (par $20). This authority is requested by the management in order that company may have available for issue not only enough stock for the probable conversion into capital stock of the recent issue of $46,641,400 of debentures, but also that it may have stock available for sale, if necessary, to carry on the $150,000,000 plant expansion program. Company expects to rely on capital stock and bond financing for its near-term capital requirements and has no plans for issuing preferred stock.

Eastern Gas & Fuel Associates (3/21)
Jan. 28 company asked SEC permission to sell competitively $12,000,000 25-year bonds, the proceeds to provide funds for its construction program. Probable bidders: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc.; White, Weld & Co. and Kidder, Peabody & Co. (jointly). Expected about March 21.

Florida East Coast Ry.
The company has asked the ICC for permission to sell $2,060,000 equipment trust certificates, the proceeds to be used for the purchase of 10 new diesel electric locomotives, costing about 2,761,846. Probable bidders: Halsey, Stuart & Co. Inc., Salomon Bros. & Hutzler, Harris, Hall & Co. (Inc.), Harriman Ripley & Co. and Lehman Brothers (jointly).

Florida Power Corp.
The stockholders at their annual meeting March 31 will consider proposed amendments to the certificate of reincorporation to provide for increasing the authorized preferred stock from 80,000 to 120,000 shares; increasing the authorized common stock from 1,210,000 to 1,600,000 shares and restricting the issuance of additional indebtedness maturing more than 12 months, or additional shares of preferred stock unless after such issuance the aggregate amount thereof shall be less than 75% of the total capitalization. Traditional underwriters of stocks: Kidder, Peabody & Co.; Merrill Lynch, Pierce, Fenner & Beane.

Foote Mineral Co.
March 29 stockholders will vote on increasing authorized common stock from 25,000 shares to 100,000 shares, par $2.50. Disposition of additional shares not decided upon. No financing said to be imminent. Traditional underwriter: Estabrook & Co.

Gulf Power Co., Pensacola, Fla. (3/22)
Feb. 7 asked SEC permission to sell competitively $2,500,000 30-year first mortgage bonds. Probable bidders: Equitable Securities Corp.; Halsey, Stuart & Co.; Otis & Co.; Kidder, Peabody & Co. Expected about March 22.

Gulf States Utilities Co.
Jan. 14 reported company expects to raise additional new money through sale of from $6,000,000 to $7,000,000 in new mortgage bonds. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler and Union Securities Corp. (jointly); Lehman Brothers; Merrill Lynch, Pierce, Fenner & Beane and White, Weld & Co. (jointly); Stone & Webster Securities Corp.

Illinois Central RR.
Jan. 28 reported company planning sale of $6,800,000 equipment trust ctfs. in March. Probable bidders: Halsey, Stuart & Co. Inc.; Harriman Ripley & Co. and Lehman Brothers (jointly); Harris Hall & Co. (Inc.); The First Boston Corp.; Salomon Bros. & Hutzler.

● **Hollingsworth & Whitney Co., Boston, Mass.**
Feb. 15, company announced that it is contemplating the issuance of $8,500,000 20-year sinking fund debentures and the sale of 61,510 additional shares of common stock, the net proceeds of which are to be used to pay for its Mobile (Ala.) expansion program. It is estimated that a further expenditure of $10,500,000 will be required for its completion. Probable underwriters: Harriman Ripley & Co. and Paine, Webber, Jackson & Curtis.

● **Kansas Power & Light Co.**
Feb. 15 reported banking groups are being formed to bid for a probable offering by company of $10,000,000 in new money bonds. Offering expected late in March or early in April. Groups likely to compete include: Halsey, Stuart & Co. Inc.; White, Weld & Co.; Glore, Forgan & Co.; Equitable Securities Corp.; Blyth & Co., Inc.

Madison Gas & Electric Co.
New financing will be necessary to provide funds for contemplated plant additions aggregating about $3,000,000, according to the annual report, but the form and amount of the financing have not yet been determined. Of said amount, approximately $1,900,000 will be spent in 1948 and the remainder in 1949. Probable bidders for common stock will include Otis & Co.

Michigan Consolidated Gas Co.
Feb. 1 reported company is planning sale of $14,000,000 in new bonds and $7,000,000 in preferred stock. Probable bidders: White, Weld & Co. and Salomon Bros. & Hutzler (jointly); Glore, Forgan & Co. and W. C. Langley & Co. (jointly); Lehman Bros.; Harris, Hall & Co. (Inc.); Halsey, Stuart & Co. Inc. (bonds only); Harriman Ripley & Co., Inc.; Dillon, Read & Co.; First Boston Corp.

● **Missouri-Kansas-Texas RR. (3/8)**
Feb. 15 company asked ICC for authority to issue $2,550,000 equipment trust certificates. The proceeds will be used in connection with a $3,320,035 purchase of 500 freight cars and two diesel locomotives. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Harriman Ripley & Co. and Lehman Brothers (jointly); Harris, Hall & Co. (Inc.). Bids expected March 8.

New England Teleph. & Telegraph Co. (3/22)
Jan. 18 directors authorized the preparation of a registration statement covering $35,000,000 25-year debentures, to be sold at competitive bidding in March. Proceeds will be used to redeem on June 1, 1949, $35,000,000 outstanding first mortgage 5s. Probable bidders: Morgan Stanley & Co.; Halsey, Stuart & Co. Inc. Expected company will open bids March 22.

● **New York Central RR. (3/2)**
Feb. 9 reported company expects to receive bids March 2 for sale of $12,300,000 equipment trust certificates. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Harriman Ripley & Co. and Lehman Brothers (jointly); Salomon Bros. & Hutzler.

Northern Pacific Railway (2/24)
Company has issued invitations for bids to be received before noon (EST) Feb. 24 for $6,000,000 equipment trust certificates, to be dated March 15, 1949, and to matures 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.; Lee Higginson Corp.

● **Ohio Public Service Co.**
The company Feb. 11 asked the SEC for permission to sell an additional 361,840 shares of common stock and $10,000,000 of 30-year first mortgage bonds. Company's parent, Cities Service Co., has also applied to the commission for authority to sell 638,160 shares of its Ohio Public Service common of which it owns all outstanding shares of 2,638,160. Following approval of the SEC, the common stock and bond offerings would be registered for sale by Ohio Public Service. Underwriters would be invited to submit bids on both the stock and bonds to be offered. Probable bidders: Halsey, Stuart & Co. Inc. (bonds only); Blyth & Co., Inc.; Merrill Lynch, Pierce, Fenner & Beane and Kidder Peabody & Co. (jointly); Otis & Co.

● **Pacific Lighting Corp.**
Feb. 12 reported company plans sale of 100,000 shares new preferred stock (par $100). Blyth & Co., Inc. will probably be underwriter.

● **Pacific Telephone & Telegraph Co.**
Feb. 9 company was granted authorization by the California PUC to issue 828,920 shares ($100 par) common for sale to present shareholders. The company intends to offer the new stock in the ratio of one new share for each five of common or preferred. Proceeds of the financing will be used to repay bank loans and provide for construction.

Southern Ry. (3/9)
Bids for the purchase of $11,850,000 equipment trust certificates will be received March 9. Probable bidders: Halsey, Stuart & Co. Inc.; Harriman Ripley & Co. and Lehman Brothers (jointly); The First Boston Corp.; Salomon Bros. & Hutzler.

Staten Island Edison Corp. (3/10-24)
Jan. 28 New York P. S. Commission authorized corporation to issue $2,750,000 30-year first mortgage bonds and $4,000,000 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.; Otis & Co. On preferred: W. C. Langley & Co.; Kidder, Peabody & Co.; Stone & Webster Securities Corp. and White, Weld & Co. (jointly); Lehman Brothers; The First Boston Corp. Bids on bonds are to be received by March 10 and on the preferred stock by March 24.

● **Thompson's Industries, Inc.**
The stockholders of Thompson's Spa, Inc. (controlled by Sheraton Corp of America) have authorized the issuance of 120,000 shares ($1 par) convertible preferred, also an increase in the authorized common to 2,100,000 shares from 300,000 to take care of conversion privileges of the new preferred. The new preferred is to be offered at not less than $15 a share. The name of Thompson's Spa, Inc. has been changed to Thompson's Industries, Inc.

Utah Power & Light Co.
Jan. 21 reported company is expected to sell $3,000,000 bonds in April to finance its plant expansion. Probable bidders: Lehman Brothers and Bear, Stearns & Co. (jointly); Halsey, Stuart & Co. Inc.; White, Weld & Co.; Harriman Ripley & Co., Inc.; Salomon Bros. & Hutzler; The First Boston Corp.; Blyth & Co., Inc.; Otis & Co. Company is expected to raise new money through sale, probably in May, of 148,000 additional shares of common stock. The stock will first be offered for subscription by present stockholders. Probable bidders: The First Boston Corp.; Kidder, Peabody & Co. and Merrill Lynch, Pierce, Fenner & Beane (jointly); Harriman Ripley & Co.

● **Vacuum Foods Corp.**
Feb. 9 stockholders authorized issuance of not to exceed $2,000,000 of funded debt (to be placed privately) and an increase in the authorized common stock by 110,000 shares, the latter to be sold at not less than $10 per share. Net proceeds are to be used to retire $1,100,000 demand notes held by Orange Concentrates Associates, Inc. and for plant expansion and working capital.

● **Virginia Electric & Power Co.**
Feb. 18 directors scheduled to discuss plans for sale of $20,000,000 new bonds. Competitive bidding is expected around June 1. Probable bidders: White Weld & Co.; Union Securities Corp., and Kuhn, Loeb & Co. (jointly); Stone & Webster Securities Corp.; Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Merrill Lynch, Pierce, Fenner & Beane and Hallgarten & Co. (jointly); Glore, Forgan & Co. and W. C. Langley & Co. (jointly).

Our Reporter's Report

The feud between those whose business is marketing securities and those institutional investors who have the task of placing funds on a basis to yield satisfactory returns apparently has reached a new impasse.

Prospective buyers, it develops, just won't be moved in their views of what the return should be on new issues of varying ratings. And bankers, by the same token, are still inclined to stand by their judgment of what pervailing conditions in the market call for in the way of yields on new securities.

This struggle has been going on with occasional intermissions for many months and as yet does not appear to have definitely proved anything beyond the obstinacy of both factions.

The bankers go right on paying what they think the market warrants for new issues, and the prospective buyers are guided by their own lights on whether they will or will not buy at such figures.

Right now these portfolio managers who constitute the vast bulk of the market for top-grade investment bonds appear to be especially adamant judging by recent experiences in new offerings.

The bulk of the Consolidated Edison Co.'s $50 million of new first and refunding bonds, brought out a fortnight ago priced at 102.399 to yield approximately 2.88% are still in the syndicate's hands for example.

Now the Duke Power Issue

But quite evidently this did not deter bankers from paying what they considered a resonable price, under going conditions, for Duke Power Co.'s $40 million of new first and refunding bonds, due in 30 years.

Their action, however, gives indication of having brought another "worker" into the underwriters' hands, judging by current reports. The successful group paid the company 100.803 for a 2⅞% coupon, and will reoffer at 101.31 to yield 2.81%.

Well, on a 2.85% basis, so the story goes, the issue would have moved. But on the basis fixed, it looks decidedly sticky despite the triple A rating which it carries.

Yet the bid of the runners-up was only 37 cents lower per $100 piece while the lowest of four bids was but 66 cents per $100 off the best, indicating pretty much the same line of thinking.

High Grade Market

Some observers, perhaps the majority, feel that the high-grade corporate market has achieved levels which are high enough, all things considered. They point to an average yield of around 2.80% for triple and double A bonds.

These dealers and traders contend that when institutions look around in other directions they reach the conclusion that the yields offered are not liberal enough.

They point out that top-grade corporates have reached a level where the yield is only 40 to 45 basis points, or thereabouts, above Treasuries, and they wonder if this isn't too thin a margin.

It happens once in a while that bankers go through the task of calculating a deal, shaping up their bids accordingly, and succeed in capturing the issue only to have their efforts go for naught for some unforeseen reason.

That was the case when three groups bid for the $15 million New Orleans Union Passenger Terminal revenue bonds. The high bidder offered a $42,000 premium for a combination of interest rates and maturities, or a net interest cost basis of 2.5725%.

Convinced that it had won the loan the apparently successful group proceeded with reoffering on a 1.10% to 2.70% basis, subject, of course, to award. But then all bids were rejected when a suit was filed contending the issue is illegal.

American Tel. & Tel.

Latest reports are that American Telephone & Telegraph Co. is seeking to set up its next piece of financing in a manner that will insure quick placement.

Expected to take the form of a convertible debenture issue, it naturally would have to be offered first to stockholders on a "rights" basis.

One story is that the company is endeavoring to set up the financing so that insurance companies would be ready to take up any portion which might remain unsubscribed by stockholders.

NSTA Notes

SECURITY TRADERS ASSOCIATION OF NEW YORK

The Security Traders Association of New York will hold their spring dinner on April 22 at the Waldorf-Astoria Hotel. Chairman of

D. Raymond Kenney

Arnold J. Wechsler

Duke Hunter

the arrangements committee is D. Raymond Kenney, Kenney & Powell. Arnold Wechsler, Ogden Wechsler & Co., is Chairman of ticket reservations, and "Duke" Hunter, Hunter & Co., is in charge of room reservations.

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deception would gain the upper hand in world affairs.

"Under these conditions it is not surprising that people with the responsibility for handling their own and others' capital were cautious. They were more willing to lend money, against a promise to repay in full in a fixed time, than they were to place it unreservedly at the risk of a business. This attitude had its effect on those responsible for managing business. Unable to obtain more capital on a fair partnership basis and pressed by increased needs for capital to repair and expand their productive machinery, they plowed back profits (62% in 1948) and reluctantly went further into debt.

"It should be no surprise to anyone that the facilities of our capital market were not more used in 1948. It is, however, a source of some encouragement to note two indications of a public and government point of view which were observable in 1948. First, the substantial increase in public interest in stocks which suddenly appeared in the spring of 1948 when it seemed that the depressing weight of taxes might be eased and that our strong stand in international affairs might check the creeping spread of Russian power. Second, the dawning concern of some government spokesmen at the lack of willingness on the part of investors to supply basic, equity capital to business.

"Last spring we saw how quickly a new confidence in the future can spring up. It should not take an unreasonable amount of leadership to evoke that confidence in a country which has the best trained and the most self-reliant people, the greatest productive capacity and the most ably demonstrated ability to defend itself of any country in the world. But unless that confidence in a free future is unleashed, our capitalistic economy, which produces our strength and our high living standards and pays our taxes, will not receive the inflow of basic, equity capital without which it cannot continue healthy.

"The second indication is therefore important. We, in the securities business, are so close to the work of capital formation that it is hard for us to realize that the average citizen, and particularly the average politician, has not understood the process. We are therefore impatient. But it seems to me that in 1948 we began to see some evidence that legislators and government officials were becoming uneasy about the unwillingness of people to make risk capital available. This uneasiness was partly hidden by the grand promises that are always made in an election year; but even those promises were edged with doubt as to where the money would come from to redeem them. We must foster this uneasiness and reinforce this doubt, because the alternative to the caution they may produce will be a spending and taxing spree that will drive private capital deeper into the false security of private loans and public debt.

"The evidence that 1948 gave us that public confidence in the future of private business is not deeply buried but is near the surface, and the evidence it furnished that our present government is beginning to understand that business needs new equity capital and isn't getting it, are encouraging portents for 1949.

"It is a slightly frustrating fact about the business of providing a free market for securities, that the people who provide the market have little or no influence on the market, but the market has a profound effect on them. When the nation is using its stock markets we are all busy and therefore happy. When the nation is temporarily disinterested, as it was in 1948, there is very little that we can do except struggle to revive the public interest and watch our expenses with care, as we did in 1948."

Adams Director

James S. Adams, Greenwich, Conn., a general partner of Lazard Freres & Co., New York, was elected a director of Libbey-Owens-Ford Glass Co., to fill the vacancy resulting from the resignation of Thomas W. Childs. Mr. Adams was for six years President of Standard Brands, Inc., and prior to that Executive Vice-President of Colgate-Palmolive-Peet Co.

The 1948 report to Libbey-Owens-Ford shareholders will be mailed about a month before the annual meeting scheduled to be held in Toledo on April 13.

With Herrick, Waddell

(Special to The Financial Chronicle)

CHICAGO, ILL. — William H. Chamberlin is with Herrick, Waddell & Reed, Inc., 332 South Michigan Avenue.

SEC Files Complaint Against New York Brokers

(Continued from page 12)

other than Hancock were effected in these dummy accounts sales of the particular securities which Hancock proposed to sell on behalf of the Keystone Custodian Funds and after effecting such sales the defendants other than Hancock placed orders to buy such securities in such dummy accounts at lower prices, with the intended and natural consequence of acquiring the securities from the Keystone Custodian Funds (except when someone else happened "to get ahead" of Keystone in the market).

The complaint further charges that in executing this scheme the defendants maintained brokerage accounts in the names of the following dummies: Harriet F. Squire, Edward Caplan, Mrs. Ida Lewis, Ethel Strasberg, Leonard Strasberg, Edith Challenger and Margaret Lewis at various New York securities firms including Junger, Anderson & Co., Young, Aal & Golkin, J. R. Williston & Co. and Butler Moser & Co.

The case was developed by E. G. Blumner, attorney, and investigators John J. Shaw, Harry S. Prime and Joseph Barton of the Security and Exchange Commission's New York Regional Office, under the supervision of Peter T. Byrne, Regional Administrator. William D. Moran, Chief Enforcement Attorney, and E. G. Blumner, attorney, appear as attorneys of record for the Commission in the action filed today.

Statement by the Management of Keystone Custodian Funds, Inc.

In a statement issued by Keystone Custodian Funds, Inc., of Boston, it is announced that although these transactions mentioned in the SEC complaint have resulted in profits and commissions to the individuals concerned, the extent to which such profits and commissions may have resulted in losses to the Funds has not yet been ascertained. Representatives of Keystone Custodian Funds, Inc., are studying the transactions; and their final accounting, which is in the process of completion, will be submitted to the Securities and Exchange Commission.

According to the statement, it is believed that the recovery of the profits from these transactions will exceed any losses which the Funds may have sustained. While it is expected that such recovery will be made from the parties concerned, the former employees are also covered by surety bonds. The management is therefore assured that no loss will result to the Keystone Funds from the transactions complained of.

J. R. Williston & Co. Comment on Matter

A similar announcement was issued by J. R. Williston & Co., New York City, which states:

"We have just been informed that proceedings have been brought by the SEC against Gabriel Caplan, a former employee of our firm, and others. We understand that it is charged that Mr. Caplan obtained from an employee of Keystone Custodian Funds, Inc., private advance information as to purchase and sale orders to be made by Keystone, and that he used that information improperly for trading. If any such thing occurred, it was of course entirely without our knowledge, and we are as much surprised as anyone at the proceedings. No customer of J. R. Williston has suffered any loss; and if we have any liability—which we deny—to anyone else as the result of anything done by Mr. Caplan while he was in our employ, we are covered by insurance."

A. M. Kidder Co. Adds

TAMPA, FLA. — Norman D. Zeigler has been added to the staff of A. M. Kidder & Co., Hillsboro Hotel Building.

Washington . . . And You

Behind-the-Scene Interpretations from the Nation's Capital

WASHINGTON, D. C.—It was inferred here that President Truman, of all his anti-inflationary program, most wants the power to veto price increases by industry.

This surprising intelligence came to light this week in the testimony of John D. Clark, member of the President's Council of Economic Advisers, before the Joint Economic Committee of Congress, which is officially putting on the first act of the President's economic program.

Mr. Clark, along with Leon Keyserling, another member of the CEA, disclosed themselves ardent Truman 100 per centers, and so with Clark speaking for these things, they acquire a significance almost as important as if they came from the White House.

Senator Joseph C. O'Mahoney, Chairman of the Congressional JEC, has for some months advocated the proposition that the key industries should not be permitted to raise the prices of their products until the Federal Trade Commission has had an opportunity to pass upon the justification for the proposed price increases.

There was indirect and obscure language in the President's Economic Report message which seemed to give support to this particular quirk, in addition to his obvious interest in "standby" price control power. Nevertheless, it was not taken seriously until Mr. Clark's testimony, but was regarded as an idea thrown out for practice, if not to please Senator O'Mahoney.

Mr. Clark in his formal presentation and under questioning indicated that this power of some agency to veto price increases on basic commodities was foremost.

* * *

Under questioning, Mr. Clark pooh-poohed the idea that industry could not acquire new equity capital in the present market, saying that industry had really never tried. Wherever an industry offered rights to stock to existing stockholders at a favorable price, industry had no difficulty getting equity money, he said.

He also said there was no reason to be concerned with the trend toward borrowing. "The dogma which arose more than a century ago when interest rates were high, renewal or substitution of loans at maturity if times were hard was seldom accomplished, and bankruptcy was rigorously imposed upon default has little validity in these days when interest rates are very low, many credit openings are arranged for cases of hardship, and defaults seldom lead to dissolution but only to reorganization of going enterprises.

* * *

Mr. Clark disclosed in questioning that in his opinion the government would not be forced to engage in the production of any scarce materials to meet demands, except synthetic fuels. He said that development of synthetic fuel production under private auspices was too slow and the government might have to step in. Thus he inferentially ruled out the possibility of government steel plants.

The real problem, he said, is to persuade business to make investments that may not pay off in a period shorter than eight years. Most businesses will not invest, he said, unless they can see their way clear to paying out in three or four years.

* * *

Finally, Mr. Clark explained the "wage controls" proposed by the President. All that this amounts to is that a board would be appointed to determine whether an industry could use a wage control as an excuse for raising prices arising out of higher wage costs. Under close questioning by Senator Flanders (R., Vt.) Mr. Clark explained that the board would not do anything until after "free collective bargaining" was completed. Then if the employer granted higher wages he would have to justify the higher wages as a reason for raising his prices.

* * *

It may be old stuff to the businessmen of the country but the brand new report on "Small Business Finance and Taxation" says something which one seldom hears either said or said well in Washington, and it is a good source of quotes on the implications of where the Federal government is heading.

This report was issued as one of the last in a series by the expiring special Senate Committee on Small Business. During the 80th Congress, this Committee was headed by Chairman Kenneth S. Wherry, Nebraska, Republican. It points out what businessmen in New York and elsewhere have been saying about the stifling effect of taxation upon the ability and willingness of businessmen to launch new business ventures.

"Capital is scarce for the creation of new business and for the expansion of those that are already going," the Committee report explained, "for these reasons":

"(1) A scarcity of investment funds to start with, due to the tax bite out of current income.

"(2) The extent to which high individual tax rates cut down the return if the investment does succeed.

"(3) The fact that capital loss restrictions deny full tax benefit if there should be a loss.

"(4) Most important of all, the tremendous difficulty of replenishing lost capital in the face of the big tax levy on subsequent income."

While discussing fiscal and other problems in relation to small business, the expiring Small Business Committee made clear its opinion that tax policy was equally harmful to all business.

"It may be enough to remove discrimination against small business, to remove recognized inequity and rigidity in the overall tax structure, and to defer collection of taxes by allowing more liberal deduction of depreciation, research, and development costs," the Committee suggested.

"A taxpayer in the top bracket, putting up capital to help a new business to get started, finds that if the company earns about 10%, the most that he would get out of his money after payment of double corporate and individual income tax would be 1%. Bonds must return 6% for the holder to get 1%.

"He can walk into any investment broker's office and buy a tax-exempt municipal bond which would give him a net of 2½%. If he lost $100,000 put into the new venture, it would require about half a million dollars in income for him to make it up.

"What has happened is that, firstly, true 'risk' or 'venture' capital to which small business used to look for its requirements is being dried up; then, on what is left, the odds are rigged so much that very few people will play."

The Committee tossed aside the customary nostrum offered by the professional friends of small business. This is that the government should provide directly or indirectly a source of equity capital for small business. The problem is to make sense out of the tax laws, the Committee indicated, and not to set up bureaucratic management of small business via some government agency.

* * *

One thing upon which the Congress can always count, note members of the appropriations committees, is that no two budgets in succession will ever be set up on quite the same basis. So the Congressmen have to have a lot of staff work done on the President's Budget each year to know what it means.

Mr. Truman adopted a new wrinkle with the 1950 Budget, and it has the boys guessing. He employs a new category called "new obligational authority" which consists of new appropriations plus new contract authority. Contract authority is an authorization to contract in advance for such things as ships or aircraft, production of which will extend a year or more in advance.

Congress has traditionally listed under appropriations, new appropriations plus appropriations to pay for contracts previously authorized. And it has separated all appropriations from new contract authority.

Not so Mr. Truman. His "new obligational authority" category excludes appropriations to liquidate material contracted for but not appropriated for, but includes contract authority.

So under the new category the President proposes $15.9 billion for national defense, proposes $15.3 of appropriations, and estimates that $14.3 billion will be spent. Just apply the blindfold and pin the tail on the donkey and you will have the correct figure.

* * *

So far it has not been said for the record, but it will soon become apparent that the Truman Administration is worried stiff for fear the housing boom is really smashing.

The evidence of the Administration's worry lays in the emphasis given to different points in the testimony on behalf of the grandiose public housing and "median income" housing bill.

In boosting the public housing objective by almost twice from last year's bill to 1,050,000 units, there was more than mere reaching out for power. It is said that the Administration wants to get a big program authorized so that when it becomes apparent that the housing boom is sliding off, government housing can be pushed for all its worth to take up the slack in home-building activity.

There is also some evidence of Administration fears in this "median income" housing bill. Whereas before the Administration planned to let the inflationary Title VI of FHA lapse, it has asked for its renewal for one year. Yet the Administration has not asked for any additional money for Title VI. It has not asked for additional money because contractors who previously asked for commitments for Sec. 608 rental housing insurance have cancelled so many of their commitments that FHA has a greater lending authority than the $800 million it got last summer.

Throughout Raymond Foley's testimony, there was also a definite sign of a firm note: the Administration wants to have full control over the housing business because it sees in this large economic field a tool to promote economic stabilization. Mr. Foley is Administrator of the Housing and Home Finance Agency.

The best chance to kill the big public housing bill is the anti-segregation amendment, providing that there should be no racial discrimination in the occupancy of housing units. If this is added, the southern Democratic bloc will vote to kill the bill. Some of the boys who are hot for the whole "civil rights" program of the Administration have been approached with success on "laying off" this amendment. But these lads will be in a tough way trying to vote against such an amendment on the floor of the Senate, even if they are willing to withhold their own initiative on the matter.

* * *

President Truman will begin in a few days to read the riot act to Congress for being so slow with his program. First to get the dressing down will be the members of the Ways and Means Committee, for being so slow with social security and tax legislation.

The expected bust-up between Mr. Truman and the Congress is getting very close.

(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

"I'm overdrawn? Well, if you don't have enough money in this bank I'll take my business elsewhere!"