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Fair Profits or Financial Suicide

By IRVING S. OLDS*
Chairman, Board of Directors, U. S. Steel Corporation

Mr. Olds denounces proposals to limit corporation profits as opening path toward economic and financial suicide. Sees adequate profits essential as means of new construction and expansion.

United States Steel Corporation is a concern with which the members of the Association of Stock Exchange Firms have a somewhat direct connection. The stocks of the corporation are actively traded in at the New York Stock Exchange and at other exchanges. Recently the common stock of the corporation has been split 3-for-1 in an effort to secure a wider distribution.

Irving S. Olds

At the present time, United States Steel has approximately 230,000 stockholders and 300,000 employees. It has operations of

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*An address by Mr. Olds at Joint Dinner of the Association of Stock Exchange Firms and the Chamber of Commerce of Salt Lake City, Salt Lake City, Utah, May 27, 1949.

Internal Barriers to Foreign Trade Expansion

By WILBERT WARD*
Vice-President, The National City Bank of New York

In commenting on State Department efforts to relieve international trade from restrictions, Mr. Ward points out as disturbing factor larger export of our goods for which we receive no equivalent. Sees as another formidable internal barrier power of Secretary of Agriculture to set import quotas and right given President to restrict commodity exports. Warns against dollar devaluation and contends ITO and other UN subsidiaries create excessive reliance upon bureaucratic planning and directives.

To aid in drafting a Charter for an International Trade Organization, our State Department, in 1945, released proposals for the expansion of world trade, directed toward relieving trade from various restrictions which had kept it "small." In 1944, our exports were about $15 billion (including $11 billion in lend-lease). A decade earlier, in 1934, they had been $2 billion. Last year they were $13 billion, and they are currently at about that rate. Of recent years, something more than a "small" amount of our gross national product has been disposed of outside the United States. The postwar demand for our goods has been so great that the President has sought, and the Congress granted, continuance of a war emergency power to forbid the exportation of goods in scant domestic supply.

Wilbert Ward

So it seems to me that we might devote a quarter of an hour of

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*An address by Mr. Ward before the Foreign Trade Club of Cincinnati Chamber of Commerce, Cincinnati, Ohio, May 26, 1949.

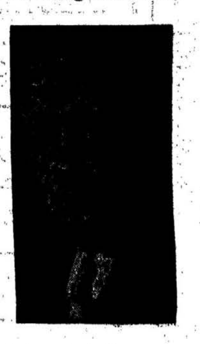
Plight of the Equity Capital Market

By EMIL SCHRAM*
President, New York Stock Exchange

Starting by pointing out wide and growing spread on the yield of bonds and common stocks, Mr. Schram proceeds to illustrate attacks on venture capital as causing creeping paralysis in our economy. Holds present curbs on speculation instituted by SEC and Federal Reserve Board make capital gains taxes unnecessary and useless. Urges now is time to remedy tax inequities and promote new capital investment, which whole world needs and which will mean more jobs and greater opportunities.

In illustrating the plight of the equity market, the spread between the yield on bonds and common stocks is a good starting point. If I had a chart to set before you, the extent of the present wide difference in these yields would show up in a most striking manner.

In 1926, commonly accepted as a time when economic factors were unusually well balanced, you could buy a high grade bond to yield about 5% and the ownership represented by common stock also sold at a price to yield 5%. In 1932, at the worst point of the depression period, the yield on common stocks was a shade less than the return on high grade bonds, which seems strange, and in the succeeding



Emil Schram

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*An address by Mr. Schram at dinner meeting of the Denver Chamber of Commerce, Denver, Colo., May 24, 1949.

EDITORIAL

As We See It

Liquidity: Then and Now

Jesse Jones, a gentleman of long and successful experience in financial matters both in private and public life, has recently come to the support of the banks of the country in their effort to obtain a reduction in the "premium rate" charged by the FDIC. To him "it is inconceivable that a larger sum than $1,000,000,000 [the existing FDIC surplus], plus an interest income of approximately $25,000,000 per year on the fund, would ever be needed to meet any situation that might arise. * * * A further factor of safety is that in an emergency FDIC can borrow up to $3,000,000,000 from the United States Treasury."

To the dispassionate observer, Mr. Jones like the others seems to make a strong case not only for reduced assessments, but for their suspension at least until such time as there appears some prospect of need for further funds. Under conditions now existing the most real function performed by these assessments is that of helping directly or indirectly to finance the United States Treasury, since all, or practically

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Evaluating Railroad Income Bonds

By WALTER F. HAHN*

Smith, Barney & Co., Members, New York Stock Exchange

After explaining origin and status of railroad income bonds, Mr. Hahn points out prewar criteria for evaluating these issues are no longer applicable due to changes wrought by inflation in relative importance of income account items. Stresses low transportation costs and favorable operating ratios as elements of strength back of income bonds. Sees excessive spread in price between fixed interest and contingent interest securities.

That there has been a large increase in public interest in railroad income bonds in the past five years is due primarily to the fact that there are now many more bonds of this description than there used to be. Income bonds are not a new form of capital, but until the railroad reorganizations of the late Thirties and early Forties, they were relatively few in number and were usually called adjustment bonds. The Santa Fe adjustment 4s 1995 bonds have been outstanding since the reorganization in 1895. Katy adjustment 5s are income bonds which have been outstanding since the reorganization of the early Twenties. Union Pacific had an income bond that matured in 1946. The former Frisco, predecessor of the present company, had income 6s and adjustment 6s outstanding, until it made the mistake of substituting fixed interest 4½% bonds therefore—this with the approval of the ICC.

Walter F. Hahn

An income bond is a hybrid security with bond bond and preferred stock characteristics. It is usually secured by a mortgage, which makes it different from a preferred stock In most cases, certainly with respect to income bonds that were issued in the last 10 years, income is mandatorily payable if earned, which, of course, also distinguishes such income bonds from preferred stocks, dividends on which may be earned and not paid. The cumulative features vary considerably; some railroad income bonds are not cumulative and some are cumulative as to three or four years' interest; in one way or another, most of them are cumulative. From the corporate standpoint, an income bond, particularly if it has a far distant maturity, as most of those recently issued have, is an ideal form of capitalization, because interest does not have to be paid unless earned and the interest is a tax deduction, whereas preferred dividends are not. From the standpoint of net income after taxes, 4½% income bonds are the same as 2.8% preferred stock, that is, when the tax rate is 38%, as it is now. This raises some question as to whether or not railroad companies should buy income bonds when the prices, therefore, are high. There has been some criticism of the Rock Island because it paid as high as the 90s for income 4½s, which is like retiring 2.8 preferred stock on a 3% basis. Some people feel a company ought to sell 2.8 preferred stock, not buy it, but when the price is lower, of, course, that argument weakens.

Origin of Income Bonds

An income bond usually means that at some time or another there was a financial problem, probably resulting in a reorganization. That doesn't necessarily mean than such a railroad will always be a problem child, as evidenced by the positions of Santa Fe and its adjustment 4s, which are true income bonds and which sell at 114. Rock Island 4½s, which sell in the low 90s, also indicate that income bonds can attain a good position and can be well regarded; similarly with Western Pacific 4½s which sell close to 100. As a matter of fact, startling changes in the companies represented would not be required in order to have railroad income bonds more highly regarded and valued at higher prices. Back in 1945 when railroads weren't much, if any, stronger than they are today but when they were more favorably regarded, income bonds sold much higher because the market generally was higher. Erie 4½s, which are today selling at 64, were 104 and there was talk of refunding them. St. Paul 4½s now 54 sold at 108, North Western 4½s now 51 sold as high as 98. To get a substantial price rise would not require a tremendous strengthening of these companies. A higher securities market and lower yields for preferred and common stocks would do the trick.

Most of the income bonds that are outstanding today were issued in the reorganization effected in the past 10 years and represent a very great scaling down of capitalization, particularly bond capitalization. I am going to give you some 1938 fixed charges of the predecessors of these companies and 1948 fixed and contingent charges of successor companies. In 1938 Milwaukee had $15 millions fixed charges and last year had $4 millions fixed charges; $9 millions contingent charges in 1938 and last year $4 millions. North-western in 1938 had fixed charges of $17 millions, which were cut down, on the basis of last year's charges, to $2 millions fixed and $4 millions contingent charges. Rock Island had $14 millions fixed charges in 1938, and last year $2 millions fixed charges, $2 millions contingent charges. You can see how drastic a job the Interstate Commerce Commission did in the recent reorganizations. One reason for this was the fact that the reorganizations of the early Twenties did not work out very well; another the depression background of the Thirties in which the reorganization plans were formulated.

Effect of Inflation

Today's prices for railroad bonds still attach very considerable importance to lien position and whether or not interest is fixed or contingent. I don't think that in pricing railroad bonds today enough attention is being paid, to certain important changes which have taken place in the past 5 to 10 years. These changes people are going to recognize in time but perhaps only gradually. What I am getting at is that we have had an inflation. During and since the termination of the war, almost every item in the railroad income account and balance sheet has increased tremendously—almost but not all, the important exceptions being: debt, fixed and contingent charges and stock. The first three have gone down while stock, in most cases, has stayed the same. These changes have been really extraordinary. I have here some figures on Seaboard Air Line which illustrate the point very well. I am using 1938 and 1948 figures; the former cover the old railroad prior to the recent reorganization. In 1938 operating revenues were $40 millions; last year they were $133 millions. 1938 fixed charges were $9 millions and contingent charges were negligible; last year fixed charges were $2 millions and contingent charges $2 millions. In 1938 fixed and contingent charges were almost one-quarter of the revenues. Last year fixed charges were about 1½% of revenues and contingent charges 1½% of revenues.

Here also are some comparisons of fixed and contingent charges with maintenance charges. These cover the Seaboard Air Line, too. In 1938 fixed and contingent charges were two-thirds of maintenance charges and last year they were 9% of maintenance charges. I mention these ratios of fixed and contingent charges to maintenance charges because maintenance is the one really controllable item in the railroad income account. In the early Thirties most of the companies that stayed solvent, despite traffic and revenues declines of 50%, did so because they were able to cut maintenance expenditures. Between 1929 and 1932 most railroad companies cut maintenance charges about 50% and lived on their fat for awhile. It was that reduction in maintenance charges that enabled some of them to pay fixed charges. Using Seaboard again as an illustration: on the basis of 1938 figures, if you cut maintenance charges in half, you would have saved an amount equal to ¾ of fixed charges. On the basis of 1948 figures if you cut maintenance charges in half, you would save an amount equal to 5½ times the fixed and contingent charges.

There is an element of protection in these changed ratios which so far hasn't been reflected very much in prices, particularly in the relationship of the price of one bond to another. What has happened, as a matter of fact, is that the difference between junior and senior bonds has been tremendously diminished. In the reorganizations of the '30s and early '40s a great deal of attention was paid to mortgage security. Senior bond holders came out of bankruptcy much better off than the holders of junior bonds. There were very wide differences in treatment and workout market value. But we have reached the point, I should say, where in numerous cases fixed and contingent charges represent such a small part of the revenues and expenses that, if we ever have more reorganizations, there is not going to be nearly so much difference between first and second mortgage bonds and debentures as there formerly was. These changes have practical aspects not

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*An address by Mr. Hahn to the Main Office Personnel of Smith, Barney & Co., New York City, May 2, 1949.

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Everything's OK Says the NASD—But the Dealers Say Otherwise

Press release on recent meeting of NASD Board of Governors and other officials contends that rank and file of industry endorse organization and its policies. Some more factual evidence to the contrary contained in comments made by dealers and reprinted in these columns.

The general tenor of the NASD news release pertaining to the recent meeting of its Board of Governors and other officials at Hot Springs, Va., on May 16-17, is to the effect that the membership is becoming increasingly aware and appreciative of the value and contribution made to their welfare by this so-called voluntary organization. Complete details of the subjects discussed at the meeting, the release adds, will be published in an early issue of the NASD "News." Moreover, the Board voted to send to members "a statement which would clarify and interpret the 5% policy."

The nature of the wording of the release, we hasten to note, came as no surprise to this publication. It was merely another effort to create the impression that the NASD as such, also its methods of operation and its policies, are heartily endorsed by the membership. The complete inaccuracy of such a claim, we believe, is best exemplified in the results of the poll conducted by the CHRONICLE to ascertain the true sentiments of both members and nonmembers regarding the NASD and its policies. This factual data was included in the editorial "Mandate to Congress" which appeared on the cover page of the CHRONICLE of May 19.

For additional evidence of the extent of the opposition within the securities industry towards the NASD, we call attention to the accompanying comments made by dealers pursuant to the CHRONICLE poll. These, of course, constitute only a portion of the hundreds of expressions that have come to hand. Others have been carried in previous issues. In this regard, it should be noted that the majority of the contributors express themselves as being unqualifiedly opposed to the NASD and its policies. One of the aspects roundly condemned is the claim that membership in the NASD is wholly voluntary. Actually many dealers state that there is no alternative, owing to the economic sanctions imposed on nonmembers, including inability to obtain trade discounts and being barred from participation in underwritings handled by members, except, of course, on a profitless basis. Thus the implication is clear: unless a dealer becomes a member of the NASD, regardless of his personal wishes and inclinations, he cannot operate on a parity with his competitor-members and therefore may suffer severe financial losses and even the loss of his business. Here are comments previously alluded to:

CHICAGO, ILL.

See no equity or justification for the 5% rule particularly when you allow members to retail investment trusts at 6% and up. These trusts are a growing menace to our business, they not only stifle initiative, study, and research, but through concerted action of a few of the larger trusts can dominate markets generally through buying or selling of a few strategic blue chips which are component parts of Dow-Jones Industrials. Except as No. 6 answers it, think your 8th question should have been, "Do you approve of the NASD?"*

CHICAGO, ILL.

In the investment securities business, as in practically all other businesses, I believe that the less governmental supervision and regulation the more efficiently the business can operate and the greater service it can render.

CHICAGO, ILL.

My contention is the NASD has no right of existence. A voluntary organization? No "taxation without representation." If the SEC institute rules and regulations let them do their own police work. If we're wrong, to prosecute or correct . . . that's their job.*

*Commented Anonymously.

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Selling Mutual Investment Funds

By A. J. WILKINS*
Vice-President, Wellington Fund

Mutual Funds executive describes growing importance in investment field of these institutions, and opportunities for careers in selling their shares to various investor groups. Cites cases of successful salesmanship and technique of following up prospects and making sales approaches. Stresses importance of presenting ideas and facts clearly and of using proper procedure in summarizing sales points and in closing sales. Urges salesman to stress idea of regular and continuous investment.

Mr. Carrol Hoffman in assigning to me tonight's subject: "Salesmanship — a Profession," told me I could talk about any feature of this subject, and could illustrate freely with examples from my Fund if necessary. I want to talk to you tonight about Mutual Investment Funds. If I mention my Fund, it is because I know more about it than I know about other Funds.

A. J. Wilkins

The growth of these Funds is gaining momentum each year. More and more security salesmen are realizing that wage earners, small businessmen, junior executives, professional people, etc., as well as large investors and institutions, are prospects for Mutual Funds shares. They have found that these Funds are the best investment medium to offer to the public, which has an aggregate of $130 billion in cash and bank deposits.

Many large commission houses have gone into active selling of Mutual Funds shares in the past year; some firms have set up separate departments specializing in them.

Many articles pertaining to Mutual Funds have appeared in newspapers and magazines. The trend of obtaining risk capital from the small investor through the medium of these Funds is attracting the attention of economists and editors. An article in the April issue of "Fortune" magazine says in part, "that way is through — the Mutual Fund. The advantage to the small investor—is that he gets professional management for his money and does not have to put all his eggs in one basket."

In the past eight years Mutual Funds have attracted more than $1 billion of capital from investors, and have added over 400,000 new shareholders, many of whom are small wage earners. In 1948 gross sales of 86 open-end Funds totalled over $273 million. Total assets reached $1.5 billion with about 730,000 shareholders. For the first quarter of this year, open-end Mutual Funds have increased their gross sales approximately 26% over the same period last year, while the volume on the New York Stock Exchange declined nearly 5%. We have a huge, untapped market, and as yet Mutual Funds are not getting anywhere near their share of people's savings. For instance, in 1948 there was an increase in liquid savings $4.9 billion; savings bank deposits increased $1 billion; and Federal Savings & Loan Association assets increased $1.1 billion.

I want to show you a chart illustrating how incomes have increased by families from 1935 to 1948. You will notice that there were just as many families earning over $5,000 in 1948 as were earning under $1,000. In 1935 there were 20,932,000 families earning under $1,000 per year, which had been reduced to 6,700,000 families by 1948. In 1935 there were only 901,000 families earning over $5,000 compared with 6,776,000 families in 1948.

Who Are Buying Mutual Funds Shares?

Mutual Funds have not only attracted the middle income group, but have also interested many large individual and institutional investors, such as—trustees, estates, religious, charitable and educational organizations — because of their satisfactory performance, assured income and many advantages and conveniences.

One of the largest sales of our Fund was made in New England by a salesman who, after working around Boston, decided he would move into a smaller town. He made up a list of doctors to work on "cold turkey." He took his list from the telephone book. As you know, it is very difficult to contact doctors because they always seem to be busy. He called on the first doctor about five minutes of four, which is a good time to call on a doctor if he happens to have office hours from 2 to 4 p.m. He talked with the doctor's wife who said that she had $6,000 of surplus money which she might be interested in investing. The doctor came in at that time and informed the salesman that he was not interested in investing any money. The salesman left a prospectus and other literature and made an appointment to call again on the doctor's wife. On his second visit the wife informed the salesman that the doctor had read the prospectus and literature and wanted to talk with him. To make a long story short, after about twelve visits the salesman secured an order for $233,000.

The operator of a beauty parlor was sold $10,000 and the idea of investing $500 per quarter, after she had informed the salesman that she had $12,000 of idle money in the bank and was making $1,300 per month.

Here is a case to show you how you can pick up business from unexpected sources. The owner of a group of cabins invested $31,000 in three purchases in 1948. The salesman learned after the first purchase that this man owned other property which was bringing in substantial income.

Here is an unusual sale—A miner, after listening to a security salesman make a talk on Mutual Funds before a fraternal organization, asked the salesman to call on him the next Sunday at 8:30 a.m. Incidentally, the miner lived 35 miles away from the salesman's home, but he kept the appointment, and the miner brought down from the second floor $8,800 in cash. After the order had been taken and the money paid over to the salesman, he asked the miner why he wanted him there at 8:30 Sunday morning. The miner informed the salesman that he didn't want his neighbors to know he had that much money in the house.

These are just a few of the stories that I could tell you for hours covering all types of people who not only are investing in Mutual Funds, but who have a considerable amount of money for investment.

How Are You Going to Get Your Share of the Business?

You will have to organize yourself and plan your work very carefully. You should arrange it so that you do not get less than five interviews a day, and don't be afraid of a little night work. Regarding night work—I got the surprise of my life the other day when I met an old-time security man—a real dyed in the wool one—who told me, after I asked how business was, that his business was not bad but he didn't like the night work. He then told me how he called at night on a man and his wife in suburban Philadelphia who knew nothing about securities but wanted to understand about them—he secured an order for $15,000 on the second call.

The other day I had a report from a new salesman in the investment business who is concentrating on the sale of Mutual Funds shares. His report for seven weeks' work was as follows:

133 interviews
22 sales
Total — $78,300.

In his letter to me he stated that he discovered each interview paid him approximately $13.00. It is also interesting to note that 16 sales were made during the day and 6 sales in the evening; 12 were made on the first call and 10 on repeat calls. If you can sell yourself on the fact that each interview is worth "X" dollars, you will have no difficulty in planning your work so that you can get the necessary interviews each week. As a check on yourself, go back over the number of calls you have made and see if you are satisfied that you have utilized your time to the best advantage. Don't forget that we in the selling profession can waste more time than any one else—and time is money to a salesman.

Prospecting is one of the most important phases of salesmanship.

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*A lecture by Mr. Wilkins, one of two, the 13th of a series in a course on Investment Salesmanship, sponsored by Boston University and the Boston Investment Club, Boston, Mass., April 26, 1949.

Prices for Reprints

The Boston Investment Club has announced the following schedule of prices for copies of a brochure which will contain all of the lectures on Investment Salesmanship that are being published serially in the CHRONICLE: 1 to 10 copies, $2 each; 11 to 50 copies, $1.75 each; 51 or more, $1.50 each. Orders should be addressed to the Boston Investment Club, Box 1604, Boston 5, Mass., and checks made payable to the order of the Club. The lectures, the most recent of which appears on this page, are being sponsored by the Boston Investment Club and Boston University.

Britain and Bilateralism

By PAUL EINZIG

Dr. Einzig contends though British ultimate aim is multilateralism, under existing circumstances, due largely to inadequate gold reserves, a bilateral trade policy is necessary. Sees however, shift from attention to mere quantities to qualitative aspects of reciprocal imports and exports in British bilateral trade pacts.

Although the British Government's ultimate aim is to return to a multilateral system of international trade, for the present bilateralism continues to remain the basis of British trade policy. In existing circumstances this could not be otherwise. Under multilateralism Britain would be buying in the cheapest markets, irrespective of whether the selling countries would in turn spend in Britain the proceeds of their exports to Britain. She would simply trust luck and assume that some countries—not necessarily the same which supply her with goods—would in the long run buy enough British goods to enable her to pay for her imports. This assumption is only safe, however, if there is a sufficiently large gold reserve to supplement temporary deficiencies of export, and if the proceeds of British exports can be used for payment in countries other than those importing the British goods. Neither of these conditions is fulfilled amidst prevailing conditions.

Dr. Paul Einzig

Britain's gold reserve has declined to a level below which it could not be allowed to decline without endangering the recovery of the country and of the whole Sterling Area. Most of the easily realizable overseas investments have been liquidated. In such circumstances Britain could ill afford to gamble on the speculative chances of finding buyers for her exports.

Moreover, no other country shows much willingness or ability to return to multilateralism. Britain's export surpluses to a number of countries cannot be used for financing her import surplus from other countries. Nor would it be very helpful from this point of view if multilateralism were to be restored within the limited sphere of Western Europe. Britain needs dollars, and so do the other Western European countries. They are not in a position to help each other to meet their dollar shortages. There is therefore no choice but to seek to ensure that British exports to "soft currency countries" are paid for in goods and that Britain can pay in goods for her imports. Bilateralism at present is a necessary evil.

There has been a noteworthy change in the form of the application of the bilateralist principle. During the immediate postwar years the bilateral trade pacts merely prescribed that the total amount spent by the country concerned on British goods should be roughly equal to the total amount spent by Britain on the goods of that country. In more recent agreements, however, the quantities of the actual goods bought and sold are determined. This has been found necessary because Britain is now in a better position to export essential goods. Immediately after the war a large proportion of British exports consisted of luxuries and there could be no objection to the import of luxuries in payment for these exports. Now that Britain is in a position to export coal and steel, and to sell oil produced by British-controlled oil companies abroad, the Government is anxious to ensure that the proceeds of these basic materials should not be frittered away on the purchase of luxuries. Hence the stipulation of the nature of the goods to be imported under recent trade pacts.

Britain's position under the bilateral system is greatly complicated by the fact that, in addition to being a country with a large volume of foreign trade of her own, she is also the center of the Sterling Area. Now the Sterling Area includes a number of more or less important countries the trade of which, with countries other than Britain, is not under the British Government's control. This means that, while the British Government is in a position to ensure that Britain's trade with a foreign country should balance on a bilateral basis, it does not follow that the trade of that foreign country necessarily balances also in relation to the entire Sterling Area. Quite possibly the year may close with a net increase of the sterling balances of that country, as a result of its export surplus to the sterling area as a whole. Or it may be unable to raise the necessary sterling to pay for its imports from Britain, because of its import surplus from the rest of the Sterling Area.

There are actual instances to illustrate both possibilities. British imports and exports balanced during 1948 fairly evenly in relation to France, and also in relation to Portugal. In spite of this Britain had to provide a large amount of sterling to France, because of the latter's import surplus from the rest of the sterling area. And Portugal accumulated a large sterling balance because of her export surplus to the rest of the Sterling Area. Evidently, owing to the operation of a multilateral system within the limited sphere of the Sterling Area, Britain is unable to avoid altogether the risk attached to multilateral trading, in spite of the rigid application of bilateralism in other directions. The remedy to this would be a high degree of co-ordination of the trade policies of Sterling Area countries, and the negotiation of joint trade pacts with outside countries. This is, however, practically unattainable. To some extent the loophole is restricted by stipulations, in some bilateral pacts, of the amounts of sterling that the other contracting parties are entitled to spend on non-British goods within the Sterling Area.

It will be necessary for Britain to make much progress towards recovery before bilateralism could be discarded. Meanwhile the change from sellers' market to buyers' market is likely to shift the accent of bilateral trade discussions from insistence on receiving imports to insistence on being able to export in return for the goods purchased.

Two With Shearson, Hammill & Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF. — William A. Sibley and Ernest R. Torgler have become associated with Shearson, Hammill & Co., 618 South Spring Street. Both were formerly with Buckley Brothers. Prior thereto Mr. Torgler was with Dempsey-Tegeler & Co., and Mr. Sibley was with John B. Dunbar & Co.

The State of Trade and Industry

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

There was no change of great moment in the trend of overall industrial production for the country last week. As in past weeks output continued to dip slightly in the week just closed and held very moderately below the high level of a year ago.

Total claims for unemployment insurance in the week ended May 14 rose 1% to reach a new postwar peak. Initial claims continued to be noticeably above the low level of the similar week in 1948.

On Thursday of last week the Federal Reserve Board's index of industrial production was released and showed that for the fifth consecutive month its seasonably-adjusted index had declined.

The latest figure, for April, was 179 (1935-39 equals 100). This compares with 184 in March and with a postwar peak of 195 hit last October and November.

In announcing its April figures, the Board said: "Present indications are that in May manufacturing has continued downward and that there has also been some decline in output of minerals which had increased in April."

* * *

Heartening was the news on Monday of the current week that Ford Motor Company maintenance workers would submit their dispute to arbitration and return to their jobs, thus terminating a strike which began on May 5 last.

The company estimated that it may be two weeks before full production gets under way in all plants and the 106,000 employees affected by the dispute are back at work.

An agreement was ratified on Sunday by the strikers which provides for arbitration of the United Auto Workers' (CIO) claim of an assembly line "speed-up" at the Ford River Rouge and Lincoln-Mercury plants.

It was reported that the walkout, caused by the alleged "speed-up," was viewed as one of the most poorly-conceived of the United Automobile Workers' many strikes.

* * *

Truck production in the United States in May will be down to 82,948 units for the lowest monthly volume since early in 1946, Ward's Automotive Reports states, while United States passenger car output for the same month is estimated at 394,236 compared with 434,882 in April.

Production for the first five months of the year, according to the above authority, will approximate 1,892,913 cars and 520,635 trucks in the United States and 63,899 cars and 42,295 trucks in Canada. The figures for the first five months of 1948 were 1,470,965 cars and 597,902 trucks in this country and 60,323 cars and 46,336 trucks in Canada.

* * *

Promotional sales of seasonal merchandise continued to attract shoppers in many parts of the nation. Total retail dollar volume increased slightly in the week ended and was very moderately below the level of the comparable week last year.

The dollar volume of wholesale orders was maintained at a high level last week, but was slightly below that of the corresponding week in 1948. There was a slight rise in the number of commitments for fall merchandise. Total reorders of currently seasonal goods were substantial with many buyers insisting on very prompt delivery.

STEEL OUTPUT IN CURRENT WEEK FALLS FOR SEVENTH WEEK IN ROW ESTABLISHING NEW 1949 LOW

People in steel who have been the most optimistic on the production outlook have changed their minds a bit recently, according to "The Iron Age," national metalworking weekly, in its current review of the steel trade. In the past 10 days these steel officials have noted that steel order volume is slowing down, backlogs are being pared by cancellations and that there is difficulty getting enough orders on the books for July rolling.

Some smaller steel mills are struggling this week to keep their operations at the two-thirds or three-quarters mark. Other smaller firms are well fixed into June, while large steel firms see their operations at a good level only because the pressure is on to get enough product mix to keep activity at that point, the trade magazine states. Just how long they'll be successful in this effort to get orders far enough ahead for economical operation remains to be seen.

Much has been said about break-even points in the steel industry. Before the war, this trade authority observes, most plants could make a profit at around 48% of capacity operations. It's a different story today, however, since no mill has had any real experience to tell exactly what its break-even point would be. This is so because labor rates and material costs are much higher than before the war, maintenance and repair costs are somewhat different than they were 10 years ago and new capacity installed in some cases has cost three times as much as in prewar years, this trade paper notes.

Some firms, the large ones especially, think an operating rate of 75% would "hurt," while smaller units are already below this rate and still in the black, mainly because of lower scrap prices, better productivity of the workers and renewed emphasis on proper use and conservation of raw materials.

Executives of some bigger steel units have said prviately, "The Iron Age" points out, that their break-even point might be around 70% of operations, but they are not sure. Two things which make it impossible to tell at this time are: (1) Probable increased costs because of the coal contract coming up and (2) chances that the steel union will win a moderate social security package. These items, plus the higher ore costs this year, have offset to some extent the fall in scrap prices.

The drop in scrap prices, which has amounted to about $21.25 a gross ton since the first of the year, has not all accrued to the

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Observations . . . .

By A. WILFRED MAY

The Intelligent Investor

Questions still unresolved by the investment world of 1949 include the difference between investment and speculation; the relative weights to be attached to the appraisal of individual securities on a long-term value basis, versus the forecasting of the market as a whole; the attention to be paid to the historical perspective of the market; the proper degree of policy-rigidity in security-buying; and fruitful as well as sound techniques in stockholder-management relations.

A. Wilfred May

Much light is now thrown on these basic problems by Benjamin Graham in a newly-published work "THE INTELLIGENT INVESTOR" (*published May 25 by Harper & Brothers, N. Y., 276 pp., $3.50*). The investor-reader here has access to the long-term convictions and conclusions of a uniquely qualified authority, set forth clearly and honestly in a volume which has had many years of planning and workmanlike preparation.

Mr. Graham is one of very few investment experts who combine achievement in both the academic and money-making spheres of activity. In the former role he has for a score of years been a highly-popular writer and teacher at the university level. As a hard-boiled "Wall-Streeter," on the other hand, he has headed an investment fund with an extraordinarily successful operating record for its shareholders, specializing in participations in business and other "special" situations. This compendium of his conclusions, arrived at over the years, is particularly valuable in quite exceptionally abstaining from single-cause explanations and personally-favored nostrums.

The basic novel approach adopted by Mr. Graham is his operational classification of investors into the alternative roles of *"defensive"* on the one hand, and *"enterprising"* or *"aggressive"* on the other; which distinction composes the theme running through much of his material. The *defensive* individual primarily is interested in conserving his capital, avoiding serious mistakes of commission. The author's *enterprising* individual is interested in taking advantage of recurrent opportunities to buy securities at well under intrinsic value, as determined by able analysis. These definitions highlight for the individual the alternative, or twin, courses of long-term policy open to him, and at least clarify his behavior to himself.

In Mr. Graham's thinking, interest is disclaimed in the type of investor who places his main emphasis on trying to capitalize on important changes in an industry or a company.

Safety Insurance

Another novel concept espoused by Mr. Graham is a *margin-of-safety* for the common-stock buyer. As applied to equities, in lieu of being confined to bonds or preferred stocks, this tool is unique. Such allowance in the buying price for unexpected changes in earning power or appraisal miscalculation furnishes an added "insurance" protection to the buyer. The prospective buyer enjoys the advantage of full discretion in either buying some stock when and if it reaches a level that includes the safety-margin, or of abstaining if it does not. There is no compulsion to enter into any particular commitment.

Mr. Graham's "safety belt" can be secured through the accumulation of undistributed earnings, by diversifying holdings at historically reasonable price levels, and by buying undervalued securities on a bargain basis that allows for a moderate decline in earning power.

"Gems of Experience"

As the fruit of Mr. Graham's long and acute observation of "the Street" and the psychological foibles of its adherents, many gems are offered to the reader. In measured objective language the inability of experts as well as the public to "beat the game," or even the averages, is set forth (" . . . their calculated forecasts have been somewhat less reliable than the simple tossing of a coin.").

To this columnist a keynote example of wisdom is embodied in the author's attachment of importance to distinguishing between the terms "customers" and "clients" in referring to those people serviced by brokerage houses.

Exemplifying many "hard-boiled" practical pointers offered are Mr. Graham's strictures against the medium of the preferred stock, as lacking the legal claim of the creditor and the profit possibilities of the stockholder. Likewise in citing the flaws in bond investment the author points out the imposition of the unfair "heads-I-win, tails-you-lose" arrangement through the call feature usually vouchsafed to the borrower.

Wise and modest is the author's opening reference to the security analysts—of which profession he himself is one of the recognized deans: "Security analysis is now a well-established and flourishing profession or semi-profession. The various societies of analysts which make up the National Federation have well over fifteen hundred members, most of whom make their living out of this branch of mental activity. Security analysts have textbooks, a code of ethics, and a quarterly journal. They also have their share of unresolved problems."

Sound, interesting and important, too, are his observations concerning the corporate management's responsibility for market price—particularly for unsatisfactory market price—and whether long-term market valuations are correlated with management performance.

In discussing portfolio policy the author opposes the orthodox view that return is proportionate to risk, with the interesting conclusions that "the rate of return should be dependent, rather, on the amount of intelligent effort the investor is willing and able to bring to bear on his task. The minimum return goes to our passive investor, who wants both safety and freedom from concern. The maximum return would be realized by the alert and enterprising investor who exercises maximum intelligence and skill. In many cases there may be less risk associated with buying a 'bargain issue' offering the chance of a large profit than with a conventional bond purchase yielding under 3%."

The Crucial Value-Versus-Market Controversy

This conclusión is consistent with Mr. Graham's full considera-

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Nobody Shoots His Customers

By ARTHUR S. KLEEMAN

President, Colonial Trust Company of New York

Mr. Kleeman asserts best way to answer bullying nations and promote general peace, is through payments for their exports.

A passer-by looked at a suit in a clothier's show window, liked it, and walked into the store, saying to the proprietor, "I want to buy that suit." Whereupon the proprietor drew his revolver and shot the prospective buyer. Now, of course he didn't really do that! To have done so, would have been ridiculous, for *nobody* shoots his customers, not the corner clothier, or the national manufacturer, or the head of a political state. Everyone treats with respect and solicitude the man—or the nation—to whom he is selling his goods. Therefore, the simplest way this country of ours can assure its considerate treatment by all nations, is to constitute itself a professional customer of every country which has something to sell.

Arthur S. Kleeman

An Effective Trick

It may be a mean trick to play on a bully, but unfailingly it works—this scheme of walking up to a pugnacious nation and saying, "If you'll put down your gun, and show me what you have to sell, maybe we can do some business. It may be a mean trick, because no man, whether or not he is well armed, is strong enough in his "attack complex" to withstand the chance to dispose of his salable goods.

That is what I mean when I say that international trade is the infallible way to create and preserve international amity. Peace with the United States is necessary, if Europe or Asia or any other part of the world wishes to sell goods to us, for they must lay down their guns, if they want their hands free to show samples.

Unfolding Fists

Not only politicians, but ministers in pulpits talk about peace; almost everyone, including business men, prefers peace and peace-times. Why, then, here in America, should we miss even the slightest chance to say to all withing the reach of our voices, "Buy from every country you can reach —*import*—and look for new *import* opportunities, for while we are buying from abroad, the fists of the selling nation must unfold, in order that their palms may receive the payments they need for their rehabilitation. "Imports into the United States are a sure method of sheathing the arms of exporting countries, and as though that were not enough reward for America and its people, we shall thereby also receive the added dividend of a greater dollar buying power in the pockets of our overseas suppliers, thus adding to the blessings of peace an export potential which only thus can be created in a dollar-hungry world.

Two With Herrick, Waddell

(Special to THE FINANCIAL CHRONICLE)

OMAHA, NEB.—John H. Sullivan of Greeley and Ralph D. Stouffer have joined the staff of Herrick, Waddell & Reed, Inc., 55 Liberty Street, New York City.

The Changing American Economy

By SUMNER H. SLICHTER*
Lamont University Professor, Harvard University

Harvard economist lists as leading changes in our economy: (1) increase in productivity; (2) shift in power to employees; (3) public revolt against markets and replacement of private by government-guided enterprise; and (4) development of welfare state. Lists among problems created by these developments: (1) obtaining more production; (2) formulating basic code in industrial relations; (3) determining proper relations between industry and community; and (4) getting business leaders to participate in public policy. Sees as most alarming symptom the fact that business is now operating in climate hostile to enterprise.

I

Few periods in the history of the world have seen such rapid changes as the last century, and the rapid rate of change is still going on. Some of the most important changes have been in economic conditions and institutions. My remarks will fall into two parts. First, I wish to discuss briefly some of the principal changes which have occurred in the economy. Then I wish to discuss a few of the problems which have been produced by these and other changes.

Prof. S. H. Slichter

II

Four changes impress me as particularly important: (1) the increase in productivity; (2) the shift in power from business to employees; (3) the revolt against markets and the replacement of free private enterprise with government-guided enterprise; (4) the development of the welfare state.

(1) The increase in productivity. Output per manhour has been growing at the rate of about 2% a year and output per capita almost as rapidly. The consumption of goods per capita has doubled about every 50 years and the amount of leisure has also been growing. The increase in output has been faster than was generally expected. In order to demonstrate this, let us suppose that at a meeting of businessmen in 1900 someone had predicted that before the middle of the century two out of three children of high school age would be in high school, that virtually every family would own an automobile, radio, and a telephone, that the number of college students would have increased over four times as fast as the population, that all this would have been accomplished after meeting the cost of two great wars, and that it would be accompanied by a 40-hour work week. The maker of this forecast would have been regarded as quite irresponsible. Nevertheless, his forecast would have been accurate.

Labor has fared especially well from the growth of the economy. Virtually all of the enormous technological gains of the last century have gone into higher wages rather than into lower prices. Between 1840 and 1940 output per manhour increased about six-fold. The wholesale price level, however, changed very little. The great change was the rise in the price of labor, indicated by an eight-fold increase in hourly earnings between 1840 and 1940. In other words, the gains of technological progress have gone to people in their capacity as employees rather than in their capacity as consumers. Despite the rapid growth of capital in production, the share of property in the national income has gone down. At present about 2.3 times as much capital is used per worker as in 1880, but the share of property in the national income has dropped from one-fourth in 1880 to one-seventh in 1948.

(2) The shift in power from business to employees. During the 19th century the most influential single group in the community was undoubtedly the businessmen. During the last 50 years the influence of businessmen in the community has been slowly declining. The best evidence in support of this statement is found in the history of legislation. Most major pieces of legislation, such as the Federal Reserve Act, the Income Tax, the Clayton Act, the Norris-LaGuardia Act, the Securities and Exchange Act, the Wagner Act, and the Social Security Act, were adopted either in the face of opposition from the predominant part of the business community or without very much participation by businessmen in the formulation of the legislation. There have been some important laws, it is true, which were drafted with important participation by business groups and passed with support of a large part of the business community. This is true of some workmen's compensation laws, the Railway Labor Act, 1926, the Fair Labor Standards Act, and the Taft-Hartley Act. Nevertheless, it is plain, I think, that the influence of businessmen in the community has been diminishing.

The explanation of the drop in the influence of businessmen is not far to seek. There has been a shift in power from businessmen to employees. The basic reason for this shift has been the increase in the relative number of employees. In the early part of the 19th Century the community was made up predominantly of self-employed persons. The number of employees, however, has been growing far faster than the number of self-employed. Today, over three out of four persons who work for a living in the United States are on someone else's payroll. For the first time in the history of the world there have grown up communities composed predominantly of free employees. At various times there have been communities in which nearly everyone was a slave, communities in which nearly everyone was a serf, communities in which nearly everyone was self-employed. Only within the last century, however, have there developed communities composed in the main of free employees, receiving their income in the form of wages or salaries but possessing full civil and political rights.

The shift of power to employees has been aided by two conditions—by the rapid organization of employees and by the unwillingness of businessmen to go very far in offering constructive proposals for dealing with the problems which have emerged. In the United States today, about 15 million employees are organized into trade unions through which the ideas of employees on public and business policies receive expression. The unwillingness of businessmen to offer constructive solutions to problems has also aided the shift in power. The development of policies for compensating the unemployed will illustrate the point. Some way of seeing that unemployed people got relief was obviously necessary. Businessmen were scornful of schemes for unemployment insurance which were labeled "the dole" and were reputed to undermine the will to work. Consequently, the country entered the great depression without adequate arrangements for compensating the unemployed. Businessmen in the main stood by the position that the responsibility for relief should be assumed by each separate community—despite the fact that localities composed in the main of capital goods industries could not assume the heavy cost of relief for very many months. Businessmen attempted to relieve the situation by putting on a "spread-the-work" movement—useful as far as it went but far from adequate. The failure of businessmen to take the lead in providing the country with adequate arrangements for compensating unemployment caused the initiative in policy making in this field to pass to nonbusiness groups. Essentially the same thing is happening in other fields. Had business leaders been willing to take the lead in attacking the problems which led to the passage of the Securities and Exchange Act and the Wagner Act, businessmen would have retained a substantial voice in policy making and the country would have been given better balanced and more practical legislation. In other words, part of the shift of power from business to employees has been the result of failure of businessmen to appreciate the seriousness of the problems which called for attention and to understand the determination of the country that something had to be done about these problems.

(3) The transformation of the economy from one of free private enterprise to government-directed enterprise. Back in the 19th Century there was more or less general acceptance of the idea that the competitive pursuit of individual interests would satisfactorily promote the interests that all members of the community have in common. This view has gradually been abandoned. First, here and then there the community undertook to substitute public policies for the uncontrolled action of markets. 50 years of revolt against the results produced by free markets has transformed the economy from one of free enterprise into one of government-guided enterprise. Today the community expects the government to put a floor under some prices, a ceiling over others, to subsidize this industry, to put special taxes on that one, to regulate the terms on which money is lent and to some extent the purposes for which it is lent, to lend money itself, and to modify drastically the distribution of income by a combination of steeply progressive income taxes and large transfer payments. These changes have come so gradually that many people have failed to notice the fundamental transformation which has been occurring. Let there be no mistake, however, that a revo-

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*An address by Dr. Slichter before the American Iron & Steel Institute, New York City, May 26, 1949.

From Washington Ahead of the News

By CARLISLE BARGERON

It is to be seriously doubted that the Congressional heat now being applied to David Lilienthal will be strong enough to get him out of the chairmanship of the Atomic Energy Commission. But it can be marked down as quite an accomplishment of what is left of the rapidly disappearing Conservative civilization that the gentleman's aplomb has been perceptibly ruffled. For the first time in his public career, in fact, he seems definitely frightened. His public statements are not the clearly devised cunning of old. Frankly, it is with some difficulty that one can tell what he is saying.

Carlisle Bargeron

The historians of the future, noting the last spasms of the Conservatives just before the country went completely over into the Socialist state, will undoubtedly dwell on the contrast in his present excited demeanor and the smug way in which he has made Congress eat out of his hands in the past. There was the time, for example, when his nomination as the energy commission chairman was up for confirmation. It was never charged in any responsible quarter that I know of, that he was a Communist but it was charged that in his administration of the TVA, he was quite tolerant of Communists, that he is of the particular breed, now, and for many years, dominant in the councils of government, who see no particular harm in Communists, who find them, in many respects quite capable and helpful in agitation and organization for the socialized state.

So it was arranged to have a member of the Senate Committee studying his appointment to ask him if he believed in democracy. Whereupon, he paused, put his hands to his forehead as if in deep deliberation, and replied with a statement that the Leftists propagandists immediately hailed as such a brilliant expression of the meaning of democracy that it should be recited in every school of the land. There was the apparency of spontaneity about the statement but its preparation and the build-up for its publicity had been given careful attention. Thus it was that this brilliant "Meaning of Democracy" appeared in bold face type in the nation's leading newspapers the next day, and a few days afterwards, appeared in placard form in government bureaus throughout the city.

I cite this as an example of the tremendous propaganda package in which everything in Washington is wrapped these days, and also as an example of the smoothness with which Lilienthal has always performed. If there were no other objections to him whatsoever, his very smoothness should make the Senate wary in approving him for such an important position as he now has.

His insistence now, as near as I can make out, is that he be judged by the number of atomic bombs that have been stockpiled under his management, that his tolerance of Communists and his high-handedness in the award of contracts totaling hundreds of millions of dollars not be discussed lest the morale of our scientists be disturbed or some such nonsense.

The plain fact is that complacency towards Communists is disturbingly prevalent among high Washington officialdom generally. In a few weeks the renomination of Leland Olds as a member of the Federal Power Commission will be sent to the Senate and once again, as was the case four years ago, it will be thrashed out that he was formerly a director of the Communist-dominated Federated Press and that he served on the staff of the "Daily Worker." There is no doubt about this, the records are very plain on the subject, yet I suppose he will be confirmed again amidst a lot of propaganda that his detractors are the "selfish public utility interests."

There is a somewhat different atmosphere this time, however. Four years ago the Communists were our "allies," and the point was made in Olds' behalf that surely we wouldn't offend these "allies" by turning down one of their associates.

Of recent, the concern in Congress about Communists in government has spread wider than just the House Un-American Activities Committee to which it was formerly confined. Several committees and several members are prying into the situation from many angles. Senator McCarran of Nevada, never labelled a "red baiter," is, for example, demanding the employment records of more than 100 alien Communists who, he says, have seeped in under the Displaced Persons Act.

Expressions of disappointment are coming from many Congressional quarters, heretofore reticent on the subject, of the slow progress being made by the Loyalty Board in weeding the Communists out. Since the board was created and up until a few weeks ago, less than 300 employees had been dismissed and a good half of these were in the process of being reviewed. The State Department, which was given authority to dismiss any suspect without explanation, reported in its appropriation hearings before the House, that only 15 had been dropped. However, it was disclosed incidentally that 62 pathologicals, as the department expressed it, had been revealed and dismissed.

The United Public Workers' Association, whose top officials have refused to take the anti-Communist oath prescribed in the Taft-Hartley Act, claim they still have 10,000 members among Federal employees in Washington.

Pruden V.-P. of MacBride, Miller Co.

NEWARK, N. J.—The election of W. Deane Pruden as Vice-President and Director of MacBride, Miller & Co., 744 Broad Street, is announced. Mr. Pruden will be in charge of the development and expansion of the Newark firm's long-established business in mutual fund shares. The company will continue its business in New Jersey municipal bonds with which it has long been identified, as well as in general corporate securities.

Formerly an Assistant Trust Officer of the Fidelity Union Trust Co. of Newark, N. J., Mr. Pruden later organized and was the first President of the Life Insurance and Trust Council of North Jersey.

Business and American Way of Life

By HON. CHARLES SAWYER*

Secretary of Commerce

Deploring complacency regarding communistic threats, Secretary Sawyer extols free enterprise system, and says it is not intention of the Administration to run steel business. Holds normal desire of business to make profits can operate to increase capacity when needed, but contends there may be times when joint action of government and business may be required for this purpose. Stresses importance of sound financial system, and asserts individual initiative has been leading factor in American progress.

I propose to talk to you tonight on capitalism. This is an appropriate place to do so. The very structure on which our industrial economy is built is made of steel. The amazing growth of your industry faithfully mirrors the industrial progress of our great nation. The war demonstrated daily that steel is essential to produce the weapons we need. Today the great capacity and technical knowledge of your industry is turning out weapons of peace — those products needed to make the countless items which comprise the necessities and luxuries of modern civilized American living.

Charles Sawyer

When I use the word "capitalism," I use it in no narrow sense. I use it to describe our way of life. Other phrases employed in other places are equally meaningful. We hear of "the free enterprise system," of "industrial democracy," "individualism." In effect, they all describe the way of life which we in America enjoy and the things which distinguish that way of life from ideologies and programs of other lands now dominated by the communist theory. This is an appropriate place to talk about capitalism and this is an appropriate time to make some comparisons.

One hundred years ago last year in the ancient city of Brussels two Germans, Karl Marx and Frederich Engels, issued the Communist Manifesto and undertook to launch a world revolution. While the prophecies of the Manifesto have not been fulfilled, no informed man can deny the impact of the fervent Marxian appeal upon large areas of the world today; and now we sense an encroaching danger to our American democracy.

While many changes have occurred in the communist program, one fundamental remains — to abolish private property by violence, liquidate the bourgeoisie—private business men in our language—and turn over business to the state. This is no idle threat. It is true that communism has nowhere been sustained by popular suffrage. At every opportunity to vote freely peoples throughout the world have indicated an aversion for communism; its maintenance depends upon the ruthlessness of a well-disciplined minority. But we cannot bask contentedly in the assurance that communism will never come to us because the people do not want it. The minority undertaking to spread communism means business. We should make sure that the rest of us mean business.

After the attack on Pearl Harbor a Japanese admiral said that America would lose the war because of our incredible complacency. He was wrong. We did arouse ourselves from that complacency and put forth efforts of skill and daring and production which confounded our enemies and won the war. Immediately thereafter, however, we rushed to get away from the unpleasantness of the recent conflict. We demobilized our vast military forces with terrifying speed, we quickly disposed of much of our military supplies, and relaxed into a state of mild contentment. Under the leadership of the President, we have through prompt action in Europe, and in particular in the case of the Berlin airlift, given a magnificent demonstration of firm decision and power. But for the most part we now spend much of our time in argument among ourselves on matters which seem momentarily important but which sink into insignificance when we ask ourselves the question, "Will our way of life survive?"

Beyond our borders, our great preoccupation has been a laudable endeavor to help and to watch over a great part of the rest of the world. One of our chief concerns has been to assist in the rapid recovery of our recent enemies from the ravages of the war which they brought on. We have given them much of our time, attention and funds. In the year 1948, our Government spent for the support of the civilian population and the recovery effort alone — in Germany about one billion dollars—in Japan about one-half billion dollars. Including military expenditures, the total money put into those countries in 1948 aggregated almost two billion dollars.

Examining Our Own Weaknesses

While we are generous in our forgiveness of our recent enemies, and undertaking to rebuild their economies and improve their habits of thought and to give them happier lives, we are examining our own weaknesses with a very critical eye. A Senate Committee is now engaged in a review of certain military trials in Germany. The emphasis placed upon the methods of these trials has almost obscured the real issue—Were the individual Germans guilty or not guilty of the crime charged, and shall we permit either the Germans or ourselves to forget that shameful massacre of unarmed and helpless American soldiers on a snowy hillside at Malmedy in the bitter winter of 1944?

There seems to be a certain shame attached to any suggestion that the welfare of the USA must be kept in mind. When we occasionally mention our interests, we do it with hesitation and timidity. We are most careful to see that others are fairly treated. We are scrupulous in giving to communists all the rights granted by the Constitution which they would destroy. They reward us by trying in every way to make our courts appear ridiculous and to turn the processes of justice into a prolonged and hilarious farce. Foreign agents jump their bail and leave our shores as stowaways. We are well-intentioned, but a little soft. This is not a new or temporary attitude, nor does it represent the point of view of any particular group or political party. It is indicative of a certain American adolescence in contrast to the maturity of other nations who know more of the facts of life.

It is necessary in this world-shaking struggle now shaping up between the easy-going democracies and the well-disciplined and ruthless minorities who wish to take control of our destinies and our lives that we recognize the need for greater vigilance, a keener awareness of what is at stake, a more realistic dealing with the problems presented, and —above all—a firmer determination at all cost to preserve the future of America.

Few of us run any immediate personal risks in connection with the encroachments of communism, although many are willing to express their opinions on the matter, some quite violently. May I say, however, on this occasion that there are men in this country who have risked much and in some cases suffered greatly in this cause. I refer to leaders of unions into which communism has infiltrated, who have risked their positions, their incomes, and in some cases their bodily safety by engaging in a finish fight with this insidious following. The ranks of labor are marked for the first attack of the communist, and he is skillful in making it appear that labor leaders who may be fighting communism are in some way failing in their duty to their fellow workers. Leaders of organized labor, like the rest of us, are not always right, but business men should recognize and citizens generally should recognize that the vanguard of our battle with communism is in the ranks of labor, and credit for much of the success in the fight against communism should go to members of organized labor.

Government Has No Intention of Running Steel Business

Your business fundamental. It is the bellwether of all business. You must keep it strong and prosperous. In that effort you are entitled to the friendly approval of your Government. I probably do not need to say it but to avoid any misunderstanding I wish to say that, of course, I don't condone any illegal or improper practices by any business. Business men should obey the law, and insofar as I have anything to do with the matter I shall see that they do. The honest business man should be encouraged and not discouraged by Government in the quite proper effort to operate his business successfully and profitably. And business men should be permitted to run their own businesses. They know more about business than government officials. No government official ever will or can run a business as well as a business man can do it. It is not the intention of the Government to run your business. Contrary to any rumor you may have heard, the Government never intended to take over the steel business of the United States, nor even considered that as a possibility.

The President suggested a study of the adequacies of production facilities for materials in critically short supply and government loans or government action if private enterprise fails to meet our needs. I personally feel that private enterprise will meet the demands of our economy. If, however, because a business operation was not profitable or for any other reason, critical materials needed in industry could not be secured through the activities of private enterprise, I would certainly not sit by and see our economy disintegrate because the Government believed it was helpless and could do nothing to save its people from disaster.

I meet occasionally both in and out of government those who view lightly the effects of some gov-

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*An address by Secretary Sawyer before the 57th General Meeting of the American Iron and Steel Institute, New York City, May 26, 1949.

How to Avert Socialism

By HARRY E. HUMPHREYS, JR.*
President, United States Rubber Company

Contending America is sleeping its way into socialism, leading industrialist urges as remedy inculcation of greater confidence in our business system. Says more time and effort must be developed by businessmen toward creating better public relations and urges dissemination of economic information. Recommends employers consider problem of employees' basic wants, such as: (1) job security; (2) opportunity to advance; (3) humane treatment; and (4) importance of workers' role. Outlines techniques of getting information to workers.

Recently a businessman boarded the 20th Century in Chicago for New York. He said to the porter: "George, I've had a tough day. Bring me three scotches and soda. Then don't bother me any more until we get to Harmon. I'm going to hit the hay early. However, be sure to put me off at Harmon. A car is going to pick me up to take me across to Bridgeport for an important meeting."

Harry E. Humphreys

When the businessman awoke the next morning the train was already in New York City — specifically at 125th Street. To say that the man was angry would be to put it mildly. He practically tore the Pullman apart. He was still erupting like a volcano when the train pulled into Grand Central Station.

He told the porter, the conductor, the engineer, the station master and everyone else within shouting distance what a nincompoop the porter was, that he should be fired on the spot, et cetera, et cetera.

Unable to obtain satisfaction, he finally stormed away. The conductor looked at the porter and said: "George, did you ever in your life see a man so mad?"

"Yas suh!" the porter replied. "Dat man ah put off at Harmon!"

America Is Sleeping Its Way to Socialism

America is sleeping its way to the wrong destination. It thinks it is traveling the road to private enterprise. Actually it is on the road to socialism.

Government now provides unemployment insurance and old-age pensions; it has legally fixed minimum wages and maximum hours; it holds itself obligated to house lower income groups; it maintains parity prices for farm products; it lends and guarantees loans to individuals and corporations. Government—local, state, and Federal—now takes 25% of our national income in taxes.

If you compare this 25% with the 40% of national income which government in socialized Britain consumes in taxes, you will get some idea of where we are. I fear we are uncomfortably close to 125th Street. I hope we are about to wake up fighting mad.

Social Security Is Becoming a Frankenstein

Right here let me make it clear I am not against the idea of social security. Social security is good as long as it serves us. It is bad if it masters us. And it is now showing signs of becoming a Frankenstein.

Evidence of this is the broader and costlier program for bringing more security to all which the President recommended to Congress early this year.

When I think of this additional welfare program, I am reminded of the story of a large snake which was crawling peacefully across an open field. As the snake approached a rail fence, a free meal in the shape of a rabbit popped up in front of him. He swallowed the rabbit. He slowly crawled on toward the fence and was half way under it when another rabbit jumped up in front of him. Without thinking, he swallowed that rabbit, too. Then he was in trouble. He could not get out from under the fence. When he attempted to move forward, the lump caused by the first rabbit caught on the bottom rail. When he tried to squirm backward, the lump caused by the second rabbit stopped him.

After wriggling half-heartedly a couple of times, he gave up, saying, "There's nothing I can do about it. I'm caught by circumstances beyond my control."

Although history shows that after a country has started down the road to socialism it is hard to turn back, I believe this nation can do it—provided we think before swallowing any more rabbits.

Greater Confidence in Our Business System Is the Remedy

The one way of reversing the trend which is most likely to succeed is to develop among more people more confidence in our business system. Greater confidence will come from better understanding. Better understanding will come, in large measure, from information which explains how our business system works—how and why it provides more of the good things of life than any other system.

Who is going to provide the information? Shall we entrust the job to special pleaders seeking to further their own selfish ends? Shall we be content to leave it in the hands of collectivist minded politicians who like nothing better than to discredit and dominate business? Are we willing to turn it over to left-wingers and Communists out to destroy all our liberties?

These questions are not as foolish as they may sound. All these groups have been giving more information—and more willingly—than the one group which is best qualified to do the job.

More Time and Effort Must Be Devoted to Public Relations

The 11th hour is here for business to speak for itself. Now, and from now on, the men who run American business must devote as much—if not more—time and effort to the public relations of their business as they spend on finance, production, and distribution. Unless they do, they will not need to worry about the latter problems. Government will be glad to handle them all.

It is recognized that telling the story of how business serves the public interest is only a part of public relations. First, and most important, business must be sure that it is operating in the interest of the people.

However, our assignment this evening calls for discussion of only the first part—the telling of the story. This in itself is such a big job that one wonders where to take hold of it.

Start Economic Information Program With Employees

It is suggested that each company start by explaining itself to its own employees.

There is nothing original in this suggestion. Numerous companies have launched economic education programs in this manner. My plea is for all companies to get going on this all-important job, and for those companies who are already under way to keep on with the good work.

It is logical for a company to provide economic information first for its own employees. They comprise the largest group of people with whom management comes into close daily contact. Furthermore, it makes sense for a company to go about explaining the economic system by explaining itself. Unless the employee sees in his own company a clear example of how business works, he is likely to look upon free enterprise as so much hooey.

There are at least three specific reasons why a company should tell the economic facts of life to its employees.

First, the employee who understands business and his stake in it will be a more productive employee. An efficient employee is the kind of employee every company wants on its payroll. An efficient employee is the only kind of employee a company can afford to have on its payroll in times of normal competition such as the present.

Second, a company's standing in a community is largely the reflection of what its employees think and say about it. The story of American business deserves to be told and must be told by many voices. Management can and should spearhead the job. It cannot do the job alone.

For example, we have approximately 5,000 persons in management in our company. We have more than 45,000 employees in the United States who are not a part of management. It is the duty of the 5,000 to provide the 45,000 with the necessary information which will enable each of them to be not only a good public relations representative of U. S. Rubber—but also of U. S. A.

Third, survey after survey shows that employees need information. Their notions about profits, dividends, capital investments and other essentials of our economy are far wide of the facts. Of unusual significance to this discussion is the finding that there is a marked relationship between ignorance of economic facts and collectivist attitudes among employees.

A nationwide study made by Dr. Claude Robinson of Opinion Research Corporation revealed that 83% of uninformed employees were either partial or extreme collectivists, with only 17% believing in free enterprise; whereas among well informed emloyees only 25% were partial or extreme collectivists, and 75% believed in free enterprise.

Employee opinion studies show further that employees not only need information—they want it. At least 8 out of 10 employees in every plant surveyed said they were interested in receiving information from their company.

What Employees Want to Know

What kinds of information do employees want?

A representative number of employees interviewed by Dr. Robinson said questions such as the following would bring forth the kinds of information that would

(Continued on page 30)

*An address by Mr. Humphreys before the 33rd Annual Meeting of the National Industrial Conference Board, New York City, May 25, 1949.

Dealer-Broker Investment Recommendations and Literature

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

Canada — Monthly commercial letter — The Canadian Bank of Commerce, Toronto, Ont., Canada.

Coffee—Study—Merrill Lynch, Pierce, Fenner & Beane, 70 Pine Street, New York 5, N. Y.

Economic Recovery of Europe and the ultimate effect upon government bonds of Great Britain, Belgium, Sweden, Netherlands, Norway and Denmark — New study—Zippin & Co., 208 South La Salle Street, Chicago 4, Ill.

Market Outlook—Memorandum—Jacquin, Bliss & Stanley, Hotel Biltmore, New York 17, N. Y.

Natural Gas—Circular—Ernst & Co., 120 Broadway, New York 5, N. Y.

Outlook for Resumption of Trading in German Dollar Bonds—Analysis—F. R. Lushas & Co., Inc., 29 Broadway, New York 6, N. Y.

Over-the-Counter Industrial Stock Index—Booklet recording 10-year performance of 35 industrial stocks—National Quotation Bureau, Inc., 46 Front Street, New York 4, N. Y.

Public Utility Company Common Stocks—Fourth edition of Price-Earnings Ratios—Revised to April 1, 1949—Stroud & Co., Inc., 123 South Broad Street, Philadelphia 9, Pa.

Rail Stocks—Circular — Fahnestock & Co., 65 Broadway, New York 6, N. Y.

Railroad Earnings in the first quarter of 1949 — Tabulation — Goodbody & Co., 115 Broadway, New York 6, N. Y.

Railroad Letter—1949 edition giving tabulation of roads solvent for 20 years or more, those reorganized by negotiation, and those in equity or bankruptcy since 1929—Carter H. Harrison & Co., The Rookery, Chicago, Ill.

Unlisted Electric Utility Operating Companies — Comparative table of 49 companies—New York Hanseatic Corp., 120 Broadway, New York 5, N. Y.

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Anheuser-Busch, Inc.—Special report—Stifel, Nicolaus & Co., Inc., 314 North Broadway, St. Louis 2, Mo.

Bank of the Manhattan Company—Statistical comparison of capital stock with that of certain other New York City bank stocks—First Boston Corp., 100 Broadway, New York 5, N. Y.

Canada Cement Company—Detailed analysis—Crabtree & McLaughlin, 231 St. James Street, West, Montreal 1, Que., Canada.

Also available is a detailed study of **Dominion Bridge Company Limited.**

Combustion Engineering-Superheater, Inc.—Study—White, Weld & Co., 40 Wall Street, New York 5, N. Y.

Emery Air Freight Corp.—Analysis — Reynolds & Co., 120 Broadway, New York 5, N. Y.

Haloid Company—Memorandum—Hecker & Co., Broad and Arch Streets, Philadelphia 7, Pa.

Also available is a memorandum on **Bingham Herbrand Corp.**

Illinois Central Railroad Company—Circular—Smith, Barney & Co., 14 Wall Street, New York 5, N. Y.

International Resistance Co.—Circular — Harrison & Co., 123 South Broad Street, Philadelphia 9, Pa.

Interstate Engineering — Card memorandum — Bennett, Spanier & Co., 105 South La Salle Street, Chicago 3, Ill.

P. R. Mallory & Co.—Circular—Kiser, Cohn & Shumaker, Circle Tower, Indianapolis 4, Ind.

Middle South Utilities, Inc.—Circular—Sutro Bros. & Co., 120 Broadway, New York 5, N. Y.

Oregon Portland Cement—Late data—Lerner & Co., 10 Post Office Square, Boston 9, Mass.

Oswego Soy Products Corp.—Analysis—Cohu & Co., 1 Wall Street, New York 5, N. Y.

Public Service Co. of Indiana—Analysis—Blair & Co., Inc., 44 Wall Street, New York 5, N. Y.

H. H. Robertson Company—Analysis—Francis I. du Pont & Co., 1 Wall Street, New York 5, N. Y.

Sunray Oil — Memorandum — Eastman, Dillon & Co., 15 Broad Street, New York 5, N. Y.

Tide Water Power Company—Analysis—Ira Haupt & Co., 111 Broadway, New York 6, N. Y.

Also available are reviews of **Electric Bond & Share, Graham Paige, and American Superpower Preference.**

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

United Gas Corp. — Circular — Laird, Bissell & Meeds, 120 Broadway, New York 5, N. Y.

Utah Power & Light—Data—Edward L. Burton & Co., 160 South Main Street, Salt Lake City 1, Utah.

V. D. Dardi Elected By Blair & Co., Inc.

The Board of Directors of Blair & Co., Inc., 44 Wall Street, New York City, has elected V. D. Dardi

V. D. Dardi

as Chairman of the Board and Chief Executive Officer. Mr. Dardi will maintain his headquarters in New York. He also is Chairman of the Executive Committee and Chief Executive Officer of Blair Holdings Corporation, parent company of Blair & Co., Inc.

COMING EVENTS

In Investment Field

June 3, 1949 (Chicago, Ill.)
Bond Club of Chicago annual field day at Knollwood Club, Lake Forest, Ill.

June 3, 1949 (Connecticut)
Security Traders Association of Connecticut annual summer outing at Wampanoag Country Club, West Hartford, Conn.

June 3, 1949 (New York City)
Bond Club of New York 25th Annual Field Day at Sleepy Hollow Country Club, Scarborough, N. Y.

June 3, 1949 (Philadelphia, Pa.)
Bond Club of Philadelphia annual field day at the Philadelphia Country Club, Bala, Pa.

June 6, 1949 (Chicago, Ill.)
Chicago Stock Exchange annual election.

June 6-7, 1949 (Cincinnati, Ohio)
Municipal Bond Dealers Group Annual Spring Party. Cocktail party for out of town guests June 6th; outing June 7 at the Kenwood Country Club.

June 8, 1949 (New York City)
Municipal Forum of New York annual meeting and election.

June 9, 1949 (Boston, Mass.)
Boston Securities Traders Association 30th Annual Outing and Golf Tournament at the Weston Golf Club, Weston, Mass.

June 9, 1949 (New York City)
Municipal Bondwomen's Club spring luncheon meeting at 12:30 p.m. at The Wall Street Club.

June 10, 1949 (Atlanta, Ga.)
Georgia Security Dealers Association annual meeting and jamboree at the Capital City Country Club.

June 10, 1949 (Baltimore, Md.)
Bond Club of Baltimore annual spring outing at the Elkridge Club.

June 10, 1949 (Buffalo, N. Y.)
Bond Club of Buffalo annual picnic at the Wanakah Country Club.

June 10, 1949 (Los Angeles, Calif.)
Bond Club of Los Angeles field day and outing at the Bel-Air Country Club.

June 10-12, 1949 (Minneapolis, Minn.)
Twin City Security Traders Association Summer Party at Gull Lake.

June 10, 1949 (New York City)
Municipal Bond Club of New York Field Day at Sleepy Hollow Country Club.

June 15, 1949 (Cincinnati, Ohio)
Cincinnati Stock and Bond Club annual spring party at the Hyde Park Country Club.

June 15, 1949 (Minneapolis, Minn.)
Twin City Bond Club annual picnic at the White Bear Yacht Club.

June 17, 1949 (Boston, Mass.)
Municipal Bond Club of Boston Annual Outing at the Concord Country Club, Concord, Mass.

June 17, 1949 (Cleveland, Ohio)
Cleveland Security Traders Association annual summer party at Kirtland County Country Club.

June 17, 1949 (Detroit, Mich.)
Bond Club of Detroit annual outing at the Grosse Ile Golf and Country Club.

June 17, 1949 (Milwaukee, Wis.)
Milwaukee Bond Club annual field day and picnic at Oconomowoc Country Club and Oconomowoc Lake Club.

June 17, 1949 (New Jersey)
Bond Club of New Jersey Annual Field Day at Rock Spring Club, West Orange, N. J.

June 21-24, 1949 (Canada)
Investment Dealers Association of Canada 33rd annual meeting at Minaki Lodge, Ontario.

June 24-26, 1949 (Los Angeles, Calif.)
Security Traders Association of Los Angeles annual spring party at the Arrowhead Springs Hotel.

June 24, 1949 (New York City)
Investment Association of New York annual outing at the Westchester County Club, Rye, N. Y.

June 24, 1949 (Toledo, Ohio)
Bond Club of Toledo 15th annual outing at Inverness Country Club.

June 25, 1949 (Chicago, Ill.)
Bond Traders Club of Chicago annual summer outing at the Nordic Hills Country Club.

June 28, 1949 (Detroit, Mich.)
Securities Traders Association of Detroit and Michigan annual summer party at the Lochmoor Club, Grosse Pointe Woods, Mich.

June 28, 1949 (Omaha, Neb.)
Nebraska Investment Dealers Bond Club spring frolic at the Omaha Country Club, to be preceded by a cocktail party June 27 at the Omaha Athletic Club in honor of out-of-town guests.

June 28, 1949 (Pittsburgh, Pa.)
Bond Club of Pittsburgh Spring Outing and Golf Tournament at St. Clair Country Club.

July 27, 1949 (Pittsburgh, Pa.)
Bond Club of Pittsburgh Mid-Summer Picnic at Mill Grove, North Park.

Sept. 9-11, 1949 (Oregon)
Pacific Northwest Group of the Investment Bankers Association 1949 meeting at the Gearhart Hotel, Gearhart, Oregon.

Sept. 9, 1949 (Pittsburgh, Pa.)
Bond Club of Pittsburgh Fall Outing at Chartiers Country Club.

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

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

With Stix & Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — Lorraine R. Lasswell has been added to the staff of Stix & Co., 509 Olive Street, St. Louis, Mo., members of the St. Louis Stock Exchange.

J. J. Kenny Forms Own Investment Co.

The formation of J. J. Kenny Co. to conduct a brokerage business in general market municipal bonds is announced by John J. Kenny. The firm will maintain offices at 31 Nassau Street and will act as brokers for dealers and dealer banks exclusively. Mr. Kenny formerly was a member of the firm of F. P. Lang & Co.

With Olson, Donnerberg Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—Chauncey M. Boggs is with Olson, Donnerberg & Co., Inc., 418 Olive Street, St. Louis, Mo.

David Cowan V.-P. of Geyer & Co. Inc.

Geyer & Co. Inc., 63 Wall Street, New York City, announces tne election, effective May 31, of David Cowan as a Vice - President to assume charge of a new department to deal in public utility and natural gas securities. Addition of this new department will broaden the business of the firm which heretofore has specialized in bank and insurance stocks exclusively. Mr. Cowan has been public utility specialist for Shields & Co., since 1944 and prior thereto was with the War Production Board in Washington which he joined after eight years service with Lehman Corp.

David Cowan

Frederick W. Vogeil, formerly with J. G. White & Co., has joined the Geyer organization and will be in charge of public utilities trading.

Two With R. H. Johnson

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS. — Edward F. Davey and Wilfred B. Perham are with R. H. Johnson & Co., 30 State Street.

Edward E. Mathews Adds

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS. — Ernest E. Stevens and Dewey J. Thibault have been added to the staff of Edward E. Mathews Co., 53 State Street.

Pennsylvania Brevities

Hearings on Pittsburgh Railways Plan

Hearings on the proposed reorganization plan for Pittsburgh Railways Co. and its underliers are scheduled to begin before the Federal Court in Pittsburgh next Tuesday.

Details of the plan were made public last month and met with mixed reception on the part of security holders. Outstanding system securities fall broadly within three classifications: the so-called "guaranteed" issues, unguaranteed bonds and unguaranteed stocks. Public holdings of all groups aggregate about $27,000,000. To be distributed to these holders in satisfaction of their claims, the plan provides not less than $17,000,000 in cash, not more than $6,000,000 in new first mortgage 5% bonds and 1,076,096 shares of new common stock.

Pittsburgh Railways Co. has been in receivership since 1938. Since that time, interest and dividends on publicly-held guaranteed issues have been paid by the guarantor, Philadelphia Company, but fixed charges on an aggregate of over $16,000,000 unguaranteed bonds and leased line stocks have not been met. Thus it is obvious that the proposed distributions are insufficient to meet public claims in full and compromises will have to be accepted if the plan is to be adopted.

The largest concession has been agreed to by Philadelphia Company. Owning all of Pittsburgh Railways preferred and common stocks, over $12,000,000 in demand notes and an aggregate of about 65% of all other outstanding system securities, the parent company is scheduled to subordinate its claims to those of the public and accept 51% of the new common stock as representing its remaining equity.

Public holders of guaranteed issues will be tendered cash in surrender of their rights. Holders of unguaranteed bonds are to get cash and new bonds to the extent of the principal amounts of their claims, plus an additional small distribution of new common in lieu of accruals. Unguaranteed stocks are scheduled to receive minor amounts of cash and new stock.

While the plan provides that the major groups receive different treatment in general accord with the accepted principles of equity, it was not found practicable to extend the differentiation to ultimate finality in respect to individual issues. To attempt to do so would subject the proposals to claims and counter-claims in conflict among holders of over 40 different issues. Students of the plan concede that its approach is realistic and that its provisions are, in the main, fair and equitable. Moreover, it is understood that the plan was set up after extensive conferences with regulatory bodies and that its approval by such sources may be expected.

As a matter of ready reference, the table below lists the proposed distributions in respect to the more widely held issues.

Guaranteed Issues

	Cash per $1,000 Bond
Pittsburgh Railways Gen. 5s, 1953	$1,050
South Side Passenger Railway 5s, 1953	1,060
Suburban Rapid Transit Street Railway 6s, 1953	1,090
	Cash per Share
Monongahela Street Railway Stock (par $50)	$48.00
Pittsburgh & Birmingham Traction (par $50)	52.00
Pittsburgh Incline Plane (par $100)	170.00
Suburban Rapid Transit (par $50)	46.50

Unguaranteed Bonds, per $1,000

	Cash & Bonds	Stock (shares)
Ardmore Street Railway 5s, 1958	$1,000	12
Federal Street Pleasant Valley 5s, 1942	1,000	13
Fort Pitt Traction 5s, 1935	1,000	14
Pitts. Canons. Wash. 5s, 1937	1,000	14
Second Avenue Traction 5s, 1933	1,000	14
The Second Avenue Traction 5s, 1934	1,000	14
Southern Traction 5s, 1950	1,000	12
United Traction 5s, 1997	1,000	12
Washington Elec. St. Rwy. 5s, 1927	1,000	14
Washington & Canonsburg 5s, 1932	1,000	14
West End Street Rwy. 5s, 1938	1,000	14
West Liberty & Suburb. 5s, 1938	1,000	14

Unguaranteed Stocks, per Share

	Cash	Stock (shares)
Allegheny Traction	$5.00	4.2
Central Traction	3.00	2.5
Citizens Traction	5.00	4.2
Consolidated Traction preferred	5.00	4.2
Dequesne Traction	5.00	4.2
Federal Street Pleasant Valley	2.50	2.1
United Traction preferred	5.00	4.2

* * *

Additional Trustee Appointed

PITTSBURGH.—Elmer E. Bauer has been appointed by the Federal court to serve as reorganization trustee of Pittsburgh Railways Co. with W. D. George and Thomas Fitzgerald, present trustees. A hearing on the appointment of Mr. Bauer is scheduled for June 23.

* * *

Monongahela Stock Tender

PITTSBURGH—In an effort to expedite the reorganization proceedings of Pittsburgh Railways Co., the Mellon interests have advised the management of Monongahela Street Railway Co. that they have offered to sell their substantial holdings of Monongahela Street Railway Co. stock to Philadelphia Company at a cash price of $39 per share, $9 per share less than the plan's proposed price of $48. The acceptance of the offer by Philadelphia Company is subject to approval by the Securities & Exchange Commission.

* * *

Rhubarb in Philadelphia

PHILADELPHIA—The City of Philadelphia's dogged efforts to upset Philadelphia Transportation Co.'s recently granted 13-cent street car fare struck a jagged rock last week when the Pennsylvania Public Utility Commission, in a formal reply to the City's petition to the State Superior Court, averred that it, the PUC, had not abused its discretion in ignoring alleged facts and moved that the City's petition be dismissed.

On Jan. 21, the Public Utility Commission deferred the plea of the transportation company for fare increases for a period of 6 months, pending a series of hearings on the matter. On May 14, the PUC permitted the higher schedule to be put into effect on a temporary basis, and it was this action that precipitated the City's appeal to the State Superior Court.

The PTC's answer to the City's petition was filed last Friday. In it, company attorneys held that the Superior Court has no authority to suspend rates; that even if it had such authority, the city had not filed a cash bond to indemnify PTC for any loss suffered because of such a writ, and that no such stay should be granted anyway.

Last week's hearings before Jay Eiseman, a PUC examiner, have been recessed until June 8, when PTC is to present its estimates of projected results under a 10-cent fare with exchange tickets or a straight 7½-cent cash fare with all transfers abolished.

Philadelphia Transportation Co. maintains that it is operating at a loss and is not receiving a proper rate of return upon the fair valuation of its property.

* * *

Corporate News and Notes

Scott Paper Registers

PHILADELPHIA—Announcement was made last week of registration with the SEC by Scott Paper Co. of Chester, Pa., of 45,000 shares of cumulative no-par preferred stock. Dividend rate and offering price will be filed by amendment. Drexel & Co., Smith, Barney & Co. and Merrill Lynch, Pierce, Fenner & Beane are named as underwriters.

Proceeds will be used to reduce or eliminate current bank loans, for additions and improvements to plant and for general corporate purposes.

* * *

PENNA. RR. TAKES THE CURVE

Reporting April net income of $3,084,929 as compared with a deficit of $5,234,798 in April, 1948, Pennsylvania Railroad has offset a 1949 first-quarter deficit and is $2,119,677 in the black for the first four months of the year.

* * *

Hires' To Yuh!

PHILADELPHIA—As reported in the Philadelphia "Inquirer," sales of the Charles E. Hires Co. for May will be about 30% above the corresponding month last year. The company's fiscal year, in the last four and one-half months of which about 80% of the year's profits are recorded, ends Sept. 30. Mr. Charles E. Hires, Jr., President, points out that the company's expansion program was largely completed last year. He also notes some indications of a reversal in the trend to higher costs.

* * *

For the first time since January, steel operations in the Pittsburgh district were scheduled to drop below 100% of capacity this week. For the week ending Saturday, June 4, ingot rate is scheduled at 98.4%. This somewhat bears out the astute observation of one P. F. Fox, New York security dealer and savant, who believes that after a further not-too-serious readjustment in steel, the market should be ready to go places.

* * *

Gulf Oil Corp.

PITTSBURGH—Sidney A. Swensrud, President of Gulf Oil Corp., noting first-quarter earnings of $2.37 per share against $3.39 in the like period a year ago, states that while sales volume in 1949 may equal that of 1948, net earnings for the year are likely to be lower. Profits are being adversely affected, he says, by lower fuel prices, declining demand and growing competition.

* * *

Pennsylvania Power & Light Co.

ALLENTOWN—In anticipation of continuing its expansion program by the expenditure of approximately $75,000,000 by the end of 1952, Pennsylvania Power & Light Co. last week announced that it plans to finance a part of its needs by offering additional common shares to stockholders in the ratio of one new share for each seven shares held as of the record date, June 27. Subscription price and other terms and conditions will be subsequently announced.

* * *

Philadelphia Gas Works Co. has asked SEC permission to borrow $2,500,000 from three Philadelphia banks for capital improvements.

The Foundations of World Trade

By THOMAS C. BLAISDELL, JR.*
Assistant Secretary of Commerce

Asserting firm foundation for multilateral and expanded foreign trade is still lacking, Commerce Secretary points to disruptions due to war and general political unrest as deterring factors. Sees trade regulation essential, but holds problem lies in how we can direct it. Contends unless adequate substitute for international gold standard is found, nations will choose security of lower living standards rather than insecurity of depression, and thus revert to nationalistic policies that restrict international trading.

Export or die! This has had to be the motto of Western Europe since the war. It is no hollow slogan. The Western European nations became great only by using their specialized abilities to manufacture goods from the raw materials which they brought from the ends of the earth for sale throughout the world. Western Europe is limited in practically all raw materials. It does have coal, a great source of power, and it has technical knowledge. It has applied them to raw materials to grow powerful and wealthy. But in the last analysis its population can be supported at present standards only if it functions as a specialized part of a world economy.

T. C. Blaisdell, Jr.

We in the United States are not faced with any such dire alternatives. Nevertheless foreign trade is an important part of our economy. During World War II the foreign traders of the United States expected that peace would bring the return of easier trading conditions. In fact, their hopes had been raised by many statements and actions, both by private individuals and by government, that it would be possible to trade with fewer hindrances than had been known before the war. One of the charges which we had made against the Axis powers was their use of discriminatory and monopolistic trade practices in international trade which we felt had had unfavorable results on our own trade. It was only natural to feel that, when the war was over and the Axis defeated, those practices would become a thing of the past and we would have a world in which free competition between the traders of various countries would dominate the international economic scene.

We know now that much of this thinking was wishful and partook of the stuff that dreams are made of. In spite of the fact that we have just reached the four-year mark after V-E Day, we still find our trade hampered and tied by bonds which we have often failed to identify accurately. The Department of Commerce is constantly receiving complaints from traders who feel certain they could sell their products if foreign countries would only issue import licenses or if their buyers were given access to exchange more freely. Complaints are made that the British are using the sterling area to freeze out American traders; that the Dutch have used the guilder control against our interest, that the French have been unfair in not giving freer access to American business in some of the areas in which the franc is the medium of exchange. There is a feeling of disillusionment, particularly in view of the feeling that the large loans and grants made by the United States should have eased the payments problems of the various countries that were devastated by the war. This feeling is strengthened since the International Monetary Fund and the International Bank for Reconstruction and Development were created so that both short-term credits and long-time loans could be made available to those parts of the world that needed such funds.

Complete convertibility of exchange, complete freedom to compete are the essence of our kind of world. So, it is not surprising that we should have had in our minds the picture of this kind of trading world. It is a trading world which those of us who are interested in international trade can regard as ideal. In time of stress, we tend to idealize and think that all things are possible once the stress is removed. Many a businessman, under the restraints placed on him while he was in uniform, looked to the civilian world to which he would return as a world in which the restrictions and the hardships and the difficulties associated with his military duties would be replaced by a world in which governmental restrictions could be forgotten.

Need Firm Foundation for Trade

It is a good thing for us to dream these dreams. It is a good thing that in times of stress we look to the better world which we would like to build. We sometimes forget, however, that a sound building can be erected only on a firm foundation. The foundations of a world trading system lie deep in our business system. It is apparent today that the destructive effects of the war on the foundations of world trade were far greater than anyone realized at the time the war ended. The physical destruction, which was apparent on every hand in Europe and in many parts of the Far East, was an obvious part of the trouble. But the real problems were much more serious than those caused by the physical destruction. The real difficulties were created by the destruction of the human relationships and business contacts through which the prewar world had operated.

Those who are associated with international trade are fully acquainted with the heavy machinery of trading: the physical transportation facilities — trains, ships and planes. They know the various types of customs regulations and procedures, the business practices associated with commercial instruments, the various "angles" on buying and selling of exchange, and the appraisal of foreign trade markets. They are less clearly aware of the great currents of international trade which make possible the overall balance between countries, between the economies of the various parts of the world linked together by their trade activities, and the balance of capital investment by one country against the need for industrial development in another country.

During the war, normal international trading ceased to exist. It was replaced by a system designed for the direct procurement and processing of raw materials into war goods. Government purchasing bodies, established by the United Kingdom and the United States, took over in large part the functions of private traders. We divided the world between the pound and the dollar. In one part of the world the British bought; in another part of the world the United States bought. In the Near East and the Far East, the pound sterling was the unit of exchange and the British purchasing agents brought raw materials both to England and to the United States, while in Latin America and in certain parts of the Far East the United States bought and made their supplies available to the United Kingdom as well as to the United States. This venture into government purchasing, however, weakened immeasurably many of the private businesses which would have carried on these activities in normal times but which could not be used in times of war.

In the exchange of goods between the United Kingdom, the Soviet Union and other European countries, the instrument of Lend-Lease further disintegrated the system of private trade. This is no criticism of Lend-Lease. Nor is it a criticism of the use of government corporations during the war. Any other method at that time would have been impossible. We were struggling against forces so powerful that there were times when the balance might have fallen either way.

However, today we forget how far the combination of physical destruction with these forms of organization used during the war made inroads on the normal ways of doing business. In fact, even today the postwar conditions look to some of the European governments so much like war that they have retained some of the machinery of the wartime period. They continue to carry on activities which we have felt could be better carried on by private businesses.

We have forgotten also the extent to which the governmental machinery, which made the countries of Europe efficient as industrial and trading nations, was disintegrated as a result of the war. With the coming of peace, it was necessary to rebuild from the ground up practically all the governments in Europe. The few exceptions only prove the rule. The destruction and rebuilding of governments also took place in all that area of the Far East which was overrun by the Japanese and which was opened to foreign traders only because of the governmental power exercised on the fringes of those societies by the western European and American governments.

Political Unrest a Factor

How slight our penetration into these cultures and economies has been, few people have realized. The destruction of the businesses formerly established in eastern Asia, which resulted from the Japanese wartime expansion is seldom thought of. We are reminded constantly, however, of the weakness of the existing governments. This weakness is demonstrated by the constant pressure of revolutionary activity and the extent to which revolutions have kept that part of the world in turmoil.

There is a rule of thumb among historians that a revolution succeeds only because of the internal weakness of those against whom it is directed. This has certainly been true in a large part of Eastern Asia—the Chinese mainland, Indonesia, the South Sea Islands, Siam, French Indo-China, Burma. In all of these countries the attemps to establish stable governments have been unusually difficult.

The relatively peaceful establishment of the governments of India and Pakistan and the Philippines are landmarks in the history of governmental change, since they have taken place without the collapse of existing governments. But those who are acquainted even with these relatively stable parts of the Far East know best the magnitude of the problems which the new governments face in establishing freedom and justice within a stable society. Stability in that part of the world is another part of the foundation necessary if our international trade is to expand.

I have left until the last in this brief sketch of the destructive effect of the war, a mention of the conquered countries of Japan and Germany. The problems which have faced the occupying forces in these countries were almost unique. I think it is true that never in history were the governmental institutions of conquered countries more thoroughly destroyed. New governments with which we can feel at home have to grow. They have to grow from their own soil. They can grow only as trust and confidence between victor and vanquished are reestablished on the basis of performance. It is easy to criticize many of the actions of the occupation authorities. It is difficult to carry out even the most constructive policies. In the world of international trade, Germany and Japan hold an important place. It is partly competitive with some of our industry. But neither country can live without trading. Each must take its place in a trading world unless we plan to support them indefinitely.

The Communist Bloc

On the border of our trading world is the Communist bloc—the Soviet Union and the other eastern Eupropean states. They do not make the atmosphere any easier for foreign traders. Their trade is state trade. It is monopoly of both export and import. They control both the movement of goods and the movement of persons as major instruments in carrying out national policy. Trading in this atmosphere is not easy. A trading monopoly always has the advantage. It can play off competitors against each other. The monopolistic exporter should be able to get the best possible price for his exports because of the competing buyers. The importing monopoly should get the best price because it can play off the competing sellers against each other.

In the face of all these difficulties, the American traders have, during the past several years since the war, been unusually fortunate. Our country was undamaged by war except in the loss of that irreparable resource, manpower, and even in our human losses we suffered less than any of our allies. And we are living in a period of the greatest prosperity in our history. We have been so fortunate that we have been the envy of the rest of the world. Even our Latin-American friends, who have had much the same kind of prosperity which we have had, although not to the same degree, have looked upon the United

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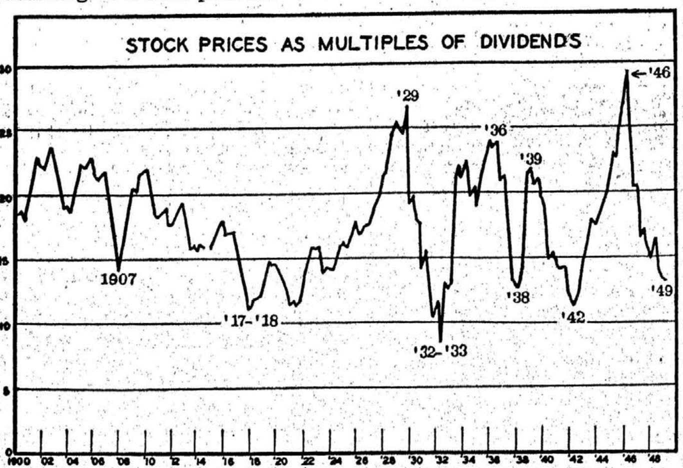
*An address by Assistant-Secretary Blaisdell before the Foreign Trade Forum of the Miami Chamber of Commerce, Miami, Fla., May 26, 1949.

Mutual Funds

By HENRY HUNT

What Price Dividends?

"Apropos of our recent discussions as to whether common stock prices are at favorable levels at this time is the following chart published by the Cleveland Trust Company which depicts the relationship between dividend payments and stock prices for a period of almost 50 years. The stocks used are those regularly traded on the New York Stock Exchange and the ratio is obtained by dividing their average monthly prices by the dividends paid during the preceding 12-month periods.



"It will be noted that with the exception of the depression years of 1932-33, common stocks are now selling at about as low a level in relation to dividend payments as they have during the entire 50-year period. It is also of some significance that in practically every instance where stocks have sold at less than 15 times dividends (1907, 1917-1918, 1932-1933, 1938, 1942), there has been a substantial rise in the level of stock prices within a comparatively short time.

"It doesn't necessarily follow that stock prices are immediately due for a big rise. On the other hand, it would be flatly contrary to at least 50 years of stock market precedent if the level of stock prices should decline to any marked extent from the present level.

"Look at the prominent high points in the chart. Each one—1929, 1936, 1939 and 1946—corresponds in point of time with interim stock market high points; it may be recalled that substantial price declines occurred subsequent to the establishment of these peak levels. Now look at the present level. If a decline of any proportion is to occur from this level, then it will be the first time on record that a major decline started from the bottom area of this graph."—From **Vance, Sanders'** "Brevits."

"National" Reports

The new 48-page annual report of **National Securities Series**, replete with illustrations and charts, makes interesting reading. Hansomely printed in two colors, it includes the following forecast for 1949 earnings and dividends:

"Net income of the Class I railroads for 1949 is expected to approximate $550 million which, although less than last year, is substantially greater than the $490 million for 1947.

"Net income of public utility corporations (electric power) for 1949 is expected to exceed the 1948 total of $662.5 million by about 10%, as power production is continuing at a high level and numerous rate increases are now effective.

"Net income for 500 reporting industrial corporations (representing 19 industry groups) for the first quarter of 1949 was up 6.5% over the same period in 1948.

"For the entire year 1949, it appears that the aggregate net earnings of all U. S. corporations will show a decline of about 15% to 20% from the peak record earnings (after taxes) of $20.8 billion last year. Based on this estimated decline, 1949 net earnings, after taxes, will approximate $16 to $17 billion as compared to $12.5 billion for 1946 and $5 billion for the prewar year of 1939.

"Dividends, during the first quarter of this year, on 996 common stocks listed on the New York Stock Exchange were, in the aggregate, 10.5% over those paid in the same period last year. In 1948, dividends from all American corporations represented approximately 40% of net earnings. This low percentage of payments in relation to earnings was due to the decision of many corporations to retain a high proportion of earnings to provide funds for the construction of new plants, financing of inventories and for industrial expansion. Such expenditures will be far less this year and it therefore seems reasonable that corporations will pay out at least 50% of their net earnings (after taxes) in dividends to shareholders. On such a basis, even allowing for a decline of 20% in earnings, it would appear that dividends in 1949 will be at least equivalent to those for 1948—a favorable outlook for income-paying securities."

"National" has won several "Oscars" for its annual reports and the '49 edition seems to us their best to date. Congratulations, Harry.

Wellington Asset Value Up Since Year End

The good investment record of **Wellington Fund** for the first quarter of this year continues. This record is particularly impressive as the value of Wellington shares is now higher than at both Jan. 1 and April 1 in spite of further weakness in the stock market. Since the first of the year, the net asset value of Wellington shares increased 2.6% while the stock market, as represented by both the Dow-Jones Industrial and Composite Averages, declined. The performance of Wellington Fund shares was about 5% better than the general market in the first four and one-half months of the year.

As of May 19, Wellington's assets were invested as follows:

Common Stocks	$44,099,767
Appreciation Bonds and Preferreds	2,157,470
Convertible Seniors	1,201,650
Investment Bonds and Preferreds	17,295,212
U. S. Government Bonds and Cash	9,791,496
Total Resources	$74,545,595

2% or 4% on Your Money?

"Everyone should have a special interest account in a bank. As a depositor you can always get back as much as you put in—and you need such an account as a cash reserve for emergencies.

"Government 'discount bonds' also are sound and useful, particularly for some objective where a particular sum of money is required at a definite future time.

"But there is a limit to the amount one should reasonably leave at such low rates of interest.

"Surplus accumulations beyond reasonable emergency requirements can be invested institutionally at higher rates of income. Using sound bonds, and employing institutional methods, but foregoing the right to withdraw a fixed amount of principal on demand, you can increase your income by as much as 100% on the portion of your funds so invested.

"In former days, investing in this way would have been impossible for the individual investor. Now, thanks to the modern Mutual Fund, you, in effect, can own many securities through one investment—and you can put in that one investment any amount of money you want to invest. And through the specialized mutual fund, you can invest in many steady-income producing securities . . . and have them professionally managed for you while receiving interest, less expenses, paid directly to you as dividends."—From a recent **Distributors Group** folder.

Bottom of the Tax Barrel

First National Bank of Boston's New England Letter states: "Taxes now represent about 25% of national income and are in the danger zone. . . . Let us consider industry. This favorite source of taxation furnishes about one-fourth of total Federal revenue. . . . It is to the best interests of all that industry should be in a strong position because it is the principal source of our income and employment. The working class suffers most when there are not enough capital funds to provide the tools indispensable for new

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Frank K. Tracy Joins J. Barth in Los Angeles

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Frank K. Tracy has become associated with J. Barth & Co., 210 West Seventh Street. Mr. Tracy was formerly with Pacific Company of California and prior thereto with Gross, Martin & Co. and Bogardus, Frost and Banning. In the past he was a partner in Kerr & Bell.

With Bingham, Walter

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Ted W. Seguin has been added to the staff of Bingham, Walter & Hurry, 621 South Spring Street, members of the Los Angeles Stock Exchange.

Mutual Funds

(Continued from page 12)

jobs and higher living standards, and in consequence has the most at stake in the preservation of American business enterprise. For that reason the workers should be greatly concerned about any action that would 'kill the goose that lays the golden eggs.' . . . 'Soaking the rich' has been a favorite means of obtaining revenue. . . . The amount that can still be taken from the upper income groups is relatively small. In fact, if every cent of income after taxes of those receiving $25,000 a year and over were appropriated, the aggregate would be around $2.4 billion, or an amount sufficient to pay the current bills of the Federal Government for only about 21 days. . . . The restricted scope of funds available for the grandiose plans now being advocated is sharply emphasized by the revelation that the total amount of net income after taxes of those receiving $5,000 a year and over would be sufficient to pay the current running expenses of the Federal Government for only about five months. . . . Those receiving $5,000 a year and over number about 2.6 million persons. As a group they have become, through the competitive race, the leaders in business, industry, finance and in other fields. . . . Nevertheless, the net income after taxes of the persons in the $5,000 and over class aggregates only about 10% of national income. Any attempt to pile further burdens on this group would seriously impair our entire economy. We come then to the only remaining source of income, and that is from those receiving under $5,000 a year. In the aggregate this group gets about 90% of the total disposable national income of the country. . . . An increasing proportion of the bills sponsored under government auspices must be paid for by those in the lower income brackets as the government is nearly scraping the bottom of the barrel for funds from the upper-income groups. . . . The time has come to realize that the social welfare issue narrows down to the question of how much of their income those in the under $5,000 a year group want the government to spend for them in the way of government services and facilities. . . . American people should know that there is no Santa Claus but that they must pay the bills."—From "These Things Seemed Important," issued by **Selected Investment Co. of Chicago.**

NSTA Notes

CINCINNATI STOCK AND BOND CLUB

The Cincinnati Stock and Bond Club will hold its annual Spring Party on June 15, 1949 at the Hyde Park Country Club, Cincinnati, Ohio. Planned activities include golf, baseball, swimming, horseshoe pitching, and card games. Free beer, lunch and a buffet supper will be served.

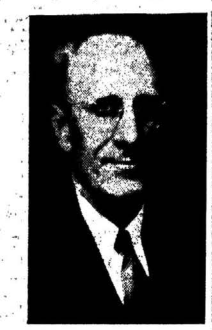
Reservations are in charge of Harry O'Brien, W. E. Hutton & Co., Cincinnati, Ohio, Dunbar 2560. Costs $5.00 for members and $7.00 for non-members.

GEORGIA SECURITY DEALERS ASSOCIATION

A meeting of the Executive Committee of the Georgia Security Dealers Association was held on April 20, at which time a Nominating Committee was appointed consisting of Waldo Mallory, Clement A. Evans & Co., Chairman; Hugh Carter, Courts & Co.; Henry W. Grady,

Lex Jolley

Alex. Yearley, IV



James S. Budd, Jr.

Robinson-Humphrey Co.; J. R. Neil and Francis D. Willis, Merrill Lynch, Pierce, Fenner & Beane. This Committee has since made its nominations as follows:

President—Lex Jolley, Johnson, Lane, Space & Co., Atlanta.

Vice-President—Alexander Yearley, IV, Robinson-Humphrey Co., Atlanta.

Secretary-Treasurer—James S. Budd, Jr., Citizens & Southern National Bank, Atlanta.

The following, in addition to the officers, are nominated as members of the Executive Committee for the ensuing year:

Jack Glenn, Courts & Co.; Clement A. Evans, Clement A. Evans & Co.; Byron Brooke, Brooke, Tindall & Co.; J. R. Neal, Wyatt, Neal & Waggoner.

The annual meeting of the Association will be held in Atlanta on Friday, June 10, 1949. A business meeting for the purpose of acting upon the committee's recommendation will be held at 11:30 a.m., on that date at the Capital City Club (Downtown). The Association's annual "Jamboree" will follow. Out-of-State dealers who desire to attend are invited to get in touch with Jack Glenn at Courts & Co.

Impact of American Foreign Policy on Business

By NEIL H. JACOBY*

Dean, College of Business Administration, University of California, Los Angeles

Dean Jacoby reviews major economic elements of American foreign policy and points out U. S. position in 20th Century is similar to that of Great Britain in 19th Century. Sees U. S. in process of transition to an investor-creditor status in international economic relations, and contends foreign investment will become an important expansive factor to domestic business. Concludes impact of foreign transactions on U. S. over next two or three years, will move in deflationary direction.

The Salient Issues

Prior to World War II, the peacetime foreign policy of the United States was a factor of minor importance in shaping the course of American business. Our international commitments were few. Our military establishment was modest. Our foreign trade and investment formed comparatively a small fraction of our total production and national income. Today, we are living in a much different world. History has cast the United States in a role of leadership in world political and economic affairs. American foreign policy has become of critical importance to the state of domestic business.

Neil H. Jacoby

Since the end of World War II this country has advanced more than $16 billion of assistance to other nations of the world. It subscribed $6 billion to the International Monetary Fund and to the World Bank for Reconstruction and Development. Through ECA the United States is currently spending more than $5 billion annually for economic aid to the 19 participating nations of Western Europe. It has a moral commitment to continue this aid to the middle of 1952. American obligations under the recently-concluded Atlantic Pact caused Congress to appropriate nearly $16 billion for national defense in the next fiscal year. The President is asking for an additional $1.5 billion to arm the signatory nations. A bill to ratify the Charter of the International Trade Organization, in the negotiation of which this country took the lead, is pending before Congress. Finally, in his inaugural address early this year, President Truman called for "a bold new program for making the benefits of our scientific advances and industrial technology available for the improvement and growth of under-developed areas."

It is natural that thoughtful Americans should ask whether these immense expenditures, obligations, and plans for the future represent parts of a consistent foreign policy. Are they necessary and desirable? Can the United States wisely carry them through, in the light of the vastly enlarged domestic responsibilities proposed to be assumed by our Federal Government? What are the next steps in the road the United States is traveling in international affairs? What are the consequences of our foreign policy for the future state of American business? Let us attempt to throw light on these issues.

Foreign Policy Objectives and Their Determinants

The large objectives of American foreign policy may be stated quite simply, and in terms that will be questioned by few of our citizens. First, we desire peace and an absence of international discord and ill will. Second, we want to safeguard and extend free institutions, cultural and political as well as economic. Third, we aspire to achieve progressively higher levels of material well-being for ourselves and for other peoples of the world, recognizing that the economic welfare of all people is interdependent.

In pursuing these objectives, there are a few fundamental facts that our foreign economic and political policy must ever take into account. One of these facts is that the United States is by far the richest nation of the world. It possesses the greatest aggregation of capital equipment, the highest productivity of its work force, the largest per capita real income, and the greatest savings capacity that the world has ever seen. This country contains about 7% of the world's population and nearly the same percentage of the aggregate land area and resources of the world. Yet in 1947 it produced almost half of the world's movable goods and used about 45% of world consumption of fuels. Most important, it is able to make available out of current income a major fraction of the world's savings available for further capital accumulation, in a planet that is starved for want of capital. These familiar facts should be recalled frequently, for they are dramatic proof that Uncle Sam is by far the richest man in a world community of comparatively poor neighbors.

A second fundamental fact—closely related to the first—is that the United States today is the leading exponent of a "free society." We believe that our political and economic institutions have served to release the latent capacities of every individual. We think that they have provided incentives and opportunities for men to realize their highest potentialities. We are convinced that they have been an indispensable condition of the development of our material wealth and living standards. We hope that other countries will offer the same political freedom and the same broad economic alternatives open to Americans in the choice of occupation, consumption, savings, and investment. Yet, during the last generation most other nations appear to have moved away from these

(Continued on page 31)

*An address by Dean Jacoby before California Bankers Association, Pasadena, Cal., May 22, 1949.

Canadian Securities

By WILLIAM J. McKAY

The imminent Canadian Federal election has so far caused little excitement within the Dominion or abroad. This is all the more remarkable in view of the possibility that within a few weeks the record long tenure of office of the Liberal Government might come to an end.

Perhaps the lack of clear-cut issues is accountable for much of the general apathy. The Liberal incumbents are content to rest on their laurels and point to their past record of undoubtedly able management. On the other hand without closely defining their own policy, the Conservatives attack the entire Liberal system of bureaucratic controls and restrictions. While the C. C. F. party spokesman are in general agreement with the Liberals on the question of State management, they severely criticize the government for its timidity in Socialistic experimentation.

Although lacking at this stage any burning issue the campaign lines are thus drawn generally between State control on one side and freedom for private enterprise on the other. Whether or not the Canadian electorate will be influenced to any degree by the results of the Socialistic experiment in Britain will only be decided on June 27. On the other hand the happier example closer at hand afforded by the results achieved by private initiative south of the border might offer greater attraction. A parallel might also be usefully drawn between the dynamic success of unfettered individual enterprise in this country 50 years ago, and the present stage of Canadian economic development.

It would appear that these considerations have at least roused a favorable response in the Canadian West. This was clearly demonstrated during the course of Conservative Leader George Drew's tour of the Western provinces when enthusiastic reception was accorded to Conservative ideas concerning abolition of governmental restrictions, the removal of exchange controls and stern opposition to Communism. In the East it would also appear that the Conservatives have an exceptional opportunity to break the Liberals' grip on the Province of Quebec. Influenced possibly by fears of a Liberal/C.C.F. alliance of expediency, the Conservative-minded electorate of this key province are likely to cast their votes in favor of the Conservative program as the lesser of two evils. Confirmation of this probable development is afforded by the decision of the dominant Union Nationale party of Premier Duplessis to throw its weight on the side of the Conservatives.

Thus in spite of the present apathy the forthcoming election is likely to be the most momentous political event in Canadian history. It will no longer be the traditional choice between either a Liberal or a Conservative form of government, which on basic principles have much in common—this time the Canadian electorate will determine whether the Dominion makes a decisive move toward the Left or to the Right.

During the week there was evidence for the first time in many months of an underlying supply of both external and internal bonds. Prices eased in consequence within internal Dominions registering losses of about 1 point. Free funds on the other hand continued to be firmly supported and the corporate-arbitrage rate was also steady. The stock market suffered a severe setback in all departments. Base metals led by Consolidated Smelters were the heaviest losers and touched the lowest level since September, 1947, while the industrials and Western oils traded at their lowest points for the year. The golds were slower to follow the downward trend but finally yielded to register widespread losses.

Chas. Reckner Wins Phila. Securities Golf

PHILADELPHIA, PA.—Charles Reckner, of F. P. Ristine & Co., former Philadelphia amateur champion, a newcomer in the Philadelphia Securities Association, won the President's Cup in the 21st annual tournament at Aronomink Golf Club Friday, May 27, with a sparkling 37-40-77 in his first attempt.

Reckner succeeded Harold J. Williams, of Boenning & Co., Melrose, Pa., who holds the Penn AC title. He carded only one bird with a 35-foot putt on the 6th for a three but strung together nine pars.

Mac M. Birnbaum With Straus & Blosser

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—Mac Merrill Birnbaum has become associated with Straus & Blosser, 135 South La Salle Street, members of the New York and Chicago Stock Exchange. Mr. Birnbaum was formerly with Brailsford & Co. and prior thereto was an officer of F. A. Brewer & Co.

With Fabian & Company

(Special to THE FINANCIAL CHRONICLE)

BEVERLY HILLS, CALIF.—Antoine J. MacNamee has become associated with Fabian & Co., of 9500 Santa Monica Boulevard. Mr. MacNamee was formerly with King Merritt & Co., Inc.

With Herrick, Waddell

(Special to THE FINANCIAL CHRONICLE)

BEVERLY HILLS, CALIF.—James C. Craig has been added to the staff of Herrick, Waddell & Reed, Inc., 8943 Wilshire Boulevard.

With Russell, Berg & Co.

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS. — Sidney A. Eisemann is with Russell, Berg & Co., 75 Federal Street.

Almon Hutchinson With H. M. Byllesby, Phila.

Almon L. Hutchinson

PHILADELPHIA, PA. — Almon L. Hutchinson has become associated with the trading department of the Philadelphia office of H. M. Byllesby & Co., Inc., Stock Exchange Building. Mr. Hutchinson was formerly in the trading department of Buckley Bros. in New York and Philadelphia, and prior thereto was with E. H. Rollins & Sons in Philadelphia.

Merle Bowyer Joins Braun, Bosworth Co.

DETROIT, MICH.—Braun, Bosworth & Co. Inc., announce that

Merle J. Bowyer

Merle J. Bowyer has become associated with the firm in its Detroit office, Penobscot Building. Mr. Bowyer was formerly with the Detroit office of Paine, Webber, Jackson & Curtis as manager of the bond department.

Daniel M. Sheehan, Jr. Heads W. J. Connolly

BOSTON, MASS. — Walter J. Connolly & Co., Inc., 30 Federal Street, announces that Daniel M. Sheehan, Jr., has been elected President of the firm effective June 1. Mr. Sheehan was formerly associated with Wm. J. Mericka & Co., Inc., of Cleveland and New York.

Stanley Pelz & Co. To Be Formed in NY

Stanley Pelz & Co., will be formed with offices at 40 Exchange Place, New York City. The new firm will act as specialists in upstate New York securities and general market issues. Partners will be Stanley Pelz and Robert E. Zipp. Mr. Pelz was formerly a partner in Grody & Co.

Nelson Kriebel With Shearson, Hammill

Shearson, Hammill & Co., 14 Wall Street, New York City, members of the New York Stock Exchange, announced that Nelson S. Kriebel, formerly President of Financial Agency Corporation, has become associated with the firm as head of the commercial and collateral loan department.

"Impressions"

Georgeson & Co., 52 Wall Street, New York City, is distributing a brochure of testimonials for the work the company has done in obtaining proxies and in financing the issues of various industries.

Public Utility Securities

By OWEN ELY

DETROIT EDISON

Prentiss M. Brown, Chairman of the Board of Detroit Edison, recently gave a talk about the "Future and Past" of the company before the New York Society of Security Analysts. Since the information may be of wider interest a summary is presented below. The company serves over one-half the population of Michigan in one-seventh of the area. The City of Detroit enjoys the advantage of good water, air and rail transportation and is the principal gateway to Canada, this country's best customer. While the city is sometimes considered an unstable business area, due to its being the center of automotive manufacturing, the auto is no longer a luxury item as it was in the twenties. Half of all passenger mileage is business mileage, and on the farm two-thirds. Moreover sales of replacement parts and accessories were 10 times greater in 1947 than in 1933.

Prentiss M. Brown

Detroit Edison carries only about half of industry's electric load in Detroit. Ford Motor Company itself has over 300,000 KW installed capacity. Thus when Ford shuts down, the Company doesn't suffer any loss of industrial load (other than some supplier business), yet it still has the residential business of Ford's 100,000 employees—together with the commercial business serving them. Moreover, Detroit isn't merely an auto city—it is now largely a steel production center—and Edison sells about a billion KWH or 30% of its total output to steel companies. As the cost of ore recovery in the Lake Superior area increases, steel manufacturing should continue to move north, benefiting Detroit. This area should be the chief source of iron for another hundred years.

Detroit Edison maintains sound public relations, with employees well trained in courtesy. It provides free lamp renewals, appliance cords and even some repair work on household appliances. In 1948 over 10,000,000 lamps and 440,000 range elements and other minor parts were supplied free to regular customers; moreover a supply of lamps is furnished to new homes.

The company may benefit by this, as lamps with adequate wattage are thus installed. The company collected $6 million more revenues in 1948 than it would have if the average lamp wattage had remained the same as in 1932. Average residential use of electricity last year was 1,746 KWH, some 12% over the national average. In merchandising appliances, the company cooperates with manufacturers, jobbers and dealers. This year it is concentrating on the sale of water heaters—the largest load-builders in this area, where house-heating is not practical. Saturation of electric ranges is 26%, and half the people outside Detroit cook with electricity.

In industrial promotion, the company's salesmen are constantly in touch with the basic problems facing customers. Interesting proposals have been made for heat-treating metallic parts by electric induction, and for drying paints and other substances by infra-red light. Iron and its alloys melted electrically now supply castings and a variety of high grade steels.

Mr. Brown pointed out that Detroit Edison is "a clean company," corporate and accounting-wise. Service is almost entirely electric, with no gas or transit business. Since almost all the plant has been installed by the present company, historical cost is virtually the same as original cost. The company has a simple capital structure—mortgage bonds, convertible debentures, and common stock. The stock is now virtually all in the hands of the public, North American Company and American Light & Traction having distributed or sold their last holdings. The number of stockholders is about 54,000 compared with only 15,000 in 1940.

Detroit Edison has usually maintained a 50% equity ratio, and the investment calibre of its stock is reflected in the market stability. The stock fluctuates much less than the average utility—in 1948-49 it remained within a range of 2½ points despite the sale of American Light & Traction's large holdings.

The plant is now in first class operating conditions, Mr. Brown stated. Present expansion plans call for installation of four 100,000 KW units—two this year and two in 1951—and the interconnection with Consumers Power will be increased by 150,000 KW. The program is planned so as to restore reserve capacity to around 12-15%, but it can be slowed down if there is any slackening in demand by customers. Economies from the new units should be very substantial, especially as the new equipment will use lower-grade coal; had only one of the new units been in use during 1948 the company could have saved about $1 million in fuel cost alone (maintenance savings would also be possible). Of the $200 million expansion program in 1947-51, the first three year's requirements have been financed by sale of mortgage bonds and convertible debentures (plus internal cash). Of the remaining new money required, about $15 million may be needed later this year, $40 million in 1950 and $25 million in 1951.

Detroit Edison stock has been selling recently at about 91% of its book value, which is low compared with most leading utilities (excepting Commonwealth Edison). Mr. Brown remarked in this connection: "We believe this fact provides a great amount of price protection to our stockholders. . . . There is little chance of a squeeze on our earnings via the regulatory route. In its recent decision allowing of company to increase its rates $13,080,000, the Michigan Commission used original cost for one of its tests of the reasonableness of our request for that amount. Michigan law, however, does not confine the Commission to any one standard of value. It may give consideration to reproduction cost new and other factors in arriving at a fair or reasonable value. In our recent rate proceedings, we presented testimony and exhibits showing the value of our property, under present day prices, to be over 160% of historical or actual cost."

A. B. Morrison Co. Adds

(Special to THE FINANCIAL CHRONICLE)

MIAMI, FLA.—Howell J. Temple has been added to the staff of A. B. Morrison & Co., Alfred I. duPont Building.

With Bache & Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — Walter F. Webber has joined the staff of Bache & Co., 135 South La Salle Street.

Why Value of Money Has Fallen

By FALKNER C. BROACH*
Vice-President, National Bank of Tulsa, Tulsa, Okla.

Mid Western banker, analyzing causes of lowered value of money as indicated by higher prices, explains banking processes by which "check money" is created through bank loans and government borrowing. Sees present increased money supply as excessive and permanent unless production and exchange transactions increase, and expresses belief money will be cheap for many years. Holds "devaluation" as means of national debt payment is same today as in ancient times, but with somewhat improved technique.

The exchange of goods and services is basic to human life today. In the absence of some yardstick or measure of value the process of exchanging goods and services would be difficult, slow and cumbersome. The establishment of a standard unit for measuring value and the ready exchangeability of that unit greatly facilitates transactions of all sorts. Thus it may be said that the value of money lies in the fact that by its use transactions of all sorts become simpler, quicker and more economical.

Falkner C. Broach

While as a medium of exchange our money—the dollar—has lost none of its former usefulness, we know that in general the dollar will buy less today than prewar and a great deal less than in the early '30s. We know this from our daily transactions, but to prove my point and to be more specific let me cite a few illustrations. In 1932 the BLS index of wholesale prices, using 1926 as 100, stood at 64.8 and in January of this year at 160.6; the farm products component of this index was 48.2 in 1932 and 172.5 in January of this year; the food component was 61 in 1932 and 165.8 in January; the manufactured products component was 70.3 in 1932 and 156.3 in January. In terms of wholesale prices the dollar was worth about 40 cents in January of this year if we consider it to have been worth 100 cents in 1932. In terms of farm products it was worth about 28 cents in January of this year if we concede it to have been worth 100 cents in 1932. Although the BLS index is based on 1926 as 100, I have referred to 1932 prices for two-fold purpose. In the first place, the value of the dollar averaged higher in 1932 than at any time since prior to World War I. In the second place, the volume of money, which I consider a major factor in the value of money, had been declining for several years prior to 1932 and in the following year this trend was reversed and prices turned upward sharply.

In terms of usefulness as a medium of exchange the dollar has lost none of its value, but in terms of purchasing power it has lost a great deal of its value. It will be my purpose in this paper to consider with you why, in my opinion, the dollar has lost so much of its value or purchasing power in the hope that by so doing it may be possible to throw some light on what we may expect the future value of the dollar to be.

In this country money consists only in part of coins and currency. In fact, coins and currency constitute a very minor part of our money supply. The great bulk of our money supply consists of "checkbook money" or, in other words, demand deposits in banks. In January of this year the total money supply in the country was $110,500 million of which only $25,200 million was in currency, leaving $85,300 million accounted for by "checkbook money." The importance of this "checkbook money" cannot be over-emphasized, for not only does it account for more than 90% of all business and exchange transactions but it is the part of the money supply most susceptible to expansion or contraction and therefore the part of the money supply which plays the greatest role in the value of our money.

Our Money Supply Today

In 1932, when the value of the dollar was so much greater than today, our money supply was a little over $20 billion consisting of about $15¾ billion of "checkbook money" and a little over $4½ billion of currency. Today the money supply is about $110½ billion with the increase since 1932 accounted for by an increase of about $69½ billion in bank deposits and only about $20½ billion by an increase in currency. The fact that the dollar was losing value throughout this period when the supply of money was increasing, and especially the volume of bank deposits was increasing, would seem to justify an inquiry into the processes involved in increasing our money supply and the extent to which the increased supply of money may have lessened the value of our money. This, in turn, necessitates a consideration of our system of reserve banking and of the policies followed in financing World War II, from which I think we will find the reasons, at least in part, for the lessened value of our money.

Since bank money constitutes the major part of our money supply, one of the essentials of our study is an understanding of the role played by gold and the relationship between bank reserves, bank loans and investments, and demand deposits. Consider if you will an inverted pyramid with gold as the upper apex and bank deposits as the base and you will have a rough picture of our deposit structure. Instead of 15 5/21 grains of gold, nine-tenths fine, constituting the dollar our system of banking permits of a multiple expansion of dollars in the form of bank deposits on the basis of such a quantity of gold.

Although of over 14,000 banks in this country slightly less than 7,000 are members of the Federal Reserve System, the banks that are members of the System account for about 8/9ths of all commercial bank demand deposits. These member banks are required by law to maintain as reserves with the Federal Reserve Banks deposits equal to a certain percentage of their demand and time deposits, the requirements at the present time ranging from 16% to 26% on demand deposits and being 7½% on time deposits. The Federal Reserve banks, in turn, are required to hold gold certificates equal to 25% of their deposit liabilities, which consist mainly of member bank deposits or reserves, and their note liabilities. Thus, on the basis of $1 billion of gold certificates the Federal Reserve banks could support $4 billion of member bank deposits or reserves which, in turn, on the basis of member bank reserve requirements averaging 25%, would support $16 billion of commercial bank demand deposits. How on the basis of $1 billion of gold certificates bank deposits can be expanded to $16 billion will be better understood if you will think of our 14,000 banks not as 14,000 individual banks but as a system, as one bank, if you please, and consider with me what happens when a bank makes a loan or purchases an investment and the reverse—i.e., when a loan is paid or an investment sold.

What Happens When Bank Makes a Loan

Let us assume a bank makes a loan of $100,000. What happens? The bank adds $100,000 to its assets under the heading of loans and discounts but at the same time a like amount to its liabilities under the heading of deposits. To support this $100,000 of increased deposits the bank must deposit $25,000—25%—with its Federal Reserve Bank. If the bank had $25,000 on deposit at the Federal Reserve Bank in excess of the amount required to support its deposits prior to the granting of the loan—well and good. The process is completed. By lending $100,000 the bank has added $100,000 to the money supply. Of course, the $100,000 addition to the money supply will not be left on deposit with the lending bank but will be withdrawn from that bank and diffused throughout the entire banking system. This does not alter the process at all, for what is lost to one bank is gained by another, and for the banking system as a whole $100,000 has been added to the money supply and will remain a part of the money supply until the loan by which it was created is paid off. Again let me emphasize that if you will look upon our 14,000 banks as one bank and not as 14,000 individual banks you will find it much easier to follow the process and understand the relationship between loans and investments on the one hand and deposits on the other.

In the example which I have just cited it was assumed that the lending bank had on deposit at the Federal Reserve Bank the necessary $25,000 to support the additional $100,000 of deposits. We refer to this as excess reserves in contrast to required reserves which are the reserves required by law to be maintained against deposits. Now let us assume that the bank in question and the banking system as a whole had no excess reserves when called upon to make this $100,000 loan. In that case two alternatives would be available. The bank could borrow the required $25,000 from the Federal Reserve Bank which, except for temporary periods, banks generally are inclined to refrain from doing, or it could sell some of its investments, in all probability, government securities. Let us assume the bank elects to sell government securities. Again, if you will remember that we are dealing with the banking system as a whole you will see at once that nothing is gained if the securities are sold to some other bank depositor, for in that event the new deposit is merely substituted for the existing deposit which is used to pay for the bonds, thus releasing the reserves against that deposit to support the newly-created deposit. There is no addition to the money supply at all. While the bank has made a loan it has shifted $100,000 of its government holdings to some other bank depositor, so on balance the banking system has neither extended additional credit nor created any new deposits.

But if the securities are purchased by the Federal Reserve Bank, the situation is entirely different. The individual bank needing only $25,000 of additional reserves to support the $100,000 of new deposits need only sell $25,000 of its securities to the Federal Reserve Bank to obtain these reserves. Operating on a 25% reserve ratio, the Federal Reserve Bank need have only $6,250 of excess reserves—i.e., gold certificates in excess of the amount needed to support its existing deposit liabilities—to permit it to buy the $25,000 of government securities, thus furnishing the member bank the $25,000 of additional reserves needed to support the newly created $100,000 of deposits resulting from the $100,000 loan granted its customer.

It is through this process that I have described that the banking system can add to the money supply. Once the addition has been made, a corresponding reduction can be brought about only by a reversal of the process—i.e., by the paying off of loans. Let me inject here that the effect on the money supply is the same regardless of the form of credit extended—i.e., it makes no difference whether the credit be in the form of a loan or in the form of an investment. To expand the money supply the essential requirements are the necessary base—i.e., gold—and a demand for credit. To contract the supply loans and/or investments have to be paid off. While the extension of credit by banks either through loans or investments will add equally to the money supply, the relative permanency of the addition to the money supply may be entirely different if the increase is brought about by the purchase of securities than if brought about by the granting of loans. Commercial bank loans generally are of short maturity and although the money supply is increased when the loan is made it is decreased when the loan is paid. In contrast, bonds are of longer maturity and when purchased by banks the money supply is increased with no likelihood of an early decrease through early repayment of the bonds.

Increased Money Supply Permanent

The increase in our money supply since 1932, to which I have referred, has been enormous and in my opinion constitutes a relatively permanent addition as a result of the process by which it was brought about. The increase was made possible by the enormous increase in our stocks of monetary gold and for the most part was brought about by bank

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*An address by Mr. Broach at Regional Meeting of the American Institute of Chemical Engineers, Tulsa, Okla., May 10, 1949.

Must We Control Bigness in Labor?

By DONALD R. RICHBERG*
Charlottesville, Va.

Attorney and former NRA chief, asserting bigness in labor and in government are inevitable products of bigness in business, sees need of limiting all three. Gives reasons for limiting labor as: (1) concentration of power in national labor unions; (2) existence of self-perpetuating labor autocracy; (3) domination of local business by labor monopoly; (4) ability of unions to paralyze essential industry; (5) increasing irresponsibility and destructiveness of organized labor; (6) labor's opposition to improving bargaining machinery; and (7) labor's theory that unions are private governments.

Bigness in Labor and in Government are inevitable products of Bigness in Business. The big business employer of thousands of workers could only deal with employees as a sort of feudal overlord, until they were organized to deal with him on an equal level of economic power.


Donald R. Richberg

Likewise, State governments, restricted by geography and constitutions, found themselves helpless to assert the supremacy of the common welfare over great corporations. Their vast revenues and expenditures, and their mighty powers to bless or curse communities, overrode the fumbling opposition of political dwarfs. So government grew big, meeting the challenge of big business.

Medieval feudalism was overthrown by kings and commoners. The growth of a modern industrial feudalism was checked by the rise and coordination of big government and big labor.

Great benefits and also great evils flow from bigness. From the viewpoint of the common good the decisive question is: When do the evils overbalance the benefits which human beings receive?

The expansion of enterprises is a natural process as communities and markets grow. The pressures of competition and the ambitions of strong men are vital forces that drive institutions as they drive humans with the command: "Grow stronger and live, or grow weaker and die." Big business is, to quote the immortal Alice, "as large as life and twice as natural."

But, should our future be determined by a everlasting struggle between big business, big labor and big government to dominate our lives? Do the benefits that the individual receives from these massive activities compensate for the losses of individual liberty, individual competition and individual satisfactions?

It must be evident that, in a struggle for domination between management-owners and labor-users, on a gigantic scale, the control of government will always be decisive. Government force must always be stronger than any private force or there will be anarchy. Thus the end of a struggle for domination between big business and big labor must be, as that eminent economist Dr. Edwin G. Nourse has pointed out—

"the trading of independence and private enterprise for complete paternalism and bureaucratic control . . . the end of unionism and . . . the beginning of totalitarianism."

For the reasons briefly indicated, I take the position that, if "control" of bigness means unlimited acceptance and political regulation of big business and big labor, we should not attempt such "control." But, I do believe that, in behalf of the freedom of labor, the freedom of business and the freedom of the citizen, we should limit bigness in all three. We can only reduce the bigness of government by reducing the bigness of the persons who must be governed. A small parent may be able to handle small children, but it takes a brawny man to handle a family of grown-up athletes.

It takes a big government, employing hordes of officials and spending huge appropriations, to regulate the conduct of great enterprises. But, to limit the size of enterprises under one control is a smaller task, and when it is once done limitations can be enforced by a comparatively small and inexpensive exercise of authority. Let me contrast, to my own embarrassment, the enormous government operation which an expanding NRA would have required—and the comparatively small size of the government operation necessary to disintegrate public utility holding companies by the SEC. In the end there should be less government regulation and greater freedom of private enterprise.

Before discussing the need for limiting the bigness of labor organizations permit me to explain briefly what I mean by limiting the bigness of business enterprises, so as to avoid, if possible, a complete misunderstanding of my position. For over 35 years I have believed that the health of American Business would be improved, and a great deal of government regulation avoided, by a simple limitation of the percentage of production or distribution which enterprises under one management, or interlocking managements, could lawfully control. There might be alternative penalties for exceeding the legal size thus fixed: either disintegration or, if that appeared to be contrary to the public interest, government regulation to the extent necessary to insure the operation of a monopolistic business as an agency of public service.

Neither my assignment, nor time, will permit me to expand or to justify my proposition. But I will states that a workable program for limiting bigness in business was written into a Federal bill which I drafted and which was presented to Congress in 1914, with the approval of such practical men as Theodore Roosevelt and George W. Perkins. So you will see that these ideas are neither half-baked nor New-Dealish in origin.

Reasons for Limiting Bigness in Labor

The many, many reasons for limiting bigness in labor organizations can only be summarized in my brief time:

(1) With the rapid growth of power in national officers, resulting from increasing numbers and complexity of organization, the democracy of local lodge control of union policies and contracts has largely disappeared.

(2) A self-perpetuating labor autocracy, with a monopoly control of the labor supply, can dominate a national industry, as in the coal industry where the Lewis machine, commanding 600,000 miners, rules the industry.

(3) A local labor monopoly can, and often does, dominate a local line of business, as the Electrical Workers Union dominates in the New York metropolitan area, and in many other localities.

(4) Many unions have the ability and willingness to paralyze an essential industry. These include several of the railway unions, and the unions of telephone workers, maritime workers, local transit workers, and teamsters.

(5) The irresponsibility and destructiveness of organized labor has been steadily increasing, not only in new communistic unions, but also in old and once responsible organizations. For example:

(a) Prior to the Second World War about one million men were involved in strikes each year (1935-1939), with an average idleness of about 15 days per man.

(b) During the war the yearly average was about two million men involved, with an average idleness of about eight days per man. This was not a record for labor to be proud of, particularly in view of the fact that public officials had to work night and day and to make outrageous concessions to slackers in order to prevent or shorten strikes against the national interest.

(c) After the war, in one year, 1946, there were 4,600,000 men involved in strikes, with an average idleness of 25 days per man. If you deduct normal non-work days, leaving 250 regular work days, this means that, on the average, one-third of union labor was wilfully idle one-tenth of the working year. This meant a vast loss of national income and a huge loss to the strikers and to all the other workers whom they made idle which no alleged gains could replace.

(6) Despite this dreadful record of failure and self-injury, the leaders of organized labor unitedly denounce every effort to create an improved and enforceable machinery of collective bargaining, conciliation and arbitration that might help to eliminate costly and destructive strikes. In its opposition to any amendment of the one-sided Wagner Act, in its dishonest and intimidating attacks upon the Taft-Hartley Act, and upon two-thirds of the Congress of the United States, organized labor thoroughly demonstrated its irresponsible, ill-informed incompetence to exercise the great powers that are inherent in its big organizations.

(7) The dangerously swollen self-esteem of big labor was dramatically exhibited in written arguments recently presented to the Supreme Court by our major labor unions which were asking the Court to hold unconstitutional the States laws which outlaw the closed shop, and thus limit labor's monopoly control of business. The unions not only lost their case, but also lost any right to claim that they are democratic in their methods, their principles or their objectives. They argued nakedly for a labor union dictatorship. The brief of the American Federation of Labor definitely and repeatedly asserted that labor unions were a form of private government whose laws they had a legal right to impose on all workers, whether members

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*An address by Mr. Richberg at 37th Annual Meeting of the Chamber of Commerce of the United States, Washington, D. C., May 5, 1949.

Court Rules Against SEC in Otis & Co. Case

U. S. Circuit Court of Appeals holds evidence of SEC insufficient to sustain charges against Cleveland bankers in Kaiser-Frazer Corporation stock-selling contract. Cyrus S. Eaton of Otis & Co. comments.

The U. S. Circuit Court of Appeals in Washington ruled in a unanimous decision on June 1, that there is not enough evidence to support Securities and Exchange Commission charges of collusion against Otis & Co., investment bankers, in connection with its stock-selling contract with the Kaiser-Fraser Corp. The Court decided, unless new evidence of collusion with James Masterson, Philadelphia lawyer, is produced, SEC cannot proceed further on that ground to take away the broker-dealer registration of the investment firm.


Cyrus S. Eaton

The proceedings by the SEC against Otis & Co. grew out of the collapse of a $10,000,000 stock issue by Kaiser-Frazer. Otis & Co. was one of the underwriters. The contract included a clause permitting the underwriters to back out if there was pending at the time of issue any important suit affecting the Kaiser-Frazer Corporation. James Masterson of Philadelphia had filed a suit against the proposed stock issue which the SEC claimed was in collusion with the bankers.

Mr. Cyrus S. Eaton, of Otis & Co., on hearing of the Court's ruling issued the following statement:

"It is naturally gratifying to have another demonstration that under our system of government a citizen can obtain redress even against an agency of the government."

Holds Not Enough Done to Increase Buying

Don Francisco, Vice-President of J. Walter Thompson Company, says present market for goods and services is potentially greater than ever before, but the problem of converting purchasing power into actual purchases is being neglected.

The present market, despite talk of deflation and "dis-inflation," is potentially greater than that of 1940 or of any other year, Don Francisco, Vice-President, J. Walter Thompson Company, told the 45th annual convention of the Advertising Federation of America at Houston, Texas on June 1.


Don Francisco

The problem, he said, is one of converting purchasing power into purchases. Pointing out that there are 12.4% more consumers now than there were in 1940, and that family units have increased over 15%, Mr. Francisco asserted that "this is a market with a potential such as we have never known before" and one which has "vastly greater potentialities than the one we knew in 1940."

"In spite of a few lay-offs and some relatively low increases in unemployment that have been headlined," he said, "the first quarter this year showed employment at an all-time peak for this time of year with an average of 204,000 more employed than in the same period a year ago. About 14 million more civilians are employed in non-agricultural pursuits now than in 1940."

After adjusting for higher taxes and living costs, he continued, the American people still have a surplus income for discretionary spending or saving of $103 billion —almost four times the highest pre-war level.

"This," he explained, "is the amount of money available over and above what would be required to maintain a 1940 standard of living for the broad basic items of food, clothing and shelter."

Distinguishing between the people's ability to buy and their desire to buy, Mr Francisco pointed to the fact that during the first quarter of 1949 savings were at the rate of $21 billion a year, almost double the $11-billion rate for the same period of 1948, while savings in 1940 were only $3.7 billion.

"This may be due in part to the fact that many of the unsatisfied wants of the war years have now been filled," he said. "Some people are resisting current prices, or anticipating lower ones. Some feel uncertain of the future. But these figures raise the question of whether we are doing enough to convert purchasing power into purchases."

He pointed to a decline in the ratio of advertising expenditures to national income, between 3% and 4% in the 1890-1934 period and only 1.8% in 1948.

"The important fact is that advertising today is reaching a greatly expanded market with more potential buying power, at almost the identical cost per person, as ten years ago," he said. "This is fortunate, for now selling promotion and advertising must once more take up, in earnest, the task of maintaining a rapid turnover of goods and expanding our markets."

James I. Brennan Is With J. G. White & Co.

James I. Brennan has become associated with J. G. White & Co.,


James I. Brennan

Inc., 37 Wall Street, New York City, as Manager of the trading department, it was announced today. Mr. Brennan, a specialist in public utilities securities, was most recently associated with Marx & Co. and prior to that with Hoit, Rose & Co., J. F. Reilly & Co. and Troster, Currie & Summers.

NASD Plans to Expand "Information" Program and Clarify and Interpret 5% Policy

The full text of a press release issued on May 24 by the National Association of Securities Dealers, Inc. pertaining to the Association's proposal to expand its "information" program and clarify and interpret its 5% policy follows:

"The Board of Governors of the National Association of Securities Dealers, Inc. at their spring meeting on May 16-17 voted to expand the Association's information program and to send to members a statement which would clarify and interpret the 5% policy. Members of the advisory council comprising the District Chairmen and representing 13 of the 14 districts were present to report on the situation in their Districts. It was the overwhelming consensus that the Association mark-up policy was widely misunderstood but that the membership generally favored a retention of the 5% policy. The Board authorized issuance of a statement clearly defining the policy to District Chairmen and for publication in the NASD 'News.' It was voted to increase internal information through District Chairmen and publication in the official publication NASD 'News.' District Chairmen reporting on the situation in their respective districts emphasized that the Association work is receiving increasing appreciation among members and there is growing support for NASD policies and activities. Various standing committees made reports at the meeting and it was determined to retain the present examination system. Full proceedings of the meeting are to be published in the 'News' which will appear in the next fortnight."

Warns of Dangers of Government Spending

"With the pressure for expenditures increasing while revenues are declining, Federal finances enter a crucial stage," says The First National Bank of Boston in its current New England Letter. Continuing, the Bank says, "The day of reckoning is near at hand unless the Budget is balanced through a reduction in non-essential expenditures. If the Budget cannot be balanced when national income is running in excess of $200 billion there is grave danger that the government may never again be able to get its financial house in order.

"Burdensome taxes and a huge public debt are as much the concern of Main Street as of Wall Street. They touch the pocketbooks of all. None escapes. Taxes of all kinds are passed on to the consumer through the food he eats and the clothes he wears, in fact through all the necessities of life as well as luxuries. It should be obvious, therefore, that the more the government takes in taxes, the less there will be for each individual to spend according to his own discretion.

"The heavy debt and the large Federal budget, as well as staggering amounts spent during the war, have created the impression among many people that the government has an inexhaustible reservoir of funds that can be drawn upon for any and all purposes. But the cold facts are that the government has at its disposal only those funds obtained from taxes or from borrowing. There is no other source.

"Since the amount of money now collected from the people in the form of taxes constitutes such a large portion of their income, it should be wisely spent and accurately accounted for. But what do we find? The most authentic and objective source of information on this subject is the nonpartisan Hoover Commission. The findings of this Commission were a shocking revelation of the waste, overlapping, duplication, and gross inefficiency of the multitudinous government agencies and commissions. If any private business had carried on its affairs in as slip-shod a manner it would have gone broke and been subject to prosecution for juggling figures in its system of accounting.

"When a business firm undertakes any project or plan for the spending of money, it is taken for granted that careful consideration has been given to the ultimate cost and the annual outlay for operations. In the case of the Federal Government, these simple practical considertions are often ignored or lightly brushed aside. The usual procedure is to ask for a relatively small amount of money to launch the project, and then because of pressure for expanding coverage and more liberal payments the appropriations grow in snowball fashion.

"The social planners tell us that the grandiose welfare plans are a mandate from the people and that their wishes must be respected. But this contention rests on a spurious premise. The demand for social medicine, for instance, was not initiated at the 'grass roots' but spearheaded by the Federal Security Agency under whose jurisdiction this project would be handled. Furthermore, these programs are presented with sugar-coated slogans and in such a way as to hypnotize the public into believing that the government has some magic means of providing something for nothing. Instead, as everyone should know, the beneficiaries will pay the freight.

"When the government spends the people's money, it collects a toll on every dollar in order to maintain a swollen and sprawling bureaucracy. The number of civilian Federal employees in this country exceeds two million, while the total number of government workers, including those in state and local governments, aggregates more than six million. This is equivalent to about one government worker for every six families in this country. The estimated governmental payroll is in the neighborhood of $14 billion.

"Not only is the Federal Government spending a large proportion of each person's income but also it now takes about 75% of all taxes collected, leaving only 25% for the state and local governments as compared with 66% for these units in 1928. To relieve the situation the Federal Government provides grants-in-aid, which funds, according to the Hoover Report, now represent 40% of all money spent by the states. These grants, cover such items as highways, public welfare, schools, health, and the like. The Federal administrators dictate how the money is to be spent, and specify standards to be met. So here we have a system whereby the money is collected from the peole of the states, part of which is returned to the states, with strings attached. But as this money circulates in 'merry-go-round' fashion, the overhead costs of Federal administration, according to Senator Byrd, take a toll of 15%. Many states are opposed to this system and would much prefer to finance their own activities according to their requirements but feel compelled to dip into the 'grab bag' in order to get back part of the money contributed by their own citizens. The system is not only demoralizing but also it is making the state and local governments vassals of the Federal Government, thereby threatening the existence of self-government."

Must We Control Big Business?

By HON. RALPH E. FLANDERS*
U. S. Senator from Vermont

Asserting it must be admitted big business leads to monopoly or makes monopoly possible, Sen. Flanders holds powers of Justice Department, fortified by Supreme Court decisions, are ample to deal with problems. Scores new government controls as "bedeviling" small business, and attributes scarcity of risk capital in part to new restrictions of government on business, as well as to inequitable taxes. Foresees new kind of industrial society, should size of business develop beyond limits of public interest.

Bigness is a problem. It was a problem a good many millions of years ago when the dinosaurs roamed the earth, though the big fellows themselves may not have realized it. It is a problem now when we find that simple bigness, whether in business, labor or government, gives to the routine policy decisions of business, labor and government a tremendous power over the present-day lives and future prospects of the citizens of this country. Therefore, when asked to discuss the question of business bigness, I gladly agreed to appear before you this morning.

Ralph E. Flanders

Various charges have been made as to the evils of business bigness. Of these, the most obvious is that it leads to or encourages monopoly. It at least makes attempts at monopoly possible. Some of the ways in which this unlawful endeavor have been carried out have been known for many years past and have been legislated against by the Federal Government. It is possible, for instance, for the big company to get quotations from its suppliers for the delivery of goods at lower terms than is justified by the simple increase in the size of the order. Such low terms have to be made up at the expense of smaller customers. The Robinson-Patman Act is directed against this particular example of unfair competition but probably some of it is still going on, though from my own personal experience it seems clear to me that there is very much less of it than there used to be.

The classical monopolistic practice, of course, is selling in a restricted territory at a price way below cost for the purpose of driving out a smaller competitor. When the small competitor has been driven out by bankruptcy or otherwise the big company recoups its immediate losses by raising the price higher, either in the territory concerned or over a national field of operations.

Besides these illegal practices there are certain advantages which the big firm has which are lawful, natural and inherent. With good management there are open to it certain efficiencies which the small company cannot practice. It can have research staffs and organizations on a scale and with an effective coverage which the small firm cannot hope to obtain. It can employ the best legal talent and, finally, it can accumulate a patent coverage which in many lines is only possible for businesses of considerable size.

Supreme Court's Attitude

The Supreme Court has recognized the monopolistic elements inherent in bigness in recent court decisions. It has held companies liable for retraint if their size is such as to make the restraint of competition natural and easy, even though restraint is not practiced. While there is doubt in many people's minds as to whether a court is justified in going so far in making the connection between bigness and monopoly, it is a fact that the court decisions have been made and that the decisions stand. Bigness beyond a certain point is subject to Federal restraint. This is the effective law of the land.

A corollary to the connection between bigness and restraint of trade is the effect of the great organizations on small business. It is charged that they slow up the growth of hopeful young outfits in a number of ways as, for instance, by monpolizing administrative and engineering talent, filling the product and sales field with such coverage that there are no obvious opportunities for the small new firm, setting labor standards as to wages, hours, et cetera, which are workable for the big firm but constitute a serious problem for the new and growing one, and in many other ways. Evidence of the throttling effect of big business on little business is frequently showed in the large number of cases in which the small firms are bought up by the great, usually it must be confessed, to the satisfaction of both.

We are evidently dealing here with the much discussed question as to whether we are living in a mature or a young and dynamic economy. The point made by many critics of business is that if we are mature, it is not for lack of ideas and opportunities but results from the deadening hand of large corporations on these new ideas and opportunities.

Then there is the contention that big business is a social liability. The late Justice Brandeis was one of the most persistent propagandists for this idea. As compared with the small young firm the large old one restricts the area in which the individual initiative of its employees can be exercised. Instead of an all-round growth and experience which would result from the development of a small business, the bright young men of our time are in danger of becoming specialists. In the big firm their field is narrowed even though they may have responsibilities for more hundreds or even thousands of employees, and more hundreds of thousands or even millions of dollars in assets. The experience of the young man as he goes out into active business life from his period of education is directed into a narrower, even though deeper, channel. He isn't the all-round man that his predecessors in the generations back of him had to be if they were to be successful.

It is further charged that many of the great corporations, particularly those with small plants or branches all over the country, uproot their officials and representatives from community life. They shift them from appointment to appointment as they gain added experience and develop new abilities. They do not become responsible citizens of the communities in which they live. They are wayfarers stopping over a few days on their journey, bound they know not whither. Citizenship finds no soil in which to spread its roots.

In a similar way the individual man, whether wage earner or in the management group, finds himself with less personal responsibility and has to rely for guidance on company policies often expressed in writing with meticulous detail. Even the manager of a large branch plant is less of a responsible manager than may be

(Continued on page 26)

*An address by Sen. Flanders at the Third General Session of the 37th Annual Meeting of the Chamber of Commerce of the United States, Washington, D. C., May 5, 1949.

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

A firm tone with selective buying seems to be the current state of the government bond market. . . . The leaders in the bank group are the same as they have been, the 2s of 1952/54, the 2¼s due 1956/59 and to a lesser extent the 2½s due Sept. 15, 1967/72. . . . As a matter of fact there isn't very much of a choice aside from the aforementioned issues, if one is in need of income. . . . The partially-exempts have been slightly on the defensive probably due in some measure to softness in the municipal market which seems to have a temporary case of indigestion. . . . However, very few of the Treasury tax-protected bonds come into the market when quotations recede, indicating these obligations are well held. . . . Also there are many buyers who are still very much interested in acquiring the higher income partials. . . .

In the restricted bonds, the 1952 eligible issues continue to be well bought by savings banks and other institutional investors, other than life insurance companies. . . . The latter concerns are still sellers of bonds on balance, although some of these institutions may not be far away from the time when they will be reversing this process. . . . Mid-summer or early fall might bring about quite a change in the investment policies of some of the life insurance companies. . . . Switches are still being made in sizable amounts from the longest eligible taxable into the tap bonds, with the 1959/62, the 1962/67, and the 1963/68 getting most of this reinvestment. . . . The "Vics" nonetheless are going out of the market in good volume with income and maturity buyers accounting for most of these takings. . . .

TECHNICAL POSITION STRONG

The technical position of the government market seems to be about as good now as it has been in a long time. . . . Although the Treasury, by war loan calls, is keeping money conditions tight, there will no doubt be a reduction in reserve requirements in the not distant future and this will mean new funds that will be put to work largely in Treasury obligations. . . . The demand side will be further strengthened, with the supply factor as a whole unchanged and the amount of high coupon eligibles being further limited. . . .

There are sufficient funds around to keep the short-term market buoyant, despite swaps out of these into the larger income issues. . . . The longer-term obligations have not shown very much yet because bank buyers have been cautious in their purchase of these securities, due to uncertainties that overhang the picture such as the reopening of the F and G's during the present drive, or making taps eligible. . . . Most of these conditioning forces should be pretty well eliminated one way or the other after mid-year. . . .

BANKS EXTENDING MATURITIES

In the interim, while waiting for things to clarify, it is noted that many banks are moving into the 2s due 1952/54 from shorter maturities, while others that have been in the 2s of 1952/54 are going into the 2¼s due 1959/62. . . . There is a steady and persistent moving away from the lowest income obligations, because of the need to maintain earnings. . . . This swing into the higher-yielding Treasuries will gain in momentum and get bolder if the monetary authorities continue to refund the maturing higher coupon obligations with 1¼% certificates. . . . While the bulk of the attention at this time is being paid to the 1952/54s and the 1956/59s, the longest eligible taxable bond is by no means being neglected. . . .

The banks that cannot make ends meet with the income from short and intermediate maturities are quietly going into the 2½s due Sept. 15, 1967/72. . . . The amounts of this bond that are being taken home are sizable and were it not for switches out of it by non-bank holders and selling by the monetary authorities, quotations would be reflecting the good buying that is being done in the 2½s due Sept. 15, 1967/72. . . . On any minor price adjustment there are plenty of buyers ready to take advantage of conditions. . . .

STABLE MARKET AHEAD

With an increasing demand for the intermediate and longer eligibles because of the need to at least maintain income, which cannot be done in many cases because of loan repayments, the technical condition of the market should continue to be favorable. . . . Even the reopening of the F and G bonds should not have more than a temporary passing influence and would most likely be an excellent buying opportunity, especially in the longer-term higher income obligations if there should be any price weakness. . . .

If there should be no securities offered to the commercial banks in the current drive, then there will most likely be many deposit institutions that will do their own refunding in the market, with the completion of the July operation. . . . This could have a very important effect upon the market action of the higher income Treasury obligations. . . .

NOTES

World Bank bonds are again in demand, with many institutions adding to their positions in these securities. . . . The longer maturity seems to be getting most of the institutional buying although the 2¼s have been moving out in good-sized blocks. . . . Market psychology seems to be undergoing a change with more and more traders and investors of the opinion that prices of the longer-term Treasuries could break out of the trading range on the up side at any time. . . . Despite past action of the monetary authorities in giving the market only what is considered good for the Treasury, in refunding operations, there is considerable buying of the September and December maturities with the belief that something other than a certificate will be offered to holders of the higher-coupon bonds.

Treasury Aide Cites Debt Management Policy

Edward H. Foley, Jr., Under Secretary of the Treasury, tells Alabama Bankers principal objectives are: (1) maintenance of confidence in U. S. credit; (2) reduction of national debt; and (3) spreading of debt ownership among individuals and other non-bank investors.

Addressing the Alabama State Bankers Association in Montgomery, Ala. on May 14, Edward H. Foley, Jr., Under Secretary of the Treasury, described the main objectives of the present Administration's national debt management policy. Commenting on this topic, Secretary Foley stated:

Edward H. Foley, Jr.

"Sound business conditions depend upon a stable fiscal situation. You as bankers are better aware than anyone else how the Treasury has directed its public debt management during the postwar period toward achieving stability in the economy. The Federal debt now stands at $251.5 billion—over 50% of all private and public debt in the United States. Before the war the ratio was less than 25%. It is apparent to all that our public debt decisions are felt throughout the Nation's entire financial structure.

"In managing the debt, with the objective of stabilization, our first aim has been to maintain confidence in the credit of the United States Government. This confidence is not only vital to our own country but is of great importance in those countries of the world which look to us for leadership. This aim of our program has been accomplished through the stabilization of prices in the government bond market. Again we see a sharp contrast to the experience after World War I when market declines in Liberty Bonds shook business confidence.

"As a tool of debt management, our policies have been kept flexible so that the Treasury may act quickly to stabilize the financial situation. In the last half of 1948, private financial institutions, for instance, sold large amounts of government securities. To prevent a resulting sharp decline in prices of government securities, we purchased government bonds. But since the beginning of 1949 this situation has been reversed. Government securities have been sold by the Federal Reserve System in order to keep Treasury bond prices from rising too sharply.

"The Treasury has been able to keep our debt operations flexible because the debt structure was designed for flexibility. This design on the debt structure is the result of continuous planning of government issues to supply future needs of the several investor classes.

"The short-term government issues in particular are designed for flexibility. At its peak on Dec. 31, 1945, the short-term marketable debt amounted to $70½ billion. The wartime increase in these issues was made to meet the investment needs of the commercial banking system and of business corporations which were holding short-term funds for postwar expenditures. Since the end of 1945, the short-term debt has been reduced by $18 billion.

"Our second major objective of debt management has been to reduce the amount of the debt. Since the February 1946 peak, the total debt has been reduced by $28 billion. This was effected first by the application of cash balances that remained after the Victory Loan and later, when those balances had been used, through the application of Federal budget surpluses. The large volume of short-term debt has also enabled us to make appropriate reductions in the total.

"No reduction in the total debt has been possible from surpluses since the fiscal year 1948. Even when we have not had a budget surplus, however, we have been able to retire portions of the marketable issues from the proceeds of the sale of nonmarketable securities. An excess of government receipts over expenditures is the only source of further reductions in the total public debt. Unfortunately, due to a reduction in tax rates effected by Congress last year the present budget forecast indicates deficits in the fiscal years 1949 and 1950.

"A third important objective of Treasury debt management has been the spreading of the debt among individuals and other nonbank investors. In the past year, nonbank investors have increased their holdings by $2 billion. Certain large classes of these holders, however, have decreased their holdings. Both insurance companies and mutual savings banks liquidated a portion of their government security holdings in order to invest the funds in private securities and in mortgages. The government security holdings of mutual savings banks have declined $500 million, and of insurance companies nearly $2½ billion.

"One of the principal means of accomplishing a rise in the holdings of government securities by nonbank investors has been the campaign to increase holdings of individuals. In the past year this increase amounted to $1½ billion. Most of this was in savings bonds.

"Our savings bond drive this year has two themes: Opportunity—to build for the future; and confidence in what the future will bring. These two themes characterize the history of our Nation. The United States has always been a land of unrivaled opportunity; our opportunity is greater today than in any period in history.

"Confidence is the bedrock foundation of banking. Confidence in the future—in our ability to make use of our resources and opportunities—built this Nation. Bankers with confidence played an indispensable part in that building. Today our economy is evidencing the basic strength to meet the current readjustment to normal peacetime markets. The demands of the American people will result in expansion of these markets and a widening of our great productive capacity. We have an era of continuing and stable prosperity in prospect. Only confidence is necessary in order to exploit our opportunity to the fullest; we must have the confidence to seize this matchless opportunity. American bankers have shown that confidence in the past; I know they will not be found lacking in confidence in the days that lie ahead."

Merritt & La Morte to Admit, Change Name

Bernard E. Smith, Jr. will be admitted to partnership in Merritt & La Morte, 14 Wall Street, New York City, members of the New York Stock Exchange on June 15. Henry C. Merritt will retire from the firm on June 14, and on June 15 the firm name will be changed to La Morte & Co.

Capital Company, Inc. Opens in Florida.

(Special to THE FINANCIAL CHRONICLE)

JACKSONVILLE, FLA. — The Capital Company, Inc., has been formed to engage in a securities business from offices in the Lynch Building. Officers are G. W. Simons, Jr., President; Zoltan Salkay, Vice-President; and R. Eugene Orr, Secretary - Treasurer. Mr. Salkay was formerly with Gearhart, Kinnard & Otis, Inc., in New York City.

Zoltan Salkay

Stewart J. Lee & Co. Offers U. S. Oil Stk.

Stewart J. Lee & Co., New York, is offering a new issue of 800,000 shares of U. S. Oil & Gas Corp. common stock (par 10c) at 37½ cents per share. The proceeds will be used for drilling and equipping oil wells and for working capital.

The company was formed for the purpose of exploring for oil and the development of likely oil prospects and more particularly to drill up to five offset wells on a certain tract located in the Caddo oil field, Caddo Parish, La. The tract consists of 361 acres more or less. Drilling operations on the first well on the lease were started April 20, 1949, for U. S. Oil & Gas Corp. and the driller, reported coring 130 feet of saturated Annona Chalk at approximately 1,500 feet. The well is being drilled to a depth of approximately 2,700 to 3,000 feet for the purpose of testing the deeper formations. The lease covers all formations down to a depth of 3,000 feet from the surface of the ground, reserving all other formations. After completion or abandonment of the first well, the company is obligated to begin drilling operations for a second well within 60 days.

The officers and directors are Joseph A. South, President, Treasurer and Director; Frank L. Macwatty, Vice-President, Secretary and Director; Joe C. Trahan, Director.

Texas Union Oil Stock All Sold

Stewart J. Lee & Co., May 25, announced that the issue of 800,000 shares of Texas Union Oil Corp., offered by them at 37½c, has been over-subscribed. W. W. Long, President of Texas Union Oil Corp., stated his company now has seven producing wells in Caddo Parish, Louisiana, one in Runnels County, Texas, with another well drilling in Louisiana, and has acquired an option on about 6,100 acres in Chaves County, New Mexico.

Shelby Cullom Davis to Admit K. C. Ebbitt

Kenneth Sarles With Firm

Kenneth C. Ebbitt will be admitted to partnership in Shelby Cullom Davis & Co., 110 William Street, New York City, members of the New York Stock Exchange, on June 15. Mr. Ebbitt has been with the firm as Manager of the Municipal Bond Department.

The association of Kenneth D. Sarles with the firm is announced as of June 1. Mr. Sarles formerly was manager of the New York office of Otis & Co., specializing in municipal and corporate bonds.

St. Louis Municipal Dealers Hold Outing

Golf Outing at Norwood Hills Country Club of the St. Louis Municipal Dealers Group

W. H. Hammond, *Braun, Bosworth & Co.*, Chicago; John S. McMillan, *Dempsey-Tegeler & Co.*, St. Louis; Edward S. Lewis, Jr., *Lewis & Co.*, Jackson, Miss.; Roald A. Morton, *Blue List Publishing Co.*, New York City

James F. Quigg, *Paine, Webber, Jackson & Curtis*, Chicago; Edwin A. Stephenson, Chicago Representative of the *Chase National Bank;* Lewis Miller, *First National Bank of Chicago;* Robert E. Simond, *Halsey, Stuart & Co.*, Chicago

(Front row): Richard Morey, Jr., *A. G. Edwards & Sons*, St. Louis; W. H. Hammond, *Braun, Bosworth & Co.*, Chicago; Walter J. Fitzgerald, Jr., *Blunt Ellis & Simmons*, Chicago; Frederick F. Johnson, *Barcus, Kindred & Co.*, Chicago

Foresees Reduced Investment in 1949

R. M. Nolen, University of Illinois economist, says demand for financing reached peak in 1948, and in current year there will be substantial reductions in corporate capital issues and real estate mortgages as well as in consumer credit.

Writing in the May issue of the "Illinois Business Review," published by the Bureau of Economic and Business Research of the University of Illinois, Dr. R. M. Nolen, Associate Professor of Economics, predicts there will be considerable easing of the money market in the current year accompanied by reduced demand for investment funds by private business. According to the article:

R. M. Nolen

"Government estimates indicate that business outlay for new plant and equipment in the second half of 1949 will be nearly 15% under 1948. At this rate corporate needs for funds would be down some $3 billion or more in 1949. Corporations were able to finance a $26.5 billion expansion in 1948 with only $6.6 billion of outside money. With a drop of some $3 billion in capital expenditures, even less outside funds may be needed in 1949.

"For the past three years a significant feature in business expansion has been the entry of new business firms into the field. Purchases by these new firms of plants, equipment, and working inventories have constituted a sizable part of total investment spending. The falling off in the number of new firms means a decline in investment outlays from this source.

"The demand for funds for real estate mortgages may be much lower in 1949. The rate of construction shows indications of being less than in 1948; the number of old houses sold will likely be less, and at lower prices. Loans for modernization and maintenance should also be under 1948. Building costs have turned downward, and the lenders in the mortgage field have tightened credit. Total urban real estate mortgage credit may be $1.5 to $2 billion (25-35%) less in 1949 than in 1948.

"A leveling of consumer purchases of durable goods was the major factor checking the advance of consumer credit. In January, 1949, consumer credit outstanding turned down slightly; in February the decline amounted to $1 billion, partly seasonal. The Federal Reserve authorities relaxed consumer credit control on March 7 and again in April of this year. The effects of these relaxations may not be measurable for some time. With the sale of durable goods declining, the rate of increased consumer credit probably will be much slower.

"The Board of Governors of the Federal Reserve System reported on April 13 that 12 straight weeks of decline had brought commercial, industrial, and agricultural loans at members banks down more than $1 billion, as compared with a drop of $648 million in the first five months of 1948.

"Governmental policies in 1948 were directed toward reducing inflation. Interest rates on short-term government securities were raised, along with rediscount rates; and reserve requirements of member banks were raised. Although the effectiveness of these measures was somewhat reduced by the Federal Reserve policy of purchasing government bonds, interest rates were firmer in 1948 than in 1947. The average rates charged on short-term loans to business by banks in selected cities in the United States increased from 2.1% in 1947 to 2.5% in 1948. Corporate bond prices averaged lower for the year 1948 and yields rose from an average of 2.9% in 1947 to 3.1% in 1948, but in the first two months of 1949 the average dropped back to 3%.

"The Federal Reserve emergency bank reserve requirements imposed last September were partially relaxed May 2, 1949, freeing more than one billion dollars in reserves. If the emergency requirements are not extended beyond June 30, 1949, the banks will be in a position to extend another billion or more in credit after that date.

"Thus, while demand for investment funds by private business is expected to be at least several billion dollars less in 1949, the supply of funds seeking investment probably will be larger. Personal savings, if continued at the rate of the last half of 1948, would be several billion more in 1949 than the $15 billion saved in 1948.

"This analysis indicates that the supply of funds seeking investment may be several billion dollars greater than the demand by private business in 1948. To the extent that local, state, and Federal govermental units use these funds, they will partly offset the decline on private account. To the extent that the accumulated funds are not used for new private or public investment, they will seek outlets and may tend to push interest rates lower on new securities, or to bid up the price of existing stocks and bonds on the market. This easing of the interest rate is not likely to cause a business recession; on the contrary, it should encourage greater investment in both the private and the public fields."

Stein Bros. & Boyce Sponsor Inv. Course

BALTIMORE, MD.—A new approach to the problem of acquainting the public in the know-how of investing was advanced by Stein Bros. & Boyce, members of the New York Stock Exchange, who announced inauguration of a series of public lectures in Baltimore on the subject "How to Invest Your Money."

The lectures, which will be held in the Emerson Hotel on Tuesday evenings during June, will be free to the public. The first lecture, scheduled for June 7, will be given by William K. Barclay, Jr., President of the Philadelphia-Baltimore Stock Exchange and former Chairman of the National Association of Securities Dealers. The lectures run for one hour, starting at 8 p.m.

Joins Jamieson Staff

(Special to THE FINANCIAL CHRONICLE)

MINNEAPOLIS, MINN.—Melvin E. Butler has become associated with Jamieson & Co., First National Soo Line Bldg., members of the New York Stock Exchange. Mr. Butler was formerly with Merrill Lynch, Pierce, Fenner & Beane and Piper, Jaffray & Hopwood. Prior thereto he was with Bache & Co. for a number of years.

Railroad Securities

A recent bulletin released by the Bureau of Transport Economics and Statistics of the Interstate Commerce Commission highlights one of the major problems facing the railroad industry. That is the expense of doing passenger business. The plight of predominantly passenger carriers has been well illustrated by the history of the Long Island and the long fight over the Old Colony lines of the New Haven. Less attention has been paid to the drain imposed on every segment of the industry by consistent losses on the passenger business.

Except for the war years, the Class I railroads have consistently reported net railway operating deficits in passenger service. In the prewar years 1936-1941, inclusive, the operating deficits in passenger service fluctuated between $226 million and $262 million. The passenger service reverted to deficits immediately following the war. Last year a peak net operating deficit of close to $560 million was reached. This cut very heavily into peak net operating income from freight service of $1,561 million last year. The passenger service deficit absorbed practically 36% of the profit from the freight services.

Because of the nature of passenger business, including the fact that much of it is short haul and commuter traffic, it has been more difficult than in the case of freight business to effect economies through mechanization, speeding up of schedules, installation of heavier power, etc. The Bureau's release points out that gross revenues from freight and allied services reached an all time peak last year, up 13.1% from the previous peak established the year before. Operating expenses applicable to such services were up only 9.6% from 1947. Gross from passenger and allied services rose only 2.5% from 1947 to 1948, but expenses applicable thereto were up 11.1%.

As in every phase of railroading the individual carriers show wide variations in their vulnerability to passenger service losses. The Bulletin shows the results in 1948 and 1947 for 27 individual large steam railroads. These roads last year accounted for about 77% of freight revenues and 84% of passenger revenues of all Class I carriers. Last year only one of the roads covered in the Bulletin had a passenger service operating ratio of less than 100%. That was New Haven. Even that carrier, with a passenger operating ratio of 92.7%, had a net operating deficit of $5,568,000 in passenger service. Passenger operating ratios for the other roads covered ranged from 113.1% for Pennsylvania to a high of 210.3% for Chesapeake & Ohio.

The operating ratios themselves are not the most important consideration. The dollar deficit in relation to the dollar profit from freight service is the prime consideration. It is obvious that a 200% passenger service operating ratio is less of a drag on a road getting only 5%-6% of its gross from such services as would be a 125% ratio for a road getting as much as a third of its revenues from passenger and allied services.

There were four roads whose passenger service operating deficits last year absorbed more than half of the net operating income realized from freight and allied services. The hardest hit was Atlantic Coast Line. Its $9,663,000 passenger loss amounted to 65.3% of its $14,790,000 net operating income from freight service. Next in line was Chicago & North Western with passenger losses cutting 63.8% from freight net operating income of $27,627,000. The other two whose freight profits were cut sharply by passenger losses were Chicago, Milwaukee, St. Paul & Pacific and New York Central, with 57.0% each.

One of the highest passenger operating ratios was the 205.7% of New York, Chicago & St. Louis. However, passenger business as a whole is unimportant for this carrier, so the loss absorbed only 18.8% of the profit realized on freight operatings. Illinois Central, Norfolk & Western and Wabash were the only three others whose passenger losses amounted to less than 25% of the freight profits.

N. Y. State Electric & Gas Stock On Market Priced at $44.50 per Sh.

New York State Electric & Gas Corp. May 25 offered to holders of its 880,000 common shares the right to subscribe for 73,333 additional shares of common stock, $25 par value, at a price of $44.50 per share. Stockholders are entitled to subscribe on the basis of one new share for each 12 shares held of record at the close of business May 24, 1949. Transferable subscription warrants evidencing such rights will expire at 3 p.m. (EDT) on June 9, 1949.

The First Boston Corp. heads an investment banking group composed of Lehman Brothers, Wertheim & Co. and Merrill Lynch, Pierce, Fenner & Beane which has agreed to underwrite the unsubscribed shares. In addition, the underwriters will sell shares of the new common prior to expiration of the subscription offer and will act as dealer managers of a nationwide group of securities dealers which will solicit the exercise of subscription warrants by the original holders.

Proceeds from the sale of the stock will be used chiefly to retire $3,000,000 of the presently outstanding $4,000,000 of short-term notes incurred for new construction. During the next three years the company plans new facilities costing $52,800,000 of which nearly half is for power plant additions with an estimated peak capacity of 154,000 kw.

Giving effect to this financing, the company will have outstanding $58,887,000 of funded debt; 150,000 shares of 3.75% cumulative preferred stock; 34,125 shares of 4.50% cumulative preferred stock, and 953,333 shares of common stock, $25 par value.

Dividends on the common stock have been paid quarterly since reclassification of the stock in 1947. Dividends of 85 cents per share have been paid quarterly during 1948 and for the two quarters thus far in 1949. The prospectus states that the board of directors intend to declare a dividend of 85 cents per share payable in August, 1949 and thereafter on a quarterly basis as conditions warrant.

Walter C. Gorey Forms Own Investment Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Walter C. Gorey is forming Walter C. Gorey Co. in partnership with S. Morgan Barber. Offices will be maintained in the Russ Building, San Francisco, as well as at 210 West Seventh Street, Los Angeles.

Mr. Gorey was formerly Pacific Coast Manager for Geyer & Co., Inc.

How Save Ourselves?

"The tendency on the part of the Government to coerce the employee under the guise of security offers is the greatest and most pressing threat to his future happiness.

"Our problem and our responsibility as employers is to make that fact abundantly clear, not alone by exhortation, nor by institutional advertising. It's not that simple. If we succeed in this task we shall only do so by force of example and demonstration of the fact that our American competitive business system offers the greatest possible individual freedom—the greatest happiness to the employee himself.

"There have been able and well-conceived attempts to accomplish this—and yet, so far it hasn't happened. Let's ask ourselves why and spend some time in the pursuit of the answer.

* * *

"Every thinking American is conscious of some milestone we have passed down the road to socialism. But I am certain we are all shocked and surprised to know the distance already traveled.

* * *

"Perhaps the saddest part of our drift toward socialism is that it is done under the authority of public opinion. To me it is doubly tragic to watch people injuring themselves under the illusion that they have found a new and better way."—Hughston M. McBain, Chairman, Marshall Field & Co.

Yes, this is one of the tragedies of history—this reversion to fallacies centuries ago exposed. It is a greater threat to future welfare than communist armies.

How are we to be saved from these alluring self-deceptions?

NEWS ABOUT BANKS AND BANKERS

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED CAPITALIZATIONS

Mr. Lawrence C. Marshall, President of the **Bank of the Manhattan Company of New York**, announced on May 31 that Mortimer J. Palmer was appointed Secretary of the company succeeding John N. Haslett who has reached the retirement age after serving the bank for 44 years. Upon graduation from high school in 1918, Mr. Palmer entered the bank's employ as a page. He soon was promoted to a clerkship and served in various departments at the Main Office and later at the 43rd Street Office. In 1929 he was appointed Secretary to the Chairman and in 1946 he was appointed Assistant Secretary of the bank.

Mortimer J. Palmer

* * *

At a special meeting held on June 1 the stockholders of the **Bank of Manhattan Company, New York** approved an increase of the capital stock of the Bank from 2,000,000 to 2,500,000 shares. The stockholders will be entitled to subscribe for one additional share of stock for each four held.

* * *

N. Baxter Jackson, Chairman of the **Chemical Bank & Trust Company of New York** announced on May 26, that George M. Erhart, formerly a Trust Officer, has been appointed Corporate Trust Officer in charge of operations of the Corporate Trust Department. At the same meeting, Russell H. Sherman, formerly Assistant Secretary, was appointed a Trust Officer, and Everett O. Stoothoff was appointed Assistant Secretary in the department. Howard B. Smith, Vice-President in charge of the department, retires on May 31.

* * *

Arthur S. Kleeman, President of **Colonial Trust Company of New York**, announced on May 31 the appointment of Frederick H. Zimmer to the newly created office of Vice-President in charge of Domestic Business Development. Mr. Zimmer, who has been associated with the banking institution since its foundation in 1929, has been Vice-President in charge of its William Street Office, at William and Cedar Streets, since 1940. William H. Bassett will succeed Mr. Zimmer as Vice-President in charge of the William Street Office. He has been associated with Colonial Trust Company since 1946, and since 1947 has been Vice-President in charge of the Kingsboro Office, at 69th Street and Fifth Avenue in the Bay Ridge section of Brooklyn. James H. Shaw will succeed Mr. Bassett as Vice-President in charge of the Kingsboro Office. Previously associated with the Manufacturers Trust Company, Bankers Trust Company and Morris Plan Bank, Mr. Shaw came to Colonial Trust Company in March, 1945, as Assistant to the President, and since 1947 has been an Assistant Vice-President in the Kingsboro Office.

* * *

Harvey D. Gibson, President of **Manufacturers Trust Company, New York** announces that Francis S. Bancroft, President of the Excelsior Savings Bank and Charles R. Henschel, President of M. Knoedler & Co., have been appointed to the Advisory Board of the office of the Manufacturers Trust at 741 Fifth Avenue.

* * *

The New York Agency of the **Standard Bank of South Africa, Ltd., at 67 Wall Street, New York**, announced on May 26 receipt of a cablegram as follows from the head office in London, regarding the operations of the bank for the year ended March 31, 1949:

"Directors of Standard Bank of South Africa Ltd., have resolved to recommend to shareholders at Annal General Meeting to be held July 27 next the payment of a final dividend, Nine Shillings per share together with a bonus of Four Shillings per share, both payable in British Currency and subject to income tax at Nine Shillings in the Pound, making total distribution of 20% for year ended March 31, 1949 to appropriate £150,000 to writing down bank premises and £300,000 to Officers Pension Fund, carrying forward balance of £192,832. Bank's investments stand in books at less than market value as at March 31 last and all other usual and necessary provisions have been made. Register of shareholders will be closed from July 6 to 19, both dates inclusive. The Directors have decided to transfer £500,000 from Contingencies Account for the benefit of the Officers Pension Fund."

* * *

Cable advices received by the New York Agency of **Barclays Bank (Dominion, Colonial and Overseas), New York**, state that the board of directors of the bank have recommended interim dividends of 4% actual on the A stock and on the B shares, less income tax in each case at the standard rate of 9/- in the pound. These dividends are payable on June 15, 1949.

Barclays Bank (Dominion, Colonial and Overseas), which is affiliated to Barclays Bank Limited, 54 Lombard Street, London, maintains branches overseas in South Africa, East Africa, West Africa, Egypt and the Sudan, Mediterranean, Palestine, British West Indies, Eritrea, Libya and Somalia.

* * *

The offices of the New York Agency of **Banco Nacional de Mexico, S.A.**, will be located at 37 Wall Street after May 30.

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Appointment of Elwood G. Childers as Director of Personnel of the **Industrial Bank of Commerce, New York** was announced on May 31 by Walter E. Kolb, President.

Mr. Childers, a Lieutenant Commander in the Naval Reserve and a former officer of the Union Trust Company of Washington, has been Assistant Comptroller of the Industrial Bank of Commerce.

* * *

From the May 23 bulletin of the Office of the Comptroller of the Currency it is learned that the **Hudson County National Bank of Jersey City, N. J.** increased, its preferred stock effective May 10, from $784,000 to $1,372,000.

* * *

After 56 years' activity in the banking business, Samuel McCracken will retire July 15 as President of **Miners National Bank of Wilkes-Barre, Pa.** Board Chairman Gilbert McClintock will serve as President until a successor is chosen.

* * *

President John K. Thompson of the **Union Bank of Commerce, Cleveland, Ohio** announced on May 26 promotions of two members of the bank's staff. Leo F. Batts, Auditor of the bank since 1944, becomes Assistant Cashier, while Norman M. Hausser is advanced from Assistant Auditor to Auditor. Both men have been with the Union Bank of Commerce since its formation in 1938, and both are members of the Cleveland Conference of the National Association of Bank Auditors and Comptrollers.

* * *

The **Du Quoin National Bank, Du Quoin, Ill.** was issued a charter effective May 16, according to the May 23 "Bulletin" of the Office of the Comptroller of the Currency. The bank has a capital of $100,000 and its President is A. J. Guerrettaz; the Cashier is Victor H. Ritter.

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Albert Peter Imahorn, President of the **Hibernia National Bank New Orleans, La.** for the past 16 years, died of a heart attack on May 21, 1949, at his residence, in New Orleans, Louisiana. He was 53 years of age.

He was elected President of the Hibernia National Bank early in 1933 and served as its President until his death. In 1946 he was elected President of the New Orleans Clearing House Association. He held that post through 1947 and later continued as a director.

Proud Papa

Elmer Myers. Geo. B. Wallace & Co., 15 William Street, New York City, is the proud father of a son born on Monday, May 23.

Elmer E. Myers

Merrill Lynch, Seattle Sponsors Inv. Course

SEATTLE, WASH. — The Seattle office of Merrill Lynch, Pierce, Fenner & Beane, 1411 Fourth Avenue Building, members of the New York Stock Exchange, announce a special course, which began May 31, designed for the women of Seattle, on the handling of money and how to invest it. The course, which will last five weeks, will be held one a week at the Metropolitan Theatre at 2:30 in the afternoon and will continue through Tuesday, June 28th.

The course will give instruction on how to make a budget; what an investment is; the relationship between intelligent investment and the standard of living; how invested money works to earn interest and dividends; different kinds of investments; how to evaluate an investment; the functions of a Stock Exchange and a brokerage firm; the difference between corporate and governmental financing; and how invested money helps America's security. Experts in the fields of investment, banking and money habits will instruct and answer questions. There is no charge for the course.

G. Edward Ledbetter, resident partner of the firm, says, that as of May 26, 650 had signed for the course.

Limited Partner

Paul B. Ware, general partner in Ware & Keelips, 2 Wall Street, New York City, members of the New York Stock Exchange, became a limited partner in the firm on June 1.

A. Kalb & Co. Opens

TRENTON, N. J.—A. Kalb & Co. has been formed with offices at 325 Market Street to engage in a securities business.

James W. Pattee Co.

FT. SMITH, ARK.—James W. Pattee is forming the James W. Pattee Co. to engage in a securities business from offices at 17 North Seventh Street.

Nat'l Banks' Capital Up on Retained Earnings

ABA Survey shows more than one-half of 1948 earnings were applied to increase of capital accounts, which on Jan. 1 aggregated $5,671,000,000.

The national banks of the United States retained more than one-half of their 1948 net earnings in their capital structure, after transferring a substantial amount to reserves for bad debts, the National Bank Division of the American Bankers Association reported May 31 in a letter to its members from W. W. Campbell, President of the National Bank of Eastern Arkansas, Forrest City, Arkansas, who is president of the Division.

W. W. Campbell

According to Mr. Campbell's report, capital accounts have thus been increased by 4.6% to an aggregate of $5,671,000,000. Cash dividends paid amounted to 3.42% of total capital funds as compared with 3.39% in 1947.

"Total earnings from current operations increased 10.2% to $1,900,000,000," the letter states. "With one exception, the earnings from each type of operation were higher than in 1947. The one exception was the interest on United States Government obligations, which decreased 6.7%. The largest increase, 26.1%, was shown in interest and discount on a volume of loans which expanded steadily throughout the year to $23,818,513,000, the highest total ever recorded. In current operating expenses there was also an increase in all but one item—income taxes, which were 3.6% lower because of the larger transfers of earnings to debt reserves. The operating expenses totaled $1,361,000,000, with the heaviest expenditure for salaries and wages. This amounted to $566,000,000—an increase of 10.6%.

No Signs of Quick Recovery: Wolman

Columbia University economist says problem now is to bring costs down so as to create conditions which make profits possible. Sees increased government spending and deficit financing adding fuel to deflation.

Dr. Leo Wolman, Professor of Economics at Columbia University and a director of the National Bureau of Economic Research, Inc., in a luncheon talk at the Insurance Conference of the American Management Association in New York City on May 27, in which he discussed "Economic Guide Posts to the Future," expressed the belief that the present downward trend in business, compared with earlier movements since the end of the war, is more persistent and more general, and there is little reason to think that the decline has run its course?

Prof. Leo Wolman

"Such indications as there are," continued Dr. Wolman, "suggest that it will go still further. The activities which turned down early show no signs of quick recovery. The industries, such as steel and automobiles, which still appear to be resisting the general trend of business or to reflect it only slightly, are themselves subject to the forces of contraction and, judged from what can be seen today, are unlikely to escape their influence. In its broad outlines, the turn in business which got under way in the Fall of 1948 has been proceeding true to form. Those who saw in the vast purchasing power or national income of 1948 and the years before an effective safeguard against probable economic deterioration were clearly misinterpreting the data and failing to understand the forces at work. What is happening was to be anticipated. What could not be foretold is when it would happen. The turn could conceivably have occurred somewhat earlier or somewhat later."

Discussing remedies for the situation, Dr. Wolman said:

"If this is the visible outlook in business and employment, the most pressing issues are those of the private and public policies best adapted to deal with this changed business situation. Already questions which were the subject of angry debate not so many months ago are receding into the background, where they can be seen in their proper perspective. We may soon hear very little of excessive profits, as more and more firms find their profits declining or disappearing. The problem then will be how to bring costs down to a reasonable level and to create the conditions which make the earning of profits possible. Much of American business has already begun to be faced with this contingency. As it undertakes to deal with this problem, it must take into account, on a scale hitherto unknown in the United States, the economic and political policies of a powerful nationwide labor movement. These policies, if they are adhered to, will constitute a formidable obstacle in the way of what seem to be necessary and urgent adjustments in costs and prices. In fact, trade-union policy as it is currently enunciated seems to recognize no connection between union demands and the state of business.

"The government on its part seems to have no tricks up its sleeve except increased spending. If expenditures rise and taxes are not raised, an already stupendous deficit will become still bigger. This means in the not very distant future, raising the tax rates on individuals and business which are already suffering from the excessive weight of taxation. The net consequence of this combination of policies may very well be more strongly deflationary than inflationary. If, however, taxes are currently raised in order to avoid a deficit, it is hard to see how that will do any more than intensify and prolong the depression.

"The fact in the matter seems to be that neither the government nor the labor movement has any confidence in the strong forces of recovery inherent in the American system. They are likely, by their policies, to hinder and not assist these forces. By this behavior they may easily make thing worse than they need be."

Opens in Brooklyn

BROOKLYN, N. Y.—Wallace White is engaging in a securities business from offices at 1475 54th Street.

Bank and Insurance Stocks

By H. E. JOHNSON

This Week—Insurance Stocks

At a time when the uncertainties surrounding general business conditions are increasing, it seems advisable once again to review some of the fundamental factors affecting fire insurance stocks.

The decline in business which began last November has progressed steadily up to the present time. In terms of the Federal Reserve Board Index of Industrial Production the decline has been from a high of 195 to the latest reported figure for April of 179. A further decline is in prospect for the month of May and the FRB index will likely be below 175.

This downtrend in business activity has been accompanied by price adjustments. At the present time there are few products that are not readily obtainable at prices below what they were six months ago. Some of the more spectacular adjustments include such varied items as food, non-ferrous metals, textiles, appliances and certain chemicals. Others that have made small price changes with more indicated later are automobiles and building materials. Even steel, which was so critical at the time of the election, seems to be in an easier supply and demand relationship as evidenced by price changes in certain lines of products and the reduced rate of steel making operations over the past two months.

There is considerable reason for believing that business activity and prices will continue the trends of the past several months. While there is likely to be individual exceptions, the general trend is believed downward with further adjustments indicated.

Under these circumstances what is the outlook for earnings of industrial companies? First quarter earnings of many concerns were better than had been expected and in general compared favorably with those of a year ago. However, there were variations by industries and companies. More important possibly than comparison with a year ago was the fact that most companies showed a decline in earnings from the fourth quarter of last year. Also, since that time there have been increasing cutbacks in production and sharp declines in commodity prices.

This would seem to indicate that the earnings of most industrial companies will reflect the trend of business and prices and that future comparisons with a year ago will cease to be favorable.

How does this influence insurance operations and why is it important? While the reduced level of business activity and lower prices may hurt the profit position of most other businesses, such trends are potentially profitable to fire insurance operations.

As the prices of commodities and real estate decline it becomes possible for insurance companies to adjust claims at lower costs. As the value of inventories decline potential losses are reduced. Thus, providing there are no catastrophies such as a major conflagration, the cost of settling claims this year should be considerably below last year. Already there is considerable evidence to support this view outside of industrial price changes and business activity.

Since January of this year fire losses have been declining. For the first four months of the current period fire losses totaled $242,858,000 and compared with $272,518,000 for the similar period of 1948. This represents a decline of 10.9%. For the full year it is not considered unlikely that fire losses will show an overall decline of around 10% compared with 1948. If there is a decline it would mark the end of a 13-year period of increasing fire losses.

As there is not likely to be any important overall change in premium volume for 1949, no further increases in unearned premium reserves will be necessary. If these assumptions are correct, very favorable statutory underwriting operations are assured. While the tax liability will increase because of larger statutory underwriting earnings, final results should be favorable in comparison with those of last year. In certain individual cases substantially larger underwriting earnings this year are almost a certainty.

In regard to investment income for 1949 the prospects are that it will be maintained near the level of 1948. Because of a larger volume of funds available for investment and higher yields in certain cases, some moderate improvement over last year is possible.

At the end of last year common stock holdings amounted to approximately 40% of the average insurance portfolio and are made up of high-quality issues. The dividends on such holdings are likely to be maintained even though the adjustment in business continues further. For the past several years the pressure to maintain capital has necessitated the investment of a large part of new funds in high grade bonds so that no large or extended positions in common equities are present. Even though some industrial companies may find it necessary to reduce payments, investment income of insurance companies should be maintained. Thus with investment income near the level of last year, present dividends absorb only about 50% of such earnings. With the pressure on capital funds eased it becomes apparent that a number of companies will be in a position to make a larger payment to stockholders.

It is against this background that insurance stocks should be considered. For over a year now they have been acting considerably better on a market basis than other industrial groups. With the fundamental factors once again favorable for several years of profitable underwriting operations, it is believed insurance stocks will continue to be favored by investors.

Three Golf Trophies At Bond Club Outing

Approximately 250 Wall Street bond men will count strokes instead of bonds on June 3 when the golf tournament—feature event marking the silver anniversary of the Bond Club of New York's Annual Field Day—gets under way at the Sleepy Hollow Country Club. Two golf courses at the Club will be available to accommodate the large number of players.

John W. Dayton, Chairman of the Field Day Golf Committee, announces that some of Wall Street's outstanding players will be on hand to compete for three trophies, the Ex-President's Cup for low gross, the Candee Cup for low net and the Christie Cup for handicap match play against par.

The tournament will be divided into three handicap classes: Class A, 0-12; Class B, 13-24; Class C, 25-30.

In addition to the three trophies, more than a dozen prizes in the form of gift certificates will be awarded to the players in the various classes.

Selling Mutual Investment Funds

(Continued from page 4)

A good prospector never has enough time to see all of his prospects. You cannot succeed in the selling profession if your sales cost you too much time to locate. If you haven't a prospect list—start one at once. Write down the names of 25 people whom you know can, and should, own Mutual Funds shaares. Build this prospect list up to 300 names and keep it alive by weeding out the dead wood. Don't be afraid to add the names of your doctor, your dentist, lawyer, club members, church members, etc. If you want to find customers, study all the ways and means in your power; keep thinking and the right thoughts will come. The law of average will not fail you if you see enough people. Be sure and ask each client that you sell, for the names of friends and acquaintances. Tell everyone about your business; be sure that all your friends and everyone you come in contact with knows what business you are in. In other words, expose yourself to business! Try to address groups of people about Mutual Funds—they make a very interesting subject. Organizations and clubs of all kinds are always looking for speakers.

The following is a list of good prospects generally not seen by people in the security business:

Sales Managers and Salesmen.
Naval and Army Personnel.
Small Storekeepers.
Junior Executives.
Merchant Marine Officers.
Farmers.
Career Women.

Take, for instance, **sales managers.** There are in your city many hundreds of firms represented by sales managers, both local and out-of-town concerns. You will find that they may have from 3 to 50 salesmen, or more, working for them. These sales managers are agreeable and easy to contact, and generally they are making money. Therefore, they are perfect prospects, and if you sell them, you have the opportunity at some time of addressing all of the salesmen working under the manager, or of seeing them individually. There is, no doubt, a sales managers' club in your town, so that you can secure the names without much effort. The classified telephone directory will, at least, furnish you with the names of firms represented in your city.

Army and Navy Personnel—You have a Naval base in your city. The officers are already provided for through the retirement plan set up by the Navy. But in the majority of cases, they have to augment their retirement pay with other income. Put their surplus money to work in Mutual Funds at this time, and sell them on the idea of investing regular sums of money quarterly. They can have the dividend check included in the regular quarterly investment.

Small Storekeepers by the thousands are making money. Offer Mutual Funds to your local butcher, grocer or druggist. You will be surprised to find in many instances how much idle money they have in the bank. You will find some of them interested in investing or saving regularly.

Junior Executives have a serious problem not only in providing for their children's education, but in setting up a definite program for their own retirement.

Merchant Marine Officers — I know of one salesman in New York City who has been doing a very good job selling Mutual Funds to Merchant Marine officers. There are a number of ships coming in to your harbor each week. The officers of these merchant vessels should be buying Mutual Funds.

Farmers — Any time you are getting stale in the city, take a trip to the country. It will act as a tonic. You will find the farmer has a lot of fine equipment that has been paid for generally by cash. He will tell you that he is making money. On your trip to the country, stop in at the farm supply company and other merchants, and you will discover that their business has been good. All they need is a little education on Mutual Funds to cause them to be investors.

And last, but not least, don't forget the ladies. You have in your city thousands of **career women.** They are in many occupations, hold responsible positions, and are making good salaries. One group comes to my mind—buyers for department stores. A survey by "Good Housekeeping" magazine shows that women control our economy—

65% of the accounts in mutual savings banks.
50% of the privately-owned stock in corporations.
60% of all privately-owned Government bonds.
80% beneficiaries of all life insurance.
70% beneficiaries of all estates.

Who said he wanted to be a man?

You have in the Commonwealth of Massachusetts innumerable widows who should own Mutual Funds shares because these shares provide regularity of income and reasonable safety of investment. A widow generally carries her husband's name, for instance, Mrs. John Jones. Pick out a list from your telephone book—select good neighborhoods — send these widows a prospectus and some literature and make a personal call.

I have given you just a few of the prospects. Practically everyone in the middle income group should own Mutual Funds and should be buying them regularly, the same as they pay life insurance premiums.

Some salesmen today are concentrating on groups and finding that after a few calls they are learning the lingo of that particular group and their financial needs. For example — plumbing contractors, electrical contractors, building contractors, printers, etc. —are all making money. Some small businessmen don't realize that they have two very important financial problems: first, the need to invest their personal money intelligently; and second, setting up a definite segregated reserve fund for their business to take care of obsolescence of equipment. The purchase of Mutual Funds regularly by a small business enables the owners to set up such a reserve fund conveniently.

Use of Literature

As you know, is is necessary for you to send or give, in person, a prospectus of that particular Fund in which you are going to attempt to interest your prospect. There are many supplementary pieces of literature which are furnished by most of the sponsoring companies of Mutual Funds. It is well for you to study not only the prospectus of the Fund or Funds which you are going to sell, but also go over their literature, and you will find certain pieces which will appeal to you more than others. Those pieces you can use to the best advantage because you like them. If you are going to use mail campaigns, first select prospects geographically so that you don't waste too much time when you personally contact these prospects. My advice is not to send any more letters than you can personally follow up within two weeks' times. Mutual Funds cannot be sold by mail or telephone. You can at times make appointments over the telephone, but this requires skill. The prospect can very easily terminate a conversation over the telephone.

Your Approach

In opening the interview be brief and specific, don't have a long introduction. Be sincere and pleasant, and the chances are that your prospect will act the same way. Plan in advance your opening remarks. Entertain a feeling of equality with your prospect. Express yourself with ease. Keep in mind that it is points, not words, that make a sale. Speak in a language that is simple and understandable. Be sure that you sell to all of your prospect's senses and particularly through his eyes.

The following approach may be of assistance to you—

"Mr. Prospect, I represent XYZ Company. We are offering a Mutual Investment Fund that has gone through the worst depression this country has ever had; a world-wide war; and a reconversion period—and has paid over 75 consecutive quarterly dividend distributions.

"This Fund's objectives are to provide a reasonable annual return, to increase the value of your shares in advancing markets without undue speculation, and to conserve the value of your investment. Due to high taxes, the increased cost of living, and low interest returns, these objectives are necessary in any investment program, aren't they, Mr. Prospect?" (I want an affirmative reply to this question if I can get it.)

At this point it is well to present a prospectus (if you haven't already done so), and a piece of literature which illustrates the advantages, the portfolio, and the historical record of the Fund which you are offering for sale. For example, the piece of literature which I have in my hand has been prepared to aid you in making a complete presentation based on a $10,000 investment. Be sure your prospect follows you as you cover each salient principle and as you emphasize each point. If necessary, give him a copy of the piece of literature you are using. You must have his undivided attention. Use a pen and a pad to get across certain points. Keep in mind at all times what the Fund will do for the prospect, not what the sale will do for you.

This piece of literature covers the advantages, shows how $10,000 is diverisifed, illustrates a 15-year record, and how dividend distributions have been made for 20 years. All of these principles should be covered slowly and carefully. Be sure you make your points clear to the prospect. For example—"Mr. Prospect, diversification is one of the first principles of investment. I want you to understand how $10,000 invested in this Fund would be protected through diversification. Note that only $350 would be invested in chemicals, $167 invested in building construction, etc., etc.

"You will also note that this Fund has in its portfolio bonds, preferred stocks and common stocks. The percentages for these types of securities are changed by the management as the outlook for business and market changes. The people who are managing this Fund, Mr. Prospect, have been doing it for 20 years. I think you will agree that they have gained in experience during that period and should be able to do at least as well as they have in the past. It is their only job, and they devote their entire time to the management of this Fund. You will be interested in knowing that the management, directors, and their families have over XXX dollars invested in shares of this Fund. I like that idea, don't you, Mr. Prospect?

"Liquidity is guaranteed because all or part of your shares can be turned into the Fund at any time for cash liquidation. You will be relieved of handling investment changes, proxies and deposits, etc., through the purchase of this Fund. Net income from over 150 securities is paid to shareholders in four quarterly dividend checks, greatly simplifying your income tax return.

"The individual investments are limited to 5% of resources. Short selling or margin trading are prohibited. The Fund is audited twice a year by certified public accountants. All securities of the Fund are deposited with a custodian bank.

"Had you invested $10,000 in this Fund 15 years ago, you can see by this illustration that you would have received rather attractive dividend distributions from both ordinary net income and security profits, and the liquidating value of your shares at the end of last year would have been XX—showing you a very satisfactory profit.

"You will note, Mr. Prospect, that this Fund has paid dividends for 19 years, and they have been consistent, haven't they? Total assets of this Fund have grown to XX million dollars since its inception. Shares of this Fund are owned by people in all walks of life as well as institutional investors."

It is advisable to show your prospect a 10-year record and a 5-year record of the Fund. In each instance he will appreciate that the Fund you are offering has had a very satisfactory record for the period and you can get him to agree with you on that fact.

After you have finished your presentation, during which time you have answered all questions and objections, don't have a stage wait or a lull, but aid your prospect to make up his mind by saying something like the following: "Mr. Prospect, $10,000 will buy X number of shares today and I would like to take your order." If he doesn't buy, there must be some reason—either an objection, or you haven't answered all of his questions, or some part of your sales talk has not been clear. It is well, therefore, at this time to summarize the important sales points so that you will again bring to your prospect's mind the reasons why he should buy.

If your summary fails in securing the order, then say something like the following:

"Mr. Prospect, I am so convinced this Fund will answer your investment problem that I am going to ask you, if you don't mind, to tell me what your objection is to it, or what is not clear to you." If he gives you the objection or the question and you can answer it, then assume this was the only barrier to the sale. Don't forget that a good way to learn a prospect's frame of mind is to ask him certain questions Look for the following indications on the part of the prospect:

He seems to be ready to make up his mind—that is the time to aid him in making a decision. If he says your proposition sounds good, but he doesn't think he should start it at this time—he needs a certain amount of persuasion. If properly handled, you have a sale.

If you have been talking to your prospect regarding the $10,000 investment and he doesn't buy, be sure he understands that he can make a smaller investment, but you are anxious to have him start buying these shares, so that he can begin with any amount he desires.

It is very important for you to secure an order regardless of the size. Many times a small buyer has become a large buyer through additional purchases.

If you don't secure an order on the first call, be sure to pave the way for a later call by leaving a piece of literature which will aid your prospect to make up his mind. Also make a definite date, if you can, for your return call to pick up the piece of literature and answer any further questions. Sell him the value of this piece of literature. When you tell the prospect that you will return to pick it up, he will feel that it has more value than just something you are giving away.

I want to spend a few minutes with you on objections and questions which may be brought up by the prospect during the course of your presentation. Few sales of any consequence are made without objections being raised or questions asked by the prospect.

Objections are sometimes caused by statements of yours with which the prospect does not agree, or some point is brought up which he does not fully understand. Some salesmen consider objections as a barrier to the sale. I don't agree with that thought at all. I don't believe objections or questions would be asked by the prospect unless he was interested. Many times an objection makes it possible for you to tell the progress you are making. Objections should never be magnified and they should be answered immediately—not postponed. Don't make the mistake of telling the prospect that you are coming to that point later. If you do he will always have the feeling that you cannot answer that particular question or objection. That idea will stick in his mind and he will be giving you only half-hearted attention.

In order to forestall objections, you must present your ideas clearly so that they will be understood.

Anticipate common objections, which you have found are raised by most of your prospects, in your sales presentation. In the sale of Mutual Funds you may run into certain objections—such as, "I will think it over." "Mr. Prospect, I want you to think it over, but you will want all the facts while you are deciding, and I think I can answer all your questions and give you the facts while I am here with you today."

Quite frequently you will run into prospects who are interested but they want to take the matter up with their wives. The only answer to that is to agree with the prospect that his wife should know all the facts pertaining to the investment because they will both benefit. Be sure that you make a definite date to see the prospect and his wife as early as possible. You suggest a time—such as, "how about my dropping around this evening at say, 7:30?" If you prolong the making of a date you are going to lose the interest you have created in the mind of your prospect.

Prospect: "I have lost money many times through the purchase of securities."

Answer: "Mr. Prospect, every man who has done business has made some poor investments at times. The lesson which you have learned through making poor investments will cause you to examine and consider more carefully the security which you are going to purchase. That is precisely what I would like to have you do in this case."

Prospect: "I will keep my money in the bank. It is safe there."

Answer: "Your money is safe in the bank, but I feel that if you have a certain amount of money in a savings bank to take care of emergencies, and you have bought sufficient life insurance to protect your family if you die, you should consider the purchase of Mutual Funds because of what they will do for you; namely, (1) provide regularity of income greater than you can get in a savings bank, and (2) increase the value of your shares when security markets are rising—which aids you in offsetting the increased cost of living, and conserves your principal by spreading your money over many different securities."

Prospect: "I can pick my own securities."

Answer: "No doubt you can, and you may be an exception to the rule, Mr. Prospect, but you have to admit that the management of this Fund which devotes its entire time to supervising should do a better job than an individual who can devote only a part o. his time, and generally does not have the experience or the facilities necessary for successfully managing investments."

By referring to the record of the Fund you are selling, many times you can convince the prospect that he is much better off by buying your Fund than he is by trying to invest his own money. This point can very easily be proven by showing him a record of 20 or 25 of the leading stocks for the past 10 years. The variance in performance is so startling that the prospect will realize he has a very difficult job to pick his own.

Occasionally you may encounter an objection to the sales load. This can be covered without magnifying it. Some salesmen handle the sales load by incorporating it right into their sales presentation by convincing the prospect that for services rendered the cost is very fair. A person who buys Mutual Funds is making a long-term investment. While he pays a sales load going into the Fund, there is in most Funds no charge going out. The difference between the asked and the bid price is very easily explained; and it is well to carry a newspaper with you showing where the Fund which you are selling is listed in the local paper.

The prospect who objects to the load on Mutual Funds forgets what he pays for life insurance, if he knows; or, what the mark-up is on anything else that he buys. He thinks nothing of paying the retail automobile dealer a sales commission of from 22% to 26%. The very bread that he eats carries a mark-up of 40%. If he thinks that the money he puts in a savings bank carries no profit to the bank, all he has to do is to consider the difference between what he gets and what the bank can make on his deposited dollar. As a matter of fact, if you handle the sales load properly it will not be an objection; the services rendered are worth all that the prospect pays. If your prospect attempted to secure diversification by purchasing 50 or more stocks with $5,000 or $10,000, he would find the cost of going in and out as much or more as the sales load on Mutual Funds. It is more likely that he would buy less numbers of stocks and thereby lose the benefit of proper diversification which is afforded through Mutual Funds. My suggestion is to eliminate any fear of the sales load, if you have it.

One of the most important things in making a sale is for you to believe that you can sell the prospect. For years I thought hunches worked for me. Then I discovered they weren't hunches, they were beliefs that I could sell certain prospects, and I generally did. Start off each day with the thought that it is going to be a good day for you, and if you believe it, it will be a good day. Get the feeling and belief as you contact the prospect that you can sell him and you will be surprised with the results.

The Close

I want to take up the matter of closing the sale because you will agree that this is a very important part of your sales presentation. Too many salesmen tell a good story, then fail to follow through with a close by relaxing and failing to aid the prospect to place and order at that time. The close really starts from the beginning of your sales presentation. If you have covered all the reasons why your prospect should buy and you are satisfied they are good reasons, your close should not be difficult. However, I don't mean by that that you can sell everyone, because the best of salesmen only sell a fraction of their prospects. Don't make the mistake of talking yourself in and out of an order. When you have covered all your points and answered all questions, then make your close; don't be afraid to ask for the order. If you first close fails, then have a second close ready. This is brought about by saying something like the following:

"Mr. Prospect, I should have made another point clear to you." Then you are on your way to your second close.

Procrastination is a human weakness which must be overcome by the salesman. Some people always want to put off until tomorrow. Frequently a prospect when he wants to postpone buying has a question in his mind unanswered, or he thinks it is the wrong time to buy. You can generally find out what is causing the delay in placing the order by asking the prospect if he has any questions. If he happens to tell you that he thinks the time is not right, prove that the Fund is a buy at any time because of the way it is managed. Show the percentages of bonds, preferred and common stocks, cash and governments and inform the prospect that these percentages are changed according to times and conditions. You can also prove to him that no one knows whether the market is going to go up today, tomorrow or a year from now. You must convince him that today is the day to start putting his money to work—where he will get all the advantages, objectives and conveniences which you have previously explained.

Don't forget to summarize your important sales points at the close. Watch carefully your prospect, and you will find certain indications on his part which will aid you—such as, a nod, twinkle in his eye, or slight hesitation. These actions on the part of your prospect will convey to you whether or not he is ready to buy or whether it is necessary for further persuasion on your part.

It is a very good idea to use articles from newspapers and magazines pertaining to Mutual Funds. Such unbiased articles will aid you in securing business.

After you have secured your order for as many dollars of the Fund as your prospect can afford to buy at that time, then convince him of the need for buying the same Fund on a quarterly basis. This is to establish a living fund for him or an educational fund for his children, or for any other purpose that he might need money in the future. You can very easily arrange to have him buy so many hundred dollars worth of the Fund you are selling each quarter, thereby securing the principle of dollar averaging. At the same time, arrange to have all the dividends reinvested. While you cannot always invest equal dollars, you can invest very close to equal dollars each quarter, and the best time to do it is at the time the dividends are received from the shares which he holds. He simply augments the dividend check with more dollars to buy additional shares. Many salesmen are finding this very productive business. It is a perfect way for your client to create a living investment fund for his retirement.

Sell the idea of investing regularly. Do you realize that when you have 100 to 150 accounts buying from you periodically you will have a steady income? The radiation from these old accounts will aid you to increase the number who are buying from you regularly.

The idea of an investment program will interest most people. They know the need for periodic saving or investment. Future financial independence is the goal of most prudent people. I, frankly, know of no other way to create a living fund for myself than to buy a good Mutual Fund regularly and be sure and reinvest all the dividends.

The great majority of people who are 65 years of age and over today are financially dependent because they have never regularly paid themselves out of what they have earned. If you ask the average person to look at his canceled checks for the last three or four months, he will be surprised to find he hasn't one in there for himself. The average person does not make enough to save enough to become financially independent at a reasonable age with a compounding factor of from 1 to 2½%. I am sure the average American is not interested in having his government support him after he reaches the retirement age. If he is, he won't be supported anyway. Therefore, the problem is how to set up this retirement plan. Again, I repeat, the regular purchase of a good Mutual Fund, reinvesting all dividends, will accomplish what the average person is seeking — financial independence—financial peace of mind at a reasonable age. The amount of money necessary for investment is more or less based upon the age of the individual. The younger he is the longer period he has to invest and the less money he needs to invest each year; vice versa, the older he is, the less time he has and the more money he needs.

You will find a great deal of interest when you show your prospect how he can intelligently invest his surplus money and at the same time set up an investment program through the purchase of Mutual Funds shares.

In order to be successful in the profession of salesmanship you must believe you can sell; you must have confidence in that which you are selling. I know of no other investment that you can sell with more confidence than Mutual Funds.

Milwaukee Bond Club To Hold Outing

MILWAUKEE, WIS.—The Milwaukee Bond Club will hold its Annual Field Day and Picnic at Oconomowoc Country Club and Oconomowoc Lake Club on Friday, June 17. The Oconomowoc Country Club is about 30 miles west of Milwaukee and has a very sporty golf course. Baseball and other athletic events will be held at the Country Club.

Oconomowoc Lake Club is about one mile south of the Country Club on Lake Oconomowoc and has ample dining and beverage facilities, and proposed aquatic events.

Italian 30-Year Dollar Bonds to Be Exchanged

J. P. Morgan & Co. Inc., Fiscal agent for the Italian Republic and the Italian Credit Consortium for Public Works, and the Chase National Bank of the City of New York, Fiscal Agent for the Italian Public Utility Credit Institute, announce that definitive 30-Year Dollar Bonds due Jan. 1, 1977, of the Republic, the Consortium and the Institute are now available for exchange for temporary Bonds of those issues. Definitive Bonds will also be issued upon further exchanges of pre-War dollar bonds, pursuant to the pending Exchange Offers. Approximately 78% of the Republic Bonds, 75% of the Consortium Bonds and 60% of the Institute Bonds have already been issued pursuant to such Exchange Offers.

Securities Salesman's Corner

By JOHN DUTTON

Maybe you are tired hearing pep talks—or reading them? Maybe you are saying to yourself, "All right, so what? It's OK for some fellow to stand up in a pulpit on a Sunday morning and tell me to have faith, to give up my pessimism, to believe in the guiding spirit of my religion, or to dispense a collective dose of psychoanalysis in my direction—HE GETS PAID FOR IT. It is alright for some fellow to write a column like this once in a while and also try to pep me up—he makes a business of that little racket, too." That is, of course, if you are a bit of a cynic, you are going to feel this way about it.

The reason for my prefacing the little story I am going to tell you this week, is that all of us have a right to be a bit cynical today. We have heard a good many pep talks during the last few years. But what we need in the securities business is something more than talk. We need a rebirth of confidence among the investing public. We need tangible evidence from our government that they actually believe in the future of American industry. We need a good bull market. I know those things as well as anyone else in this business, but I still believe that business can be done today if we will only believe in ourselves and the securities that we are selling. As a friend of mine said to me last week (he is a dealer in Rochester, N. Y.), "You've got to be an optimist, you've got to sell people the idea that NOW is the time to invest in good securities—NOW WHEN THEY ARE LOW, NOT LATER WHEN THEY ARE HIGH. I keep hammering away at this. I tell them, it is a good investment, it will pay you well. I don't know whether or not this stock will go lower, but if it does it will go up again some day. If it does go lower I am going to ask you to buy more. Get your dividends. Make your money work. The time to buy is in times like these. Only 10% of the people buy in these times. They sell when the other 90% are buying. It is a sure way to financial success. You must make money that way in the long run. It is slower but surer. These are the times to cash in on common sense and judgment—now is the time when your money will work twice as hard for you!" Is that a sales talk—or is it?

Now the pep talk: I have in front of me a reprint from a New York Telephone Company bulletin. It tells the story of a man who was nearing 70, and who was blind. He didn't know what to do. He had tried to publish a weekly newspaper in his little town of Nyack, N. Y. He tried teaching Spanish but he couldn't find enough students. He had been in the securities business for many years and finally he went back to the business again. He advertised for business in the paper and wrote letters to his best prospects. Again there was failure, until he hit upon the idea of following up by calling prospects on the telephone. The results were startling. Soon he was on his way to success and independence. His wife reads to him every morning and brings him up to date on the financial news. She also helps write his letters and looks up the telephone numbers for him. He says, "On the actual dollars invested in telephone service, my earnings have averaged 24 to 1."

I wonder if Charles Cabrera, who represents the Security Adjustment Corporation of 16 Court Street, Brooklyn, N. Y., has time to feel sorry for himself—to worry about the market—or whether or not business is good or bad? I don't think so. When a man who is blind and 70, and who was broke, but is now successful and independent can do business, from his own home, over the telephone, and can build a clientele that pays him back twenty-four dollars for every one he spends in telephone calls, in these days and times, it seems to me that some of the rest of us should say—WHAT ARE WE WAITING FOR?

N. J. Bond Club Plans Scheduled for Outing

The Bond Club of New Jersey has announced the program of events for its annual field day to be held June 17 at the Rock Spring Club, West Orange, N. J. A golf tournament will be featured with prizes for low gross, first and second low net in each class, and there will also be play for the Bond Club Trophy and prize for 36-hole handicap medal play.

For non-golfers there will be horseshoe pitching, tennis and swimming.

Luncheon will be in the grill and on the terrace from 11:30 until 2:30. Dinner will be at 8 p.m.

Members of the Field Day Committee are: Harry D. Miller, Nugent & Igoe, East Orange Chairman; Norton P. Rogers, Jr., Rogers, Gordon & Co., New York City, Vice-Chairman; William H. Boland, Boland, Saffin & Co., New York City; Wilbert H. Campbell, Campbell & Co., Newark; Walton R. Dunn, Mackey, Dunn & Co., New York City; William E. Hocker, Herbert A. Hoehn, Gregory & Son, Inc., New York City; James S. Johnson, Bramhall, Barbour & Co., New York City; Edwin F. Kezer, B. J. Van Ingen & Co., New York City; Richard H. Marshall; Foy W. Porter, Estabrook & Co., New York City; Paris Scott Russell, Glore, Forgan & Co., New York City; Richard F. Saffin, Boland, Saffin & Co., New York City; Andrew C. Spring, Outwater & Wells, Jersey City, N. J.; Glenn D. Thompson, National State Bank of Newark; Warren K. Van Hise, Parker & Weissenborn, Newark; J. Albert Williams, Nugent & Igoe, East Orange, N. J.

Baltimore Bond Club Annual Spring Outing

BALTIMORE, MD.—The Bond Club of Baltimore will hold its annual Spring outing on Friday, June 10, at the Elkridge Club, according to Sewell S. Watts, Baker, Watts & Co., President.

There will be the usual kickers handicap golf tournament, tennis matches, horseshoe pitching, a special event and dinner.

The Club is anticipating a large attendance not only from its membership but guests from Baltimore, Washington, Philadelphia and New York banking institutions have made reservations.

This year's affair is being arranged by a Committee headed by Lloyd Fisher as Chairman.

B. J. Welch Co. Opens

ONEIDA, N. Y.—Bernard J. Welch has formed B. J. Welch Co. with offices at 527 Main Street to engage in the securities business. Mr. Welch has recently been with Philipson & Co. of Utica and in the past conducted his own investment business in that city.

Favor Mid-Western Exchange Merger

Homer P. Hargrave, Chicago Stock Exchange Chairman, reveals members of Cleveland, St. Louis and Chicago Exchanges have voted overwhelmingly for plan. Minneapolis, Cincinnati, New Orleans and Pittsburgh yet to act.

It was announced on May 26 by Homer P. Hargrave, Chairman of the Chicago Stock Exchange and head of the Chicago branch of Merrill Lynch, Pierce, Fenner & Beane, that members of the Cleveland and St. Louis Stock Exchanges along with those of the Chicago Stock Exchange have voted overwhelmingly in favor of formation of a Middle Western Stock Exchange to be located in Chicago. Minneapolis and Cincinnati have not yet voted on the proposition, and the matter has not yet been taken up by the exchanges in New Orleans and Pittsburgh. The Detroit Stock Exchange has already rejected the plan. As the approval vote of three exchanges can put the plan into operation, the matter now awaits only formal action by the organizations involved to become a reality.

Homer P. Hargrave

Mr. Hargrave stated it probably will take several months to work out the details necessary to make the new organization effective.

William J. Perry, Secretary of the Cleveland Exchange, said members of his organization would have 30 to 60 days to exercise options to buy seats on the new exchange for $2,500 and would receive $1,000 from the liquidation of the old exchange.

The chief objective of the merger is the creation of an exchange sufficiently large to furnish a broad market for the securities of companies situated in the area it is intended to serve. A similar merger of the Baltimore and Philadelphia Stock Exchanges has already taken place.

Evaluating Railroad Income Bonds

(Continued from page 2)

only with respect to income bonds but other railroad bonds as well.

I have some figures here on Southern Pacific. In 1939 the fixed charges were 14% of revenues. Today they are 3%. You can tinker all you want to with an item equal to 3% of revenues but you don't solve much of a financial problem even if you eliminate it entirely.

Importance of Operating Efficiency

This brings me to the importance of operating efficiency. Railroads, their credit and their bonds used to be judged importantly on the basis of how many bonds they had outstanding in relation to their earnings and revenues. Such relationships are no longer the important matter they once were. It is the operating ratios, transportation ratios, that tell the story today and will in the future. For instance, if there should develop a financial problem for a railroad like Southern Pacific and some income account item must be cut, when fixed charges get to be as little as 3% of revenues, no important financial problem can be solved even by their complete elimination. Certainly not much of a problem could be solved by dealing harshly with the junior part of the debt interest which may cost 1% of revenues. You can't solve the railroad problem any more by reducing charges. Cutting them wouldn't make a sufficient difference. They have become too small in relation to other cost and expense items. No future financial problem could be solved by doing something to fixed charges as low as 3% of revenues.

It follows, I think, that junior bonds are much closer in quality to issues senior thereto than ever in our history and that the junior bonds of low-cost companies may prove better investments than the senior bonds of high-cost companies.

The Price Spread

Getting back to income bonds, I would like to develop the idea just discussed and point to one feature of railroad bond prices that I think is wrong today. North Western has some first mortgage bonds outstanding and some income bonds. The first mortgage 3s sell at 91 and the income 4½s sell at 51. Fixed charges last year were $2.4 million, and contingent charges $3.6 million. At 91 the 3s yield 3.42%; the income 4½s yield 8.82% currently. The market says that the 3s are a much stronger investment than the 4½s. The market says that on a gross of $195 million over a period the North Western could earn $2.4 million but could not earn $6 million. In other words, it could earn a balance for charges equal to 1¼% of its gross but not 3%. That is like saying the temperature over a 10-year period will be between 60 and 70 all the time. North Western, as in the past, will probably earn substantially over $6 million over a long period of years, or it will not earn its first mortgage interest. Railroad earnings are not apt to get down to an extremely narrow range and stay there. It never has been that way and probably never will. I should say that the 3s are either too high or the 4½s too low, although this may take some time to prove. Furthermore, I am not sure that over a period, not just a year or two but over an extended period, $910 in a $1,000 3% bond is any safer than $510 in the junior mortgage from a dollar point of view. I know this is investment heresy, but I doubt that North Western's close to $200 million gross is for a long period going to produce more than $2.4 million and less than $6 million. More than likely its gross will produce more or less than either.

There is another aspect that more or less suggests that the price spread is too wide, one bond too high or another too low. That is the margin of safety, which is the relationship of the pre-tax balance after charges to the gross. On the fixed charges the margin of safety last year was 7.8%, and the margin of safety for fixed and contingent charges was 6.9%. You won't get any railroad analyst to tell you that the difference of 1.8% in the margin of safety makes the difference between a good and a bad bond. Yet one of these bonds sells at 91 and the other at 51. If the North Western ever needs another reorganization because of prolonged inability to earn its fixed charges, as small as they are, something entirely different from the past pattern of cutting debt and fixed charges is going to happen. A future financial difficulty cannot again be solved as in the '30s and early '40s when the ICC was able to take $16½ million fixed charges and cut them down to $2.4 million. You can't do that again, for fixed charges are now only $2.4 million. Even if you eliminate the fixed charges, no problem is solved. What is going to happen is that if North Western ever gets into a position where it can't meet its $2.4 million fixed charges, there will be a subsidy for railroads or government ownership, nationalization in some form or another. If and when that happens, all fairness would suggest that both the first mortgage and the income bonds be taken in by the government at 100. That isn't quite so bullish as it may sound. Before that could happen, you would have to have considerable woe in the railroad situation. Nevertheless, nationalization would be the result, as I see it, because you can't solve the problem in the old-fashioned way.

Sinking Funds and Income Bonds

Capital funds and sinking funds, too, are factors having to do with income bonds. The earliest reorganizations that were effected under Article 77 of the Bankruptcy Law provided for capital funds without any offset for depreciation of way. One of the first to be reorganized under Article 77 was Chicago Great Western. When it came out of bankruptcy, the railroads were not yet depreciating road and structures. The ICC did not provide for depreciation of way in its accounts until the early '40s. When charges for depreciation of way and structures (except rails, ties and ballast) became mandatory, the Commission in its reorganization plans changed its capital funds provisions and permitted depreciation of way and structures as an offset to such funds. As a result, in the case of most income bonds, there are no large deductions for capital funds before arriving at the balance available for income payments. The ordinary income bond indenture provides somewhat as follows: The balance after fixed charges, with one or two adjustments, is called the available net income and is used for the following purposes: A capital fund which varies from 1 to 2% of gross, reduced by way of depreciation charges in most cases. In the few cases where there are active capital funds, the money must be set aside in a special fund for various purposes, usually to pay for equipment or other additions. The balance is then available for sinking fund for first mortgage, fixed interest bonds. After that, there is normally provision for payment of interest on income bonds, and then for a sinking fund for income bonds. The remainder may be used to pay dividends, sometimes with restrictions. In a few cases there are really substantial capital funds that must be deducted before arriving at a balance available for income bonds interest. These include the Seaboard Air Line, Chicago Great Western, Baltimore & Ohio. The Baltimore & Ohio set-up resulted from the reorganization under the Mahaffie Act which is sort of quick form of bankruptcy. The bondholders waived certain rights, extension of maturity and substitution of income bonds for fixed interest bonds. In return they wanted assurance that a large part of any net income would not be paid to stockholders but rather used to retire debt or pay for betterments. Where capital and sinking funds are involved, there are two ways of reporting earnings: One, real net income regardless of how it is to be used; two, net income after funds. Both have significance; neither is perfect alone.

Since the end of the war earnings of many railroad companies have been satisfactory, but you wouldn't know that by railroad share prices or prices of income bonds. Earnings have been so satisfactory that there have been only two lapses in interest payments on income bonds. This was in 1947, when Chicago Eastern & Illinois 5s and Norfolk & Southern 5s, both noncumulative, did not pay. Last year there was no important railroad having outstanding income bonds that did not earn and pay contingent interest. Probably one reason (and there are many) why income bonds sell low and yield high is that they have not been tested in a period of low earnings. Investors wonder whether management would make every effort to earn sufficient to cover the income interest by control of maintenance expenses, let us say. Would management pay interest where it was cumulative even if not earned temporarily? That can be done. Don't think for a minute if we had one bad year of earnings and no income bond interest was earned that all income bonds would not pay their interest. Probably a considerable number would pay income interest where it is cumulative, and it is in most cases. I should say that there would have to be a pretty good working capital position, cash, and an unappropriated earned surplus. But we will have to have a test period before that is proved one way or another. As far as the current year is concerned, evidence to date would suggest income bond interest would be earned in 1949 in most cases and be paid in 1950. Exceptions are likely to be few. That outlook, however, could change if the economy generally had a very pronounced trend downward; but unless that happens interest in most cases will be covered.

Features of Appraisal

In any appraisal of a railroad income bond certain features should be examined carefully. In most cases they are about the same items that are examined when judging preferred stock or first mortgage bonds or common stock. Here are some of the items: The trend of the tonnage and revenues, which by and large, reflect growth (or absence thereof) of the area in which the railroad operates. It is better to be in a growing area than in one that is not growing, as in any other investment. It is useful to apply past earnings to current charges. Go back 25 years and see what the situation looked like on the basis of current charges. The past isn't necessarily going to indicate the future but it may be a general guide. Apply past earnings to present charges. Check on what happened in depressions. Study the margin of safety. Find out what the cash resources are, what the probable capital needs will be. Has the maintenance been heavy or light, etc., etc.

Speaking of margins of safety and times charges earned, I would like to say that none of these gadgets by themselves tells a very complete story. I may now appear to be arguing against that memorandum I put out April 11, the one dealing with the margin of safety for bonds and also preferred and common dividends. As a general rule, securities with a high margin of safety are stronger than others having low margins. Yet figures by themselves may suggest, if the margin is low, a degree of weakness that may not really be there—for instance, in a situation where the net is small in relation to gross and there is a reltively low margin of safety but where maintenance charges are large in relation to the net so that if it came to a period of stress, there would be much more maintenance to reduce. I think I outlined a 10% reduction in maintenance in North Western as an amount equal to fixed and contingent charges. Another company with a larger margin of safety might have to cut maintenance charges a much greater percentage to save an amount equal to fixed charges. No one of these single devices will tell the whole story by any means. Don't rely too much on any one set of figures.

I stressed before the importance of the operating figures. Fixed and contingent charges are now such a small percentage of gross that the strength of the situation is to be found in its operating and transportation ratios and trends. Is it improving or going the other way? Also important is whether economies of operation have been effected or whether they still are to be effected. For instance, Boston & Maine is an exceptionally well run railroad in a bad territory. It has done an outstanding job on dieselization and centralized traffic control, but there is not much left to do unless some new techniques are developed. There are other cases where they have not dieselized and have not done very much work on centralized traffic and are on the eve of gaining those advantages. These things are important to know about.

The age of the equipment ought to be looked at, too. This indicates on one hand how much money is going to be needed to pay for new rolling stock and on the other, the extent to which further economies can result from new equipment.

Maintenance charges ought to be considered, too, and not for just one year, because maintenance goes on forever and you can't tell whether a road is adequately maintained unless you take a 20-year look. The matter of maintenance and whether it has been adequate is one of the questions that is uppermost in railroad analysts' minds these days. There have been so many increases in wages and in the price of materials and supplies that the old yardsticks can no longer be used. I think the best way to study maintenance is to compare the maintenance of one railroad with that of another that has about the same traffic characteristics, density, and so forth, and which has also been in a strong financial position right along. The chances are that a road which has had no financial problems has maintained well. In other words, if you are wondering about Southern Pacific maintenance, take a look at Union Pacific, which had a lot of money right along and is probably in good shape.

I want to bring up one more point, and that has to do with inflation. Go back three years, when the wage rate spiral started, and consider two companies, A and B, one with a relatively low cost of operation (by that I mean transportation, not maintenance, expense) and the other with a high cost of operation. It is an arithmetical fact that inflation of rates and wages helped the first railroad and harmed the second and that this result will be permanent unless there is retracement of wage and rate increases, which I doubt. The railroad that five years ago had a relatively low transportation ratio has been permanently benefited, while the one that started with a relatively high ratio has been permanently harmed, unless the latter is able through greater mechanization and other improvements to raise itself out of that position. (In each case geographic location and type of traffic—factors which cannot be changed—must be taken into account.) These effects of inflation are not generally appreciated but they are important and partially explain the tremendous differences in earning power recently demonstrated by the various railroads, with some of the old line formerly well regarded companies not doing so well, with other less well known names doing exceptionally well.

Plight of the Equity Capital Market

(Continued from first page)

years until 1936-1937, the return on common stocks remained less. In other words, the investment market's judgment favored equities, in the belief that, over a period of time, the country would grow and ownership of the strongest American corporations would have a long-term option value, which was a real value even in the midst of great uncertainties and the most depressed conditions. Since then, the trend has changed. Sometimes the spread narrows, but always the yield on common stocks has been substantially higher, until today corporate bonds yield slightly over 3% on the average—which is not true of governments, and many top grade corporate issues — whereas common stocks of investment quality may be purchased to return well over 6%. To my mind, the overshadowing consideration responsible for this anomalous situation is the relentless attack on risk capital. I can readily understand why a riskless return should be less at times than the investor expects from unsheltered capital exposed to the vagaries of fortune. There is only one explanation for a difference so wide as to range up to 100%.

Perhaps a concrete example will make my point clearer. Recently a large public utility corporation offered additional common stock for new money purposes at a price to yield substantially more than 6%. The entire financial community was concerned over the success of the issue and its effect on other equities. The same company's bonds sell at a price to yield around 2.75%. In 1926, the stock, then paying the same dividend as at present, was selling at a price to yield less than 6% and its bonds sold on about a 5% basis. After all, there are only perhaps a hundred giant companies in the United States similar to the one I am talking about. Smaller companies have to compete in raising capital with the result that they simply cannot afford to finance with additional ownership funds. All of you must be acquainted with local companies in this position. Perhaps I have dealt too exclusively in financial terminology. The real importance of these facts is that venture capital is almost non-existent.

Venture Capital Not a Field for Banks

Venture capital is not a field for commercial banks or other lending institutions. New companies cannot have the record or earnings power to support extensive loans. Small and medium-size companies do not have the huge working capital resources of strong companies to carry them along, and loans have to be repaid. What such enterprises need is permanent funds, with no due date, no sinking funds, no restrictions. Nothing I have said implies criticism of financial institutions that must protect their policy holders and depositors. Your city, a great commercial center and focal point for trade, distribution and finance, a shopping center for both the Colorado Rockies and the adjacent great plains, would doubtless benefit from greater manufacturing activities. You could thus achieve a more balanced economy. Your entire area is rich in a variety of resources. Development of these resources, introduction of new industries, expansion of local manufacturing enterprises all call for risk-taking, for the use of capital without the protective features of obligations or limited forms of risk-taking. It is time to recognize that the postwar expansion in large degree was launched on a flood of government debt created during the war years, an expanded money supply resulting from war financing and saving of individuals stemming from the absence of consumer durable goods.

The attack on venture capital, as I said, began in earnest around 1936, and has continued apace. Its weapon—a formidable weapon—has been the tax structure.

A Creeping Paralysis

I believe that the present Federal tax structure is actually causing a creeping paralysis in our economy that has alarming implications for the future expansion, productiveness, and resilience of business enterprise. It is having this effect primarily by impeding the creation and flow of venture capital, the life blood of a progressive economy. There are three particular features of the existing tax structure that are primarily responsible for this unfortunate result. They are the steeply progressive surtax rates on individual income; the double taxation of dividend income, and the capital gains tax provisions. It is to these strategic areas that we are directing attention. It is here, we believe, that reforms should be made as soon as possible in the interest of our present and future welfare.

In concentrating my fire, I do not wish to seem unaware of other defects of the tax structure. Here let me pay tribute to your two able Senators, which I am happy to do because of their conspicuous ability in the realm of taxation and because I can avoid being accused of favoring one political party against the other. One of the most hopeful signs indeed is this very obliteration of party lines in recent months in the fight to return to fiscal soundness and equity. Senator Millikin had an important part in the improvement effected by the Revenue Act of 1948 and Senator Johnson has been hard at work to accomplish the repeal of many of the oppressive excise levies that were increased during the war. I am extremely happy for another reason, that both your Senators have become known nationally as advocates of sound finance. They are slaying the myth that sound finance is exclusively a possession of the East.

It was a cynical statesman who declared that the tax problem is how to pluck the feathers of the goose without having it cry out. This philosophy, until recent years, applied to the double taxation of dividends. It has been superimposed upon the practice of permitting interest to be deducted in the computation of taxable net income. It was in the Revenue Act of 1936 that corporation dividends received by individual shareholders were made subject to the normal as well as the surtax. Double taxation crept into the tax system purely as an expediency. In 1913, when the corporation tax was the same as the normal individual rates, namely, 1%, the corporation tax was regarded mainly as a device for collecting dividends at the source. I need not tell you that as the tax rates on corporate earnings and on individual income have risen, and particularly since 1936, the burden on a dollar's income from business has mounted beyond any point orginally contemplated or visualized.

Progressive taxation has been abused beyond recognition. I have been impressed by the analysis of David McCord Wright in his recent stimulating book entitled, "Democracy and Progress." He states, and I quote, "Liberals, particularly in this country, have advocated high progressive income taxes with the largely unconscious, or unexpressed, mental assumption that that is the way to get a nation of many middle-sized independent businesses and many middle-class independent people. But this assumption does not automatically fulfill itself." The rest of the quotation really goes to the root of the matter. I quote: "We may well get instead a nation whose economic life is carried on by the State, or by a few corporations owned or controlled by the State, and a population not of independent middle-class owners, but dependent clerks and government employees. The flow of money into government bonds, and hence the power of the State, is directly increased without our being at all sure that any reciprocal or proportionately reciprocal, benefits will be forthcoming to the individual."

Capital Gains Taxation

On capital gains, I wish to add to the remarks I have made elsewhere a few comments that may be of interest. The tax rate on capital gains, as evidenced by the relatively low revenues received by the Treasury in recent years of rising values for all kinds of capital assets, keeps individuals from accepting profits and accentuates the advance in prices. Lower rates and more liberal offset provisions would increase the mobility of capital instead of tending to freeze it. One premise in the many changes made in the taxation of capital gains has been that it is wise social policy to dampen speculative ardor. Without discussing the merits of this theory and the unsuccessful attempts to define logically where speculation begins and is transfigured to investment, I point out that, in recent years, the whole tendency has been to seek greater and greater security. Furthermore, let me set out the powerful controls which were not in existence when capital gains taxation obtained a foothold in the tax structure:

(1) SEC regulation of new public financing under the 1933 Securities Act.

(2) SEC regulation under Section 16 of the Securities Exchange Act of 1934; I refer now to the so-called "insider" trading regulations which I regard, incidentally, as a profoundly harmful measure in its punitive provisions on the purchase and sale of equity securities by company officials and large stockholders.

(3) Regulation of margins by the Federal Reserve Board. This authority is of a sweeping nature. In a study of selective credit controls, Dr. Carl E. Parry, who was then director of the Division of Security Loans of the Federal Reserve Board, stated: "The restrictive potency of the instrument was tested more decisively in 1947 and 1946, when the Board raised the margin requirements from the 40% level at which they had stood since 1937 to a 50% level (Feb. 5, 1945), then to a 75% level (July 5, 1945), and finally to a 100% level that applied from Jan. 21, 1946 to Feb. 1, 1947."

(4) The Federal Reserve Board under certain conditions can fix the percentage of individual bank capital and surplus which may be represented by loans secured by stock or bond collateral and may go so far as to direct any member bank to refrain from further increase of its loans secured by such collateral for any period up to one year under penalty of suspension of all rediscount privileges at Federal Reserve banks.

Surely, with these regulatory and supervisory powers, there is little likelihood of a speculative wave getting out of hand. When I contemplate the taxes on income from investment in securities or business interest and the added contingent liability if one is fortunate enough to have a gain and wishes to capture it, I sometimes wonder not at the little interest in ownership of any kind, but that the spirit of investment has not been completely killed.

Time to Speak Out

I am not afraid of using strong language. This is a time to speak out. The way to strike at injustice is to strike now. Capital is timid. When inflationary tendencies predominate, we are told that tax revision must be delayed because it would be unwise to effect changes in an inflationary period. When contraction sets in the cry is raised that this isn't the time to make revisions, because a fair deal for the investor—and I use "investor" in the broadest sense—would be unpopular. The exact moment to do the overhauling, at that rate, will never arise, for in the event of stability, which I contend is the phase of the economy we have been moving toward, it would be said that a revision in the interest of ownership capital might lead to instability. And stability itself, I am sure, would only furnish an excuse for seeking new reasons for lifting taxes. The urge to increase taxes is a sickness from which recovery appears to be always in the distant future. The wartime excises were temporary; so was the tax on electric energy; so were the sales taxes adopted in a number of municipalities, ostensibly levied for the benefit of the unemployed, but a fixture when there were later no unemployed—and so it goes.

My patience is worn thin with those who will not let the facts interfere with their pet interests. The government's national income figures for the first quarter of this year were published earlier this month. They point to a decline in the annual rate of gross domestic investment from \$42.8 billion in the last quarter to \$37.8 billion; and in personal consumption expenditures from an annual rate of \$181 billion to \$176.6 billion; and in personal income from \$219.6 to \$216.6 billion. Compensation of employees also declined. Only savings increased to an unprecedented rate, excluding the war years, to \$21.2 billion from \$18.4 billion in the final quarter of 1948 and from \$15 billion for all of 1948. I cannot wax enthusiastic about this figure. Considering the direction of its movement, the present volume of saving reflects uncertainty and no gain in risk-taking At the same time these savings accumulated, the number of new corporations formed in New York State declined from 8,859 in the first quarter of 1948 to 7,356 this year, or some 17%. Unemployment increased from 2,700,000 to more than 3,000,000, and now is larger.

Savings at the rate of \$21 billion a year are the equivalent of \$400 million weekly, yet there was trepidation about the placement of approximately \$25 million of a high quality equity in a company with an excellent record, growing rapidly, and operating in an unusually stable industry. Let us look at the new issue figures so far this year. Common stock offerings for new capital through the end of April have been at the rate of only \$50 million a month, an utterly inadequate trickle if we want to keep 60,000,000 persons gainfully employed, and the volume of trading on the Stock Exchange in relation to the number of shares listed is at a rate of only about one-seventh of that in 1926.

New of New Capital

The country and the whole world need new capital. That means a larger part of savings need to be devoted to new ownership investment, in new companies and in existing enterprises. I say it is fantastic to think the standard of living can be improved here and abroad with the present tax structure. I have heard serious study is being given to ways of putting the President's worthy objective in Point Four of his inaugural address into practice. My conviction is that these plans are doomed to failure if the only sources of private investment—the American people—are not encouraged to invest. Let us not think in terms of building up consumption at the sacrifice of industrial investment for expansion and new products, or of sacrificing consumption to capital investment. They can and must move forward together. Once it is agreed that State control and operation of industry is to be avoided, the adoption of the alternative of making risk-taking more attractive is inescapable.

An electric utility company operating in South America can barely meet the increased demands for service. A 20,000-k.w. addition is being built at Americana in the State of Sao Paulo in Brazil. A thousand miles of pipeline across the wastelands of the Arabian peninsula, and which, when completed, will carry 300,000 barrels of crude oil daily, will be constructed at a cost of more than \$200 million.

It is estimated that the development of the iron ore deposits in Quebec and Labrador to the stage of bringing the properties into production will require some \$200 million. These examples merely give one an inkling of what is in store, assuming stability in international relations and capital is at hand. All of these projects can get beyond the blueprint state only if capital is obtainable.

The world is eager to know how the United States has learned to supply greater quantities of necessities and goods making life easier and happier for greater numbers of our people. This spring, the staff of our Embassy Library in Belgrade was astonished because lines of people were forming around the block, waiting for a chance to enter. The attraction was not a story of the growth of American political institutions or a textbook on economics, or even a lusty historical novel. The attraction was a mail order catalogue. The daring and vision that went into the establishment and growth of a business that could excite the people of Jugoslavia and the accumulation of funds through the years could hardly be duplicated under existing tax policies.

At home, new products of a bewildering variety are being planned and introduced. A new industrial revolution is in the making. They way to dash the hopes of peoples everywhere to attain more closely our own living standards, and to arrest our progress at home, is to continue the discouragement of risk capital. Given a change in policy, by tax revisions that respect the investor in ownership, not next year or thereafter, but now, the troubled vision of more uncertainty and more unemployment can be banished.

Again I look to the mountains and the great plains where pulling down and envy have no place, and where greater opportunity for development of resources and men are the guiding stars of the pioneers of yesterday, today and tomorrow.

In that spirit I ask your help and cooperation. Our task is as worthy as its objective — more jobs and greater opportunities for all.

With Dayton & Gernon

(Special to THE FINANCIAL CHRONICLE)

MINNEAPOLIS, MINN. — Norman A. McClure has become associated with Dayton & Gernon, Rand Tower. Mr. McClure was formerly with Central Republic Co.

As We See It

(Continued from first page)

all, of them go into the obligations of the Federal Government.

This whole situation by which the FDIC finds itself confronted—and which confronts the public at various points—is in some of its aspects well worth much better understanding than it is currently receiving. Mr. Jones, in discussing some of the aspects of this more general situation, lists certain developments which he believes to have been responsible for the catastrophic epidemic of bank failures which led to the creation of the FDIC. Most careful students will, we believe, find his analysis of this situation less than satisfying at some points, his remarks having at times to do more with symptoms or superficial conditions than with fundamentals, but his remarks are weakest when he asserts that the conditions of which he speaks have now been made impossible, at present or in the future, by various public measures and by controls exercised by government or its agencies.

Agriculture — Then and Now

Mr. Jones, who quite correctly lays the blame for the failure of many rural banks upon adverse conditions in the early 'Thirties in agriculture, is now apparently certain that all is well in this segment of the economy since the Federal Government now "supports" prices and lends funds to farmers to enable them to withhold their products if the price does not conform to their ideas. Press accounts of what the gentleman said do not indicate that he made any reference to the other largesse tillers of the soil now receive regularly from their fatherly government in Washington, but one can scarcely doubt that these payments have a bearing upon the likelihood of a farmer going bankrupt and thus upon the risk of failure of rural banks.

The collapse of the securities markets (Mr. Jones is quoted only as referring to loans on stocks) is cited with the comment that regulation of "brokers' loans" by the Federal Reserve has now eliminated this danger. As to other similar suggestions, let Mr. Jones speak for himself. "Banks suffered (in the 1929 crash and thereafter) losses on loans secured by real estate mortgage bonds that had been made on an inflated basis. Congress has very wisely restricted loans on real estate by commercial banks. So there is no hazard there. Another, and paramount factor that contributed to bank failures was fear. Thousands of banks closed because of depositors withdrawing or trying to withdraw their balances. Deposit insurance prevents this."

If all that is involved in all this were the rate at which insured banks are assessed by the FDIC, there would be little point in discussing these questions at length. There can be no question that the situation as it stands as of this date suggests small likelihood of anything in the nature of an epidemic of bank failures.

Not the Whole Story

But is this the whole story? Have underlying ills which resulted in bank failures in the past really been cured? Or is all this, which at times seems to appear to many as a cure of basic maladies, really but an elimination of symptoms, leaving us, if not in danger of bank failures, then exposed to serious long-term hazards which must one day or another plague us all? These are some of the questions we should be asking ourselves. We should be the more determined to have the answer, the oftener we hear it said that nothing very serious can happen to the economy now (notwithstanding what appears to be adversity and the approach of greater adversity) since steps have been taken to protect it —and one of the most important of these has to do with the various measures in the field of money, credit and banking.

It is a common assertion that the banks of the country are "liquid" in a degree not heretofore known at a time such as this. This "liquidity" is "proved" by citing the reserves of the banks plus their holdings of United States Government obligations. Under current conceptions, a bank would be completely liquid if all its assets consisted of cash and such obligations of the Federal Government. That many of the latter have a number of years to run before maturity; and that the remainder of them (even if due within 30 days) could be met by the borrower only if someone else is willing or can be obliged to buy other securities of the Government of the United States, seems to have no importance to these easy reasoners.

The Truth of the Matter

The truth of the matter is that the results to which Mr. Jones refers, and many of the conditions so cited as indications of underlying strength of the current situation, have been reached by the simple process of coining public debt into money—or what amounts to that. The process by which this was accomplished places in the hands of banks—and others—securities which for all practical purposes can by fiat be converted into legal tender virtually on notice. How, in these circumstances, could a bank not be able under virtually all conditions to pay over to its depositors on demand all the currency they demand?

But have we really found the universal cure in a variant of the old fiat currency notion? So far as we are concerned, the question answers itself.

Must We Control Big Business?

(Continued from page 17)

the foreman of a plant one-fourth the size.

What About Future Size of "Big Business"?

There is a final and more general reason for being disturbed about the growth of the big corporations. It is impossible to predict just what would be the result, should it take place, of a further increase in the size and decrease in the number of corporations by which the majority of the business of this nation is transacted. While it is impossible to predict just what would take place, it is surely possible to predict that great social and political changes would result from a much further growth of the great economc empires which have become such an important part of our business life. Something more is involved here than the simple fact that these great business firms have become shining marks and invite attack from the politically ambitious and socially radical. We can be sure that great changes will result in our social, economic and political life if these units increase very much more in size and come to overshadow even a greater area of our economic life. They do, as they grow, develop a corresponding flowering of big labor and big government to match big business. That at least we can see. What more there is in prospect it would take more of a prophet than I am to predict.

How true are these various charges and, to the extent that they are true, what can be done about them?

We do have to admit that big business leads to monopoly or at least makes it possible. As stated, the Supreme Court recognizes that fact and appears to be willing to apply sanctions even in cases in which no overt attack on free competition has been made. As to what shall be done about it, the answer is clear. The Federal Court's decisions have put within the hands of the Department of Justice weapons to abate practically every economic ill resulting from the repression of competition. We are well armed against monopolistic practices. While other devices have been suggested, such as Federal incorporation, there is no evidence that new devices are needed. The present laws and the court decisions provide ample restraints and sanctions against the suppression of competition.

Something more probably needs to be done to foster the growth of small business in a society in which big business tends to overshadow it. Here we are not talking about illegal or morally reprehensible practices but simply of the natural advantages already outlined which big business has over small. It should be observed and remembered that since the 1929 depression we have had from administrative and legislative sources an unending stream of expressions of concern and professions of support of small business. When we look, however, at the actual record as to the new difficulties which small business has had to face in that period, I believe we will find that it is government which has been responsible for the problems of the small man and that they have not arisen so much from intentional repression or incidental and unpremeditated restraints on the part of big business.

The Problems of Small Business and Government

In the last 20 years small business has increasingly been bedeviled. No one who has not tried to cope with it can realize what a problem reports to the government and controls by the government pose to the small businessman. The big company organizes special departments and assigns special officers to take care of governmental relations, which include everything from allocated materials to income and unemployment taxation. The little man has to do it all himself, or at least hire some outsider to do it for him at a cost which seriously diminishes his prospects for profit and growth.

The scarcity of risk capital must, I believe, be largely attributed to new relations between business and government which have developed in the last 20 years. I would be the last to support the idea that those relations were ideal in the years which led up to 1929, for if ever there was a business debacle for which business and not government must bear the responsibility, it was the depression which followed the security market break in 1929. From that point on, however, it is government which must bear the responsibility for attitudes and policies which have made the accumulation and investment of risk capital unattractive or impossible.

The largest single element in dimming the prospects of the development and growth of new and small business has been our tax policy. Terrific taxation has resulted from two wars and one depresson. We have not yet found a way to prevent that taxation from bearing with deterrent effect on those who would like to put funds into new investments.

There is not merely the problem of plowing profits back, which is the only satisfactory way in which the small and medium business can grow. There is also the impossibility of a satisfactory return on equity capital on the part of the medium-sized and larger investor. A little figuring with pencil and paper is enough to convince him that it is more profitable for him to stick to the low interest rates of tax-free government bonds rather than to risk any of his funds in helping to build up the country.

Thus do we choke the growth of small business and leave the field clear for the great corporations.

As to other evils, the restraints on personal development, the growing impersonality of an industrial society—these, to the extent that they exist, are outside the area of government control or remedy and lie rather within the area of personnnel and corporation policy. It has been my experience that in the last few years there has been very much more thought given by countrywide corporations than formerly to the social responsibilities which they bear, and to the acceptance of those social responsibilities by local management. Self-restraint and self-discipline in this area are nowhere near so rare as they were a generation ago.

Foresees New Kind of Industrial Society

This brings us to the consideration of the seeds of revolution which lie in a final unrestricted trend toward great economic empires as the end product of our industrial society. When, I use the term "seeds of revolution" I am not thinking so much of the invitation which such a change presents to radical individuals, groups and parties. I am thinking of something deeper and more inescapable. I am thinking of the fact that human society will have to adjust itself, by means not easy to predict, to a new kind of industrial society. Those who hope for the further development of this type of society as being the one which offers the greatest opportunity for the well-being of its citizens, will be deeply concerned with the uncertainties which attend the further growth of economic empires.

Those responsible for their development have to an extraordinary degree kept that development within the limits of public interest, of which they are keenly conscious and to which they are immediately responsive. But that will not save our society from radical changes should the process proceed more rapidly and more drastically than it now seems to be doing.

Emphasizing this possibility, we are forced to raise the question as to whether voluntary limits should not be put on the ultimate expansion of these great aggregates of capital. Many years ago the Supreme Court broke up the Standard Oil Company. On the whole the separate parts became really separate to the extent that they have actively competed with each other. That breaking up apparently did no harm to the investors and no harm to the public as purchasers. In fact it may, I believe, be fairly argued that nothing but good results have followed from it.

In view of the experience of Standard Oil and of the considerations which we have just been discussing, is it too much to suggest that both business considerations and the public interest require that voluntary limits be set on the largest of these economic empires?

One thing is sure. The business decisions of these great corporations, and of the great groups of organized labor as well, are no longer private matters. They are public matters and the public interest in these decisions is getting to the point where it overshadows any private interest. Indeed, the private interests of the participants, whether stockholders, wage earners, or what not, tends more and more to be overshadowed by their interests as citizens.

It is on our interests as citizens that all the problems of our intricate civilization must finally be decided.

Fair Profits or Financial Suicide

(Continued from first page)

one kind or another in many States—in fact, sales of its products are normally made in every State of the Union. United States Steel's rated steel-making capacity at Jan. 1, 1949—31,277,500 tons—comprised 32.5% of the total steel capacity of the country. These figures are mentioned to indicate the national character of the Steel Corporation. Stockholders and employees are not necessarily the only ones affected by decisions of the corporation. The interests of customers and the general public are also involved. The management of United States Steel must have a broad perspective in the direction of its affairs—a point often overlooked by those whose own personal situation seems to them to be paramount.

At the outset, I should like to speak about costs and profits. Everyone will agree, I believe, that our business cannot continue to be conducted successfully in the absence of a cooperative relationship between employer and employees. No one will question that our workers are deserving of fair wages and of proper working conditions. But the only continuing source of money with which United States Steel can pay employment and other costs is what the corporation receives from sales of its products and services. Many individuals assume that United States Steel, or perhaps any other large industrial company, is able to absorb any increase in its operating costs, without increasing its own prices.

Too few people take the trouble to find out what items comprise an employer's costs. Last year employment costs of United States Steel represented 44% of all of its costs for 1948. United States Steel must buy from others many products and services in order to carry on its operations. The cost of such purchased goods and services in 1948 amounted to 43% of all costs of the corporation for that year. These two items—employment costs and the cost of purchased goods and services—together accounted for 87% of the total costs of United States Steel in 1948. And I should like to add that the corporation has little control over costs in either of these two categories.

Profits Essential

Equally important for the continued existence of any industrial enterprise is its ability to meet all costs of operation and have a balance left over to provide a reasonable return for the owners of the concern. If such a return to stockholders is denied, there is little prospect of additional funds being obtained for future development. The stockholders risked their money to make the enterprise possible, and they certainly are entitled to a fair share of the benefits resulting from their investment, either through the payment of dividends, or through an enhancement or protection of their equity by re-investments of surplus profits. When the demands of labor leaders become over-reaching and unreasonable to the detriment of stockholders; or when the profit motive is held up to ridicule and contempt; or when unjustified taxes on corporate profits and dividends are proposed, there may be a basis for stockholders to feel that they constitute a forgotten class. In reality, however, the interests of stockholders are rarely forgotten by the directors and officers of large American corporations.

It is easy for critics to charge that this company or that is making too much money—that its prices are too high and should come down, or that higher wages should be paid to employees, or substantial welfare or other benefits granted to them. Any such general allegation of excessive profits is neither fair nor accurate. The income of each company should be appraised on the basis of the facts in the particular situation.

Last year United States Steel had a profit of $129,627,845. That is a lot of money. But the number of dollars tells nothing about whether or not the profit is adequate or inadequate on the basis of either a return on sales, or a return on investment. The dollar amount does not establish whether prices of steel products are too high or too low.

In 1948, there was an abnormal pent-up demand for steel of all kinds, largely as a consequence of World War II. In an effort to meet this accumulated steel demand, the various mills of United States steel were operated at close to maximum capacity, except in those periods of the year when strikes, shortages of essential materials and long-deferred maintenance made such full operations impossible.

What was the outcome? United States Steel in 1948 had the largest steel shipments for any peacetime year in its history—20,655,000 tons. United States Steel had the highest dollar sales for any year in its entire existence—$2,481,500,000. The profit of the corporation on that vast amount of business was naturally larger in dollars than in earlier years of lesser business activity, but nevertheless it was equivalent to a return of only 5.2% on sales. To enable that vast amount of business to be conducted in a single year, United States Steel, as of Dec. 31, 1948, had a net investment of approximately $2 billion in assets of one kind and another, including steel mills, mines, fabricating plants, transportation facilities, and the like. The profit of the corporation, before interest, in this record-breaking year of 1948 was equivalent to a return of 6.5% on investment, that is, total assets less liabilities other than long-term debt, as of Dec. 31, 1948.

The dollar amount of the profit of United States Steel for the year 1948, and also for the first quarter of 1949, simply reflect the vast volume of steel business conducted by the corporation. Such profits are not unduly high or unreasonable on the basis of either a return on sales, or a return on investment. This means that its prices for steel products are not out of line with present-day costs. In days of great industrial activity, there should be no legitimate criticism of a price structure which enables a manufacturer to cover all of his costs, with a reasonable balance left over for the payment of dividends and something additional to provide for the future needs of his business.

The customers of the Stock Exchange firms represented here tonight have a real interest in the security and future of their investments. Naturally, the annual cash return on their investments is a matter of considerable importance to them. Future security and the prospect of dividends influence almost everyone who buys common stock of the Steel Corporation in the market.

Disposition of Earnings

In the determination of what disposition should be made of current earnings in days of large sales, the Directors of the Steel Corporation must decide what is wise and advisable in the light of everything which has a true bearing on the subject. If some members of Congress had their way, any dollar profit in excess of that earned in some arbitrary specified base period would be taken away to a considerable extent through additional taxes, regardless of whatever current earnings are adequate or inadequate on the basis of a return on sales or a return on investment. Others would penalize the corporation financially if it does not regularly distribute two-thirds or more of its current earnings to stockholders in the form of dividends, and thus enable the government to increase its revenue by an unfair double tax upon these same earnings. Some labor advocates would point to the fact that dollar profits are higher than they were a few years ago and contend that the increased income belongs largely to labor, and that therefore wage rates or employee benefits should substantially be increased. Some customers and others would allege that higher dollar profits are clear evidence of excessively high steel prices and that prices should be cut. When it comes to stockholders, some would be of the opinion that the management is at fault because the profit of the corporation has not been higher in these recent days of a sellers' market. Other stockholders would say that their investments made possible these current earnings and that they are the ones entitled to share therein by receiving larger dividends. Members of this latter group would argue that they need cash today to pay present high living costs and that it is of no particular concern to them whether or not earnings are reinvested in the business so as to equip the corporation to help serve the steel needs of the nation some 10 or 25 years hence.

All of these conflicting points of view cannot possibly be fully met. On the contrary, the Directors, in the exercise of their composite best judgment, have to decide what course of action is best for the corporation, all things considered. They have to bear in mind that the corporation is not a creature merely of the moment, but rather is a continuing enterprise of large potential importance to the nation. These determinations are an essential part of the Directors' functions and cannot be avoided simply because some particular decision may not be welcome to one or more of the groups I have mentioned.

Approximately 60% of United States Steel's profits for 1948 were declared out in the form of dividends to its stockholders. Few large American industrial corporations gave their stockholders as large a share of 1948 earnings. In the 47-year period from Jan. 1, 1902 to Dec. 31, 1948, total dividend declarations by United States Steel amounted to approximately 68% of its total profits for that period. During the 20-year period from Jan. 1, 1929 to Dec. 31, 1948, approximately 86% of the total income of United States Steel for that period was declared out in dividends. The stockholders of United States Steel over the years have enjoyed a large share in the earnings of the corporation.

Since V-J Day United States Steel has carried on an extensive program for additions to and improvements of its facilities. The management of the corporation is firmly of the opinion that it is very much in the best interests of both stockholders and employees, as well as the public at large, for the corporation to possess well-located, modern and efficient plants, capable of producing at the lowest possible cost the kinds and quantities of steel which may be needed in this country today and tomorrow. This is not a single program with a definite terminal date. Rather, it is a continuing endeavor, which must be enlarged and modified from time to time to keep pace with the growth of the population, technological advances, and the various developments which are ever taking place throughout the United States and the world.

Construction Program

Our present construction and improvement program embraces the expenditure by United States Steel of nearly $1 billion. Up to March 31, 1949, the corporation had spent approximately $748 million on this program. To date, United States Steel has been able to finance the cost of the various projects included within this program without resort to borrowing or to sales of securities. This has been accomplished by the utilization of depreciation, depletion and amortization reserves — amounts regularly and properly set aside out of current operating revenues for the very purpose of taking care of the constant wear and tear of facilities—and also by the application of earnings, in excess of dividend declarations which have been reinvested over the years. The amounts so set aside for wear and exhaustion of facilities during the four years 1945 to 1948, inclusive, aggregated approximatly $452 million.

The management of United States Steel believes that equity financing is a sound way to finance new capital expenditures. Should the time ever come when United States Steel might desire to raise money through an issue of its common stock, conditions would then have to be propitious to make such equity financing a success. The climate for equity financing is presently not too favorable.

It seems to me that the elimination of unsound obstances standing in the way of desirable equity financing by American corporations is a matter of deep importance to everyone in this country, unless the American people are prepared to accept the nationalization of industry along British lines, which I very much question. This country has grown, developed, prospered and become powerful under an economic system in which competition, the voluntary assumption of financial risks, and the opportunity of reaping a suitable reward, if successful, have been cardinal parts. The present high standard of living in the United States has been attained in no small degree through the willingness of thousands of individuals to risk their savings in the creation or development of various industrial enterprises with the hope of gaining a profit thereby. This country cannot afford to reverse that trend by ill-advised tax or other legislation which will prevent savings from being freely available for investment purposes. The taxation of corporate profits and a second taxation of those same profits when paid out in dividends is wrong in principle and highly inequitable. Unduly high rates of Federal income taxes upon corporations and individuals in days of peace are bound to cause capital funds to remain idle. A tax policy, or any governmental program of regulation and direction, which discourages incentive, or unjustifiably retards investment and the development and expansion of industry to meet the growing and changing needs of the nation, is certain in the long run to result in serious permanent damage to our economy.

Dangers of Economic and Financial Suicide

The public should be made aware of these potential dangers before we march too far toward eventful economic and financial suicide. The public should know the true story of American business, and the achievements of the many corporations whose securities are so well known to you. I am not advancing a campaign of propaganda — that word has a somewhat unsavory sound—but I am urging a broad program of public education of the virtues of our competitive free enterprise system. For the public good, all of us should be ready and willing to be participants in such a program and thus do our part toward preserving for posterity a great and tried American heritage.

Phila. Bond Club Field Day Committees

PHILADELPHIA, PA.—Loring Dam, of Eastman, Dillon & Co., President of the Bond Club of Philadelphia, has announced committees for the Annual Field Day of the Club on Friday, June 3, at the Philadelphia Country Club, Bala, Pa. They include:

General Committee — Gordon Crouter, DeHaven & Townsend, Crouter & Bodine, Chairman; Lawrence M. Stevens, Graham, Parsons & Co., Vice-Chairman; and Loring Dam, Eastman, Dillon & Co., Ex-officio.

Arrangements—John K. Acuff, Brooke & Co., Chairman; Chauncey P. Colwell, Merrill Lynch, Pierce, Fenner & Beane; Samuel K. Phillips, Samuel K. Phillips & Co.

Entertainment—Samuel Evans, Jr., C. C. Collings & Co., Inc.; Chairman; W. Lippincott Colket, Penington, Colket & Co.; John E. Fricke, Thayer, Baker & Co.; Sidney S. Blake, H. M. Byllesby & Co., Inc.

Publicity — R. Conover Miller, E. W. & R. C. Miller & Co., Chairman; Frank L. Newburger, Jr., Newburger & Co.; Carl Necker, Moncure Biddle & Co.; Raymond H. Gage, Jr., Paine, Webber, Jackson & Curtis.

Tennis—Joseph C. Morris, Jr., Hornblower & Weeks, Chairman; Winthrop H. Battles, Battles & Co., Inc.

Registration—Lawrence M. Stevens, Graham, Parsons & Co., Chairman; Frederick W. Morris, 3rd, Smith, Barney & Co., Lewis C. Dick, Lewis C. Dick Co.

Special—Russell M. Ergood, Jr., Stroud & Co., Inc., Chairman; William Z. Suplee, Suplee, Yeatman & Co., Inc.; Freeman G. Grant, Dolphin & Co.; R. Victor Mosley, Stroud & Co., Inc.; and Harold F. Carter, Hornblower & Weeks.

Attendance—Harry B. Snyder, Yarnall & Co., Chairman; John C. Bogan, Jr., Sheridan, Bogan, Paul & Co., Inc.; John H. Derickson, Jr., E. H. Rollins & Sons, Inc. and Samuel K. Phillips, Jr., Samuel K. Phillips & Co.

Golf — Walter A. Schmidt, Schmidt, Poole & Co., Chairman; Wallace M. McCurdy, Thayer, Baker & Co.; Frederick T. Seving, Butcher & Sherrerd.

Transportation — George C. Thayer, Merrill Lynch, Pierce, Fenner & Beane, Chairman; and Robert L. Whittaker, Robert L. Whittaker & Co.

Cohu & Co. Adds

J. D. Ferrisi has become associated with Cohu & Co., 1 Wall Street, New York City, member of the New York Stock Exchange, in the retail distribution of Mutual Funds.

Greene & Brock Add

(Special to THE FINANCIAL CHRONICLE)

DAYTON, OHIO—Albert W. Lowrey has been added to the staff of Greene & Brock, Third National Building, members of the New York Stock Exchange.

Observations

(Continued from page 5)

tion of the very important and basic *value* methodology, of which he is a foremost champion. Ably highlighting the *appraisal* versus the *technical-market-study* and *timing* approaches is this statement: "In the long run, securities tend to reach and sell at a price level not disproportionate to their indicated value. This statement is indefinite as to time; in some cases the day of vindication has actually been deferred for many years. But the investor should base his policy on average experience rather than on the exceptions." (p. 41). He estimates that the interval required for a substantial undervaluation to correct itself averages approximately two years. The market's temporary, if uncomfortably long, intervals of contradiction of his appraisal should serve to test the real investor's fortitude. "Surely the intelligent investor has no cause to berate the perversity of the stock market; in this very perversity lie both his opportunity and his ultimate profits," adds the author.

Adequate space is devoted to workable techniques of identifying bargain securities, within the general framework of testing under- or over-valuation on the basis of comparing the price of the stock with the value of the business as a whole to a private owner or owners.

Omissions

In the field of stockholder-management relations Mr. Graham out of his own experience contributes much in citing the many opportunities that exist for the intelligent shareholder to render service to himself and his fellows. But it is hoped that in a subsequent volume he will elaborate on this field of endeavor, perhaps the most important confronting the 10-15 million stockholding community today. For example, the various impacts of non-stock-owning directorates could be explored, and the Berle-and-Means and TNEC demonstrations of the segregation of ownership from control brought up to date.

The secular trend of politics with the various impacts of cynically-avowed political techniques on today's investor, in almost all his activities, also should get more attention from this and other observers. This should cover not only their general incidence on the investor as *genus capitalist*, but the several individual effects on the government bondholder, the corporate bondholder, and the equity-share owner—and on the possibilities of self-protection by the investors versus other groups in the community.

One very relevant manifestation of the increasingly predominant political effects on the investor lies in taxation. This is not to advocate the centering of attention on detailed evils, such as "double taxation" of income received through dividends, capital gains taxation, etc. (harmful as they are); but rather on the continuing political expediency contained in tax-penalizing those community groups with the lesser number of votes. This motivation must determine decisions not only regarding soak-the-rich gradations in the individual income levy, but in all instances of tax policy and legislation.

Only slightly less directly affecting the investor's status are other manifestations of the political self-interest of the executive and administrative branches, as the Council of Economic Advisers, whose "findings" and policies, if and when adopted, can influence the future of individual industries (as steel), as well as the market as a whole.

Difficulties

One of the virtues in any difficulties and contradictions indicated in the thinking of so able an authority as Mr. Graham, is that they evidence the extreme complexities of our investment world, and the extent of the difficulties that currently obstruct all managers of capital.

One task evidently somewhat perplexing to Mr. Graham as well as to his co-inhabitants in the investment community, is that of steering a clear course by *either* the rudder of market-timing *or* of value-analysis, and of avoiding confused simultaneous use of both.

For example, champion as he is of the value-approach (as quoted above), Mr. Graham nevertheless feels constrained to make somewhat self-contradictory statements as the following: "As indicated above, we are sympathetic to efforts on the part of the enterprising investor to take advantage of the cyclical swings of the general market, by limiting his buying to historically low or neutral levels and by beginning his sales as soon as the market passes into historically high levels"; and then continuing: "On the whole, however, we believe that the principle of buy-low-sell-high can be applied more satisfactorily with primary reference to individual stocks and with comparatively little regard for the level of the general market."

And similarly indecisive are the two clauses in the following observation (p. 46): "On the whole it may be better for the investor to do his stock buying whenever he has money to put in stocks, *except when the general market level is higher than can be justified by well-established standards of value.*" (Italics mine.)

Likewise do various caveats offered by Mr. Graham, sound as they may appear, nevertheless indicate subconscious contradiction of his professed pursuit of business-value tests without regard to market timing. For example, the adjuration to avoid high-yielding issues at their offering prices ("it is mere common sense to abstain from buying securities at around 100 if long experience indicates that they probably can be bought at 70 or less in the next weak market"—p. 85); and a general caveat to be particularly wary of new issues because of their timing and salesmanship factors, do give recognition to nonappraisal elements.

The author's evidences of uncertainty about the relative weighting of elements of business-value-appraisal of individual securities on the one hand, and of criteria pertaining to the timing or historical position of the market on the other, may accentuate a general impression of intangibility about the book on the part of the speculative-minded and the lay reader. Perhaps, too, it may be suspected that Mr. Graham's practical investing successes to a considerable extent arise from a good measure of "glandularly"-induced judgment along with his expressed scientific precepts. (Speaking of portfolio policy for the aggressive investor, Mr. Graham candidly admits: "there is a difficulty in discussing this topic in orderly fashion, because there is no single or ideal pattern for aggressive operations. The field of choice is wide; the selection should depend not only upon the individual's competence and equipment but perhaps equally well upon his interests and preferences.")

In other words, any seeming shortcomings in this altogether splendid contribution reflect the fact that to a great extent successful investment is an art rather than a science.

Internal Barriers to Foreign Trade Expansion

(Continued from first page)

this meeting of foreign traders, gathered in recognition of "World Trade Week," to explore its limits, and the progress we are making toward the removal of internal barriers to its desirable expansion.

To the average United States citizen, a foreign market is a place beyond our borders, in which to sell our surplus products. In that view, the desirable extent of our exports is that amount which will absorb all that we can produce in excess of the ability of our domestic market to purchase and pay for them, and its limit would be reached when the demand for exports tended to produce scarcities and scarcity prices in our domestic market. I am conscious that this audience is composed mainly of exporters, whose business consists of selling goods abroad for a realized profit. For you the sky is the limit. But unfortunately, although banner exports are good for special groups in the short run, they are of no lasting utility to our people unless we eventually get back equivalent goods and services from foreign markets.

The national value of our foreign trade was accurately stated in the Final Declaration of the 32nd National Foreign Trade Convention. It is "to bring benefit to the people of the United States through an increased production, interchange and consumption of useful goods and services." The purpose of foreign trade between the United and Associated Nations was stated in almost indentical language in Section 7 of the Master Lease-Lend Agreement:—"The expansion by appropriate international and domestic measures of production, employment, and exchange and consumption of goods." The postwar economic policy of the United States, as stated in the State Department prospectus to which I have referred, and by President Truman in Point IV of his Inaugural Address, is to establish the economic foundation of a durable peace, and to assist in providing high and expanding levels of income here and abroad. This statement of the case for world trade is in terms which are at once beneficial to us as a nation and to the other nations of good will who work with us toward a common end of an expanding world volume.

Disturbing Factor in Exports

The disturbing factor about our present record exports is that they do not fit any of these prescriptions. There is a continual gap between the work we are doing for others and the return we receive in equivalent goods and services from abroad. Our thoughts during World Trade Week, therefore, should be directed toward reversing that trend. I would like to call your attention to barriers, some of which are of our own making, to the use of foreign goods and services. Our tariff policy at once leaps to mind. But the energetic pursuit by our Department of State of the reciprocal trade agreement program is making progress in the reduction of our tariff barriers.

Another formidable internal barrier to the expansion of our foreign trade is the use by the Secretary of Agriculture of the power to declare any agricultural commodity, or product thereof, surplus and to set quotas for or prohibit its importation. Such a determination not only bars the commodity from import, but compels the European Cooperation Administration to fulfill its requirements from domestic sources. By the use of this power, the importation of flax and linseed oil already have been barred, and two of our important export markets have been deprived of the dollars they once received. More important than that is the possibility that if our forthcoming wheat crop matures as forecast, it will be declared surplus, and thus the process by which the European Cooperation Administration has been providing Canada with dollars by procuring Canadian wheat for its requirements, will cease. I am not passing judgment on the wisdom of the program, but simply pointing out that the decision of a department that is not concerned with world trade, rather than the play of the forces of supply and demand, will determine whether our second best export customer is to have dollars to pay for purchases from us.

The elimination of the visa, formerly required on passports for American visitors to the participating countries, is an achievement for which the European Cooperation Administration is to be credited. Even more helpful is the action of our own Congress in lifting to $400 the exemption from duty on goods brought in by returned travelers. That these long-standing irritants have been lessening gives one hope that progress may be made toward removing the rigidities of the customs administrative procedure and related laws, by which action, Mr. Henry S. Radcliffe, Executive Secretary of the National Council of American Importers, estimates that our imports might be increased at least $1 billion a year.

Increasing Productivity of Rest of World

Another possibility which is being diligently explored is that of increasing the productivity of the rest of the world. The existing product of foreign markets is in many instances insufficient to meet national needs or ability to consume, leaving no excess for importation into our market in exchange for our own excess production. Doubtless some of you will detect in this process of developing foreign production, a threat to your own interests. As we stimulate foreign production foreign countries will not only need fewer of our goods, but will have more to sell in competitive markets. Actually, the Marshall Plan, and current plans for serving industry in Germany and Japan, are accelerating that progress. It may seem paradoxical, but we are building up our future competition. If you feel that your own business is affected by this program, you will have to console yourselves with the thought that your sacrifice is for the benefit of your fellow citizens, because the program is intent on securing the stability of the areas concerned. People without hope, insecure and hungry, are not reliable defenders of free institutions. The desirable peace comes first. However, I do not think you will need to take too bleak a view of your own situation, because the desire of the world for goods is almost insatiable. The problem is to establish terms of trade on which people can exchange their work, and to maintain an environment of order and confidence in which enterprise can thrive. As this plan is achieved, living standards will rise, an almost unlimited prospect for healthy trade will open up, and our program for economic collaboration will have justified itself.

The end of sellers' markets for over-priced goods has brought foreign exchange policies under careful review in many countries. There has been lively discussion of a possible devaluation of the pound sterling and associated currencies against gold and the dollar. If you have it in mind to ask my opinion of the future course of sterling, I would like to anticipate it by borrowing a reply from the brilliant Governor of the Bank of Canada. Asked whether he could, without embarrassment, predict the course of the Canadian dollar with relation to ours, Mr. Towers replied that would cause him no embarrassment whatever. "I confidently predict," he said, "that it will rise, fall, or remain where it is."

Dollar Should Not Be Devalued

Because a fixed exchange rate, together with an elaboration of exchange and import controls, is often woven tightly into the structure of a centrally-planned economy, it would save some political faces abroad if the United States should ease the pressure on their customers by devaluing the dollar again. I do not propose to be drawn into a discussion of a free market for gold, as is sought to be accomplished by bills in the hopper in Washington. For my purpose it will suffice to say that the main function of the price of gold is not to invoke any given rate of production, but of providing an international means of payment, a base for security and trust in paper currencies and paper promises to pay, and a common denominator for comparisons of international price levels. Widespread disequilibria in the foreign exchange markets are symptoms of paper money inflation, and the cure is to halt the inflation, replace government deficits by surpluses, and restore or strengthen the government credit. As these steps are taken, legal restrictions on transactions in gold within and between countries can be eased until gold can be made available, at a stated price or parity, wherever holders of currency want it. I do not subscribe to, and I ask you warmly to resist, the suggestion that the key to the restoration of convertibility is a devaluation of the dollar. There are plenty of currencies in the world that will need adjustments in value relatively to gold and the dollar. To tamper with the $35 ratio between gold and the dollar would only be to make the whole problem incredibly harder. The pound sterling is a "soft" currency, and that is why we hear all these rumors. Some even claim that because of that circumstance much trade can be accomplished that could not take place at official rates. But the way to the widened exchange of goods and services between nations is not to be found in the byways and lanes of special deals, hasty arrangements, or breaks in the exchange control dikes.

Danger of Bureaucratic Controls

There is another danger in the sort of operation we have undertaken in planning to increase the economic integration of Europe, which affects us all. It is a defect to which the organization of the United Nations and of its subsidiaries, including the proposed International Trade Organization, is subject. It consists in a tendency to rely upon bureaucratic planning and directives rather than on the releasing of the natural and powerful regenerative impulses, everywhere latent in the world, which, given reasonable freedom to operate, alone can and will bring about the recovery for which we all yearn. Like many of you in this audience, I am a native of the Middle-West, and a descendant of one of the pioneers who formed its states out of the Northwest Territory. How rapid progress could the State of Ohio have made had my great-grandfather, and yours, on arrival, been met at the point of entry of the Cumberland Trail, by a representative of the Northwest Territory Natural Resources Development and Planning Board, who would have told them where they could locate, how many trees they could cut down, how they should plow the prairie, and with what acreage of what crops they should sow it. To give you some idea of the difference between theory and the facts of life, let me remind you that your great-grand-daddy did not find the magnificent stands of timber an asset. I call your attention to Daniel Webster's speech at the laying of the cornerstone at the Bunker Hill monument in 1825. Mr. Webster in congratulating the dwellers upon the banks of the Ohio and the Mississippi on becoming full citizens and neighbors of those who cultivated the hills of New England, referred as one of their achievements to the fact that "the great forests of the West were prostrated beneath the arm of successful industry."

Our growth occurred under, and has been stimulated by, our system of free competitive enterprise. Our principal economic decisions were made in the market place, with free choice as to the objects of our consumption and the direction and magnitude of our production and investment. If we have a lesson for the world, isn't that it?

Allover planning which is not geared toward releasing the abundant energies of free peoples produces no food or clothing, and fundamental economic laws assert themselves to arrest ideas that exhaust the springs of profit.

I have before suggested, and I here repeat, that my slogan for a successful regeneration of the world consists in a paraphrase of the motor builders phrase—"When better worlds are built, people will build them."

Phila. Securities Association Outing

PHILADELPHIA, PA.—A feature of the outing of the Philadelphia Securities Association to be held May 27 at the Aronimink Golf Club, St. Davids Road, Newtown Square, Pennsylvania, will be an all-day golf tournament. There will be special Kicker's Prizes awarded. For non-golfing members, quoits, badminton, croquet, volley ball and cards have been arranged. Dinner will be at 7 p.m. and will be followed by a special program of entertainment.

W. A. Lacock, E. W. Clark & Co., is General Chairman of the arrangements committee and is assisted by the following subcommittees:

Reception—Franklin L. Ford, Jr., E. W. Clark & Co., Chairman; Robert S. Detweiler, Yarnall & Co.; Melvin Thomson, Kidder, Peabody & Co.; Paul F. Miller, Carstairs & Co.

Golf—Harold J. Williams, Boenning & Co., Chairman; Orrin V. Boop, Schmidt, Poole & Co.; S. Oscar Boughner, E. H. Rollins & Sons, Inc.

Entertainment—Llewellyn W. Fisher, Sheridan, Bogan, Paul & Co., Chairman; Thomas J. McCann, Gerstley, Sunstein & Co.; Edmund L. C. Swan, Hornblower & Weeks.

Special—Russell M. Ergood, Jr., Stroud & Co., Chairman; William C. Crowell, Girard Trust Co.; Raymond E. Groff, Brown Bros. Harriman & Co.; William Z. Suplee, Suplee, Yeatman & Co.

W. Jay Israel to Open Own Investment Firm

WICHITA, KANS.—W. Jay Israel will shortly open offices to engage in the investment business. Mr. Israel was formerly Vice-President of Dunne-Israel Co.

The Changing American Economy

(Continued from page 6)

lution has occurred during the last 60 years in the economy of the United States. The present economy is quite different from free private enterprise and is based on a different principle. Free private enterprise operated on the principle that ability and willingness to buy determined what was produced and who got it. The new economy operates on the principle that fundamental decisions on who has what incomes, what is produced, and at what prices it is sold are determined by public policies.

(4) The development of the welfare state. The development of the welfare state is closely linked with the disappearance of the economy of free private enterprise. The essential principle of the welfare state is that incomes should not be too completely and exclusively dependent upon contributions to production. There are many millions of people in the community who have great needs but who are unable to contribute to production. There are others who have great needs but who are not able to hold full-time jobs without losing the opportunity to pursue other important activities, such as getting an education.

During the last 15 or 20 years there has been an important change in the attitude of the community toward needs. This change would probably have eventually occurred anyway, but it was greatly accelerated by the great depression of the thirties. At any rate, the community today is prepared to go much farther in disbursing income on the basis of need than it was willing to go in 1929. Since that time the United States has instituted a system of old age pensions which covers about three out of five workers and a system of unemployment compensation which covers about two out of three employees. It has also taken important steps to increase greatly the opportunities for free public education. In 1929 payments based on need were about $1.2 billion and represented about 1.2% of all personal incomes. In 1947, payments based on need were over $12 billion and represented about 6.2% of all personal incomes. Such payments were 75% greater than all dividend disbursements of American corporations. Payments based on need are still quite small in relation to need. For example, the average pension under old age and survivors insurance is about $26 a month in the case of persons without dependents and $39 a month in the case of persons with dependents. For the better paid employees, unemployment compensation benefits are less than half their earnings after taxes. Disability payments are very meager. Although payments based on need are inadequate, they compare favorably with other countries. They may be expected to increase substantially during the next few years. Within a decade they will probably be running close to $20 billion a year.

III

The rapid changes which have been occurring in the economy and also outside of the economy have created many important problems. I have selected four for discussion: (1) the problem of more production; (2) the problem of working out a basic code or set of mores in the field of industrial relations; (3) the problem of the relations between industry and the community, and (4) the problem of greater participation by business leaders in the making of public policy.

(1) The problem of production. If I were to predict that the output per capita of the American economy by 1980 would be about $2,385 (in terms of present dollars), would you regard me as making a fantastic and irresponsible prediction? This would mean that the average family of four would have an annual income of about $9,540. This is approximately 66% above the present level of income. Possibly $9,540 a year for a family of four impresses you as high. Nevertheless, this rate of growth is only slightly greater than the economy has been accomplishing in the past—namely, 2% per capita a year.

The prospect is that output will increase even faster in the future than in the past. The principal reason for this belief is the rapid growth of industrial research. This is one of the most rapidly booming activities in the community. Expenditures on industrial research increased nine-fold between 1920 and 1940, and they are now more than double 1940. The research expenditures by government have grown even faster and now substantially exceed those made by industry. Much of the military research of the national government will produce knowledge that has wide industrial applications. In view of the rapid growth of research, output per manhour could easily grow by 3% a year. In that event, per capita output by 1980 will be about $3,229 (in terms of 1948 dollars) or about $12,900 for a family of four. Perhaps one-fifth or one-fourth should be subtracted from these amounts to allow for the shortening of the work week.

Despite the bright prospects for a great increase in production, a crucial question confronting the economy is "Can we produce enough?". The demands on the economy for more goods are greater than ever and are growing faster than ever. Consider the consumption of goods by the government. In 1929 the local, state, and Federal governments consumed 8.2% of the gross output of the country; in 1939, 14.5%; and in 1948, 14.1%. Fortunately, much of the consumption of goods by the government helps to increase production. This is true of most of the research expenditures of the government and the outlay on highways. Other large expenditures of the government, however, are required for national defense or for goods which are in the nature of public consumers goods (such as monumental buildings) rather than for productive plant and equipment or for the increase of knowledge. In addition, as I have pointed out, the government is spending rapidly increasing amounts to help people who are in need and who are unable to produce. These expenditures, I have stated, may be expected to grow rapidly.

Some people do not regard social security payments, relief payments, and other government disbursements as a net increase in the demand for goods. These payments are financed out of taxes. Hence the fact that the government has more money to spend means that members of the community have less to spend. The people who have to pay higher taxes in order to finance disbursements by the government, however, are led by their tax payments to press for offsetting increases in their income. Consequently, it would be unrealistic to regard the social security payments, the relief payments, and other payments by the government as having no net effect upon the demand on industry for goods.

By far the most important demand upon industry for more output comes from the organization of labor. Never before in the history of the world have people been so highly organized for the express purpose of bargaining for higher incomes. It is difficult to believe that unions will be willing to push up wages no faster than the engineers and managers in the past have been able to raise output per manhour—namely, about 2% a year. Between 1946 and 1947, for example, hourly earnings in manufacturing increased 11.9% and between 1947 and 1948, 8.7%. It does union members little or no good to push up the price of labor faster than the engineers and managers are able to raise output per manhour. If the price of labor rises faster than output, an offsetting increase in price is necessary. To the extent that prices advance, unions are defeated in their purpose of raising the standard of living of their members. Consequently, the wage demands of unions must be regarded as fundamentally demands that industry raise the productivity of labor.

I suggest that the community plan for an increase in output of not less than 3% per manhour per year. The Economic Advisory Council has suggested that the community plan on increasing output by 2.5% per manhour per year. In view of the huge demands being made on industry by the military program, the welfare state, and the trade unions, an increase of 2.5% per year seems to be dangerously low. Furthermore, in view of the large scale of industrial research and the rapid progress of technology, an increase of 2.5% seems unnecessarily low. Perhaps an increase of 3.5% a year could be attained. Even this would probably not be sufficient to prevent the wage demands of unions from forcing a gradual rise in the price level over the long run. Nevertheless, a 3% rise in output per manhour would permit a large diversion of product for national defense, social security, and relief and still allow a fairly rapid rise in the standard of living of the rest of the community. Incidentally, it would cause an enormous drain upon the country's resources because it would mean that the total physical output of the nation during the next 30 years would be substantially larger than during the last 150 years.

Increasing the output of American industry must be achieved in the main by scientists, technologists, and administrators—by physicists, chemists, engineers, and business managers. Nevertheless, some changes in public policies are indicated. It is important that the government remove some of the impediments which its policies impose upon the expansion of industry, and that, in particular, it help to improve the quality of business births and to reduce the infant mortality rate among business concerns and that it remove the special penalties which it now imposes on people who attempt to derive income from the ownership of stock in corporations.

(2) The problem of working out a basic code or set of mores in the field of industrial relations The rapid rise of trade unions in the last 15 years confronts the community overnight with many new problems of social control. So long as most unions were small and weak, they could be treated in the main as private clubs. Furthermore, the failure of unions to reach agreements with employers did not as a rule result in serious injury to the community and the terms of their agreements did not much matter.

The rapid rise of trade unions confronts the community with a multitude of new problems. Today there are many millions of jobs which may only be held by men who are in good standing in trade unions. Consequently, the admission requirements of unions and the administration of discipline by unions has become affected with a public interest. It is necessary for either the trade union movement or the government to assure that all unions are open to new members on reasonable terms and that no member is arbitrarily deprived of his membership in a union.

With two-thirds of the workers in manufacturing, four-fifths in construction, four-fifths in mining, and four-fifths in transportation belonging to trade unions, the scope of allowable industrial conflict becomes of public concern. The community has sought to encourage men to organize because it believes that they needed additional bargaining power in dealing with employers. It was not the intention of the community, however, that this bargaining power be used by some unions to fight other unions. Furthermore, with unions existing in so many plants, there is great danger that one party or the other will attempt to force neutrals to help it impose economic pressure upon the other party to the dispute. Hence, effective ways must be found of protecting neutrals from being drawn into industrial conflicts.

The fact that the wage structure of the country is now set in the main by collective bargaining increases the need for criteria to guide the bargainers in fixing wages. Undoubtedly the country has an interest in the kind of wage structure which develops because the wage structure influences the movement of both employees and capital. Hence the community must make up its mind concerning what incentives for movement it desires to give labor and capital. Unless criteria to guide the setting of wages are developed, collective bargaining will merely develop the kind of wage structure which reflects the relative bargaining power of unions on the one hand, and employers on the other hand. There is no reason to expect that such a wage structure will conform very closely to the interest of the community. For example, excessive quantities of capital would be attracted into industries where the bargaining power of labor is relatively weak and insufficient quantities of capital into industries where the bargaining power of labor is relatively strong.

Finally, the rise of trade unions creates the problem of protecting the community from shutdowns which jeopardize the public health and public safety. Never before in the history of western civilization has the community been so completely dependent upon the ability of small groups of men to reach agreement. It is plain that the community cannot concede to any groups the right to imperil the public health or public safety simply in order to determine which of two groups is going to impose its desires upon the other.

The code or system of mores needed to govern industrial relations will consist partly of accepted ideas of what is right or wrong or fair or unfair and partly of legislation and public policies To the extent that employers and unions are willing to let their conduct be governed in large measure by an ethical code, it will not be necessary to control industrial relations by law. So strong is the individualistic tradition among both employers and trade unions in the United States that voluntary submission to an ethical code is not an effective regulator of conduct. Consequently I expect that industrial relations in this country will have to be conducted within the framework of a fairly comprehensive set of laws.

Whether control is achieved by accepted ethical ideas or by law, the foundation must be laid by discussion and argument. The stage of discussion and argument is where the country finds itself today. The argument is frequently heated and the claims for the right to do as one sees fit regardless of the consequences to others are often extreme. This is not a new experience. The country saw

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The Changing American Economy

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it happen before when proposals were made to impose new obligations on the railroads, the bankers, the municipal utilities, and even upon any corporation which proposed to sell a security issue to the public. The extreme claims of special interests do not usually stand up well in face of a demand that more consideration be given to the interests of the general public. History will undoubtedly repeat itself in the field of industrial relations. Before another 10 years will have passed, the community will undoubtedly have developed a considerable body of accepted ideas of what is fair and unfair and of laws and public policies which will more or less satisfactorily regulate the conduct of industrial relations.

(3) The problem of the relation between business and the community. One of the most serious problems of business is created by the small number of stockholders in American corporations and the reluctance of most people to become owners of corporate securities. More than half of the industrial capital of the community is held by corporations. The number of corporate stockholders is uncertain. The T.N.E.C. put the at 8 million to 9 million. More recent studies by the Board of Governors of the Federal Reserve System indicate that the number may be between 5 million and 6 million. Perhaps the correct figure is somewhere between these outside estimates—possibly 6 million to 7 million. Even the T.N.E.C. figure, however, indicates that only one out of ten adults owns stock in American corporations.

The people of the United States have never been particularly attracted by corporate securities. During the 20 years 1909 to 1929, the largest single source of corporate funds was retained earnings—about $37.3 billion. In the same period, public issues of bonds and notes were $27.1 billion and public issues of stock were $21.3 billion. During recent years, however, the willingness of individuals to buy corporate securities has been weaker than ever. The estimates of the Securities and Exchange Commission indicate that in ten out of the last 16 years, the investments of individuals in corporate securities, both stocks and bonds, diminished. During 1947 and 1948 individuals made a small increase in their investment in corporate securities, but this increase represented only about 10% of personal savings and about three-fourths of it consisted of bonds rather than stocks.

Corporate managements need have no concern over their ability to raise sufficient funds for the expansion of business—even though the thriftiness of the community is likely to diminish. Considerably more than half of the investment during the last century has been required to supply the rapidly growing labor force with plant and equipment. With the rate of population growth declining, a fairly low rate of saving will make possible an adequate increase in capital per worker.

The achievement of a great increase in the number of stockholders in corporations is likely to be more difficult than obtaining a sufficient amount of investment-seeking funds. In order for corporations to take root in the community and to become a real part of it, about one out of every three adults should probably become owners of shares in corporations. This would mean about 30 million stockholders. Such an increase could be accomplished only by persuading millions of persons of moderate means to become stockholders. The common stocks of most companies are not a suitable investment for persons of moderate means. Hence corporations should be prepared to offer securities particularly appropriate for persons of moderate means—such as a form of preferred stock. In some instances preferred stocks with special features, such as conversion privileges, may be desirable. The cost of marketing securities in small lots is an impediment to gaining wide distribution of ownership. Consequently, changes in marketing methods are needed. The company interested in obtaining more stockholders will undoubtedly have to bear a substantial part of the cost of distributing its securities.

(4) The problem of greater participation by business leaders in the making of public policies. The interest of the community and business alike would be promoted if business leaders were to recover part of the influence which they once had upon policies. Under most circumstances, business leaders are the most effective champions in the country of the community's interest in more production.

How can business increase its influence upon the thinking of the community? The ideas of the community are guided in large measure by a few important thinkers. Many people from all walks of life are attempting to influence the thinking of the community. The competition among ideas is stiff, and under modern conditions of communications probably is stiffer than ever before. That is a wholesome state of affairs. It has very practical implications for business. It means that business can influence policy by developing great thinkers as well as skillful administrators. It also means that business can have little influence upon policy unless its spokesmen are able to win acceptance for a fair share of their ideas in the stiff intellectual competition of the present. The spokesmen of business will not get very far in simply opposing the ideas of other persons on the ground that these ideas are impractical. The community has important problems about which it expects something to be done.

Consequently, the spokesmen for business must be prepared to offer proposals for dealing with the problems which most concern the community.

Am I not asking the impossible of business? I grant that I am proposing a stiff task. Bear in mind that I do not assert that every administrator must be an important thinker in the field of public policy. I simply assert that business needs to contribute **its fair share of men** able and willing to do important thinking in this field. The critics of the economy are doing the kind of thinking that I suggest some executives must do. Business has the choice of letting public policy be made pretty exclusively by critics of the economy or of developing executives who are capable of competing successfully with other thinkers and winning acceptance for a fair share of their ideas.

IV

Let me close these remarks by quoting a recent statement by Mr. G. A. Price, President of the Western Electric and Manufacturing Company. He describes as "the most alarming symptom and the most dangerous condition, the fact that American business is now operating in a climate so hostile to enterprise that it is unable to obtain its capital requirements from the investing public." [1] This observation of Mr. Price raises very basic questions for American business. Why did the climate become so hostile to enterprise — particularly when industry was doing such a remarkable job of increasing production? What did business do or fail to do that permitted the environment to become hostile? Why did business fight a bitter war against unions when it was plain that the people wished to have unions? Why did business fight social security when it was plain that millions of people needed it and wished it and when many concerns were providing pensions for their executives? Why did business fail to lift a little finger to reform capital markets during the twenties when holding companies were being formed right and left to exploit the gullibility of the public?

Business cannot escape much responsibility for its environment. Business managers have the responsibility of keeping the community friendly toward business. This means that they must so understand the community, must be so interested in its problems and so sympathetic to efforts to find solutions to its problems, that enterprises never have to operate in a hostile environment. If this be true, business concerns, as I have said, need to have some top executives who are more than good administrators. A limited number of their executives, in addition to being good administrators, need to be students of conditions and ideas, capable of protecting business from the kind of blunders which created the present hostile environment for business, able to hold their own in intellectual competition with the best thinkers of this age, and qualified to assure that business contributes its proper share of the important ideas that determine the course of history.

1 "*Wall Street Journal*," April 15, 1949, p. 3.

Rep. of Peru Temporary Bonds To Be Exchanged

Holders of Republic of Peru external sinking fund dollar bonds of 1947 due Jan. 1, 1997, in temporary form, are being advised that on and after June 1, 1949, definitive bonds of such issue will be available for exchange at Central Hanover Bank and Trust Co., New York.

Under an offer which expires on Dec. 31, 1949, holders of six issues of bonds of dollar and sterling loans have exchanged over $34,000,000 out of a total of approximately $86,000,000 face amount of old securities for the new dollar bonds of 1947. Through operation of the sinking fund for the new bonds, over $7,000,000 have been retired, leaving approximately $27,000,000 still outstanding.

Penn. Co. 1/4 Century Club Inducts New Members

PHILADELPHIA, PA. — The Quarter Century Club of the Pennsylvania Banking Company for Banking and Trusts inducted 24 new members at its annual dinner and meeting. Total membership is now 255. William M. David was elected President. Special awards for 40 years' service were presented to William Wylie, John Gordon, H. O. Frey and Mabel V. Robinson.

Wagenseller & Durst Adds

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Anna-Still Pritchard has been added to the staff of Wagenseller & Durst, Inc., 626 South Spring Street, members of the Los Angeles Stock Exchange.

With Frank D. Newman Co.

(Special to THE FINANCIAL CHRONICLE)

MIAMI, FLA. — William P. Thurston, Jr. is with Frank D. Newman & Co., Ingraham Building.

How to Avert Socialism

(Continued from page 8)

interest them most. Are you providing your own employees with answers to these questions?

What are the company's plans for the future? How will this affect me? What is the company doing for the benefit of the employees? How will the pension plan, the life insurance, the accident and health, the hospitalization plan affect me?

How is business going — is it good or bad? What is causing it to go that way? Who is being promoted? What did they do to earn their promotion? What are we doing to improve our products? What are we doing to develop new products?

What are the company's guiding principles? Who are the men that run the company? What are they like as people? What did they do to get where they are?

What happens to the things I help make? How are they used? How do they compare with the products of other companies in this industry? How does my department's work fit into the whole business?

Who really owns the company? What kinds of people have their money invested in it? What happens to the money the company takes in? How much do I get compared with what the stockholders get?

What does it mean to my community to have this company here?

Questions Pertain to Basic Wants

These are typical questions. Each one pertains directly to one or more of the four basic wants which, according to leading researches, the average employee possesses.

These basic wants are (1) job security; (2) opportunity to advance; (3) to be treated as a human being; (4) a belief that his work is important.

Management has everything to gain and nothing to lose in answering questions such as these. Moreover, the answers will give the information we wish to get across.

For examle, let's take the employee's question about who owns the company.

This question offers the opportunity for us to explain that the stockholder provides the money for the tools with which the employee works; that he risks his savings in hope of receiving a fair return on his investment; that the tools which he provides enable the employee to produce more and thereby earn more; that this greater output also makes possible more of the good things of life for other people; and that, by contrast, people under socialism must suffer a lower standard of living because heavy taxes reduce the amount of risk capital necessary to progress.

Let's consider the employee's question of what happens to the money a company takes in.

This question gives us the chance to explain that the employee gets a large share of each dollar the company receives; that his share is many times larger than that of the stockholder; that both the amount of profit paid to the stockholders in the form of dividends and the amount kept in the business for growth offer the employee a sound basis of hope for advancement, greater income, and security; that profit is the incentive in our economic system which enables the people in America to enjoy better food, better clothing, better homes, better cars, better schools —better living in every respect; and that, by contrast, people in a welfare state must live on a lower scale because crushing taxation kills individual initiative.

Let's take the question about product.

This question gives us the opportunity to explain to the employee that business is done in a free, competitive market in which the customer buys the best product he can get for the lowest price; that it is to the employee's interest to build into the product the highest possible quality at the lowest possible cost; that it is also to his interest to produce as much as he can because the more production, the less the cost, the less the price to the consumer, the greater the share of the market, and the larger the company's income for fair distribution to all concerned; and that, by contrast, people in a welfare state must endure a lower standard of living because the average man will have less desire to work efficiently if his basic needs have been guaranteed.

Information of this kind will increase employee understanding and appreciation of the American economic system.

Our duty to tell story of freedom

It is our privilege — it is our duty—to tell our employees this story of freedom—

the manufacturer is free to make what he thinks he can sell—

the customer is free to buy what he pleases—

the stockholder is free to invest as he sees fit—

the individual is free to prosper in accord with his ability—.

This system of a free market has doubled its output every 20 years, and has brought the people of America the highest living standard in the world.

How to get information across

Now comes the question of how we can get the information across.

There are two kinds of techniques to be considered. The first: functional techniques. The second: fundamental techniques.

Functional techniques, as you know, relate to communication channels such as supervisory meetings, special training courses, employee publications, bulletin boards, films, booklets, public address systems, open houses and plant tours, advertising in plant cities, and the like.

I know that you do not expect a detailed discussion of these subjects here. You might be interested in this one sentence from our company's public relations policy which summarizes our thinking. It reads: "Every appropriate medium for building and maintaining good will is to be employed within the limits of intelligence and good taste."

It is believed worth while for us to look more closely at the fundamental techniques. If we are right on fundamentals, we can learn to handle the functional. If we are wrong on fundamentals, all functional excellence will fail.

Six fundamental techniques

If we are to get our story across so that it will be believed we must use these six fundamental techniques:

(1) Remember that employees are people.

They are not machines. They are not clock numbers. They are human beings. They eat and sleep, love and hate, sin and sometimes pray, even as you and I.

Let's review once more their basic wants. Job security. Opportunity to advance. To be treated as a human being. To feel that their work is important.

Think of those wants in connection with yourself. Don't you want security? Don't you want to get ahead? Don't you want to be treated as a human being—to feel that what you are doing is important?

Then remember that employees are people.

(2) Give facts in terms of the employee's interests.

You will recall that when we considered what information to give we approached it from the angle of what the employee wanted to know — not what we wanted to tell. Management won't get to first base by talking about what we want unless we express it in terms of the employee's interest.

Moreover, if we remember the important fact that the employee is human, we will appeal to his heart as well as to his head. It is easier to stir the emotions than the intelligence. Desire is man's most powerful motive.

(3) Tell it truthfully.

Whatever we say about our company—our policies, products, performance—must be the truth. Whatever we say about the American economic system must be honestly said.

There will be temptation to fight fire with fire. Management must stick religiously to the truth. We can build confidence in no other way.

(4) Tell it specifically.

We must be specific to be effective. For some reason businessmen, if they talk at all, like to talk in generalities. Maybe that is because they are too lazy to dig up the specific facts.

Whatever the cause, the effect is the same. Generalities are boresome. Specific information is interesting. For example, our own employees would have little interest in a statement by me that free enterprise was a great thing. I believe they would be interested in a statement that under the system of free enterprise our company had been able to create 26,000 new jobs in the last 10 years.

(5) Tell it simply.

A foreign-born plumber in New York City wrote to the National Bureau of Standards that he had found hydrochloric acid did a good job in cleaning out clogged drains. The Bureau replied as follows: "The efficacy of hydrochloric acid is indisputable, but the corrosive residue is incompatible with metallic performance."

The plumber wrote another letter saying he was glad the Bureau agreed. Again the Bureau wrote: "We cannot assume responsibility for the production of toxic and noxious residue with hydrochloric acid and suggest you use an alternate procedure."

The plumber was happy again that the Bureau agreed with his idea. Finally the Bureau wrote: "Don't use hydrochloric acid. It eats hell out of the pipes."

Ladies and gentlemen, it is not only plumbing—all business is technical, all business is fairly complex. If we are to tell our story so that it can be understood by large numbers of people — whether they be employees or not—we must present it simply.

(6) Tell it again and again.

A famous professor once said, "The human mind has an infinite capacity to resist the introduction of knowledge."

We must tell our story over and over. Only repetition will make it sink in. Repetition is also essential to reach new employees.

Although the job of employee communication is endless, you will find satisfaction in it. For once the employee learns what makes his own company "tick," he will realize that his interest, the company interest, and the public interest are all wrapped up together. He will support his company and the business system during working hours as a loyal employee, and after working hours as an intelligent citizen.

What is the next step for a company beyond keeping its own employees well informed?

If every company — both small and large—will do an all-out job to explain itself to its employees, we will not have to worry very much about how to avert socialism.

However, the threat of socialism is such that no company will want to limit its information program to its employees. It will wish to tell the story of business, still using itself as an example, to stockholders, suppliers, plant communities, and other specialized groups, as well as to the public at large.

As we move into these areas, it will be well to keep in mind that the foregoing fundamental techniques will prove equally effective in all of them.

Must Keep Eye on Objective

As we go to the public with our story, we must keep our eye on our objective.

In the past, business has often looked on its public relations activity merely as a sales adjunct—as a means of getting free publicity for its products. Good products are essential to good will. Also, products are the basis of legitimate and important news. Public relations, however, has gone far beyond the field of product publicity.

Again, what is our objective? It is to gain and maintain the complete confidence of the people in our business system—not only in the things we make but, more important, in the things we stand for. Such confidence is vital to the preservation of business freedom and, with it, all our liberties.

Ladies and gentlemen, let me sound this warning. As we rally to the support of our economic system, let us not give the impression that we are against all social progress.

Too many people already think management is made up of icy individuals whose ears are so attuned to the metallic clink of money that they are unable to hear the heartbeats of humanity.

People Need Some Protection

As living has become more complicated, the need for protection against certain perils has increased. People need protection against old age, unemployment and disability. But this protection should come first of all from the thrift of the individual—from his own savings and insurance—and second from voluntary group insurance. Government benefits should come last and should be held down to a minimum.

When the government takes the lead in developing human aid, a nation's walk down the road to socialism turns into a gallop.

At present this nation's bill for social security is close to $2 billion a year. If measures now before Congress are enacted, it is estimated the bill would jump to $7 billion a year by 1950.

Recently I heard one of our Congressmen interviewed over television. He was asked if he was in favor of the President's welfare program and, if so, where was the money coming from?

"I am in favor of and will support every single proposal," he declared. "As for the money? When we are considering better housing, better education, better health for our children, I am not concerned with how much it costs or where the money will come from."

Well, I am concerned. I imagine you are. I hope we will still be concerned the next time we go to the polls.

Both Political Parties Marching Towards Socialism

In speaking of going to the polls, I am not thinking of politics in the ordinary sense. One of the most alarming features in our approach towards socialism is that both major political parties are marching almost side by side.

It is true that one party has consistently held the lead and is still managing to stay in front by a donkey's nose. Nevertheless, the other party has loudly trumpeted its own promises to extend social security and other benefits.

At times the last Presidential race appeared to be merely a contest to see who could give away the most of what neither would have until they took it away from you and me.

Now, if both parties have found it necessary to go after voters by offering to extend and to expand social security, that is a strong indication that millions of people are in favor of socialism. They may not favor it by name, but they like the things that go to make it up.

However, I do not believe that most of these people are thinking. A wideawake America—a thinking America—will never scrap its system of free enterprise for any other system. An unthinking America may.

Thinking comes hard. It is more pleasant to close our eyes, shut off our brain, and drift along in the Utopian belief that the government owes everyone a living.

It is much easier to reach for a government handout than for a pick and shovel.

Men of management must help America think before it is too late.

Men of management must make the individual realize that the greatest helping hand he will ever find is at the end of his own shirt sleeve.

Men of management must help the American people see the welfare state for what it really is—a farewell state—a farewell to all our freedoms.

Public opinion is the strongest force in a democracy. It can turn this nation away from socialism. And it will—if people are treated as human beings; if they are appealed to — emotionally and logically—in terms of their own interests; if they are given information truthfully, specifically, simply, and again and again.

I urge you to get on with the job.

In the words of Thomas Paine, "Those who expect to reap the blessings of freedom must, like men, undergo the fatigue of supporting it."

Impact of American Foreign Policy on Business

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goals rather than toward them. Whether they have acted wisely or unwisely, in their particular circumstances, is not the point under discussion here. The pertinent point is that the gap between "the American way of life" and the politico-economic orders of most other nations has widened rather than contracted. In particular, we confront the powerful Russian empire that asserts the dominance of the state over the individual in every aspect of life.

A third basic fact is that World War II has hastened the growth of political and economic consciousness among great masses of the world's population in colonial and "backward" areas. There is a rising demand for a larger measure of political independence and economic opportunity. India and Burma have gained their independence. Malaya and the colonial dependencies of the French, British and Dutch empires are asserting their rights to self-government. The global spread of education, and the startling advances in communication and air transportation have increased the awareness of human rights and opportunities. They have generated a tremendous demand for the resources to raise living standards, and to develop new national economies. At the same time there are fears of foreign "imperialism" and there is wide misunderstanding of the true conditions of economic progress.

Stripped of nonessentials, these are the strategic factors that must shape our foreign policy. How have they influenced our foreign policy since the recent war, and how are they likely to affect it in the future?

Britain in the 19th Century and the United States in the 20th Century

The parallelism between the contemporary position of the United States in the world and that of Great Britain at the close of the Napoleonic Wars is striking, although there are many points of difference. In the early part of the 19th century, Britain had a long lead over other nations in industrial technology and productivity. Her island position, together with her powerful navy, insulated her from foreign attack. She had a laissez-faire, capitalistic economy. She had a developing surplus of savings out of her national income. As a consequence, Britain became the leading investing nation of the past century. Her investments, accompanied by exports of British goods, built railroads, textile mills, mines, and factories in India and the dominions, Latin America, Africa and the colonies. British capitalists invested billions of dollars in the young, expanding nation that was then the United States of America. Economic history clearly reveals that British and European investments hastened the economic development of this country by at least 50 years.

It is true that British merchants, bankers and shippers exacted large returns. Their returns had to be high to justify the large risks that were taken. British foreign investments did not always pay off, and many heavy losses were suffered. We need only recall the large losses of British investors in bonds of the Confederate States or of the Grand Trunk Pacific Railway in Canada to illustrate the point. But Americans, Argentinians, Australians, and Indians could well afford to pay well for British funds. The imports of goods and services that they financed enormously increased the productivity of human hands in the debtor countries. Rising production ultimately provided the means for repaying loans and repurchasing investments, and for permanently raising the living standards of those countries.

While performing this valuable function of international investor during the 19th century, Britain was also the defender of private enterprise, free markets, open trade, and stable currency. She maintained the value of the British pound sterling in terms of gold, and made it the international standard of value. The existence of this dependable currency reduced the risks of international trade and greatly facilitated its growth. Meanwhile the gradual growth of industry in other lands, combined with declining net investments by Britain, turned Britain into a mature creditor nation. Her low-tariff policy enabled her to accept returns on her foreign investments in the form of merchandise imports from debtor countries. Britain maintained a comparatively high living standard, while operating with a deficit in her merchandise trade.

The first World War marked a sharp change in the international economic position of Great Britain and of the United States. Britain liquidated huge amounts of foreign investments and incurred large war debts to this country. The United States was suddenly transformed from a debtor to a creditor nation, through its vast loans to Britain, France and the other allied powers and its claims for reparations from Germany. Through the Liberty and Victory loan campaigns, a wide public market for government securities was built up in this country. After World War I Europe needed funds to purchase immediate necessities, to stabilize currencies, and to make public and private capital improvements. American investors became acquainted with the publicly-offered securities of foreign governments and corporations.

During the 1920s Americans invested heavily abroad. But the behavior of the United States as a world creditor nation during the interwar years was not consistent. It was in fact, an erratic and unstabilizing behavior, both for our own economy and for other nations. There was a burst of foreign investment after World War I, which continued through most of the '20s. Thereafter, our long-term foreign investments fell precipitously with the oncoming of the Great Depression in 1929. They continued at a very low ebb during the Thirties. The sudden reduction in the flow of American funds abroad contributed to economic depression in foreign countries. Taken in conjunction with the rising tariff barriers put up by the United States against the products of debtor countries, it operated to restrict international trade and to place it upon a precarious basis. This country must, therefore, accept part of the responsibility for the increase of trade restrictionism in Britain, Germany, and other important trading nations during the 1930s.

World War II completed the process of transferring economic and political leadership of the free world to the United States, just as it marked the emergence of Russia as the great totalitarian power. The events of recent years are so familiar that it is unnecessary to recount them here.

The Postwar Period of Relief and Reconstruction

The past four postwar years can fairly be described as a period of relief and reconstruction. During this period the United States has taken decisive steps toward the reconstruction of a free world. Considering the immensity of the problems and the obstacles in our path—and despite the mistakes that have been made—what has been achieved so far is encouraging. More than $16 billion have been advanced to other nations, the bulk of it to Britain and Western Europe. The initial flow of our donations went forth under postwar Lend-Lease and UNRRA. Following this was the British Loan of $3¾ billion. The final step in the program of relief and reconstrutcion was taken with the Marshall Plan, which set in motion the European Recovery Program. It will be recalled that this program involves a commitment by the United States to provide assistance in the form of goods or dollars to the 19 European nations cooperating in a project of self-help and mutual aid, and pledging themselves to place their own economies in order and to put forth a strong production effort so that they may achieve by mid-1952 a balance in their joint account with the rest of the world. The best available evidence indicates that the Marshall Plan is achieving its objectives. Western Europe is getting on its feet economically. The rising tide of Communism has been checked and turned back.

Postwar American foreign economic policy has not been confined to gifts and loans for relief and reconstruction. This country has taken a lead in erecting legal and financial machinery for currency stabilization, economic development, and a revival of trade. It was the largest subscriber to the International Monetary Fund, designed to aid countries in stabilizing their currencies, in preventing competitive currency devaluation for temporary trade advan-

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tages, and in removing a serious obstacle to trade. It was also the heaviest supporter of the World Bank for International Reconstruction and Development, which has the function of providing long-term loans to national governments for the purpose of improving their capital equipment and increasing their production.

Finally, it was American leadership and ingenuity that led to the Charter of the International Trade Organization negotiated at Havana early last year. This is undoubtedly the most comprehensive international agreement ever formulated. Its purpose is to lay down rules to govern trade, and to provide for the creation of the ITO, within the framework of the United Nations, to interpret and administer the provisions of the Charter and to settle disputes that arise under it. The ITO would operate with respect to international trade in roughly the same way in which the International Monetary Fund operates with respect to currency matters. The issue is now before Congress whether or not to ratify the Charter. Time does not permit full analysis of this complicated document here. I believe that, despite many questionable provisions, acceptance of the Charter by Congress would be more likely to promote the realization of our national goals than would its rejection. With the exception of its provisions regarding international investment, the Charter should be ratified.

This brief review of American international economic policy during the past four years makes it apparent that the United States has embarked upon a definite and consistent course, from which it cannot now in good faith, or in good judgment turn. What are the further steps in the path we are traveling?

The Coming Creditor-Investor Period

As the goals of ECA are being approached, Western Europe is gradually moving toward a balancing of its international accounts with the rest of the world. The United States is in process of transition to what might be called the investor-creditor period of international economic relations. Increasingly, the Western European powers will be seeking markets for the increasing supplies of goods that their reviving economies are producing. Their "dollar shortage" must be brought to an end by rising exports accompanied by less rapidly rising, or even falling, imports. British, French, Italian, and German factories will be competing more intensely with American producers in world markets as time goes on.

Profound changes in the volume and composition of our merchandise trade are occurring. With the revival of foreign agriculture and industry, exports of farm products, food, raw cotton and textiles are falling off rapidly. Exports of such commodities as mining machinery, agricultural, factory, and office equipment, and industrial chemicals are continuing at a high level with ECA financing. They will comprise a larger fraction of our merchandise exports from here on. American imports of such foreign products as coffee, cacao beans, crude rubber, furs, petroleum, newsprint, paper base stocks and apparel are high and increasing. The American export surplus—the balance of exports over imports—has declined drastically during the past year. It may be expected to fall further, in the absence of a material rise in American exports to other areas than Britain and Western Europe.

There can be no doubt that the large export surplus—which amounted to $9 billion during the calendar year 1947—played an important role in creating and sustaining the postwar boom in the United States. The overall economic effect of ECA, which first took effect in 1948, was not to add to inflationary demands for goods. It was to sustain aggregate demand, and to cushion a decline that would have come earlier in its absence. As ECA tapers off, this sustaining factor will be gradually withdrawn. This withdrawal is occurring at a time when domestic demands are falling moderately and a general recession in production, prices, and national income is underway. It is true that the $16 billion national defense budget, added to the $1.5 appropriation for arms for Atlantic Pact nations and other new Federal programs, appear likely to operate as a counter-deflationary influence during the current and next fiscal years. The surplus of cash receipts over cash payments of the Federal Government amounted to nearly $9 billion in fiscal 1948, and was highly deflationary. It will be much smaller in the current fiscal year, and may disappear entirely or be replaced by a deficit in fiscal 1950. Thus the operations of the Federal Government are taking a sharp counter-deflationary turn. Whether or not they will serve to offset entirely the decline in private demand for goods and services is questionable.

With these considerations in mind, we may now examine three impending problems, the solutions to which will materially affect the domestic economy. They are: first, American investment in under-developed areas; second, devaluation of foreign currencies against the dollar; third, reduction of American tariffs against foreign commodities.

American Investments in Under-Developed Areas

Both political and economic pressures are likely to be strong for the development of substantial American investments abroad during coming years. An industrially-strengthened Latin America would be a much more effective component of Western Hemisphere defense in the event of war. Rising production and living standards in 'backward' areas in Asia, Africa and other regions would be a bulwark against popular dissatisfaction with the existing order and the spread of Communism. If ECA is successful in putting Britain and Western Europe on its feet, American investment in other areas would appear to commend itself as a logical successor. In addition, business recession and growth of unemployment in the United States may appear to make such a program attractive as an offset to shrinkages in domestic markets. No doubt President Truman considered these matters when, in his inaugural message, he called for "a bold new program . . . for the improvement and growth of under-developed areas."

It is probable that American investments abroad will greatly increase during coming years. At the same time the development of such investments on a large scale will take more time and involve greater difficulties than are generally realized. We are speaking here of "investments" rather than gifts. This implies careful calculation of the economic values of projects, and plans of financing that are likely to "pay out." It would be easy enough, of course, to give away American goods and services without limit. But the American public is not likely to support an international WPA, even if a serious business recession occurs. It will in those circumstances, probably prefer a domestic WPA. Foreign observers overlook this point when they argue that there is a chronic tendency toward under-employment in the United States, which may be overcome only by donating our surplus production to other lands.

An exploration of the problem of financing investment in underdeveloped areas was recently made by the Joint Brazil-United States Technical Commission. The Commission points out that the undeveloped country must itself finance a large part of its development. Its own government must first create an environment of law and public administration that promises sufficient security and incentive to investors, both domestic and foreign, to direct their capital into needed projects. Much of the economic development requires large outlays on permanent or durable capital improvements, such as drainage canals, railroads, highways and electric generating plants, the returns from which must be spread over long periods of time. American investors properly demand assurances that foreign governments and citizens will respect their obligations, and that American properties will be safe from expropriation, confiscatory taxation, or damage from civil disturbances. The difficulties of providing these assurances will be increased by the fact that many foreign governments are vigorously pursuing collectivist policies. They will be further increased by the fact that many foreign peoples entertain suspicions—fanned industriously by the Kremlin—that they are the objects of "Yankee imperialism." So far the International Bank has not been widely employed, because countries with good collateral have not wanted to borrow, and those with poor security have not qualified.

It is easy for Americans to misconceive the nature of the process of economic development of backward areas. We think in terms of this country, with its advanced production technology, continental mass markets, and high living standards. But the "backward" economies are preponderantly oriented to the agricultural and extractive industries. The productivity of their labor is brutally low. There is "full employment" because nearly all must work to sustain life. The process of economic development must start with these concrete conditions. Its keystone is to raise the productivity of labor in agriculture. This will augment the quantity and quality of food and clothing, and at the same time release workers for industrial pursuits. It is a matter of soil and water conservaion, insect and disease control, fertilizers, and equipment for producing and transporting products of the land. Realistic development programs will therefore initially stimulate American exports of rail, water and highway transportation equipment, tractors and farm implements, electrical apparatus, excavating machinery and fertilizers. They will not much affect our exports of automobiles, television sets, or automatic washing machines.

One may predict with assurance that the pattern of American investment after World War II will differ markedly from that which followed World War I. Large public offerings in the United States of the bonds of foreign governments and corporations, such as were witnessed during the Twenties, will be infrequent. Most of the debt financing will be done through the guaranteed bonds of the Bank for International Reconstruction and Development. A much larger proportion of investment will take the form of equity capital, representing purchases of stock by American business enterprises in foreign corporations, in foreign subsidiaries of domestic corporations, or in direct construction of branch plants. Moreover, it is likely that a good deal of such foreign investment will represent "partnership capitalism"—the joining in common enterprises of American private capital and engineering and production talent with the capital and man-power of foreign countries. This will entail the migration of technically-trained Americans to residences in other parts of the world. It will provide outlets for the talents of many capable men and women, and career opportunities for graduates of our university schools of business and engineering.

This new pattern of foreign investment, which we see exemplified today in Mexico, Brazil, and Arabia, will be free of many evils of the old pattern. It will avoid uncontrolled use of American funds by irresponsible foreign governments. It will circumvent the frictions arising from the accumulation of bond interest due on fixed dates. It will help to provide assurance to American investors that their properties are secure, because the foreign partners can deal more effectively with their respective governments. It should also allay the fears of foreigners that they are economic tributaries to this country, because their own nationals will be participants in American-financed enterprises, will be learning to operate complex undertakings, and will be winning their economic independence.

To conclude: American investment in other lands will assuredly become an important expansive factor to domestic business over a period of years. But it would be a serious mistake to suppose that it will soon be an active stimulant.

Devaluation of Foreign Currency Units

Another problem of foreign economic policy looming on the horizon is devaluation of foreign currencies, and the establishment of new official rates of exchange between these currencies and the American dollar. The British pound Sterling, the French franc, the Argentine peso, the Brazilian cruziero and other currencies appear to be over-valued in terms of dollars at present official rates. This over-valuation seems likely to increase rather than to diminish during the next few years. The dollar is now quoted unofficially at higher than official prices in many countries. There is said to be a "dollar shortage" in most parts of the world, reflecting an imbalance in current international payments. (This might better be called a "production shortage" on the part of many foreign countries.) The ECA countries are now, and will continue to be, under great pressure to increase their exports and to reduce their imports. For the time being, ECA assistance is preventing the "dollar shortage" from appearing to be acute. As it tapers off, the support it is giving to foreign currencies will vanish. Most of the Latin American republics boomed during the war years, when their goods found eager markets in the world. Now, they are finding it difficult to export enough to pay for the high level of imports to which their economies have become geared. The present problem is becoming more difficult because prices are falling in the United States, and will probably continue downward for some time.

Foreign countries could take several actions to reduce imports, expand exports and thus protect their remaining reserves of gold and dollars. They might raise their tariffs against imports in general, or at least against imports that had to be paid for with dollars. This would be an unfortunate action—and in the long run an ineffective one—because it would invite retaliation and start the world off on the road to economic autarchy that it traveled during the interwar years. A second possibility would be for dollar-deficient countries to expand exports by cutting their costs through greater productive efficiency and anti-inflationary fiscal policies. While the productivity of foreign labor will rise, it is likely to rise in the United States at least as rapidly. The internal price levels of foreign countries are under close government control and their governments will not find it politically feasible to pursue a deflationary policy.

A third course would be to change the dollar price of gold—now $35 per ounce. But no change the United States could make would solve the balance of payments problems of all countries. Gold producing countries like South Africa would benefit by selling their metal to the United States Treasury at a higher price. On the other hand, the ECA countries, which produce little gold, would benefit from a lower price because it would stimulate their exports of goods to the United States. Clearly, this country should not raise the price of gold, for this would merely subsidize gold producers, lead to the accumulation of more sterile metal here, and aggravate the difficulties of the principal trading nations. Neither should the United States lower the price of gold, for such action would fail to provide the right amount of readjustment between the dollar and the currency unit of each foreign country that its particular circumstances require.

There remains, then, a fourth course. This is devaluation of foreign currency units in terms of the present American dollar, to the extent required by each nation's international position. This is the least objectionable, and the most probable, way out of the present impasse.

The effect of devaluation will clearly be unfavorable to many sectors of our economy. Thus, should the British pound fall to $3.60 or less, American businesses would immediately face stiffer competition from the cheapened British woollens, clothing, chinaware, etc. On the other hand, American agricultural products, automobiles, etc., would become more costly to Britishers. Nevertheless, devaluation is rather clearly indicated. Its consequences should be frankly recognized and appropriate adjustments made.

Reduction of American Tariffs

For the same economic reasons that are likely to produce devaluation of many foreign currencies, further reductions in American tariffs are probable. Indeed, to the extent that American tariff reduction facilitates larger imports of goods from other countries, the pressure for devaluation of foreign currencies will be lessened. In view of the long history of trade protectionism in this country, and the strong interests supporting it, tariff reduction will be resisted strenuously. However, substantial reductions have been made in our tariff barriers during the past ten years under the Reciprocal Trade Treaties Act, in return for tariff concessions by other countries. Our long run national interest would be promoted by further cuts in trade barriers. They would give other countries confidence in our willingness to accept the logical consequences of our creditor status in the world. Foreign debtors may only meet their obligations through shipments to us of goods, services, or gold. There is a limit to the amount of sterile gold that we should desire to bury under Fort Knox. If we accept more foreign products, we must recognize the inevitability of contraction in certain domestic industries where this country lacks a comparative advantage in costs of production. Textiles, apparel, handicrafts, and luxury industries may lose part of their domestic markets. A counter-balancing factor will be the expansion of electrical and mechanical equipment industries, in which the United States possesses a comparative advantage in production costs. These shifts will not be painless. But they should be accepted as a consequence of the role of leadership we have assumed in reestablishing a free and interdependent world economy in the twentieth century. They will help create higher living standards for Americans as well as other peoples.

The Future Impact of Foreign Policy on the American Economy

We have reviewed the major economic elements of American foreign policy. We have noted some of the next few steps that follow logically from our present international position. If our analysis is correct, the total impact of foreign transactions on the United States during the next two or three years will not move in an inflationary direction. It will move in a deflationary direction. Our export surplus will decline further, as a result of tariff reduction, foreign currency devaluation, and a revival of British and European industry. American investment in "backward" areas will gradually take on large dimensions. But its near-term influence will not offset the other factors in the equation. Barring another war, the probabilities are that many years will pass before the United States builds up, through foreign investment, as large an export surplus as it currently has. Equally important, the composition of our trade will change and produce important repercussions on particular American industries.

Taking a longer view, the United States is destined to become a great capital-exporting nation. Foreign investment will absorb American savings and operate to lift domestic employment and production. Our eyes should be fixed on this distant prospect, for that is the responsibility of leadership.

With Floyd A. Allen Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Francis J. McKeadney has become associated with Floyd A. Allen & Co., Inc., 650 South Grand Avenue. Mr. McKeadney was formerly with John B. Dunbar & Co. and C. E. Abbett & Co.

Business Man's Bookshelf

Day of Judgment—The Political and Economic Challenge to the West — David Cushman Coyle—Harper & Brothers, 49 East 33rd Street, New York 16, N. Y.—cloth. —$3.00.

1949 Commodity Year Book—Features several original research studies in addition to the annual statistical and chart compilations for each of the basic commodities of agriculture and industry, including a study on "How Commodity Prices Move" — Commodity Research Bureau, Inc., 82 Beaver Street, New York 5, N. Y. —$10.00.

New York Laws Affecting Business Corporations—Annotated and revised to April 30, 1949, and containing the amendments of the legislative session which adjourned March 30, 1949—United States Corporation Company, 160 Broadway, New York 7, N. Y.—600 pages, paper cover—$2.50 per copy postpaid.

Everything's OK Says the NASD—But the Dealers Say Otherwise

(Continued from page 3)

CHICAGO, ILL.

We have not signed our name to this questionnaire and the reason to you is obvious. The Gestapo of both the NASD and SEC would be into our place within 48 hours looking for some technical error and disrupting our organization, asking for trite things and records five or six years old. How long, Oh Lord, are we going to pay to be regimented and what in the hell is a man going to do if he cannot buy or sell securities with other brokers unless he is a member? If ever anything was a violation of the Sherman Anti-Trust Laws and the Constitution of the United States, this vicious NASD and SEC is. We predict that the securities markets will entirely dry up unless something is done about abolishing these two vicious agencies and everybody will have to go to the government to borrow money. Maybe that's what the New Deal wants. If they can control the finances of the country, everything else is easy.*

CHICAGO, ILL.

Don't like snoopers. They come in our office once every so often and take up my time and our cashier's for one or two days. It's hard enough to pay expenses without losing this time for no good. Hope you succeed in your plan.*

CHICAGO, ILL.

We don't need the NASD and we could remove this bureaucratic barnacle from our business without formality by merely resigning in large numbers and thereafter do business with non-members. What some people forget is that the dues of the NASD are based on volume which means that the NASD places a tax on every transaction entered into by every member. It is in effect, a hidden tax on our business which is already **overtaxed**.—P. S. Keep up the good work on this campaign in the interest of all dealers and we can eventually smoke them out.*

CHICAGO, ILL.

Am coerced into being a member otherwise we could not handle investment trust shares with dealers' concession.

CHICAGO, ILL.

The least government is the best government.

CHICAGO, ILL.

The NASD should be abolished. It's a Frankenstein monster that should be eliminated at the earliest opportunity. What can we do to help end the NASD? *

CHICAGO, ILL.

In my opinion the average securities dealer has been coerced into joining the NASD, **because** of the punitive restrictions restraining him from trading wih a non-member. The organization is nothing more than a dual set-up of the SEC and parrots that governmental agency in every respect. The Dealer member of the NASD is forced to pay dues to that organization, so that he may be harassed and bothered by continual snooping. If there is a need for an organization to represent the Securities Industry, then that organization should function like other industry organizations to build good will with the public rather than to publicize that some dealer-member has been chastised.

CHICAGO, ILL.

A better understanding of the working methods of the NASD would be a great boon to the entire industry. This can be obtained only at some expenditure of effort—it is therefore so much easier to criticize which takes practically no effort.

SMALL INDIANA TOWN

We don't believe in too many restrictions in any business. However the sharp practices in this business in the period of 1920 to 1930 brought the present restrictions with the SEC and NASD. If we must be regulated we don't believe the present set-up is too bad. We have nothing to hide and our operation has always been an open book.*

FORT WAYNE, IND.

I'm in full agreement with Herbert D. Seibert.*

LOUISVILLE, KY.

We fell you are doing great work in your efforts to abolish the NASD. We resisted joining this organization when it was first organized but, unfortunately, we were compelled to join since the alternative would have been to force us to go out of business. We feel that the NASD has practically no value to the dealers or the investing public and is merely an instrument to harass dealers who are trying to do an honest business.*

BANGOR, MAINE

The run of the mill security dealer may answer **no** to your first three questions on the reverse side of this paper but for the long run good of the business, I feel that the NASD is doing a good job and have helped the industry clean house. It is better for the NASD to do this rather than the U. S. Government—and we are better off.*

GRAND RAPIDS, MICH.

We further seriously object to paying our portion of the money collected to keep this organization in vogue.

GRAND RAPIDS, MICH.

The functions assumed by the NASD overlaps those of the State Securities Commissions and the SEC. It is just another bureau which should be abolished.

DETROIT, MICH.

The NASD is a redunant regulatory body. There is neither logic nor excuse for it. It fills no need. For personal reasons, I cannot sign. Most of us are yellow like me, afraid to stick our necks out, and friendship also interfere. Our books are inspected by SEC and State Commission. What more inspection is required? The Revenue Dept. has a book too. Thanks for your exertions, don't quit.*

DETROIT, MICH.

I, personally, consider the NASD a duplicate bureau. In Michigan, we have the SEC and Michigan Corp. & Securities Commission. If the latter two do a good job, the industry has plenty of regulation.

DETROIT, MICH.

I am in favor of a 10% spread yardstick.*

ST. PAUL MINN.

I have answered "Yes" or "No" to the queries posed in your questionnaire of April 4, 1949, concerning the NASD, and return herewith.

Your 4th query: "Do you approve of the trial system wherein the NASD acts in all of the following capacities: investigator, prosecutor, judge and jury?" impels me to amplification by letter. I do this the more, because as a consistent and careful reader of the "Chronicle" each week, I have come to the conclusion that your attitude to the NASD is extremely biased and unfair. (Before deciding to write this letter, I had written those very words in long hand after question 4, which it is impossible to answer. You have given your own answer to the query when you pose the question as you do.)

My protest may be more effective, if I am not immediately branded in your mind as a "New Dealer." I am a Republican. I never voted for Mr. Roosevelt or the New Deal, and you get a good slant on my general attitude when I say that I was one of the men in Minnesota who worked hardest, and among the top in the organization, to reelect Joe Ball to the Senate last Fall. I might also add that, while I have answered "No" to your 6th question: "Do you believe that the Maloney Act which made possible the creation of the NASD should be abolished?", I was one of the five or six members of the Board of Governors of The Investment Bankers Association of America in the year in which the Maloney Act was passed, who felt most strongly that the Association, and all Investment Bankers, should fight the enactment of that then Bill, to the limit.

I might also add that I have never been a member of any Committee, or been given any job of any kind by the NASD.

However, I have, as a member of the NASD, watched its work, and I think it has been good. (My only criticism would be that it has too high an overhead, and is mighty expensive to small Dealers like ourselves.) You are always hammering at the supervision of the NASD, not only in the examination of our books, but also of the 5% spread. Obviously there are many dealers, of whom we like to think we are one, who do not need that supervision. We attempt to do business in a high-grade manner, and take reasonable profits. Unfortunately, however, there are those in the business who do not follow sound business practices, whether wilfully, or through ignorance, and have no conscience as to profit margins. They have to be controlled, and I see no way in which it can be done as effectively as by the NASD. Even before the 5% rule was instituted, our average profit through the years, on unlisted equity transactions which were the bulk of our business, was less than 5%. I think before and since the rule was put into effect, 3% average is about right with us.

I like to make money as well as the next man, but it has always seemed to me that as an industry, we would do very much better if we bellyached less about the 5% limitations, and spent our time eliminating the extravagances which are the curse of the business. Take the trading houses for example. My impression up here in the north woods is that the average Trader in New York and Chicago, with even 5 shares of stock to buy or sell, promptly grabs the telephone and gets New York, or San Francisco, or St. Paul immediately. It is "big stuff," and the same thing applies to entertainment, expenses, travel, telegraph, and other things. It takes a good deal more than 5% to act like the President of the United States Steel Corporation.

I am wondering if our philosophy in this business isn't entirely wrong. We deal in substantial amounts. We associate with wealthy men. We live beyond our incomes, both in business and privately. As a result, we always want to make more money than we are, and yet I find that the income of most Investment Bankers compares very favorably with other lines.

Naturally, regulation is irritating, and many of the costs of government. If we are realistic, however, I think we must admit that for the average man, "times" are better than in the days of unregulated profit and competition, and despite the cries of most of us Republicans in the middle 1930s, the world hasn't gone to pot because of old age pensions and unemployment insurance.

ST. PAUL, MINN.

We think the entire "Gestapo" should be buried with Mr. Hitler and his gang. This NASD has been the worst curse that has ever come down on our business. I would personally like to try a few of the so-called judges who are running this thing. We have never been criticized or censored so we must live up to their dictates. The writer was elected a governor of the local group for 3 years but resigned at the end of a one-year term because it was so **rotten**.

ST. PAUL, MINN.

Why should the investment business be limited to a 5% mark-up, any more than the clothing business, grocery business, or any other business? Since this 5% mark-up rule has been in effect, we have had increases in the cost of rent, telephone, office help, stationery, printing and office supplies, including postage, but the 5% mark-up rule is the same, and our volume of business is substantially less, now. This unfair, un-American rule has to be repealed, or there will not be an investment business.

MINNEAPOLIS, MINN.

I am immensely pleased to see this questionnaire and it will be interesting to note the final tabulation on the questions. As a past member of the NASD Board of this district, I earnestly and sincerely hope that the Maloney Act will some day be abolished and with it the NASD.*

MINNEAPOLIS, MINN.

One rotten apple spoils the barrel. The NASD in my opinion has helped our business get rid of rotten apples.*

ST. LOUIS, MO.

Membership in NASD has raised the ethical standards of hundreds of small dealers through education and association.

ST. LOUIS, MO.

The Investment Dealers are "starving" due to small volume and inability to increase commissions to help meet higher costs of doing

(Continued on page 34)

*Commented Anonymously.

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

Intra-day break-through may lead to "surprise" reversal. Coppers show strong tendencies.

As this is being knocked out on the Underwood the market has still to prove if the bottom will hold or if it will resume its bear trend.

* * *

Last week the averages continued their brooding pattern, holding up above the 171.10 and 46.34 in the industrials and rails, respectively. One day last week they looked as if they would slip through, but a half-hearted rally came along and saved them. The rails sneaked through on the downside by a fraction but the penetration was too small to be decisive.

* * *

Right now the steels are getting a beating around the head. Some of the steel stocks are coming out in comparative volume at lower prices and according to the last reading the famed 171.10 has been broken.

* * *

This break-through brings to mind a popular belief that if the so-called double bottom is broken the market is through. Like all popular beliefs I think this one can be challenged successfully. If you will examine your markets for the past five-six years you will find that many rises have occurred after a previous secondary bottom has been broken. The common cry, fed by interpreters of averages, was that bottoms have to be tested before any move can develop.

* * *

Over the past few years many so-called bottoms have been tested, or at least they've been hit and broken without any immediate significance. On the contrary, there have been many cases where these tests were unsuccessful, only to be followed by rallies which were quite profitable.

* * *

Reasons for this are probably psychological. Support and resistance levels have been publicized so heavily that the rank and file follow them avidly. Market experience has shown that whatever is accepted by the public as almost axiomatic is almost certainly to work out differently than generally expected.

* * *

The current break-through will probably be another case in point. It will probably result in an immediate reaction followed by an equally sharp rally. With a large short position now present, such a rally can go further than strict technical signs indicate.

* * *

Among the stocks which can participate in such a rally are the coppers, with the possible exception of Anaconda. But stocks like American Smelters and Kennecott show better than good possibilities.

* * *

I have overlooked Dresser in the past few weeks. This was an oversight. What with one thing and another I frankly forgot about it. (J. S.: Please take note.) We bought Dresser at 21½ with a stop at 18. All during the indifferent markets of the past few weeks the stock has managed to stay above its stop. So theoretically we are still long of it. Stock is now about 21¾. Stop, however, should be raised to 20. Newport at 10, stop at 8½, still applies.

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.]

Everything's OK Says the NASD—But the Dealers Say Otherwise

(Continued from page 33)

business—as all other businesses have done. This is **one reason** why so many dealers and salesmen are getting out of the Investment business. The low volume is another reason, but even if the volume should be large, the dealer still should be able to charge higher commissions and thus make greater profits regardless of volume just as other lines.

KANSAS CITY, MO.

There is nothing democratic nor in the interest of free enterprise in such a set-up. It is an individual police system. It reminds one of the story of the Irish policeman who arrested and beat up a fellow. As if it was sufficient excuse for doing so, he told his victim, "I don't 'bate' you because I hate you, but because I have the authority."

SMALL MISSOURI TOWN

The whole theory of the government or associations created under the act of Congress having power to regulate profit is in my opinion unsound and against public policy. If the rule limiting profit is just in one business it is just in all businesses and professions. If a "5% spread" yardstick is good in the bond business why isn't it good in other businesses and why should not the government regulate in a similar manner the charges and fees of doctors, lawyers and engineers. In other words extend this theory of government regulation of profit to its logical conclusion, i.e. let it apply to all alike and you get a police state with half the citizens being paid to check up on and regulate the other half—then perhaps the public would see the unwisdom of this theory of profit regulation.*

ST. LOUIS, MO.

Keep up your courageous work—both for the dealers and everyone concerned.—(Signed) Still suspicious of the "Big Bad Wolf."*

SMALL NEW JERSEY TOWN

We agree wholeheartedly with your efforts in this cause. But we also believe that it would be extremely unwise for an individual dealer to openly express the same views or sentiments.*

SYRACUSE, N. Y.

Your work and willingness to show your hand is highly commendable. The little fellow is helpless.—(Signed) A member NASD.*

ROCHESTER, N. Y.

I believe the rules should be changed, so as to simplify the financing of small companies, also to simplify the records of small dealers.*

BUFFALO, N. Y.

Your editorials on the SEC and the NASD are appreciated. I think that the "Fraud Clause" that is demanded to be on all prospectuses is a disgrace to all dealers and I still flinch when I read it. One physician was frightened out of purchase of investment trust shares because he read it. I think firms who are registered by the SEC and members of NASD should be allowed more leaway in ads and offerings should be allowed to be made without the prospectus. Let them get the prospectus when bonds or shares are deilvered, not before unless they demand it. Please excuse length of this.*

BUFFALO, N. Y.

Every unlisted dealer we have discussed the NASD with are 100% in favor of resigning from the NASD, why not send a questionnaire to every over-the-counter house, with one question: "are you in favor of resigning from the NASD," make it clear their answer to that question will be held in strict confidence, to get the true picture, request that the questionnaire be signed. I believe you will find at least 90% will be in favor of getting out. An organization should then be formed consisting of **ONLY** over-the-counter firms who are non-members of any Exchange. Underwriters of securities would be forced to recognize such non-NASD members for participation in new issues, otherwise they would find plenty of difficulty in selling their new issues. I suggest you ask the dealers to subscribe a nominal amount to finance the expense of one man to cover New York State dealers, get an accurate picture of just how the dealers feel about getting out of the NASD. The cost would be very little, and the results would be of tremendous benefit to the unlisted over-the-counter dealer.*

BANGOR, MAINE

We have not been handicapped in our business by the SEC or NASD. In some ways such as bookkeeping methods, annual reports, they have helped us. We think 5% is too great a profit on the average seasoned unlisted security. We are much more concerned with the courts which allow a 25% minority group to be forced out of a just and valid agreement or promise to pay by a 75% majority, such as is happening in the railroad and utility preferred picture. A promise to pay is no longer an obligation to be upheld by the courts!

SMALL MARYLAND TOWN

As far as I am concerned, my books are always open for examination, which will reflect my business conduct. I do believe in the necessity of some law to curb those of unscrupulous tendencies, such as the SEC and since we do have the SEC, it appears to me that the NASD is a duplication that could be done away with.*

BOSTON, MASS.

We live up to the rules of the NASD and have not been hurt by it—but we think the whole thing is wrong in principle.

ST. PAUL, MINN.

I have not had occasion to write you before, but I want to state now that I have been in the business now for over 35 years and to a great extent I disagree with most of your comments and criticisms of the NASD. Having been a member of the old group formed under the National Recovery Act and later on a member of the NASD, I have always looked upon our present Association as a voluntary policing organization where things could be corrected without having to go through the courts, as one would have to do under the SEC.

Specifically, as to the 5% limitation on profits or commissions, I have never understood that that 5% was a final limitation but rather a guide, and that any commissions beyond 5% on a transaction would have to be explained and justified. In my years of experience I know perfectly well, and you know, that there have been many many houses that have always charged all the traffic would bear, and where it came to charging a commission to somebody who knew nothing at all about what they were buying or selling many times the commissions have been unconscionable. We have never had any trouble in our company in making commissions on our transactions.

I know that for many years when I was active in the IBA on their various committees, and for four years a member of the Board of Governors, one of the burning questions was how to control members of the Association who were doing many things that were not contrary to law but manifestly unethical and how to control them from unconscionable commissions or fees for doing business. The mere fact that later on the NASD was formed to permit the industry to regulate itself and not have to go through the courts to do it, was to me one of the most satisfactory solutions to a situation that had plagued our industry for a good many years.

I would be very much interested in knowing just what the result of your questionnaire proves to be.

MINNEAPOLIS, MINN.

In many cases the 5% mark-up may be O.K., but it does not allow a dealer doing a lot of extra work in a special security the commission he is entitled to. If the rule were more flexible, it could help our industry.*

DULUTH, MINN.

Re: Question 3—if examination is made with the primary purpose of being helpful to the dealer, we approve.

SMALL MINNESOTA TOWN

I have long felt the Maloney Act should be repealed. I am not against the idea of an organization of dealers which looks out for the welfare of our business and its clients, works to protect the business from unwise legislation and Bureaucratic interference. If the NASD were legally abolished in its present form it would be necessary for us to form some sort of organization for our own protection. My answers to your inquiry about questionnaires may seem the opposite of answers to other sections of your inquiry. However, I think such questionnaires are useful in informing members of the average spreads in various types of securities. To be useful such averages must be broken down to show spreads on various types of transactions and issues. Simply saying 5% average is foolish—as 5% on some things is excessive while 5% on others will destroy the market for the issue. I am interested in such questionnaires as a matter of information and standards rather than a means of policing. Let's let the SEC and the State Commissions do the policing, and make the decision of where profit ends and fraud begins, so that their decisions can be judged in some Court of Appeal. I think that an organization of Securities Dealers should be one in which it is an honor to belong and a matter of prestige for members. It should not be a closed shop union to which everyone in the business must belong. I think the NASD should be abolished along with the Union Closed Shop. There is not a lot of difference between the NASD and many union rackets, except that we look more like a bunch of stuffed shirts than does the union.*

PROVIDENCE, R. I.

Isn't it strange that the Banking industry which is so quick to condemn vested bureaucracies of a political nature, should have created for itself a vested bureaucracy like the NASD? We confess that we cannot see how this Frankenstein, nourished by our own contributions, is to be destroyed. Certainly the beneficiaries of the beast will do all in their power to keep him alive and healthy! We wish you all the luck in your most commendable fight. When it gets to the point where a little fellow like ourselves can join in the battle without danger of being put out of business, we'll join you 100%. Till then, our kids have to eat and we, frankly, can't afford to be martyrs to the cause.*

SMALL SOUTH CAROLINA TOWN

We are members of NASD because we are forced to be, I have

*Commented Anonymously.

not as yet received any benefit from same. I have been in business over 40 years, I have never had a law suit with a customer, and endeavor to treat both buyer and seller justly, and have done so, hence I do not feel I need a hammer hanging over my head, such as I construe NASD as being.

DALLAS, TEXAS

Think NASD and Maloney Act are unfair and unconstitutional, and a waste of time and money.

SALT LAKE CITY, UTAH

Keep up the good work!*

SMALL WEST VIRGINIA TOWN

SEC laws should be revised and the courts or Justice Department receive power to act.*

SMALL WISCONSIN TOWN

I have read the "Chronicle" for upwards of 25 years. I had tremendous respect for Mr. Jacob Seibert. I have been disappointed in the attitude of the "Chronicle." In the years that I have been in the business, the rules have been constantly tightened, and by and large I think the change has been for the better.

MILWAUKEE, WIS.

Keep up your good work.

MILWAUKEE, WIS.

Gentlemen, No. 2, 3, 4, is a joke. Last year an auditor of the NASD copied a list of transactions from my books on one of these questionnaires. After about two months I receive a telephone call from one of my competitors to drop in and see him. I believe I turned white in anger when my competitor held that questionnaire in his hands and said: "It is my duty, etc.; etc., to question you about two or three transactions." **Mind you 40 or 50 of my transactions in the hands of a competitor!** I protested and ripped into the "Nasty" so loud that I have not heard a word from them after that.*

Business and U. S. Way of Life

(Continued from page 7)

ernmental regulation or rule upon business. I am not of that school. I know what toil and worry and sacrifice goes into the building of a successful business. It is hard to create it; it is easy to destroy it. The government official should hesitate to force his personal economic views upon any part of our business activity. We have laws upon the statute books dealing with monopoly and unfair trade practices which represent the considered judgment of the Congress and reflect the overwhelming sentiment of the American people. These laws should be rigidly and impartially enforced. Business men, however, should not be used as economic or social guinea pigs. They have troubles enough as it is! The government official who has certain ideas of what might be good for the nation and for business should cultivate a certain humility with reference to his own ability to solve problems with which he has had no personal or practical contact, and should not lightly and nonchalantly undertake to control or tinker with the delicate mechanism of American business.

Desire for Profit Beneficial

You have heard occasionally of theories regarding goals of production and possible capacity for industry, including the steel industry. My own belief is that the normal desire of business men to make a profit will operate to increase capacity where that increase is needed. If over any reasonable period of time our industrial machine is grinding to a halt because of a stubborn and unreasonable refusal of steel men to produce what the economy demands, I would be willing to advocate and support drastic measures to prevent that unfortunate result. I see no reason at this time to feel that such an occasion will arise. The steel industry during this last year has produced far beyond the estimates or even the dreams of any economist or statistician two years ago. During the early weeks of this year you were producing continuously beyond 100% of theoretical capacity. By reason of lessened demand that amazing production is down at this time. I believe, however, that when the demand returns your ingenuity and energy will be equal to it.

We continually face, in a discussion of our economic and social problems, the need to define the line which marks the limits of governmental assistance or action. This line is at times difficult to draw and there are occasions when joint action by government and industry is desirable. I have had an opportunity personally to direct and participate in a program of cooperation in connection with the steel industry under the provisions of what is known as the Voluntary Agreements Program. The need of these agreements is subsiding, and I have curtailed the government activities as promptly as the changing circumstances would permit. While the problems have been difficult and our viewpoints have not always been the same, good sense and good faith on both sides have made this program an outstanding success. The steel industry can rightfully be proud of the part it has played.

Business Activities Should Be Left to Business

I have indicated clearly my opinion that most business activities in this country should be left to business. I wish to point out, however, that business must appreciate the responsibility which it carries. Other countries have surpassed us in art and architecture and have matched us in other human activities. In no other country and at no other time, however, has the quality or amount of our industrial production been approached. It is the outstanding characteristic of our free America—of our capitalist system. You business men carry a major portion of the responsibility for seeing that this characteristic of a free America contributes at all times to the maintenance of a system under which all men enjoy a better way of life.

If our system is to be preserved, we must be on guard; we of the government, you of business. We of the government must root out disloyalty in our Federal service. We must undertake to strengthen and support legitimate business effort. You of business must recognize the appeal of the underlying communist slogan that the common man is the important man in our world of today. Capitalism cannot attain lasting success if it benefits a few as distinguished from the many. It must defend itself and promote itself by demonstrating—as contrasted with theorizing—that it and not communism provides greater benefits for the many.

In the demonstration of the benefits for the many, however, what we must have are the facts. Is the American working man vastly better off than the inhabitant of a communist controlled country? Does he have more creature comforts? Does he have more liberty? Is he happier? The question is, what are the facts? The very fact that Russia refuses to let the truth be known about the workings of its government and its economy indicates clearly her fear that the facts cannot be faced.

Must Be Ready to Face Facts

If I were to lay down one fundamental in a future program for the American people it would be this—we must at all times be ready to face the facts. We cannot live in Wonderland. We must be willing to tell ourselves the truth. Public men, in particular, must be willing to tell the truth. The truth is sometimes unpleasant, but it is a safe basis on which to plan. In Churchill's great speech to the British people at the time the Germans were threatening invasion, he did not voice one pleasant sentiment. He offered them only blood, sweat, toil, and tears. Their reaction was magnificent. I believe the American people are as capable of listening to the truth as the British.

One truth which should be told the American people and which the President has repeatedly stressed is that a sound financial system is imperative. The integrity of our currency is absolutely essential. Failure to maintain it opens the quickest and surest avenue to destruction. Lenin said many years ago that the certain way to destroy the capitalist state was to debauch its currency. If maintaining our financial integrity requires extra taxes, we must face the music and pay them. If it requires rigid economy in civil or military expenditures by government officials, we should tighten our belts and practice it. If it requires a recognition by the farmer that there are limits to government subsidy, by the worker that he must exercise restraint in his demands, the farmer and the worker should face up to the facts and share the common burden. If maintaining a sound financial system requires a reduction in the bounty which we extend to other parts of the world, that reduction must take place. There is little point in giving temporary aid to other countries if in the process we bring about the permanent weakening of our own.

We have talked about preserving our way of life—our American economy—our capitalist system. What is this thing which we propose to safeguard and preserve?

We are today the greatest nation on earth. Our standard of living is, or could be, the envy of the world. We produce better goods and services for our people than any other economy in history. We have but 7% of the world's population. We operate 30% of the world's railroads, own more than 50% of its radios, 60% of its telephones, and drive 80% of its automobiles. The production of electrical power in the United States today is equal to the human power of 1½ billion men working eight hours per day—more than ten times our entire population, 6,000 times the number now employed in producing that electric power.

Individual Initiative Greatest Factor in Progress

Whether our technical skill, our inventive genius, our business efficiency, or the bounty of nature produced this amazing result is difficult to say. Certainly, the freedom to exercise individual initiative was the greatest single factor.

In the face of this incredible performance, well may we ask ourselves, "Have we reached our limit?" The answer is, "We have not reached our limit." We live in a moving, dynamic world. No group, including business, can remain static. Times change, our problems change, our attitudes must change. The most amazing phenomenon of communist activity is the fanatical zeal which seems to motivate its followers. That zeal has its real basis, as I stated before, in a feeling that somehow or other the communist theory glorifies the common man as against the man who enjoys special privileges. We feel that capitalism is vastly superior to communism. Saying so, however, does not make it so. We must be sure that our system is better and is kept better.

We may believe that our present happy living was produced by rugged individualism. While that may be partially true, having come to that conclusion we should not relax or neglect to face the problems which confront us on the theory that rugged individualism will provide all of the answers. Time marches on. New ideas are continually presented. It is a mistake for business or those men who represent it to attack every proposal for social betterment or government help designed to promote the general welfare. I am not suggesting that business men abandon arguments against innovations which they feel will wreck the Treasury, or will in the long run produce want and misery instead of wealth and happiness. Those arguments are legitimate, and if honestly held, those beliefs should be presented. We must, however, not oppose change on the theory that we are so well off now that we cannot improve. Furthermore, your decision to support or oppose any new program should be based on the theory that business men as well as others are supporting the concept of the general public welfare and the benefit of any program to the common, or the average, man.

We hear much these days of a "planned economy." I am against the thing which that phrase sometimes describes. I, however, am against a completely "planless economy." It would be the height of folly for our government to refuse at any time, under any circumstances, to undertake to improve the common lot on the theory that individual initiative, or the bounty of God, or plain luck, would eventually produce a good result.

So far as lies within our power, you business men and we public officials must endeavor to solve two serious problems. One has to do with the natural yearning of every man and woman for some security in times of trouble and in old age. Our capitalist system has already done much along that line. The other one deals with avoiding the twin dangers of inflation and deflation. The President, in his State of the Union Message, said: "This objective cannot be attained by government alone. Indeed, the greater part of the task must be performed by individual efforts under our system of free enterprise. We can keep our present prosperity, and increase it, only if free enterprise and free government work together to that end." As you all know, communist propagandists have predicted, and await with anticipation, a collapse of our economy, which according to their doctrine is inevitable. I am sure you agree that any planning which can be done to prevent this result is highly desirable.

There are limits to what either you or we can do. At the moment we have come from a high inflationary peak to what might properly be described as a normal plateau. In the first quarter of this year income was slightly above that of a year ago, although substantially below the preceding quarter.

We can, however, each make a contribution to the maintenance of a sound economy if we do what we can to prevent business men and citizens generally from ill-considered, frightened action. We are now in what is called a "buyer's market," when the competitive American system is having its chance to prove itself. Our economy is very strong, American business is in a most healthy condition, economic activity is at a high level and can remain so. We should not, of course, expect no change or transition, or hope that we can avoid an occasional hard knock. Our people, however—and in particular our business men—should keep their heads, and as a great banker once said, "Never sell America short." On the other hand, business can properly ask that government refrain from doing those things which business can do itself, or which would have a depressing and harmful effect upon the very activities which business is trying to maintain. Business, in turn, should realize that neither the American people nor the government wish any stone left unturned in order to prevent a repetition of the unfortunate experiences of the early '30s.

Today, in spite of a slight letdown in activity, America is strong and most Americans are happy. We have been blessed beyond any other nation in history.

Business men may complain about taxes but are able to indulge every fancy for pleasant living that modern invention and discovery have provided. Our working men enjoy greater ease and luxuries and comforts than many rich men in other lands. Our farmers not only enjoy the satisfaction of living on the land but have the use of every modern invention as a part of their daily lives. We do not want this happy condition to change. If it does, not only we but the entire world will suffer.

Today the whole world looks to us for strength and assistance—cries to us for help. That help we are giving and want to give within the limits of our resources. Once our strength is sapped, however, it will never return. If we let this present capitalist system collapse, the imagination of man is not vivid enough to picture the result.

I am not foolish enough to feel that any exhortation will take the minds of Americans off their daily problems and minor disagreements and concentrate them wholly on any great question of social or economic ideology. We must expect contests within our own ranks, arguments between workers and employers, battles between political parties. In all cases, however, we should keep in mind the fact that whatever shortcomings the other side may have, however imperfect our system may be, it is so much better than any other system which the world has ever tried that we should let nothing destroy it.

We are all in the same boat. If that boat sinks, we all go down together.

If we recognize that our American system has imperfections which we will try to remedy and shortcomings which we will endeavor to overcome; if we realize that no sacrifice is too great in order to preserve it; if we set no easy limit for the goals which we have not yet but sometime hope to attain, we can perchance in the far off years of the future produce a society here and throughout the world whose characteristics will not be intolerance and war, but benevolence and peace; where all men and women can live happily and free; a world which H. G. Wells prophesied many years ago when he said that "man will stand upon this earth as on a footstool and laugh and stretch out his hands among the stars."

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)	June 5	91.8	94.1	97.3	96.0
Equivalent to—					
Steel ingots and castings (net tons)	June 5	1,692,300	1,734,700	1,793,700	1,730,400
AMERICAN PETROLEUM INSTITUTE:					
Crude oil output—daily average (bbls. of 42 gallons each)	May 21	4,903,900	4,899,350	4,915,950	5,439,200
Crude runs to stills—daily average (bbls.)	May 21	¶5,307,000	5,216,000	5,188,000	§5,587,000
Gasoline output (bbls.)	May 21	18,230,000	17,506,000	17,595,000	§17,248,000
Kerosene output (bbls.)	May 21	1,776,000	1,706,000	1,915,000	§2,129,000
Gas oil and distillate fuel oil output (bbls.	May 21	6,177,000	5,821,000	6,087,000	§7,106,000
Residual fuel oil output (bbls.)	May 21	8,354,000	8,519,000	8,246,000	§9,284,000
Stocks at refineries, at bulk terminals, in transit and in pipe lines—					
Finished and unfinished gasoline (bbls.) at	May 21	120,469,000	*121,268,000	124,749,000	§106,934,000
Kerosene (bbls.) at	May 21	20,664,000	19,750,000	18,361,000	§14,885,000
Gas oil and distillate fuel oil (bbls.) at	May 21	54,282,000	52,476,000	49,775,000	§37,333,000
Residual fuel oil (bbls.) at	May 21	63,080,000	61,993,000	60,207,000	§54,452,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	May 21	773,911	771,736	769,336	879,177
Revenue freight received from connections (number of cars)	May 21	609,454	608,993	618,763	700,560
CIVIL ENGINEERING CONSTRUCTION — ENGINEERING NEWS-RECORD:					
Total U. S. construction	May 26	$193,679,000	$157,773,000	$145,936,000	$189,903,000
Private construction	May 26	95,840,000	59,023,000	59,077,000	99,513,000
Public construction	May 26	97,839,000	98,750,000	86,859,000	90,390,000
State and municipal	May 26	72,728,000	83,724,000	71,465,000	70,636,000
Federal	May 26	25,111,000	15,026,000	15,394,000	19,754,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	May 21	11,135,000	*11,065,000	11,355,000	13,712,000
Pennsylvania anthracite (tons)	May 21	1,050,000	997,000	802,000	1,183,000
Beehive coke (tons)	May 21	133,700	*149,000	147,200	148,200
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100	May 21	280	*285	266	295
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	May 28	5,270,161	5,255,272	5,303,841	5,076,025
FAILURES (COMMERCIAL AND INDUSTRIAL)—DUN & BRADSTREET, INC.	May 26	206	172	204	112
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	May 24	‡3.705c	‡3.705c	3.708c	3.211c
Pig iron (per gross ton)	May 24	$45.91	$45.91	$46.57	$40.51
Scrap steel (per gross ton)	May 24	$22.08	$22.75	$22.92	$40.66
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	May 25	17.325c	17.700c	19.700c	21.200c
Export refinery at	May 25	17.800c	18.000c	19.925c	21.925c
Straits tin (New York) at	May 25	103.000c	103.000c	103.000c	94.000c
Lead (New York) at	May 25	13.000c	14.000c	15.000c	17.500c
Lead (St. Louis) at	May 25	12.850c	13.850c	14.800c	17.300c
Zinc (East St. Louis) at	May 25	11.000c	12.000c	13.000c	12.000c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Government Bonds	May 31	101.59	101.65	101.61	101.54
Average corporate	May 31	113.12	113.31	113.12	113.31
Aaa	May 31	118.60	118.80	119.00	117.80
Aa	May 31	117.40	117.40	117.20	116.02
A	May 31	112.56	112.56	112.19	112.56
Baa	May 31	105.00	105.17	105.00	107.09
Railroad Group	May 31	108.34	108.52	108.34	108.70
Public Utilities Group	May 31	114.27	114.27	114.08	114.27
Industrials Group	May 31	117.20	117.40	117.40	117.00
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Government Bonds	May 31	2.38	2.38	2.38	2.39
Average corporate	May 31	3.00	2.99	3.00	2.99
Aaa	May 31	2.72	2.71	2.70	2.76
Aa	May 31	2.78	2.78	2.79	2.85
A	May 31	3.03	3.03	3.05	3.03
Baa	May 31	3.45	3.44	3.45	3.33
Railroad Group	May 31	3.26	3.25	3.26	3.24
Public Utilities Group	May 31	2.94	2.94	2.95	2.94
Industrials Group	May 31	2.79	2.78	2.78	2.80
MOODY'S COMMODITY INDEX	May 31	343.1	344.8	342.2	427.2
NATIONAL FERTILIZER ASSOCIATION—WHOLESALE COMMODITY INDEX BY GROUPS—1935-39=100:					
Foods	May 28	219.2	215.1	215.2	238.0
Fats and oils	May 28	142.9	146.5	149.1	279.2
Farm products	May 28	234.8	229.1	225.0	265.9
Cotton	May 28	309.2	311.2	310.1	358.5
Grains	May 31	203.6	201.6	200.9	263.4
Livestock	May 28	233.3	224.3	218.2	257.1
Fuels	May 28	218.5	221.3	223.1	228.6
Miscellaneous commodities	May 28	163.7	164.6	165.2	177.2
Textiles	May 28	186.1	186.8	188.0	214.2
Metals	May 28	171.1	171.8	179.7	165.2
Building materials	May 28	212.5	212.7	213.5	232.9
Chemicals and drugs	May 28	137.6	137.6	137.6	158.6
Fertilizer materials	May 28	142.8	142.9	142.9	136.1
Fertilizers	May 28	150.5	150.5	150.5	143.8
Farm machinery	May 28	155.8	153.1	153.1	139.4
All groups combined	May 28	205.0	203.3	203.4	223.3
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	May 21	140,189	147,537	156,946	170,701
Production (tons)	May 21	161,307	166,639	159,884	189,359
Percentage of activity	May 21	77	79	77	100
Unfilled orders (tons) at	May 21	248,992	271,323	268,820	363,959
OIL, PAINT AND DRUG REPORTER PRICE INDEX—1926-36 AVERAGE=100	May 27	130.3	130.8	133.0	146.9
WHOLESALE PRICES NEW SERIES—U. S. DEPT. OF LABOR—1926=100:					
All commodities	May 24	156.5	156.0	156.1	164.5
Farm products	May 24	174.5	172.0	169.4	192.6
Foods	May 24	165.6	163.4	162.9	177.7
All commodities other than farm and foods	May 24	146.2	146.8	147.9	149.0
Textile products	May 24	136.1	138.8	139.3	149.1
Fuel and lighting materials	May 28	130.6	130.6	131.5	132.7
Metals and metal products	May 28	167.5	168.0	170.5	157.2
Building materials	May 28	193.4	193.6	196.5	197.1
All other	May 28	129.3	129.5	129.8	135.6
Special indexes—					
Grains	May 24	164.1	161.8	162.6	212.7
Livestock	May 24	210.9	204.8	194.9	248.8
Meats	May 24	231.3	221.9	222.3	266.1
Hides and skins	May 24	190.0	188.5	184.8	219.5

*Revised figure. ¶Includes 459,000 barrels of foreign crude runs. §Not comparable with other periods which are on new basis of reporting in California. Principal changes exclude cracking stock from distillate and residual fuel oils. ‡The weighted finished steel composite was revised for the years 1941 to date. The weights used are based on the average product shipments for the 7 years 1937 to 1940 inclusive and 1946 to 1948 inclusive. The composite under the old method this week would have been 3.74583c per pound.

	Latest Month	Previous Month	Year Ago
BUILDING CONSTRUCTION—U. S. DEPT. OF LABOR—Month of April (in millions):			
Total new construction	$1,368	*$1,248	$1,378
Private construction	987	*928	1,099
Residential building (nonfarm)	440	400	550
Nonresidential building (nonfarm)	252	*262	263
Industrial	89	96	116
Commercial	76	*79	87
Warehouses, office and loft buildings	23	*25	23
Stores, restaurants and garages	53	*54	64
Other nonresidential buildings	87	87	60
Religious	24	*24	13
Educational	19	*20	16
Social and recreational	19	*19	13
Hospital and Institutional	12	11	9
Remaining types	13	*13	9
Farm construction	30	18	37
Public utilities	265	*248	249
Railroad	27	*27	25
Telephone and telegraph	62	57	63
Other public utilities	176	*164	161
Public construction	381	*320	279
Residential building	13	*10	7
Nonresidential building (other than military or naval facilities)	135	*122	73
Educational	70	64	39
Hospital and institutional	35	*31	13
All other nonresidential	30	*27	21
Military and naval facilities	9	9	13
Highways	100	*63	89
Sewer and water	46	*42	38
Miscellaneous public service enterprises	8	8	9
Conservation and development	53	*46	38
All other public	17	*13	12
BUILDING PERMIT VALUATION—DUN & BRADSTREET, INC.—215 CITIES—Month of April:			
New England	$18,842,667	$16,422,754	$18,839,410
Middle Atlantic	65,937,616	68,956,623	64,982,146
South Atlantic	35,885,670	26,727,236	45,750,375
East Central	83,446,186	61,213,937	72,955,559
South Central	47,565,461	44,758,058	49,025,673
West Central	18,660,959	20,739,274	22,797,913
Mountain	12,723,982	8,929,708	11,303,521
Pacific	64,935,015	78,042,514	78,773,714
Total United States	$347,997,556	$325,790,104	$364,428,311
New York City	38,753,201	38,089,095	34,559,626
Outside of New York City	309,244,355	287,701,009	329,868,685
BUSINESS FAILURES—DUN & BRADSTREET INC.—Month of April:			
Manufacturing number	230	215	99
Wholesale number	98	102	50
Retail number	406	366	175
Construction number	68	77	30
Commercial service number	76	89	50
Total number	878	849	404
Manufacturing liabilities	$14,538,000	$17,075,000	$7,057,000
Wholesale liabilities	3,975,000	5,034,000	2,629,000
Retail liabilities	6,139,000	7,269,000	2,476,000
Construction liabilities	1,519,000	3,018,000	1,662,000
Commercial service liabilities	5,774,000	65,048,000	1,472,000
Total liabilities	$31,945,000	$97,444,000	$15,296,000
CONSUMER PURCHASES OF COMMODITIES—DUN & BRADSTREET, INC. (1935-1939=100)—Month of April	303.3	*287.1	295.0
COTTON SPINNING (DEPT. OF COMMERCE)			
Spinning spindles in place on April 30	23,783,000	23,787,000	23,807,000
Spinning spindles active on April 30	19,801,000	20,425,000	21,694,000
Active spindle hours (000's omitted), April	7,442,000	8,922,000	10,667,000
Active spindle hours per spindle in place, Apr.	327	393	475
DEPARTMENT STORE SALES—SECOND FEDERAL RESERVE DISTRICT, FEDERAL RESERVE BANK OF N. Y.—1935-39 AVERAGE=100—Month of April:			
Sales (average monthly), unadjusted	242	221	*243
Sales (average daily), unadjusted	237	209	*238
Sales (average daily), seasonally adjusted	242	220	*256
Stocks, unadjusted as of April 30	237	238	*252
Stocks seasonally adjusted as of April 30	230	232	*245
EMPLOYMENT AND PAYROLLS—U. S. DEPT. OF LABOR—Month of March:			
All manufacturing	12,393,000	*12,560,000	13,131,000
Durable goods	6,314,000	*6,420,000	6,791,000
Nondurable goods	6,079,000	*6,140,000	6,340,000
Employment indexes—			
All manufacturing	151.3	*153.3	160.3
Durable goods	174.9	*177.8	188.1
Nondurable goods	132.7	*134.0	138.4
Payroll indexes—			
All manufacturing	349.3	*357.8	358.4
Durable goods	390.1	*402.7	402.0
Nondurable goods	309.5	*314.0	315.7
Estimated number of employees in manufacturing industries—			
All manufacturing	15,597,000	*15,774,000	16,269,000
Durable goods	7,782,000	*7,895,000	8,258,000
Nondurable goods	7,815,000	*7,879,000	8,011,000
FACTORY EARNINGS AND HOURS—WEEKLY AVERAGE ESTIMATE—U. S. DEPT. OF LABOR—Month of April:			
Earnings—			
All manufacturing	$52.62	*$53.63	$51.68
Durable goods	56.75	*57.37	54.82
Nondurable goods	48.39	*49.72	48.26
Hours—			
All manufacturing	38.3	*39.0	40.0
Durable goods	39.0	*39.4	40.4
Nondurable goods	37.6	*38.6	39.6
Hourly earnings—			
All manufacturing	$1.374	*$1.375	$1.291
Durable goods	1.455	*1.456	1.356
Nondurable goods	1.287	1.288	1.219
SELECTED INCOME TERMS OF U. S. CLASS I RYS. (Interstate Commerce Commission)—Month of February:			
Net railway operating income	$29,754,215	$33,244,479	$39,425,294
Other income	14,799,573	18,296,255	20,055,667
Total income	44,553,788	51,540,734	59,480,961
Miscellaneous deductions from income	3,366,305	3,623,935	3,441,779
Income available for fixed charges	41,187,483	47,916,799	56,039,182
Income after fixed charges	7,695,564	15,087,607	21,397,631
Other deductions	3,060,476	3,203,638	3,151,397
Net income	4,635,088	11,883,969	18,246,234
Depreciation (way & structures & equip.)	32,767,951	32,667,270	30,178,996
Amortization of defense projects	1,368,167	1,380,527	1,685,277
Federal income taxes	18,653,423	18,752,995	22,323,963
Dividend appropriations:			
On common stock	18,607,788	6,401,595	26,503,653
On preferred stock	8,792,165	4,667,659	4,268,196
Ratio of income to fixed charges	1.23	1.46	1.62

*Revised figure.

The State of Trade and Industry

(Continued from page 5)

good of steel firms. Smaller plants which have been able to reduce their inventories fast have benefited most, while larger steel firms which have not been able to get down to current prices on the material they are using because their high-priced stocks were so big, could not readily avail themselves of the lower-priced scrap. A few large steel firms will still be operating on high-priced scrap for many months, "The Iron Age" concludes.

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 91.8% of capacity for the week beginning May 30, 1949, as against 94.1% in the preceding week, or a decline of 2.4%.

This week's operating rate is equivalent to 1,692,300 tons of steel ingots and castings for the entire industry, compared to 1,734,700 tons a week ago, 1,793,700 tons, or 97.3% a month ago, and 1,730,400 tons, or 96% of the old capacity one year ago and 1,744,800 tons for the average week in 1940, highest prewar year.

CARLOADINGS REFLECT A MILD RISE IN LATEST WEEK BUT CONTINUE UNDER LIKE PERIODS OF 1948-1947

Loadings of revenue freight for the week ended May 21, 1949, total 773,911 cars, according to the Association of American Railroads. This was an increase of 2,175 cars, or 0.3% above the preceding week. It, however, represented a decrease of 105,266 cars, or 12% below the corresponding week in 1948 and a decrease of 116,694 cars, or 13.1% below the similar period in 1947.

ELECTRIC OUTPUT REFLECTS MILD ADVANCE FOLLOWING 16 CONSECUTIVE WEEKS OF DECLINE

The amount of electrical energy distributed by the electric light and power industry for the week ended May 28, was estimated at 5,270,161,000 kwh., according to the Edison Electric Institute. This represented an increase of 14,889,000 kwh. below output in the preceding week, 194,136,000 kwh. or 3.8% higher than the figure reported for the week ended May 29, 1948, and 841,052,000 kwh. in excess of the output reported for the corresponding period two years ago.

AUTO OUTPUT LAST WEEK AGAIN LOWER DUE TO FORD DISPUTE

Production of cars and trucks in the United States and Canada continued to fall the past week, touching an estimated 115,001 units, compared to 116,878 (revised) units in the preceding week, due to the Ford strike, "Ward's Automotive Reports" states.

It was the fifth week in a row that output is reported to have dropped since a postwar high of 141,227 units was reached in the week ended April 23. The Ford strike has been almost entirely responsible.

The total compares with 92,772 units a year ago and 106,395 in the like week of 1941.

Last week's output consisted of 91,954 cars and 16,892 trucks built in the United States and 3,640 cars and 2,515 trucks in Canada.

BUSINESS FAILURES RISE SHARPLY IN PAST WEEK

Commercial and industrial failures rise sharply to 206 in the week ended May 26 from 172 in the preceding week, Dun & Bradstreet, Inc. reports. This was the highest level since the first week in April; casualties were about twice as numerous as in the comparable weeks of 1948 and 1947 when 112 and 102 occurred respectively. Despite this rise, they remained well below the prewar total of 303 in the similar week of 1939.

Failures involving liabilities of $5,000 or more increased to 163 from 137 last week and compared with 91 a year ago. Small casualties with liabilities under $5,000 rose moderately to 43 from 35; they were twice as numerous as in the same week of 1948.

Retailing had the sharpest increase in failures with 94 as against 69 in the previous week and 45 last year. In manufacturing, casualties climbed to 62 from 48 and exceeded the 38 in this line a year ago. Slight increases occurred in construction and commercial service; failures in wholesale trade dropped to 19 from 32 in the prior week.

FOOD PRICE INDEX REBOUNDS SHARPLY IN LATEST WEEK

An upward trend in many farm and food items last week lifted the Dun & Bradstreet wholesale food price index for May 24 to $5.74. This was the widest advance since mid-February and represented a rise of 1.4% above the year's low of $5.66 recorded on Feb. 8 and duplicated last week. Compared with last year's index of $6.94, the current figure shows a drop of 17.3%.

Aiding in this week's rise were higher prices for wheat, corn, rye, oats, hams, bellies, cheese, coffee, eggs, potatoes, steers, hogs and lambs. Only cottonseed oil, beans and peas showed declines.

The index represents the sum total of the price per pound of 31 foods in general use.

COMMODITY PRICE INDEX DEVELOPED A MIXED TREND IN PAST WEEK

Trends in basic commodity prices were mixed during the past week. The daily wholesale commodity price index, compiled by Dun & Bradstreet, Inc., moved within a narrow range during the period, closing at 249.13 on May 24. This compared with 248.92 on April 17 and with 285.30 on the corresponding date a year ago.

There was considerable uncertainty in grain future on the Chicago Board of Trade last week with trading featured by evening-up operations in May deliveries which boosted sales for the week to 169,107,000 bushels, or a daily average of 28,200,000 bushels, as against 25,500,000 the week before.

In closing sessions, most grains developed a firmer tone aided by light country offerings and strength in cash wheat markets.

Trading in cash corn was only moderate with prices holding in a narrow range. The outlook for the winter wheat crop continued favorable although some damage was reported due to heavy rains in parts of Texas and Oklahoma.

Trading in the domestic flour market continued to mark time last week as buyers held off in anticipation of expanding offers of new crop bakery flours in the near future. The cocoa market was steady to firm most of the week, reflecting improvement in demand for actuals, a belief that manufacturers will shortly enter the market and continued strength in prices in principal producing countries. With demand heavy, coffee trading was active in the early part of the week at firm prices. Demand for cash lard was slow.

Prices were easy during most of the period despite a sharp rise in hog prices to the highest levels in over a month. Strength in hogs reflected small receipts together with advances in prices of some pork items.

Cattle receipts were smaller than a week ago and prices stronger, particularly for the lighter weights. Sheep and lamb prices remained steady.

Activity in domestic cotton markets rose slightly in the past week while prices continued to show irregular and indefinite trends. Spot quotations at New York displayed a net drop of 26 points during the week. Export sales, covering a wide range of qualities, was quite active but buying by domestic mills was rather slow and mostly for nearby requirements. Sales reported in the ten spot markets rose to 135,600 bales in the latest week, from 130,100 the week before and 58,300 in the same week a year ago.

There was a sharp decline in cotton mill activity during April.

Cotton consumed during the month, as reported by the Bureau of the Census, totaled only 597,000 bales, the smallest for any month in the past nine years. On a daily rate basis, April consumption averaged 28,900 bales, against 31,300 in March, and 38,300 in April a year ago. Repossessions of 1948 loan cotton in the week ended May 12 fell to 67,074 bales, against 79,359 the previous week, while loan entries during the same period dropped sharply to 32,589 bales, from 102,698 the week before. Trading volume in cotton textile markets was at a low ebb and prices were again soft in most gray goods constructions.

RETAIL AND WHOLESALE TRADE HELD TO HIGH LEVEL IN LATEST WEEK BUT WAS VERY MODERATELY BELOW COMPARABLE WEEK IN 1948

As summer-like weather continued in many parts of the nation in the period ended on Wednesday of last week, consumers bought slightly more than in the previous week, but aggregate retail dollar volume was slightly below that of the similar week in 1948, Dun & Bradstreet, Inc., reports in its current summary of trade.

Promotional sales continued to be prevalent in many sections with many shoppers continuing to seek good quality in inexpensive goods.

The demand for apparel increased moderately as many shoppers sought clothing for the summer season with a slight rise in the interest in women's cotton dresses, lightweight suits, blouses and skirts.

Promotions of beachwear attracted favorable attention. The retail volume of men's apparel increased slightly as increased interest was displayed in tropical worsted suits and in sportcoats and slacks.

Retail food volume was practically unchanged last week with total unit volume showing no appreciable variation from that of the comparable week a year ago. Housewives bought a large volume of inexpensive meat cuts, poultry and dairy foods. There was a small rise in the interest in frozen foods which were offered at reduced prices in many areas. Such staples as coffee, sugar and spices were steadily purchased with demand for ice cream and candy up slightly.

Total retail purchases of furniture and household goods were approximately even with those of the preceding week, and moderately below the level of a year ago. Small tables, upholstered chairs, curtains and bedding remained in large demand. There was a slight rise in the interest in cutlery, kitchenware and other items suitable as wedding gifts. The retail volume of floor coverings and lamps dipped slightly.

Retail volume for the country in the period ended on Wednesday of last week was estimated to be from 1 to 5% below that of a year ago.

Regional estimates varied from the corresponding levels of a year ago by the following percentages: New England and Southwest up 1 to down 3, East unchanged to down 4, South down 3 to down 7, Midwest down 1 to down 4, Northwest and Pacific Coast down 1 to down 5.

As declines in the buyer interest in some lines were offset by increases in others, total wholesale dollar volume remained practically unchanged in the week, but it was slightly below that of the similar week a year ago.

The number of buyers attending many wholesale markets rose slightly the past week, but was very moderately below that of the comparable week in 1948.

Department store sales on a country-wide basis, as taken from the Federal Reserve Board's index for the week ended May 21, 1949, decreased by 5% from the like period of last year and compared with a decrease of 3% in the preceding week. For the four weeks ended May 21, 1949, sales registered a decrease of 3% from the corresponding period a year ago, and for the year to date a like decline of 3%.

Retail trade here in New York the past week was subject to pre-holiday influences which resulted in some lines being benefited and others retarded thereby. As for department store volume, estimates reveal that it ran well below that of a year ago with the decline placed at about 14%.

According to the Federal Reserve Board's index, department store sales in New York City for the weekly period to May 21, 1949, declined by 10% from the same period last year. In the preceding week a decrease of 9% was registered below the similar week of 1948. For the four weeks ended May 21, 1949, a decrease of 8% was reported under that of last year and for the year to date volume decreased 6%.

Paine, Webber Co. Adds

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Denys D. Shelley is now with Paine, Webber, Jackson & Curtis, 626 South Spring Street. He was formerly with J. A. Hogle & Co.

With King Merritt & Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Clifton R. Hubbard is now with King Merritt & Co., Chamber of Commerce Building. He was formerly with Mason Earl Kight and Buckley Brothers.

Why Value of Money Has Fallen: Broach

(Continued from page 15)

purchases of government securities. In January, 1934, our stock of gold, value at $20.67 an ounce, amounted to $4 billion. A month later when arbitrarily valued at $35 an ounce, it amounted to $7,-438 million. Today it exceeds $24 billion. Many factors account for the nearly $17 billion increase since devaluation, but I think it unnecessary to go into this. Suffice it to say that the enormous increase in our gold stocks, on the basis of our system of fractional reserves, has been enough to support the increase in our money supply which has taken place during the same period and would support at least an equal increase from the present level.

Earlier in my remarks I referred to the fact that in 1932 our money supply was about $20 billion and that today it is about $110½ billion. In 1932, bank loans and investments were about $35 billion and today they are about $114 billion. Therein lies the reason for the increase in our money supply—the increase in bank credit. Of the roughly $79 billion increase in bank credit about $55 billion can be accounted for by an increase in government securities holdings and the balance by an increase in loans and discounts and other investments. While the figures cited do not account in full for the addition to our money supply, as there are other factors which enter into the picture which I should like to discuss, but can hardly do so in the time allotted, I think they suffice to show that in major part the increase in our money supply has been brought about by an increase in bank holdings of government securities.

To my way of thinking this is a most important factor in our consideration of the value of money. Two paints are involved. In the first place, new money was created — manufactured, so to speak—without creation of additional goods or services. In the second place, this new money remains a part of our money supply until the United States Government retires the bonds or until the bonds are acquired from the banks by non-bank investors. These two points require elaboration.

Means of Financing War

During the war our government financed its expenditures by three methods—by taxation, by sale of securities to non-bank investors and by sale of securities to the banks. The first took purchasing power from taxpayers and transferred it to the government. The second took purchasing power from the bond buyers in lieu of a promise to return that purchasing power at some later date and transferred it to the government. But what about the third method? New purchasing power was created. None was given up. The government merely acquired goods and services without taking away from anyone else the wherewithal to acquire those goods and services.

Fortunately, the financing of the requirements of World War II through the banks was used only as a last resort. Every effort was made to finance through taxation and the sale of bonds to non-bank investors. The banks were used to fill the gap. Let me say here, as a banker, that our role—and one which we were expected to fill and which I think we filled admirably—was to take up the securities which could not be sold to non-bank investors. In this role we were given the necessary reserves by the Federal Reserve Banks to do our job, as evidenced by their purchase of government securities in such amount as to

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Why Value of Money Has Fallen

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keep the banking system well fortified with excess reserves. Please do not blame us for the lessened volume of your dollar. Our job was to manufacture purchasing power to prosecute the war, and to the extent you and I through the payment of taxes and the purchase of bonds did not supply this purchasing power the banks were called upon to create it. Obviously, in doing so without adding to the supply of goods and services available, the end result was to lessen, at least temporarily—and I think permanently—the value of the dollar. Prices increased and rationing became necessary. Of course we increased our production, but production of goods and services could hardly keep up with the manufacture of the wherewithal to buy those goods and services. The money supply was being added to faster than the supply of goods and services available to meet the demand with a resultant price increase held down only in part by rationing, allocation, etc.

Where Do We Go from Here?

So much for the war period. Where do we go from there? In the first place, we have added to our money supply an enormous amount of dollars and the supply can be reduced only by retirement of bank-held debt or by a shifting of the debt to non-bank investors. Neither is at all likely in large amount over a reasonable period of time. Thus we have an excess supply of money unless production can be brought up to meet the demands. Great progress has been made in this respect and it may be that we will grow up to our new position with respect to money. The evidence is that the supply of goods and services is being brought into line with the demand with a resultant leveling-off and even a decline in prices.

I do not mean to imply that the enormous increase in our money supply has alone been responsible for higher prices. It has been a most important factor, but by no means the only factor working for higher prices. During the war certain goods and services were not available at all or if available they were rationed or were available in nominal amount only and at prices fixed by decree. Under these conditions when more and more money was being manufactured, so to speak, and pumped into our economy and, incidentally, diffused throughout all segments of the economy with the exception of those on fixed incomes, it is not surprising that a large backlog of unfilled wants should have been created. Thus an industry reconverted after the war an unprecedented demand was found to exist. The impact of this demand on an inadequate supply produced a rise in prices. In 1941, the BLS wholesale price index averaged 87.3 and in 1946 121.1. The average was 152.1 for 1947 and in August of last year the index stood at a peak of 169.5. The postwar rise reflects the removal of price controls and rationing and a return to a more nearly normal operation of the laws of supply and demand, with demand swollen out of all normal proportions as a result of the increased supply of money and the accumulation of wants unsatisfied during the war. The evidence is, I think, that to a very considerable extent the backlogs of demands built up during the war have been satisfied and that we rapidly are returning to a buyer's, rather than a seller's, market. The price declines of recent months indicate that this is the case.

The question with which I assume you are most concerned is that of the future value of the dollar. We know the dollar has undergone a considerable decrease in purchasing power, but that of recent months a small portion of this purchasing power has been regained. In terms of farm products, the dollar has gained substantially in purchasing power; in terms of certain metals, the gain likewise has been substantial; in terms of building materials the gain has been very little. I mention these three groups—farm products, metals and building materials—to emphasize that the value of our money, or, in other words, its purchasing power, has and will continue to have a different value for different things. Our dollar, although having a fixed value in gold, is unlike any other measurement, though like any other unit of measurement one of the functions of our dollar is as a unit of measurement. A bushel is a bushel regardless of what is measured; the same is true of a gallon, or a yard, or a watt. But not so the dollar. The value of the dollar changes from day to day and as between units being measured. Thus the problem of measuring the value of the dollar must be narrowed down to terms of some commodity or service or we must agree upon some over-all group of commodities or services and accept the value of this group as a measurement of the value of the dollar. Probably the most generally accepted measurements of the value of the dollar are the BLS indexes to which references already have been made.

The BLS index of wholesale prices uses 1926 as 100. The all-commodities index is an overage of farm products, foods, other commodities, raw materials and manufactured products. The farm products component of the index is based on prices of grains, livestock and poultry, and other farm products. The food index uses prices of dairy products, cereal products, fruits and vegetables, meats and other foods. The other commodities component of the index uses hides and leather products, textile products, fuel and lighting materials, metal and metal products, building materials, chemical and allied products, housefurnishing goods and miscellaneous, with each of these groupings broken down into subgroups. I mention the composition of this index for the twofold purpose of stressing the value of the index as a measurement of over-all wholesale price changes and to stress the impossibility of measuring the value of the dollar except in terms of some commodity or service. As a case in point, the wholesale price index stood at 160.6 in January of this year based on 1926 prices as 100, yet the price index for rayon was 41.8; and for lumber 299.1 with both the rayon and lumber figures entering into the 160.6 over-all figure. As measured by over-all wholesale prices, the dollar had about 62% of its 1926 purchasing power in January but nearly 240% of its 1926 value in terms of rayon and about one-third of its 1926 purchasing value in terms of lumber. Obviously, factors other than the mere increase in our supply of money have been at work for otherwise the rayon price index would hardly be at 41.8 and the lumber index at 299.1. In the case of rayon technological advances have served to lower prices. In the case of lumber the unprecedented demand has brought about a nearly three-fold increase in prices since 1926. In the future as in the past individual commodities or services will be affected by different factors but on balance the prices of all goods and services will be affected by the large increase in our money supply. Technological advances, increased productive capacity, etc., will all work toward lower prices but there will remain the obstacle to be overcome of the enormous increase in our money supply.

In terms of this or that commodity or service our money will continue to have a varying value but I, for one, cannot get away from the fact that we have lessened the value of our money by an enormous addition to the supply. Admittedly there are factors other than the mere quantity of money which enter into the value of money but as with any other commodity an increase in the supply without a corresponding increase in demand generally produces a lower price. As the supply of goods and services is increased the value of the dollar may be expected to increase, but in increasing the supply of goods and services we run into certain cost factors which tend to limit the extent to which the supply can be increased.

Our productive capacity has been increased enormously since prewar, but I need hardly tell you at what cost. A given industry may be able to operate and produce goods at 100% capacity at one price level but a somewhat lower price level may mean substantially lower profitable production. This, in turn, limits supply and tends to place a floor under prices. Over a period of time the least efficient producers will be weeded out, undergo reorganization, etc., but in the meantime the high cost at which some of our increased productive capacity was acquired tends to limit probable price declines.

In brief, I believe we have frozen into our economy an enormous addition to our money supply which has served to lessen the value of our money. Our money should regain some of its former value as we return to a more normal economy as we seem to be doing. Over the long run we may be able to grow up to our money supply, in which event our money supply will not be excessive, but until we do I can visualize no return to the prewar value of our money. While price adjustments are desirable an early return to prewar price levels would be most dangerous. We have a debt of some $250 billion and until we grow up to such a debt I think we must face the fact, disagreeable as it may be, that we have and will continue to have a devalued dollar as measured by former standards. Most wars have been financed in part through money devaluation of one sort or another and World War II certainly was no exception to this general rule. While we have had no previous experience with cold wars I have an idea that we may find that the monetary history of fighting wars may apply likewise but in a lesser degree to a cold war.

Rental Value of Money

There is one other aspect of the value of money to which I have not referred and that is the value of money itself as reflected in its rental value. In its rental value money is cheap as measured by all former standards and in my opinion will remain so for many years to come. Our government can rent money today for a year for only $12.50 per $1,000 and for long time use for only $25 per $1,000. Other risk-free or nearly risk-free users of money likewise have to pay exceedingly low rates, as measured by all former standards, for the rent of money. In other words, interest rates are exceedingly low. Thus, in terms of the borrower money has gained in value, i.e., a dollar will command the use of what not so long ago it took two or maybe three dollars to command. In terms of the lender the reverse is true. What $1,000 now produces in terms of annual rental, i.e., interest, was produced not many years ago by $500 or possibly less. Today we have Victory 2½s selling at 101. After World War I we had Fourth Liberty 4¼s selling in the low eighties. This change in the rental value of money is, I am sure, something in the nature of a permanent change as nearly as one can say that any change of this kind is permanent. While welcomed by the borrower it has been hard on the lender. While the borrower obtains his money for less it will buy less, but the unfortunate lender not only obtains less for the use of his money but what little he does obtain buys less.

About 2,300 years ago an astute king of Syracuse decided that a good way to pay off the national debt was to call in all outstanding coins, cut the value in two, use half of the new coins to pay for the old ones in a one-for-one exchange and use the remaining coins to pay off the national debt. In the intervening 2,300 years central banks and governments have followed the same policy to a greater or lesser degree with somewhat improved technique, but regardless of the finesse employed the end result has remained the same.

Must We Control Bigness in Labor?

(Continued from page 16)

or non-members. They contended that union laws must be obeyed even when they destroy the constitutional liberties of Americans, which our national government is forbidden to abridge. To assure you that I am not exaggerating I will read the exact language of several arguments that are repeated over and over again by the unions in their brief:

"The worker becomes a member of an economic society when he takes employment. . . . It is the society of his fellow workers in a mine, mill or shop, or in a craft or calling. The union is the organization of *government* of this society formed by the exercise of the right of association. It is *essential* to the nature of this organization that it include every individual who is a member of the society which it governs." (A. F. of L. Brief, p. 47.)

"The common rule of collective bargaining carries with it the legal doctrine that *the union is the* common authority or *government of a society of workers.* It has in a sense the *powers* and *responsibilities* of a *government.*" (A. F. of L. Brief, p. 57.)

"We can summarize the nature of union membership as a common condition of employment in an industrial society by again comparing it to citizenship in a political society. *Both are compulsory upon individuals.*" (A. F. of L. Brief, p. 58.)

"The liberty of the individual is not the right to license, but participation in a social organization founded upon equality justice and law. *The union is that organization for employees.* It is the product of the exercise of their *right of assembly* and it is *essential* to the exercise of their *right* to secure equality of bargaining power with employers, that membership in the union be a common condition for all who are in fact members of the group *governed by the union.*" (A. F. of F Brief, p. 59.)

Delusions of Grandeur

There is little use trying to regulate good conduct into organizations of from 100,000 to 1,000,000 men and women when their leaders are possessed by such delusions of grandeur, when they lack or reject sensible guidance, when they persistently absorb and propagate economic and political nonsense, when they recklessly imperil the general welfare and the common defense against violence, in times of peace or war, and when they frequently become the pliant tools of domestic criminals or advance the fifth columns of foreign enemies. The only sure defense against this evil bigness is to limit the man power which can be legally controlled by one labor management, just as you can limit the amount of property power that can be legally controlled by one business management.

It is the right and duty of a government, in self-preservation, to prevent any privately organized power from growing to such size that it dominates government. There is only one time when government can reduce a swollen privately organized power to safe size—and that is before it has grown so great that it does dominate the government. After that there is no escape from tyranny except by revolt and civil war.

Our national government began to reduce the excessive power of big business in 1890; and it has been working at the job ever since, with more or less success. Our government has only recently and gently begun to reduce the excessive power of big labor; and it will not have 60 years in which to succeed in this job. Long before that time the struggle to maintain our constitutional government of a free people will reach a decision. We shall have become enslaved to bigger and bigger government or we shall once more have shown the world how a people who set themselves free can keep themselves free.

White, Noble Co. Adds

(Special to THE FINANCIAL CHRONICLE)

DETROIT, MICH. — Donald J. Hetu has been added to the staff of White, Noble & Co., Buhl Building.

The Foundations of World Trade

(Continued from page 11)

States as a source of future aid in the development of their economies.

Western Europe has had to turn to the United States whether it would or not. And American resources have been made available in almost unlimited amounts. I have used the word "unlimited" and I am using it advisedly. In my judgment, it is highly improbable that the European countries could have assimilated American aid any more rapidly than they have. As a matter of fact, it speaks unusually well for the men in Europe as well as those in the United States Government who have been responsible for the so-called European Recovery Program that their estimates of possible rates of improvement have been proved so good.

The results have made themselves apparent in the tremendous rate of increase in productivity throughout western Europe. Employment has remained high and production has grown in every country, in some of them by leaps and bounds. During the period of this recovery we have had both bad luck and good luck. Nature first frowned on us and created the problem of short supplies of foodstuffs on the European continent. Fortunately, she was good to the western world at that same time. The following year, nature was good. Whether the present year will give us good or bad harvests it is too early to say. Perhaps it will just be normal.

The trade between the nations of Europe and with the rest of the world has grown along with the recovery of production. During the past few years we have had little competition, but letters are now coming to my desk which tell me that the Belgians and the British are shipping steel products into parts of the world where recently we have been selling without difficulty. Other manufactured commodities are also appearing in competition with our own goods. You have noticed that the little British motorcars have even been so bold as to appear on the American market; they have been welcomed. As the recovery increases, the competition of western Europe will make itself felt even more powerfully. One of our major tests is going to be the way in which we face it. Will we, as foreign traders, like it as something constructive and healthy—something to be faced and fairly fought? Or will we try to restrict it? Will we fall back on the devices which we have learned to use to prevent competition? This is one of the major issues which we shall have to face, but before discussing it in any further detail I want to remind you how remarkably free we have been from competition.

In May, 1947, we reached an all-time high in the dollar volume of goods which we sold abroad. At the same time, our imports from abroad did not expand to anything like the same volume. Since that peak, the rate of exports has declined until it leveled off in the last year, and our imports have been steadily though not spectacularly climbing. The great spurt in exports was, of course, due to the intense need abroad, so intense that, in addition to American grants and loans, the countries were impelled to draw on their dollar reserves and buy in the United States almost without counting the cost. That period has passed. The steady flow of export trade has been and is maintained by the government grants and loans made available through the ECA machinery. This can continue for another few years. We have said on several recent occasions that the level of exports during the coming year would probably be about what it was during the past year, and that imports might be a little higher. But this is the period during which constructive action must be taken to rebuild the institutions of free trading as contrasted with the present institutions of highly-regulated trade.

U. S. Trade Objectives

Let us first be clear as to our objectives. There is a certain amount of fun in trading just for its own sake. "Markets" from medieval times up to today in their form of fairs and commodity exchanges are exciting, colorful and stimulating. If they were not necessary for business purposes, we would probably invent them just for fun. But they are more deeply rooted even than that.

Trading on a world scale has developed in order to increase the standard of living of the peoples of the world. The diverse production of different parts of the world creates a multitude of new, exciting and healthy ways of rich living. Even in the days of the first navigator-businessmen who came to the Western Hemisphere, the traders were concerned with taking back to Europe a variety of things to be found in this part of the world. Furthermore, the broadening of markets made possible mass production, the lowering of costs, the opportunity to take advantage of comparative efficiency, the chance for wealth to be equalized not by grading the well-to-do down but by grading the poverty stricken up.

The European countries which have become strong have done so only because of world shipping which gave them broad markets. Their domestic trade and their intra-European trade by itself did not provide the breadth of market which made their mechanized techniques usuable. It was only as they were part of a wide world trading system, where they could buy their food and their raw materials abroad, process them at home, and sell them in more valuable forms that they have become great.

We in the United States sometimes forget the great advantage which the continental area for a market has given to us. We forget the wisdom of the Constitutional politicians when they prohibited in our Constitution the establishment of barriers to trade between the states. We forget their insight when they established the one-currency area of the United States and lodged the money-coining power in the Federal Government. We forget their wisdom in establishing a common defense for the 13 independent colonies. These are the foundations of our continental system in trading.

The world trading system of the Nineteenth Century secured some of these same advantages of freedom of movement, because of the use of freely convertible currencies based on gold. It even achieved a common defense when we established rights of property through a system of international police power, represented by the national navies and armies, and the agreements which are facetiously called international law.

Today we do not have all the advantages that went with these institutions. We have as yet not succeeded in replacing them with a system which makes trading easy and which enables us to make full use of the great advantages of international specialization. While we keep the old goals in mapping our trading world, we are building new ways of doing business. We are saying, moreover, that freedom must mean more than freedom to be out of work. It must be accompanied by a high degree of security. Freedom calls for opportunities for a limited few. It calls for access by newcomers to the established business system. It calls for a dispersion of wealth rather than a concentration of opportunity and power.

Various Forms of Controls

In working our way toward these newer concepts of freedom and security which we have had to a limited extent in the past, various forms of control have been found essential. In recognizing the weaknesses of the gold limities, opportunities for all, not standard of the past, we have also recognized its great advantages and we have endeavored to retain those advantages in international trade by building a new institution known as the International Monetary Fund. This calls for an integration of the monetary policies of the member governments to take the place of the automatic working of the old international gold standard system. We have learned that our monetary system can play a large part in creating world depression, and no one who lived through the period of the '30s and the struggle of country after country to overcome depression and unemployment will knowingly permit such a condition to develop again. Can we learn to use this new monetary instrument in carrying on trade, or do we have to explore still further? If we cannot find an adequate substitute for the international gold standard, it seems reasonably clear that nations will choose the security of lower standards of living rather than insecurity and depression. They will revert to nationalistic policies, and alter radically our international trading system.

The International Trade Organization

There is a second institution in the new system of international trade — the International Trade Organization. Its provisions are tied closely with those of the International Monetary Fund, because the two must be closely related in administration. Briefly, the International Trade Organization calls for the prohibition of the use of quantitative restrictions. It limits, by international agreement, the use of combinations which can result in lowering production and the levels of trade. It sets as its goals high levels of economic activity, high levels of employment throughout the world, and minimum restrictions on trade.

I would be less than frank if I did not say to you that the problem in our international trade today is not whether we will have regulation or not. We will have regulation. The problem is what will be its character and how can we direct it? How can we cut down on quantitative regulations of one kind or another? We in the United States have been fortunate enough, because of our large productive capacity, to minimize regulation. Yet even we have found ourselves forced to use both monetary controls and quantitative controls, such as those having to do with imports and exports. I have been the unfortunate bureaucrat who has had to administer some of these controls. I know a little about their difficulties, their problems and, I hope, how to get rid of them. But we can remain free of these more rigid controls only by the wise administration of our financial policies. both national an international.

I have mentioned that phase of our international policy which has to do with monetary relationships and its handling by the International Monetary Fund. I must mention as of equal importance the international movement of capital funds, both because of the significance in the monetary field and because of their significance in the investment field.

It may sound strange to mention in this connection the Atlantic Pact, but one of the fundamental advantages to be derived from the Atlantic Pact is the reestablishment in the western world of greater police power and security for the movement of investment funds. It has been recognized that, until the governments of western Europe again have their sinews of power, their machinery for the establishment of property rights, their recognition of the place which private investment has in the world today, there cannot be the international flow of investment funds so essential to the maintenance of our world trading system.

Foreign Investment

In the field of investment some of our international differences arise. Hence we have established another institution known as the International Bank for Reconstruction and Development. Certain types of capital movements particularly those which call for public initiative rather than private, can be carried out by international governmental lending rather than by private lending. This means that private individuals in one part of the world must save and invest their funds through government institutions which have outlets abroad as well as at home. The International Bank for Reconstruction and Development provides an institution through which this can take place. However, it can function only in a climate in which such investments are clearly recognized as reasonably secure.

The steps which have been taken in the last few years toward the rebuilding of a strong free trading world have not been feeble steps. In the beginning, there was considerable groping but we are beginning to feel the strength of recovery flowing strongly. We are walking more firmly. We are beginning to appraise our problems more accurately. We are beginning to understand these problems, and to deal with them.

I have mentioned only in passing in this all-to-brief sketch our relationships with that part of the world which is dominated by Communist thinking. I have done this purposely. It is easy to talk about what is wrong with the Communists, what is wrong with the Soviet Union. It is more difficult, however, to talk about our own problems. Our own system has demonstrated it can provide more of the good things of life for more people than can the system dominated by the Communists. We all know our system is not perfect. It is however, strong enough that we are not afraid to talk about its imperfections. By calling attention to some of our problems and some of our weaknesses, the Communists may make an argument but only with those who do not understand. This makes it incumbent on us to be sure that we understand; that we understand why we are strong and how we can maintain our freedom. No part of our system has been attacked more viciously than our system of international trade and investment. It has been labelled "imperialistic." We are convinced it is a system which adds to the well-being of other peoples as well as our own. And we must continue to prove it.

These are our ultimate defenses: our faith in ourselves, our belief that we have nothing to fear, that we can stand on our own feet, that we will refuse to be panicked by those who say that any use of government power is in itself wrong. We have seen by the use of our own government that many good things can be done. We have seen the necessity for guarding against excessive use of power, of excessive centralization of authority, but we must know that, if our world trade is going to continue to contribute to the happiness of our lives, we will have to be patient and we will have to contribute with mind and heart to the common problems of our country and those of our customers abroad, who, if they are to remain good customers, will have much to sell us which can make our lives happier.

Holds ITO Charter Leaves Much to Be Desired

The June issue of the "Monthly Review of Credit and Business Conditions," published by the Federal Reserve Bank of New York, in analyzing the Havana Charter for an International Trade Organization says it is "a complex document of 66 closely printed pages," and an ineffectual instrument fo removing trade barriers. According to the article in the "Monthly Review":

"As an instrument of international supervision of the use of trade restrictions, the ITO blueprinted by the Havana Charter obviously leaves much to be desired. The Charter has encountered widespread criticism on the grounds that it is so riddled with exceptions as to render it almost valueless as a means of restoring multilateral and nondiscriminatory trade.

"In so far as such current criticism rests on the assumption that the primary solution to the world trade problem lies in a thoroughgoing elimination of exchange and trade restrictions, and that our immediate need is for an international agency endowed with sufficient authority to compel the removal of such trade barriers, it oversimplifies the problem. In recent years, it has become increasingly clear that the disequilibrium of world trade, particularly the dollar scarcity, is attributable in large part to other and deeper causes such as wartime losses of invisible earnings, the lag of European productivity behind that of the United States, discrepancies in international cost and price levels, and other basic difficulties.

"So long as these root causes of disequilibrium remain uncorrected, many foreign countries may well find themselves unable to dispense with quantitative and discriminatory restriction of their foreign trade. Restrictive measures currently in force cannot be suddenly swept away without causing painful transitional effects and quite possibly retarding, rather than advancing, progress toward trade equilibrium.

"As part of an overall effort to restore a balanced pattern of international trade, however, reduction of trade barriers can contribute significantly to a successful solution. Thus, lack of foreign markers rather than inadequate output may soon appear as a limiting factor in the recovery of Western Europe. Action to secure a closer integration of national economies will require careful planning, however, and, inevitably, protracted consultation and negotiation among the various nations concerned.

"In general, therefore, it would seem that our immediate need is for an international instrument of planning and negotiating reductions of trade barriers rather than an instrument for compelling their elimination. The serious divergencies of national trade policies that emerged during the drafting of the Charter would inevitably have dominated the future trade negotiations of most countries, implicitly if not openly. By clarifying these issues, the Charter has contributed substantially to mutual understanding of the obstacles to be overcome in future negotiations. The International Trade Organization itself could provide the international machinery for such negotiations."

Securities Now in Registration

● **INDICATES ADDITIONS SINCE PREVIOUS ISSUE**

Allied Western Oil Corp., New York
May 17 (letter of notification) 1,200,000 shares of common stock (par 1c). **Underwriter**—Atlantic Securities Co., 699 Madison Ave., New York. **Price**—25c per share. Drilling of wells, acquisition of oil leases, etc.

● **American Cyanamid Co., New York**
June 1 filed 20,000 shares ($100) par cumulative 3½% preferred stock series A. **Offering**—To key employees of company and subsidiary and affiliated companies. **Underwriter**—None. **Proceeds**—For general corporate purposes.

American Fork Consolidated Mines, Salt Lake City, Utah
May 9 (letter of notification) 400,000 shares of capital stock. Price 25 cents per share. **Underwriter**—Cromer Brokerage Co., Salt Lake City. For mining development.

American Light & Traction Co.
May 13 filed 634,667 shares of common stock (par $25). **Offering**—United Light & Railways Co., (parent) plans to offer to its stockholders of record June 1 the right to subscribe for the 634,667 shares of American at $12 per share on a 1-for-5 ratio. Rights will expire about July 1. **Underwriter**—None. The proposed sale is to conform with SEC order under the Holding Company Act which calls for United's sale of American Light stock holdings.

American Telephone & Telegraph Co.
April 21 filed between $393,000,000 and $400,000,000 ten-year 3⅛% convertible debentures, due June 20, 1959. **Offering**—Offered for subscription by stockholders of record May 6 at the rate of $100 debenture for each six shares of capital stock held at par (flat). Rights expire June 20. **Underwriting**—None. **Proceeds**—For advances to subsidiary and associated companies; for the purchase of stock offered for subscription by such companies; for extensions, additions and improvements to its own telephone plant; and for general corporate purposes.

Anemostat Corp. of America, New York
May 20 (letter of notification) $300,000 2-year 6% instalment notes, due in 12 equal monthly instalments, commencing Aug. 1, 1950, and ending July 1, 1951. To be offered for subscription by stockholders of record May 27 at 95, in ratio of $2 of notes for each share of stock held. Rights expire June 27. **Underwriting**—None. To replenish treasury for expenses in moving to newly leased factory premises, etc. Office, 10 East 39th Street, New York, N. Y.

Avco Manufacturing Corp., New York
April 22 filed 387,041 shares ($3 par) common stock. The stock is reserved for issuance to officers and supervisory executives under the company's "stock option plan" or options assumed by the company upon acquisition of the assets of its former subsidiary, American Central Manufacturing Corp. on Nov. 20, 1946.

Bradshaw Mining Co., Tonopah, Nev.
Oct. 8 (letter of notification) 1,500,000 shares (5c par) common stock. **Price**—20 cents per share. **Underwriter**—Batkin & Co., New York. To repair and renovate mine of company and to exercise option to purchase processing mill and move and erect such mill on the company's property and for working capital.

Bridgeport (Conn.) Hydraulic Co. (6/6)
April 26 filed 36,000 shares of common stock (par $20). **Underwriters**—Smith, Ramsey & Co., Gaynor, Clemence & Co., Chas. W. Scranton & Co., Hincks Bros. & Co., T. W. Watson & Co. **Offering**—To be offered initially to stockholders of record June 6 on a 1-for-10 basis, with rights expiring June 30. **Proceeds**—To reduce short-term bank loans.

● **Brush (Colo.) Racing Association, Inc.**
May 23 (letter of notification) 300 shares common stock (par $100). Price par. No underwriter. For purses for race meet, permanent improvements and working capital. Office: 511 Emerson Street, Brush, Colo.

Carnegie Mines Ltd., Montreal, Canada
April 27 filed 500,000 shares of common. **Price**—60 cents per share. **Underwriters** — Name by amendment. **Proceeds** — For working capital, exploration, development and other purposes.

Caterpillar Tractor Co. (6/7)
May 17 filed 250,000 shares ($100 par) cumulative preferred stock. **Underwriter**—Blyth & Co., Inc. **Proceeds**—To pay a total of $21,000,000 of promissory notes held by 13 banks.

Centennial Turf Club, Inc., Denver, Colo.
May 5 filed $1,600,000 of 6% sinking fund debentures, due Jan. 1, 1965, and 160,000 shares of Class A ($5 par) common. **Offering**—To be offered in units of $100 of debentures and 10 shares of stock at $150 per unit. **Underwriter**—Brereton, Rice & Co., Inc., Denver, Colo. **Proceeds** — To build and operate a horse-racing track. Statement effective May 24.

● **Central Arizona Light & Power Co., Phoenix, Arizona**
May 26 filed 80,000 shares ($50 par) cumulative preferred. **Underwriters**—The First Boston Corp. and Blyth & Co., Inc. **Proceeds**—To pay $1,000,000 outstanding construction loans and for new construction.

Central Fibre Products Co., Inc.
May 6 (letter of notification) 3,000 shares of non-voting common ($5 par). Price, $22 per share. **Underwriter**—Bosworth, Sullivan & Co., Denver, Colo. Proceeds to selling stockholders.

Central Illinois Public Service Co.
May 23 filed 446,000 shares ($10 par) common stock. Offering—To be offered to stockholders on a one-for-five basis. **Underwriter**—The First Boston Corp. **Proceeds**—For construction.

Chace Industries, Inc., West Chester, Pa.
March 7 (letter of notification) 68,000 shares of 6% non-cumulative preferred stock (par $4) and 68,000 shares of common stock (par 10¢). **Underwriter**—De Witt Investment Co., 910 West St., Wilmington, Del. To be offered in units of one share of each. Building of factory, installing machinery, working capital.

Cincinnati Gas & Electric Co.
April 15 filed 249,334 common shares (par $8.50). **Offering**—Offered for subscription by stockholders of record May 12 in ratio of 1-to-9 at $22 per share. Rights expire June 3. **Underwriting**—None. **Proceeds**—To finance construction program.

Clarostat Mfg. Co., Inc., Brooklyn, N. Y.
Aug. 26 (letter of notification) 37,400 shares of 50¢ cumulative convertible preferred stock. **Underwriter**—Cantor, Fitzgerald & Co., Inc., New York. **Price**—$8 per share. Working capital, etc.

Clinton Industries, Inc., St. Louis, Mo. (6/9)
May 20 filed 150,000 shares ($1 par) capital stock. **Underwriters**—Merrill Lynch, Pierce, Fenner & Beane, New York, and Newhard, Cook & Co., St. Louis. **Proceeds**—To be added to working capital for general corporate purposes, including construction of miscellaneous improvements, replacements and additions to plant.

Coleraine Asbestos Co. Ltd., Montreal, Canada
Aug. 16 filed 200,000 shares of capital stock. **Price**—50 cents per share in Canadian Currency. **Underwriter**—P. E. Frechette. **Proceeds**—For drilling operations.

● **Colorado Central Power Co., Englewood, Colo.**
May 26 filed 21,429 shares ($10 par) common. **Offering**—To be offered to stockholders of record June 10, 1949, at rate of 1-for-2½. **Underwriters**—The First Boston Corp., Dean Witter & Co., Bosworth, Sullivan & Co.; Boettcher & Co. and Woodcock, Hess & Co., Inc. **Proceeds**—For construction.

Consolidated Caribou Silver Mines, Inc.
March 30 filed 376,250 shares (no par) common stock. **Price**—$2.50 per share. An additional 50,000 shares will be sold to the underwriter at $1 per share for investment. **Underwriter**—William L. Burton & Co., New York. **Proceeds**—To develop mining properties. Offering expected early in June.

Consolidated Gas Electric Light & Power Co. of Baltimore
May 18 filed 238,000 shares of common stock (no par). **Offering**—To be offered for subscription by stockholders of record June 2 in a 1-for-6 ratio. **Underwriters**—The First Boston Corp.; Alex. Brown & Sons; John C. Legg & Co. **Price**—Expected about $60 a share. **Proceeds**—To finance company's construction program.

● **Cornucopia Gold Mines, Spokane, Wash.**
May 20 (letter of notification) 191,500 shares (5c par) common. To be offered holders of record June 30, 1949, at the rate of one-for-five. No underwriter. Working capital for maintenance purposes. Office: 824 Old National Bank Building, Spokane, Wash.

Fenimore Mines Ltd., Toronto, Canada
May 24 filed 2,000,000 shares ($1 par) capital stock. **Underwriter**—Tellier & Co., New York. Price, 25 cents per share (U. S. funds). **Proceeds**—To explore for iron ore deposits.

Florida Power & Light Co.
May 20 filed $10,000,000 first mortgage bonds, due June 1, 1979. **Underwriters**—Names to be determined through competitive bidding. Probable bidders: Harriman Ripley & Co.; Halsey, Stuart & Co. Inc.; White, Weld & Co.; Glore, Forgan & Co.; Lehman Bros.; The First Boston Corp.; Carl M. Loeb; Rhoades & Co. and Bear, Stearns & Co. (jointyl); Drexel & Co. and Central Republic Co. (jointly). **Proceeds**—To pay off $3,200,000 of short-term borrowings from Central Hanover Bank & Trust Co. and for construction and other corporate purposes.

● **Foote Mineral Co., Philadelphia (6/13-20)**
May 26 (letter of notification) 7,798 shares of common stock (par $2.50). To be offered for subscription by common stockholders of record June 7 on a 1-for-6 basis. Rights expire June 20. **Underwriter**—Estabrook & Co. Price, estimated at between $26 and $28.50 per share. Plant expansion and working capital.

● **Foote Mineral Co., Philadelphia**
May 26 (letter of notification) 2,500 shares of common stock (par $2.50). To be offered to employees only at between $24.18 and $26.51 per share. Additional 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.

● **Gulf Atlantic Transportation Co., Jacksonville, Florida**
May 31 filed 620,000 shares of class A participating ($1 par) stock and 270,000 shares (25c par) common stock. **Offering**—135,000 shares of common will be offered for subscription by holders on the basis of one-for-two at 25 cents per share. **Underwriters**—(Names by amendment) will buy the remaining 135,000 shares plus unsubscribed shares of the new common. Offering price of class A $5. **Proceeds**—To complete an ocean ferry, to finance dock and terminal facilities, to pay current obligations, and to provide working capital.

Harwill, Inc., St. Charles, Mich.
May 9 (letter of notification) 3,000 shares of common (par $1). Price, par. **Underwriter**—Charles E. Bailey & Co., Detroit.

Heidelberg Sports Enterprises, Inc., Pittsburgh, Pa.
June 25 filed 5,000 shares of class B common stock (par $100). **Price**—$100 per share. **Underwriter**—None. **Proceeds**—$600,000 to be used for spectator grandstand and balance for related purposes.

Horwood Lake Gold Mines Corp.
Dec. 27 (letter of notification) 100,000 shares of capital stock. **Price**—$1 per share. **Underwriter**—Charles W. Warshoff & Co., Newark, N. J. For development of mining properties.

● **Houston Lighting & Power Co.**
May 31 filed an alternative to issue $15,360,450 2¾% convertible debentures, due June 30, 1964 or 307,209 shares (no par) common. **Offering**—Common stockholders of record June 22 will be entitled to subscribe to either one share of common at $40 per share for each four shares held or to $50 principal amount of debentures for cash at 100 of principal amount for each four shares held. **Underwriter**—Kidder, Peabody & Co. **Proceeds**—To repay short-term bank loans of about $4,000,000 made or to be made from The National Bank of Commerce of Houston and to finance construction.

Idaho-Montana Pulp & Paper Co., Polson, Mont.
Nov. 23 (by amendment) 180,000 shares ($10 par) common stock to be offered at $10 per share and 20,020 shares to be issued in exchange for $170,200 first mortgage bonds. **Underwriter**—Tom G. Taylor & Co., Missoula, Mont. **Proceeds**—To erect and operate a bleached sulphate pulp mill with a 200-ton per day capacity.

Kaman Aircraft Corp., Windsor, Locks, Conn.
May 23 filed 170,456 shares of class A non-voting common stock (10c per share non-cumulative dividend) and 11,362 shares of class B voting common stock. Price, $5.50 per share. **Underwriter**—None. **Purpose**—To acquire machinery, tools and equipment; to buy land and buildings; to produce 30 helicopters and accessories; to complete engineering changes; to setup sales and service departments; and to train service personnel.

Kansas Gas & Electric Co.
May 16 filed 550,000 shares of common stock (no par) of which American Power & Light Co. (parent) will sell 450,000 shares. **Underwriter**—Exemption from competitive bidding is sought in connection with this offering. If competitive bidding probable bidders include: Union Securities Corp.; Blyth & Co., Inc. and the First Boston Corp., (jointly); Merrill Lynch, Pierce, Fenner & Beane and Kidder Peabody & Co. (jointly); White, Weld & Co. **Proceeds** — Kansas Gas will use proceeds of 100,000 shares to pay for part of its construction program and to repay short-term bank loans from Guaranty Trust Co. of New York and eight Kansas banks.

Keller Motors Corp., Huntsville, Ala.
May 10 filed 5,000,000 shares (3¢ par) common. **Underwriter**—Greenfield, Lax & Co., Inc., New York. **Price**—$1 per share. **Proceeds**—For plant facilities, equipment and working capital to manufacture a low-priced, medium-sized station wagon.

● **Lafayette (Ind.) Foods, Inc.**
May 23 (letter of notification) 3,000 shares of 6% cumulative preferred stock (par $100). Price, par. No underwriter. To purchase the common stock of Continental Freezers, Inc.

NEW ISSUE CALENDAR

June 2, 1949

Seaboard Air Line RR., noon (EDT)--Eqp. Tr. Ctfs.

June 3, 1949

Southern Indiana Gas & Electric Co.--------Bonds

June 6, 1949

Bridgeport Hydraulic Co.--------------Common
Oklahoma Gas & Electric Co.---------------Bonds

June 7, 1949

Caterpillar Tractor Co.-----------------Preferred
Pennsylvania & Southern Gas Co.--------Preferred
Public Service Electric & Gas Co.
11 a.m. (EDT)----------------------------Bonds
Utilities Equipment Co.-------------------Bonds
Virginia Electric & Power Co., 1 p.m. (EDT)-Bonds

June 8, 1949

Reading Co., noon (EDT)---------Equip. Trust Ctfs.
Southern Ry.-------------------Equip. Trust Ctfs.

June 9, 1949

Chicago Rock Island & Pacific RR.
Noon (CDT)-------------------Equip. Trust Ctfs.
Clinton Industries Inc.-----------------Capital Stock

June 10, 1949

Baltimore & Ohio RR.------------Equip. Trust Ctfs.

June 13, 1949

Foote Mineral Co.---------------------------Common
Southwestern Gas & Electric Co.---Bonds and Pref.

June 14, 1949

Pacific Western Oil Corp.-----------------Debentures

June 15, 1949

Chicago Burlington & Quincy RR.----Eqp. Tr. Ctfs.
Scott Paper Co.-------------------------Preferred
Staten Island Edison Corp., noon (EDT)--Preferred

June 27, 1949

Wisconsin Electric Power Co.--------------Preferred

July 7, 1949

Atlantic Coast Line RR.----------Equip. Trust Ctfs.

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.

Liberty Loan Corp., Chicago, Ill.
May 9 (letter of notification) 3,600 shares ($10 par) 75% cumulative convertible preferred. Price, $15 per share. **Underwriter**—Sills, Fairman and Harris, Inc., Chicago. Working capital.

Lorain (Ohio) Telephone Co.
April 11 (letter of notification) 7,500 shares (no par) common. **Price**—$20 each. No underwriter. To reimburse treasury for outlays for property additions.

Maumee Oil Corp., Toledo, Ohio
May 12 filed 8,000 shares (no par) common, of which only about 2,614 shares will be offered publicly at $100 per share. No underwriter. For general working capital. SEC will hold hearing June 6 to determine whether a stop order should be issued suspending the effectiveness of the registration statement.

● **Michigan Consolidated Gas Co.**
June 1 filed $25,000,000 sinking fund debentures, due July 1, 1967. **Underwriters** — Names to be determined through competitive bidding. Probable bidders: White, Weld & Co. and Lehman Brothers (jointly); Halsey, Stuart & Co. Inc.; Harriman Ripley & Co., Inc.; Smith, Barney & Co. **Proceeds**—For payment of $3,500,000 of promissory notes, payment of the redemption price of 40,000 shares of outstanding 4¾% cumulative preferred, payment of principal and premium of about $7,300,000 of promissory notes of its subsidiary (Austin Field Pipe Line Co.) and for construction.

● **Missouri Utilities Co., Cape Girardeau, Mo.**
May 26 filed 51,184 shares ($1 par) common. **Offering**—To be offered to stockholders on one-for-four basis. **Underwriter**—Edward D. Jones & Co., St. Louis, Mo. **Proceeds**—For construction.

● **Motion Picture Financial Corp., New York**
May 23 (letter of notification) 2,700 shares 5% cumulative preferred stock (par $100) and 2,700 shares class A common stock (par $1). To be offered in units of one share of each at $101 per unit. Underwriting, none. Working capital. Office 295 Madison Ave., New York 17, N. Y.

● **National Forum, Inc.**
May 23 (letter of notification) 1,509 shares ($100 par) preferred and 21,575 shares ($1 par) common. Price, par. No underwriter. For development and completion of certain educational medium—like charts. Office: 407 South Dearborn Street, Chicago.

● **National Industrial Loan Corp., New York**
May 25 (letter of notification) 40,353 shares of capital stock (par $3). To be offered for sale in one parcel at public auction, at auction rooms of Adrian H. Muller & Sons, New York, in behalf of General Phoenix Corp., 59 John St., New York.

New York State Electric & Gas Corp. (6/14)
May 16 filed 40,000 shares ($100 par) cumulative preferred stock **Underwriter** — Names to be determined through competitive bidding. Probable bidders: W. C. Langley & Co.; Lehman Brothers and Glore, Forgan & Co. (jointly); Harriman Ripley & Co. **Proceeds**—To be applied to the discharge of presently outstanding $4,000,000 of short-term notes and for new construction. Expected June 14.

Nielsen Television Corp., New York
Feb. 24 (letter of notification) 4,000 share of 6% cumulative non-convertible preferred stock (par $25) and 10,000 shares of common stock (par 25¢). **Underwriter**—Charles H. Drew & Co., New York. **Offering**—To be offered in units of one preferred share and 2½ common shares at $25.625 per unit. Capital requirements. Present plans will be revised.

Oklahoma Gas & Electric Co. (6/6)
May 5 filed $10,000,000 first mortgage bonds, due June 1, 1979. **Underwriters**—Names to be determined through competitive bidding. Probable bidders: Merrill Lynch, Pierce, Fenner & Beane and White, Weld & Co. (jointly); The First Boston Corp.; Halsey, Stuart & Co. Inc.; Harriman Ripley & Co. and Union Securities Corp. (jointly); Lehman Brothers and Blyth & Co., Inc. **Proceeds**—For construction and payment of $3,500,000 of short-term bank loans. **Bids**—Bids for purchase of bonds will be received up to 10:30 a.m. (CDT) June 6 at 231 So. La Salle St., Chicago.

Pacific Western Oil Corp. (6/14)
May 20 filed $15,000,000 15-year debentures, due June 1, 1964. **Underwriter**—Eastman, Dillon & Co. **Proceeds**—To repay a $10,500,000 note held by Guaranty Trust Co. of New York, to repay Guaranty Trust Co. balance due on certain advances made under a credit agreement to acquire from Labouchere & Co. shares of Tide Water Associated Oil Co. common stock and for development purposes.

Pay Rock Oil, Inc., Tulsa, Okla.
May 3 (letter of notification) 900,000 shares of common stock. Price, 30 cents per share. **Underwriter**—Security Royalties, Inc. For the repurchase of stock of the corporation under offer of rescission and for operating expenses.

Pennsylvania & Southern Gas Co., Westfield, N. J. (6/7-8)
May 18 (letter of notification) 250 shares 6½% cumulative preferred stock, series B (par $100). Price, par. **Underwriter**—Bioren & Co., Philadelphia. Capital improvements, etc.

Power Petroleum Ltd., Toronto Canada
April 25 filed 1,150,000 shares ($1 par) common of which 1,000,000 on behalf of company and 150,000 by New York Co., Ltd. **Price**—50 cents per share. **Underwriters**—To be named by amendment. **Proceeds**—For administration expenses and drilling.

Public Service Co. of New Hampshire
May 9 filed 104,804 shares of common stock (par $10). **Offering**—To be offered to stockholders on a one-for-eight basis. New England Public Service Co. (parent), holder of 58.88% of the outstanding common stock of Public Service will surrender for cancellation the warrants evidencing its preemptive right to subscribe for the additional common stock to which it is entitled and will not subscribe to any of the new common stock. Common stockholders will be entitled to purchase shares in excess of their ratable allotment; and holders of the company's preferred stock will be offered a similar opportunity to subcribe to the new, unsubscribed shares. **Proceeds**—For construction and repayment of short-term bank borrowings. **Underwriters**—Names by competitive bidding. Probable bidders: Kidder, Peabody & Co.; Blyth & Co., Inc.; Harriman Ripley & Co.

Public Service Co. of New Hampshire
May 18 filed $4,000,000 first mortgage bonds, series E, due 1979. **Underwriters** — Names to be determined through competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc. (bonds only); The First Boston Corp. and Coffin & Burr Inc. (jointly); Kidder, Peabody & Co. and Blyth & Co. (jointly); Smith, Barney & Co. and Harriman Ripley & Co. (jointly). **Proceeds**—For construction, including repayment of short-term borrowings for such purposes.

Public Service Electric & Gas Co. (6/7)
May 6 filed $75,000,000 first and refunding mortgage bonds, due June 1, 1979. **Underwriters**—Names to be determined by competitive bidding. Probable bidders: Morgan Stanley & Co.; Halsey Stuart & Co. Inc.; The First Boston Corp.; Kuhn, Loeb & Co. and Lehman Brothers (jointly). **Proceeds**—To reimburse, in part, the company for past construction expenditures; and to pay at maturity $9,475,300 of Hudson County Gas Co. first mortgage 5% gold bonds, due Nov. 1, 1949. **Bids**—Bids for purchase of bonds will be received at company's office, 80 Park Place, Newark, N. J., up to 11 a.m. (EDT) June 7.

Renaissance Films Distribution, Inc., Montreal, Que.
Oct. 29 filed 40,000 shares (par $25) 5% cumulative convertible class B preferred stock and 10,000 shares of C stock (no par). **Underwriting**—None. **Offering**—Class B preferred will be offered at $25 per share with one share of class C given as a bonus with each 4 shares of class B purchased. **Proceeds**—To pay balance of current liabilities and working capital.

Rickel (H. W.) & Co., Detroit, Mich.
May 18 (letter of notification) $300,000 of 5½% convertible debentures, due June 1, 1961. **Underwriter**—Wm. C. Roney & Co. **Proceeds**—For general corporate purposes.

● **Ristaucrat, Inc., Appleton, Wis.**
May 23 (letter of notification) 750 shares of common stock (par $100). Price, par. No underwriter. To manufacture automatic record changers and to have tools and dies made. Office: 204 First National Bank Building, Appleton, Wis.

● **Sandy Hill Iron & Brass Works, Hudson Falls, N. Y.**
May 18 (letter of notification) 50,000 shares class A participating preferred stock, nonconvertible (par $4). **Price**—$5 per share. **Underwriter**—Office of John L. Nolan, Inc., Glen Falls, N. Y. Working capital, etc.

Scott Paper Co., Chester, Pa. (6/15)
May 26 filed 45,000 cumulative preferred shares (no par). **Underwriters**—Drexel & Co.; Smith, Barney & Co. and Merrill Lynch, Pierce, Fenner & Beane. **Offering** price and dividend rate by amendment. **Proceeds**—To pay off outstanding bank loans and to augment company's funds which are to be applied in part to general corporate purposes and in part to company's current program of improvements and additions to plant and equipment.

Southern Indiana Gas & Electric Co. (6/3)
April 29 filed $3,000,000 first mortgage bonds, due June 1, 1979. **Underwriters**—Issue awarded to Kidder, Peabody & Co., June 1 on bid of 101.14 for a 2⅞% coupon. **Proceeds** — To finance a continuation of the company's construction program. **Offering**—To be priced at 101.51 to yield 2.80%.

Southern Natural Gas Co., Birmingham, Ala.
May 13 filed 141,853 shares ($7.50 par) common stock. **Offering**—Stockholders of record June 6 will have the right to subscribe for the stock on a 1-for-10 basis at $26 per share. Rights expire June 28. **Underwriter**—None. **Proceeds**—For construction and for additional common stock investment in Southern's subsidiary, Alabama Gas Corp.

Southern Union Gas Co., Dallas Texas
May 9 filed $3,679,464 of sinking fund debentures, due July 1, 1964, and 306,622 shares ($1 par) preference stock under a proposal to merge with Texas Public Service Co. Stockholders of the latter company will receive $12 of debentures and one share of preference for each share of Texas Public Service common. Of the preference being registered 18,378 shares will be used by Southern Union to pay for expenses of merger. **Underwriter**—E. H. Rollins & Sons, Inc.

Southwestern Gas & Electric Co. (6/13)
May 20 filed $4,500,000 first mortgage bonds, series C, due June 1, 1979, and 25,000 shares ($100 par) cumulative preferred stock. **Underwriters**—Names to be determined through competitive bidding. Probable bidders include: Blyth & Co., Inc., and Stone & Webster Securities Corp. (jointly); Lehman Brothers; Halsey, Stuart & Co. Inc. (bonds); White, Weld & Co.; Harriman Ripley & Co.; The First Boston Corp.; Glore, Forgan & Co. and W. C. Langley & Co. (jointly); Merrill Lynch, Pierce, Fenner & Beane. **Proceeds**—For construction and to prepay $2 million of bank notes. Expected June 13.

Staten Island (N. Y.) Edison Corp. (6/15)
May 9 filed 40,000 shares ($100 par) cumulative preferred stock. **Underwriters** — Names to be determined through competitive bidding. Probable bidders: W. C. Langley & Co.; Kidder, Peabody & Co.; Stone & Webster Securities Corp. and White, Weld & Co. (jointly); Lehman Brothers; The First Boston Corp. **Proceeds**—To pay off short-term notes and for construction. **Bids**—Bids for the purchase of the stock will be received up to noon (EDT) June 15 at Room 2601, 61 Broadway, New York.

Suburban Gas Service, Inc., Ontario, Calif.
March 31 (letter of notification) 4,000 shares ($25 par) series B preferred and 20,000 shares ($1 par) common—issuable upon conversion of preferred. **Price**—Preferred $25 per share. **Underwriters**—Wagenseller & Durst, Inc., and Lester & Co. To buy Antelope Liquid Gas Co.

Tennessee Gas Transmission Co.
May 24 filed $50,000,000 first mortgage pipeline bonds, due 1969. **Underwriters** — Names to be determined through competitive bidding. Probable bidders: White, Weld & Co. and Stone & Webster Securities Corp. (jointly); Halsey, Stuart & Co. Inc. **Proceeds**—To be used from time to time, along with other cash resources, for expansion of company's natural gas pipeline system.

● **Tower Bay Development Corp., Lake Wales, Florida**
May 24 (letter of notification) 2,400 shares of preferred and 12,000 shares of common. To be offered in 300 units consisting of eight shares of preferred ($100 par) issued at $100 per share, and 40 shares ($1 par) common, issued at $5 per share—$1,000 per unit. No underwriter. To develop, advertise and promote the vacant land owned by the issuer.

● **Trans Caribbean Air Cargo Lines, Inc.**
May 25 (letter of notification) $150,000 7% convertible equipment trust certificates, series C, due Sept. 1, 1952. **Underwriter**—Gearhart, Kinnard & Otis, Inc., New York. Price, par. To pay unpaid balance of $44,474 owing on chattel mortgages covering two aircraft, and $90,000 to complete conversion, etc., on another aircraft, etc.

Transitcast Inc., Allentown, Pa.
May 19 (letter of notification) 1,000 shares 5% cumulative preferred stock (par $50) and 5,000 common shares (no par). To be offered in units of one preferred and five common shares at $55 per unit. **Underwriter**—C. V. Converse & Co., Allentown, Pa. Working capital, etc.

Trenton Chemical Co., Detroit, Mich.
March 30 filed 131,841 shares 6% cumulative convertible class B preference ($2 par). **Underwriters**—Straus & Blosser, Chicago; Carr & Co., Detroit, and Lester & Co., Los Angeles. **Proceeds**—To build chemical plant and to replace working capital used for capital additions. [Under a previous registration statement (No. 7637), which became effective Sept. 24, 1948, company sold 43,159

(Continued on page 42)

(Continued from page 41)

shares of 6% cumulative preferred stock for a total of $97,108 and removed 131,841 shares from registration March 21, 1949.]

Mrs. Tucker's Foods, Inc., Sherman, Texas
Nov. 26 filed 200,000 shares of common stock (par $2.50) of which 80,000 will be sold by the company and 120,000 shares by certain stockholders. **Underwriter**—Rauscher, Pierce & Co., Inc., Dallas, Texas. **Proceeds**—For general corporate purposes.

Upper Peninsula Power Co.
Sept. 28 filed 200,000 shares of common stock (par $9). **Underwriters** — Names to be determined through competitive bidding. Probable bidders include Kidder, Peabody & Co., Merrill Lynch, Pierce, Fenner & Beane and Paine, Webber, Jackson & Curtis (jointly). **Proceeds**—Will go to selling stockholders. Consolidated Electric & Gas Co. and Middle West Corp. will sell 120,000 shares and 34,000 shares, respectively; Copper Range Co., 34,000 shares and several individual owners 11,200 shares.

Utilities Equipment Co., Inc. (6/7-8)
May 20 (letter of notification) $30,000 6% secured bonds. Price, par. **Underwriter**—Bioren & Co., Philadelphia. Prepayment of advances made for purchase of equipment.

Virginia Electric & Power Co. (6/7)
May 4 filed $20,000,000 first & refunding mortgage bonds, due June 1, 1979. **Underwriters**—Names to be determined through competitive bidding. Probable bidders: White, Weld & Co.; Union Securities Corp.; Stone & Webster Securities Corp.; Halsey, Stuart & Co. Inc.; Glore, Forgan & Co. and W. C. Langley & Co. (jointly). **Proceeds**—For construction. **Bids**—Bids for the purchase of the bonds will be received by the company at office of J. C. Leighton, Room 503, 90 Broad St., New York, up to 1 p.m. (EDT) June 7.

• **Webb's City, Inc., St. Petersburg, Fla.**
May 23 (letter of notification) $300,000 10-year 4½% debentures. No underwriter. For retirement, by exchange or call, of $200,000 outstanding 7% cumulative preferred stock and exchange for, payment of, or call of $100,000 of presently outstanding $200,000 6% debentures. Office: 128 Ninth Street South, St. Petersburg, Fla.

Western American Life Insurance Co., Reno
March 30 filed 12,500 shares ($10 par) common stock. **Price**—$40 each. **Underwriter**—To be named by amendment. **Proceeds**—To qualify the company to sell life insurance in any state.

Western Oil Fields, Inc., Denver, Colo.
May 19 (letter of notification) 800,000 shares of common capital. Price. 25¢ per share. **Underwriter**—John G. Perry & Co., Denver, Colo. For working capital and drilling of wells.

Wichman Philippine Mindanao Development Co., Cebu City, Philippine Islands
Jan. 5 filed 2,000,000 shares of voting capital stock, one centavo par value. **Price**—25 cents per share (U. S. currency). **Underwriter**—F. T. Andrews & Co. **Proceeds**—To provide funds for plant construction, diamond drilling, exploration and repayment of loans.

Wiegand (Edwin L.) Co., Pittsburgh
Sept. 28 filed 200,000 shares (no par) common stock. **Underwriter**—Hemphill, Noyes & Co., New York. Price, by amendment. **Proceeds**—Will go to selling stockholders. Offering postponed.

Young (Thomas) Orchids, Inc., Bound Brook, New Jersey
April 20 (letter of notification) 2,000 shares of common stock (par $1). **Price**—$30 per share. **Underwriter**—Smith, Barney & Co. will act as agents. Proceeds to selling stockholder.

Prospective Offerings

• **Akron Union Passenger Depot Co.**
May 27 reported company plans sale of $2,000,000 bonds. Probable bidders: Halsey, Stuart & Co. Inc.; Kidder, Peabody & Co.; Drexel & Co.; Otis & Co.; Salomon Bros. & Hutzler; R. W. Pressprich & Co.; W. C. Langley & Co.

American Gas & Electric Co.
May 18 Philip Sporn, President, stated that company probably will come to the new money market for equity capital this year. The System expects to require between $80,000,000 and $90,000,000 from new bond financing in the next three years in connection with its expansion program, scheduled to cost $251,000,000 over the 1949-1951 period.

Appalachian Electric Power Co.
May 18 reported company expected to do some bond financing later this year, but amount not yet determined.

Atlantic Coast Line RR. (7/7)
May 24 reported company plans the sale July 7 of $8,685,000 equipment trust certificates. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; The First Boston Corp.; Harriman Ripley & Co. and Lehman Brothers (jointly); Harris, Hall & Co. (Inc.).

Baltimore & Ohio RR. (6/10)
May 18 reported company is expected to be in the market about June 10 for the sale of about $4,500,000 equipment trust certificates. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; The First Boston Corp.; Harriman Ripley & Co. and Lehman Brothers (jointly).

Bank of the Manhattan Co.
June 1 stockholders voted to increase the capital stock to $25,000,000 from $20,000,000 by sale of 500,000 shares (par $10). Stock will be offered initially to stockholders on or about June 7 on a 1-to-4 basis. **Underwriter**—The First Boston Corp.

California Oregon Power Co.
May 24 stockholders will vote on increasing authorized common stock ($20 par) to 2,500,000 shares from 750,000 (550,000 shares outstanding). Stockholders also will vote on the elimination of restrictions on unsecured indebtedness. Sale of additional stock will be necessary in the future to enable sound growth of the business and to assure a properly balanced capital structure, according to A. S. Cummins, President. Elimination of the restriction which limits unsecured indebtedness to 10% of the aggregate amount of capital and surplus will assure the company more freedom in borrowing. Probable bidders for stock: Blyth & Co., Inc. and The First Boston Corp. (jointly); Harriman Ripley & Co.; Merrill Lynch, Pierce, Fenner & Beane.

Carolina Power & Light Co.
May 20 company expects to need $27,000,000 in new money over the next three years to finance its expansion and construction program through 1952. Presently it has no definite plans as to how and when this capital will be raised. Company expects to spend $53,500,000 on its construction program in the period 1949-1952, including $5,500,000 which has been spent in the first four months of 1949. Currently it has approximately $8,000,000 of cash available for its construction needs. Another $13,000,000 is scheduled to be raised from its depreciation accruals, current earnings and other internal sources. In order to maintain an unofficial ratio of 20% common stock and surplus to total capitalization, only a small amount of new common stock would have to be sold as part of the $27,000,000 program of new financing.

Chicago Burlington & Quincy RR. (6/15)
May 24 company asked ICC for authority to issue $2,060,000 equipment trust certificates. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; The First Boston Corp.; Harriman Ripley & Co. and Lehman Brothers. Expected about June 15.

Chicago Rock Island & Pacific RR. (6/9)
Company will receive bids at its office, Room 1136, La Salle Street Station, Chicago, up to noon (CDT) June 9 for the purchase of $3,120,000 equipment trust certificates, series E, dated July 1, 1949, due in 24 equal semi-annual instalments from Jan. 1, 1950-July 1, 1961. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Harris, Hall & Co. (Inc.); Harriman Ripley & Co. and Lehman Brothers (jointly).

Columbia Gas System, Inc.
May 23 company announced that it plans to sell $11,500,000 debentures later this year to complete the financing required for this year's construction. Probable bidders: Morgan Stanley & Co.; Halsey, Stuart & Co. Inc.; Merrill Lynch, Pierce, Fenner & Beane; Salomon Bros. & Hutzler; Lehman Brothers.

Commonwealth Edison Co.
May 24 Charles Y. Freeman, Chairman, stated that to complete company's construction program an estimated additional $100,000,000 must be raised before the end of 1952. No decision has been made as to the desirability of issuing mortgage bonds, debentures or common stock as it is now too early to decide.

Delaware Power & Light Co.
May 25 company plans to sell $10,000,000 of bonds and 50,000 shares of additional preferred stock, both at competitive bidding. Proceeds will be used to finance part of the $17,000,000 construction program scheduled for this year. Additional financing may be necessary later this year to complete the program, it is understood. Probable bidders: Halsey, Stuart & Co. Inc. (bonds); The First Boston Corp. and Blyth & Co., Inc. (jointly); Shields & Co. and White, Weld & Co. (jointly); Lazard Freres & Co. (stock); Morgan Stanley & Co.; Otis & Co. (stock); W. C. Langley & Co. (stock); Union Securities Corp.

• **Helicopter Air Service, Inc.**
May 27 negotiation under way for a public offering of securities to finance operations. Company has contract with U. S. Post Office for helicopter mail service for Chicago and vicinity. Reported Cruttenden & Co. will be underwriters.

Illinois Power Co.
May 20 an application was filed with the SEC by the North American Light & Power Co. and North American Co. requesting permission to sell competitively 242,785 shares (12.67%) of the outstanding common stock (no par) of Illinois Power Co. Of the stock to be sold, 72,785 share are held by North American and 170,000 shares by Light & Power. The sale will complete divestment by North American and Light & Power of their interests in Illinois. Probable bidders: White, Weld & Co.; Kidder, Peabody & Co. and Lee Higginson Corp. (jointly); Goldman, Sachs & Co.; Hornblower & Weeks and Paine, Webber, Jackson & Curtis (jointly); The First Boston Corp. and Merrill Lynch, Pierce, Fenner & Beane (jointly); Blyth & Co. Inc.; Smith, Barney & Co.; Lehman Brothers and Harriman Ripley & Co. (jointly).

Iowa Power & Light Co.
May 12 reported company may be in the market this year with $7,500,000 first mortgage bonds and $3,000,000 common stock, the latter to be sold to United Light & Rys. Co. (parent). Bidders for bonds may include Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Kidder, Peabody & Co.; Lehman Brothers; Blyth & Co., Inc.; W. C. Langley & Co., and Union Securities Corp. (jointly); The First Boston Corp.; Glore, Forgan & Co., and A. G. Becker & Co. (jointly); Harriman Ripley & Co.

Montana-Wyoming Gas Pipe Line Co.
May 23 this company is being organized and will be publicly financed, to build a pipe line costing $3,000,000, to bring gas from the Worland (Wyo.) Unit Area, being developed by Pine Oil Co., into markets now being served by Montana-Dakota Utilities Co. in eastern Montana, western North Dakota and the Black Hills region of western South Dakota. Montana-Dakota Utilities Co. will lease and operate the facilities. Probable underwriters: Blyth & Co., Inc.; Merrill Lynch, Pierce, Fenner & Beane.

New Jersey Power & Light Co.
May 19 company asked SEC authority to sell competitively $3,500,000 first mortgage bonds and 20,000 shares of preferred stock (par $100). Probable bidders for bonds: Halsey, Stuart & Co. Inc.; Equitable Securities Corp.; Union Securities Corp.; Carl M. Loeb, Rhoades & Co. For preferred: Salomon Bros. & Hutzler; Kidder, Peabody & Co.; Drexel & Co.; Smith, Barney & Co.; Glore, Forgan & Co. and W. C. Langley & Co. (jointly).

New York New Haven & Hartford RR.
April 13 stockholders authorized issuance of not exceeding $3,500,000 of equipment obligations. Probable bidders: Harris, Hall & Co. (Inc.); Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler, Lehman Brothers and Bear, Stearns & Co. (jointly); Lee Higginson Corp.

• **Pacific Gas & Electric Co.**
May 26 company announced it plans to apply to the California P. U. Commission for authority to offer for sale at competitive bidding this month $80,000,000 first and refunding mortgage bonds. The interest rate and maturity date will be determined later. The financing will provide additional funds for carrying on the company's large expansion program. Probable bidders: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc.; The First Boston Corp.

Pennsylvania Electric Co.
May 9 reported company is expected to be in the market for $5,000,000 of bonds and $5,000,000 of preferred stock, when its parent, Associated Electric Co., has retired all of its indebtedness. Probable bidders for preferred: Kuhn, Loeb & Co.; Kidder, Peabody & Co.; Smith, Barney & Co.; White, Weld & Co.; W. C. Langley & Co. For bonds: Halsey, Stuart & Co. Inc.; Harriman Ripley & Co.; The First Boston Corp.; Equitable Securities Corp.

• **Pennsylvania Power & Light Co.**
May 28 company announced plans to offer common shareholders an additional share of common stock for each seven shares held on June 27. The offering will be subject to existence of favorable market conditions and government authorization. Price and other terms were not disclosed. Traditional underwriters: The First Boston Corp.; Drexel & Co.

• **Public Service Co. of Colorado**
May 23 stockholders voted to increase authorized common to 1,875,000 from 1,250,000 shares and authorized preferred to 375,000 from 250,000 shares. If any preferred sold, probable bidders include: Blyth & Co., Inc. and Smith, Barney & Co. (jointly); Glore, Forgan & Co. and W. C. Langley & Co. (jointly); Eastman, Dillon & Co.

Reading Co. (6/8)
Bids for the purchase of $3,700,000 equipment trust certificates, series Q, will be received at office of R. W. Brown, President, Room 423, Reading Terminal, Philadelphia, up to noon (EDT) June 8. Certificates will be dated June 15, 1949, and will mature $185,000 semi-annually Dec. 15, 1949-June 15, 1959. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Freeman & Co.; The First Boston Corp.; Harriman Ripley & Co. and Lehman Brothers (jointly).

Seaboard Air Line RR. (6/2)
Bids for the purchase of $3,435,000 equipment trust certificates series F, dated June 1, 1949, due in 15 equal annual instalments, will be received at office of Willkie Owen Farr Gallagher & Walton, 15 Broad Street, New York, up to noon (EDT) June 2. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Harriman Ripley & Co. and Lehman Brothers (jointly); The First Boston Corp.

South Carolina Power Co.
May 17 reported plans to sell $4,000,000 of bonds this year to finance part of its 1949 construction program. Probable bidders include: The First Boston Corp.; Halsey, Stuart & Co. Inc.; Harriman Ripley & Co.; Blyth & Co., Inc.; W. C. Langley & Co. and Carl M. Loeb, Rhoades & Co.

Southern Railway (6/8)
The company, has issued invitation for bids to be received June 8 for the purchase from it of $7,500,000 in equipment trust certificates, to mature in 30 equal semi-annual installments. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; The First Boston Corp.; Harriman Ripley & Co. and Lehman Brothers (jointly); Harris, Hall & Co. (Inc.).

• **Wisconsin Electric Power Co. (6/27)**
May 31 North American Co. told the SEC of plans to sell competitively 13,494 shares of its holdings of Wisconsin Electric Power Co. ($100 par) 6% preferred capital stock. Bids expected June 27.

Worcester County Electric Co.
The company has petitioned the Massachusetts Department of Public Utilities for authority to issue $5,500,000 of first mortgage bonds, to mature in not exceeding 30 years, and bear interest not over 3¼%. Proceeds would be used to pay indebtedness to banks, incurred to finance temporarily a portion of the company's construction program. Probable bidders: Halsey, Stuart & Co., Inc.; Merrill Lynch, Pierce, Fenner & Beane and Salomon Bros. & Hutzler (jointly); Kidder, Peabody & Co.; The First Boston Corp.; Otis & Co.

Our Reporter's Report

With only a single large offering scheduled for market this week, and that one of the increasingly rare variety of negotiated deals which eliminated the trying and expensive tasks involved in competitive bidding, the underwriting community was able to direct the major part of its efforts toward working off the bits and pieces left over from some recent corporate undertakings.

These inventories are not burdensome, and at the moment provide bankers and their dealer affiliates with something to do pending revival of the new issue market next week when a number of substantial operations will be under way.

Sperry Corp.'s offering of $20,000,000 of new 20-year sinking fund debentures constitutes this week's only important undertaking in the corporate field. The issue, out today, appears assured of a favorable reception. Proceeds will provide the company with funds for discharge of bank loans and additional working capital.

Several smaller issues also were due out for public offering today, among them Southern Indiana Gas & Electric Co.'s $3,000,000 of 30-year first mortgage bonds, center of lively bidding yesterday, $2,750,000 of Staten Island Edison Corp. 30-year first mortgage bonds and 50,000 shares of $100 cumulative preferred stock of Public Service Co. of Oklahoma, which likewise attracted a series of bids.

Arkansas-Missouri Power Co.'s $3,150,000 interim notes, convertible June 15 into one preferred and two common shares for each $45 principal amount, are on the market today in a somewhat unusual financing deal.

Stocks vs. Bonds

Although investment quality bonds were not seriously influenced by the latest gradual but persistent slump in the equity market, lesser grades appeared to suffer from something in the way of sympathetic liquidation.

Without trying to minimize the obvious influence of the current tapering off in business activity, stock market observers are disposed to place more stress, at the moment, on the technical position of the market now that industrials have definitely penetrated a vital support level.

Naturally, those who apply the Dow Theory to their market operations would be inclined to look for something of a real shakeout. But others wonder if that well-known theory can be readily applied to the current situation which is hamstrung with regulations which did not prevail when it was accepted as a real guide.

Others ask if the market is not discounting a run of disappointing quarterly earnings reports. But then the market certainly did little to discount last year's tremendous expansion in earnings.

Distiller May Seek Funds

Several of the large distillery firms recently have been in the market for additional funds through the issuance of new securities or directly negotiated loans.

Reports are current at the moment that one of the larger segments of the industry is nearing consummation of negotiations for a substantial piece of new financing.

Looking Ahead

Public Service Electric & Gas Corp.'s $75,000,000 of new mortgage bonds will be up for bids next Tuesday to liven up the market which has been dormant for the better part of a fortnight.

The same day is slated to bring out bidding for $20,000,000 bonds of Virginia Electric & Power which will make it a busy period.

Later this month Michigan Consolidated Gas Co.'s $25,000,000 sinking fund debentures are expected to be sold competitively.

Meanwhile, other utilities are indicating their disposition to seek new money and Delaware Power & Light Co. is rounding out plans to market some $10,000,000 of bonds and 50,000 shares of preferred sometime next month.

First Boston Group Offers Ark.-Missouri 6½% Interim Notes

The First Boston Corp. heads an investment banking group which is offering to the public today (June 2) a new issue of $3,150,000 Arkansas - Missouri Power Co. 6½% interim notes due Dec. 15, 1951, which are convertible into the preferred and common stock of the company on or after June 15, 1950. Issued in denominations of $45 and authorized multiples up to $99,000, the notes are priced at $47 per $45 principal amount and accrued interest.

Concurrently with the sale of the notes, the company is selling to two institutional investors, an aggregate of $5,500,000 of first mortgage bonds, series D, 3½%, due March 1, 1979.

The notes are convertible on or after June 15, 1950, into one share of 6% preferred stock and two shares of common stock for each $45 principal amount. They are payable at maturity in cash or, if the company so elects by delivery of one share of the 6% preferred and two shares of common stock for each $45 principal amount. The notes are subject to redemption at any time on 30 days' notice, in whole or in part, at $47.50 plus accrued interest per $45 principal amount.

Proceeds from the financing will be used to retire temporary bank loans previously incurred for construction, for general corporate purposes and towards completion of the company's current construction program.

Business of the company is the purchase, transmission, distribution and sale of electric energy in northern Arkansas and southeastern Missouri, the territory served covering approximately 5,600 square miles with a population in 1949 of more than 83,000, an increase of 30% since 1940. Although mainly agricultural, the territory has a number of industries.

Associated with The First Boston Corp. in the offering are: Eastman, Dillon & Co.; Edward D. Jones & Co.; E. H. Rollins & Sons Inc.; A. C. Allyn and Co., Inc.; Metropolitan St. Louis Co.; Barrow, Leary & Co.; Farwell, Chapman & Co.; Sills, Fairman & Harris, Inc.; Straus & Blosser; Peltason, Tenenbaum Co.; Stix & Co.; Crowell, Weedon & Co.; First California Co., and Pacific Co. of California.

Halsey, Stuart Offers Northern Pac. Equips.

A banking group headed by Halsey, Stuart & Co. Inc. won the award June 1 of $6,450,000 Northern Pacific Ry. equipment trust certificates on a bid of 99.1299 for a 2½% coupon. The certificates are to be dated June 15, 1949, and will mature $430,000 each June 15, 1950-1964, inclusive.

Reoffering of the issue is being made at prices to yield from 1.40 to 2.675%, according to maturity.

With Raymond E. Hall & Sons

(Special to THE FINANCIAL CHRONICLE)

FRESNO, CALIF. — Emory L. Chaddock is with Raymond E. Hall & Sons, Helm Building.

With John L. Ahbe Co.

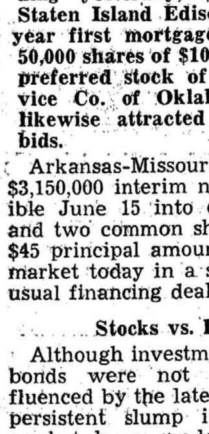
(Special to THE FINANCIAL CHRONICLE)

PALM BEACH, FLA.—John P. Cochrane, Jr. is with John L. Ahbe & Co., 268 South County Road.

Purchasing Agents Report May Business Off

Business Survey Committee of National Association of Purchasing Agents, headed by Robert C. Swanton, reports bookings have sagged, inventories are still being reduced and there is no sign of general price stabilization.

The Business Survey Committee of the National Association of Purchasing Agents, of which Robert C. Swanton, Director of Purchases of the Winchester Repeating Arms Corporation is Chairman, reports that on the basis of majority opinions of purchasing agents, we are still only half way through the present downward business cycle. According to the survey, order bookings in May have again sagged and inventories are still being reduced substantially while there is as yet no evidence that a stabilized price level has been reached.



Robert C. Swanton

The reports for May of industrial purchasing executives find general business was slightly off from April. Production has sagged, and the number reporting increases dropped from 19% in April to 9% in May. 54%, however, report they are maintaining previously adjusted production schedules. Order bookings followed the production trend closely; those having increases dropping from 23% in April to 16% in May. Others, holding even with the previous month, amounted to 47%, the highest number since November.

DIVIDEND NOTICES

ANACONDA COPPER MINING CO.
25 Broadway

New York 4, N. Y., May 26, 1949

DIVIDEND NO. 164

The Board of Directors of the Anaconda Copper Mining Company has declared a dividend of Seventy-five Cents ($.75) per share on its capital stock of the par value of $50 per share, payable June 29, 1949, to holders of such shares of record at the close of business at 3 o'clock P. M., on June 7, 1949.

C. EARLE MORAN, Secretary & Treasurer

Allied Chemical & Dye Corporation
61 Broadway, New York

May 31, 1949

Allied Chemical & Dye Corporation has declared quarterly dividend No. 113 of One Dollar and Fifty Cents ($1.50) per share on the Common Stock of the Company, payable June 20, 1949, to common stockholders of record at the close of business June 10, 1949.

W. C. KING, Secretary

THE ATCHISON, TOPEKA AND SANTA FE RAILWAY COMPANY

New York, N. Y., May 26, 1949.

The Board of Directors has this day declared a dividend of Two Dollars and Fifty Cents ($2.50) per share, being Dividend No. 101 on the Preferred Capital Stock of this Company, payable August 1, 1949, out of undivided net profits for the year ending June 30, 1949, to holders of said Preferred Capital Stock registered on the books of the Company at the close of business June 30, 1949.

Dividend checks will be mailed to holders of Preferred Capital Stock who have filed suitable orders therefor at this office.

D. C. WILSON, Assistant Treasurer,
120 Broadway, New York 5, N. Y.

AMERICAN LOCOMOTIVE COMPANY

30 Church Street New York 8, N. Y.

PREFERRED DIVIDEND No. 164
COMMON DIVIDEND No. 96

Dividends of one dollar seventy five cents ($1.75) per share on the Preferred Stock and of thirty five cents (35¢) per share on the Common Stock of this Company have been declared payable July 1, 1949 to holders of record at the close of business on June 9, 1949. Transfer books will not be closed.

CARL A. SUNDBERG
May 26, 1949 Secretary

AMERICAN BANK NOTE COMPANY

Preferred Dividend No. 173
Common Dividend No. 162

A quarterly dividend of 75¢ per share (1½%) on the Preferred Stock for the quarter ending June 30, 1949, and a dividend of 40¢ per share on the Common Stock have been declared. Both dividends are payable July 1, 1949, to holders of record June 6, 1949. The stock transfer books will remain open.

W. F. COLCLOUGH, JR.
May 25, 1949 Secretary

DIVIDEND NOTICES

GUARANTY TRUST COMPANY OF NEW YORK

New York, June 1, 1949.

The Board of Directors has this day declared a quarterly dividend of Three Dollars ($3.) per share on the Capital Stock of this Company for the quarter ending June 30, 1949, payable on July 1, 1949, to stockholders of record at the close of business June 8, 1949.

MATTHEW T. MURRAY, Secretary.

C.I.T. FINANCIAL CORPORATION

Dividend on Common Stock

A quarterly dividend of 75 cents per share in cash has been declared on the Common Stock of C. I. T. FINANCIAL CORPORATION, payable July 1, 1949, to stockholders of record at the close of business June 10, 1949. The transfer books will not close. Checks will be mailed.

FRED W. HAUTAU, *Treasurer.*

May 26, 1949.

EATON & HOWARD BALANCED FUND

The Trustees have declared a dividend of twenty cents ($.20) a share, payable June 25, 1949, to shareholders of record at the close of business June 15, 1949.

24 Federal Street, Boston

EATON & HOWARD STOCK FUND

The Trustees have declared a dividend of ten cents ($.10) a share, payable June 25, 1949, to shareholders of record at the close of business June 15, 1949.

24 Federal Street, Boston

INTERSTATE POWER COMPANY
DUBUQUE, IOWA

Notice of Dividend

The Board of Directors has declared a dividend of 15¢ per share on the outstanding Common Stock, payable June 20, 1949, to stockholders of record on June 10, 1949. The transfer books will not be closed.

OSCAR SOLBERG, *Treasurer*

May 25, 1949

IRVING TRUST COMPANY

One Wall Street, New York

May 26, 1949

The Board of Directors has this day declared a quarterly dividend of 20 cents per share on the capital stock of this Company, par $10., payable July 1, 1949, to stockholders of record at the close of business June 6, 1949.

STEPHEN G. KENT, *Secretary*

DIVIDEND NOTICES

HOMESTAKE MINING COMPANY
DIVIDEND No. 872

The Board of Directors has declared dividend No. 872 of fifty cents ($.50) per share of $12.50 par value Capital Stock, payable June 17, 1949 to stockholders of record 3:00 o'clock P. M., June 7, 1949.

Checks will be mailed by Irving Trust Company, Dividend Disbursing Agent.

JOHN W. HAMILTON, *Secretary.*

May 17, 1949

SOUTH PORTO RICO SUGAR COMPANY

May 31, 1949.

The Board of Directors has this day declared a quarterly dividend of 50c per share on the $25.00 par value 8% Preferred Stock outstanding; and a dividend of One Dollar per share on the outstanding Common Stock; all payable on July 1, 1949 to stockholders of record at the close of business on June 16, 1949.

F. M. SCHALL, Treasurer.

TENNESSEE CORPORATION

A dividend of thirty (30¢) cents per share has been declared, payable June 30, 1949, to stockholders of record at the close of business June 15, 1949.

61 Broadway
New York 6, N. Y.
May 20, 1949.

J. B. McGEE
Treasurer.

YALE

THE YALE & TOWNE MFG. CO.

On May 26, 1949, a dividend No. 241 of twenty-five cents (25c) per share was declared by the Board of Directors out of past earnings, payable July 1, 1949, to stockholders of record at the close of business June 10, 1949.

F. DUNNING
Executive Vice-President and Secretary

UNITED GAS CORPORATION
SHREVEPORT, LOUISIANA

Dividend Notice

The Board of Directors has this date declared a dividend of twenty-five cents (25¢) per share on the Common Stock of the Corporation, payable July 1, 1949, to stockholders of record at the close of business on June 10, 1949.

J. H. MIRACLE,
May 27, 1949 *Secretary*

THE West Penn Electric Company
(INCORPORATED)

PREFERRED DIVIDENDS

The Board of Directors of The West Penn Electric Company has declared regular quarterly dividends on the preferred stocks of the Company as follows:

$1.75 per share (1¾%) on the 7% Cumulative Preferred Stock and $1.50 per share (1½%) on the 6% Cumulative Preferred Stock, for the quarter ending August 15, 1949, payable on August 15, 1949, to stockholders of record at the close of business on July 18, 1949.

$1.75 per share on the Class A Stock for the quarter ending June 30, 1949, payable on June 30, 1949, to stockholders of record at the close of business on June 17, 1949.

COMMON DIVIDEND

The Board of Directors of The West Penn Electric Company has also declared a dividend on the Common Stock of the Company in the amount of thirty-seven and one-half cents (37½¢) per share, payable on June 30, 1949, to stockholders of record at the close of business on June 13, 1949.

H. D. McDOWELL, *Secretary*

Washington... And You

Behind-the-Scene Interpretations from the Nation's Capital

WASHINGTON, D. C.—There is big news behind the tentative decision of the Congressional Democratic leaders to wind up the business of this session as close to July 31 as possible.

Short run, the news is that the collapse of the Fair Deal legislative program for 1949 becomes virtually official. From now on one can predict, provided the adjournment decision sticks, that very little else of the Truman program will be enacted this year, and most main issues are postponed until 1950, or dropped.

Long run, the decision to quit the session at the end of next month, together with other recent political and legislative developments, makes it possible to see the rough outlines of the big issue of 1950. That issue will be economy versus spending, and all the present signs point to it being one real grand fight.

The decision to adjourn as near to July 31 as possible must be considered as tentative, however. Presumably Mr. Truman was advised and gave the consent of silence to this arrangement. This is still felt to be true, despite the President's press conference statement that Congress should hang around until it finished its business, meaning Mr. Truman's business, and that it should stay and enact a bill increasing tax burdens by $4 billion.

Even if Mr. Truman's statement is deprecated as one "for the record" to maintain the President's posture of consistency and avoiding reneging on any campaign promises, the decision is still subject to change. The decision makes good sense to the seasoned political leaders, but it has been a long time since Mr. Truman accepted advice from the graduate school of parliamentary politics. He may at any time decide to stage another grand stand show for his pristine program. He may go again for the screwball idea of another special session. No one feels sure he won't.

* * *

The professionals say that the early adjournment date makes good sense from all points of view.

In the first place, they know that Congress will not stick around throughout the hot summer months just to say "no" to Mr. Truman's easy prescription to Utopia. There is a further factor that the roofs of the two Houses will be under repair, and the boys will have to sound off in the acoustic-poor Caucus rooms of the Office Buildings, without benefit of a stimulating audience. So it is better to say good bye gracefully than to have your Congress walkout on you.

Second, if the Truman Administration plans to make its bid for electoral support in the 1950 Congressional elections upon the failure of Congress to wave the magic legislative wand and end this or that grave ill, then it is much better to make the issue in 1950 than in 1949. The closer to election Congress refuses to adopt Mr. Truman's ideas, the better it is, for then the issue sticks in the public mind—if you assume that the Truman merchandise is still as salable as ever.

Third, and this is what particularly hits the legislative leaders, maybe when 1950 rolls around the thinking will be quite different. Maybe the country may be worried about the deficit, or maybe it will be worried about a depression and not the deficit. In any case it is much better to stick the neck out when you can see the distance between the railroad car window and the girders on the political bridge you are crossing.

* * *

In only a matter of a week or so, even since the report of last week in this column, the sentiment of conservatives for economy has been snowballing. It was evidenced by a few outward signs but more in private conversations.

Outward signs were the growth of opposition to the public housing bill, for instance. Only a week ago the defeat of this bill in the House was regarded only as a dim possibility. Now some of the proponents of the project are worried for fear it might be defeated. The professionals do not laugh at the "E C A cut" in appropriations which turned out not to be a cut.

This is just a sign that Congress is groping at the deficit problem. It is unlikely that Congress will be able to back water, turn around, and go into the new economy direction in so short a time remaining. An equivocal decision, to be polite, is about all that can be expected. Such an equivocal decision would be something like the scheme to force corporations to pay a year's taxes in six months instead of a year's time, or the legislating of an appropriation recision which probably wouldn't pan out in fact.

* * *

One of the most tangible outward signs of the interest in economy was the sudden adoption by the majority of the House Appropriations committee of the single appropriation bill idea. This is a project which has been agitated constantly for two years by the consistent economy advocate of whom there is none more consistent, Senator Harry F. Byrd of Virginia. By deciding to put all supply measures into a single appropriation bill, beginning in 1950, the House committee will in effect achieve this reform. The Senate has to act on what the House sends it. It cannot split up the House bill on supply, on which the initiative of the House is constitutionally supreme.

The theory behind the single appropriation is that it is a form of coordination by which the Appropriations committees can and will keep their eye on the total budgetary picture.

Under this scheme instead of having each Appropriations subcommittee as fast as it gets through, bring out a bill, subject to approval by the full committee, and get it passed, all bills will be held up until the committee is ready to fix the overall appropriations total to be approved, and cuts each division thereof to suit the cloth.

Thus, for example, under the Interior bill, as the thing has been operating since the beginning of time, Congress might appropriate $1 billion for dams and flood control in February, and the thing would be approved by the President. If by the middle of April it looked like Congress ought to hold it to $800 million, then practically speaking, it would be too late for to get the money back would involve a fight with the White House and the Congressmen from all the districts which would benefit by the higher appropriation.

So all subcommittee bills for each department, agency, or group of agencies will be held up until a total figure of appropriations is reached. Then the total supply bill will be etched out.

Finally, the theory of this also is that the committee as a whole would have to take more definite responsibility for the final result, than in passing supply bills in unrelated pieces, or amounts.

* * *

It is suggested that it is always a good idea to beware of reliance upon mere mechanisms as ways of promoting economy, efficiency, or better government. This new appropriations scheme is probably no more capable of itself in bringing about economy, unless the committee members are economy-minded, than a whole flock of Hoover commission recommendations if adopted would promote economy under an Administration disposed to spend.

As a matter of fact, a Congress or an Appropriations committee either indifferent to economy or disposed to spend, would probably find the new single appropriations scheme an easier way to logroll higher appropriations than the old scheme.

On the other hand, the atmosphere under which the House Appropriations committee is adopting this scheme is that in 1950 the battle of the year will be economy, that the committee has got to present a solid front for economy, even though it cannot achieve it this year, and that it has got to face the problem of the total outlay limitation and stand up and vote for economy.

Under this kind of genesis, the new single appropriations idea looks good for the short pull of 1950 or 1951, whatever its permanent value may prove to be. And Senator Byrd told the "Chronicle" it has his enthusiastic backing.

* * *

Incidentally, it was into this atmosphere of a growing worry over spending that the left-wing boys, without the approval of the Administration or the Council of Economic Advisers or the Democratic leadership, decided to make public their Expansion program of lending and controls. The conservatives may be wrong, but they are happy the thing was put out so early to be shot at, before business might recede enough to stimulate wide interest in panaceas.

* * *

Business' interest in this statehood for Alaska question is that, according to key Congressmen, President Truman told his legislators that statehood must be granted this year to Alaska since that territory as a state could have been expected to return two Democrats to the Senate, to give the Fair Deal a better push next year.

On the other hand, the Administration, it is said, wanted Hawaiian statehood shelved because it looked like a certainty that that territory would send two GOP Senators.

Republicans combined with southern Democrats to kill Alaskan statehood unless Hawaiian statehood also were put through. The southerners figured that on the basis of the racial composition of Hawaii, any Senators of any party from that territory would be strong for "civil rights."

* * *

The State Department is opposed to any "Asiatic ECA" program. With China, military or economic aid is reported to stop only temporarily in non-communist hands before going to the Chinese commies, either through gross ineptitude or bribery.

With each Asiatic country, the problem of stopping communism is said to be different. It is not like in Europe, where there exists a common need to revive economy and trade to boost the standard of living to invigorate both the will and the power to resist communistic encroachment.

Thus, in Indo-China, a combination of French with non-communistic nationalists may do the trick. In Java and Sumatra the nationalist are violently anti-communistic, whether they are in any other ways good or not. In Malay there are no native communists and the British are killing off the imported commies.

(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

"—Now I'm going to lock you two in the closet—and STOP looking so pleased, Fatso!"

Beck With Hill Richards

(Special to THE FINANCIAL CHRONICLE)

SAN DIEGO, CALIF.—Raymon W. Beck is now with Hill Richards & Co., Bank of America Building. Mr. Beck was formerly with Buckley Brothers and Dean Witter & Co.

With Gross, Rogers & Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Howard S. Anderson has been added to the staff of Gross, Rogers & Co., 458 South Spring Street, members of the Los Angeles Stock Exchange.