Oil and Natural Gas Outlook Issue

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The Economic Horizon: Cloudy, but Not Murky

By MALCOLM P. McNAIR*
Professor of Marketing
Harvard Graduate School of Business Administration

Asserting during last nine months we have been having definite business recession, Prof. McNair ascribes development to adequate inventory replacement and lower capital expansion. Foresees little change in money, banking and credit conditions, but continued reduction in business spending and decline in residential building. Says unwillingness to spend may deepen recession, but may be offset by government outlays.

The topic which you have assigned to me this afternoon is "The Economic Horizon," and that implies, I presume, some kind of forecast of the economic weather outlook. To put the answer in a couple of words, the economic horizon to day is **"cloudy, but not murky."** On the basis of the figures which Professor Burnham has just given you from the Harvard Report of 1948 conditions in the department store business, you will perceive only some faint traces of cloudiness. The year 1948 ranked with 1947 and 1946 as one of the three best years in the last 10 from from the standpoint of percentage earnings and as one of the three best years of all time from the standpoint of dollar earnings. Nevertheless, all of you by now are fully aware that the situation in department stores as we draw toward the end of the second quarter of 1949 is substantially more difficult than anything which was foreshadowed in the 1948 annual results.

Prof. M. P. McNair

The starting point of any business downturn can be perceived only in retrospect. There were some of us as early as November of last year who were strongly

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*An address by Prof. McNair before the Comptrollers' Congress Convention, Detroit, Mich., June 16, 1949.

EDITORIAL

As We See It

Remarks of Walter Reuther and ex-New Dealer James Byrnes epitomize divergent philosophies concerning current state of nation's economy. With business on downgrade, warnings sounded by former Secretary of State of trend towards "statism" merit careful attention of entire nation.

Said Walter P. Reuther on Saturday last, referring to the Ford proposal of a period of stabilized wages:

"Ford is proposing the same kind of economic patent medicine administered by the men who steered our economy into the catastrophic depression of 1929.

"The Ford workers, along with the rest of the American people, are not prepared to travel that road again.

"Unemployment is growing today because the American people as a whole do not have enough money to spend for goods and services to sustain the purchasing power needed for full employment economy.

"Workers are getting too little wages today—not too much.

"Failure to increase purchasing power and workers' security will only intensify, not relieve, the unemployment situation.

"In 1932, millions were unemployed, people were losing their homes, their jobs and their farms.

"That was true because the American people did not have the purchasing power to meet their needs and thereby create markets for industrial production.

"Unemployment is growing today for the same reason."

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Outlook for Oil and Natural Gas Industries

Comments of executives of leading oil and gas concerns and related industries indicate, though profits from operations may fall below 1948 level and accumulation of inventories may bring some price reductions, current position is sound and satisfactory results, both from earnings and production standpoint, may be anticipated. Expect record natural gas output.

FRANK W. ABRAMS
Chairman of the Board of Directors,
Standard Oil Company (N. J.)

Last year was a record year in the history of our company. At this time a year ago we were emerging from a winter during which doubts were expressed as to whether the oil industry could supply consumer needs. We never shared those doubts. The results since then have amply confirmed our confidence. Today we are again in a position where the overall available supply somewhat exceeds the needs.

Frank W. Abrams

For their part in this expasion this company and its affiliates have had to spend very large sums of money. Our capital outlays during the last two years have been far greater than in any previous period in the history of the company. We have felt it essential to the sound progress of our business that these expenditures be made.

Our heavy need for funds was not only because of the required expansion in capacity to supply oil and its products. During this period, also, prices of all materials and services we had to buy were rising sharply, so that depreciation and depletion reserves were not sufficient to pay for the normal replacement of worn out facilities. The result was that although our earnings were at an all-time high, we found it advisable to limit cash dividends and had to draw upon our working capital.

I realize that the concern now is not so much about

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See pages 23 to 26, inclusive, for pictures taken at the Bond Club of New Jersey Annual Spring Field Day held at Rock Spring Club, West Orange, N. J.

The Coming Market Upturn

By JACQUES COE
Jacques Coe & Co.

Market expert maintains current atmosphere of confusion, uncertainty and fright signify propitious time for long-pull accumulation of equities. Asserts this prediction substantiated by behavior of bond market and of ratio of speculative to investment stocks. Holds after market upturn once starts, reduced margin requirement will prove important stimulant.

In my opinion the stock market during the remainder of June and all of July should be making a substantial base for higher prices in the Fall—and for reasons spelled out in the following. The daily and weekly odd lot figures, both as to buying and selling and short selling, graphically demonstrate the pessimism of the little trader. Since the first week in May the public has been much more on the selling side than before and, coincident therewith, the *short selling* figures have been far above normal.


Jacques Coe

Of course in the past there have been instances where the little trader was "right" for a brief period, but they are exceptions.

We are quite aware that a reduction in margin requirements such as took place recently cannot be of any help in broadening the market until and unless there is the *will* to buy. Back in 1945 we criticized the imposition of 100% margin (which was an attempt to stop rising prices) by saying that when speculation was "in the blood," 100% margin would not stop it and that if and when the market was in a downward trend of readjustment, a 50% margin would not stop the decline. This is exactly what has happened. Even today a further reduction of margins would have no lasting effect, so long as there is not the will to buy!

"You can't light a fire when the wood's all wet;
You can't make a butterfly strong;
You can't fix an egg when it ain't quite good, and
You can't fix a man when he is wrong."

(From "I'm Gonna Wash That Man Right Out of My Hair," from the current play, "South Pacific").

You can't boost the market with a margin cut,
Or with speeches that perfume the air;
It's useless to cry "this is when one should buy"
When the will or the want isn't there!

But, once we get a turn about on the upside and there is a will to buy again, *then* the 50% margin requirement will create a potential buying power from two to three or more times what it was a few months ago. One is able to buy at a lower price level and with greater margin privileges. For the moment, of course, this argument is purely theoretical because psychologically the lower the price level the more reluctant the potential buyer becomes.

The Propitious Bull Selling

For four consecutive months business loans in the metropolitan area have declined. We are now in a period of business, industry, merchandising and security appraisal where an atmosphere of confusion, uncertainty, fright and complete disintegration of reasoning powers prevail. It is such a set of conditions which bring about the end of bear markets and accumulation periods. It is a set of conditions exactly opposite to that which signified the end of a bull market in 1946. *The pity is most people do not realize that the very forces both in business and the stock market which tend to over-adjust themselves to changed conditions, create by this over-adjustment many vital constructive forces which form the texture and the fabric and the background for the succeeding upward cycle!*

In our study of long-term cycles going back a matter of 50 years, the year 1949, or at least a substantial portion thereof, was expected to be in a decided upswing securitywise. We are finishing the first six months without having had such a rise. *If we do not get a substantial upswing in the stock market during the last six months of 1949, it will be one of the rare instances in cyclical history where a recurrent pattern has failed to take form.*

Realizing our inability to divine business improvement or deterioration before the next man, and endeavoring like so many other people to hang our hat on some pretty good formulas which have proven their worthiness in the past, we have over a period of years manufactured, so to speak, what we call a sensitive barometer of bond price averages plus a calculated index of confidence consisting of a ratio of low-priced speculative stocks to high-priced investment issues, covering identical industries. This combined index, which was of inestimable value to us in the spring and summer of 1946 in flashing all sorts of danger signals, has since then given temporary encouragement on several occasions, only to fall back again with the warning that the security market was not yet ready to go forward.

We had found that in forecasting certain security price swings the bond index performed more reliably than the ratio index and, in other instances, vice versa—which naturally led to a creation of the composite index. It has been an excellent guide to market swings, sensing the mood of capital in appraising the future, making cautious steps in the direction of higher markets to come, and when this outlook suddenly has turned cloudy, swinging around the other way some time before security price deterioration set in again.

This spring, for instance, we thought we saw some encouraging straws in the wind, but almost immediately thereafter the signals turned from green to red. Its most valuable forecasting ability has been at certain rare intervals when for two or three successive weeks this combined index would plot contrary to the direction of the market itself and invariably tell the right story.

What now? There has appeared no constructive development in this composite index since the last week in April when it resumed its deterioration. However, while we are waiting for a new period of stability to develop, there are a few minor indications which suggest that this period of stability which we expect is not far away. One factor is that bond averages have not declined in their usual proportion to security prices thereby supporting the belief that the business recession is minor, transitory and eventually constructive. The second straw is the fact that this ratio of speculative to investment stocks, while as yet showing no stability or upturn, nevertheless has reached into a low area *which has been seen before only in* 1937 and 1932.

It is with a certain amount of courage and foolhardiness that we now expose ourselves to possible criticism in months to come by making the assertion that *when* the turning point in the market is in the process of taking place we hope to sense it, identify it through the composite index and so state at the time. Neither the price level or the actual time element is so far away that one should continue to wear dark glasses. Throw them away!

The Common Psychology

Human behavior being what it is, there is practically no difference between the psychology of the little storekeeper and that of the purchasing agent of any of our

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Regular Features

OUTLOOK FOR OIL AND NATURAL GAS INDUSTRIES

Starting on the cover page of today's issue we present statements submitted to the CHRONICLE by Executives of leading oil and natural gas companies and related industries regarding the outlook in their respective fields.

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Concluding Comments by Dealers Relative to NASD and Its Policies

Study of current expressions and those previously published provides sufficient evidence of marked dissatisfaction of majority in the industry toward National Association of Securities Dealers and its operations.

We present today the last of the unpublished comments received by the CHRONICLE incident to its poll relative to the attitude of the securities industry towards the National Association of Securities Dealers and its methods of operation and conduct. As indicated in the results of the poll, details of which were included in the editorial "Mandate to Congress" which appeared on the cover page of the CHRONICLE of May 19, an overwhelming majority of the securities industry feel that the NASD constitutes an unnecessary burden and expense and that, in consequence of its policies, including the "5% mark-up philosophy," the securities business is severely handicapped in its efforts to perform the functions which are so essential to the nation's economy. The vast majority of the hundreds of comments submitted to this paper in connection with the poll provide documentary evidence of the complete dissatisfaction within the industry towards this so-called "voluntary" Association. As previously stated, the remaining unpublished comments are given herewith:

TACOMA, WASHINGTON

The 5% mark-up rule has not worked, in our opinion, as protection to the best interests of the investor. If anything, it is against the best interests of investors, and in favor of dealers. Probably hundreds of transactions are consummated in order to "make a living" on the part of dealers and salesmen, that might be to the best interests of the investor not be made.

No recognition is made of dealers' overhead. A man can open an office, rent one room, not subscribe to a single service, give no outside service to clients, and charge the same profit as an organization spending thousands of dollars in a year in services to do a better job for the investor.

No recognition is made of those concerns like ours, that do many things for investors other than sell them securities: such as income tax service, safe-keeping service, collection of income, assistance in working out wills, insurance problems, consultation on real estate investments, trips to banks when investors are unable to drive cars, etc.

No recognition of giving investors advice "not to buy" when markets are in a down-trend, which results in substantial savings to investors. Such periods as 1937-1938, 1946-47. One reason for many dismal investor results come from dealers not being able to set up enough "fat" during good markets to carry through bad markets when investor accounts should be liquidated and cash held may be for a period of a year or so.

No recognition of extensive research that brings to investors' attention securities that do better than the market.

Practically eliminates interesting young men and new blood to enter the business—particularly during periods of dull or declining markets.*

CLEVELAND, OHIO

The NASD's biggest fault is that it is meddlesome. We wouldn't say that 5% isn't an ample average profit to take, for instance. As a matter of fact, it is no doubt away too much to take on some transactions. Yet, on other trades, 5% isn't nearly enough profit for the amount of work done, or the bother, or the actual out-of-pocket expense. But, why should we run the risk of having to prove our right to take more than 5% in some instances—why shouldn't that be up to our good judgment?

We think that a further sign of NASD willingness to stick its nose into matters which are none of its concern is the insurance program which it has arranged for member firms. Once again, this may be a good thing for some members—but it just simply is not a project for which NASD was created. Certainly it ties the member firms a little tighter to the NASD organization, and perhaps that is one reason why the plan was advocated. It seems to us to be a device for making the NASD more indispensable to member firms—to give the NASD an artificial excuse for continuing to live.

The NASD "News" is a typical of the whole organization. It is nothing but a propaganda sheet which tells only that side of the news which is favorable to the organization. In the last issue there was not one word about the injunction which Otis obtained against NASD—also there were gorgeous bouquets tossed to the management for the insurance program—and an orchid for Wally Fulton under his

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* Commented anonymously.

Restoring Price-Wage Balance, A Readjustment Problem

By Q. FORREST WALKER*
Economist, R. H. Macy & Co., Inc.

Holding uneven expansion during boom is chief cause of postwar "economic hangover," marketing economist points out government spending in form of "free lunch" in economic world will intensify, but not remedy situation. Sees no political substitute for private venturing, and calls for restoration of price-value balance along with reduction of unit-labor costs. Looks for further price decline and continued downward trend of retail sales, with revival "perhaps in next 12 months."

Great modern wars produce profound economic and social dislocations. They are invariably followed by replacement booms that create new and additional distortions in the economy. Our recent replacement boom pushed our annual physical production of goods to nearly twice the 1935-39 levels, somewhat more than doubled wholesale prices, almost tripled the disposable income of our people and brought a corresponding increase in the annual dollar volume of department store sales. It lasted somewhat longer than we expected, due in part to a fortuitous combination of circumstances and under-estimation of its potential.

Q. Forrest Walker

It has long been obvious that such high rates of business expansion could not be maintained and that corrections would be needed to secure a safe basis for future progress. These corrections have now been under way for several months; they are spreading over a wider area; and the end is not yet in sight.

Uneven Expansion During Boom

There is really no great mystery about these readjustments. Post-war replacement demands vary widely in urgency and magnitude. Some require immediate satisfaction; others can be postponed. Some can be met quickly; and others require long periods before they are satisfied. Some are met by increased factory production; others depend upon the bounty of nature. During this period of seemingly unlimited demand, each economic group tries to get its share of the spoils. Prices and costs rise unevenly and the inter-relationships become gravely distorted, aided and abetted by governmental intervention to favor certain groups.

When the more urgent demands have been met, people decide to curtail their buying because they are not satisfied with values, or are unable to buy at the prevailing prices. For a time, business activity is well maintained by backlog orders. but production soon begins to flow faster than it can be sold at the old prices. Stocks begin to accumulate and forward orders are slashed drastically. Price weakness develops here and there, and soon spreads. Buyers wait for better prices and values. Both reasonable and unreasonable prices are affected. Production drifts downward. Smaller numbers of workers are needed to produce goods and services in current demand; and the volume of consumer income eases off slowly to lower levels.

Psychology of Economic "Hang-Over"

Naturally, such readjustments cannot be wholly painless. Economic "hang-overs" are always accompanied by varying degrees of distress. They create a fear, and, often, a "defeatist" psychology. Under such conditions, every minor adverse change is "news." It is unduly magnified by comparison with recent peaks. The "beat yesterday" philosophy is deeply imbedded in our thinking. We accept a 50% increase in business over a short period with comparative equanimity, but we become alarmed when a modest contraction looms ahead. We regard the high costs we accepted in the expansion as barriers that cannot be reduced to restore our economic health. The cost and price problems are difficult, of course, but they are common to all readjustment periods. They differ mainly in degree.

As the shadows of this readjustment deepen, it becomes more and more apparent that no single factor in domestic affairs is more disturbing than the persistent effort to maintain and extend the Federal power over the economic life of our people. Social experimentation must go on, but the States are the ideal laboratories for such purposes. There the experiments may be carefully controlled, perfected, or abandoned with the least economic danger. Only a part of total population is in the political and social laboratory. Our Federal Government, with some exceptions, is apparently not content to leave the solution of these problems wholly to the sovereign States. This is neither the time nor the place to debate this issue, but the continuing fight of our own trade to retain the retail exemption in the Fair Labor Standards Act is a conspicuous example of the dangers in the growth of the Federal power. Our constitutional theory of a government of divided powers is being continuously undermined.

There is also increasing fear that our Federal Government will not act wisely to speed the return of more stable conditions; that it promises far more than the world's greatest free enterprise system can deliver; and that it may interfere at the wrong time and in the wrong way with the corrective process now gathering momentum. There is little faith among the more careful students of the American economy in most political efforts to control our economic life without endangering personal liberty. It is also widely recognized that a long struggle is ahead before we can remove the restraints that now so severely shackle the full exercise of the imagination, initiative and energy of our people.

Retrenchment to Restore Confidence

As a part of this larger problem, it is very plain that a substantial reduction of present Federal spending is a primary requisite to the return of business confidence. Over the broad sweep of history, vast public expenditures have never provided a sound remedy for economic ills. The most benevolent paternalism tends always to become malevolent paternalism. It has never been demonstrated that government can take ever-increasing proportions of the people's income and make two dollars grow where only one grew before. Every dollar of public expenditure that can be prudently saved is one more dollar to ease us over this delayed business transition. Nearly two-thirds of estimated Federal expenditures for 1949-50 are classified by competent authorities as variable expenses. Most intelligent citizens believe it is possible to reduce this vast expense without any real impairment of vital objectives. The business world awaits convincing evidence that our political servants will grasp the urgency of a program of sensible retrenchment.

In 1948, Federal, State and local taxes represented nearly one-fourth of the net national output. Many believe that a truly dynamic economy cannot long continue a burden of this proportion. We will make progress in reducing governmental appropriations of the people's earnings if we find new and better ways to tell the economic facts of life to the public. There is imperative need to expose the economic fallacies of the alluring vote-catching proposals that constitute a continuing threat to the confidence of big and little businessmen. Government has no magic formula that will give us something for nothing—a cold fact of such importance that even the astute Mr. Cripps feels impelled to warn the British people that they cannot have their cake and eat it too.

In the world of economic reality, the political expenditure of the people's money on an ever-growing scale will not create security. We cannot transfer responsibility for individual economic security to government because the government of a free people cannot give what it does not have, or provide what is not created by private enterprise. Under the true American theory, the prime function of government is to widen the opportunities of private enterprise and individuals to earn more security through a vigorous and expanding economy.[1] That is the simple principle which has given us the standard of living we now enjoy and which excites the envy and admiration of less fortunate peoples of the earth who now, and in the long past, have vainly sought economic salvation in the beneficent state.

No "Free Lunch"

It cannot be too often repeated that government is not something apart from the people from which it derives its powers and its money. There is no "inexhaustible public purse,"[2] no pot of gold at the end of the rainbow, and no "free lunch" in the economic world. The special burdens we put on corporations are largely shifted in one way or another to the buyers of their products and to their stockholders who furnish the tools of production. In the prosperous year 1948, the overstated profits of all corporations before taxes were substantially less than Federal expenditures for that year. It may be conservatively estimated that the entire income before taxes of all persons earning over $10,000 per

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*An address by Mr. Walker at Mid-Year Convention of the National Retail Dry Goods Association, New York City, June 20, 1949.

1 Cf. Griffin, C. E., *Enterprise in a Free Society*, Richard D. Irwin, Inc., Chicago, Ill., 1949, pp. 514-515.

2 Holden, Thomas S., *The Great Illusion*, National Association of Manufacturers, Economic Policy Series No. 8, New York, April 1949.

Today's Investor and Security Analysis

By J. M. GALANIS*
President N. Y. Society of Security Analysts
Associated with Research Dept. of Shields & Co.

Mr. Galanis cites unpopularity of Wall Street and the Stock Exchange, despite nation's large and growing number of shareholders. Lists functions, techniques and opportunities of security analyst, with favorable and unfavorable aspects. Weighs relative importance of forecasting market as a whole vs. appraisal of individual issues.

The latest and most reliable estimate places the number of individual stockholders of the nation in the neighborhood of eight millions. Though far short of the 18-20 million total heard frequently in the past, it is still substantial. No one knows for sure. American Telephone & Telegraph is credited with 800,000 shareholders and holds undisputed top position as the most widely owned of our corporate enterprises. Other companies with imposing stock ownership aggregates include General Motors with 433,000, U. S. Steel 228,000, Standard Oil of New Jersey, Pennsylvania Railroad, and Radio Corporation, each with 200,000 or more and General Electric with 250,000 individual owners. In most instances, the number of stockholders exceeds by a goodly margin the number of employees—but stockholders are a notably shy, unorganized and inarticulate lot—rather easy to push around. The average holding frequently works out surprisingly low, at say, 50 shares or so per holder.

Joseph M. Galanis

This does not tell the entire story, however, for possibly 80 million holders of life, fire or other insurance policies have an important, albeit indirect, stake in the fortunes of American corporate enterprises via the huge investments of such companies in corporate bonds and stocks. These institutions would find it difficult, if not impossible, to exist without interest or dividend income from corporaton profits.

Not only is the average stockholding small, but an important segment of the investor group falls into relatively modest income brackets. For example, the nation's largest stock brokerage house, Merrill Lynch, Pierce, Fenner & Beane ("We the People") credited with 10% of all New York Stock Exchange business, has reported that of 172,000 active accounts in 1948, 41% belonged to persons earning less than $5,000 per annum. Perhaps there is something to the recently widely quoted remark of a prominent oil company executive, that "those who have the facts lack the money to buy common stocks [he may have had security analysts in mind here] and those who have the money, lack the facts."

Wall Street and the Public

Despite the widespread and growing list of stockholders in our corporate enterprises, Wall Street and the New York Stock Exchange are apparently not overwhelmingly popular institutions. Wall Street is still regarded by more than a few as a woman with a past. When not actually hostile, the bulk of the public is at best indifferent—if the poor coverage of financial affairs by the nation's newspapers affords any guide. Even in New York City of the evening newspapers only one has a reasonably complete financial section and that city's greatest tabloid practically ignores the world of finance.

While people seem afraid of stocks, it does not hold that they are afraid to lose money. More money is wagered daily on horse races than is represented by the value of shares traded daily on the New York Stock Exchange. Moreover, people rushed to buy postwar cars and houses at inflated and gray market prices, and are still willing enough to risk their money in new businesses. Some critics have in the past posed the question "Where are the customers' yachts?" What many Wall Streeters today would like the answer to is "Where are the customers?"

As one member of the financial community recently remarked, "a considerable portion of the Wall Street community is slowly drowning itself in its own tears." It has been so long since the Street has had any new blood that it doesn't know what to do with it. Some 60% of the ex-GI's carefully picked for training after the war are said to have left for other and presumably greener pastures.

The Security Analyst

This vale of tears is the habitat of the unique specimen known as the security analyst — one who analyzes securities. A member of what is called one of the newest of the professions, the analyst is an important connecting link between the corporation and its stockholders. It has been said that the security analyst works more directly for the benefit of the investor than any other class of worker in the financial community.

He is mostly found in the nation's largest cities, with the great bulk in New York City. Security analysis is an unusually heterogeneous field of work. Most analysts are specialists, with activities confined exclusively to bonds, or to stocks. Stock analysts, in turn may break down into specialists in railroad or utility securities or to a few specific industries like oil, steel, building, food, retail trade, banks and insurance companies, etc. It is a mental and physical impossibility to become well versed in all the many thousands of securities of thousands of corporate enterprises. Some are affiliated with buyers of securities, probably a great many more with the sellers. Some analysts are market technicians solely, others are investment counselors. A number mostly help securities salesmen. Still others may concentrate chiefly on contact work with corporate managements. Analysts are constantly consulted by fund managers of all institutions, including our own Harvard.

Status Formerly Low

It was not too long ago that financial research departments were termed "statistical" and analysts were called "statisticians," with a professional rating and financial reward comparable to third class librarians and clerks —possibly deservedly so. They were, in effect, mainly custodians

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*A speech by Mr. Galanis before Harvard Class of 1929 Reunion, Harwicport, Mass., June 21, 1949.

The Coming Market Upturn

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largest corporations. When prices are firm and rising, everybody is scrambling; conversely, when prices turn down, the big fellows and the little fellows crawl into their shells, use up their inventories and buy from hand to mouth. This cycle has been going on for centuries and will continue until the end of time.

The strange part about it all is that, though this is the eternal sequence, few people realize that inventories are running down and will have to be replenished. Hand to mouth operations are neither economical or efficient—nor are they normal practice.

Again, human behavior being what it has been and history repeating itself, the trend of security prices will be changing from bear to bull several months before the change in business is apparent to the naked eye.

From a timing standpoint, possibly when Congress adjourns, the ground work will have been completed. The consultant to one of our largest international trade organizations has just completed a sixteen city tour of the United States, having access to the most important and largest industries throughout the country. He thinks our economy is getting itself into such a very strong position by getting rid of dead wood, frozen inventories, unsaleable goods and what not, that he foresees a tremendous revival of confidence in business and industry throughout this country during the last six months of this year.

* * *

In this article I do not refer to European politics and business trends—or their effect on our domestic economy—because it is my belief that the forthcoming advance in security prices will be an upward reaction from excessive domestic pessimism. Europe as a market factor should be more dominating in 1950 and 1951.

Jarvis Named Pres. of Univ. Finance Men

N. Leonard Jarvis of Hayden, Stone & Co., members of the New York Stock Exchange, was elected President of the New York University Men in Finance Club at the annual meeting. He has been active in Wall Street circles for many years and is Past President of the New York Society of Security Analysts and the Association of Customers' Brokers. He is also Secretary of the National Association of Investors' Brokers.

N. Leonard Jarvis

With A. M. Kidder & Co.

(Special to THE FINANCIAL CHRONICLE)

ST. PETERSBURG, FLA.—Lemuel Scarbrough has become affiliated with A. M. Kidder & Co., 400 Beach Drive.

Lindstrom With Waldron

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF. — Oke Lindstrom has become associated with Waldron & Co., Russ Building. He was formerly with John M. Wilmans Co. and Bankamerica Co.

The State of Trade and Industry

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

Increased output of some goods the past week was sufficient to neutralize in part declines in others and thus worked to sustain overall industrial production at a point moderately under the corresponding period of last year.

The latest available figures with respect to total claims for unemployment insurance covering the week ended June 4, show that these claims fell 5% from the postwar peak of the preceding week, but continued to exceed noticeably the low level of a year ago. In the same week initial claims declined 7%, representing the fourth consecutive drop in initial claims.

* * *

Stressing the necessity for team-work on the part of labor and management in bringing prices within easier reach of the consumer, the "Monthly Letter" of the National City Bank of New York for June, states that if the foregoing segments of our economy "together can increase man-hour output and reduce unit labor costs to bring down prices to lower levels which buyers now demand, break-even points can be reduced."

"It follows from the foregoing," the bank letter observes, "that the most harmful influence which could possibly be injected into the situation would be another round of wage advances, which would raise industrial costs and make the necessary adjustments in industrial prices impossible. Advances in wage rates heretofore have had an inflationary effect. They came at a time when people and pipelines were short of goods, when incomes of farmers were steadily increasing, and when higher costs and prices could be readily passed on. Now the daily reports of business show that the markets for both goods and labor have changed, and farm incomes are declining. Increases in wages, costs and prices under current conditions would curtail sales of goods, and hence production and employment. The real interest of factory workers is in maximum production of the things they use and maximum employment for themselves, not in higher money wage rates which lead to disruption of the exchange of goods between them and other groups of the population, and thus to idleness.

"Many people have lived under illusions during the inflationary period, and now have realities to face. The volume of business was abnormal for a time, because demand was swollen to fill accumulated scarcities and empty pipelines. Now that is over. The job of business is to adjust to lower price levels and more competitive conditions, with greater attention to turning out goods better and cheaper. Industrial workers generally and farmers as well have not only the highest money wages, but the highest real standards of living that have ever been known in this or any other country. They can be preserved under the conditions that now present themselves, but only by higher productivity, to reduce costs and keep the price structure in the balance that is necessary if trade and investment are to go on."

* * *

Notwithstanding the above admonition, labor unions are pressing new demands for wage increases and other advantages such as pensions and social insurance programs. These demands, however, are being strongly resisted by employers.

The so-called stabilization walkout ordered by John L. Lewis, United Mine Workers' President, came to an end at the close of last week with most of the country's 450,000 hard and soft coal miners back in the pits on Monday of this week. The present bituminous wage agreement, governing close to 400,000 miners, expires on June 30, and negotiations for a successive contract will begin this week.

Negotiations between the United Steelworkers Union and several steel producing companies for wage increases and insurance programs got under way last week. Indications are independent steelmakers will await the outcome of United States Steel Corp. negotiations before signing new agreements. In view of this, the possibility of a steel strike this summer cannot be ignored, the steel magazine points out, even though the continuing business recession places the union in a decidedly weak bargaining position.

* * *

Attractive promotions coupled with favorable weather induced consumers to increase their purchases last week. The dollar volume of all retail sales was very moderately below that of the corresponding week in 1948 with a wide variety of goods featured in promotions for Father's Day.

Wholesalers booked commitments for slightly less goods than in the preceding week. The aggregate dollar volume of wholesale orders was moderately below the high level of the comparable week a year ago. Buyer interest in Fall merchandise continued to rise and collections, generally, improved as compared with those of recent months.

STEEL OPERATIONS FOR CURRENT WEEK SCHEDULED AT 84.4% OF CAPACITY, THE LOWEST RATE IN 9 YEARS

By the end of this month steel company order backlogs will have disappeared for all practical purposes. Business is generally on a current, or hand-to-mouth basis in all but a very few steel products. The only orders on the books in most products are those that must be there for production planning, states "The Iron Age," national metalworking weekly, in its current review of the steel trade.

Backlogs still exist in some products such as plate, oil and gas line pipe, rails and structural shapes. Most of these products are involved in long-range planning and are capital, rather than out-of-pocket, expenses. On the latter type products, which depend almost entirely on consumer goods sales, caution still prevails. Except for tinplate which has already been made on customer orders and is being stocked at the mills, there is no evidence of buyer concern about possible interruption of steel shipments due to labor trouble.

This lack of concern about future deliveries, the magazine notes, stems from relatively high raw material inventories and from

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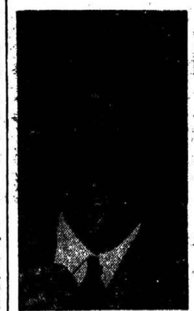
Observations . . . .

By A. WILFRED MAY

Common Stocks in Store Fronts—?

Apathy toward the stock market and equity financing has finally come to a pass sufficient to arouse the active concern of our most august government officials. Following a Congressional resolution, the "anomalous" situation of a depressed stock market in the face of high business profits is soon to get a full-dress airing under the aegis of the SEC, the Commerce Department, the Federal Reserve Board, the Bureau of the Budget and the Census, members of the Joint Committee on the Economic Report, and—of course—Mr. Keyserling.



A. Wilfred May

Since a remedy suggested by one of our correspondents presumably will not receive close consideration by the above-named group, and would otherwise escape our readers' attention, we are reproducing it below.

The suggestion for "department-storeing" equities seems particularly interesting to us as portraying the growing public belief in the need for more merchandising of listed as well as unlisted securities. Such conviction has received its greatest fillip from the success in the well-remunerated distribution of open-end mutual funds (in contrast with the continued apathy toward the unmerchandised better-value closed-end trusts). Wall Street's success there with the old "Fuller Brush technique" is finally convincing it that the American public must be *sold* in the American way.

Whether or not it be agreed that brokers' products should be displayed, and possibly delivered by parcel service, we believe that the following communication from Mr. Biesel is worth reading.

Dear Mr. May:

How about starting a few retail stores throughout the country to offer sales and bargains in common stocks? The financial community has been singing the blues because folks aren't interested in stocks, so a fresh approach might just as well be tried. It can't do worse than flop.

All the textbooks tell us that the uninformed public does its buying near the top and its selling near the bottom. There must, therefore, be a lot of people who have lost money in the market and who, by their tales of woe, influence friends and relatives. Is it any wonder that it takes a lengthy period of rising prices—with its stories of easy money—to encourage the vast number of the uninformed to buy stocks?

If the public can be persuaded to purchase common stocks at lower prices, two things will happen: first, there will be better support for stocks at reasonable levels; second, there will be fewer people to pay the exorbitant prices prevailing at the tops of some past bull markets. Perhaps this will cut down the profits of lucky or smart few, but the investing public would be better off, the market have a better reputation and the brokerage community cease to feast one year and starve the next.

Retail stores selling stocks and using the same language and merchandising methods that apparel and other stores do to get business, could help carry the "bargain sale" idea to the public. A stock could be offered at $13.75—"down from $29.50." A profusion of signs could offer stocks at 20%, 30%, 50% off and more. Stock certificates of important companies (marked specimen or sample) could be displayed, as could pictures of products or, to the extent room was available, the products themselves. Since customers often like to "feel the goods" or receive something tangible when they make a purchase, 98-cent ball-point pens (they're better than the first expensive ones were) could be

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Outlook for Oil and Natural Gas Industries

(Continued from first page)

what has gone before but what prospects are for the future. We face a totally different situation today than we did a year ago. Our efforts are now being exerted strongly in the direction of curtailment of capital expenditures. For several reasons these cannot be reduced precipitately. To begin with, many expenditures now being made are part of projects which will require several years for completion. Moreover, we must continue to put money into finding oil in order to maintain a sound relationship between crude oil reserves and production. Still further, where discoveries have been made, we must make new investments in order to maintain our position in such fields and to participate properly in development of outlets for the crude produced.

For example, Imperial Oil, our affiliate in Canada, now faces the need for substantial new capital investment. This comes as a result of the major oil discoveries in the Alberta Province, which have been made during the last two years. Oil production there is now more than adequate to meet local needs of the province and there is heavy pressure to widen the outlet for crude from that area. For this purpose new transportation facilities must be provided and are already under study. Imperial also needs to drill a number of new wells each year in accordance with the terms of leases obtained from the Canadian Government.

Again, European refining capacity must be enlarged in order to use greater amounts of Middle East crude, which is becoming the principal source of supply for the growing oil needs of Western Europe.

While I cite these current needs, not all capital expenditures are increasing, of course. Budgets are and will continue to be reviewed to reduce these wherever possible. Creole, for example, estimates that their expenditures this year will be over 30% less than last year.

While we are always pressing to reduce operating costs, we naturally are making even more intensive efforts to do so now. These efforts should be more effective now than in the years immediately past. During the war and postwar periods, the demand for products was so intense that in many cases we felt that any reasonable expenditure was justified in order to provide a needed increment in supply. Now, however, we are in a position to look much more carefully at such expenditures.

The needs for capital are of course of great interest to stockholders since capital expenditures and net income are the major factors in determining what dividends the company can pay. Cash dividends paid over the last 30-year period in the history of the company have averaged about 45% of Jersey's portion of the consolidated net income. The policy of the company has been to maintain in so far as possible a reasonably steady dividend rate. This has meant that in years of low earnings dividends have been high in relation to income. In years of high earnings, for the same reason, the percentage of income paid as dividends has been relatively lower. Last year, of course, and for the first half of this year, in addition to cash dividends we paid stock dividends having a substantially greater market value than the cash dividends.

We believe that cash dividends can now begin to approach a more normal relationship to earnings, as was the situation in the prewar period. It was for this reason that our board of directors announced at the time of the declaration of the dividend for the first half of 1949 that it is their intention to discontinue the payment of stock dividends.

This year for the first time the management published an estimate of consolidated earnings for the first quarter of the year. The amount so estimated was $75,000,000. The most reasonable one we can now make of second quarter earnings is that they will be slightly lower than for the first quarter. It now looks as though our earnings in the first half of this year would be about 30% below the same period of last year. Our official estimate of earnings for the first six months of 1949 will be published about Aug. 10.

The lower earnings as compared to last year are due principally to two factors. The first is that with supply and demand again coming into balance, competitive conditions are being intensified within the industry. One effect of this has been to reduce the average prices obtained for our products. A second factor affecting earnings is the lower current rate of both our producing and refining operations. These lower operating rates are due to reduced demands, principally for fuel oil, and to increased stocks of crude oil and products. We believe, however, that both production rates and refinery runs will be increased somewhat as the year progresses.

As I stated above, with the recent heavy demands for capital expenditures, working capital of the company has been reduced. Our board thinks that new money should be provided to strengthen this position. Our present thought is to do this by means of long-term borrowing.

Standard Oil Company (New Jersey) has grown steadily both in gross assets and in gross sales value over the years, together with the parallel growth of a rapidly expanding industry. Actually, while our size today, as indicated by the figures on our balance sheet, is very much larger than it was a few years ago, our business represents less than 15% of the nation's domestic requirements for oil products. It must be apparent to everyone that the tasks business is called upon to perform in this day of mass production, mass distribution and mass communications cannot be achieved without both large and small units. The facilities, both human and material, of this company are an enormously valuable asset to our country from the standpoints both of their peacetime economic functions and of their availability for the nation's defense.

Our desire and our intention is that this company's activities be conducted so as to be a constructive force in world affairs and a worthy example of business management and policies. We have tried earnestly to report our policies and actions thoroughly and completely. We believe the continued success of this enterprise is dependent upon public confidence. We intend to continue to earn that confidence, and to extend it through continuing efforts to achieve wider understanding of the company and its aims wherever it does busines or wherever its influence may be felt.

ROBERT O. ANDERSON

President, Malco Refineries, Inc.

Refining today, as we know it, is a far cry from the the relatively simple processes of prewar. Capital investments per barrel of capacity have risen as much as 500% from prewar along with rapid technological changes. A good deal of the increase in capital investment is due to higher construction costs with a corresponding increase in depreciation charges which together with the more costly manufacturing processes has resulted in greatly increased costs in the end products.

Robert O. Anderson

As yet, there are many who do not seem to realize that a totally new concept of refiner's margin is necessary if these expensive new facilities are to be amortized during a reasonable period of time and become assets with earning capacities consistent with their cost. In many plants today, the depreciation cost per barrel of crude refined is greater than the total cost of refining a barrel of crude oil 10 years ago. Other costs have followed the economic trends and, adding these to the great increase in fixed costs, makes it all too obvious that refining must have a wider margin if the costs of these new facilities are to be recovered.

Whether crude is too high or products are too low is a moot question. The basic fact remains that it costs far more today to convert a barrel of crude oil to marketable form than it has ever cost before—this is a fact of extreme importance and one that will have a considerable effect on the price of both crude and refined products.

Dislocation of market and weakening of refined products has reduced the margin of refiners to one of the lowest points in the history of the industry. It is obvious at this time that some adjustment must be made in the near future to place refining operations on a more realistic basis.

Competition with foreign oil has become a reality and its economic effect will be felt more and more in the future. The price of domestic crude and refined product will reflect the international picture rather than a purely domestic one.

As of today, the oil industry is earning practically all of its income from the production of crude oil and it is for that reason that the refiners with all, or substantially all, of their own crude oil production have shown the best earnings so far this year.

With the oil companies and refiners generally making all, or substantially all, of their income from their producing properties, it is only natural to expect a great deal of reluctance to reduce the price of crude which is their one profitable item; nevertheless, in the long run, crude oil can be worth no more than the competitive value of its products less the costs of refining and marketing that are necessary to change the crude into a marketable state. If domestic crude levels are artificially maintained above this level, it stimulates the effect of foreign competition. Today this is all too evident with the rapid increasing importations of crude oil.

Basically we are returning to the historical position of the oil industry where the supply has generally exceeded the demand and competition has been keen.

In West Texas and New Mexico, where our company operates, we are generally the first to feel any weakness in the demand for crude as most of the oil in these areas is less desirable for refining due to the high sulphur content. In recent months, the sharp decline in demand for West Texas crude has been accentuated by the discrepancy between crude and refined product prices. Fortunately most of the recent discoveries in the West Texas-New Mexico district have been of more desirable types of crude with much better market acceptance than the older sour crude fields.

To venture a prediction at this time would be sheer speculation. However, it is all too evident that the industry is facing a period of readjustment and the severity will depend more largely on general economic conditions than those now facing it within the industry.

JAMES B. BLACK

President, Pacific Gas and Electric Company

From the point of view of utility company management the outlook for the natural gas industry is one based upon somewhat contradictory factors.

In the northern section of California served by Pacific Gas and Electric Company we have a low rate structure—so low that in the 20 years since natural gas was introduced it has become the most generally used fuel for all domestic purposes, for commercial space heating and for industrial heating. Even before the introduction of the natural product, manufactured gas was used in the majority of cooking and water heating installations.

J. B. Black

In the past ten years California's population has increased approximately 50%. It continues to grow although at a slightly slower rate. There has been a corresponding growth in demand for gas service from all classes of customers. In 1948, for example, our aggregate sales of more than 163 billion cubic feet were 19% greater than the total in 1947. About 800 miles of main were added last year to the company's distribution system.

As a result, the problem has become one of meeting demand for natural gas service rather than developing a greater market.

Concurrently, costs of gas purchased in the field from producers and nearly all other costs of operation have climbed steadily higher. Faced with still further increases in the field prices of gas the company for the first time in 28 years recently applied to the California Public Utilities Commission for authority to increase its gas rates. No decision has yet been announced.

Natural gas in this part of California has been used in increasing quantities by the expanding industries of the area. Many industrial customers have been supplied under so-called "interruptible" contracts at rates less than those calling for firm service and with a provision for suspension of service during periods of peak demand. It is not improbable, if domestic and firm uses of natural gas continue to grow, that industrial users may be required to turn to fuel oil to a greater extent than in the past, especially in the winter season when the heating demand is greatest.

No new gas fields of major importance have been discovered in California for some years. In consequence we long ago began studies of possible out-of-state sources. The utilities serving Southern California currently are purchasing a daily supply of 300 million cubic feet of gas produced in Texas and New Mexican fields.

A further large supply from the southwestern fields has now been assured. We have contracted with the El Paso Natural Gas Company for delivery of 400 million cubic feet of natural gas with option to increase the amount to 500 million cubic feet. The El Paso Company will build a line from Texas and other fields to the California border.

The Federal Power Commission already has granted a certificate of public convenience and necessity for 250 million cubic feet per day and application for increase to 400 million cubic feet is pending.

In order to take delivery of this out-of-state gas, Pacific Gas and Electric Company has commenced construction of a 506-mile-line extending from Topock on the California-Arizona border to Milpitas on San Francisco Bay. The 34-inch diameter of this line will make it the largest natural gas transmission line ever to be constructed. Initial delivery of gas is planned for late in 1950.

The building of this line, estimated to cost approximately $63,300,000, is but one evidence of our faith in the growth of population, commerce and industry in Northern and Central California and the purpose of this company to provide adequately for the gas and electric requirements of this area.

E. F. BULLARD

President, Stanolind Oil and Gas Company

Two years ago the nation was demanding more gasoline for automobiles and trucks, more fuel oil to heat their homes, more of all kinds of petroleum products. A drastic shortage of oil existed. To meet this swollen demand, the oil industry had to rush a huge expansion of its producing capacity, and increase its recovery efficiency from wells already drilled. That job is now accomplished. Supplies today can meet all normal domestic needs for oil and, indeed, exceed it.

E. F. Bullard

At the same time, our proven crude oil reserves have been climbing to a record 23 billion barrels in 1948 alone. The industry added more than two billion barrels, the greatest one-year increase in the industry's history.

Yet, in spite of this huge proven reserve, the industry is exploring for oil more intensively than ever. For we know that demand will continue to rise in the next decades, and we must prepare now

(Continued on page 8)

From Washington Ahead of the News

By CARLISLE BARGERON

A matter that has perplexed Washington political observers for a long time is just why Mr. Truman is so soft on the Communists, or perhaps, more appropriate, why, instead of joining in the hue and cry against them just now, which would certainly be the popular thing to do, he insists upon pooh-poohing anything said or done about them.

Carlisle Bargeron

Only a few days ago he dismissed the current hullabaloo as "hysteria" and "headline hunting." This strikes one as amazing when it is realized that it is not the "infamous" House Un-American Activities Committee that is monopolizing the headlines with "loose charges" and "ruining the reputations of perfectly innocent persons."

Instead, it is a three-ring circus being staged by Mr. Truman's own Department of Justice. In New York it is prosecuting Alger Hiss for perjury; also in that city it is prosecuting 11 avowed leaders of the Communist Party. Here in Washington the department is prosecuting one of its own employees, a young woman, who is charged with having pilfered confidential files from the department with the intent of passing them to a Russian agent. I don't mind saying that these activities on the part of the department are quite surprising to most of the political observers. It is the first time in some 16 years that it has shown any concern in this field. The rather general impression is that it took Congressional prodding to bring the Hiss case to trial, but in the case of the 11 Communists and of the young woman employee, the Department moved on its own steam.

Now, is this the headline hunting to which Mr. Truman refers? It is his own Attorney General for whom he shows a personal as well as an official affection.

The "infamous" House Un-American Activities Committee has shown very little activity since Mr. Truman's reelection and the Democrats came again into control of Congress. One of the first things the new Congress did, in fact, was to seek to pull the teeth of the committee and tie it up in a legalistic strait-jacket. The one thing the Committee has done, asking the universities for copies of textbooks they are using, has brought down the usual wave of Communist-Liberal indignation. But this has been only one story in the newspapers. The other three headlines are being caused by Mr. Truman's man.

Strangely enough, Mr. Truman's comment came on the heels of his Attorney General's statement that the Communists were being put on the run.

In 1947, Mr. Truman made a seemingly inept statement about Communists. In effect, he said: "There are no Communists in the government." Then within the brief space of a few months he was asking Congress for funds with which to run them out."

At this time, a system of loyalty boards were set up, and the State Department and military establishment were given authority to dismiss without explanation anybody they considered a poor security risk. Since this time the Communists have been dribbling out, much too slow, however, for the majority of members of Congress.

In fact, the antagonism that has existed on this question between the legislative and the executive branches ever since shortly after the New Deal came in, seems not to have lessened a bit under Mr. Truman.

Now, on th part of another man, Mr. Truman's characterization of present goings-on as "hysteria" might be attributed to high-mindedness, or the determination of a strong man not to be moved by momentary passions.

But Mr. Truman has shown neither of these attributes. His campaign last year was certainly intended to appeal to the ignorance and mob-mindedness of people. It has not an intelligent discussion of issues. His denunciations of those who oppose his quack policies as "lobbyists" and "selfish, ruthless men," is of the pattern of his way of thinking and of doing things.

But as to why he is soft on the Commies or the Commie question is another matter. It is what has Washington observers puzzled.

The Communists have not supported him. They had their own ticket against him last year. They came very near to costing him the election. He owes them no such allegiance as did Roosevelt. And he despises them personally. He despises the rats in the figurative alleys; he despises the intelligentsia among them, the latter if for no other reason than that they look down upon him. When he was in the Senate he used to fret about the Commies along with his fellow Senators, agree that they should be gotten out of the government. Indeed, at the time Hitler turned upon Stalin in June 1941, he was quoted in the New York "Times" to the effect that he hoped the two bandits would kill each other off.

For sometime there has been going around in semi-official Washington, a story impossible of confirmation but seemingly of considerable substance. It is to the effect that when he became President, it was Mr. Truman's intention to wipe the slate clean in the matter of Roosevelt's coddling of Communists, and run them out of the government. The story is that he took steps to this end.

But, according to the story, his political advisers convinced him that no such breaking with the past was the thing to do. He had to hold together the political conglomeration moulded by his predecessor.

He didn't hold the Communists in the 1948 campaign, of course. But it seems that one must continue to be soft towards them else he will alienate the "Liberal" support.

T. Dombrowski Opens

BUFFALO, N. Y. — Thaddeus Dombrowski is engaging in a securities business from offices at 422 Goodyear Avenue.

Enterprise Corporation

The Enterprise Corporation has been formed with offices at 70 Pine Street, New York City, to conduct a securities business.

Trust Function Responsibility In Preservation of Capitalism

By BENJAMIN STRONG*

President, United States Trust Company of New York

Leading trust company official stresses modern trust responsibilities in investment of funds and holds it is one of major elements in keeping nation away from "stateism." Says investment management should be hand-tailored, as no formula can possibly meet needs of more than one trust. Urges bankers and trust officials take leadership in solving complicated financial problems. Scores excessive taxation as reducing risk capital.

I have been asked to speak to you, who are predominantly commercial bankers, from the point of view of the trust company—the simon pure variety that, of course, does some banking business but devotes itself primarily to the exercise of its trust powers. The "straight" trust company —and I use that adjective advisedly—has become a rare bird indeed, almost akin to the dodo, and I fear sometimes is endowed in the public mind with the prehistoric point of view of that now legendary bird.

Benjamin Strong

You should know, however, that this small and select group did not always have this doubtful reputation for conservatism, and that at one time, just over 40 years ago, it represented the "bad boys" of the New York banking fraternity. Listen to this quotation from Frederick L. Allen's description of the 1907 panic in his recent biography of J. P. Morgan, Sr.:

"People began to question the reliability of a certain type of bank. For several years before 1907 there had been an epidemic of setting up trust companies, which were permitted by law to engage in banking operations almost as if they were national banks, but without being subject to the strict regulations with which national banks were surrounded. A good many plungers and stock market operators had got into the management of *some* of these trust companies, whose funds could be invested in enterprises more adventurous—and more risky—than ordinary banks were permitted to engage in."

Mr. Allen then closes this passage with the following question:

"Might some of these new-fangled banking institutions be headed for the rocks?"

As we all know some of them did land on the rocks, but it should be added that the majority, especially the older established ones, survived the storm and carried on—in most cases, however, with increasing emphasis on commercial banking, and declining interest in fiduciary functions. There followed the enactment of sound banking legislation in New York State; and, since then, intelligent administration by our Superintendents of Banks has given us over the years a State banking system that may well bring pride and satisfaction to all of us.

In considering the trust functions of a banking institution, I group as one the so-called "straight" trust companies along with the trust departments of all state and national banks. Their functions and responsibilities are the same, their legal status is identical, and their problems are no different. So what I am about to say refers to both groups with equal emphasis.

We had, a moment ago, a quick look at the panic of 1907. Following that disaster, as I mentioned, emphasis tended toward commercial banking, and away from trust functions. Then came the '20s with, may I say, a renewed and almost overpowering interest in investment matters, security affiliates, etc., with results that were frequently unfortunate to the trust end of the business. In the years after 1929, these experiences brought an excess of caution into bank policies and particularly into those having to do with fiduciary responsibilities. No doubt the pendulum had swung too far the other way. In any case we acquired the not always justified reputation of seeking our own protection first and foremost. Much valuable personal trust business went elsewhere as a result of these two influences—the excesses of the '20s on the one hand, and the extreme caution of the '30s on the other.

Now we find ourselves in the '40s, with all the aftermaths of two wars, including a depression squeezed in between them, a vastly changed national economy, and taxation that would seem to threaten the very foundations of that part of the banking business that we are now discussing. As investors and lenders of money let us not lose sight of the underlying factor that is now just emerging as the inevitable result of the financial excesses brought on by war, depression and a vast expansion of the Federal budget. I refer to the creeping paralysis of the equity capital markets, curtailing growth of business enterprise in good times, and threatening solvency during times of price adjustments and stabilization. Since the end of the war our economy has been borrowing when it should have been raising equity or risk capital. High taxes in peacetimes inevitably freeze risk capital by taking away the rewards and by penalizing the investor to a point where the rewards do not justify the risks. However, high taxes are only the by-product and the inevitable result of government expenditures, and high government expenditures can only be reduced by not doing things that we would like to do but can't afford. Certain things we must do—if our national safety is to be protected—and these include our national defense and the strengthening of our friends abroad. In other categories, however, we must live more within our means and must sacrifice non-essentials to long-term economic and financial health. Otherwise, a prosperity such as ours, based on a $250 billion Federal debt and the highest peacetime taxes in our history, carries the seeds of its own destruction.

The Future of Trust Services

What should our policies be under these conditions and how much emphasis should commercial bank management put on trust matters in the years to come? Should not the personal trust department be allowed to fade into the background—a necessary evil, fraught with great dangers, involving surcharges, possible loss of good will, and perhaps constantly recurring operating losses? Let me add parenthetically that such a point of view has at times seemed to prevail in many of our banks, to the detriment of all of us.

The question actually is bigger than just the personal trust department and its appointment as executor, trustee, guardian, etc. It involves the fundamental philosophy of banking itself.

As I understand banking, it contains two primary functions—the lending of money, and the investing of money. Historically both have had almost parallel importance, and actually I believe that emphasis should now be more equally divided between them. Both require the same technical training in credit, the same knowledge of industry, commodities, financial trends and economics. Both give the same fascinating opportunities to learn about and appraise a great variety of businesses and managements, and to

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*An address by Mr. Strong before the 53rd Annual Convention of the New York State Bankers Association, Spring Lake, N. J., June 17, 1949.

Outlook for Oil and Natural Gas Industries

(Continued from page 6)

to meet it. In the last 10 years, the nation's rate of oil use has jumped an average of almost 7% a year. Not only are people using more oil per capita, but our population curve continues upward— perhaps, to 165,000,000 people by 1975. Within 25 years, we may expect that national consumption will shoot up from its present figure of 6,100,000 barrels of petroleum a day, to more than 8,000,000.

The industry's search is leading in many directions: under the sea, deeper into the earth and into unexplored areas. Already, one company has probed deeper than 20,000 feet to find new producing sands. Other companies are at last seeing their expensive years of geophysical work in Canada begin to bear fruit. The intensive search in many areas is being made, not only to insure continued oil self-sufficiency in the western hemisphere in normal times, but, more important, self-sufficiency also in whatever crises may arise.

Oil companies are spending large sums to improve efficiency and perfect less costly techniques in finding and producing oil. Research is attacking the problem of increasing recovery from all types of reservoirs. For example, one new development, the hydrafrac process, is expected to increase the amount of oil which can be produced from "tight" reservoir formation. This and other developments will add to the nation's oil reserves.

Only in offshore areas is development lagging. When the titles and rights to these areas are at last settled, we may expect development there to accelerate. And, likewise, production from the undersea reserves will then rapidly augment our supplies.

Exploration and drilling on land and under water is expensive business, and is combined with heavy capital risks. Compare the costs of drilling deep wells, which are increasingly today's trend, with those of shallow wells. A 3,000-foot well of average difficulty, may cost about $30,000 to drill, but a 10,000-foot well will require about $200,000. Similarly, a month's work of a seismograph crew, using delicate geophysical mapping equipment, will frequently cost more than $20,000.

The industry's change-over from a seller's to a buyer's market has been accompanied by unsettled conditions in the oil industry which we hope will soon be resolved. Stable, reasonable prices, coupled with steady production, will stimulate industry to pay the heavy costs of exploring for new oil and drilling deeper wells. Indeed, many an economist believes that the oil industry will soon reach a period of postwar stability.

Of paramount importance, however, is the fact that the industry is planning not alone for 1955, but for 1975 as well. As they did during the war and the immediate postwar era, the petroleum producers are assuming their full responsibility for supplying the nation with oil products at reasonable cost—regardless of whether the source for tomorrow will be domestic or foreign, natural or synthetic.

GODFREY L. CABOT

President, Godfrey L. Cabot, Inc.

I gladly take this opportunity to say that in the 66 years since my interest in gas and oil began the greatest need has been more care to prevent the blowing of natural gas into the open air, either from sheer foolishness as was the rule when I first became interested in the industry in 1882, until the present moment.

Lt. Godfrey L. Cabot

In 1882 enormously great amounts of gas were blown to the open air, not only from oil wells, but from gas wells and from public torches, for instance in the City of Pittsburgh and in many other cities and of course from oil wells. Many oil wells blew off all their gas to the open air where if the gas had been duly cared for, it would have been worth much more than the oil.

At present there has been an enormous improvement in this regard, still billions of cubic feet of gas are blown off from oil wells in this country every day. The next thing that I think is most important and that can readily be remedied, is the divided control of gas sale prices. Not the least important part of the surge toward Socialism typified by the New Deal in the last 20 years, is the giving the Federal Power Commission the power to prescribe prices at which gas should be sold at retail. The whole control of the retail price of gas ought to be restored to the States. This is part of too great centralization of power in Washington in this country which has caused loss of countless billions of dollars; the hiring of great numbers of good workmen to be idle and burdening the people of the United States with hideous taxes to support this and other expenditures which have a distinctly demoralizing effect on the community. Which of us has not heard of numberless instances of men who have preferred to avoid employment and live on two-thirds of what they could have earned, which has been a loss of their production in the community and which is more important has turned them from good citizens to bad citizens and had the most deleterious effect on their children and their wives. Also there have been cases of unwise acts of Federal Power Commission outside a certain degree of control over Interstate Commerce. Nothing like as important or as widely used as is that of the power of the Federal Courts, but nevertheless a legitimate sphere to control within certain limits.

For years, the Hope Gas Company, anticipating the crying need of transportation of gas from the west to the east, tried to obtain permission to lay lines from West of the Mississippi to the Atlantic Seaboard States and were refused it. Then a gentleman, who is the ex-son-in-law of the late President Roosevelt, was given the privilege which he sold to the Field interests and they were allowed to function on an estimated return of 5% on their capital. The Hope only asked 3%. However, they have rendered very good service and while millions of people suffered during the two years of delay, the community as a whole was not very much affected by this unaccountable policy.

I think a determined effort should be made by the oil and gas industry to have the law changed and restore to the State authorities the exclusive privilege of regulating the retail price of gas within the State boundaries.

C. P. CONRAD

President, Iowa-Illinois Gas and Electric Company

I can state to you briefly the situation of our companies regarding the availability of natural gas. We distribute from the Natural Gas Pipeline Company of America pipeline in the cities of Davenport, Cedar Rapids, Iowa City and Ottumwa, Iowa, and Rock Island, Moline, and East Moline, Illinois. This company has informed us that there will be no further increase in the supply of gas until 1956. We are therefore continuing the restrictions on the use of gas for new house-heating installations and firm gas for new industrial load, both in existing plants and in new plants. The demand for gas for both of the foregoing uses is substantially in excess of the present supply. We understand that the pipeline company is actively considering the construction of a pipeline from the Gulf Coast fields to supplement the supplies they are now drawing from the western Kansas and northern Texas fields. Should the steel situation ease, it is possible that their new line could be completed before 1956.

C. P. Conrad

We serve Fort Dodge, Iowa, from the Northern Natural Gas Company's pipeline. This company is increasing its available gas over 10% per year and has practically completed arrangements with the Trunk Line Gas Supply Company to obtain an increment of practically 50% of its present capacity to be made available by the end of October, 1951. This will, of course, take care of growth in these communities for several years after that date.

WIRT FRANKLIN

President, Franklin Petroleum Corporation

In discussing the current outlook for the oil and natural gas industry I will confine my statement to one phase thereof which I believe merits study and consideration by executives of the oil industry and government if we are to avoid serious consequences in 1949 and succeeding years.

Wirt Franklin

While in France in recent weeks I learned that the governments of Italy, France and England are seeking an allocation from the Economic Cooperative Administration of many millions of dollars for the purpose of constructing additional refineries and enlarging the capacities of other refineries. From the information I received, if these requests are granted, the capacity of these refineries would be very much in excess of the market demand of Europe and Africa. The crude to supply these plants would be obtained from the Near East from English and French controlled concessions which would not require the use of dollars in the purchase of the crude and little, if any, of the crude to supply these refineries would be purchased from American nationals owning and developing oil properties in the Near East.

This would mean undoubtedly that the American companies with developed production of crude oil in South America and the Near East would have no market for that oil in Europe and Africa, which would force the oil from South America and the Near East into the domestic market of the United States; and if the refineries to be constructed in Italy, France and England were to be operated to their full capacity it would create an excess of refined products which would also have to seek a market in this country.

All this would be in contravention of the declared policy on oil as enunciated by the National Petroleum Council and could, and very likely would, result in a serious deterioration in the domestic oil industry in all its branches.

More important than the welfare of the oil producers and refiners of the United States is the question of national security. We should build up in the United States an excess producing capacity over and above consumptive demands of 2 to 3 million barrels daily and have this surplus available to meet any national emergency which may arise. To that end exploration for new sources of supply and development of those already discovered should continue without abatement in continental United States and Canada and the domestic industry maintained as a virile, going industry at all times.

Any other course of action means risking our national safety. Two world wars have shown conclusively that we cannot depend upon foreign oil if we become involved in war with a major power which has submarines and other effective war-making ability to intercept and destroy the tankers transporting the oil. In the last war we could not even transport our own oil by tanker from the Gulf Coast to the Atlantic Coast, nor could we obtain supplies from South America because of the German submarines. We had to resort to the Big Inch pipe lines from Texas to the Atlantic Seaboard.

We must not become dependent upon foreign oil. We cannot afford to gamble with our national security.

J. E. HALL, JR.

President, Weatherford Oil Tool Co., Inc.

In the world today, with constant advances in science and industry, there is an ever-increasing demand for petroleum and its many by-products. Therefore, while it is true that marketing problems exist from time to time, and in various places, it is also apparent that oil production somewhere in the world is going ahead at full speed.

J. E. Hall, Jr.

Thus, we feel that we must treat the oil industry as a world-wide or international industry in order to realize its potential from a supply manufacturer's position. We find that drilling activities are somewhat down in areas where markets are reaching saturation and where pipeline construction and transportation is lagging behind production; particularly in old fields where maximum exploitation has been accomplished, or in new fields, in remote areas. In some foreign countries, activity is definitely on the upward trend and tends to offset any reduction in other areas.

Our particular products are relatively new and involve new techniques resulting in more economical and efficient drilling and well completing. We continue to enjoy a good business by virtue of new accounts plus a constant demand from our old established accounts. More and more operators are getting in tune with modern tools and methods, and we expect a steady increase for some time to come.

In conclusion, we believe that if supply manufacturers will gear their production and service to an international level, they will build for themselves a stable and profitable business for the future.

W. S. HALLANAN

President, Plymouth Oil Company and Chairman, The National Petroleum Council

The outlook for both the immediate and long-term future of the oil industry is much brighter than first-half earning statements and production records would indicate.

While the first six months of the year have been marked by substantial cut-backs in crude oil production, and by reduced profits and a steadily declining price structure for all products except gasoline, there is good reason to anticipate a sharp increase in demand during the third and four quarters with a corresponding rise in production and profit levels.

The precipitate decline in prices of kerosene and fuel and heating oils in the first five months of the year had the effect of causing jobbers, distributors and consumers to reduce inventories to rock bottom and to make purchases only to meet immediate requirements. The effect of this policy has been to reduce stocks in secondary storage, as well as in consumers' tanks. Since it now appears that prices are dragging bottom, and since purchases for the fall and winter months cannot be delayed much longer, a quickened demand may reasonably be anticipated during the third quarter, increasing in velocity as we move closer to the winter months. This resurgence in product purchases will be reflected in increased crude production and corresponding improvement in profits.

Other factors have played a decisive part in reducing production and earnings. Increasing imports of crude oil, which reached record proportions in the first five months of 1949, had a serious and adverse effect upon the domestic industry. Strict compliance with the National Oil Policy report of the National Petroleum Council would cure this situation and bring imports into balance with domestic supply and demand. I have felt that the industry has a most serious obligation to keep faith with its own declaration of policy, which recognized that imports should be used only to supplement domestic production.

(Continued on page 10)

NSTA Notes

BOND CLUB OF LOUISVILLE

The Bond Club of Louisville will hold its annual outing Friday afternoon and night July 8 at the Sleepy Hollow Club. At the meeting the election of officers for 1950 will be held. The following slate has been presented:

Henry Christman, Jr.

Wm. J. Coniiffe

Clarence L. Jones

President: Henry Christman, Jr., O'Neal, Alden & Co.

Vice-President: William Conliffe, Merrill Lynch, Pierce, Fenner & Beane.

Secretary: Clarence L. Jones, Almstedt Bros.

Treasurer: Edward Molter, Smart & Wagner.

National Committeemen: Mrs. Ora M. Ferguson, Merrill Lynch, Pierce, Fenner & Beane and Thomas Graham, The Bankers Bond Co.

Alternates: Berwyn T. Moore, Berwyn T. Moore & Co. and Chester Lucas, Stein Bros. & Boyce.

Members of the Entertainment Committee in charge of the outing are Henry Christman, Jr., Chairman; Mrs. Ora M. Ferguson; Russell Ebinger, Smart & Wagner; Charles C. King, Bankers Bond Co.; Joseph W. Parks, Berwyn T. Moore & Co.; Wesley J. Rutledge, Jr., Stein Bros. & Boyce; William T. Watkins, Jr., Merrill Lynch, Pierce, Fenner & Beane; and Robert H. Johnston, Jr., Bankers Bond Co.

The Bond Club reports that Urban J. Alexander, W. L. Lyons & Co., the President, is now home from the hospital where he was confined for over a month following a heart attack suffered at his office.

NATIONAL SECURITY TRADERS ASSOCIATION

The Annual Convention of the National Security Traders Association will be held at the Broadmoor Hotel, Colorado Springs, Colo., Oct. 5 to 9, with the Bond Club of Denver acting as host for a day in Denver on Tuesday, Oct. 4.

Special trains will leave New York Sunday afternoon, Oct. 2, and Chicago, Monday, Oct. 3, arriving in Denver Tuesday morning, Oct. 4. The cost will be approximately $250 from New York and $140 from Chicago per person on the basis of two occupying a compartment. This will include round-trip rail and Pullman, all meals on the train and occupancy of Pullmans over night while in Denver, but will not include hotel rooms at Colorado Springs.

All reservations for hotel rooms must be made individually through the Association. Further details will be released about July 1.

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.

Canada: A New Frontier in Oil—Study—Bache & Co., 36 Wall Street, New York 5, N. Y.

Also available are bulletins on **Tin Control and Long Prospective for Depressed Stocks.**

Golds—A change of Sentiment—Study—Milner, Ross & Co., 330 Bay Street, Toronto 1, Ont., Canada.

Motion Pictures — Circular — Hirsch & Co., 25 Broad Street, New York 4, 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.

Steel Making in America—Brochure—United States Steel Corporation, 71 Broadway, New York 6, N. Y.

Stockholder Democracy on the March—E. C. Potter, Jr.—Georgeson & Co., 52 Wall Street, New York 5, N. Y.

Throw Away Those Dark Glasses—Analysis of market outlook—Jacques Coe & Co., 39 Broadway, New York 6, N. Y.

* * *

Atchison, Topeka & Santa Fe—Circular—G. H. Walker & Co., 1 Wall Street, New York 5, N. Y.

Also available are circulars on **Chicago & Northwestern Railway, Cincinnati Gas & Electric Co., Cleveland Graphite Bronze, Eastman Kodak Co., Electric Power & Light Corp., General American Transportation, H. L. Green Co., Greyhound Corp., Libbey Owens Ford Glass, United States Gypsum, and Variety Chains.**

Bank of Manhattan—Leaflet—Goodbody & Co., 115 Broadway, New York 6, N. Y.

Bendix Aviation Corporation—Special review—John H. Lewis & Co., 63 Wall Street, New York 5, N. Y.

Brooklyn Union Gas Co.—Circular—Smith, Barney & Co., 14 Wall Street, New York 5, N. Y.

Also available are circulars on **Liggett & Myers Tobacco Co.** and **Public Service Co. of Indiana.**

Brown Company — Report — H. Hentz & Co., 60 Beaver Street, New York 4, N. Y.

Also available are reports on **Middle South Utilities** and **United Corp.**

Central Soya Company—Analysis—William A. Fuller & Co., 209 South La Salle Street, Chicago 4, Ill.

Colombia-Bolivia—New study—Zippin & Company, 208 South La Salle Street, Chicago 4, Ill.

Fairchild Engine & Airplane Corp. — Report — Cohu & Co., 1 Wall Street, New York 5, N. Y.

James Manufacturing Company—Study in current issue of "Business and Financial Digest"—Loewi & Co., 225 E. Mason Street, Milwaukee 2, Wis.

Mountain Fuel Supply — New analysis—Edward L. Burton & Company, 160 South Main Street, Salt Lake City 1, Utah

National Distillers Products Corporation—Analysis—Eastman, Dillon & Co., 15 Broad Street, New York 5, N. Y.

Also available is an analysis of **Pennroad Corporation.**

National State Bank of Newark—Analysis—J. S. Rippel & Co., 18 Clinton Street, Newark 2, N. J.

Northwest Airlines—Analysis—Auchincloss, Parker & Redpath, 52 Wall Street, New York 5, N. Y.

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

Republic Natural Gas—Current report and up-to-date analysis—Merrill Lynch, Pierce, Fenner & Beane, 70 Pine Street, New York 5, N. Y.

St. Paul Fire and Marine Insurance Company—Study—J. M. Dain & Company, Rand Tower, Minneapolis 2, Minn.

Seattle Gas Co.—Circular—Comstock & Co., 231 South La Salle Street, Chicago 4, Ill.

Smith, Kline & French Laboratories—Circular—White, Weld & Co., 40 Wall Street, New York 5, N. Y.

Sperry Corp.—Circular—Fahnestock & Co., 65 Broadway, New York 6, N. Y.

Wisconsin Power & Light Co.—Data—Ira Haupt & Co., 11 Broadway, New York 6, N. Y.

Wisconsin Power & Light Co.—Memorandum in current issue of the "Public Utility Stock Guide"—G. A. Saxton & Co., Inc., 70 Pine Street, New York 5, N. Y.

Business Man's Bookshelf

Does Life Insurance Guarantee Security for Your Family?—A study of the estate plans recommended by the nation's life insurance companies—William J. Baxter—Baxter International Economic Research Bureau, 76 William Street, New York City—Paper.

Financing Canadian Government—A. E. Buck—Public Administration Service, 1313 East 60th Street, Chicago, Ill.—Cloth—$5.00.

Steel Making in America—Douglas A. Fisher—United States Steel Corporation, 71 Broadway, New York 6, N. Y.—Paper.

Stockholder Democracy on the March—E. C. Potter, Jr.—Georgeson & Co., 52 Wall Street, New York 5, N. Y.—paper.

Strategy for Liberals—The Politics of the Mixed Economy—Irwin Ross—Harper & Brothers, 49 East 33rd Street, New York 16, New York.

Tax and Expenditure Policy for 1949—Statement on National Policy—Committee for Economic Development, 444 Madison Avenue, New York 22, N. Y.—Paper—Single copies available without charge, additional copies at cost—35¢ each.

Technical Assistance for Economic Development: An Expanded Plan—United Nations 1949.II.B.1.—Columbia University Press, Morningside Heights, New York, N. Y.—Paper—$2.50.

With Davis, Skaggs & Co.

(Special to The Financial Chronicle)

SAN FRANCISCO, CALIF. — Robert P. Mann has been added to the staff of Davis, Skaggs & Co., 111 Sutter Street, members of the San Francisco Stock Exchange.

Two With Brereton Rice

(Special to The Financial Chronicle)

DENVER, COLO. — Arthur G. Harris and Edward L. Reilly have joined the staff of Brereton, Rice & Co., First National Bank Building.

Outlook for Oil and Natural Gas Industries

(Continued from page 8)

In recent months they have actually supplanted our own output.

In comparing first half profits of 1949 with those of last year, it should not be overlooked that 1948 represented the peak of the postwar inflationary spiral. Production and profits during this period cannot be regarded in any other light than as most unusual, although it may be pointed out that they were insufficient to meet the industry's capital expenditures for plant expansion. However, when we compare even the reduced earnings for the first six months of 1949 with the average of any comparable period before, during or immediately after the war, they are not of a nature to cause any great alarm.

While we are currently in an era of an expanding world production and of contracting markets for our domestic output, it cannot be overlooked that there have been many other periods when the outlook in this respect was much darker than it is today. At the time of Spindletop, East Texas and other sensational discoveries, there were few who thought the greater production could be absorbed. On every such occasion, a dynamic domestic economy has taken up this slack and caused the industry to strain its productive facilities to the utmost in order to meet new peaks of demand.

It is my conviction that history will repeat itself, and that as America goes forward to greater heights of industrial achievement and higher living standards, the oil industry will be called upon to raise its production to new levels that are now undreamed of.

JOHN HARPER

President, Harper Oil Co., Inc.

At the outset, it should be stressed that this point of view is from a restricted section of the marketing end of the oil industry. There are about 12,000 independent jobbers or distributors of gasoline and fuel oils in the U. S. A., who handle, deliver and sell almost half of the total volume of these products merchandised to retailers and individual consumers. Though relatively small individually, we are operating on our own money, and this has an influence on our opinions.

John Harper

The outlook today, if judged from the experience of ten years ago, would be for an active, competitive market. General economic conditions are not too encouraging, but recession should not be of such severity that there would be any doubt of increased consumption of petroleum products throughout 1949.

Producing, refining, and transportation developed an over-supply of fuel oil for last winter's relatively warm season, and consequently the price structure broke, and there has been no material strengthening as yet.

A resultant slow-down of refining has been noticeable, due to crowding of tankage, but current fill-up of storage in frozen-in areas should soon make it possible to resume normal summer manufacture.

Gasoline, though firm in price, is in a fairly comfortable stock position industry-wide. Consumption is not increasing at an excessive rate, and with the anticipated resumption of normal refining activity at an early date, there should soon be sufficient gasoline.

With these supply conditions pretty generallly accepted, an observer in 1939 would have expected increasing pressure for sales.

What has brought about the entirely different atmosphere of today, where there are rumors of fuel oil price strengthening and continual tensions in the gasoline picture?

Two trends have developed materially since 1939 which are not characteristic of our free enterprise system.

First, let's look at the crude supply picture. Of course good conservation practice won't countenance domestic crude production faster than the maximum efficient rate. Furthermore, the impossibility of importing crude from most foreign countries in time of war makes it vital for us to avoid undue reliance on these sources for our peacetime supplies. On the other hand, how can free enterprise rationalize crude prices at their present ten-year peak (except for special grades), with severe curtailment of production by the Texas Railroad Commission and voluntary reduction of imports of foreign crude by some of the major importers?

This may all be in the interest of John Q. Public, but the consumer should at least have the benefit of a clear explanation that he is paying the lowest prices for his fuel oil and gasoline consistent with adequate supplies for the future. This explanation would profit both consumer and producer.

Obviously competition is in suspense. Whether the industry, the States, the Federal Government, or some combination of these three, dominate the solution of this problem, together with development of Tidelands and synthetic manufacture, will be the most important evolution of the industry for the future.

Second, gasoline marketing, like some other functions of the industry with which the marketer is not so familiar, has come so much under the control of the large integrated companies that the small independent is severely handicapped, especially in large cities.

Gradual acquisition of service station fees and leaseholds, particularly in areas where zoning is a factor, has given the large companies such a back-log of frozen business that they are becoming more and more independent of competitive conditions and more and more arbitrary in their dealings.

This situation is true of other industries too, such as grocers and druggists, but on the other hand, the trend has been arbitrarily arrested in the cases of meat packers, brewers and movie producers. Some thought should be given to creating conditions more healthy for the independent, otherwise the absence of competition will breed government regulation.

To sum up in a general way, the outlook for the independent jobber and distributor today is for a free, active, competitive petroleum market. We hope it is not wishful thinking.

To bring it about there must be a solution of the crude supply picture which would give confidence to all elements of the industry and undue advantage to none.

There must also be correction of the present trend toward excessive economic concentration in the hands of the large petroleum corporations. Though we do not feel that the fault lies in integration, we do feel that there should be restraint—either voluntary, or legal, if necessary—in the acquisition of control of markets.

EUGENE HOLMAN

President, Standard Oil Company (N. J.)

The postwar boom has passed its peak. Ability to supply consumer needs has forged ahead of demand. Sellers' markets are a thing of the past. Timely and in most cases anticipated adjustments in operating levels have been made. As a result the general level of economic activity has dropped moderately from its peak level of a few months ago. The reduction so far has been slight, though, and present industrial activity is still at a high level as compared to prewar years. We believe that the period immediately ahead of us is one of the final stages in relieving the stresses and strains inevitable after a long and highly destructive war. We have confidence in the long-term upward trend of the American economy.

Eugene Holman

The effects of recent changes in the nation's economic picture are apparent in our own business. Industrial fuel oil sales have stopped climbing. Sales of heavy fuel oil in the United States have been 5% less so far this year than in the corresponding period a year ago. Even after making allowances for warmer weather this year, a decline from the peak levels of last year is apparent.

Heating product sales to date have been off substantially this year. Kerosene, for example, is off some 14% from last year and domestic heating oils off about 6%. This decline, however, can be attributed to the unseasonably warm weather we have just passed through. There has been no marked change in the basic and growing demand for heating oil products.

In some other products, such as gasoline, which has been running 9% above last year, and in railroad diesel oils, there is no evidence yet of a leveling off in the upward trend in consumption. We expect some leveling off to occur, however, and it would be unrealistic not to be prepared for this.

On an overall basis, total industry petroleum sales this year will probably show a moderate increase over last year in spite of the reduced outlet for fuel oil heating products during the past winter. The increase will probably be small in comparison to the large increases experienced in recent years, but more in line with long-term trends. It may seem surprising that petroleum demands will be higher than last year in view of the current reduced production and refining operations. A word of explanation may be helpful.

Last year more than 5% of the industry's production of crude oil and finished products went into building up inventories. This year we expect substantially all of the industry's production to reach final consumers with little, if any, being devoted to increasing stocks.

Moreover, while domestic petroleum production today is about 12% under the all-time peak level reached in December of last year, and imports are down about 20%, it seems probable that this reduced rate of supply is temporary. This present supply rate is 6% to 10% (depending on what estimate is used) below the demand level expected in the second half of this year. Some increase in industry operations seems inevitable, therefore, even if demand does not exceed the most pessimistic estimates. Mr. Abrams reflected this in his remarks when he said that Jersey expected somewhat higher rates in production and refining operations as the year progresses.

While the industry has available, at present, ample capacity to supply petroleum products, it should be kept in mind that the overall picture for the industry is an expanding one. We will have to keep at it to continue rendering the service characteristically expected of the industry.

S. B. IRELAN

President, Cities Service Gas Company

As an industry, the natural gas business gives promise of increased growth over the next few years. This will be largely influenced by construction of new transportation pipe lines to new territories, and the expansion of existing lines.

It has been stated that an expenditure program of almost one billion dollars has already been planned by pipe line companies for 1949 and the immediately ensuing years representing some 23,500 miles of new natural gas transmission pipe lines. This, together with field development costs, presents a rather sizable financial outlay. Most of this construction will be made at high cost levels. This factor alone might be expected to retard the natural growth, but due to the comparative cheapness of natural gas with other fuels, such is not the case.

The volume requirements of these new projected pipe lines serving markets of almost unlimited potential consumption has greatly increased the demand for gas at the source of supply, and has resulted in a mad scramble on the part of various pipe line builders to secure the natural gas reserves required to justify their projects and procure the necessary authorization for a certificate of convenience and necessity from the Federal Power Commission. This competitive situation has, of course, increased the price of gas in the field. This increased price influence has been augmented in Oklahoma and Kansas by State Commissions attempting to fix a price floor under the field price to producers.

The big problem confronting the natural gas industry today is that of building transmission capacity and securing natural gas reserves well in advance of the growth of the load. There seems to be no limit to the growth in the demand in the cities already served, and in the requests from those cities within transmission range, to secure supplies of this fuel.

GORDON R. KAY

President, Bay Petroleum Corporation

Supply of crude oil temporarily has caught up with demand for petroleum products. However, the long-term trend of demand for refined products continues upward and large amounts of new capital must continue to be invested in oil exploration, recovery, and refining to keep capacity equal to the growing demand. We are investing our own money in support of this opinion. Earnings, however, are likely to be substantially lower than in previous years, and new capital investment probably will be less than in 1948.

Crude oil production in the United States has been cut back to the levels of the corresponding month of 1947. Current daily average production is between 4.8 million and 4.9 million barrels compared with nearly 5.7 million barrels in the last quarter of 1948.

The business boom of 1947-48 was accompanied by a great increase in demand for petroleum products as well as for many other scarce minerals. Prices rose substantially and encouraged exploration and drilling for new supplies in the United States and in foreign countries. For the years 1944-1948 the oil industry invested not less than one billion dollars per year in new and replacement facilities. The 1947 investment was well over two billion dollars. This resulted in a very substantial increase in crude oil potential in the United States and very important discoveries abroad. Some of the foreign fields already are in production and other are well advanced.

This expansion of petroleum production in other countries, a substantial amount of which has been made possible by United States capital and technical skills, probably will supply most needs outside of the United States. Imports of crude petroleum into the United States have more than doubled in the 12 months ended in January, 1949.

The rapid increase in supply of crude oil has been phenomenal. The U. S. Tariff Commission, reporting to the Congress in 1946 on war changes in industry, observed that "average daily production of nearly 4.9 million barrels in July, 1945, marked a new high which may not be exceeded for a long time." Production in December, 1948, was nearly 5.7 million barrels daily and only within the past few months has this been cut back to 4.9 million barrels.

Crude oil must be discovered considerably in advance of its consumption, to allow for most economical withdrawal and utilization. Facilities in our area of operations have not been over-expanded. We, as an integrated company, are expanding our drilling program, as we must be sure of a dependable supply of crude for some years ahead.

The current unwillingness of consumers to spend their incomes for many things, including petroleum products, has resulted in price declines for many commodities.

(Continued on page 12)

Price War in Alcohol Industry Ends

By JOHN C. LOESER
Consulting Economist

Mr. Loeser, reporting price advances by leading industrial alcohol producers, looks for increased profits in industry. Foresees in move higher inventory values, and says renewal of price war is unlikely.

Beginning July 1, the industrial alcohol producers will be back on price schedules that will permit them to operate at a profit once more. After selling alcohol for the first six months of this year at prices that barely covered costs, if they did that, industry members have now moved their prices up to a level that will enable them to operate in the black for a change.

John C. Loeser

The industry is not likely to repeat soon the mistake it made last November when it started cutting prices. It was generally recognized at the time that 70 cents a gallon, the price then prevailing for ethyl alcohol, was out of line and was bound to decline with the drop in the cost of molasses as the supply of that alcohol material was again becoming available in large quantities for the first time since the war. But what started as a downward price readjustment soon became a price war. By February the price had fallen to 21 cents.

As the market dragged along at the 21-cent level during the past months, the producers had plenty of time to realize that it's easier to cut prices than it is to raise them. None of them would assume responsibility for starting the price war, but they were in agreement that they had gone too far and prices ought to be raised. All were willing to go along with a price rise so long as one of the others took the lead.

Within the past fortnight, the industry's largest producer, Publicker Industries, Inc., decided the time had come to act and it announced price increases that would take effect July 1. Although it had been reported in the trade that prices would be raised gradually a few cents at a time, Publicker apparently had decided that half measures didn't fit the situation. Its price increases ranged from 8½ to 11 cents a gallon, according to the formula type. Pure ethyl alcohol, which is bought chiefly for pharmaceutical uses, went from 21 to 32 cents. The 2-B formula type, for example, which is the biggest seller and goes into plastics and photographic films among other items, was moved up from 22 to 31 cents. The second biggest seller, proprietary alcohol for toilet goods, hair tonics and the like, was raised from 25 to 33½ cents. These advances were needed, Publicker stated, "to bring the price to a level more commensurate with the cost of production."

U. S. Industrial Chemicals, Inc., was the first to follow Publicker's lead. Its new price list brought its quotations up to the same level as Publicker's. Then Shell Chemicals Corp., a Shell Oil Co. subsidiary that produces synthetic alcohol from petroleum gases, announced it too was meeting the new prices. Indications were that other leading producers such as Carbide & Chemicals Corp., Commercial Solvents Corp., and United Distillers of America, Inc., would all announce similar price increases.

The makers of plastics, dyes, lacquers, photographic film, cosmetics, proprietary goods and solvents and other users of industrial alcohol, had all been conditioned for the price rise. Producers had been giving them fair warning that current low prices were too good to last. Until July 1, when the new prices become effective, the companies will continue to supply the normal requirements of their customers at the old prices, but they are not likely to allow customers to step up commitments to get in under the wire.

The higher price schedules will have a two-way effect on producers' year-end financial reports. First, their effect will be evident in the income statement. Second, because of their bearing on inventory values, they will be reflected also in the balance sheets. Since inventories are usually carried at lower of cost or market, the increased prices will automatically raise inventory values or, at any rate, will help to reduce the need for further write-downs of inventories out of earnings. How important that can become for individual companies was illustrated in the experience of U. S. Industrial Chemicals, Inc. For the fiscal year ended last Dec. 31, that company had to write down its inventories of molasses and alcohol to the extent of $4,750,000 because of the fall in the market price of both items.

All in all, the willingness of producers to match the new prices announced by Publicker seems to indicate that they have had enough of the price war for some time to come and that they are not likely to touch off another very quickly.

New Jersey Bond Club Elects C. B. Parker

Courtlandt B. Parker of R. W. Pressprich & Co., New York City, was elected President of the Bond Club of New Jersey for the ensuing year. Other officers elected were C. Wallace Smith of Smith, Barney & Co., New York City, Vice-President; Harry D. Miller of Nugent & Igoe, East Orange, N. J., Secretary; and J. Wm. Roos of MacBride, Miller & Co., Newark, N. J., Treasurer. New Governors of the Club are Stanton M. Weissenborn of Parker & Weissenborn, Inc., Newark; Richard F. Saffin of Boland, Saffin & Co., New York City; and Norton P. Rogers, Jr., of Rogers, Gordon & Co. Inc., New York City.

The Bond Club of New Jersey held its outing at the Rock Spring Country Club, West Orange, N. J. Harry D. Miller was Field Day Chairman. Pictures taken at the outing appear elsewhere in today's issue of the "Chronicle."

Homer W. Luttenton

ALBION, N. Y.—Homer W. Luttenton is again engaging in a securities business from offices at 47-A North Main Street.

The Omnipotent State and Private Lending

By CLYDE WILLIAM PHELPS
Professor of Economics, University of Southern California

Asserting attempt to control consumer loan field, as indicated by Regulation W, furnishes example of feather bedding that is slowly undermining private enterprise, Prof. Phelps contends it can lead to an Omnipotent State. Sees danger of governmental controls extending to other sectors of the economy and lists as steps in this direction: (1) hampering of private enterprise until it fails to function satisfactorily; (2) publicizing such failure; and (3) proclaiming need for government operation.

The consumer loan field is as good an example as any to illustrate the process whereby government gradually establishes the Omnipotent State by slowly undermining private enterprise. To begin with, the case of Regulation W is instructive. This Regulation never has contributed, and never can contribute, in any more than an imperceptible or imaginary degree, toward securing its professed objective of stabilizing the economy. "But so what?" say the broad-minded private enterpriser and his Congressman, "As long as it is futile and doesn't do any harm, why not give in on this minor matter and placate the Planners in their ceaseless and growing demands for power and control? And, moreover, it probably makes the people think we are doing something to control instability, and diverts attention and criticism away from the Planners' unwillingness to control the real sources of inflation, namely, their own fantastic spending programs."

Dr. C. Wm. Phelps

And the few consumer credit granters who favor such controls as Regulation W chime in, "We like it because the government does our collecting for us. And the government takes other burdens off our shoulders, too, like the functions of determining sound down payments and of deciding upon safe maturities of contracts, and just a lot of things where we used to have to exercise our own individual initiative and personal responsibility."

Criticisms of Regulation W

Regulation W has been subjected to many criticisms, but I believe that the basic problems have not been sufficiently isolated and emphasized. In the first place, Regulation W furnishes a perfect and classical example of feather bedding in its purest form a practice in the Federal Government which, in the aggregate, takes not millions but billions of dollars in taxes from the pockets of the American people for squandering on duplicating the work of private enterprise, on doing no work at all, and on simply making motions which have no perceptible effect upon the practical course of events which they are supposed to influence.

In the second place, the history of Regulation W demonstrates clearly and alarmingly how far the Planners will go in their no-quarter struggle to create in good time the Omnipotent State. The point here is that Regulation W was a peewee matter as far as practical stabilizing results are concerned, and this was admitted by the Federal Reserve authorities. If it had been a big matter concerning an important and determining factor in economic stability, the all-out and relentless battle of the Planners to keep control legislation on the books would have been understandable. For the Planners in Washington had enticed us into that first attractive stretch of the road that leads to the Omnipotent State with the honeyed promise: "Have no fear. Now, we are just going to set up broad, general controls which are simply for the purpose of establishing a favorable environment for private enterprise and individual freedom. There will not be any specific, pin-point controls which hit individuals and restrict their liberty, for such controls are characteristic of the collectivist or totalitarian states from which we are going to save you."

Surrender of Function of Private Enterprise

In the third place, the Regulation W affairs suggests the most serious problem which private enterprise and free men confront vis-a-vis their increasingly all-powerful and all-pervasive government. That problem is this: To the extent that private enterprise and free individuals surrender the functions they perform to their government, the reasons for permitting the existence of private enterprise and individualism cease to exist. This matter of function performed is really the core of the whole problem, and it merits our extended discussion.

The rule proved conclusively by the historical record throughout the entire career of men and their institutions is this: When any institution (whether it is the institution of private enterprise, or a bank, or a consumer finance company, or any other kind of institution) begins to fail to perform its functions, or some of its functions, in serving the public, or when it begins to fail to perform its functions satisfactorily in serving the needs of the people, then that institution begins to decline and to pass out of existence.

Note that such an institution would shrivel and ultimately disappear, or become of minor importance in the economy, even if the Planners were not eager to hamper the functioning of the institution and to take from it more and more of its functions, a little bit at a time. But when institutions or individuals (like the consumer credit granters who actually want the government to take over from them their functions of collecting, determining sound down payments and maturities, and so on) run to an eager and determined Administration and ask it to relieve them of part of the functions they are performing, then they facilitate the transition to the Omnipotent State.

But the broad-minded person will object suavely that all this concern over functions is exaggerated, that after all the Federal control of managerial and consumer decisions in such a small field is of no real importance to private enterprise and the liberty of individuals, and that, as a clincher, the Omnipotent State, toward which we are headed is a do-good or Social Welfare State where every one will be as free and happy as the day is long. However, numerous other fields could be treated as perfect illustrations of this problem of the continuous surrendering of the functions of private enterprise and of individuals to the Federal Government; the consumer loan field is adhered to throughout as the one example simply to secure consistency in treatment and to avoid undue length.

Danger of Controls Spreading

The disturbing truth is that the process of government absorption of the functions of private enterprise and of individuals is irresistibly creeping ahead in many sectors of the economy, **and that the private enterprisers and other individuals in one sector do not care about what is happening in other sectors than their own.** For example, as far as the writer and the readers of this article are concerned, a specific pin-point control like Regulation W does not directly restrict OUR personal liberty a whit; our incomes are high enough so that we never need to even think about borrowing money on a consumer instalment loan or buying goods on the instalment plan. So what of it if a few million poor Joes, who are compelled by the size of their incomes to rely on consumer credit to meet family emergencies and to secure a few of the conveniences which make life worth living, do have THEIR personal liberty restricted and their decisions made for them by a government bureau? We are so immersed in our own private individual self-concern that we are quite undisturbed over the proliferation of government controls so long as these controls merely restrict other people's freedom and not our own; we are so occupied with

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Outlook for Oil and Natural Gas Industries

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Some adjustment of petroleum prices was required for the good of the industry. However, the trend of demand for petroleum as a source of energy, and as a raw material for other industries. continues upward. The United States and most other countries depend upon petroleum products as a fuel for all forms of transportation, from airplanes and automobiles to railroad locomotives and steamships. The increasing mechanization of agriculture and industry, as well as the increase of population in the United States of well over one million persons per year requires a large annual addition to oil supplies.

It is my opinion that the current slump in demand for petroleum products has reached bottom, and that the normal increase in demand will begin to be felt, at prices that will remain about as at present—substantially lower than in the last half of 1948 when demand was greatest. In support of that opinion, we have continued to spend our own money in development of new sources of petroleum and in improvement and expansion of refining facilities.

There has been no slump in the demand for natural gas. Discovery and development of natural gas have made this a dependable source of energy. The transmission of this gas to the large centers of population and industry, for distribution through established gas systems, has required the expenditure of billions of dollars. New projects for the transmission and sale of natural gas are under construction or planned for several years ahead. The market for this fuel seems limited only by the cost of the capital equipment necessary to deliver it in the form, at the place, and at the time required by consumers. The trend to natural gas as an urban fuel should continue as it has for some years past. Natural gas also is a valuable raw material from which gasoline and other products are recovered. It can also be substituted for petroleum as a source of many products, thus adding to the life of petroleum reserves in the United States.

Earnings on capital invested in petroleum and natural gas properties are likely to be much less than in 1948 and 1947, now that the urgency for additional supplies of liquid fuel has passed. Normally, earnings on capital invested in oil companies have been less than for industry generally. This reduction in the rate of earnings will make new investment in the oil business less attractive and less money will be available for additional facilities.

WILLIAM C. KINSOLVING

President, Mid-Valley Pipeline Company

Pipeline transportation facilities are expanding both here and abroad and it seems reasonable to assume that this trend will continue for some time.

As long as oil fields are discovered in out-of-the-way places, pipelines will be needed as the most economic and feasible method of moving crude oil overland to refineries or to transportation centers.

Wm. C. Kinsolving

Take, for example, the discovery of the Leduc Field in Alberta Province, Canada, in 1947 and the Redwater Field in the same area last year.

Dr. Joseph E. Pogue, prominent petroleum economist, recently pointed out that the local market for the oil from these fields represents about 60,000 barrels a day. Production has already reached 40,000 barrels a day and that is only the beginning. Before long this production will far exceed local demand and long-distance transportation facilities will be needed to reach more distant markets.

At the present time, according to Dr. Pogue, indicated known reserves of Western Canada are close to 600 million barrels and the area's ultimate potential may be from five to ten billion barrels.

It requires no great stretch of the imagination to picture new pipelines reaching eastward to the Great Lakes, westward to Vancouver, and even southward to Wyoming to tie in with existing American lines. Already plans have been announced by Imperial Oil, Ltd., for a large pipeline from Edmonton to Regina with later extension to the Great Lakes.

In the Middle East pipelines are being constructed to move crude oil from desert oil fields to water transportation outlets in the Persian Gulf and the Mediterranean Sea. These "big inch" construction jobs are so vast they will require five years for completion.

Similarly, numerous domestic projects held up during the war period and later by a postwar shortage of steel are now being pressed forward as greater supplies of steel become available. Every indication is that pipeline expansion will continue for some time on momentum supplied by the release of long pent-up demand for this form of transportation.

Recently published surveys indicate that pipeline construction programs in the United States now under way or recently contracted total approximately 7,300 miles, and those in foreign countries total more than 3,200 miles. If natural gas pipelines are included, pipeline construction projects recently completed, now under way or "on the books" for the future total more than 45,000 miles.

It appears that only a tightening of the money market or a major depression would curtail this building program. Pipelines are expensive to build. For example, the 1,000-mile crude line from Texas to Ohio to be built by the Mid-Valley Pipeline Company, recently organized by Sun Oil Company and The Standard Oil Company (Ohio), will cost approximately $56 million.

Currently the trend is toward longer and larger diameter crude oil pipelines, and as these are built they force the abandonment of smaller diameter lines competing in the same area. Obviously the line making the longest hauls and having the largest throughput will be the more efficient and will have the lowest operating cost per barrel mile. As a result, the next few years will probably see the construction of a new series of large diameter pipelines which will have connections with innumerable "feeder" lines. In this way the pipelines may follow a pattern developed in the railroad industry over a period of years.

Possibilities for the use of pipelines for the movement of finished products to the market seem limitless. The product pipeline was not used by the oil industry until many years after the introduction of the crude line. During the recent period of steel shortage emphasis was placed upon the building of crude lines. But today, with the steel situation easing, many companies are showing new interest in product lines.

ROBERT W. MILLER

President, Pacific Lighting Corporation

California's two main population centers—Los Angeles and San Francisco—as well as the major portion of the more heavily populated areas in the rest of the state, are today supplied with natural gas. Indeed, other fuels being costly or unavailable for other reasons, natural gas is the principal fuel used in both homes and factories. The two major distributing systems in the state are (1) Pacific Lighting Corporation in Southern California, and (2) the Pacific Gas & Electric Company in Northern California. In recent years, the big problem of both these companies is the one of supply.

Robert W. Miller

Before the war, all the natural gas distributed came from California sources, which were adequate to meet normal domestic, commercial and industrial requirements. However, the tremendous growth of Los Angeles and San Francisco and, in fact, the entire state, in both population and industries, increased the demands for natural gas many fold. Despite the fact that the California reserves were then the largest they had ever been, the rate of discovery had not been sufficient to keep up with the greatly increasing demands. Thus it was necessary to go outside of the state for gas, and negotiations were entered into with the El Paso Natural gas Company to bring gas to the California border.

The first unit in that system was completed in 1947, connecting Southern California with the prolific natural gas reserves in southeastern New Mexico and West Texas and the Texas Panhandle. At present, the 1200-mile line built jointly by El Paso Natural Gas and the Pacific Lighting system is bringing natural gas into the state at a daily rate of 305 million cubic feet. Preparations are being made this summer to step-up that delivery rate to 405 million cubic feet. In the meantime, the Pacific Gas & Electric Company, also in collaboration with the El Paso Company, has begun construction of a second pipeline which will ultimately be capable of transporting an additional 400 million cubic feet a day into the state.

The gas from these two pipelines, together with substantial California reserves, will give the California companies a comfortable margin of supply for all normal requirements. Nevertheless, there still remains a difficult supply problem which is inherent in the gas business in California. The elements in the problem are these:

There are two classes of customers supplied by the gas companies: (1) so-called "firm" customers who have no alternate fuel to whom it is essential to maintain service at all times and to whose service the systems are dedicated; and (2) the "interruptible" customer who is required to have an alternate fuel as a condition of service and who is subject to curtailment when the available supply is needed for the firm customer. The characteristics of service to these two classes of customers are dissimilar. The firm customer demands and receives continuous service, and his requirements fluctuate sharply from hour to hour and from season to season. Maximum winter demands of firm service will be as much as six or seven times that of the summer demands and the hourly demands will show an almost equal variation. Although there is some week-end falling off in the industrial demands, the seasonal requirements remain relatively uniform. The inconvenience of using substitute fuels and the need to maintain standby facilities are recognized in the lower rates charged in the contracts under which gas is supplied to such industrial customers.

California natural gas comes from two sources: (1) oil well or residue gas which is produced as a by-product of oil, and (2) dry gas from gas wells where little or no oil is present. The rate of production of oil well gas, naturally, is related to the production or demand for crude oil rather than to the gas market, and therefore it is not readily susceptible to change to meet the varying demands of natural gas users. The rate of production of dry gas, however, can be controlled to fit the gas market.

Currently, 65% of the gas available from California sources comes from oil wells and the remaining 35% comes from dry gas fields. Broken down regionally, Southern California receives 95% of its gas from oil wells and only 5% from dry gas fields, while Northern California secures 70% of its gas from dry gas fields and 30% from oil wells. It will be seen that the problem of equating the load is more acute in Southern California than it is in the north. Presence of Texas gas in large volumes has materially helped this situation, but Texas gas brings another equating problem due to the fact that the companies are required to maintain a 91% load factor so as to make operation of the line economically sound.

Of enormous value in equating peak loads is an underground storage project developed by Pacific Lighting Corporation at La Goleta, just west of Santa Barbara. Here the company secured control of a sealed structure already containing a very large reservoir of natural gas in a "dry" state. By installing suitable compressor equipment and drilling additional wells, the company has followed a program of injecting residue gas into the structure during the summer months, and then reversing the flow during peak periods in the winter season. A large diameter, high pressure transmission line from the field to the Los Angeles metropolitan area was installed as part of the original project, and an additional line is planned for this year. The additional line together with present facilities will give the project a delivery capacity of around 300 million cubic feet a day.

The supply problem is largely one of engineering. But, when the facility problem is approached, one moves into the realm of finance and economics. The distribution systems of the supplying companies must be designed to meet the maximum peak requirements of firm customers. Such maximum peak requirements may occur only once during a period of several years, which means that the companies must operate under an unfavorable load factor insofar as the firm customer is concerned. A growing demand for natural gas for industrial purposes has enabled the companies to partially offset this. Both the Pacific Lighting system and the Pacific Gas & Electric Company, as has been previously indicated. offer interruptible natural gas service at attractive rates to industries, subject to shut-off when peak loads occur. The industrial load, thus created, has enabled the companies to improve the load factor for their pipelines and facilities.

Up to this year, growth of the state and consequent increase in business has enabled the companies to maintain prewar rate levels despite the general rise in prices in practically every other commodity. However, the cost of materials and wage boosts have been steadily cutting into the margin of profits for all utilities, with the result that every gas company in the state has had recently to apply to the Public Utilities Commission for relief in the form of a rate increase. The question of rate increases is now pending with the Commission.

Broadly speaking, Texas gas has met the supply problem, and if consumer rates can be adjusted to the satisfaction of customers and companies alike, the industry should be able to move along as they have heretofore in supplying the growing demands on their systems.

WILEY L. MOORE

Chairman of the Board, Wofford Oil Company

It seems to me that our headaches of today are not wholly due to a hangover from the spree of wartime controlled economy, but are induced by an effort on the part of a few calculating hangers-on to indulge in a "bit of the hair of the dog that bit them." Although admitting a period of postwar adjustment or tapering off was necessary, they should have been sent home long ago for the party was over, even before the end of the 80th Congress.

Wiley L. Moore

Our's is a nation that won two wars with able assists from a resourceful free industry; a prosperous nation that boasts, and rightfully so, the highest standards of freedom and good living. Why should such a nation tolerate among its public servants those who would destroy, by punitive legislation and confiscatory taxes, our individual and industry standards of freedom under which we have emerged as the strongest nation in the world. Punitive legislation, such as the Tidelands Bill, the Divorcement Bill, the Natural Gas Bill and confiscatory taxes for socialistic handouts. The latter a bamboozlement, for one receives without paying for what they receive, plus the additional cost for collecting and dispensing the gilded gratuity.

If industry is not hamstrung by punitive class legislation (and I still believe that good sense prevails among the majority of our lawmakers) I see no reason why business, judged by peacetime standards, should not continue good. In some lines totals may fall or have fallen below peaks, but eventually and normally those peaks will be topped. From first quarter figures some new peaks for this year are apparent.

In 1947-48 the oil industry literally pulled itself up by its own bootstraps to meet an unprecedented demand for petroleum products. By increasing refinery runs and making quick shifts in sources of supply and methods of transportation, spot shortages were alleviated and actual distress avoided. A replacement and expansion program financed by profits and surplus finds the industry in 1949 with the supply situation well in hand.

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Monetary Stability And Convertibility

By SIR JEREMY RAISMAN, G.C.I.E., K.C.S.I.*
Vice-Chairman, Lloyds Bank, Ltd., London

High ranking British bank official reports progress in overcoming war dislocations, but contends restoration of currency convertibility is not feasible until Sterling Area deficit on current account is eliminated and Western Europe ceases to convert into dollars their export surpluses going to Sterling Area nations. Maintains Sterling situation on capital account has improved greatly in last year, and concludes creditor nations, particularly U. S., should establish more liberal commercial policies in order to restore non-discriminatory, multilateral trading.

Five years ago I was, as it happens, attending an international conference at a place not very far from here, Bretton Woods. The war was not yet ended, but we were already trying to provide a basis for future international trade in the form of orderly exchange arrangements. The 1944 conference at Bretton Woods resulted in the formation of two new institutions of great significance for the postwar economy; the International Monetary Fund and the International Bank for Reconstruction.

It is true that as yet, owing to various circumstances beyond their control, these new institutions have played a comparatively minor part in post-war monetary developments. Now that the dislocation of the immediate post-war period is being overcome, with the help of the Marshall Plan and other far-sighted measures of international cooperation, the time is approaching when they may be expected to play a much more prominent role. Fortunately, the basic principles on which they are to operate were soundly conceived. By establishing these new international bodies, and by pledging themselves to observe the rules of conduct formulated in the Bretton Woods agreements, the signatory nations were seeking to lay the foundations of a new regime of exchange stability on a basis appropriate to the conditions of the twentieth century.

"Modernized Version of Gold Standard"

The Bretton Woods philosophy has been called both a "dethronement of gold" and a modernized version of the gold standard. It departs from the traditional gold standard "rules of the game." which served the world so well during the nineteenth century, only to the extent demanded by the fact that the rise of trade unions destroyed the fundamental conditions in which the gold standard can operate beneficially; for when wages and prices are no longer flexible, the contraction of credit which may be necessary from time to time in defense of a rigid external parity does little more than create mass unemployment. Hence the stability which the Bretton Woods agreements seek is one subject to periodic adjustments of exchange parities whenever "fundamental disequilibria" manifest themselves. Further, exchange restrictions on capital account are envisaged as possibly a permanent feature of the new system. While this will be regretted by those who remember the unrestricted freedom of gold standard days, it has been rendered necessary by the possible recurrence of the massive flights of "hot money" which had so disruptive an effect on currency stability during the inter-war period.

At the end of the war, as many of us who were present at Bretton Woods had foreseen, the world was in no condition to permit of the immediate establishment of this new régime of orderly exchanges, and indeed the Bretton Woods agreements themselves envisaged a transition period of possibly five years before some features of the new code, such as insistence on the removal of exchange control over current transactions, could become practical politics. In the event, the monetary dislocation due to the unheaval of the war has been even more formidable than was anticipated. The loss of overseas investments and exchange reserves, the virtual cessation of production for export, the war damage to the economies of Europe with the resulting need for large abnormal imports of capital goods if reconstruction was not to drag on for decades or be frustrated entirely—all these things inevitably left Europe with a huge deficit which was further aggravated by the poor 1947 harvest and the political barrier to trade between East and West. Meanwhile, the inflationary forces released by the war continued to wreak havoc. Prices rose at widely varying paces in the different countries, rendering the old exchange relationships between currencies largely a relic of the past.

In spite of this unfavorable background, the American and Canadian loans to Britain seemed to make possible the attempt, even as early as July, 1947, to take the first major step towards general freedom of the exchanges with the restoration of convertibility to sterling. As we all know the attempt proved a grievous failure. Basically, the experiment broke down because convertibility could not in practice be confined to sterling earned by current trading. Although an elaborate network of monetary agreements had been drawn up in anticipation of the return to convertibility, these administrative arrangements failed to prevent massive withdrawals through such factors as the running down of working balances. Collapse came after only six weeks and struck a severe blow to the hopes of an early return to greater freedom of exchange; for there can be no question that sterling, side by side with the dollar, must be the lynchpin of any multilateral exchange regime, and the breakdown of convertibility forced the United Kingdom to resort to bilateral agreements as the framework for its trade, which inevitably involved much of the sterling area.

Can Sterling Be Made Convertible

What are the prospects of a second attempt at rendering sterling once again convertible? Obviously, any such possibility is conditioned by the low level of the United Kingdom's gold and dollar reserves, which are, of course, the ultimate reserves of the whole sterling area. For some time past, the reserves actually in hand have been running at less than the level of 500 million pounds, which is regarded as the safe working minimum. If allow-

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*Introductory speech by Sir Jeremy Raisman at Second Plenary Session of the Quebec Congress, International Chamber of Commerce, Quebec, Can., June 14, 1949.

What's Needed for Currency Stabilization?

By THOMAS H. McKITTRICK*
Vice-President, The Chase National Bank of the City of New York

Mr. McKittrick, holding Sterling convertibility is prerequisite to return of world-wide trading, along with suppression of exchange restrictions and controls, urges all Marshall Plan countries to follow example of Italy and adopt practical program of domestic monetary and fiscal stabilization.

T. H. McKittrick

Sir Jeremy Raisman has given us a most illuminating review of the endeavors made by Great Britain to overcome the ravages of war which found expression in the field of finance. Unfortunately for us all setbacks in the process of recovery have occurred, as during the brief period in 1947 when the pound was freely convertible, but let us—those of us who happen to be Americans—let us not forget that it was our insistance on full convertibility in spite of British objections which lay back of that overconfident enterprise. Sir Jeremy has gone further to elucidate the principal difficulties which must be overcome by Great Britain before payments with the dollar area can be balanced, that is, before the pound sterling will rest again, stable and fully convertible, upon a firm foundation. It is obvious that the restoration of the pound to its position of being everywhere acceptable and freely convertible is a prerequisite to the restoration of worldwide free and prosperous trading and to the suppression of existing controls and restrictions not only in the sterling countries but elsewhere as well. Until that point is reached private enterprise will remain in shackles over much of the world and we shall not enjoy its benefits which over the best part of a century have outrun, when it comes to producing and distributing wealth, those yielded by other types of organization in human society.

Since the close of the first world war, however, substantial experience has accumulated as to how currencies can be strengthened and how economies which have become financially unwell can be cured. When such a cure has taken place, it becomes evident that controls and restrictions are no longer needed. By summarizing certain points of this experience I would like to try to extend somewhat the area which Sir Jeremy has so ably covered.

Sir Jeremy referred to the inflation left by the war in all the countries involved To correct this condition a contraction of purchasing power as well as increased supplies of goods and services for peaceful purposes are necessary. Reduction of demand and expansion of supply inevitably mean lower prices. If production and employment are to be kept up goods and services. as we are now finding out, must be marketed more cheaply, and this is particlarly so when they are sold internationally. But a reduction in prices to foreign buyers can be brought about in two ways—either by lowering domestic prices or by devaluing the national monetary unit in terms of gold and of currencies exchangeable for gold. Let us consider these two alternatives for a moment. A reduction in selling prices cannot go far unless costs are brought down, and as the largest factor in costs, generally speaking, is wages, we are face to face with the most intractable and inflexible component of what economists call the cost-price structure. In all cases it is a hard and slow task to get wages down; where the political power of organized labor is great enough, it may be impossible, though it has been accomplished in certain instances even under Socialist governments—in Sweden, for instance, in the great strike of the building trades in the early '30s.

Take the other alternative. It may be far easier to devalue a national currency. That involves at most the passage of a law or possibly only an official declaration in the form of a decree or a ruling. On the surface it looks simple but it involves grave risks and uncertainties. The most evident defect of this device is that it really corrects nothing. If prices in the country concerned continue to advance, a devaluation affords only temporary relief. Between the two wars, the French franc fell by successive steps to one-seventh of its 1914 dollar value, one-twelfth of its 1914 gold value. Surely no statesman of any nationality would ever dare announce he feared that the currency of his country would be worth only one-seventh of its current value in 25 years. If he did, who would buy life insurance? Who would buy the public debt in any of its many forms? I am trying to point out that devaluation shakes public confi-

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*Statement by Mr. McKittrick at the Second Plenary Session of the Quebec Congress of the International Chamber of Commerce, Quebec, Canada, June 14, 1949.

Outlook for Oil and Natural Gas Industries

(Continued from page 12)

Thus the oil industry through its own resources has licked what seemed to be an impending shortage and supplies will be ample for years to come. Yet there are those who preach that profits should be nil or taxed away and replacements and expansion financed by long-time loans. To my simple way of thinking, the first method is the path to prosperity; the latter is the road to debt.

This truly American oil industry has helped to work miracles. Judged by our standards of today, men lived almost primitively until 1850. They heated their homes with fireplaces and stoves, lighted them with candles and wore clothing laboriously made by hand. The electric light, the telephone, the automobile, the typewriter and the thousands of mechanical servants we now use and enjoy were still to come in those days.

At that time, 100 years ago, manpower performed about 15% of the work in America. Horses, mules and oxen did nearly 80% and the rest was done by wind, coal and water. In 1859 the world's first commercially successful oil well was drilling in Pennsylvania and petroleum began to unleash its powerful forces. In 1900 coal and water power were doing 38% of the work, but 60% was still being done by the straining muscles of men and animals. Petroleum at that time had been used principally for lighting and lubrication—not much else.

What happened next was that men learned to supplement their own feeble muscle-power and the power of their animals by using the energy of fuels to drive machines. Today Americans use nearly 29 times as much work energy as they did 100 years ago. Only about 6% of that energy is provided by men and animals. Coal, petroleum and natural gas provide about 87%, water power around 5%. It is petroleum and natural gas that have made most of this growth in the use of energy possible. In the last 30 years they have accounted for 95% of the increase in energy used. And in recent years oil and natural gas have supplied almost half of all our energy requirements.

That fact alone accounts for the high standard of living we enjoy here in America. Here in the United States, where we have only 7% of the world's land area and natural resurces, and 6% of the population, we have learned how to use other sources of energy to supplement our own. In consequence, we have half the world's radios, half of the telephones, more than half of the refrigerators and three-quarters of the automobiles. The average American worker today can produce five times as much in one hour of labor as he could with an hour of labor in 1850.

That is America under our system of free enterprise. That is why our standard of living is the envy of the rest of the world. Let's keep it that way.

FRED F. MURRAY

President, Oil Well Supply Company

The petroleum equipment and supply business is wholly dependent upon and inseparable from the oil and gas industry. Obviously, the vicissitudes in demand for petroleum products in relation to their supply are quickly reflected in the related equipment and supply sales which are currently below a year ago. The ills besetting the oil industry are simply too much of too many components in a complicated pattern starting with domestic crude oil production, with its corrective pattern of state proration, spearheaded by Texas; crude oil imports, which have come in for a variety of strong comments; and so on down to the crux which is the market for end products.

F. F. Murray

The statistical picture shows that total demand for all oils for the first quarter of 1949 was off something less than 1½% compared with the first quarter of 1948. Particularly significant is the domestic demand for motor fuel which was ahead by 5½%; however, this substantial increase was more than offset by a decline of nearly 15% in kerosene demand, and lesser but significant declines in both distillate and residual fuel oils. Another obvious factor influencing equipment and supply sales to oil companies is the 20% reduction in net earnings for first quarter 1949 versus 1948 for the aggregate of all oil companies reporting the three months' period ending March 31, 1949.

During the hue and cry of "shortage" and deficiencies in petroleum during the severe winter of 1947-48, all factors in oil and gas gave tremendous impetus and put forth herculean effort to erase the shortages in a remarkably short time. The industry, which has sought no praise for that noteworthy accomplishment, is left with a momentum which now involves cutbacks and a period of uncomfortable indigestion. The equipment and supply industry made a substantial contribution in furnishing to the oil and gas industry the innumerable items of capital and consumable goods for plant and operations during the period of the big push and is experiencing the same indigestion which is apparent in moderately high inventories of equipment and supplies in relation to lesser sales.

Manufacturing schedules in practically all lines of petroleum equipment are being cut back and a period of absorption of these excesses is now running. Consequently, all categories of equipment are in easy supply with possibly two important exceptions—line pipe for large pipe line projects and oil well tubing. Deliveries in these two categories are causing no real concern and production is catching up rapidly.

Of major importance in the outlook for petroleum and its corollary equipment and supply business is the trend in the country's backbone or primary industries. As of the end of May, the general level of primary business activity is reported as something more than 4% below activity at the same time a year ago. While this decline is expected to continue, conditions generally, with respect to inventories, availability of credit and absence of speculative excesses are reported to be well in hand so that the correction points more to a return to levels regarded as normal than to a decline of severe proportions. A particularly sustaining force for petroleum is its ascending growth curve which, in spite of dislocations here and there, indicates that the present lull will be of short duration.

Outlook and prospects indicate a pattern of hard work and efficient operation for the suppliers to correct their own recently developed ills of oversupply while their customers are experiencing a like situation. The future for petroleum and its corollary equipment business merits confidence that economic forces will have their full opportunity to function in bringing growth factors into proper ascendancy for improved business in a relatively short time. Many of those new in business and weaned on easy selling during the war and subsequently, may consider the outlook dismal; but not the seasoned hand who knows best how to operate when the going is tough and business hard to get.

T. S. PETERSEN

President, Standard Oil Company of California

Constantly changing conditions of supply and demand, and the necessity of surmounting the many problems that result, are inherent characteristics of the petroleum industry. Some of these situations are matters of general knowledge; others are not so well understood by the public.

T. S. Petersen

Only a year ago the industry was still striving to develop enough crude oil production to meet the product requirements of a rapidly expanding market. Today, the demand is not only being met but the industry is in a position of being potentially able to supply more than the current needs. This is especially true from a worldwide standpoint, and is causing adjustments in the output of crude oil in many parts of the world.

These facts are plainly evident. Meanwhile another problem, not so apparent to the public, has developed—that of maintaining the required balance among products manufactured from petroleum, in the face of a pronounced shift in consumer demand.

A wide variety of products flow from the refineries, and the markets for each are as different as the products themselves. Consequently, it would be entirely a matter of chance if any extensive changes in demand in these markets were to retain the former relative balance.

Such is far from being the case in the present situation. Instead, the markets for gasoline and most other light products have increased substantially, while demand for heavy fuel oil has lagged behind at a much slower rate of growth.

This trend has been particularly evident in the West. There, motor gasoline demand in 1948 was 83% higher than in 1940, and the consumption of Diesel and light distillate oils increased by 137%. Meanwhile, the use of heavy fuel oil increased only 38%.

Contributing to the large expansion in motor gasoline demand is the growth in the number of motor vehicles. For example, privately owned passenger automobiles in the five states of California, Oregon, Washington, Arizona, and Nevada rose from 3,400,000 in 1940 to 4,500,000 in 1948, and trucks and buses from 500,000 to 900,000.

A marked gain has also taken place in farm tractors burning gasoline and Diesel fuel, a fact reflecting continued mechanization of agriculture as well as generally increased farm activity.

The great rise in consumption of Diesel and light fuel oils is connection mainly with the greater popularity of distillate fuels in the heating of homes, particularly in the Pacific Northwest, and the rapid conversion of railroad motive power from steam to Diesel equipment.

In order to supply the large volumes of lighter grade products now demanded, great quantities of crude oil must be refined. Each barrel of crude will yield only so much of the lighter products. As a consequence, heavy fuel oil has been accumulating in excess of market requirements.

Additional refinery facilities designed specifically to yield more light products and less heavy fuel oil involve large capital investments. This is a path which the industry has been following in recent years.

The effects of the shifting pattern of demand are being felt nationwide, and even worldwide. They constitute another of the problems which the industry is accustomed to facing—and overcoming.

FRED W. SHIELD

President, The Independent Petroleum Ass'n of America
President, Shield Petroleum Company

In an industry as complex as the petroleum industry few except the professional economists are so rash as to attempt to survey the future of the whole industry. Each of us undoubtedly should know more about the developments in branches other than our own, but in oil we seem to keep well occupied with the details of our particular job and have only a general acquaintance through newspapers and trade magazines of what the rest of the industry is doing.

Fred W. Shield

I speak, therefore, as an independent producer of oil and gas and as the President of the one national organization composed of independent producers. There are some thousands of us. We have made our due contribution to the magnificent addition to the proved reserves of petroleum within continental United States since the war and especially in the year 1948. It has been a striking demonstration of the responsiveness of the producing industry to the national needs when it was operating in freedom from bureaucratic interference, with market for its production sufficient to supply the incentive to justify large capital investments.

The additional petroleum located last year was approximately twice the amount produced—a healthy condition. Reserves which have not been discovered are of no value in an emergency. It is the national interest, I firmly believe, to find and develop much more petroleum. A productive capacity far in excess of consumer demand is the desirable condition; it is the one which we had when we entered the last war. All military and other government comment has urged the reestablishment of such position. We do not have it yet, but we have brought domestic supply up to domestic consumption, despite the enormous gain in the latter since the end of the war. We have also nearly silenced all those who doubted the existence of reserves yet to be found; facts have finally overwhelmed them.

Knowing the desirable road to follow and being able to follow it frequently are different. At this time there are road blocks of an artificial nature which are beginning to affect exploratory activities in the oil industry of the United States. Independent producers are taking another look at the program they had in mind the beginning of this year. The reason is both a restriction of market outlet and reduction of prices. Both are influenced, we contend, by imports of oil from South America and the Middle East. The greatest part of the volume is from South America.

A number of the oil-producing States have applied their legal remedy against wasteful overproduction and have reduced the allowable production. The greater part of the reductions have been made in Texas. The aggregate for all States, at this writing, is about 800,000 barrels under the December daily average. This is not a natural decline. It is potential production of crude oil kept in the natural reservoirs, mainly under State orders, partly through "pipeline proration" by the purchasers of crude oil.

I am not going at this time to belabor the statistics of the matter. It does seem to the independent producer that there is a definite relationship between his restriction of market for crude oil and the fact that 600,000 barrels daily of foreign oil are coming into the United States. It is of significance also that prices of crude oil have thus far chiefly affected the heavy grades, directly competitive with the fuel oil and heavy crude oil from abroad.

The outlook for coming months, it seems to me, is dependent to a very great extent upon what happens to imports. The export market in petroleum is fading. The Middle East is to take care of Europe and displace Caribbean area oil that went to Europe. Canada is happy over the prospects for self-sufficiency in the future. The independent producer in the United States hopes to be able to rely on his natural market. Unless he sells crude oil he does not "wildcat" for new fields, nor bring to full development those already found. There is rapidly being created a surplus of crude oil production outside the United States great enough to cause the stagnation of the independent producing industry.

The outlook, therefore, consists in large part of a problem. How that should be resolved is another and much longer story. We independents have solutions in mind and are actively urging them. We are hopeful of getting acceptance of our not immodest idea that domestic industry should be encouraged to survive.

(Continued on page 16)

Public Utility Securities

By OWEN ELY

Idaho Power Company

Idaho Power sells on the New York Stock Exchange around 32, this year's range being 31¾-35. The stock was sold to the public by Electric Power & Light in 1943, and the range since that year has approximated 24-44. It is currently paying $1.80, making the yield 5.6%. In the 12 months ending March 31 share earnings were $3.22 compared with $2.28 in the previous period, a gain of 42%. Both figures are based on 700,000 shares, the present outstanding amount; based on the 550,000 shares outstanding in the previous year, share earnings would have been $2.92.

The remarkable increase in net earnings reflected a gain in revenues of $1,524,000, against which there was an increase of only $127,000 in operating expenses. A substantial credit for interest charged to construction ($369,000) was helpful. But the increase in net was accomplished despite a $417,000 increase in taxes and $172,000 in depreciation.

During the calendar year 1948 the company's customers increased 7%, kilowatt-hour use gained 11% and revenues increased 15%. To take care of its power demands the company added 736 miles of service lines, 94 miles of transmission lines, 5 new sub-stations and substantially increased the capacity of 28 existing sub-stations. Two new power plants provided 22,000 kw. generating capacity, in addition to the 16,500 kw. completed in 1947. Thus the company was able to retire some 12,000 kw. older plants. The company is now constructing two big additional plants—65,000 kw. capacity to be completed this year and 75,000 in 1950—which will provide a reasonable margin of surplus capacity above peak load requirements. These plants reflect the latest engineering ideas with semi-outdoor design used to reduce construction costs.

The company serves a rapidly growing territory, but it has maintained an ample supply of electricity. As the company states, "No customer is being required to curtail service, but on the contrary Snake River Valley welcomes new homes, farms, commercial establishments, and industries, with the assurance of an ample supply of low-cost electric power."

The company is one of the few hydro-electric companies which has no need for steam standby plants, since the supply of water from melting snow in the mountains provides an unfailing source of power in the Snake River. The river waters also irrigate the agricultural lands along its borders, with electricity used to pump water into the irrigation ditches. This area has a rich volcanic soil with a superb growing climate. Since rainfall averages only 8 to 12 inches yearly irrigation is absolutely necessary and there has been an enormous amount of litigation since 1864 over water rights. However, the Valley is noted for the high degree of cooperation among water users. The U. S. Reclamation Bureau, as well as the local irrigation districts, cooperatives and similar organizations, do much of the organization work. The Reclamation Bureau has been actively opening new areas to irrigation, and there are now over 9,000 farms on three big "projects" with a farm population of 35,000 and 34 tributary towns with a population of 105,000. In the near future large new areas may be brought into use, as described in the story "Garden in the Desert" ("Electrical World," Jan. 15, 1949; reprints obtainable from Idaho Power).

Idaho appears to be one utility which is relatively safe from the inroads of government ownership or government competition. Bonneville—the big government plant furnishing wholesale power for Washington and Oregon—could perhaps expand its transmission grit into the Snake Valley. But with 98% of the farms in southern Idaho electrified and receiving excellent service at an average kwh. rate of 1.75c, it is hard to see how local coops buying power from the government could do as well (the average coop rate nationally in 1947 was 3.41c). Municipal ownership could not be effected without changing the state constitution, which forbids the sale of revenue bonds. Idaho Power's residential rate is about 40% below the national average.

The company does not have a very big industrial load but this is now expanding. The largest industrial load center is at Pocatello, which has one of the three largest railroad terminals on the Union Pacific system, and also a Navy gun-relining plant, in addition to numerous other industries. The company has recently contracted with Food Machinery and Chemical Corp. (Westvaco Chemical Division) to supply power for electric furnace production of metallic phosphorous at a multimillion-dollar plant, the first unit of which is scheduled for operation early in 1949. This plant, together with an established producer of phosphate fertilizer in Pocatello, will utilize the extensive phosphate rock deposits in eastern Idaho, and play an important part in supplying phosphorous and phosphate products for agricultural fertilizers, detergents and other industrial uses. Large deposits of antimony, cobalt, mercury and tungsten in the Stibnite-Salmon area in north-central Idaho—in addition to the production of copper, gold, lead, silver and zinc—are providing an increase in large-scale mining activity, and related smelting and processing of ores.

Idaho Power thus should qualify as one of the "growth" utilities. The postwar expansion program when completed, will give the company about 2½ times its prewar capacity; the estimated cost is around $55 million or about 125% increase over the prewar investment. Several new power sites are being explored for further growth.

W. L. Graham With David A. Noyes & Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—William L. Graham has become associated with David A. Noyes & Co., 208 South La Salle Street, members of the New York and Chicago Stock Exchanges. Mr. Graham was formerly with Clement Curtis & Co. and Mitchell Hutchinson & Co. In the past he was Chicago manager for Fuller, Rodney & Co.

With Geo. R. Miller & Co.

(Special to THE FINANCIAL CHRONICLE)

PASADENA, CALIF.—George H. Mecke has become affiliated with Geo. R. Miller & Co., Inc., 81 South Euclid Avenue. He was previously with William R. Staats Co.

King Merritt Co. Adds

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—W. P. Morris is with King Merritt & Co., Inc., Chamber of Commerce Building.

Implications of British-Argentine Trade Pact

By DR. PAUL EINZIG

Commenting on U. S. disapproval of the Anglo-Argentine Trade Agreements, Dr. Einzig, though admitting it is detrimental to interests of American exporters, contends it is essential to Britain's interests in that it enables purchase of Argentine food stuffs without resort to use of dollars or other foreign currencies to balance payments.

LONDON, ENGLAND.—The United States Government is understood to have expressed in London its disapproval of the impending Anglo-Argentine trade agreement, the broad principles of which have just been agreed upon after difficult and lengthy negotiations.

Dr. Paul Einzig

Full details of this agreement have yet to be fixed, but it is understood that in substance it will be based on an increase of Argentine purchases of British goods, so that the whole of the £150,000,000 to be spent by Britain on Argentine meat and other products would be paid for by British exports. In the past Argentina usually had a very large export surplus on her trade with Great Britain, part of which was covered by the remittance of dividends on British-owned Argentine railway stocks. These stocks were sold, however, last year to Argentina, so that on this ground alone it was necessary for Great Britain to pay for a larger percentage of her imports of Argentine goods with the aid of British goods exports.

It would be idle to deny that to some extent the Anglo-Argentine Agreement will be detrimental to the interests of American exporters. For in many instances the Argentine will have to divert purchases and orders from the United States to Great Britain. It is precisely because the latter is unable to pay for the Argentine meat in dollars that it is now considered necessary that more British goods should be sold to the Argentine. From an Argentine point of view the alternative would have been the loss of the British market, and it would have been very difficult, if not impossible, to find other buyers able to pay in dollars even for quantities much smaller than those absorbed by the British market. The Argentine would have to increase further her already excessive domestic meat consumption; or she would have to curtail cattle breeding, or she would have to export more to soft-currency countries other than Great Britain. In neither case would the United States exporters have been any better off than they will be under the new Anglo-Argentine Agreement. The Argentine would have imported less British goods, but could not have imported more American goods.

Circumstances are such that it was very tempting to resort to bilateralism both from a British and an Argentine point of view. Indeed the situation provides a striking illustration to the bilateralist argument. Under multilateralism Great Britain would have continued to import Argentine meat, without worrying how the foreign exchange would be forthcoming. With her inadequate and declining gold reserve she feels she can now ill afford to do so. Under multilateralism Argentina would not have considered it necessary to go out of her way to increase her imports of British goods for the sake of receiving payment for her exports to the British market. As it is, she had to do some hard thinking in order to find means for increasing her purchases of British goods.

The American point of view is viewed with much sympathy in London. It is realized that it must be hard for American interests to lose some of their valued Argentine markets for the benefit of their British rivals, at a time when the United States are engaged in granting assistance to Great Britain on a very generous scale. It is considered only natural that the United States Government should feel impelled to register its protest against the proposed arrangement which would produce such a result. Indeed, this is one of those situations in which all parties involved are right. The conflict is not between right and wrong—which would simplify matters—but between right and right, which is really a tragedy.

It would be a thousand pities if the conclusion of the Argentine agreement and all that it implies were regarded in the United States as indicating lack of adequate gratitude on the part of Great Britain. And it would be equally deplorable if British opinion were to resent the American effort to prevent the conclusion of an agreement on which the maintenance of the present very meager meat ration depends. There is no villain in this piece. It is the general conditions inherited from the war that are to blame.

In order that Britain should have a chance of recovering her equilibrium the conclusion of bilateral trade agreements is and will remain for some time inevitable. From an American point of view the United States Government is right in registering its protest, if only in order to uphold the basic principle of multilateralism embodied in the various international agreements concluded between 1945 and 1948. A premature rigid application of those principles would result, however, in a grave deterioration of the British balance of payments or a reduction of the British standard of living, which would be detrimental to economic, political and social stability.

Bache & Co. Adds

(Special to THE FINANCIAL CHRONICLE)

RALEIGH, N. C.—Howard L. Brooks has been added to the staff of Bache & Co., 126 South Salisbury Street.

Outlook for Oil and Natural Gas Industries

(Continued from page 14)

F. J. SPANG

President, Spang & Company

In considering the outlook for the Petroleum Industry, our reserves as related to demand must be taken into account.

F. J. Spang

The established demand for crude necessary to meet the needs of our present day complex mode of life is of such magnitude that our proven reserves are frequently considered inadequate by those concerned with national welfare and security. Thus, it does not seem likely that producing companies could consider themselves to be on safe ground in their industry by adopting seriously curtailed exploration and development programs. It is apparent that we must continue to seek reserves to assure the soundly functioning continuity of this important industry.

While reserves-to-demand ratio should be the factor which controls the long range program, the month-to-month operation of the industry follows in a more or less general way the pattern set by the overall commercial activity of the country except in periods of marked over or under production.

At the present time there is some over-production of Eastern Crude, and there is a new development in Western Canada, both of which have some effect on the domestic activities.

Most producing states have regulatory conservation laws which, operating through the Interstate Oil Compact Commission, prevent the wasteful production of crude in excess of current demand. The object of such laws is to conserve the reservoir pressures by prohibiting production from naturally energized pools at rates greater than the existing need for it.

It is a well proven fact that the preservation of reservoir pressures, which are the motive power for the movement of petroleum through the formation to the well bore, is of paramount importance in recovering the maximum ultimate yield from any given pool.

In view of these circumstances, it seems quite unlikely that domestic production of petroleum will approach an excessive production rate or even be permitted to increase to the degree that this factor alone would force crude prices into a minus value status.

This well established conservation procedure results in preserving reservoir conditions which are such as to permit the orderly withdrawal of crude as needed; thus an adequate supply may generally be had during periods of heavy demand. This situation assures to the consumer the protection of an equitable but conservative price structure in that volatile price mavements are not needed to stimulate development programs.

In view of these stabilizing forces, one must conclude that the activity of the Petroleum Industry will not vary widely from the economic activity of the nation.

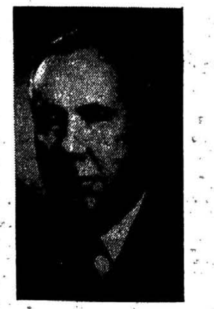
It is apparent that businessmen and the population in general lack complete confidence in the integrity and ability of a considerable portion of our elective and appointive political personnel and this has created a "Wait and See" complex of alarming proportions. Unless the business leadership which has been largely responsible for making America a great nation can rise to the situation and fully inform our citizenship of the dangers involved in the continued political muddling of our economic machine, we can look forward to a continuation of the downward trend, and the Petroleum Industry will move with it. On the other hand, if our business leaders will rise to the occasion and encourage our people to prevail upon their representatives to cease and desist in their misguided efforts to build a Utopia, we can look forward to an orderly upward movement from what should now be the bottom of the present economic cycle. Should this mature, the Petroleum Industry is well situated to contribute liberally to economic progress.

G. L. STEWART

President, Imperial Oil Limited

The outlook for the petroleum industry in Canada was never brighter than today, and perhaps never more complex.

As a result of the discovery of crude at Leduc, Alberta, in February, 1947, the last two years have brought the greatest search for oil in Canada's history. Leduc has been followed by major discoveries at Woodbend, Redwater, Schoepp and Stettler, not to mention other smaller discoveries.



George L. Stewart

Reserves of crude oil, together with recent discoveries which are still in too early a stage of development to be accurately estimated, indicate that by the end of 1949 the western Canadian fields should have a producing potential of some 100,000 barrels daily.

This is equivalent to approximately one-third of Canada's total requirements, a very sharp improvement over some two years ago, when Canada normally had to import 90% of her crude and products.

But this achievement will remain only a potential one for some time because at the moment there is no economical way of bringing anything like 100 000 barrels to market. The western oil fields are for practical purposes restricted in their markets to the Prairie Provinces of Canada, although comparatively small quantities may be shipped beyond these provinces. In other words, the market for these large reserves of crude is restricted to a range from between 50,000 and 70,000 barrels daily.

Already, prorationing is in effect on a voluntary, industry-wide basis. Current production from the fields has been running in the neighborhood of 48,000 barrels daily, although potential output is already in the vicinity of 65,000 barrels.

In the meantime, exploration and development drilling is continuing at a very rapid pace. There are today some 100 drilling rigs in the field, about half of them on exploration work and the other half on development of known fields. This situation promises to continue, with the result that we can look forward to an ever-widening gap between potential and actual production.

The solution planned for this problem is a pipe line, which has already been mapped out in detail as far as Regina, Saskatchewan, a distance of 450 miles from the City of Edmonton, Alberta, the capital of the oil-producing province.

It is anticipated that this line will be completed by the end of 1950. It is being built by the Interprovincial Pipe Line Co. Ltd., a newly incorporated subsidiary of Imperial Oil Ltd.

The line to Regina can only be a first step in solving the problem of markets, so Imperial Oil is studying the extension of this line to the Great Lakes.

It will be seen from this that the industry is placing tremendous demands on the capital market. The first section of the pipe line to Regina alone is estimated to cost in the neighborhood of $40 million. The extension would probably cost somewhere in the neighborhood of $75 million. On top of these large sums, there are the steady demands for capital for exploratory and development drilling. And it must be remembered that these investments must be made before the oil that is being discovered can be carried economically to large markets in the East.

As it looks ahead, the oil industry in Canada can be certain of continued activity and responsibility. It is quite clear that the private enterprise system which has achieved great things in the discovery of oil in Canada still has tremendous tasks ahead.

REESE H. TAYLOR

President, Union Oil Company of California

In sharp contrast to the all-out effort of a year ago to expand productive capacity and facilities to satisfy the unprecedented postwar demand growth, the petroleum industry in 1949 has been faced with surplus production and inventories, together with declining prices. This change has been brought about largely by the lower demand for heavy oils and the industry's own phenomenal achievements. As a result, production of crude oil and refinery runs have been curtailed in recent months. Nevertheless, the outlook is for relatively satisfactory operations and financial results over the near term at least.

Reese H. Taylor

During the winter of 1947-48 local shortages caused considerable inconvenience and discomfort to customers. The shortages were not severe and were confined largely to the East Coast, but they were sufficient to cause widespread political repercussions. Social planners seized the opportunity and tried to convince the nation that the industry left to its own devices was incapable of continuing to supply the rapidly growing petroleum needs.

How well our industry met this challenge under the powerful stimuli ever present in our free economy is now a matter of record. Billions of dollars were poured into new facilities. In less than 12 months, the spare productive capacity depleted during the war under the influence of war controls and the shortage of steel, has been rebuilt, and nation-wide petroleum inventories were increased by 107,000,000 barrels, or 21%.

Stocks this year have continued to rise, and in the case of the heavier oils have become burdensome. Demand for fuel oils is not keeping pace with that for lighter products because of several factors, including the decline in general business activity, the rapid conversion of railroads to the use of diesel engines, and smaller military requirements. Demand for heating oils is still in a basic growth trend, but abnormally warm weather in the East last winter resulted in excessive stocks.

In order to avoid further surpluses and waste, U. S. production has been cut back approximately 840,000 barrels daily, largely in Texas, since the first of the year, and currently is below the level of estimated demand. Unless demand falls considerably below the 1948 level, which appears unlikely at this time, the statistical position of the industry should be strengthened in coming months.

Accomplishments on the Pacific Coast have been, and current conditions are, in the main about the same as elsewhere in the U. S. The surplus fuel oil situation has been somewhat accentuated by importation of natural gas by pipeline from Texas. Moreover, these imports will be increased, and plans are under way for eventually bringing natural gas into the Pacific Northwest from the newly developed fields in Alberta, Canada. On the other hand, partly because of the strikes prevailing in the fall of 1948, gasoline inventories have been relatively low, although they are gradually being restored to more normal levels. Price declines on the Pacific Coast have not been as large as in other areas and have been limited entirely to residual fuel oil, asphalt, and heavy crudes.

Production curtailment on the Pacific Coast has been limited to fields producing heavy crudes which yield the largest proportions of residual fuel. The heavy crude and fuel oil problems still exist, however, and the industry is making every effort to increase gasoline yields at the expense of residual fuels, but material improvement in this direction can only come from longer term planning and construction. The Union Oil Company, as well as other companies, is actively studying and planning the installation of capacity for cracking and coking excess residual fuel and heavy crude.

The population growth on the Pacific Coast, the development of new super highways, and increasing industrialization point to continued expansion of demand for petroleum products for years to come. During the current period of temporary surplus, the industry will be in a better position to concentrate on capital investments toward achieving greater flexibility of refinery production.

Despite the current lower prices for some products, the petroleum industry is expected to make a satisfactory earnings showing in 1949. Profits will be below the record-high level of 1948, but comparisons with all previous years will be favorable. For the industry as a whole, capital investments this year will be lower than in 1948, and demands on earnings for this purpose should, therefore, be less than in 1948.

L. G. VALDES

Manager, Petroleum Industry Sales, Le Roi Company

Essentially it is our personal belief that the petroleum industry in the overall presents a healthy condition and only a complete breakdown of the crude oil price structure may affect the programs of the oil companies materially. There have been crude oil price adjustments and cutbacks. These, however, have been mostly confined to the heavy crudes. We, perhaps, may see additional price adjustments but we do not believe these will be of such nature as to create chaos within the industry.

L. G. Valdes

An analysis of overall operations will show that the industry is following their programs. The first three months of 1949 saw well completions totaling 8,666 as compared with 8,048 in 1948—an increase of 7.7%. Most areas in the Mid-Continent, Rocky Mountain and California regions have shown gains. The eastern region of Pennsylvania, New York and West Virginia is the principal area to register a decrease in drilling. Crude oil price cuts have curbed the incentive to drill in this territory.

It is the consensus of opinion that, although cautiously, the development programs of the industry will be followed. As stated above, these programs could largely be affected by a breakdown of the crude price structure, but this seems to remain firm, with the exception of the cuts on heavy oils.

We must also keep in mind the government's desire for the creation of available ground reserves capable of producing an additional two million barrels of oil per day over and above normal daily consumption, without undue strain and detrimental production of any field which would affect ultimate recovery. This, of course, for national security in case of emergency.

During the year of 1948, the industry was capable of building this reserve up to approximately 900 000 barrels of oil per day over and above the unprecedented demand that prevailed. Obviously, exploration and development of new fields toward the creation of the additional million barrels needed will go forward.

Because of the above facts, most manufacturers express puzzlement as to why the buying of oil-field equipment is down, because it is down on many items. The reason for this situation lies in the fact that the oil companies are "living off the fat" accumulated when future supplies of equipment were uncertain. In other words, most of the oil companies find themselves with tremendous inventories which they are trying to reduce to a conservative basis. To this should be added the very important consideration that many oil men think there will be a decrease in the price of steel and they prefer to take their chances of getting what they will need at a later date at lower prices.

One company had, at the first of the year, approximately $10 million worth of inventory in its warehouses, when about $3 million should be adequate. This company, along with many others, in order to protect itself on a sellers' market, laid in supplies against

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International Treaties For Women's Rights

By MABEL RAEF PUTNAM

Writer reviews history of international treaties relating to women's rights from Fifth Conference of American Republics held in Santiago, Chile, in 1923 through the Inter-American Convention for Granting Political Rights to Women signed at the Ninth International Conference of American States, at Bogota, Colombia, on May 2, 1948. This treaty, according to Mrs. Putnam, is final accomplishment of equal rights for which women of America have striven for last 100 years.

The second international treaty on the rights of women signed by the United States—The Inter-American Convention on Granting of Political Rights to Women—is now before the Foreign Relations Committee of the United States Senate for action. President Truman transmitted this treaty to the Senate on Jan. 13, 1949 for ratification. It reads as follows: "The high contracting parties agree that the right to vote and to be elected to national office shall not be denied or abridged by reason of sex."

Mabel Raef Putnam

This treaty was adopted by the plenary session of the Ninth International Conference of American States, in which the United States, the countries of Central and South America and the Islands of the Caribbean participated, at Bogota, Colombia, on April 29, 1948. It was then signed by the United States and 13 other countries: Guatemala, Chile, Uruguay, Cuba, the Dominican Republic, Peru, Panama, Costa Rica, Ecuador, Brazil, Venezuela, the Argentine Republic and Colombia. It was signed with reservations by the delegations of Honduras and Mexico.

The signing of this document has received little mention by the press considering its historic importance to the Western Hemisphere, probably because it deals with what is considered an old story in the United States, "the right of women to vote," which American women obtained on Aug. 18, 1920 when the Federal Suffrage Amendment, the 19th Amendment to the United States Constitution, was adopted. But it is, in fact, as revolutionary as the 19th Amendment which enfranchised one half of the population of the United States. This treaty will enfranchise approximately 75 million women citizens of Latin America.

But of real significance to the people of the United States is another treaty adopted by the Ninth Conference on the same day, the third international treaty on the rights of women, a companion treaty granting to women equal rights under the law — a treaty which the United States did not sign but which all the other American Republics did sign. This monumental piece of news apparently escaped the attention of the press of the United States.

These two treaties are of vast importance because they secure to the women of the countries of the whole of the Western Hemisphere both their civil and political rights —"a lever long enough to move the world." Yet this emancipation was accomplished without a drop of blood being shed or a penny's worth of damage to property.

The Ninth International Conference of American Republics adopted these two treaties without a dissenting voice. Yet the United States alone did not sign the one granting civil rights to women because, according to our delegation, an amendment to the United States Constitution would be necessary before our delegation could commit the United States to a treaty securing to women full civil rights. Yet an amendment granting full civil rights to women has been before the Congress of the United States since 1923, which amendment, according to Senator Guy M. Gillette, its chief sponsor in the Senate, in an address on April 1, 1949, has been endorsed by both political parties and at this moment is sponsored in the Senate by 35 members and in the House by 122 Representatives. Senator Gillette referred to the occurrence of the Ninth Pan-American Conference held at Bogota as a "clinching argument in support of the adoption at the earliest possible moment of the Equal Rights Amendment to our Federal Constitution."

Let us review the history of these treaties.

At the Fifth Conference of American Republics, held in 1923 at Santiago de Chile, the representatives of Guatemala and Costa Rica offered a resolution requesting the inclusion in programs of future Conferences of the question of the rights of women and recommended that the Governments include women in the delegations so that they might participate in the work of future Conferences.

As the date approached of the Sixth International Conference of American States to be held at Havana on Jan. 16, 1928, American women learned that the subject of women's rights was on the agenda. But they learned, too, that not one country had appointed a woman delegate, that no reports had been prepared for presentation to the Governments and that no plan whatever had been made for the discussion of this question which concerned one half of the people of the earth.

These Conferences had been meeting since 1899 and for the first time the status of women was on the agenda. What were they going to do about it? Interested women had no alternative but to attend this Conference to see that it made no move which would endanger the rights that the women of the United States had obtained during the last century and to use this opportunity to extend these rights. The National Woman's Party, which was finally responsible for the enfranchisement of American women and was leading the movement for full equality in the United States, felt it vitally important that American women present to the Conference a practical program covering the whole subject of equal rights. So National Woman's Party representatives went to Havana and laid before the Conference a proposal for an equal rights treaty. A number of the delegates and international jurists called this proposed treaty revolutionary, declaring that the rights of women belonged under private law and therefore could not be made the subject of a treaty.

But the Conference granted these women a hearing before a plenary session which was the first time in the history of international conferences that women presented their claims to equality with men before the law. The

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Can Business Cushion the Recession?

By PAUL W. McCRACKEN*

Associate Professor of Business Conditions,
School of Business Administration, University of Michigan

Asserting nation never completely recovered from besetting suspicion that postwar boom was merely interlude in the Great Depression, Professor McCracken says real job now facing business is "to make consumer more unhappy about holding dollars." This, he contends, can be done by: (1) more effective selling; (2) price reductions; (3) keeping adequate inventories; and (4) more capital investment. Urges business avoid cost increases by seeking greater labor productivity.

"What will happen to next week's gross national income?" "Will consumers spend more or less?" "Is the Federal Reserve's index of industrial production headed for another decline?" These phrases seem well on the way to taking their place in serialdom's role of honor. So much is this so that national income data have become almost as much a part of modern diets as vitamins and the Dow-Jones averages.

Paul W. McCracken

The reason, of course, is not difficult to find. Since the latter part of 1948 business activity has been softening persistently. This sobering change-of-pace continues to cause considerable apprehension in the business community. Nor has the character of the "spring upturn" provided much reason for thinking that the economic situation would respond to warmer temperatures.

Perhaps the reason this has been so upsetting is the simple fact that for so long the seller was king and the buyer was the supplicant; a sudden reversal of roles is therefore understandably bewildering. The buyer has finally found it possible to exercise his prerogative of shopping around, or postponing purchasing altogether. For his, part the seller has been called upon for an about-face—not only of his practices, which is relatively easy, but also of his thinking, which is not so easy.

One cannot avoid the feeling, however, that this is not the whole story. The plain truth of the matter is that we have never completely recovered from our besetting suspicion that the postwar boom was an interlude in the Great Depression. The result has been a legacy of depression-mindedness. This was one of the major reasons we found it so difficult during the postwar inflation to pursue policies of restraint. And currently more to the point, it has made us extremely jittery over any omen that seems to suggest that business activity is turning downward.

*Address given by Dr. McCracken, at Upper Peninsula Business Leaders' Conference, Marquette, Michigan, June 21, 1949.

Buyers Continue Reluctant

Impressive evidence continues to pile up that the much-discussed settling down of business activity is continuing. With the exception of a slight end-of-May rise, wholesale prices have continued down. The Department of Labor's wholesale price index was 155.5 at the end of May. This was 8.4% below the August peak, 3.1% below the turn of the year, and 0.4% below April 30.

Bank loans have declined almost persistently since the turn of the year.

Retail trade continues to be sluggish, particularly in certain lines, and is running below a year ago in most areas.

Consumers continue to be reluctant to spend their incomes. In the first quarter of 1949, the latest period for which data are available, 10.7% of "disposable personal income" (essentially consumers' incomes after taxes) was saved. This proportion has been rising steadily since the low figure of 6.2% in the second quarter of 1948. This increasing reluctance to spend has clearly been one of the major dampers on trade and business activity generally.

Decline Continues Orderly

When all of this is said, however, one fundamental feature of the current business picture stands out. The rate of decline has been relatively mild and orderly, and there has been as yet little evidence of any cumulative contraction. A comparison of the movement of wholesale prices in 1920-21 and 1948-49 reveals the thus far comparatively gentle and orderly character of the decline relative to the last more explosive postwar adjustment. By the time the last postwar depression was nine months old (February, 1921), the wholesale price index had declined 37.2%—four times the 8.4% currently.

Why this difference? Broadly speaking there are two reasons. One has received considerable attention. The economy is fundamentally stronger and sounder in a great many respects. Debts are low; deficiencies of consumer and commercial capital or durable goods are still large; exports are pretty well supported; incomes are more broadly distributed. These have received considerable attention, and little more need be said here. Unquestionably these have enabled us to react somewhat less explosively to economic shocks and reversals.

There is, however, more to the story. There have been during the last two years at least two counterbalancing or "compensatory" actions which have in a substantial way neutralized or offset what might have been deflationary forces of some magnitude.

(1) In May, 1947 our exports reached their postwar peak of $1.5 billion. Thereafter they began a fairly sharp and persistent decline—by September, 1947 to $1.2 billion, roughly a 20% decline. While exports fluctuate from month to month, and the reasons for this decline are inevitably complex, one of the more important reasons was simply that the rest of the world was running short of dollars.

At this point the Marshall Plan (preceded by a series of interim loans) stepped into the picture as a supplementary source of dollars. While not the Marshall Plan's major objective, it did help to avert what might have been a precipitate decline, if not collapse, in our export market. Perhaps domestic demands were then so pressing that even a substantial drop of exports would have had no important effect on business activity.

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Outlook for Oil and Natural Gas Industries

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the possibility that it might not get desired deliveries.

It will be several months before most of the items considered as surplus above regular needs will be used up.

Unquestionably, once the period of readjustment through which the idustry is now going and the reduction of inventories are brought down to normal, the normal flow of purchasing requirements will again be with us; however, purchases will be made on the basis of actual immediate requirements and not through a long-range program as has been the case in past years. Obviously, the sellers' market is not with us and manufacturers will be faced with a highly competitive field where top quality, advance in design, coupled with complete and adequate service facilities, will prevail.

L. S. WESCOAT

President, The Pure Oil Company

During the past nine months, the economic outlook for petroleum industry products has shown a sharp reversal. In that brief period, the industry's supply position has changed from an apparent deficit to one of adequate supply, with inventories increased to a point which would seem to insure against any shortage such as threatened in the early part of last year.

L. S. Wescoat

At the close of World War II, the industry had exhausted its reserves of immediately producible crude oil. The industry's refining and transportation facilities were inadequate to do the twin job of efficiently and economically handling the products required by the consuming public. During the war and subsequent two years, shortages of steel and other required materials, and manpower, made impossible the building back of reserves during that period. In 1947 and 1948 over $4,000,000,000 went into capital expenditures by the industry for expansion and modernization. Similar expenditures during the current year, the third straight year for such sizable programs, are estimated to exceed $2,000,000,000.

The results obtained have created industrial history.

The petroleum industry has again demonstrated the results which can be obtained in an uncontrolled economy.

As a result of the unusually warm weather prevailing during the 1948-1949 winter, the large stocks of light heating oils which were accumulated in anticipation of normal demand resulted in unusually high inventories of these products in the late spring. This over-supply brought about a distressed market situation and resulted in severe price reductions.

Heavy residual fuel, used largely for industrial purposes, is necessarily manufactured as part of the normal refinery operation. This has developed greater quantities, resulting from the larger amounts of crude oil processed in order to supply the demand for gasoline. This increased supply exceeded the requirements of normal industrial users. In addition, there was a slight decrease in the demand. The combination of these circumstances resulted in drastic reductions in the price of this product, which represents approximately 20% of the products produced from a barrel of crude oil. The effect of these price reductions is reflected in oil company statements covering operations of the first quarter of the current year.

In addition to the foregoing, domestic crude oil production has been cut back by state authorities, and this step in turn has had an adverse effect on company profits.

While the industry can anticipate reasonably good earnings for the year, there will be a substantial reduction from the 1948 profits, which were the largest in the history of the oil companies.

The petroleum industry has had a continually increasing sales volume. However, for many years the industry did not realize a reasonable return, because of continuing over-supply which had a depressing effect on prices. This is currently exemplified by the present low fuel oil prices; this condition in turn necessitates the maintenance of present level of gasoline prices in order to assure a reasonable operating margin for the refining section of the industry.

With the capital markets practically closed to equity securities it is essential that the companies earn a reasonable profit. These companies have the responsibility to carry forward their program of building back reserves in all branches of the business. We must at least equal the prewar reserves in order that the country may have an adequate supply of products should we again be confronted with a national emergency.

CARL WHITE, JR.

President, Franks Manufacturing Corporation

The outlook for the oil and natural gas industries after present readjustments are completed is favorable. Both oil and natural gas have greatly strengthened their demand positions due to new uses and to the large expansion in markets that have been growing steadily since the turn of the century.

Carl White, Jr.

With a 3 to 5% increase in domestic consumption in 1949, the growth in petroleum demands over the past 20 years has been 110%, with a 64% increase since 1939. In the case of natural gas, the marketed production has increased 179% since 1929 and 116% since 1939. These gains far exceed those of any other major industry. Outside the United States the percentage gains in petroleum consumption have been even greater than they have in this country.

The consumption of gasoline, the "money product" of the petroleum industry, continues to expand due both to an increased number of motor vehicles on the highways and streets and also because the requirements per unit are much greater than they were 10 and 20 years ago. The percentage gain in the registration of trucks and buses, which are the largest consumers of motor fuels, has been larger than that of passenger cars. The total registration of all motor vehicles in the United States at the close of 1948 was 40,622,000 which compares with 30,615,000 at the close of 1939 and 26,503,000 at the close of the boom year of 1929.

The percentage gains in the consumption of kerosene and distillates have been even greater than that of gasoline. One of the large new demands for petroleum comes from the railroads which have been rapidly converting to diesel power. There were less than 1,000 of these diesel locomotives in 1939 but this number will increase to approximately 10,000 at the end of this year. In the case of oil burners, there will be approximately 4,400,000 units in operation the coming winter which compares with 1,750,000 in 1939. All of the major products of petroleum have shown substantial increases since the close of World War II except for small declines in residual fuel oil.

Based on past experience, the consumption of the principal petroleum products will show little or no decline should there be a general business recession in this country. The decline from the 1929 peak to the 1932 and 1933 low, in the case of petroleum and natural gas in this country, was less than 10% which compares with decreases of 50 to 75% in other comparable industries. Leading economists, both within and outside the oil and natural gas industries, agree that the general trend in demand for petroleum products, both in the United States and foreign countries, will continue upward for an indefinite period.

This favorable situation in regard to consumption is stressed by these economists as indicating that any recession in production operations will be temporary since continued growth in facilities will be necessary to keep pace with the requirements of consumers.

The above sets out the long range picture of the oil industry.

From the point of view of manufacturers and distributor supply companies of oil field equipment, there is some apprehension as to the immediate outlook for business. 1947 and 1948 were lush years with volume and prices at all time highs. This was during the time the oil companies were fighting their battle in the transition from shortages to abundant supply.

In recent years, the oil industry has fought a constant battle, successfully, against countless obstacles to produce enough oil to meet the nation's demands and to find the steel to store the oil and transport it during the interval between production and consumption. Now that it has won its battle—found the oil, met all demand requirements and in a position to get all the steel it needs—the amount of crude and refined oil products known as inventory has become excessive. Whittling away of this excess has been started by the Texas Railroad Commission and self-imposed proration. Further reduction of the excess is becoming increasingly difficult due to the importation of foreign crude oil which will probably result in a cut in the price of petroleum.

Domestically, this situation is of great significance to the oil production equipment industry. The slide began early last winter when backlogs began to disappear as a result of watchful waiting on the part of oil producers whose slogan was to wait a few months and see what would happen. Now that the "waiting" period is over, most producers have concluded that the bloom is off the rose and the time has come to curb operating expenses and to gird themselves for the competitive battle ahead.

In this competitive battle, while there will be none of the sales volume and profits comparable to the lush years just past, there will be reasonably good business for some manufacturers and suppliers. However, there will be some born, since the beginning of World War II who have not had the necessary experience or wisdom to face recession and protect themselves against it. Those who, up to now, have failed to keep inventory in balance and in line with the reduced volume to come during the remainder of this year and first quarter of next; those who have failed to reduce costs of production, improve their product and implement their sales efforts in a buyer's market.

There is no question but that those who have properly anticipated this trend and have taken the necessary steps as outlined above may look to the future with confidence.

JUSTIN R. WHITING

President, Consumers Power Company

We are fortunate to have located in our service area and at the end of a pipe line to Texas, storage fields adequate, when fully developed, to store annually some 15 billion cubic feet of gas. This will permit our taking over twice this amount from the transmission company at an excellent load factor. The necessary acquisitions of the storage fields are made, and construction and repressuring are well under way.

Justin R. Whiting

The sales of natural gas in the service area served by Consumers Power Company have been restricted for three years, and additional sales almost entirely suspended during the last year. This was due to the rapid depletion of the gas fields in Michigan, from which only four years ago we received two-thirds of our supply, and to the inability to obtain sufficient additional supplies from Texas to meet the demand. It appears that this condition is about to correct itself. With the development of our storage fields now in operation, and the receipt of additional Texas gas, we are looking forward to removing part of our restriction on the sales at an early date. With present prices of competitive fuels, the market is available for any gas we will be able to release.

GEORGE S. YOUNG

Vice-President in Charge of Operations, Columbia Gas System, Inc.

The natural gas industry is in the midst of a period of enormous growth and development. Every effort has been and is being put forth by the industry in this postwar period to meet the tremendous demands put upon it. These demands are not only the result of the normal growth in requirements which developed during the war, and to a large extent went unsatisfied, but are also the result of very marked increases in the prices of other fuels which have put the natural gas industry in a most favorable competitive position.

George S. Young

As a result of these factors, it has been generally necessary for the industry to impose restrictions on the sale of additional gas for space heating and industrial purposes. Columbia Gas System has been no exception. Before Columbia could relax these restrictions, two things had to be done. First and foremost, additional supplies of gas had to be obtained by the construction of large supply lines from the Southwest. Then, too, it has been necessary for the System itself to construct substantial additions to its facilities to enable it to transport the additional gas from the Southwest suppliers to market. Great progress on these programs has already been made, but there remains much to be done.

Now as to future prospects. The progress of the construction program referred to has been such that relaxation of restrictions on the sale of gas for space heating has been possible within the past few months and the result will be materially increased sales with the advent of the fall heating season. With respect to the sale of industrial gas, some reduction in activity has been noted, but it appears that additional sales to new customers will substantially offset this tendency.

The real expansion for the natural gas industry in the ftuure, however, lies in another direction. To a considerable extent, because of the competitive price situation, there is a tremendous demand from manufactured gas areas for natural gas service. This condition creates an additional demand upon the natural gas industry which will take years to satisfy. Thus, in spite of the expansion which has already taken place, the industry looks forward confidently to even greater development in the future.

To Survey Over-the-Counter Securities Markets

Independent analysis to be made by Wharton School of Finance and Commerce. Project financed by gift from Merrill Foundation for Advancement of Financial Knowledge. Cooperation of dealers deemed essential for success of the undertaking.

The Wharton School of Finance and Commerce of the University of Pennsylvania announces that plans have been completed in connection with a survey to be made of the over-the-counter securities markets. The project will be financed from a $100,000 gift received by the school last December from the Merrill Foundation for Advancement of Financial Knowledge, Inc., New York City. Winthrop H. Smith, managing partner of Merrill Lynch, Pierce, Fenner & Beane, of New York City, is President of the Merrill Foundation. By way of illustrating the purpose and scope of the projected survey, the Wharton School of Finance issued the following statement:

"The investment banking industry is provided an opportunity to obtain an independent analysis of its activities and problems through the research program outlined by the Wharton School of Finance and Commerce of the University of Pennsylvania. The success of this endeavor is largely dependent upon the degree of cooperation obtained from the industry itself.

Unique Opportunity

"Seldom does the opportunity arise for an industry to be examined by a disinterested group on a confidential basis in which the purpose is solely to provide a body of information basic to the analysis of many problems confronting the business. Without any special case to plead or defend, the finding of such a study should be valuable from an industry standpoint in stating the position which the industry occupies in our present-day financial and industrial life, in the development and modification of legislative enactments, and in the analysis of problems arising within the industry itself.

"The public should profit, too, in obtaining a better picture of the organization and operation of one of the large segments of this country's capital market. In turn every firm in the industry will be able to evaluate its own operations against the experience of all firms doing a similar volume and type of business. Moreover the individual firm will obtain information useful in educational programs, advertising and sales promotion. This opportunity for a neutral endeavor of this type rests upon the support the University of Pennsylvania receives from the industry itself.

Method of Operation

"A Securities Research Unit has been established at the Wharton School to conduct this study. The senior staff consists of Irwin Friend. G. Wright Hoffman and Willis Winn.*

"In planning its program the staff has conferred with numerous interests within the business to obtain as broad a background as possible upon both problems of business operation and policy and on technical matters. Advice has been obtained from firms of all types: large and small, underwriting and trading, those who are members of exchanges and those who are not, registered and non-registered dealers, various regulatory bodies, investors, and financial writers.

"From these discussions, certain questions have been formulated which the research program will endeavor to answer. A few of these questions drawn from the list include:

"(1) What important changes are taking place in the fundamental character of the over-the-counter securities market?

"(2) To what extent do present laws and regulations of the securities markets provide a satisfactory framework for the pricing and merchandising of securities?

"(3) What are the features of the over-the-counter securities market necessary to define its essential field of operation?

"(4) To what extent do price spreads and gross profit margins measure differences in: (a) character of issues? (b) size and distribution of issues? (c) location of issuers? (d) trading interest? (e) size and type of house specializing in selected issues? (f) promotional work involved? (g) other factors?

"(5) What is the magnitude of different market segments as measured by the number of customers?

"(6) What proportion of the business is inter-dealer trading? What proportion with financial institutions? with others?

"(7) What is the composition of inventory holdings? How is this related to the capital of firms?

"(8) To what extent do houses differ in the purchase and sale of securities on any agency basis vs. on a principal basis?

"(9) What is the extent of positioning? its relation to volume of trading.

"(10) How important is the over-the-counter business in open-end funds? in industrial issues? in utilities? in bank and insurance shares?

"(11) What proportion of over-the-counter trading is done in listed securities?

"(12) How important is the new issues business compared to the resale markets?

"(13) What are the operational costs of the over-the-counter securities business?

"(14) To what extent do the various segments of the securities markets complement one another and to what extent do they conflict?

"(15) How does the trading in over-the-counter markets compare with exchange markets?

"(16) What is the extent of the over-the-counter markets?

"To provide quantitative answers for these questions additional information will have to be obtained from the firms themselves. The Securities Research Unit has drawn up a small questionnaire designed to sample the operations of firms during the period Aug. 1-Oct. 31, 1949. The questionnaire will be mailed by mid-July. It has been designed to minimize the time and effort required to furnish the requested data. The information can be tabulated currently on a day-to-day basis with little additional effort on the part of the staff of any firm. The results will be assembled and tabulated by the Securities Research Unit. The information furnished by any firm will be regarded as confidential and in no way will any data be published to disclose the identity or permit the identification of any firm. The published results will, however, represent the behavior of the industry."

*Working with the research staff will be an advisory committee of 10 members, five drawn from the security field and five from academic ranks. Serving on the committee will be:

James Coggeshall, President of the First Boston Corporation, New York City; H. H. Dewar, of Dewar, Robertson & Pancoast, San Antonio, Texas; John Fennelly, of Glore, Forgan & Co., Chicago, Ill.; Wallace Fulton, Director of the National Association of Securities Dealers, Inc.; Washington, D. C.; W. Yost Fulton, of Maynard H. Murch & Co., Cleveland, Ohio; Norman Buchanan, of the Rockefeller Foundation, New York City; Simon Kuznets, National Bureau of Economic Research and Wharton School, Philadelphia, Pa.; Harry J. Lowman, Wharton School, Philadelphia, Pa.; R. J. Saulnier, National Bureau of Economic Research and Columbia University, New York City; and C. R. Whittlesey, Wharton School, Philadelphia, Pa.

Receding Department Store Profit Margins

By ELIZABETH A. BURNHAM*
Assistant Professor of Business Administration
Harvard Graduate School of Business Administration

Professor Burnham reveals department store expenses in 1948 jumped up 1% of sales to squeeze taxable profits to lowest percentage since 1940, despite rise of 5% in sales. Says expense rise occurred all along the line, but was most pronounced in wages.

Department store dollar sales for the tenth consecutive year rose in 1948, this time to a point typically three times the level of the volume 10 years earlier. As compared with 1947, the level was roughly 5% higher. Simultaneously dollar gross margins rose by proportionately the same amount so that percentage margins were approximately the same in 1947 and 1948. Dollar expenditures, however, increased at a greater rate, or by about 8½%, so that total operating expense including charges for interest on selected assets climbed from slightly more than 30% of net sales in 1947 to 31% in 1948. As a consequence the percentages of net profit and net gain before Federal income taxes fell substantially, both percentage results being the lowest since 1940.

For a group of specialty stores reporting for both 1947 and 1948 dollar sales and gross margins for the latter year were 2½% above the levels for the earlier year. Aggregate dollar expenditures for 1948, however, exceeded those for 1947 by 5%, so that the net operating profit in dollars fell 13%, and final dollar net gain before Federal income taxes declined 8%.

Thus for both types of retail enterprise the sales increases over 1947 were moderate, gross margin percentages were stable, and earnings dropped notably because of climbing expenses. The ascending expense rate has been characteristic of department stores since 1944. While the expense percentage is still well below prewar levels, the upward movement is a highly significant and serious trend when it is realized that the increases have come in a period of continually expanding dollar sales.

Expenses Higher All Along the Line

Since the upward motion of the total expense both in dollars and in percentages was the most important element in the operating picture, it will be well to inquire further into the detailed expenses. Dollar outlays for payroll jumped 8% for department stores and 4½% for specialty stores, or by a greater proportion than sales increased. There was a resultant rise in the percentage outlay for payroll for both types of store, from 16.9% to 17.3% for department stores, and 16.7% to 17.0% for specialty stores. Despite a rise of roughly 70% in the average size of sale between 1941 and 1948, the payroll expense percentage was the same for both 1941 and 1948, indicating a pronounced change in the payroll cost per transaction.

Other items for which expense incurred by department and specialty stores rose both in dollars and percentages from 1947 to 1948 included real estate costs, interest, supplies, and service purchased. Advertising outlays in dollars were higher in 1948 for both types of store, and were higher in percentages for department stores.

Thus we see that the growth in the total expense percentage from 1947 to 1948 has occurred all along the line, and was not confined to the payroll account, although almost half the difference in the total expense between the two years was in that important item.

Stock-Turn Down; Returns Up

It can be noted from the data that the rate of stock-turn has declined steadily since its peak in 1945, and in 1948, at 4.6, was at a level only slightly above that for the years 1939-1941. Returns and allowances continued the climb begun in 1945 and by 1948 amounted to roughly 10% of net sales. This upward trend in the returns and allowance item probably reflected in part the increase in the proportion of ready-to-wear sales and continued heavy sales in home furnishings.

Gross Margin Stable

In connection with the fairly stable gross margin rate it is interesting to note that the initial mark-on has levelled off at a point somewhat below its prewar level. Markdowns, though being fairly similar in 1947 and 1948, were at a level that is relatively high historically, and they show every prospect of rising further before the present business readjustment is completed.

Profits Off

Earnings figures show that net operating profit and net gain before income taxes fell to the lowest percentage levels since 1940, or 4.5% and 6.7% of sales, respectively. Earnings after income taxes averaged 4.2% of sales, about the same percentage as in 1941, and greater than the levels for 1942 through 1945 when wartime income and excess profits taxes claimed a heavy share. The 1948 earnings were also greater than those in 1939 and 1940 when dollar sales were low and percentage costs were high. All this essentially comes down to saying that it is only in particularly good business years that department stores can expect to make final gains after taxes of as much as 4 cents out of the consumer's dollar.

Financial Position

It is logical to turn from a discussion of earnings to the financial condition of department and specialty stores. Data for 35 large firms were tabulated for the last four years and for 1939.

The 35 firms realized a net gain after taxes of 3.8% of sales in 1948, or slightly less than the 4.2% shown for all firms. Similarly the 1939 earnings of the 35 firms was about 0.4% below that for all firms. The differences between the two groups in the four recent years were fairly consistent. For the 35 firms roughly 1½% of sales was paid out in dividends in the years 1945 through 1948, leaving a contribution to surplus of between 2% and 4% of sales.

As a result, net worth in dollars climbed fairly steadily. During the last four years, however, it has amounted to roughly one-third of the net sales, a ratio far below the 56% for 1939. In other words, net worth has not increased to the degree that sales expanded.

Net working capital, or the difference between current assets and current liabilities, has mounted in dollars and relative to total assets.

(Continued on page 28)

*From an address by Professor Burnham before the Controllers' Congress Convention, Detroit, Mich., June 16, 1949.

Mutual Funds

By HENRY HUNT

The Insurance Company "Load" vs. Mutual Funds

"There is a kind of self-consciousness displayed by some retailers of mutual funds—particularly those who have only recently begun to interest themselves in funds—when the subject of sales charge comes up, and we mean both in conversation with ourselves as well as with prospects and clients.

"Those who have suffered from this malady, which is a definite **sales liability**, will be interested in comparative costs of another financial service industry—the insurance business. May we say at the outset that we strongly believe and always recommend that the individual investor should set up a well-planned insurance program, as well as maintain a cash reserve in a savings bank, **before** he or she acquires mutual funds. Both of these are tested, proven and desirable components in any financial plan for an individual.

"Not much is heard these days about the cost of buying **insurance** services. The fact that the costs of mutual investment funds are stated over and over again in their prospectuses does **not** mean that these costs are higher; mutual fund costs are just **better advertised.**

"Recently, in looking over the '1948 Life Insurance Fact Book' (published by the Life Insurance Institute) we came upon a table (see accompanying tabulation) which will give you a picture of the **over-all average** cost that the public incurs in buying insurance. Here is what we find in the table:

"Premiums received by all life insuranc companies (new capital raised) in 1947 were acquired at a cost to insurance buyers of **12.7%** in agency expenses (sales charges). This may be compared with our **8¾%** sales cost. Note from the table that the sales expenses of the insurance business have been **going up** consistently since 1943. Note also that expenses exclusive of agency (sales) expenses in 1947 were close to **36%** of investment income of the insurance industry. This is more than **double** the similar ratio in the mutual fund business.

Life Insurance Income Dollar

U. S. COMPANIES

Income:	1942	1943	1944	1945	1946	1947
Premiums	75.6¢	75.7¢	76.6¢	76.9¢	77.8¢	80.1¢
Investment Earnings	22.3	21.9	20.8	20.5	19.5	18.7
Other Income	2.1	2.4	2.6	2.6	2.7	1.2
	100.0	100.0	100.0	100.0	100.0	100.0
How Used:						
Additions to Policy Reserves & Other Funds:						
Benefit Payments	44.8	41.8	40.4	40.5	39.4	40.8
Net Additions to Policy Reserves	31.8	37.2	39.6	41.2	39.1	35.8
Additions to Special Reserves & Surp. Funds	7.5	4.7	4.0	2.2	3.5	4.2
	84.1	83.7	84.0	83.9	82.0	80.8
Operating Expenses:						
Agency	8.5	8.5	8.7	8.9	10.0	10.3
Home Office Salaries	2.6	2.5	2.4	2.3	2.7	3.0
Other	2.8	2.6	2.5	2.5	3.0	3.7
	13.9	13.6	13.6	13.7	15.7	17.0
Taxes	1.7	2.0	2.0	2.0	1.8	1.8
Dividends to Stockholders	.3	.7	.4	.4	.5	.4
	100.0	100.0	100.0	100.0	100.0	100.0

Sources: Institute of Life Insurance and Spectator Year Book. Before 1947, Accident and Health business of life companies was not included.

"The public does not seem to be concerned with the costs involved in purchasing life insurance, nor does the operating cost appear to be a handicap either to the business or to its salesmen. And this is as it should be. The insurance industry is rendering a great financial service to the public.

"At the end of 1947 there was $191 billion of insurance in force in the United States, made up of 185 million policies of an average size of $1,030. Life insurance **premiums** paid by the public in 1947 exceeded $6½ billion, more than four times all the assets of all the open-end mutual investment companies. As compared with recent gross sales of mutual funds averaging less than **$30 million** a month during the past year or so, the average monthly total of premiums paid to insurance companies exceeds **$550 million.**

"Obviously, here is a successful business whose members have learned—in presenting their "wares" to the public—to emphasize the **benefits offered** rather than the **cost** of enjoying these benefits. Surely all components of the mutual fund industry can **learn** a great deal from the insurance business."—**Hugh W. Long & Co.**

A Logical Reduction of Risk

"There is no such thing as a riskless investment and in these troubled times the risks are more difficult to appraise and guard against. Nor is there any way to eliminate all risks. Today many questions are unanswered—and when they are answered there will be new questions and new risks to face.

"But some risks can be reduced and some eliminated, and it is prudent to reduce the total risk so far as it is possible to do so.

"This reduction of risk can be accomplished for most investments through the following logical steps:

"(1) **Selection**—Securities must be the proper type for the investor's purpose, and should be selected after careful analysis and comparison with all other usable securities of the class.

"(2) **Diversification**—If less than 100 selected securities are owned, an unexpected and unfavorable development in any one company can cause serious loss. If investments are diversified over more than 100 selected companies, such a development can affect less than 1% of capital.

"(3) **Continuous Supervision**—Since each day's developments may help one company and hurt another, continuous supervision is necessary to maintain the character of the investment account—despite changing conditions.

"(4) **Multiple-Source Income**—If income is derived from less than 100 sources, an unexpected and unwelcome development in a single company may cause a serious loss of income. If income is derived from more than 100 sources, such a development can affect an average of less than 1c on each dollar of income.

"Through these logical steps the investor may (1) maintain income with reduced risk to capital, or (2) increase income without increase in risk to capital. And in many instances both objectives may be gained."—From "Keynotes" issued by **The Keystone Company of Boston.**

1949 vs. 1920

The June business letter of the National City Bank of New York contains an interesting table showing how the largest American manufacturing companies have changed during the past 29 years.

25 Largest American Manufacturing Companies, Based on Reported Total Assets at Beginning of Years

(In millions of dollars)

1920		1949	
U. S. Steel	$2,363	Standard Oil (N. J.)	$3,526
Standard Oil (N. J.)	853	General Motors	2,958
Armour	491	U. S. Steel	2,535
Swift	490	E. I. duPont	1,585
General Motors	447	Stand. Oil Co. (Ind.)	1,500
Bethlehem Steel	357	Socony-Vac. Oil	1,443
Ford Motor Co.	333	Texas Company	1,277
U. S. Rubber Co.	320	Gulf Oil Corp.	1,191
Standard Oil (N. Y.)	300	General Electric	1,177
Midvale Steel	280	Stand. Oil (Calif.)	1,075
General Elec.	277	Bethlehem Steel	1,029
Inter. Harvester	267	Ford Motor (1948)	1,026
Sinclair Con. Oil	265	Cities Service	992
Texas Company	261	Western Electric	786
Anaconda Cop.	254	Un. Carbide & Car.	723
Phelps Dodge	247	Sinclair Oil	710
E. I. duPont	241	Westinghouse Electric	694
Gulf Oil	218	American Tobacco	687
Am. Smelt. & Ref.	215	Inter. Harvester	672
American Tobacco	206	Anaconda Cop.	660
Transcont. Oil	198	Shell Union Oil	641
Magnolia Petrol.	182	Allied Chem	597
B. F. Goodrich	176	Phillips Petroleum	579
Standard Oil (Calif.)	174	Kennecott Cop.	575
Pullman	171	Chrysler Corp.	541
Total	$9,539	Total	$29,179

How greatly the list has changed in 29 years! The size of all the companies has changed greatly. But the relative change was also very different between companies. And several companies dropped out of the list, and several other companies grew into it.

Size alone is not a criterion of investment success. But this table does serve to illustrate how important is the factor of change in a dynamic, growing economy. The next 29 years will probably illustrate the principle just as emphatically as the past 29.

It will be important for the investor to have his assets well diversified, so that a deteriorating situation may be offset by an improving one. It will be well for him to have his investments watched by experienced people, so that holdings of weakening character can be promptly weeded out in favor of those that are improving as the years go by.—From "Selections" issued by **Selected Investments Co. of Chicago.**

A Peculiar Evaluation

"Youngstown Sheet and Tube is a very different company today from what it was 10 years ago. About the only similarity is that its common stock sold at one point in 1939 for about the same price as at present writing. In 1939 the stock earned $2.50 a share; in the first quarter of 1949 alone the stock earned $7.13. In 1939 the company had $15 million in cash. This year it has over **$56 million.** In 1939 it owned **$69,000** worth of government bonds; today it has over **$46 million.** Ten years ago the company was obligated for $3,739,602 in interest charges and $825,000 for dividends on the preferred stock; today interest charges are only $894,272 and the preferred stock has been entirely redeemed. The savings on these two items alone amount to $2 a share, or 40% of last year's dividends. Which reminds us that in 1939 the company paid no dividends on its common, as compared with the current $5 a share.

"This company is one among many others which appear to be selling well below their true value. Their stocks may, of course, sell still lower. But sooner or later the tremendous additions to their strength which have taken place in the last 10 years will be recognized by the investing public."—From **The Parker Corporation** "Letter."

Distributors Group Comments

"The quiet readjustment of business from its postwar 'scarcity boom' to a normal balance of supply and demand continued during the month of May. While the developments which received the preponderance of publicity were on the unfavorable side, some favorable turning points occurred. In consumers' soft goods, which were the first to feel the recession, there was a slight uplift in consumer buying in response to price reductions and special sales promotions. Inventories at the retail level are so low that reordering, on a normal seasonal basis, can hardly be deferred.

"Consumers durable goods and capital goods, whose cycles follow in that order, have still to make their trough. In the usual course these businesses should follow the trend of textiles, foods, etc., at intervals of a few months, and they too should bottom out within 5% to 10% below current levels.

"The stock market was more responsive to the unfavorable (but long expected) news of continued slowing down of heavy industry than to the evidences of revival. As measured by the usual indexes stocks are again (for the fourth time) at the bottom of their postwar trading range. When, and to how great an extent, stock prices will reflect the inevitable turn upward in general business activity, it is not possible to foresee. On the other hand the values at present prices are so great that further serious price decline seems improbable."

Role of New York Banks In Deflation Fight

By HON. PRESTON DELANO*
Comptroller of the Currency

Comptroller Delano stresses dominant position of New York banks in nation's finances, and points out their resulting responsibilities in keeping country economically strong so as to resist spread of communistic ideologies. Denies any drying-up in commercial bank loanable funds and points out, despite recent decline in bank loans, amount outstanding still exceeds that of year ago.

It is a privilege for the Comptroller of the Currency to attend this convention and to discuss with you our mutual concerns. I am sensible that in this forum one meets the representatives of a great banking system. The State of New York has been called the "Empire State" for so many years that in ordinary use that designation has come to be no more than a convenient synonym for the name of the state itself. Only when we draw back and look at those words do we realize afresh their significance and truth. This state actually is of imperial magnitude; it exceeds in numerous ways many of the independent countries which play important roles in world affairs. Its dominance in the financial affairs of this nation is traditional, based not only upon the concentration of wealth and of the world-wide breadth of its markets but also because through the great Port of New York City there flows a heavy measure of the commerce of the Seven Seas.


Preston Delano

To us in the banking fraternity, however, no other feature of New York's greatness is as interesting as its place in the world of finance. Even before the National Banking System was established during the Civil War, New York was the financial center of the country and as such attracted deposits from banks all over the United States. For this reason, New York City was designated in the original National Bank Act as the sole central reserve city.

It was thought for a time that the establishment of the Federal Reserve System would diminish the financial importance of New York, but today the banks of New York City hold almost one-fourth of the demand deposits of all member banks in the country. New York has an even higher percentage of interbank deposits; almost $4 billion out of a little more than $10 billion—well over 35%. In contrast, New York City banks have less than $50 million on deposit with other banks. These figures bring out in quite startling fashion the place of New York City banks at the apex of the correspondent banking system of the United States.

New York and the Securities Market

The dominance of New York City in the securities market is well known. This is true not only as far as the stock exchanges and other securities markets are concerned, but also with respect to bank financing of those markets. In April 1949, reporting member banks had outstanding loans to brokers and dealers for the purpose of purchasing or carrying U. S. Government obligations totaling a little less than $750 million; of this amount, over $700 million was furnished by New York City banks. The relationship was almost as impressive in connection with loans for purchasing and carrying other securities; New York banks supplied over $420 million out of a national total of $580 million.

*An address by Comptroller Delano at the 53rd Annual Convention of the New York State Bankers Association, Spring Lake, N. J., June 17, 1949.

New York's position as the nation's money center is indicated by figures on bank holdings of U. S. Treasury bills—our short-est-term obligations. Between the first and last weeks of April, 1949 New York banks' holdings of bills jumped from $340 million to $780 million; at the same time holdings of all other reporting member banks remained fixed at a little over $1 billion. In other words, the flexibility and slack in this highly sensitive sector of government finance are furnished by the banks of New York.

As is well known, New York's preeminence among American cities as an international banking center has never been questioned. Indicative of this is the fact that in April, 1949 New York City banks held 1,200 millions of demand deposits of foreign banks, and the reporting member banks of the remainder of the country held only 200 millions of such deposits.

Open-market money rates are quoted only in terms of New York. The Federal Reserve Bulletin, which furnishes perhaps the most adequate collection of financial statistics, presents no other tabulation of open-market money rates except those current in New York City. These New York City rates are basic not only for prime commercial paper, prime bankers acceptances, and stock exchange call loan renewals, but also for the bills, certificates of indebtedness, and notes of the Federal Government.

Any speaker here must be impressed with this background. It imposes upon him the necessity of tempering his discussion accordingly. The very large portion of the banking and financial affairs of this nation which are held in fee by the institutions you represent, likewise imposes an obligation on you to approach your problems upon a plane consistent with such power and dignity. These are not ordinary times in which we live. There falls upon us the necessity of disregarding small matters and of devoting our energies and our thought to those serious and important events which confront us.

We have recently seen an impressive increase in the spread of communism throughout the Far East. China bids fair to be engulfed with consequences it is difficult to estimate. In western Europe the tide for the moment seems to be arrested. The flags of freedom still fly in England and France and Italy on down to the eastern shores of the Mediterranean. But we would be insincere if we did not admit the stern conflict of ideologies which now confronts the world. America remains the chief exponent and defender of the faith among those peoples who believe in the individual and a free competitive economy as the best method of developing that individual. But let us not underestimate this cold war. It is no small and unimportant border foray. It is a clash of tremendous forces.

Responsibilities of New York Banks

Of late, there has been some concern regarding the recession in prices which is taking place here in America and the influence such a recession may have upon this clash of ideologies. Certain minor swings of the business cycle are a normal function of our system which permits the market place to make decisions vitally affecting the economy. The very freedom of these decisions, however, imposes upon all leaders in the commercial life of the nation the responsibility to conduct their affairs wisely and in the general interest.

In this scheme of things, bankers have a most important part to play and in the field of banking the preponderance of New York's institutions carries with it, as I said before, a correspondingly heavy responsibility. Of late, there has been some talk about the drying up of loanable funds in commercial banks and the resultant driving of borrowers into the hands of the Federal agencies. There has been a tendency, as is usual, to blame bank examiners for some of this, and some of it is laid at the door of the banker who, it is said, wishes to take in too much sail when the barometer is falling. Now I do not think that either the bank examiners or the bankers themselves are drying up loanable funds at this juncture, nor do I think there is such lack of imagination in the banking world and among the bank supervisory agencies as to cause any such unhappy result.

Trend of Bank Loans

The national banks reported loans and discounts of $22,941,026,000 as of April 11, 1949. This is less than the Dec. 31, 1948 total by $877,487,000, a reduction of 3.7%. While substantial, this reduction must be construed as a result of the readjustments now being made by the borrowers of national banks for the level of loans and discounts is still high. The current total of loans in national banks exceeds the loans as of June 30, 1948 by $637,984,000 and exceeds that of Dec. 31, 1947 by $1,460,569,000.

Moreover, it is significant that the decline in loans in national banks taking place between Dec. 31, 1948 and April 11, 1949 has occurred almost wholly in the 246 banks located in the Central and other Reserve Cities of which there are 62. But, more significant still, is the fact that a net increase in loans is shown by the 4,750 so-called "country banks" of the national system which constitute 95.08% of all national banks.

And here it might be pertinent to lay an old ghost and to reiterate that in our supervision and examination of national banks we hold to no rigid rule in regard to the ratio of capital to deposits, or of capital to so-called risk assets. Our concern is with the quality of assets and the competence of management. Such use as is made of ratios is only for preliminary screening purposes. There is no subsitute for good management and no subsitute for high quality assets. We hold no subservience to ratios as a final determinant in bank supervision.

In the spring of 1948 under the leadership of the then President of the American Bankers Association, Mr. Joseph M. Dodge, the bankers of this country made a great contribution in controlling the forces of inflation which, at that time, threatened to get out of hand. The importance of the voluntary controls which were then placed by bankers on the inflation spiral has been acknowledged by the Secretary of the Treasury and by the President of the United States. Now that we are experiencing an arresting of that inflationary spiral I trust that all of us will have the courage and capacity to meet the ensuing problem with the same skill and determination.

Fighting Forces of Deflation

In many ways the exerting of banking influence against the present forces of readjustment is more difficult than against the forces of inflation. It requires confidence and courage and a fine discrimination. But leaders must meet their responsibilities. It is a curious and an anomalous fact that men must struggle for the right to carry their own burdens. This is the price of freedom and of an economy in which individual character is developed. It is one of the ramparts we watch.

Du Pont, Homsey & Co. To Be NYSE Members

BOSTON, MASS. — du Pont, Homsey & Co. will be formed as of June 30 and will be members of the New York Stock Exchange. The partners of the new firm, which will have offices at 31 Milk Street, will be Anton E. Homsey, who will hold the firm's exchange membership, acquiring it from Joseph M. Wineman. Other partners will be Edward F. Hormel; and Samuel E. Homsey and Victorine du Pont Homsey, limited partners.

"What This Country Needs Is Millions More Stockholders"

By HEINZ H. BIEL
Laird, Bissell & Meeds

Dr. Biel maintains company managements as well as government must share responsibility for investors' apathy toward furnishing needed venture capital. Contends dividend policies have in many instances been grossly unfair to the shareholders. Cites in detail the impact of double taxation of dividends, declaring its abolition is necessary for the democratization of our capitalistic system.

Under the challenging heading, "What This Country Needs Is Millions More Stockholders," an editorial in a recent issue of the "Saturday Evening Post" analyzed some of the reasons for the scarcity of "venture capital." The article concluded with the recommendation that the present double taxation of dividend income be abolished.

Heinz H. Biel

Those who believe that the economic system of free enterprise is superior to State Capitalism, Socialism or Communism, agree on the unfairness and shortsightedness of our present tax laws under which an income tax is imposed first on the corporate income and then again on the dividend income paid out of the (already taxed) corporate income.

The Penalty Imposed by Double Taxation

This so-called double taxation may be a major cause of the present low evaluation of corporate earnings and assets in the securities markets. Indirectly it may be responsible, to a large degree, for the apparent dearth of equity capital which has barred many corporations from selling additional stock to the public. After all, the 6.3% dividend return on the Dow-Jones Industrial Average means only about 4.2% for an investor with an income of $25,000, and 3.4% for those enviable souls with an income of $50,000. Tax-free dividends, or partly tax-free dividends, would undoubtedly make the investment in corporate stocks far more appealing to many investors. It might even produce the millions more stockholders all supporters of our free enterprise system would like to see.

Congressman Fred Crawford of Michigan has introduced a bill designed to eliminate this double taxation. He would simply exclude all dividends from taxable income. But chances of passage of this drastic measure are slim, unless our lawmakers can trim the budget to make up for the loss in tax revenues, or substitute other taxes to raise the necessary funds. Neither step seems likely. A more realistic approach is necessary to make the idea palatable for the Treasury Department, which must guard against any loss in revenues unless it is assured of a compensatory increase from other sources.

The fight against double taxation has thus far been sponsored primarily by corporations which complain bitterly about the scarcity of venture capital. It must be admitted, however, that some corporations themselves have been pursuing policies that create apathy on the part of investors towards common stocks. The managements of some publicly-owned corporations have abused their powers. Stockholders have paid the penalty. A good many examples can be cited.

Too Small Dividends

When business was booming and earnings were at unprecedented heights, some of our leading corporations paid absurdly small cash dividends. Stockholders were simply told, and not always convincingly, that earnings had to be retained for working capital (to handle the increased volume of business) or for plant expansion.

In many instances these reasons were valid only in part. If the need for working capital is temporary, bank loans may be had. If a permanently larger volume of business is to be expected, attendant capital expenditure requirements should not be met primarily by the involuntary contribution of the stockholder. If a company earns more than $12 a share per year and pays only $2 dividends in cash, the lack of equity capital is not surprising. Corporations treating their stockholders fairly and generously have little trouble in raising needed funds.

Stock Dividend Abuse

The distribution of stock dividends, a common practice in recent years, is only the use of retained profits for involuntary subscription to additional stock. Why not come out openly and ask stockholders whether they want to invest more money in the business and give them the option to subscribe to additional stock? Electric utilities are doing it successfully. Why not others?

Investors are antagonized by corporations which pay small dividends when business is good and cut or omit payments when times get a little rough. Unfortunately, in such instances the stockholder usually is the goat. He or she feels, sometimes with justification, that the management is more interested in high salaries, bonuses and pension plans than in the investment made by owners of the business. When stockholders' interests are overlooked, equity capital will be inclined to turn its back.

The managements of most of our leading corporations are making a sincere effort to deal fairly with their stockholders. They realize their responsibilities and obligations. They regard themselves as managers of a business owned by thousands of individual investors who have the right to be kept informed and the right to be heard. But the market for all common stocks suffers from the indifference of some managements who fail to give adequate accounting of stewardship. Some important corporations still hold their annual meetings in cities not conveniently located with the object of discouraging attendance of stockholders. The power of these managements is based on, and perpetuated by, proxy voting. And proxies often are phrased by lawyers in such a way that the individual stockholder hardly knows what it is all about. Such a state of affairs makes possible some fancy employment contracts and pension plans that stockholders would normally not countenance.

Enlightened managements of many corporations realize that our free enterprise system will perish unless it is supported by millions of loyal owners and investors who (1) have confidence in corporate management and (2) are treated with respect. No intelligent investor will insist on a 100% dividend payout, if the management states frankly that it will be its policy to build up the business out of retained profits. But let us be frank and give the facts.

The Tie-in With Double Taxation

All this ties in with the question of double taxation. The tax laws should be revised so that the stockholder should get a fairer share of corporate profits, and corporations should raise capital for new investments directly, rather than surreptitiously by involuntary subscription from the amorphous mass of stockholders. The portion of corporate earnings paid out in dividends should be taxed at a very much lower rate or not at all, while retained profits should be taxed at regular corporate income tax rates.

From the United States Treasury's point of view it is doubtful whether this relief from double taxation would result in substantial loss of revenue, because many recipients of those increased dividends are in income brackets wherein the tax rate is higher than the maximum corporate income tax of 38%. Corporations, on the other hand, would not be penalized in any way. Yet, it would be far more difficult for management to justify a miserly dividend policy. The investor in common stocks would benefit and there is little doubt that he would hold common stocks in far greater esteem.

If dividend income up to $1,000 or $3,000 a year could be made either partly or fully tax-exempt for individuals, we would make tremendous progress along the road towards the democratization of our capitalistic system. This result would be most desirable from a political as well as sociological point of view. Millions of persons would find it far more attractive to invest in business than in savings bonds and savings banks, if they were assured of a fair participation in business profits and considerate treatment by management. A healthier market for corporate securities would be the logical result. This, in turn, would permit the raising of new equity capital by soundly managed corporations whenever a legitimate need arose. The entire nation would be the beneficiary of the resurgence of our free enterprise system which is founded on an adequate flow of venture capital.

Kidder, Peabody & Co. To Sponsor Talks on Mutual Fund Investing

Latest development arising out of increased public interest in mutual fund investing is the arrangement by Kidder, Peabody & Co., members of the New York Stock Exchange, for a series of informal talks, open to the public, to be held Thursday afternoons at 4 p.m. in the firm's uptown office building at 10 E. 45th Street. The speakers will discuss mutual fund investing principles and benefits.

Tickets for each lecture may be obtained without charge by writing to the Manager, Mutual Funds Department, Kidder, Peabody & Co., 10 E. 45th Street, New York 17, N. Y.

Bond Club of New Jersey

Harry D. Miller, *Nugent & Igoe*, East Orange, N. J., Secretary of the Bond Club; Courtlandt B. Parker, *R. W. Pressprich & Co.*, New York City, President of the Bond Club; C. Wallace Smith, *Smith, Barney & Co.*, New York City, Vice-President of the Bond Club; J. Wm. Roos, *MacBride, Miller & Co.*, Newark, Treasurer of the Club

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Robert M. Pyle, *Hornblower & Weeks*, New York City; Charles E. Reed, ***Kean**, Taylor & Co.*, Newark; Cyrus R. Currier, *Mueller & Currier*, Newark

Holds Annual Spring Field Day

Robert P. Bennett, *E. A. Clark & Co.*, New York City; Joseph F. Rush, *Reynolds & Co.*, East Orange, N. J.; William M. Mezger, *Graham, Parsons & Co.*, New York City; George W. Philco, Upper Montclair, N. J.

Walter Perry, Jr., *American Insurance Co.*, Newark, N. J.; Hunt Marckwald, *W. E. Hutton & Co.*, New York City; H. C. Ballou, *Hayden, Stone & Co.*, New York City

Hal E. Murphy, *The Commercial & Financial Chronicle*, New York City; Edwin L. Beck, *The Commercial & Financial Chronicle*, New York City

John Ryan, *Ryan, Moss & Co.*, Newark; Joseph G. Kress, *Homer O'Connell & Co.*; Walter F. Coss, *B. J. Van Ingen & Co.*; Bill Roos, *MacBride, Miller & Co.*

Donald E. Lane, *Merrill Lynch, Pierce, Fenner & Beane*, Newark, N. J.; H. P. Schaub, Jr., *Harry P. Schaub, Inc.*, Newark, N. J.—at the clam bar

Ray Wilson, *Union Securities Corp*, New York City; Scott Russell, *Glore, Forgan & Co.*, New York City; *Allan Church, Courts & Co.*, New York City; *Jack Nagle, C. J. Devine & Co.*, New York City

K. C. McLaren, *The Corporation Trust Co.*, New York City; C. W. Smith, *Smith, Barney & Co.*, New York City; Charles S. Morley, New York City; John F. Dolan, *Spencer Trask & Co.*, New York City

Anthony Rizzo, entertainer; Harold R. Clark, *Franklin Trust Co.*, Paterson, N. J.

Kenneth Spear, *Julius A. Rippel, Inc.*, Newark; Arthur R. Robinson, *Fidelity Union Trust Co. of Newark*

H. C. Brewster, *Allen & Co.*, New York City; Russell M. Ergood, Jr., *Stroud & Co., Inc.*, Philadelphia.

At Rock Spring Club, West Orange

John J. Ryan, *Ryan, Moss & Co.*, Newark (center), singing the blues, surrounded by the Club's entertainers: Russell Law, Bill Griffin, Charles Oliver and Emil Szela

William Farrar, *Schwabacher & Co.*, New York City; Bill Rommel, *J. S. Rippel & Co.*, Newark; T. G. Kenyon, *Cartaret Bank & Trust Co.*, Cartaret, N. J.

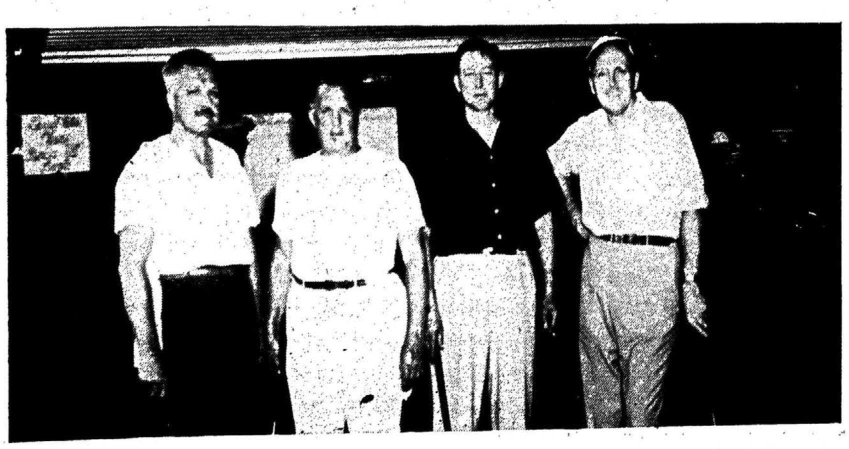
Lee W. Carroll, *Lee W. Carroll & Co.*, Newark; B. Thomas Aitken, *Peoples National Bank & Trust Co.*, Belleville, N. J.

Al Milloy, *The First Boston Corp.*, New York City; Glenn D. Thompson, *National State Bank of Newark;* Jack Clark, *Chase National Bank of New York City*

Thomas H. Benton, *Benton & Nicholas*, New York City; Charles B. Schubert, *Emanuel, Deetjen & Co.*, New York City

Harry Zimmer, *Commercial Trust Co.*, Jersey City; Thomas H. Benton, *Benton & Nicholas*, New York City; Charles B. Schubert, *Emanuel, Deetjen & Co.*, New York City

Jay A. Richardson, *Halsey, Stuart & Co.*, New York City; James Currie, *Troster, Currie & Summers*, New York City; Chick Spring, *Outwater & Wells*, Jersey City, N. J.; Ed. Purcell, *Commercial Trust Co.*, Jersey City, N. J.



Herbert I. Shaw, *Vance, Sanders & Co.;* A. A. Johnson, *Federal Trust Co. of Newark;* W. K. Van Hise, *Parker & Weissenborn*, Newark; Edwin F. Kezer, *B. J. Van Ingen & Co.*, New York City

Harry D. Miller, *Nugent & Igoe*, East Orange, N. J.; Norton P. Rogers, *Rogers, Gordon & Co.*, New York City; Daniel E. Fitzpatrick, *Phelps, Fenn & Co.*, New York City; Ed. M. McLaughlin, *Paine, Webber, Jackson & Curtis*, New York City

Gathering a Huge Success

A. G. Joyce, *Craigmyle, Pinney & Co.*, New York City; S. R. Soverel, *Montclair Savings Bank*, Montclair, N. J.; William L. Maude, *Howard Savings Institute*, Newark, N. J.; J. P. Rutter, *American Insurance Company*, Newark, N. J.

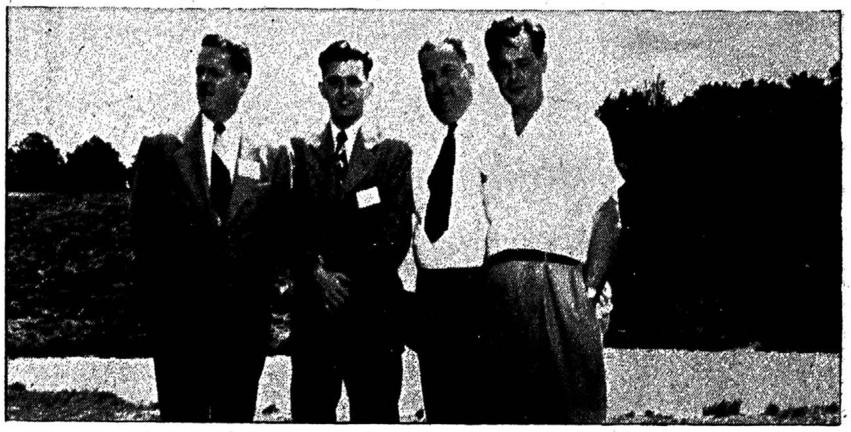
Richard D. Nelson, *Equitable Securities Corp.*, New York City; Richard H. Marshall, *Laurence M. Marks & Co.*, New York City; Tristam B. Johnson, *Bankers Trust Co.*, New York City

Stewart R. Terrill, *J. D. Topping & Co.*, New York City; Portland Merrill, *Blyth & Co., Inc.*, New York City

Charles H. Henninger, *Nugent & Igoe*, East Orange, N. J.; Edgar Weis, guest

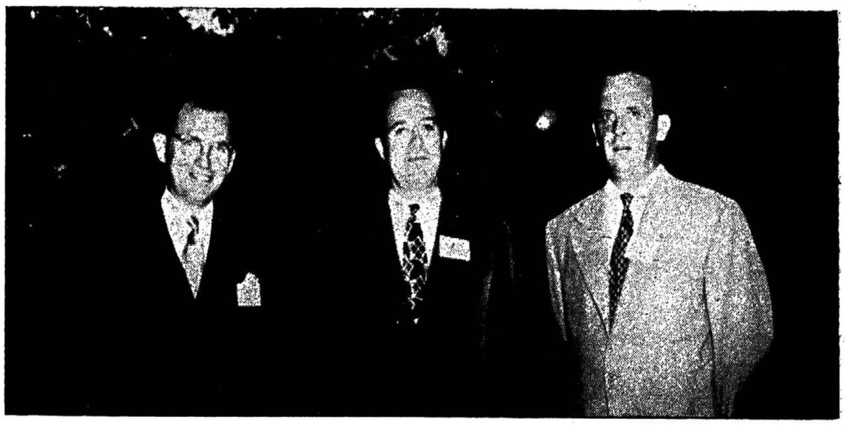
F. R. Cole, *F. R. Cole & Co.*, Newark; W. H. Campbell, *Campbell & Co.*, Newark

Horace C. Sylvester, *Coffin & Burr, Inc.*, New York City; J. Kirk Hopper, *Equitable Securities Corp.*, New York City; Taber J. Chadwick, *Chadwick & Slaight*, New York City



Walter F. Coss, *B. J. Van Ingen & Co.*, New York City; Joseph W. Cantlie, *Campbell & Co.*, Newark, N. J.; Bill Roos, *MacBride, Miller & Co.*, Newark; Joe Kress, *Homer O'Connell & Co.*, New York City

Donald K. Mackenzie, *Bank of America, N. T. & S. A.*, New York City; William H. Boland, *Boland, Saffin & Co.*, New York City; Herbert A. Hoehn, *Gregory & Son, Inc.*, New York City



John P. Ryan, *Goldman, Sachs & Co.*, New York City; John H. Duerk, *Howard Savings Institute*, Newark; John O. Sachau, *Blyth & Co., Inc.*

Reviews Foreign Dollar Bond Situation

A statistical analysis of publicly offered foreign dollar bonds by Dean G. Rowland Collins and Marcus Nadler of the Institute of International Finance of New York University reveals an increase in proportion of these obligations on which debt service is being met

In 1948 debt service has been paid in full on $2,388,769,881 or on 54.46% of the total $4,386,586,652 of publicly offered foreign dollar bonds outstanding on Dec. 31, 1948, according to a bulletin entitled "Statistical Analysis of Publicly Offered Foreign Dollar Bonds" issued June 20 by Dean G. Rowland Collins, Director and Marcus Nadler, Research Director of the Institute of International Finance of New York University.

Geo. Rowland Collins Dr. Marcus Nadler

The increase in proportion of bonds serviced in full from 51.77% in 1947 was due mainly to the fact that the Italian debt - service resumption plan of Dec. 23, 1947, became operative and, by the end of 1948, 59% of the outstanding bonds had been exchanged for new bonds. Furthermore, the percentage of Brazilian bonds assented to Plan A has increased during 1948 from 30.68% to 34.35%, and $19,457,500 principal amount of Peruvian bonds have been exchanged for new bonds.

Data on the status of all publicly offered foreign dollar bonds as of Dec. 31, 1947 and 1948 are summarized in the following table:

	—Dec. 31, 1947— (000,000)	%	—Dec. 31, 1948— (000,000)	%
Debt Service Paid in Full	$2,334.4	51.77	$2,388.8	54.46
In Default as to Interest	2,101.3	46.60	1,923.1	43.84
In Default as to Sinking Fund or Principal	73.4	1.63	74.7	1.70
Total	$4,509.1	100.00	$4,386.6	100.00

On Dec. 31, 1948 European and Latin-American obligors account for 85% of defaulted bonds. Of the total Latin-American bonds in default, Mexco and Chile account for 38.56% and 18.65%, respectively, while German issues represent 64.37% of total European defaulted bonds. At the end of 1948 Latin-America accounted for 31.4% of total defaulted bonds, a slight decrease from Dec. 31, 1947. Europe's percentage decreased from 54.5% at the end of 1947 to 53.6% on Dec. 31, 1948. The Far East accounted at the end of 1948 for 14.9% of total defaulted bonds.

The geographical distribution of foreign dollar bonds in default as to interest on Dec. 31, 1948, is shown in the following table:

	Amount Outstanding (000,000)	Amount in Default (000,000)	Percent of Total Defaulted Bonds
Latin America	$1,028.0	$603.8	31.4
Europe	1,346.3	1,030,6	53.6
Far East	512.5	286.8	14.9
North America	1,249.8	1.9	0.1
Internat'l Bank for Reconst. and Devel.	250.0	------	---
Total	$4,386.6	$1,923.1	100.0

At the end of 1948, 76.5% of the European, 58.7% of the Latin-American and 55.9% of the Far Eastern bonds outstanding were in default as to interest, while defaulted Canadian bonds amounted to less than 0.2% of total outstanding bonds. An analysis of interest defaults by type of obligors shows that, of the total amount of bonds in default, bonds of national governments accounts for 41.6%; corporate bonds for 42.6%; states, provinces, and departments for 7.5%; and municipalities for 8.3%.

The actual rate of interest return in 1948, based upon the amount of cash interest received for 1948 coupons on the nominal amount of publicly offered foreign dollar bonds outstanding at the end of the year, was 2.13% as compared with the average contractual rate of 4.79%. In 1947, the amount of cash interest received constituted 2.02% as against the contractual rate of 4.87%. The increase in the actual amount of interest paid and in the rate of return as compared with the corresponding figures for 1947 is due to the fact that a substantial amount of defaulted bonds have been exchanged for new bonds with lower coupon rates in accordance with the several debt-service resumption plans.

For 1948, an actual rate of return of 1.31% was received on Latin-American bonds as compared to a contractual rate of 4.70%, while for 1947 the rates were 1.28% and 4.90%, respectively. In 1948, Europe paid at the rate of 0.90% instead of 5.69% contractual rate. In the preceding year Europe paid 0.86% instead of 6.06%. The North American issues in both years paid almost the full contractual rate of interest. The return on the Far Eastern issues was 1.78% against a contractual rate of 5.14%. The amount received in cash in respect of 1948 coupons was 44.41% of the contractual amount due, as against 41.41% in 1947.

The contractual amount of interest due and the amount received for 1948 coupons of bonds outstanding on Dec. 31, 1948 are shown in the following table:

	Nominal Amount Outstanding (000)	Contractual Amount of Int. Due (000)	Percent of Average Contractual Rate of Int. Due	Actual Amount Received in Cash (000)	Percent of Average Rate of Return
Latin America	$1,028,017	$48,330	4.70	$13,465	1.31
Europe	1,346,271	76,662	5.69	12,102	0.90
Far East	512,528	26,348	5.14	9,138	1.78
North America	1,249,770	51,909	4.15	51,796	4.14
Int'l Bank for Reconst. and Devel.	250,000	6,750	2.70	6,750	2.70
Total	$4,386,586	$209,999	4.79	$93,251	2.13

In discussing repatriation of bonds, the bulletin states:

The Institute has obtained information on foreign dollar bonds repatriated or purchased by foreigners of issues of 20 countries and of the International Bank for Reconstruction and Development out of a total of 36 obligors (35 countries and the International Bank for Reconstruction and Development) having dollar bonds outstanding in the United States. At the end of 1948 these 21 obligors had outstanding $2,318,718,728 principal amount of dollar bonds, of which bonds with a face value of $707,194,135 or 30.5% of the outstanding amount were held abroad. Of the total repatriated amount only $68,487,800 or 9.7% represent bonds of countries that were paying in 1948 interest on all issues in accordance with the loan contract. Germany and Japan, which are in complete default of debt service, account for 62.31% of total principal amount of bonds repatriated. These two countries have repurchased 36.74% and 70.0%, respectively, of their dollar issues publicly offered in the United States. In contrast, however, to the German repatriation, which was carried out mainly during the period the country was in partial or total default on interest and sinking-fund payments, the repatriation by Japan took place while service of the bonds was fully maintained.

Under the heading "Recent Developments" the bulletin presents information of importance to holders of foreign bonds, including the proposed plan for the resumption of debt service by the Republic of Bolivia.

An analysis of the results of the Brazilian Government debt adjustment plan of Nov. 23, 1943 shows that, as of Dec. 31, 1948, bonds constituting 34.35% of the principal amount of dollar bonds outstanding on the day the plan became effective have accepted Plan A; 57.41% have been exchanged into Plan B bonds, while 7.42% of the bonds have not elected either plan. These unoptioned (original) bonds outstanding in the fact amount of $21,116,045, which are now considered by the Brazilian Government to be Plan A bonds, receive no interest unless they are presented for stamping to evidence their change into Plan A bonds. Interest on these bonds is payable on the semiannual interest dates specified in the original bonds and accrues from the interest dates next preceding Jan. 1, 1944.

Sinking fund operations have reduced the total amount of Plan B bonds by $28,624,070 from $108,016,600 to $79,392,530, while Plan A bonds have been reduced from $97,741,700 to $81,481,200. Thus, owing to the reduction in principal in connection with the acceptance of Plan B and to the sinking-fund purchases, the total Brazilian bonded dollar debt (exclusive of the State of Ceara bonds) has been reduced from $284,560,645 on Nov. 1, 1943, to $181,989,775 at the end of 1948.

Of the total amount of $1,980,000 of State of Ceara 8% bonds of 1922 in the amount of $1,724,000 have been surrendered against payment of 12% of the principal amount.

Officers Elected by Toronto Stock Exch.

TORONTO, ONT., CANADA—At the annual meeting of the Toronto Stock Exchange, A. L. A. Richardson, Dickson, Jolliffe & Co., was elected President to succeed R. J. Breckenridge. Also elected were D'Arcy D. Doherty, Doherty, Roadhouse & Co., Vice-President; George L. Jennison, Wills, Bickle & Co., Secretary; J. C. L. Allen, C. C. Fields & Co., Treasurer.

Canadian Securities

By WILLIAM J. McKAY

On the eve of the Canadian General Elections the atmosphere is still curiously devoid of any particular excitement. To some extent this is due to the Liberal political strategy which is based on the contention that: "there are no issues," that the record of the present administration defies serious criticism, and that as everything on the economic horizon is rosy, there is no call for any change. As far as the electorate is concerned this conception of the situation appears to be generally well accepted. Although the Conservative opposition leader, Mr. Drew, has raised a series of issues he has so far failed to disturb the public apathy. This generally complacent attitude is largely due to the fact that the economic decline that is obvious elsewhere has not yet registered its full impact within the Dominion. Despite, however, the apparent lack of anxiety on the part of the Liberal Administration concerning economic prospects, the early election call is probably more indicative of its actual state of mind. In any event, up to this late stage it has not been difficult to convince the electorate that the Conservatives' dire warnings of economic troubles ahead are no more than campaign oratory.

Late reports and results of unofficial polls from north of the border leave the impression that the Liberals have the situation fairly well in hand and are generally expected to maintain at least their present slight parliamentary majority. This opinion thus contradicts earlier indications of probable Conservative gains. However the only factual evidence of the current political trend is provided by the provincial election results in Nova Scotia and British Columbia. As was to be expected the Liberals maintained their grip in their Nova Scotia stronghold, but their percentage of the popular vote declined in comparison with the previous election results, whereas the Conservatives showed a slight gain. In British Columbia the predominant feature of the recent provincial election was the decisive defeat of the CCF by a coalition of Liberals and Conservatives. The coalition, which had 21 Liberals and 15 Conservatives at prorogation, is now composed of 23 Liberals, 14 Conservatives and 3 straight Coalitionists.

Thus it is still premaure to venture any confident prediction concerning the decision that will be made by the Canadian electorate on Monday next. Notwithstanding the current prognostications of sweeping Liberal gains there is one aspect of the situation which has perhaps received inadequate consideration. Since 1921, when Mackenzie King first led the Liberals to political supremacy, only in 1930, when R. B. Bennett gained 24 seats in Quebec, did the Liberals lose the solid support of that key province and also an election.

In the present circumstances there appears to be a possibility of history repeating itself. The French-speaking province is now dominated by the Union Nationale party of Premier Duplessis, which gained a landslide victory in the last provincial election. This party is not represented directly in the Federal elections but the Union Nationale political machine is actively supporting the Progressive Conservative candidates in the numerous constituencies of Quebec. In view of the fact that the other key province of Ontario is traditionally a Conservative stronghold it is clearly unwise to write off the chances of the official opposition party before the electorate makes its definite choice.

What is perhaps more obvious is the certainty that following the election of the new government, the unreal atmosphere that has enveloped the Canadian situation in the past few months will be rapidly dissipated. Then it will be possible to eschew politics and deal constructively with the many pressing problems with which the Dominion is now confronted as a result of the recent abrupt change for the worse in world economic conditions.

During the week the external section of the bond market was steady and there was less evidence of pressure to liquidate. The internal Dominions were likewise firmer with the temporary cessation of the heavy selling of recent weeks. Free funds were also stronger as a result of special demand in connection with Alberta oil financing; the strength of the free Canadian dollar in the face of the increasing pressure on Sterling still provides cause for some bewilderment, but it is possible that after the elections the unofficial market might be more responsive to the influence of factors of this kind. The stock markets were extremely dull with the golds once more providing the only firm feature. The base-metals and Western oils at first displayed a rallying tendency but the announcement of further price-cuts in zinc and Western crude subsequently exerted a depressing effect.

N. Y. Dealers Dinner Date Changed to Dec. 9

The New York Security Dealers Association announces that the date of their 24th annual dinner to be held at the Hotel Pierre has been changed from Dec. 2 to Dec. 9.

Thomas Kenney to Be Hulsebosch Partner

Thomas E. Kenney has been admitted to partnership with Gerard F. Hulsebosch in G. F. Hulsebosch & Co., 140 Cedar Street, New York City. Mr. Kenney has been with the firm for some time as manager of the collateral loan department.

Expects War Bond Redemption Proceeds to Flow to Investment Companies

Arthur Wiesenberger predicts 10% of $24 billion of early maturing Savings Bonds will be reinvested in mutual funds.

Of the $24 billion of War Savings Bonds maturing within the next five years, some 10% will probably be reinvested in the shares of investment companies, Arthur Wiesenberger, investment fund authority, told a luncheon meeting at the Bankers Club on June 16. This sum will be the greatest ever placed in the hands of the public and its potential for economic good is epoch-making, he said. The wisdom shown by investors graduating from the government school for saving may well decide the nation's economic destiny for years to come. The luncheon was held to announce publication of the ninth annual edition of Mr. Wiesenberger's book, "Investment Companies."

Arthur Wiesenberger

"Doubtless, a large part of this money will be reinvested in new government securities," said Mr. Wiesenberger. "This will be necessary to finance the government security and other programs. But many holders of present war bonds are going to seek higher rates of income and greater opportunities for gain in value. Most of the 80 million persons who still hold government savings bonds today constitute an entirely new class of investors. Many of them will be ready to take the next step of converting some of their war-time savings into investment company securities. We propose to inform them of the advantages of the investment company technique of saving as you invest—investing as you save.

"The modern investment company combines all that is sound and progressive in present day merchandising and finance. The net increase of public investment in investment companies during 1947 and 1948 was $325 million—equal to 30% of all new equity capital raised during those years. And, for the first quarter of 1949 investment companies are 50% ahead of one year ago. One reason for this record is that no mutual fund has ever passed a dividend. What an unusual argument this is against the normal hazards of investment. Dealers all over the nation find themselves pointing to this fact again and again."

Mr. Wiesenberger, who is a partner in the New York Stock Exchange firm of Arthur Wiesenberger & Company at 61 Broadway, also announced that his firm is about to institute a national campaign of advertising. At the same time correspondent investment brokers throughout the nation will link local advertising with this national campaign, including newspapers and radio time. This campaign will be the first of its kind in the financial field.

Sees Labor in Politics to Stay

Edward Cheyfitz, Assistant to President of Motion Picture Association of America, says aim will be increasing pressure toward a welfare state.

In a talk at a Conference of the American Management Association in New York City on June 9, Edward Cheyfitz, Assistant to the President of the Motion Picture Association of America and a former CIO official, declared that "labor is in politics to stay." The impact of this on Management, he added, would be felt on two levels: (1) on the plant level, where there will be increasing pressure for participation in the management function; (2) on the national level where the pressure will be toward a welfare state. The next decade, Mr. Cheyfitz said, will be the "showdown decade" on management prerogatives, and results will depend mainly on what management does in its own plants. The management function, he believes, will remain unimpaired only if management finds ways and means of giving employees a greater sense of participation in the enterprise.

Edward Cheyfitz

The drive for a welfare state, Mr. Cheyfitz pointed out, is in essence a drive for security on the part of large numbers of people. "Every time you say you can't have security and still have freedom," he added, "they'll take security, because freedom is something you don't think about until you lose it, and security is a constant problem." He urged management to give thought to the kind of security that is compatible with a free market economy, and to take the leadership in devising ways of providing it.

Labor in politics is nothing new, Mr. Cheyfitz contended, but the present movement is different from those of the past. All during the 19th century and the early decades of the 20th, labor entered politics only to secure its right to organize and to use its economic power, and the movements subsided when these objectives were attained. This time the objective is fundamentally a redistribution of the national income, or a part of the national income, to provide certain minimum standards of living for everyone. Part of the impetus to this movement toward political action, he added, was supplied by the Taft-Hartley Act — especially in the case of the AFL— but "if you were to repeal the Taft-Hartley Act tomorrow, labor wouldn't get out of politics."

Besse to Be Partner in Hutchins & Parkinson

BOSTON, MASS.—Harry Besse, member of the Boston Stock Exchange, will become a partner in Hutchins & Parkinson, 50 Congress Street, members of the New York and Boston Stock Exchanges, on July 1. Mr. Besse was formerly a partner in Draper, Sears & Co.

With Rockwell-Gould Co.

ELMIRA, N. Y.—Millis F. Fordham, who has been in the investment business since 1924, and George R. Mathers, who has also been in the business for a number of years, have joined the staff of Rockwell-Gould Co., Inc., Robinson Building.

Receding Department Store Profit Margins

(Continued from page 19)

In 1939 it was equivalent to only 33.1% of total assets, while by the end of 1948 it was equal to 41.4% of total assets.

This change in the net working capital position reflected a growth in the importance of current assets during the war period. Whereas in 1939 total current assets were only 43.1% of all assets, by 1945 the relationship had changed to 62.7%, and has stayed above 60% in each of the last four years. The accompanying sharp decline in the fixed assets ratio presumably represented not only depreciation during a period when practically no expansion or rehabilitation was being undertaken, but partly also in some instances sale and lease-back transactions. After the war the dollar amounts began to climb again as rehabilitation and construction was resumed. Nevertheless from 1945 on the items reflecting changes in the country's general monetary situation, including cash and equivalents, receivables and inventories, in the aggregate bulked larger than in the prewar period.

While the net working capital rose as a percentage of total assets, it was lower in relation to dollar sales in the postwar years than it was in 1939, being less than 20% in comparison to 25.1% for the earlier year. To be sure there has been some recovery since the extreme low point of 17.8% at the end of 1946, but it still is worthy of attention, particularly since increasing proportions of the net working capital are in notes and accounts receivable. (And here it is interesting to note that the Federal Reserve Board data show increases in the amounts of installment accounts outstanding, and a slowing down in the collection rate on term accounts.) Firms seeking to stimulate sales by expansion of credit business will do well to give careful attention not only to credit risks, particularly those involved in revealing credit plans, but also to the general liquidity of their working capital.

Current liabilities for the 35 firms were also proportionately greater in 1945 and following years than in 1939. Thus, although current assets climbed substantially as noted, the current ratio declined. Chiefly because of income tax obligations and tax notes treated as current assets, the ratio was at 2.4 to 1 in 1945. This had climbed to 3.2 to 1 by the end of 1948, still below the 4.3 characteristic for 1939.

Advances in Costs Per Transaction

As noted earlier the climbing expense percentages were the most significant elements in the 1948 position. To throw additional light on the upward movement of costs, data for large firms were tabulated both in terms of percentages and in terms of cents per transaction. In this tabulation figures are presented for the prewar year 1939 and for the last five years. The data show that year-to-year increases in dollar sales always exceeded increases in the number of transactions, a result of the progressive upward trend in the average gross sale.

Total expense amounted to 67 cents per transaction in 1939. This outlay typically climbed to 124.5 cents in 1948, or almost double the amount for the earlier year. Because the average gross sale had advanced from $2.10 in 1939 to $4.35 in 1948, the percentage cost in 1948 was still far below 1939, 31.2% in contrast to 35.2%. While this contrast is marked, the significant fact is the rise in the figure from 27.1% in 1944 to 31.2% in 1948. If the average gross sale in 1949 declines, sharp increases in the expense percentage are to be expected in view of the well established upward course in costs per transaction.

A review of the individual expense items shows increased costs per transaction in nine of the 15 natural divisions from 1947 to 1948, and in all the functional divisions. In functions where payroll constitutes an important part such as selling and delivery, there has been a somewhat more sharp upward movement in total expense than where payroll is relatively unimportant, such as occupancy.

In all functions, however, there has been a steady increase from 1944 on, reflecting the general rise in almost all types of expense.

In the face of these general advances, a question naturally may be posed as to what can be done. In addition to rising price levels for various goods, there have been notable pressures to shorten hours of work and to raise wage levels in all types of business enterprise. The wage and hour trends obviously affect store payrolls directly, and other items such as advertising, supplies, service purchased, and repairs, indirectly. Were any groups of firms able to keep expense percentages from rising from 1947 to 1948?

Large and Small Firms Compared

A comparison of the 1948 figures classified by volume groups with corresponding data published in the 1947 bulletin seems to indicate that on the average stores of all sizes experienced increased total expense rates. There is some indication, however, that the two groups of stores with sales of over $20,000,000 were somewhat more effective in controlling expense than were the smaller stores. They held the increase in total expense at 0.8% of sales, while in all other groups the increase was over 1% of sales. Firms with sales of $50,000,000 or more had decreased expense percentages in two divisions, unclassified and repairs, and unchanged rates in seven accounts, real estate costs, taxes, supplies, losses from bad debts, travel, communication, and insurance. Thus there were six accounts only in which expense rose, payroll, advertising, interest, service purchased, depreciation, and professional services. It is notable that the greatest increases for these large stores were in payroll and advertising.

A similar comparison for the firms with sales of $20 to $50 million discloses that they experienced lowered percentages in two items, unclassified and professional services, held five accounts including payroll and service purchased at the 1947 level, and sustained advancing rates in eight accounts.

Study of all the data revealed that in no volume group was advertising held down to the 1947 level, in only one group each were payroll, interest, supplies, or depreciation held down or actually decreased; in two groups real estate costs and professional services were held at or below 1947 percentage levels. Three or more groups, however, were able to maintain or reduce the 1947 percentage costs for service purchased, taxes, losses from bad debts, unclassified, communication, repairs, travel, and insurance. These latter accounts, although they represent relatively small percentage outlays, are nevertheless worthy of careful control.

Ownership Groups vs. Independent Stores

A further analysis was made of stores with sales of $10-$20 million and $20-$50 million classified according to whether or not the stores were members of ownership groups, a classification basis not used since 1930. From the data obtained it is apparent that members of ownership groups commonly had lower percentage expenses than did the independent stores for total payroll, advertising, supplies, and insurance. As a result, the total expense advantage was 0.4% of sales for member stores with sales of $10-$20 million and 2.0% of sales for member stores with sales of $20-$50 million. Examination of the payroll expense by functions shows that the greatest saving was in selling payroll, a fact which is also reflected in the figures for total expense by functions. Supplementary data at the foot of the table show an associated greater dollar volume per employee for members of groups.

A tentative conclusion might be that member stores enjoyed the advantages of current exchanges of ideas and of statistical data, and also may have had more systematic expense control.

No Advance in Employee Productivity

The higher dollar sales per employee of these firms leads to the general question of what happened in general to employee productivity in 1948. Data on dollar sales and transactions per employee and per man-hour are available from a limited number of stores in the size groups having sales over $2,000,000. These figures indicated in general slightly higher dollar sales per total employee and per selling employee in 1948 than in 1947. When the matter was considered in terms of transactions, however, declines in the physical volume handled per employee became common.

To throw further light on the trends in productivity, data for 13 large firms available for the 10-year period, 1939 through 1948, have been tabulated and analyzed. The data show the course of net sales, average gross sale, and total transactions over the period for these 13 firms. These data indicated that dollar sales over the years climbed by 150%, with transactions climbing only about 25%, while the size of sale jumped nearly 100%.

We find that dollar sales per total employee and per selling employee with the exception of the year 1947 advanced each year, reaching the highest level in 1948. The number of transactions handled per employee, however, reached the highest point in 1945, from which level they have been dropping in recent years.

Meanwhile hourly wage rates have been mounting steadily, and since 1945 the ascent in the total payroll costs per transaction has been sharp. From a level of 52 cents per transaction in 1945 it had run to 80 cents in 1948, partly because of climbing wage rates and partly because of declining productivity. It cannot be stressed too urgently that diminishing productivity is a serious matter, and one which executives cannot afford to overlook.

V. C. Weber & Co. Formed in St. Louis

ST. LOUIS, MO.—V. C. Weber & Co. effective July 1 will take over the investment business of J. W. Brady & Co., 411 North Seventh Street. Officers of the new firm will be Vincent C. Weber, President and Treasurer; P. S. Weber, Vice-President; and Adele M. Goeddel, Secretary.

Gerstley, Sunstein & Co.

PHILADELPHIA, PA.—Charles G. Sunstein, and Leon C. Sunstein, Jr., will be admitted to partnership in Gerstley, Sunstein & Co., 213 South Broad Street, members of the New York and Philadelphia Stock Exchanges.

Railroad Securities

Kansas City Southern

It was announced last week that Alleghany Corporation had acquired a substantial block of the preferred stock of Kansas City Southern. This block had been overhanging the market for some time and was presumably responsible for failure of the preferred to perform so well marketwise as the company's common stock and its bonds. Now that it has been absorbed many rail analysts look for greater reflection in its market price of the strong credit standing of the road. While the stock has voting power it is not believed that there will be any effort on the part of Alleghany to get any voice in the management.

Kansas City Southern has one of the outstanding records in the industry and in the past year or so this has become more and more generally recognized by investors as well as analysts. Probably the most important favorable aspect of the picture is the highly efficient nature of the operation. Even before the war the company had one of the widest margins of profit in the industry. Moreover, year in and year out this margin of profit remained more stable than that of virtually any other major Class I carrier. It is notable that even in the readjustment year 1946 the profit margin (the percent of gross carried to net operating income before Federal income taxes) was 24.1%, the same as it had been in the prewar year 1941 and on the average for the five years 1941-1947.

Since 1946 this profit margin has continued to expand further. Last year it amounted to 37.4%, the highest for any year in the company's history and the highest for any major Class I carrier. This record is particularly impressive in the light of the upward spiral of wages in recent years and the enormous increase in fuel and material costs in the postwar period. This wide margin of profit naturally affords the company a substantial cushion against any further cost increases, such as those implicit in the 40-hour week for non-operating employees to start Sept. 1. It will also be of material help in softening the impact of the inevitable decline in traffic from the boom levels of recent years.

There are a number of fundamental reasons why Kansas City Southern has had such a favorable operating record and why this performance may be expected to continue. It does little passenger business, and passenger business is one of the most expensive phases of railroading. Few, if any, railroads make any profit on it. The road is practically all main line so that it has little low density branch and feeder mileage to support. Its freight is predominately through traffic which makes for a relatively long haul. Long haul traffic is far more profitable than short haul unless the short haul is on such bulk items as coal or iron ore which move in full train loads. Freight movement is well balanced as to direction, thus minimizing expensive empty car mileage.

The property is in excellent physical condition and the company has gone in extensively for diesel power. This latter move has resulted in significant operating economies and has gone far toward offsetting the influence of constantly mounting wages and unit fuel and material costs. Only slightly less important than the proven operating efficiency of the properties has been the favorable trend of traffic and revenues. Both Kansas City Southern and its wholly owned subsidiary, Louisiana & Arkansas, operate in territories with strong industrial growth characteristics. This growth has continued even since the end of the war and augurs well for better-than-average resistance to present recessionary trends.

Last year Kansas City Southern, by itself, reported earnings of $15.51 a share on its common stock. Including operations of the wholly owned Louisiana & Arkansas the results would have worked out to better than $21.00 a share. For the first four months of the current year both of the roads reported modest increases in earnings. From here on year-to-year comparisons will presumably be less favorable. Nevertheless, it is difficult to conceive of direct earnings in 1949 as low as $11.00-$12.00 a share and this should be upped by at least $3.00 in consolidated results. This would be quite a showing in an industry which is considered "finished."

Now Let's Hear From the Others

The Brannan proposal is "a farm price support plan or program which as we understand it involves among other things (a) a determination by the Government of the price which farmers should receive for their products, and (b) the sale of such products by the farmers in a free market for whatever they will bring, and (c) subsidy payments by the Government to the farmer to make up the difference between the proceeds of such sales in the open market and the predetermined parity price.

* * *

"No such plan can be put into effect without rigid government control of acreage, crops and farming methods, (and without) inviting such overproduction as would speedily bankrupt the Government, and * * * the supposed benefits of any such program to farmers, consumers and distributors would be wholly illusory since all segments of the population would, directly or indirectly, and considering the enormous cost of administering such program, pay more in taxes than the amount of any possible over-all benefit."—National Association of Retail Grocers.

There are many retail grocers in the country and each of them has a vote.

If only now we can have equally clear-headed and forceful statements from the almost countless other small businessmen!

San Francisco Stock Exchange Tours Los Angeles Area

The San Francisco Stock Exchange sponsored a two-day industry tour in the Los Angeles Area on June 9 and 10.

The group of 27 representatives of the San Francisco Stock Exchange Member Firms, Bay Area Banks and the Press, headed by Ronald E. Kaehler, President of the San Francisco Stock Exchange, arrived in Los Angeles at 10:30 a.m.

Visited were the Goodyear Tire & Rubber Company and Byron Jackson Co., makers of pumps and oil well tools.

On Thursday evening a joint dinner was held with members of the Los Angeles Stock Exchange. There were no speeches, however. W. G. Paul, President of the Los Angeles Stock Exchange ably emceed the meeting and a spirit of cooperation and good-fellowship was evident. This is the first time in the history of the two Western Exchanges that such a meeting has been held.

On Friday Lockheed Aircraft Corporation, Menasco Manufacturing Company, General Motors-Chevrolet Division and Fisher Body Plant in Van Nuys and Gladding, McBean & Co. were toured.

This trip was the fifth out of the local area and is in keeping with the policy of the San Francisco Stock Exchange to better educate the financial world and the press concerning corporations whose securities are in the hands of the public.

Participants in the Los Angeles trip were:

Douglas G. Atkinson, Chairman, Board of Governors, Dean Witter & Co.; Albert A. de Martini, Shuman, Agnew & Co.; Stanley R. Dickover, Mark C. Elworthy & Co.; John Hooker, Hooker & Fay; Harry E. Jonas, Irving Lundborg & Co.; G. E. Lambert, Akin-Lambert Co.; Richard Lawson, Lawson, Levy & Williams; Floyd W. Mosiman, Mark C. Elworthy & Co.

Paul A. Pflueger, Chairman, Listing Committee, Pflueger & Baerwald; D. Poston, Needham & Company; Earle Richards, Dean Witter & Co.; R. H. Scanlon, Stewart, Scanlon & Co.; Thomas J. Tasso, Walston, Hoffman & Goodwin; Ralph Van der Naillen, Douglass, Van der Naillen & Co., Inc.

C. N. Alexander, Financial Editor, Oakland Post-Enquirer; Lindsay Arthur, Financial Editor, San Francisco Call-Bulletin; John S. Piper, Financial Editor, San Francisco News; Charles St. Peter, Financial Editor, San Francisco Examiner; Donald White, San Francisco Chronicle.

Ronald E. Kaehler, President, San Francisco Stock Exchange; Carl Schick, Manager, Public Relations & Statistical Depts., San Francisco Stock Exchange.

Paul B. Kelly, Vice-President, Anglo-California National Bank of San Francisco; Frank S. Litchfield, Investment Department, American Trust Company; George I. Long, Jr., Assistant Vice-President, Wells Fargo Bank & Union Trust Co.; Philip Markwart, Investment Analysis Department, Crocker First National Bank of San Francisco; Henry McMicking, Wells Fargo Bank & Union Trust Co.; H. Taylor Peery, Vice-President, Bank of America, NT&SA; Arthur W. Schiefer, Assistant Vice-President, Bank of California, NA.

Predicts Little Likelihood of Major Slump

Tyre Taylor, General Counsel of National Association of Retail Grocers, tells members of his organization healthy factor in situation is accumulated savings of public and huge order back-log.

Speaking at the Golden Jubilee Convention of the National Association of Retail Grocers, in Chicago, on June 15, Tyre Taylor, General Counsel of the organization, reports it is the widespread opinion in Washington that, though the great postwar boom is over and the problem of deflation now faces the government and industry, there is little likelihood of a major slump.

Tyre Taylor

"It should also be noted," Mr. Taylor stated, "that this recession, readjustment, disinflation — or whatever you want to call it — is by no means confined to this country. Indeed, Socialist Britain seems to be experiencing more severe readjustment pains than is the Capitalist U. S. A.

In the food industry, this readjustment has been under way for several months. However, the change has been gradual and in April—the latest month for which figures are available—food store sales were only 1% under April of last year. Furthermore, food distribution is more nearly depression-proof than almost any other major industry.

"As to how much unemployment is in prospect between now and say January 1 is, of course, a matter of pure guesswork and speculation. If anything has been conclusively established in the past few years it is that economics—in the sense of predicting trends—is not an exact science. Thus you will recall that three years ago the government was predicating its wage and other policies upon the assumption that there would be 8,000,000 unemployed during the period of industrial reconversion from war to peace. Indeed, that fantastic miscalculation contributed more than any other one factor to the subsequent inflation.

"Now there are people in high places who are firmly convinced that there will be 5,000,000-6,000,000 unemployed by January and, of course, they may be right. On the other hand, there are certain factors which would seem to permit of a much more encouraging outlook.

"For example, there is the unprecedented accumulation of personal savings amounting to more than $21 billion. If people are not buying now it is not because they do not have the wherewithal.

"Then there still remains the enormous unfilled consumer demand for automobiles, houses, and all sorts of public improvements, such as new roads, streets, bridges, and so on. Business spending for new plants and equipment, while it probably will not be as large as in 1948, will nevertheless far exceed similar outlays during any other past year in our entire history.

"I do not have the detailed figures, but people are not in debt now as they were in 1920 or 1929. I have mentioned the unprecedented accumulation of personal savings. There is an even greater amount of available credit. The banks are in sound condition and the stock market is as deflated in 1949 as it was inflated in 1929. And so on. One can believe—as many do believe—that a severe depression is all but inevitable within the next two to four years. But if we have anything approaching a major depression this year or next, it will be under the strangest circumstances ever known."

William Bagnall Dead

William E. Bagnall died in Roosevelt Hospital June 18 at the age of 61. Mr. Bagnall was formerly connected with brokerage firms in New York and since 1929 had been an independent bond broker.

NEWS ABOUT BANKS AND BANKERS

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED CAPITALIZATIONS

Harvey D. Gibson, President of **Manufacturers Trust Company of New York** announces that the following officers, formerly Assistant Vice-Presidents, have been appointed Vice-Presidents: Roger D. Elton of the 57th Street Office; Emanuel M. Reeves of the 39th Street Office. William O. Walter of the Securities Department, Head Office. Mr. Elton came to the trust company in 1934. He was made Assistant Secretary in 1941 and Assistant Vice-President in 1945. Mr. Reeves has been with Manufacturers Trust since 1929 when the bank absorbed the Capitol National Bank which latter he had served since 1922. He was appointed Assistant Secretary in 1929 and Assistant Vice-President in 1944. Mr. Walter began his banking career with the old State Bank and Trust Company in 1910. He was made Assistant Secretary in 1929 when the State Bank merged with Manufacturers Trust. He was appointed Assistant Vice-President in 1942.

June 18 marked the opening of a new office of **Manufacturers Trust Company**—its 14th office in The Bronx and its 77th in Greater New York—at 1605 Nelson Avenue at Featherbed Lane, it was announced by Harvey D. Gibson, President. It will be known as the bank's Featherbed Lane office and will offer complete banking facilities including safe deposit boxes made available through the bank's affiliate, Manufacturers Safe Deposit Company. William Sharman, Assistant Secretary, formerly located at the bank's La Guardia Airport office, is in charge of the new office. Assisting him is Samuel Armo.

President Gibson of the **Manufacturers Trust Company**, announces the death of William A. Knawa, Assistant Vice-President at the bank's Empire State Building office. Mr. Knawa began his banking career in 1921 with the Union Exchange National Bank. This bank later was merged with the Chatham Phenix National Bank and Trust Company, and the latter institution was merged with Manufacturers Trust Company in 1932. Mr. Knawa was a member of the Esquire Credit Club.

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Incident to the opening on June 10 of the new branch building of the **Greenwich Savings Bank of New York** at 3 West 57th Street, we are advised that savings accounts were opened that day as fast as the bank's staff could handle the transactions. At the end of the day, it is stated, the new accounts totaled 3,858—a new record for a savings bank branch occupying new quarters in an area which it has already been serving for a number of years. As noted in these columns June 16, page 2599, the bank's 57th Street branch had previously been located at 2 West 57th Street.

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Irving Trust Company of New York announced on June 16 the appointment of the following members of the bank's staff to the office of Assistant Secretary: John L. Cataletto, who will assume, on July 1, direct charge of the company's headquarters building at One Wall Street; William F. Graff, who is now assigned to the foreign division and will assist in handling company business in Great Britain, Ireland, the Scandinavian countries and Finland; Paul W. Howe, who started with the Irving as a messenger, has had broad experience in personal trust division work, and currently is in charge of operations for that activity; William H. McCoach, who has been engaged in Irving's corporate trust work, and for the past three years has been a Senior Administrator in that division; Alton D. Platt, who has been identified with the bank's mortgage and real estate division, currently devotes full time to the company's building loan activity.

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A dividend at the rate of 2% a year was declared on June 13 by the board of trustees of **The Bowery Savings Bank of New York.** The dividend will be credited to depositors' accounts on June 30, 1949. "This means that more than $7,500,000 will go to Bowery savers at the next dividend period," Henry Bruere, President, stated. "Never, in all the 115 years of The Bowery's history has so large an amount of money been earned for depositors and paid to them at a single dividend date." Recently total assets of The Bowery passed the $900,000,000 mark. Bowery depositors exceed 500,000.

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Harvey L. Schwamm, President of **The National Bronx Bank of New York,** announced on June 15 the following promotions by the board of directors: John G. Benken, formerly with the Credit-America Corporation, and Kirke F. Kollmer, formerly Vice-President of the Trust Co. of North America, to be Assistant Vice-President; Herbert N. Fehling, in the banking field for 30 years; Harold F. Fuller, formerly Assistant Secretary of the Manufacturers Trust Co., and Anthony Le Page, formerly Manager at the Public National Bank, all to be Assistant Cashiers.

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At the regular meeting of the Board of Directors of **The National City Bank of New York** held on June 21, L. M. Giannini, President of the Bank of America National Trust and Savings Association of San Francisco was elected a director to succeed his father, the late A. P. Giannini, who died June 3. Among the important posts currently held by L. M. Giannini are the following: President, Director, Chairman, General Executive Committee of the board of Bank of America; member of the President's Committee for financing foreign trade; director, Transamerica Corporation; director, Merchants National Realty Corp.; director and Chairman of the board of Occidental Life Insurance Co.; director and Chairman of board of Occidental Fire Insurance Co.; director, Capital Co.; director, Pacific National Fire Insurance Co. In addition he is a member of the Bar Association of San Francisco and of the California State Bar Association, and is licensed to practice before the Supreme Court of the United States.

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The trustees of **Central Hanover Bank and Trust Company of New York** voted on June 21, to increase the bank's surplus by a transfer of $10,000,000 from undivided profits. After the transfer, Central Hanover shows capital, unchanged, of $21,000,000; surplus $90,000,000; undivided profits over $20,000,000. The last time that similar action was taken on Dec. 18, 1945, when surplus was increased from $60,000,000 to $80,000,000 by a transfer from undivided profits. Ten years ago, on June 30, 1939, the capital funds of Central Hanover were $92,802,345.96, consisting of capital $21,000,000, surplus $60,000,000, and undivided profits $11,802,345.96. The bank's capital funds are now in excess of $131,000,000.

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The Rye Trust Company of Rye, New York, received approval on June 15 from the State Banking Department to a certificate of reduction of its capital stock from $272,500, consisting of 500 shares of preferred stock "A" of the par value of $25 each, 900 shares of preferred stock "B" of the par value of $50 each, and 8,600 shares of common stock of the par value of $25 each, to $215,000, consisting of 8,600 shares of common stock of the par value of $25 each.

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The New York State Banking Department on June 15 announced that approval had been given to the **Long Island State Bank and Trust Company of Riverhead, N. Y.,** in furtherance of its plans to increase the capital from $200,000 in shares of $100 each to $250,000 in shares of $50 each.

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Thomas J. Coghlan, who had heretofore been Assistant Vice-President of the **Erie County Savings Bank of Buffalo, N. Y.,** has become a Vice-President of the institution, according to the Buffalo "Evening News" of June 16. The same paper in its June 15 issue reported that Maurice Austin and Lee L. Norton, both Vice-Presidents of the institution, have been elected trustees, filling vacancies on the board. The paper indicated said:

"Mr. Austin has been with the bank since 1925 and has been a Vice-President since 1942. He served previously as Comptroller and Assistant Treasurer.

"Mr. Norton, Past President of the Buffalo Real Estate Board, has been with the bank since 1939 and was Real Estate Officer and Assistant Vice-President before becoming a Vice-President. He is Chairman of the Owners Division of the New York State Association of Real Estate Boards."

Mr. Coghlan, the new Vice-President, who has been with the Erie County Savings since 1942, had previously been with the National City Bank of New York, and the Greenwich Bank of that city, and had also for 12 years been Senior Bank Examiner for the New York State Banking Department, the "News" reports.

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Harry W. Davies, President of the **Syracuse Trust Company of Syracuse, N. Y.,** was elected President of the **New York State Bankers Association** at its 53rd annual convention at Spring Lake, N. J., on June 17. He succeeds Burr P. Cleveland, President of the First National Bank of Cortland, N. Y. Herbert J. Kneip, President of the National Commercial Bank and Trust Company of Albany, was elected Vice-President, and William T. Taylor, Vice-Chairman of the board, Commercial National Bank and Trust Company, New York City, was named Treasurer. The Association, founded in 1894, includes in its membership over 95% of all the commercial banks in New York State.

* * *

The Stabile Bank & Trust Company of Boston has been merged with **The National Shawmut Bank of Boston,** it is announced by Walter S. Bucklin, President of the latter bank, and Harry J. Stabile, formerly Chairman and President of the Stabile bank. The Boston "Herald" of June 13 in reporting this, also said in part:

"The quarters of the Stabile Bank at 107 Salem Street, corner of Parmenter Street, will become the Stabile office of the Shawmut, bringing the bank's offices to a total of 28.

"The staff of the former Stabile Bank will be associated with the new Shawmut office, which will be under the management of Mr. Stabile and Vincent B. Vitolo, previously Vice-President and Treasurer of the Stabile Bank."

Frank J. Ryan, Vice-President of the **Rhode Island Hospital National Bank of Providence, R. I.,** died on June 17. He was 58 years of age. Among the many civic groups which Mr. Ryan served, said the Providence "Journal," the one which probably taxed his strength and time the most was the draft board throughout World War II. The "Journal" also said:

"At the same time he was serving also on the tire rationing board and was a member of the War Appeals Review Board, a member of the board of managers of the Providence Chapter, American Red Cross, and was Treasurer of the Knight Street USO."

Mr. Ryan had also served as Treasurer of the Providence Chamber of Commerce and of the Providence Governmental Research Bureau from which the Rhode Island Public Expenditures Council evolved.

In banking circles, the "Journal" noted, Mr. Ryan was equally prominent. He was Past President of the Rhode Island Bankers' Association and Chairman of its Legislative Committee as well as of the State Legislative Council of the American Bankers' Association. He was a member of the Robert Morris Associates, and served on the Executive Committee of the Providence Clearing House. For many years he was a director and Executive Vice-President of the National Bank of Commerce in Providence. When that bank merged with the Rhode Island Hospital National Bank and Trust Co., he became a Vice-President of the latter.

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The election of five new trustees to the board of the **Society for Savings of Hartford, Conn.,** occurred at the recent annual meeting. The Hartford "Courant" of June 16 reported that they are: Hans C. Christensen, Vice-President and Assistant Treasurer of the bank; Edmund B. Boatner, Superintendent of the American School for the Deaf; John R. Reitemeyer, President and publisher of the Hartford "Courant"; Donald L. Sammis, Vice-President and General Manager of the Underwood Corporation, and Morgan W. Taylor, President of the Edward Taylor Lumber Company.

In its further advices, the "Courant" said:

"The trustees reelected Robert C. Glazier to be Chairman of the board and Charles J. Lyon to be President, and their associate officers: Andrew N. Webster, Assistant Treasurer, and Edwin H. Burkle, Assistant Secretary, were elected to be Vice-Presidents."

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The plans for the merger of the **Merchants & Newark Trust Company of Newark, N. J.** (capital $2,500,000) with the **National State Bank** of that city (capital $1,000,000) were approved by the stockholders of both institutions on June 15. Reference to the plans appeared in our issue of May 26, page 2289. The National State, 137 years old, took over the 78-year-old Merchants Bank effective June 20. Julius S. Rippel, President and Chairman of the board of the Merchants, will, according to the Newark "News" of June 16, maintain a close interest in affairs of the consolidated bank, very likely as Chairman of the Executive Committee, but he yields actual direction of the bank to W. Paul Stillman, President of the enlarged National State Bank. The transaction, says the "News," amounts to a $6,000,000 deal arranged by Mr. Stillman to acquire Mr. Rippel's holdings in Merchants.

The "News" added:

"Involved are $3,000,000 cash and $3,000,000 in stock, with Merchants stockholders getting $30 a share plus 1/20th of a share of National State stock, or the equivalent of $52.50 a share. In the new set-up there will be 15,000 shares of capital stock at $100 par. The surplus will be $6,500,000 and undivided profits and reserves not less than $1,000,000. Minimum total capital funds will be $9,000,000."

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The appointment of Leonard P. Groves as a Vice-President of the **Federal Trust Company of Newark, N. J.,** was announced by David J. Connolly, President, on June 17. Mr. Groves was formerly identified with the Federal Trust, leaving during the war to join the war bond staff of the Treasury Department. As to his earlier connections with the Federal Trust Company, the Newark "News" of June 17 said:

"He joined Federal Trust in 1927 as an Auditor and was made Controller in 1934. In 1942 he was appointed Treasurer. While with Federal he served as President of the New Jersey Conference of Bank Auditors and Controllers."

The "News" also observes that Mr. Connolly a few weeks ago succeeded Frank C. Mindnich, the veteran President of the Federal Trust.

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Recent advancements in the official staff of the **Bank of Montclair, at Montclair, N. J.,** are announced, viz.: John M. Schlegel having been promoted from the post of Assistant Cashier to Assistant Vice-President, and Walter J. McLaren from Assistant Trust Officer to Trust Officer. The Newark "News" of June 16 states that Mr. Schlegel joined the bank staff in 1929, became Auditor two years later and since 1936 had been Assistant Cashier. He is a Certified Public Accountant. Mr. McLaren joined the Bank of Montclair in 1934 after serving with Bankers Trust Co., City Bank Farmers Trust Co. and Herbert Seibert & Co., financial publishers, all in New York, and the Trust Co. of New Jersey, Jersey City.

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Robert F. McCammon, Auditor of the **Girard Trust Co. of Philadelphia,** was elected President of Philadelphia Conference, **National Association of Bank Auditors and Comptrollers,** to succeed Garland F. Potts of the Delaware Trust Co. of Wilmington. The Phildelphia "Inquirer" of June 16, from which the foregoing is taken, likewise said:

"Other officers elected were: Thomas F. Toohill, Philadelphia Savings Fund Society, First Vice-President; A. H. Schultheis, Land Title Bank & Trust Co., Second Vice-President; John W. Mulilikin, Philadelphia National Bank, Treasurer, and Norman G. Dash, Federal Reserve Bank of Philadelphia, Secretary."

W. H. Anderson, R. F. Fitzgerald, C. A. Seaman, R. J. Lyons, H. G. Ruemeli, Carl B. Baldt and Potts were elected to Board of Governors.

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Nelson J. Foster has been elected Vice-President of the **National Savings & Trust Co. of Washington, D. C.,** it was announced on June 13 by President Bruce Baird. Advices by S. Oliver Goodman, in the Washington "Post" of June 14, from which this is learned, stated that Mr. Foster became associated with the institution in May, 1932, was elected Assistant Secretary in January, 1941, and Secretary in December, 1941.

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A special meeting of stockholders of the **Industrial Bank of Washington, D. C.,** has been set for July 7 to vote on a proposal to increase capital stock to $150,000 from $100,000, President Jesse H. Mitchell announced on June 13, according to an item appearing in the Washington "Post" by S. Oliver Goodman.

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Wayles R. Harrison, President of the **American National Bank and Trust Company of Danville, W. Va.,** died on May 29.

With the celebration on June 22 of its 100 anniversary, the **Society for Savings of Cleveland, Ohio,** announces the recent opening of a special school savings department, reportedly unmatched by any financial institution in the country. The new children's department in the bank will be headquarters for more than 60,000 youngsters who currently have Society School Savings accounts in the 133 schools throughout greater Cleveland. Few adult banks, it is noted, have the features included in the new headquarters of the bank, which was two years in remodeling and enlarging. Among other things, instead of old-fashioned cages and bars, streamlined tellers' desks are low, designed for youthful depositors who begin at kindergarten. The floor has been built four inches higher than the floor behind the cages, so that youngsters face tellers at eye level. Counters for making out deposit and withdrawal slips are also at youngster level. Television will bring special programs during banking hours. Music is brought the youngsters over a special system.

Mervin B. France

The School Savings set-up is part of program inaugurated some years ago by the Society in line with its general policy of giving special attention to small accounts. The Society now has 203,702 depositors with total deposits of $209,000,000. Mervin B. France, who, when he became President of the Society in 1947 at the age of 45, was said to be one of the youngest top banking executives in America, stresses the importance of regularity in savings rather than the money deposited.

The Society for Savings is paying its 200th regular semi-annual dividend July 1, also an extra dividend of more than $500,000 as a special Centennial Birthday present to savings depositors. The Centennial Extra is the largest amount of money the institution has ever paid as an extra dividend in its 100-year history.

Incident to the completion of its first hundred years of banking, the Society on June 21 held an open house and reception to permit public inspection of the modernization of its quarters. The bank was incorporated by special act of the Ohio Legislature on March 22, 1849, and its organization occurred on June 18, its first President being J. W. Allen. In the Cleveland "Plain Dealer" of June 12, Guy T. Rockwell, its Financial Editor, said in part.

"First change in personnel of the bank was in 1850 when Flavel W. Bingham, Mayor of the City when the Society was formed, succeeded Mr. Allen as President, William A. Otis, grandfather of C.A. Otis, who is popularly known as "Mr. Cleveland," the first citizen and other appelations denoting his popularity, succeeded Mr. Bingham and remained President until 1855 when he was succeeded by Sherlock J. Andrews, lawyer and one of the first trustees."

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Distribution of a 6.7% payment to creditors and depositors of the **Calumet National Bank of Chicago,** which suspended business Oct. 1, 1931, was announced on June 14 by J. T. Connolly, Receiver. The Chicago "Tribune" in indicating this, went on to say:

"He said that 5,592 claimants will participate in the disbursement which will total $125,818.33. The payment will be the seventh and final disbursement. It will result in a total recovery of 60.2% for depositors and creditors who proved their claims."

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A bill giving banks in Illinois the right to operate on a five-day week was signed on June 9 by Governor Stevenson. According to the Chicago "Journal of Commerce" of June 10 the action of the Governor had been anticipated and Chicago Loop banks already have decided to close on Saturdays, beginning Aug. 6.

The signing of the bill, said the same advices, came at a time when outlying banks in Chicago and the suburbs were in midst of holding meetings to consider what action to take under the law. The Chicago paper from which we quote also stated:

"North Side banks generally decided yesterday to make no immediate change in banking hours. Officers of 11 institutions met in **Uptown National Bank,** and of these 10 voted against a change. Earlier, a majority of West and Northwest Side banks indicated their intention to close on Saturdays.

"The new legislation is permissive in nature. The board of directors of each bank may determine policy on whether to operate on a five-day week. Any day of the week can be selected for closing."

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At the closing session of the Convention of the Minnesota Bankers Association on June 9 in St. Paul, Minn., N. A. Welle, Vice-President of the **First National of Bemidji, Minn.,** was elected President of the State Association. Others elected, said the Minneapolis "Star," were: Willis A. Putnam of Duluth, who was named Vice-President, and Guy S. Bacon of Cottonwood, who was elected Treasurer. Robert S. Pye, Minneapolis, was reelected Secretary.

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The **First National Bank at Glendale, Cal.** (capital $200,000), was placed in voluntary liquidation on June 14, its business having been taken over by the **California Bank of Los Angeles** effective June 11. The offices of the Glendale bank will be operated as branches of the California Bank. An earlier reference to the plans appeared in our May 26 issue, page 2289.

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The will of A. P. Giannini, founder of **The Bank of America National Trust & Savings Association of San Francisco, Cal.,** who died on June 3, was filed for probate on June 4. Despite his genius in creating institutions with resources of many billions of dollars, he was revealed as a man of only modest personal wealth. His entire estate amounted to less than $480,000—thus confirming his oft-repeated statement: "I have no intention of dying a millionaire." Although described as his only legal heirs, his son L. M. Giannini, President of Bank of America, and his daughter, Claire Giannini Hoffman, do not share in the estate. Both of them, together with Bank of America, are named as executors of the will, which leaves all but $9,000 of the estate for charitable or beneficent purposes. There are nine individual bequests, each of $1,000, made as tokens of remembrance to some near relatives and one personal employee of long service. Among the charitable bequests, San Francisco Protestant Orphanage Society is to receive $5,000. A similar sum goes to the Pacific Hebrew Orphan Asylum and Home Society, and another $5,000 to the benefit of Saints Peter and Paul Catholic Church in San Francisco, in the parish where he was reared. The Salesian Boys Club of San Francisco receives $1,000. An amount of $25,000 is to be expended under the direction of L. M. Giannini for the benefit of public charities and for public playgrounds.

In accordance with an intention announced by Mr. Giannini on his 75th birthday, May 6, 1945, all the remainder of the estate, amounting approximately to $430,000, is bequeathed to the **Bank of America - Giannini Foundation.** This non-profit corporation was created by him to provide funds for the higher practical and cultural education of such staff members of the bank and other concerns with which he was associated as demonstrate a capacity to make use of such training but have not the means to provide it for themselves. In addition, the foundation is to furnish financial means for research in the fields of medicine and human betterment.

Mr. Giannini, who besides being founder of the bank, was also at his death Chairman of the board of the institution. Claire Giannini Hoffman, his daugter, has been appointed by the board of directors of the Bank of America to the seat on the board left vacant by the death of her father. Mrs. Hoffman is the first woman director to take a seat on the board of the world's largest bank. The death of Mr. Giannini was noted in our issue of June 9, page 2490.

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Frank L. King, President of **California Bank, Los Angeles,** recently announced that the bank would acquire, about June 11, the business of the **First National Bank at Glendale, Cal.** Both the First National's head office, 336 N. Brand Boulevard, and its branch at 1265 S. Brand Boulevard, will be operated as branch offices of California Bank with their personnel continuing in their present duties.

It is also announced that Mr. King has been appointed Chairman of the Major Commerce and Industry Division of the Los Angeles Area, 1949 Community Chest Campaign.

* * *

At a special meeting of the stockholders of **Crocker First National Bank of San Francisco** held on June 9, the holders of 55,327 shares, or 92% of the outstanding 60,000 shares of $100 par value capital stock voted to amend the articles of association to split the stock on a 4-for-1 basis. Under the approved plan there will be 240,000 shares of $25 par value stock outstanding. The capital of the bank will remain unchanged at $6,000,000. Following the stockholders meeting, the directors declared a quarterly dividend of $4 per share on the old stock, which represents an increase from $14 per share per annum to $16 per share per annum, thus placing the new $25 par value stock on a $4 per annum basis. The dividend is payable July 1 to stockholders of record June 25.

* * *

During a ceremony held on June 8 in the main lobby of **Crocker First National Bank of San Francisco,** W. W. Crocker, President of the Institution, presented gold watches to William C. Hiatt, Henry J. Pult, George E. Hepburn and Albert W. Veltmen in appreciation of their 25 years of service to the bank. Mr. Hiatt is the Manager of the Tax Department; Mr. Pult is in the Trust Department; Mr. Hepburn is in the registered mail department and Mr. Veltman is in the Foreign Department. The 25-year Club roster now stands at 116 members whose banking service totals 3,619 years of service.

* * *

J. Ubald Boyer, General Manager of **The Provincial Bank of Canada, Montreal,** has become President of the **Canadian Bankers' Association,** said the "Financial Post" of Toronto, in its June 11 issue. Mr. Boyer joined the Provincial at 19, served in Montreal, Hull, Ottawa and Windsor. He became General Manager in 1935.

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

An eligible and eligibility-conscious government market stays on the constructive side, despite the feeling that prices of some of the longer bank obligations have gone ahead a little fast. . . . It could be that the sold-out bulls are hoping quotations will recede moderately in order to rebuild positions. . . . It seems as though buyers of most of the longer Treasury obligations have eyes only for the issues that are bank-eligible or will be eligible within the next few years. . . . This type of demand has resulted in sizable acquisitions of the restricted issues, eligible in 1952, apparently at the expense of the other ineligible bonds. . . . Although the 2¼s due 1956/59, the 2½s due 1962/67 and the 2½s due 1963/68, are the leaders of the restricted group, some of the shrewder operators are now moving into the Vics because they believe these bonds are behind the market and should do better in the future. . . . Commercial banks continue to push out maturities and this buying has carried the longer eligibles to new highs for the year. . . . It seems as though the 2½s due 9/15/67/72 have replaced the 2¼s due 1956/59 as the leader of the bank issues. . . .

SEPTEMBER REFUNDING

Deficit financing, which will assume greater importance in the money markets as the year goes on, will probably make more likely the issuance by the Treasury of securities other than certificates in the September refunding. . . . Easy credit conditions that could become easier because of the need to raise new money, should mean an intensification of the demand for higher-income Treasuries. . . . The supply of these securities is limited and the authorities know that unless something is done to increase the amount of larger-income eligible governments, the market for these obligations will go through the roof with easier money market conditions. . . .

There is no doubt the money managers are very cost-conscious as far as servicing the government debt is concerned, which means the cheapest way of financing the deficit will be used. . . . Also they are not concerned about bank earnings and they have no desire to increase the coupon rate on obligations that these institutions would be offered in obtaining funds to carry on governmental operations. . . .

FINANCING BY NOTES INDICATED

However, on the other hand, there is the trend of prices of government obligations that must be considered in the whole picture, and the powers that be have definitely indicated a stable government market is the keystone of the policy of debt management. . . . Stability is not going to be achieved by the continued issuance of one-year obligations for higher-coupon maturing securities. . . . Unless there are unforeseen changes in economic conditions, it is believed that quotations of Treasury obligations will be higher than they are now, when the late summer financing comes along. . . .

Accordingly, the feeling seems to be growing that a note or an intermediate-term issue will be offered to holders of the September 2s, with the likelihood that new money will also be raised at the same time through the sale of these securities by the Treasury. . . .

STABILIZING INFLUENCE

It is being pointed out that a note or middle-term Treasury obligation in the September operation should have a sobering and stabilizing influence on the market. . . . Some of the demand for the longer eligibles could be taken care of through the issuance of obligations of this kind, which the deposit banks have needed and have been expecting for some time. . . . The overall cost would probably not be increased enough to be of importance, since higher-coupon and tax-protected issues are being eliminated in the refundings that will be done during the balance of the year. . . .

Likewise a very sizable amount of the new money that might be needed to take care of the deficit will most likely be obtained from the sale of Treasury bills and certificates. . . .

MARKET BRIEFS

Rolling over of the July certificates with 1¼s was expected and for a change the money markets got what had been expected. . . . Nonetheless, bank holders of one-year maturities continue to swap these securities for higher-income obligations with the institutions that will benefit from lower reserve requirements in the near future the most active ones now in this operation. . . .

The partially-exempts continue in demand, especially the last four maturities, with fairly sizable orders reported to be around for the 2⅞% due 1955/60 and the 2¾% due 1960/65. . . . The longer tap bonds appear to be under quiet accumulation by both investors and traders who feel that the spread between these securities and the eligibles has now reached the point where an upward trend in the restricted issues seems to be in the cards. . . .

Although the 2s due 1952/54 are going out of the market, some of the demand has subsided because of the need for income, which has pushed bank buying out into the 2½s due 9/15/67/72. . . . The 2¼s due 1956/59 are still getting a big play but herein again is a case where income is paramount, and a part of the funds that was earmarked for this issue is being put into the longest eligible obligation. . . . More non-bank investors are now disposing of the longer eligibles because of the price rise in order to acquire the higher-income taps.

Ball, Burge & Kraus Sponsors Inv. Talk

CLEVELAND, OHIO — Ball, Burge & Kraus, members of the New York Stock Exchange, will sponsor a talk on "What Women Should Know About Finance" at the Mid-Day Club by Lorraine L. Blair, Chicago, founder and director of the Women's Finance Forum of America. The talk which was given Tuesday afternoon will be repeated tonight (Thursday).

Following Mrs. Blair a panel will answer questions. Members of the panel will include Sidney B. Congdon, President of the National City Bank of Cleveland; Elmer L. Lindseth. President of the Cleveland Electric Illuminating Co.; Russell Weisman of the "Plain Dealer"; Elmor L. Andrews, Thompson, Hine & Flory, attorneys; Louis B. Seltzer, "Cleveland Press"; Chester A. Thompson, Universal Wire Spring Co.; and several partners of Ball, Burge & Kraus.

The Economic Horizon: Cloudy, but Not Murky

(Continued from first page)

persuaded that business was beginning to turn a corner; but in view of the false alarms of the two preceding spring periods in 1948 and 1947, we were rather cautious in our comments. From the vantage point of the present time it is now unmistakable that a business recession began somewhere around the end of the second quarter of 1948. The general wholesale price index reached its peak of 169.7 as of the end of August, though sensitive prices had turned down considerably earlier. From the standpoint of industrial production as measured by the Federal Reserve Index the turning point was registered in November of 1948. From that date production has declined approximately 10%, or from 195 on the index to the present figure of presumably about 175. The decline in the general wholesale price index has not been quite so great, down to 156, a drop of a little less than 8% over a period of nine months. In the meantime unemployment stands at a little over three million, continuing declines in factory employment, down 330,000 from March to April, having offset normal seasonal pickup; and don't forget that, even if business were holding its own, unemployment by the end of the year would increase by the total number of new employables coming into the picture, roughly 750,000 a year. Short work weeks in many industries probably conceal the true size of present unemployment. The steel production rate has fallen off in 8 weeks to 89% of capacity, as against a rate slightly in excess of capacity which was maintained for some time. Car loadings for more than a year have been registering decreases. Turning to another important indicator of the business situation, we note that total business loans have now been declining for 20 consecutive weeks. Also, consumer income as measured on an annual rate was down as of the end of April by something over $7 billion from the peak reached in December; it dropped $1 billion between March and April. Nevertheless the rate of consumer income for the first quarter of 1949 was ahead of the corresponding figure for 1948.

Greater Consumer Savings

Out of their income consumers have been saving a somewhat greater proportion. For the first quarter of this year savings ran at the annual rate of $20 billion as against a figure of only $11.4 billion in the first quarter of 1948. In the light of this total situation with respect to income and savings, retail sales have thus far held up fairly well. Total retail sales are about 3% behind last year for the first five months, and the same is true of department store sales. Within the total retail picture there are, of course, substantial differences, with automotive sales up 15% in the first quarter and building materials and hardware down 11%. Currently department store sales seem to be running about 8% below the corresponding weeks of last year.

In view of declining retail prices there is every probability that department store sales in physical volume, as measured by number of transactions, are probably running at least even with last year or perhaps slightly ahead. Inasmuch as this particular business downturn began with a slacking off of retail buying, the department store sales performance up to the present time cannot be considered a bad showing.

A Definite Business Recession

Thus, at the present time we have a definite business recession, which is about eight or nine months old, which has been characterized by a drop of 10% in production, a drop of not quite 8% in the general wholesale price level, a drop in the cost of living of about 2.7%, and a drop in retail sales of about 3%. At the same time, consumer income, though declining, is still running above the same period in 1948; and at least one other important index, namely, the electric power output, is likewise still ahead of 1948. Also it is a fair statement that the present volume of unemployment, slightly more than three million, is probably not far from what must be considered a normal rate of unemployment in an economy of the size and scope of ours today. Thus the cloudiness of the economic horizon is not yet so much a matter of economic magnitudes as it is of direction of movement; but it is unmistakable that for the past three weeks the recession has been deepening and accelerating.

The causes of this business recession are not exactly a mystery. There are basic reasons why the business indexes are headed down. The typical business cycle situation is one in which the rate of business activity gets going at a faster clip than can be maintained. Why should such a situation develop? Fundamentally the disequilibrium arises from two sources: inventory replacement and capital expansion. Particularly after the war years of the 1940s and the attendant disruption of normal production and purchase of goods it was inevitable that inventories had to be built up again, not only business inventories but consumer inventories. It was also inevitable that after the wear and tear on capital equipment during the war period, and after the years of capital starvation in the 1930s, much replacement of plant and equipment would have to be made, to say nothing of the expansion necessary to take care of the enlarging population with its war-enhanced purchasing power. This building up inventories and new plant and equipment gave us a great postwar business boom; and, as is almost inevitable, the ball got rolling at a faster pace than could be maintained. The business pipelines got pretty well filled up, and at about the same time consumer inventories became reasonably well replenished. Therefore the pressure to buy slackened, and consumers particularly began looking critically at price tickets. Although economists, notably my colleague Professor Joseph L. Snider at the Harvard Business School, had correctly interpreted the signs, particularly the price indications, at a somewhat earlier date, the first general intimation that the boom was over came with the drop in department store sales last November. At the time there was considerable opinion that what we were witnessing was simply a return (1) to normal seasonal buying habits and (2) to a more normal relationship between consumer income and retail sales. As recently as four or five months ago many economists were still taking that view. There was, however, one serious weakness in that interpretation. It failed to take into account sufficiently the dynamic character of business movements. The mistake which logical minded people not infrequently make is to forget that economic changes are dynamic, that they have momentum. When particular business or consumer behavior departs from a line of trend that has come to be considered normal it acquires momentum which carries it farther than the initiating forces logically justify. In the same way, when this behavior begins to move back toward the normal relationship, it doesn't stop there but swings over on the opposite side. To illustrate specifically, when consumer buying during the war years fell below a normal relationship to consumer income, it was natural in the postwar period that consumer buying should swing substantially above the normal line of relationship to consumer income; and it was equally inevitable that when the opposite swing took place consumer buying would not merely return to the line of normal relationship but would drop below it. That is what began to happen last November. Incidentally these factors help to explain why economists who set forth highly convincing reasons based on logical analysis of causes with respect to the points where business depressions or business booms will probably halt are not infrequently confounded by the events.

A Review of Conditions

Now, following the pattern of the talk which I made to the NRDGA in New York last January, I should like to review briefly some of the basic sectors of the economy and try to appraise the outlook in each of them. These basic sectors comprise money and banking, business spending, residential building, consumer spending, exports, and government expenditure and taxation. In addition, I want to comment briefly on the labor situation and on the behavior of prices, particularly agricultural prices and other basic material prices.

Money and banking—In money, banking, and credit conditions no great change is to be looked for during the remainder of this year. Bank loans are now about 10.5% below their December peak and will probably continue to decline. Nevertheless no very serious effect is to be anticipated on the total money supply as a result of the decline in bank loans, because the present money supply has been built up largely by means of the wartime financing through sale of government bonds, in contrast to the situation in 1920, when the money supply had been built up more especially through the expansion of bank loans. It is probable that Regulation W will be out of the picture after the middle of the year; but it is unlikely that this change will have any marked effect. The long-run money and credit situation as a result of present government policies undoubtedly remains inflationary in its implications. But for the shorter period mild deflationary conditions will continue to affect the money supply.

Business spending — Probably the most significant factor in the outlook for business spending is that in 1949 there is no increase taking place in inventories. On the contrary, inventories are being drawn down. When this difference is carried back to the production stage, it means a drop of several billion dollars in manufacturing output. Expenditures for business plant and equipment, which have been a very significant factor in the last three boom years, are tapering off. The new orders of manufacturers of industrial goods are declining. We may look for a considerable drop in this kind of spending in the third and fourth quarters of this year. As compared with producers' durable equipment expenditures of approximately $20 billion in 1948, the outlook is for a drop of perhaps $4 or $5 billion this year.

Residential building—The number of building starts has been declining for nearly a year. Total construction statistics look good only because of the greatly enlarged government expenditure in this area. Private construction of housing amounted to $440 million in April against $550 million in April, 1948. As is not unusual in these situations, it is probable that the size of the housing shortage has been overestimated. Resistance to high prices continues, there was less spring pickup than expected, and therefore estimates of private residential construction for the remainder of the year have to be revised downward, probably by at least 15% below 1948.

Consumer Spending Crucial

Consumer spending—In the area of consumer spending the fact that unit sales have thus far held up well is cause for congratulation and evidence that the pricing and promotional policies of retail stores have been aimed in the right direction. The underlying factor undoubtedly is the state of consumer inventories. These have probably reached a position which might be described as being still below a desired level though high enough so that consumers can be pretty choosy about quality and prices. For some months past the automobile business has constituted perhaps the sole exception to this generalization (automobile dealers' sales were reported up 10% in April), but that picture is changing quite rapidly; and you all doubtless noted Mr. Sloan's frank statement the other day that a buyers' market in automobiles would be in full sway this fall. A recent survey by Macfadden Publications, Inc., reports that among wage earner families 60% have held off buying some major item of durable equipment because they feel that prices are too high and will come down.[1] Willingness to spend thus is still the crux of the consumer spending picture; but as the recession continues and as it deepens, there is danger not only that buying psychology will be affected by greater apprehension about job security but also that increased unemployment and shorter work hours will cut more heavily into the flow of personal income. Some further decline in agricultural income appears inevitable; and if a considerable drop materializes in business spending in the third and fourth quarters, consumer income will undoubtedly fall off appreciably. Since consumer spending is such a large total in the entire economic picture (approximately $178 billion for personal consumption of goods and services in 1948), even a small percentage decline can have serious repercussions.

Exports—It does not seem likely that changes in the net balance of exports will have any large effects in 1949. The expectation earlier in the year was for some increase in exports, but two factors may limit the amount of such increase: First, the present let down of business seems to be affecting most of the countries with whom we trade, and therefore will tend to curtail their purchases from us; and, second, Congress shows a disposition to appropriate less than was expected for European aid and rearmament (in this we are probably playing Russia's game, because to induce such an attitude on the part of Congress no doubt was one of the purposes behind the recent conciliatory gestures).

Government spending and taxing — Government expenditures, both state and Federal, will be larger by several billion dollars this year than last year. Naturally this expenditure, whatever else you may think about it, is a supporting element in the current business situation. Other than this, no very large economic effects apparently will emerge from government activities during the year. It now seems rather unlikely that any new taxes will be imposed, and it is equally unlikely that any of the present taxes which have a deterring effect on business, such as the wartime excises, will be repealed. As already remarked, now that the cold war is getting somewhat colder there is a disposition for the time being to cut down on European aid and rearmament, partly, no doubt, with an eye to the use of these funds on relief and make-work expenditures if and when unemployment reaches up to 4 or 4½ million. Such domestic expenditures would be in the nature of pump-priming, and it must be stated bluntly that the experience of the 1930s does not indicate that pump-priming is a good way to restore equilibrium in a business depression. For the time being, the safest prediction is that government spending activities in 1949 will not be sufficient to balance the decline in the private sectors of the economy. For the fiscal year 1950 it is evident that the budget will be unbalanced by anywhere from $3 to $6 billion; and for the long run, of course, the government spending and taxing program is definitely inflationary in its implications.

Labor demands — Labor difficulties are more threatening than appeared to be the case a few months ago. Both strikes and fourth-round wage increases at the present economic juncture will have a deflationary effect. Strikes will reduce purchasing power without having sufficient effect on total output seriously to alter supply and demand relationships; and wage increases will also reduce total purchasing power ultimately (even though they may seem to benefit the immediate recipients) because in the present state of business they will price people out of jobs. Serious labor difficulties during the remainder of 1949 therefore could well have the effect of accelerating the recession. It is too soon to hazard any opinion as to whether labor leaders when they sit down around the bargaining table will show more restraint than is indicated by their published utterances.

Prices—Agricultural prices led the decline, and after the recent period of hesitation they may be expected to drop somewhat further. Crop prospects are excellent, and a larger wheat crop than can be handled is already coming into the market. It is probable that the present 90% level of agricultural price support will be continued instead of the lower level provided under the legislation supposed to take effect in 1950. Nevertheless we have already seen that in the absence of adequate storage facilities government price supports do not necessarily constitute effective floors. It is significant that for commodities bought and sold on futures markets futures prices tend generally to be lower than spot prices.

Last to join the downward procession of prices were the metals, with recent sharp drops of the nonferrous metals, copper 23½ cents to 17½ cents, lead from 21½ cents to 12 cents, and zinc from 17½ cents to 9½ cents. Of even greater magnitude, though spread over a longer period of time, is the drop in the price of iron and steel scrap, down some 50% since last November. The Bureau of Labor Statistics price index of industrial commodities, including both metals and other raw materials, has dropped 25% since the first of January. It does not require any great prognostic ability to point out that such declines in basic material prices mean that a further drop in the general commodity price index is in prospect. Obviously high labor costs will prevent the price decline of raw materials from being carried over into finished product prices at anything like the same ratio. Nevertheless some further drop in the price of finished goods is certain, and that is a factor to keep in mind in the management of inventories.

A Business Forecast

This quick survey of the several important segments of the eco-

[1] "*The Wage Earner Forum*," Vol. 6, No. 3, June 1, 1949, p. 1.

nomic horizon leads me to make the following estimate of the general business outlook:

(1) We are perhaps somewhere between one-third to one-half the way down the slope of business readjustment.

(2) The business trend will not turn around this year, first because too many basic changes have occured to permit a quick reversal, and second because it will take time for business to readjust its costs, particularly because of the rigid character which those costs have assumed in recent years.

(3) Production as measured by the Federal Reserve Index, now presumably around 175, is likely to go down to the area of 150 to 155 before the bottom is reached.

(4) The general commodity price index, now about 156, is likely to go down to the area of 140 to 145 before reversing itself. The cost of living, of course, will decline to a lesser extent.

If these guesses, and they are only guesses, should turn out to encompass accurately the magnitude of this business recession, it would not be a too severe one. The declines which I have estimated are on the order of 15% to 20%, a less severe setback than that experienced in 1921 or again in 1937, and of course far less severe than the great depression of the early 1930s. The reasons for anticipating a no more severe decline are the support factors which have often been enumerated: lack of vulnerability in the debt structure; absence of large-scale speculation during the rise; the larger role played by government in the total expenditure of the economy; the extent to which income has been "socialized" through Social Security measures and other devices calculated to make income less responsive to fluctuations in production; government price support policies; soundness of the banking structure; and perhaps most important, the still unsatisfied long-run demand both for consumer durable goods and for capital goods, and the substantial accumulation of savings applicable to the purchase of such goods.

Department Store Situations

Now to come down specifically to the department store situation, dollar sales for the spring season are apparently going to be below 1948 by about 4% or 5%. Unit volume, as measured by number of transactions, is likely to be approximately even or possibly a little ahead of last year. (Parenthetically it may be remarked that just keeping even on physical volume is not enough, since to keep pace with the rising population and the increasing size of the workforce it is necessary for the country to produce and distribute a substantially increased volume of goods and services each year.) For the fall season of 1949 as prices continue to decline dollar sales may well be off from 8% to 10% as compared with 1948. Any larger declines, indicating a falling off in physical volume, if long continued will indicate that the business dislocation is becoming more severe.

Well-managed stores should be able to keep the gross margin percentage reasonably well under control. Markdowns will probably increase, but the market offers opportunities to improve initial markup while still giving good values to customers. In the light of the historical trends of recent years, as Professor Burnham has delineated them for you, the present gross margin rate is certainly not high; and with present expense tendencies this gross margin certainly is not going to yield much than an uncomfortably thin layer of profits for quite a number of stores.

The expense problem continues to be paramount. Stores are struggling with the high break-even points which many of us began to foresee three or four years ago. The need of maintaining and even increasing unit sales volume, which is a very real need in the light of the total economic situation, does not of course make the problem of expense reduction any easier. On the contrary, it makes it more difficult, because to lower the expense rate under these circumstances calls for development of real efficiencies and not merely the laying off of personnel.

In these circumstances the watchwords which we developed at the NRDGA meeting in January are still good. Let me reiterate them: **"Push merchandise values," "watch those stocks,"** and **"fight that expense."** In general terms, those are still your objectives. On each of them, however, let me offer one or two additional words of comment.

The importance of pushing merchandise values is seen in the results so far this year. Without the pricing and promotional policies that have been followed by a majority of stores, the outcome could have been much worse. Toward this same objective it is now necessary for retailers to work closely with manufacturers in getting production costs down. (Incidentally, here is a kind of endeavor in which the big chains and mail-order companies do a much better job than does the average department store.) It is essential, of course in a business readjustment period to clean out inventories, particularly in the situations where they have become top-heavy, and this applies equally to retailers', wholesalers', and manufacturers' inventories of finished goods. But if your pushing of merchandise values stops at this point, it does not go far enough to do any real good in restoring economic balance. New values must be developed, better goods at lower costs; and it is up to retailers to work as closely as possible with their manufacturer resources in the development of such new values.

"Watch Those Stocks"

The admonition to "watch those stocks" has probably been superfluous for a number of months so far as top managment is concerned. It is still questionable, however, whether the rank and file of the merchandising and buying staffs have as yet fully learned how to operate in a buyers' market, that being a new experience for many of them. Not infrequently in such a situation people once they get an idea may carry it too far. You are in business to sell goods. You have got to have those goods there for your customers. You want smaller stocks, but you have got to find out how to make those smaller stocks complete stocks. Blind slashing of stock limits and open-to-buys won't get you anywhere. To be sure, the price level is falling, and you are going to have to continue to take markdowns for a considerable number of months; but you had better reconcile yourself to that, and you had better have the stocks to meet customer demands. So don't try to cut it too fine. If you do, you won't do yourselves any good and you won't help the healthy readjustment of the wholesale markets.

When it comes to "fighting that expense," as Professor Burnham has already indicated to you, it is unwise to make blind and panicky expense cuts. You must distinguish sharply between the weeds and underbrush on the one hand and the roots of the tree on the other. There are plenty of weeds and underbrush, but be sure what your axe is hitting. When we were preparing the department store report this year we noted that for a substantial group of stores total expense in dollars and cents per sales transaction had increased from approximately 75 cents in 1944 to approximately $1.25 in 1948. We wondered how much of that 50-cent average advance in the cost per selling transaction between 1944 and 1948 was attributable to price rises. Therefore we applied various price indexes to the figures and discovered that in this 50-cent increase there was an amount of between 16 cents and 18 cents that could not be accounted for by the element of price change. Part of this increased amount was undoubtedly quite proper and legitimate. It represented such things as restoration of services after the curtailments of the war period and reductions in hours and increases in wages necessary to bring department stores more nearly into line with conditions in the general labor market. But this was not the whole story. In part this increase also represented failure to step up productivity to match the increases in wages and reduction in hours, laxity in expense control, and just plain accumulation of fat during recent years. When I happened to mention this comparison to Dean David, who as you know is one of the directors of Macy's, he remarked "Yes, that is some of the **fluff** that came in during the days when stores didn't have to sell and merchandisers and buyers didn't have to buy."

In any economy moves you should distinguish sharply between expenses and capital outlays. If you have projected certain improvements or expansions of facilities you have presumably done so on a long-run basis. They were planned for the general growth and improvement of your business and not undertaken simply in response to cyclical fluctuations. Therefore I say to you most emphatically that under those circumstances you should not at the present time refrain from making these scheduled capital improvements. If, taking an adequately long-run view, these improvements and expansion plans were sound in 1948, they are equally sound today. The country is not going to hell. So don't pull your neck in on any well-conceived expansion program.

This concludes the economic weather forecast, but in closing I cannot refrain from remarking to you that these problems of business readjustment with which you are now so immediately concerned are in my opinion not the most important problems which you have. More serious, I believe, are those problems connected with the long-run competitive position of department stores in the distribution of consumer goods. You had it pretty easy during the war-inflated years, and you had it pretty good. Today competition is back again, the consumer is watching his dollar more closely, and you aren't the only people who are in the running for the consumer's dollar. You have some tough competitors outside the department store field, competitors who were gaining on you rapidly in the 1930s, competitors who have increasingly traded up into your field with their items, their price lines, their quality, and their assortments, competitors who are in many instances bigger than you are, competitors who have lower costs than you do, competitors who are just as smart as you are, competitors who are less hidebound by tradition than you are, competitors who are in many instances more alert than you are to the industrial revolution that is now really beginning to take hold in the field of merchandise distribution. But all that is another story. You will find a few hints of it in the Harvard Report for 1948.

Bank and Insurance Stocks

By **H. E. JOHNSON**

This Week—Bank Stocks

As the end of another quarter nears, bank stock investors look with unusual interest to the forthcoming statements of condition and operating earnings.

During the past few months there have been several factors which have influenced bank operations significantly. Of particular importance has been the sharp run-off of loans. In sympathy with the decline in the level of general business, loan volume has experienced one of the sharpest declines in history.

The cautious attitude of businessmen has been reflected in reduced inventories and commitments. Borrowings for such purposes have been liquidated. In some cases loans for capital expansion have been reduced or paid off.

This trend, however, is believed to be largely completed. Inventories are low in relation to the percent level of business and retail trade should begin building up stocks and commitments of merchandise for sale during the fall and Christmas seasons.

Another factor, and one which has favored the volume of earning assets during the quarter, has been the lowering of reserve requirements by the Federal Reserve Board. As the decline in business has continued, the Federal has attempted to cushion the trend by supplying the banks with additional loanable funds. Because of the trend of loan volume, these funds have been invested primarily in government securities. As the pressure of funds has been rather insistent, the Federal Reserve has had to supply the market with suitable securities in order to prevent the decline in yields from moving materially lower.

Thus the above factors should show up in the statements of condition in the form of a lower volume of loans outstanding as compared with the end of the first quarter and a larger amount of government securities.

Even though this may result in some decrease in yields because of the lower return on securities as compared to loans, earnings for the quarter are not expected to be materially below those of a year ago. The upward adjustment in yields on government securities and loans which began over a year ago is beginning to be fully reflected in earnings and should help to offset the lower volume of loans. Then too, the lower reserve requirements should provide additional earning assets.

Although all New York City banks do not report operating earnings on a quarterly basis, those that do, provide a good indication of the trend. As a means of providing a comparison and to give a basis for estimating the results for the current quarter, a tabulation of the results for the first three months of 1949 and 1948 is shown below. The consolidated figures are for the 11 New York City banks that publish quarterly operating earnings.

CONSOLIDATED EARNINGS REPORT

(000s Omitted)

	First Quarter 1949	First Quarter 1948	Change Amount	Change Percent
Operating Income:				
Interest on Loans	$37,720	$30,769	$6,951	22.6
Interest, Divs. on Securities	29,454	34,030	—4,576	—13.5
Total Interest & Dividends	$37,174	$64,799	$2,375	3.7
Other Operating Income	20,254	19,840	414	2.1
Total	$87,428	$84,639	$2,789	3.3
Operating Expenses:				
Salaries and Wages	$28,680	$27,788	$892	3.2
Taxes and Assessments	16,006	14,010	1,996	14.3
Other expenses	18,334	17,710	624	3.5
Total	$63,020	$59,508	$3,512	5.9
Net Operating Earnings	$24,408	$25,131	—$723	—2.9

The substantial increase in the item of 'taxes and assessments" was the primary reason that operating earnings did not make a more favorable comparison with a year ago in the first quarter. This same factor could by being lower help to maintain earnings in the second quarter.

Most of the banks have been building up bad-debt reserves out of earnings. They have been allowed to do this on a tax-free basis and in many cases the tax saving has been added to the reserves. As the loan volume has declined, there would seem to be less immediate reason for adding aggressively to these reserves. This could be an important factor in maintaining the level of earnings.

Nevertheless, the trends indicate that banks will have to act aggressively to maximize and maintain the present level of earnings. The proportion of current earnings being paid out as dividends is conservative. In practically all instances, present rates are secure and should be maintained under presently foreseeable conditions.

Investment Securities Co.

INDIANAPOLIS, IND.—Investment Securities Company has been formed with offices at 427 W. 30th Street. Officers are C. Q. Mattocks, President and Treasurer; Amelia D. Mattocks Vice-President; and Anna L. Gunn, Secretary.

Richard E. Griffin Opens

LOS ANGELES, CALIF.—Richard E. Griffin is engaging in a securities business from offices at 5314 South Vermont Avenue.

L. H. Whitaker Opens

WASHINGTON, D. C.—Leonard H. Whitaker has opened offices in the Hill Building to engage in the securities business. He was formerly with Herrick, Waddell & Reed and in the past with Johnston, Lemon & Co.

Sumlinski in Kenmore

KENMORE, N. Y.—Joseph Sumlinski is engaging in the investment business from offices at 40 Stillwell Avenue.

Edwin Bulkley Dead

Edwin M. Bulkley, partner in Spencer Trask & Company since 1887, died at the age of 86.

As We See It

(Continued from first page)

On the same day, James F. Byrnes, former New Deal engineer on Capitol Hill and Secretary of State in the Cabinet of the man who now heads the even more drastic Fair Deal drive, had this to say:

"We are going down the road to statism. Where we will wind up no one can tell. But if some of the new programs seriously proposed should be adopted, there is danger that the individual — whether farmer, worker, manufacturer, lawyer, or doctor—will soon be an economic slave pulling an oar in the galley of the state. . . .

"Too many people are trying to transfer power to the government. . . . We are not only transferring too much power from the individual to the government, but we are transferring too many powers of state governments to the Federal Government.

"We should not have the Federal Government regimenting our lives from the cradle to the grave."

Adding that many elements in society are demanding special privileges — the farmer wants higher prices, the wage earner wants increased wages, pensions and hospitalization—and that too many people want more pay for less work, Mr. Byrnes insisted that "our first line of defense is a sound, solvent American economy," and that "the only wise course is to reduce expenditures and live within our income."

These two speakers were addressing different audiences at different places, and were concerned immediately and directly with different aspects or segments of the present situation, but their remarks may be taken as fairly representative of two divergent philosophies about the current state of affairs. The one is definitely saturated with basic economic fallacies long familiar among the economic crackpots but made popular (we had almost said a part of the folkways and mores of the times) by Franklin Roosevelt and his entourage of malcontents and revolutionaries; the other is surprisingly well based on centuries of experience and a wealth of common sense—surprisingly, that is, for one who for so long appeared to be rather closely identified with the New Deal.

Uncomfortable

The Administration in Washington must feel itself rather uncomfortably caught between these two conflicting views. Both politically and by reason of repeated expositions of its politico-economic creed, it could at this moment scarcely be regarded as other than on the side of Mr. Reuther —and we might say Mr. Murray, and all the rest who reason in the same manner. Indeed, only with some political difficulty could it avoid at least passive and indirect support of these labor leaders.

Yet it has taken responsibility — very direct and immediate responsibility—for the state of business in this country, and it can scarcely share the assurance that Mr. Reuther either feels or feigns that depression can be averted by the absurd prescriptions of the Murrays, the Reuthers and the Lewises. There is a fearful political hazard in placing the weight of its influence behind such nostrums at this time. Such, of course, are the political pitfalls and difficulties inherent in a philosophy which injects government into areas in which it has no place.

Basic Issues

But whatever the political aspects of the situation, the basic issues thus posed are probably destined to be more sharply focused for the American people in the months to come even than they are now. For some years past the effort has been repeatedly made to have higher wages, shorter hours of work, more subsidies for the farmer, greater "social security" for all—policies and programs that somehow appear peculiarly suitable for times of great business activity and production. We could afford them, so the argument ran. We had to find a way of being certain that the benefits of prosperity were widely diffused. We could not afford to permit "purchasing power" to decline by allowing businessmen to make large profits (as though businessmen were in the habit of burying their profits in the backyard), and much more of the same order of argument became familiar bywords throughout the length and breadth of the land.

The unions, with their members all well occupied at high wages, could afford to "take a chance" on striking if necessary for still more. They had little in sight to worry about. The time to "get theirs" was at hand. They could point to very large profits being enjoyed quite generally throughout industry and trade—large, probably, even when allowances for the shortcomings of conventional accounting were made—and build up a case of a sort for demanding higher wages without higher prices. When higher prices inevitably followed higher wages—well, they had their higher wages anyhow.

A Changed Situation

But the situation has markedly changed. Profits are fading. Indeed in some lines and in some heretofore quite profitable companies they have faded altogether. Sales have declined and are now declining at an accelerated rate. Workmen can not in nearly the same degree count on continuous employment. The economy begins to look pale. Higher taxes can scarcely be imposed without giving thought to the immediate effect upon the day-to-day operations of all types of business. Most of the old arguments in support of higher and ever higher wages, shorter working hours, profligate expenditures upon all sorts of strange programs and whims have or are rapidly becoming quite obviously untenable.

If the New Deal-like notions of the day are to be successfuly defended in these conditions, they must be made to appear appropriate for stimulating business. Such a transformation of current political argument is, accordingly, to be expected. Indeed, it is beginning to appear.

IT IS FOR THAT REASON THAT THE EMINENTLY SENSIBLE WORDS OF MR. BYRNES OUGHT TO SERVE SO USEFUL A PURPOSE AT THIS MOMENT.

International Treaties For Women's Rights

(Continued from page 17)

Conference did not recommend the adoption of their proposal but, upon their suggestion, it did pass unanimously a resolution creating the Inter-American Commission of Women having on it a woman of each of the 21 Republics, and it empowered this Commission to report recommendations to improve the status of women to the next Pan American Conference to be held in 1933, so that the Seventh Conference would be able to take up the consideration of the civil and political equality of women. Again, this was the first time in the history of international procedure that women were welcomed as authorities on their own status.

At the Seventh Conference held in Montevideo in 1933 the Inter-American Commission of Women recommended the adoption of two treaties: (1) That the American Republics would accord to men and women in their respective jurisdictions equal civil and political rights (the same proposal made at Havana). (2) That the Republics of the Western World would abolish inequality in their law and practice in the matter of nationality.

This time the women achieved a great victory. The impossible was accomplished!

The Conference adopted the Nationality Treaty without a negative vote on the part of any Republic. And four Republics—Uruguay, Paraguay, Ecuador and Cuba — signed the Equal Rights Treaty. Thus the Seventh of the Conferences of American States made its place in history because it freed women from the shackles of precedent, an action which marked the beginning of the end of inequality between men and women in international law.

The Nationality Treaty was not only the first great step toward equality by the whole of the Western World; it was the first treaty in all history to raise the position of women. This treaty was ratified by the United States in May, 1934.

At the Eighth Conference held in Lima, Peru in 1938, no further extension of equal rights took place, although the women present worked indefatigably for the adoption of the equal rights treaty.

In the meantime the Equal Rights Treaty proposed at Havana and the Nationality Treaty adopted at Montevideo were laid before the League of Nations at every session beginning with that of 1930, and finally in 1936 these subjects were put on the agenda. It was this incessant work by a group of women from countries all over the world which accomplished the victory at Montevideo. This group, Equal Rights International, organized at Geneva for the sole purpose of working for Equal Rights, merged with the World Woman's Party in 1941.

This brings us up to the present time and the Ninth Conference held at Bogota which did adopt the Treaty in substantially the same form as it was proposed by the National Woman's Party 20 years before, in 1928, in Havana, the only difference being that it was divided into two parts.

When the women interested in raising the status of women examined the roster of delegates to the Bogota Conference and they learned that only four Governments had sent women delegates. These four countries were the Dominican Republic, Mexico, Uruguay and the Argentine. The women of Colombia had sent a manifesto to President Perez of Colombia, asking him to appoint their gifted member of the Inter-American Commission of Women, Senaro de Aye, as a delegate. But he refused their request, pointing out that the United States had no woman delegate.

The four women delegates were: Senorita Minerva Bernardino, Chairman of the Inter-American Commission of the Dominican Republic; Senora Amalia Castello Ledon, of Mexico; Senora de Ivanisevich, of Argentine, and Senora Blanca Mieres de Botto, a noted lawyer of Uruguay, who was made Chairman of the Fifth Commission which would direct the fate of the Equal Rights Treaty. These women were four valiant spirits; their constant vigilance kept the equal rights campaign on an upward swing until they achieved triumph on the last day of the Conference. Supported by the World Woman's Party they accomplished a great victory for women, particularly those who had battled for this treaty for 20 years.

In the beginning of the Conference the pace was leisurely and festive; the first week, for instance, was spent in the orientation of the real work of the various committees. But later, when the civil uprising took place in the city, the work was rushed and it was a miracle that the women accomplished their victory. Finally, on April 23, the Fifth Commission approved two treaties on the rights of women and on April 29 the plenary session of the Conference added its approval.

The first treaty reads: "The high contracting parties agree that the right to vote and to hold national office shall not be denied or restricted on account of sex." The second reads: "The American States agree to grant to women the same civil rights which men enjoy."

In the beginning the delegation from Uruguay proposed one treaty on the rights of women covering both political and civil rights. Whereupon the United States delegation offered an amendment that the Equal Rights Treaty be limited to political rights of women. Its wording was:

"The delegation of the United States of America is extremely happy to declare its affirmation of the general principle that women and men should enjoy equal political and civil rights, especially as this principle has been so brilliantly and ably outlined by the eminent delegate from the Oriental Republic of Uruguay. My Government has, particularly within the comparatively recent past, made considerable progress in the promotion of such equality of rights. However, under our constitutional system, the rights of the national government are strictly separate from that of the 48 States. A constitutional amendment was required in order to extend to women equal political rights with respect to voting, and that amendment is limited to the subject of voting. This action was required because under our constitutional system voting qualifications had been controlled previously by the separate States. With regard to civil rights, insofar as this term can be regarded as having a precise meaning, almost all of them, including those dealing with the right to hold property, domicile, inheritance, guardianship and the like, are controlled in the United States by State rather than Federal law. Because of this situation the United States can at this time support an inter-American convention which includes only the right to vote and to hold national office. We therefore propose the following amendment to the Uruguayan project:

"Article I. The high contracting parties agree that the right to vote and to be elected to national office shall not be denied or abridged because of sex.

"In making this proposal for amendment, however, the United States delegation is mindful of the fact that in numerous countries of this hemisphere the equal right to vote has not yet been gained and we believe that the realization in many countries of this basic and essential first step would mark a significant advance toward the achievement of the equality of civil and other political rights between men and women. We realize further, as a practical matter, the achievement of other and more far-reaching rights for women depends upon their gaining the right of suffrage. Our purpose is to place primary objectives first. Once the right of women to vote and hold office has been gained, however, vast strides can be made toward further significant improvement in the status of women in our countries." *(Official text, given out by the U. S. State Dept.)*

The Fifth Commission accepted the proposal of the United States. The Uruguayan delegation then proposed an additional treaty dealing with the civil rights of women. The Fifth Commission accepted this also. These two treaties, one on the political rights of women, the other on the civil rights of women, and adopted at the last plenary session of the Conference, were signed on May 2. Both treaties remain open indefinitely for signature by the countries that did not sign at the time of the Conference.

Thus the Conferences of the American Republics have established equality of rights for the women of the Western Hemisphere. The final accomplishment of equal rights treaties at Bogota have given to women all the rights for which they have striven for the last 100 years.

The program of equal rights which our pioneer women drew up on July 19, 1848 at Seneca Falls, New York, has been adopted by the Conferences of American Republics. Within a few weeks less than 100 years after the Declaration of Sentiments was adopted at Seneca Falls, the program has been carried through to its completion except for the ratification stage, which must be completed within the countries themselves and for the adherence to the treaties which must be given by the countries which did not sign at Bogota.

American women, working in the World Woman's Party, now go forward to raise the status of women throughout the world by laying before the United Nations the equal rights treaties adopted by the Conferences of the American Republics.

Halsey, Stuart Group Offers Public Service of New Hampshire Bonds

Halsey, Stuart & Co. Inc. offered publicly June 22 $4,000,000 Public Service Co. of New Hampshire first mortgage bonds, series E 3% due June 1, 1979 at 100.59% and accrued interest. The firm was awarded the bonds at competitive sale on a bid of 100.155.

Of the proceeds, $1,800 000 will be deposited initially with the trustee under the indenture and will be withdrawn from time to time pursuant to the provisions thereof upon certification to the trustee of additional property. A sum of $2,200,000 of the proceeds will immediately be applied to reduce the company's short-term bank borrowings and the balance will be used for other corporate purchases. It is anticipated that the $1,800,000 to be deposited initially with the trustee will be withdrawn by Oct. 31, 1949, and will similarly be applied to reduce short-term bank borrowings.

The new bonds will be redeemable at general prices scaled from 103.59% to 100% and at sinking fund redemption prices ranging from 100.59% to 100%.

In carrying on its electric business, which accounts for approximately 91% of total revenues, the company engages in the generation of electric energy and its transmission, distribution and sale to about 117,100 domestic, commercial, industrial, agricultural and municipal customers in the cities of Manchester, Nashua, Berlin, Dover, Keene, Laconia, Rochester, Franklin and Somersworth and in 153 towns, all in New Hampshire and having an aggregate population based on the 1940 census of about 360,000. It also serves a small number of customers in Vermont, Maine and the Province of Quebec, Canada.

The State of Trade and Industry

(Continued from page 5)

the fact that a lot of steel users will shut down for summer vacations. Last summer steel buyers kept their receiving departments open to take in scarce steel shipments, but not desiring any during this summer's shutdowns, July shipments will show a noticeable seasonal decline.

Steel users are still paring down their steel inventories and with business in this field off somewhat from a year ago except for automobiles, it is estimated that actual orders for things made from steel today would support less than the current operating rate. Some firms, however, have cut back inventories to a point less than operations—but this is not the general rule this week, "The Iron Age" points out.

A question that keeps popping up often these days in steel circles is the difference between the operating rates of large and small steel companies. To those who have been in the business since 1937 this isn't new. There are at least three reasons why smaller firms are running at much lower rates than their big competitors, and the order of their importance is: (1) Product mix; (2) location, and (3) customer relationships.

If a big steel company made nothing but bars, wire, alloy and stainless steel it might not today be able to push its operations above the 50% mark. But where the decline in these products can be offset by flat-rolled and by pipe and tubing business, that company can operate at a much higher level. And no matter what the product, if a mill is too far from a good part of its market and can't absorb freight its production is suffering. The Pittsburgh-Youngstown ingot operating rates compared with that at Chicago, concludes this trade authority, prove this point.

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 84.4% of capacity for the week beginning June 20, 1949, as against 86.7% in the preceding week, or a decline of 2.7%.

This week's operating rate is equivalent to 1,550,900 tons of steel ingots and castings for the entire industry, compared to 1,598,300 tons a week ago, 1,734,700 tons, or 94.1% a month ago, and 1,734,700 tons, or 96.2% of the old capacity one year ago and 1,281,210 tons for the average week in 1940, highest prewar year.

CARLOADINGS IN LATEST WEEK RISE 15.6%

Loadings of revenue freight for the week ended June 11, 1949 total 808,156 cars, according to the Association of American Railroads. This was an increase of 109,332 cars, or 15.6% above the preceding week which included the Decoration Day holiday. It, however, represented a decrease of 98,507 cars, or 10.9% below the corresponding week in 1948, and a decrease of 87,136 cars, or 9.7% below the similar period in 1947.

ELECTRIC OUTPUT ADVANCES FURTHER IN PAST WEEK DUE MAINLY TO INCREASE IN AIR-CONDITIONING, REFRIGERATION AND PUMPING OPERATIONS OCCASIONED BY HOT WEATHER IN THE ROCKY MOUNTAIN AND PACIFIC COAST AREAS

The amount of electrical energy distributed by the electric light and power industry for the week ended June 18, was estimated at 5,372,600,000 kwh., according to the Edison Electric Institute. This represented an increase of 72,509,000 kwh. above output in the preceding week, 213,345,000 kwh. or 4.1% higher than the figure reported for the week ended June 19, 1948, and 695,700,000 kwh. in excess of the output reported for the corresponding period two years ago.

AUTO OUTPUT LAST WEEK HITS BEST LEVEL SINCE 1937

Production of cars and trucks in the United States and Canada the past week advanced to an estimated 144,973 units compared to 137,013 (revised) units in the preceding week, "Ward's Automotive Reports" states.

Approximately 6,000 units were lost this week at Packard and Chrysler's Plymouth division because of the truck drivers' strike at Briggs Manufacturing Co., "Ward's" estimated.

The total compares with 109,259 units a year ago and 133,565 units in the like week of 1941.

Last week's output consisted of 114,174 cars and 23,584 trucks built in the United States and 4,676 cars and 2,539 trucks in Canada.

BUSINESS FAILURES HIGHER IN LATEST WEEK

Commercial and industrial failures rose to 196 in the week ended June 16 from 174 in the preceding week, Dun & Bradstreet, Inc. reports. Almost twice as many casualties occurred as in the comparable week of 1948 and nearly three times as many as in 1947 when they numbered 100 and 66 respectively. Despite this increase, failures remained noticeably below the prewar total of 249 in the similar week of 1939.

Casualties involving liabilities of $5,000 or more rose to 155 from 143 and exceeded the 77 of this size which occurred a year ago. Small failures, those with liabilities under $5,000, totaled 41 as against 31 in the previous week and 23 in the corresponding week of 1948.

Retail failures climbed to 90 from 78, reaching a total more than twice that of a year ago when 37 were reported. In manufacturing, casualties remained at 49, while construction and commercial service increased moderately to 19 and 18 respectively. The only decline appeared in wholesaling where casualties dipped to 20 from 23.

FOOD PRICE INDEX CLOSE TO YEAR'S LOW IN LATEST WEEK

The wholesale food price index, compiled by Dun & Bradstreet, Inc., continued lower this week. A drop of 0.9% brought the June 14 figure to $5.68, from $5.73 a week previous. The current index is only slightly above the year's low of $5.66 recorded on Feb. 8 and May 17, and compares with $7.18 on the corresponding date a year ago, or a decline of 20.9%.

Index represents the sum total of the price per pound of 31 foods in general use.

COMMODITY PRICE MOVEMENTS SHOW IRREGULAR CHANGES IN LATEST WEEK

After holding steady most of the week, the daily wholesale commodity price index, compiled by Dun & Bradstreet, Inc., turned downward to close at 242.50 on June 14. This compared with 242.52 a week previous, and with 288.82 on the like date a year ago.

Grain markets were generally firm during the week. Trading in wheat was brisk and prices moved higher, aided by reports of unfavorable harvest weather in the Southwest and the announcement that the government would grant loans to farmers for wheat stored on the ground.

Other grains moved upward, influenced by the rise in wheat. Flour prices rose slightly and domestic bookings increased moderately but most users continued to cover only for nearby requirements.

Cocoa values tended to sag, reflecting continued cautious buying by manufacturers and reports of slow candy sales. Demand for coffee was active at the week-end with prices buoyed by the continued favorable statistical position.

Following a six-week period of rising prices, all classes of livestock receded sharply, as the result of a lower trend in wholesale meat prices.

Although activity in domestic cotton markets slackened during the past week, prices developed considerable strength during the period. New York spot prices showed a net advance of 35 points during the week.

The firmness in the market was attributed to the relative strength shown in the nearby July delivery, some price-fixing against export sales and the fact that distant contracts are selling below the prospective 1949 loan level.

Inquiries for cotton were limited and mills continued to cover only for their immediate requirements. Export sales in the Southwest were reported fairly active. Total sales in the ten spot markets fell to 55,500 bales last week, from 66,300 the week before.

Repayments on 1948 loan crop cotton rose to 96,800 bales during the week ended June 2. This was the largest weekly volume so far this season and compares with a weekly average during May of 85,000 bales.

Nonferrous metal markets were featured by renewed weakness in copper and zinc.

The latter was marked down another 1¼ cent per pound to 9½ cents, or a total drop of 8 cents from its postwar peak of 17½ cents in effect until March 23.

Demand for zinc remained slow; shipments during the month of May fell to the lowest level since May, 1938, while smelters stock rose to the highest points since October, 1947.

RETAIL AND WHOLESALE TRADE IN PAST WEEK SHOWS FURTHER MODERATE DECLINE BELOW CORRESPONDING PERIOD IN 1948

Aggressive promotional sales by many retailers gave a slight impetus to retail dollar volume in the period ended on Wednesday of last week. It was, however, very moderately below the high level of the similar week a year ago, according to Dun & Bradstreet, Inc., in its current review of trade. Promotional efforts for Father's Day were more widespread than in previous years. Most shoppers continued to be very discerning, but the consumer demand for moderately priced goods remained very strong.

Interest in Summer apparel rose slightly as temperatures climbed in many areas.

Promotions of women's lightweight cotton and rayon dresses, sportswear and beachwear attracted increased attention. The demand for cotton lingeries and Summer millinery rose slightly. Haberdashery was in increased demand for Father's Day gifts. The interest in men's slacks remained substantial. Reduced-price jewelery promotions evoked moderate response.

Housewives bought slightly less food than in the preceding week, resulting in total dollar volume being fractionally below that of the corresponding week in 1948.

Following price rises in some sections, the demand for meat dipped slightly.

The interest in cold cuts, poultry and dairy foods remained large. The retail volume of fresh and frozen vegetables continued to be sizable. The demand for candy and ice cream rose slightly.

Consumer buying of furniture and housewares increased moderately last week. The retail volume of incidental pieces, bedding and decorating materials rose moderately. There was a moderate rise in the demand for linens, cutlery, china and kitchenware. The interest in television remained high. Phonograph records at substantially reduced prices attracted favorable attention. Sporting goods suitable as gifts were in increased demand.

Retail volume for the country in the period ended on Wednesday of last week was estimated to be from 2 to 6% under that of a year ago.

Regional estimates varied from the corresponding levels of a year ago by the following percentages: New England and East unchanged to down 4, South, Southwest and Pacific Coast down 3 to down 7, Midwest down 2 to down 6 and Northwest down 4 to down 8.

There was a slight dip in the total dollar volume of wholesale orders both for the past week and the corresponding period in 1948. The number of buyers attending many wholesale markets rose moderately and slightly surpassed the level of the similar week last year. Many buyers at market exhibitions were cautious and were hesitant in placing commitments.

Department store sales on a country-wide basis, as taken from the Federal Reserve Board's index for the week ended June 11, 1949, decreased by 5% from the like period of last year and compared with a decrease of 8% (revised) in the preceding week. For the four weeks ended June 11, 1949, sales registered a decrease of 6% from the corresponding period a year ago, and for the year to date a like decline of 4%.

Retail trade in New York last week continued to decline notwithstanding Father's Day promotions. Department store volume in the period slumped by 11%.

According to the Federal Reserve Board's index, department store sales in New York City for the weekly period to June 11, 1949, declined by 7% from the same period last year. In the preceding week a decrease of 16% (revised) was registered below the similar week of 1948. For the four weeks ended June 11, 1949, a decrease of 10% was reported under that of last year for the year to date volume decreased 6%.

N. Y. Inv. Ass'n Will Sponsor Sales Course

As an added contribution to current efforts to improve business in the securities industry, an intensive course in investment salesmanship will be sponsored this fall by the Investment Association of New York, it was announced by Stanley A. Russell, Jr., of Blyth & Co., Inc., President of the Association.

The course will be under the direction of Kelso Sutton, a graduate of Harvard and the Harvard School of Business Administration and a specialist in sales training. Mr. Sutton, who has been retained on sales training assignments by a number of our leading corporations, is the author of the book, "The Technique of Selling," just published by McGraw-Hill.

The first half of the 20-week course will consist of 10 two-hour sessions conducted by Mr. Sutton and dealing with the principles and technique of salesmanship and their proper application to the securities business. The second part of the course will comprise 10 one-hour lectures by top sales executives from various industries in which these executives will outline how they and their salesmen get business.

In an announcement letter mailed widely throughout the securities industry Mr. Russell described the course as a productive effort to improve day to day selling methods in Wall Street. "This course," he said, "will concentrate on the basic principles of good salesmanship as applied to investment sales. It will be concerned with selling, rather than with the technical aspects of the security business. It will be pointed toward instructing all of us how to use our investment knowledge to build a greater business volume.

"We invite the salesmen of our industry to take this course. We think that it will be of great value to anyone in the sales end of our industry. In covering the whole field of salesmanship, it will sharpen the sales work of experienced men and afford for newer salesmen a broad presentation of fundamental principles from which they can pattern a successful selling technique of their own," the letter concludes.

The Investment Association in sponsoring the course is suggesting and urging that employers underwrite the cost of the course for members of their staff, particularly where trainee salesmen wish to enroll. The course is being offered for $45 per individual. Meetings will be held in the Board of Governors room of the New York Curb Exchange on Thursdays from 4 to 6 p.m. for the first half of the course and from 4:30 to 5:30 during the second part. The course opens Sept. 15.

The Investment Association was originally formed in 1947 as the Junior Investment Bankers & Brokers Association and currently has about 175 members from among the Wall Street houses.

Marcus Bros. to Be Formed in Chicago

CHICAGO, ILL.—Sol Marcus and Irving E. Marcus will form Marcus Bros. with offices at 141 West Jackson Boulevard as of July 1. The firm will be members of the Chicago Stock Exchange and New York Stock Exchange. Irving Marcus holds membership on the Chicago Exchange, and Sol Marcus will acquire the New York Stock Exchange membership of Arthur F. Lindley.

Craigmyle, Pinney Admit

Robert W. White will be admitted to limited partnership in Craigmyle, Pinney & Co., 1 Wall Street, New York City, members of the New York Stock Exchange, on June 30.

Concluding Comments by Dealers Relative to NASD and Its Policies

(Continued from page 3)

picture, "elected eleventh year." You'd think to read the NASD "News" that every broker in the United States was tickled to death with the organization, but all of us in the business know that there are at least ten against it for every one who likes it. "We were investigated once right after having signed a letter of protest regarding this organization."*

PORTLAND, MAINE

Although we have signed our name to the enclosure we would appreciate, at least for the time being, that you treat this confidentially. Like many of the small dealers in the United States we know that the "Commercial & Financial Chronicle" is the only friend we have in the publishing field where the small dealer or investor can publicize his views which are vital to the investment business in this country.

Recently the chief statistician of one of the Federal Reserve Banks of Boston, speaking to the Maine Investment Dealers, emphasized that we were missing the boat by not approaching and educating millions of potential investors such as farmers, laborers, etc., but when he was asked about the cost of this labor beyond the 5% he had no answer.

It is no secret or puzzle as to why there has been a steady reduction in the amount of available underwriting capital. The cause is simply that the powers-that-be will not allow the seven or eight thousand men who are left in this business an opportunity to earn something more than a bare living to say nothing about killing off the new young blood which is sadly lacking and so very essential.

Take a look at any gathering of brokers or dealers of about one hundred or more and I warrant you will not find 3% under 30 years of age. Why?—because there is absolutely no present or future for the young rookie unless he is subsidized by wealthy parents. Isn't that a hell of a condition for an industry to be in?

After years of experience in this business the following is a puzzle to me: The President of the New York Stock Exchange is traveling around the United States and Canada extolling the virtues of the New York Stock Exchange; heads of various large firms are quoted as saying, "the best securities in the world are listed on the New York Stock Exchange" (they should have said "some of the best"); millions of dollars are spent by this industry in tombstone advertising, millions of words are presented and paid for by our industry about preserving the system of free enterprise, the profit system, etc., but when a group of seven thousand trained and experienced men, plus proper advertising and new young men who can put all these ideas across are prohibited from doing so by the 5% rule, then I believe that is the answer to the puzzling $64 question. Incidentally, the 5% profit might be sufficient if it could be obtained on the majority of transactions, but that is impossible with the average small investment dealer.

A few facts about our territory—It takes a fairly good man (above average) to gross $5,000 profits for himself annually. Deduct from this two items alone, i.e., annual automobile depreciation and traveling expenses of $2,000, and he has left $3,000, or a weekly wage of $57.69. He can make more money than that driving a truck. During the past two or three years about twenty-five new young men, many of them sons of well-established dealers, have started in the investment business and to my knowledge only one or two are left. Also several other sons of dealers were discouraged from entering the business because they knew what the "old man" was up against.

May I take this opportunity to express my grateful appreciation to the "Chronicle" for presenting a condition which is greatly in need of reparation.*

NEW ORLEANS, LA.

I believe the New York Stock Exchange members should be allowed to give a part of their commission to a non-member dealer even more strongly than the NASD rule which prohibits the NASD man from allowing a discount to non-members of that body.

In general I wish to congratulate Mr. Seibert for his fearless campaign to unchain the securities business.

CINCINNATI, OHIO

I have followed with much interest, your poll on the NASD and its policies, and I do not agree with the conclusions that you have drawn from this so-called poll, for after all, only a minority of the members returned it to you.

I did not file a poll with you, for the reason that I did not believe the matter was properly presented. It is only natural that a large number of houses are opposed to any regulation; if you sent out a questionnaire asking whether or not the houses were in favor of abolishing the SEC, you would likewise receive a very much larger vote, and unquestionably it would be preponderantly in favor of eliminating the SEC. So I believe that you have just as much right to insist that Congress abolish the SEC, as to abolish the NASD.

Without attempting to defend the NASD or to discuss the various points involved, I want to call your attention to the fact that your statement that the rule of the NASD forbidding granting a discount to nonmembers is un-American, is not in accord with the facts. Before the NASD came into existence, the only organized security markets that we had in this country were the various stock exchanges, and you certainly know that the New York Stock Exchange—which after all is only a private club—has had a very firm and drastic rule forbidding splitting commissions with non-members, and the same rule exists with all other stock exchanges. As the New York Stock Exchange is almost as old as the country itself, and this rule has existed certainly through several generations, how can you say that it is all right for the stock exchanges to have this rule, but it immediately becomes un-American and disastrous for the NASD to have the same rule? And this is especially true when you remember that any dealer, properly licensed and registered with the SEC, has the right to become a member of the NASD, providing only that he has a good reputation.

You take exception to examinations. In Ohio, we are examined by the State Division, and those examinations are on a par with a bank examination, but in your state, the state does not examine dealers. Whether or not the NASD examines us in Ohio, is unimportant. Possibly if the State of New York and other states did the same thing, the attitude of some of your correspondents might be different. But the fact of the matter is that it is rather generally recognized now, that any business concern entrusted with the public's money should be subject to examination for the protection of the public.

You object to a questionnaire covering spreads, and yet this is fundamental in any system of regulation. Do not forget that some atrocious frauds on the general public were unearthed by these investigations and questionnaires. I do not believe that it is your intention to condone fraudulent actions on the part of a relative few, but on the other hand, apparently it is your policy to prevent these frauds from coming to light.

You have been attacking the so-called 5% philosophy—or yardstick—for a long time, and I believe that it has been based on complete misinformation. You claim that it makes it impossible for small companies to finance, but this is an absolute misstatement. The 5% philosophy certainly has nothing whatever to do with operations of this kind; neither does it have anything to do with market operations after an issue is distributed. I do not intend here to discuss this philosophy other than to say that when you start a campaign such as yours, that you should first get all the facts together, and find out what you really are opposing, and I do not believe you have done this.

You have also been opposed to the so-called "trial system" by the Business Conduct Committees, and according to your questionnaire, 855 of the members stated that they were opposed to the system. Would they rather be tried by the SEC—facing a battery of government attorneys? I do not think so. But if the NASD is abolished, that is what will happen.

Do you not realize that if the NASD is abolished, it will be replaced immediately by greater investigation and regulation by the SEC? Is that what the members really want? I doubt it. Had you framed your questionnaire on the basis of alternatives, I believe the result would have been entirely different. For example—on Question No. 1, on the 5% yardstick, the question should have been, "Are you opposed to the 5% yardstick, or would you rather have the SEC determine a fair profit for you?" On No. 2, "Would you rather report on spreads to the NASD, or would you rather report to the SEC?" And so on through your whole questionnaire—because do not forget any time, that if the NASD is abolished, the SEC will step in.

The security industry is sick and almost dying, but the fault is not the NASD, but the Securities & Exchange Law and the regulations of the Commission. You might be successful in convincing Congress that the Maloney Act should be repealed, but you will not help the security industry by that action—in fact you will cause a tremendous amount of trouble. Instead, you should be studying the Securities & Exchange Law, pointing out to your readers and to Congress, where that law has strangled the industry. As the leading financial paper in the country, it is your duty to do this, rather than to embark on a campaign that can only be destructive and harmful.

MINNEAPOLIS, MINN.

I have just finished reading the final results of your poll of securities dealers regarding their attitudes toward the NASD and your comments on the results. In my opinion, the manner in which your poll was taken, and your interpretation of the results, combine to present a distorted picture of the attitude of the industry toward the NASD.

We did not fill our your original questionnaire because we felt that it was loaded and that we could not, by "Yes" or "No" answers to your questions, adequately state our position. Apparently, many others shared our feelings, as only 1,001 out of 2,700 NASD members, approximately one-third, replied. To present the attitude of this group as representative of the entire membership, would be justifiable only if it were established that they constitute a typical cross-section, which you have made no effort to do. Under the circumstances, I feel justified in stating my opinion that you have, by your previous attitude toward the NASD and the manner in which your questions were phrased, succeeded in eliciting replies from a disgruntled minority and discouraging answers from those who believe in dealer self-regulation. On this basis, I challenge the validity of your interpretations of the answers you have received and of the mandate you claim to have discovered.

For the record, I would like to state our position briefly. We accept, without reservation, the desirability of regulation of our business in the public interest, and believe it is here to stay. We prefer that this regulation be entrusted to a self-governing organization of security dealers, rather than to a government bureau; therefore, we favor retention of the Maloney Act. We do not agree with all of the policies of the NASD, but we believe that its boards and officers are democratically chosen and representative of the industry, and feel that reforms should be worked for within the framework, rather than by destruction of the organization.

I do not dispute your right to hold and voice contrary opinions but contend that, as an avowed opponent of the NASD, you have disqualified yourself from conducting an impartial poll on the attitude of the industry toward this organization.

"NEW ENGLAND DEALER"

Re: the lengthy diatribe in the April 14, 1949, issue of the "Commercial & Financial Chronicle" emanating from a Boston, Mass., dealer and his attempt to belittle the facts and poll of the NASD by the "Chronicle."

Practically all dealers in this district recognize this same old moth-eaten speech and its author. You as a publisher know that you have hurt him with truths and facts, and we as dealers know that the "Chronicle" is about all we have left to present to the public the rotten facts that are slowly but surely ruining the Investment (Capital) business. Each week's issue of the "Chronicle" is eagerly received and read by practically all of us (contrary to the statements of the above-mentioned dealer), even by the carping critic and his NASD friends.

He asks, "whose chestnuts you were trying to pull out of the fire?" A disclosure of his annual salary and expense account from the NASD would prove whose chestnuts he is interested in and the same goes for Wallace Fulton. According to the NASD's 5% rule with dealers, these men should not be receiving any more remuneration than they did ten years ago—that is if they are consistent.

Any secret vote has always disclosed that a large majority (probably 80%) of the NASD members have no good will toward the Association and the principal sales resistance to the over-the-

*Commented anonymously.

counter securities is the 5% gross profit limit. Incidentally, the NASD has never had a secret vote on any matter and apparently does not dare to take one.

P.S.—Our guess is the initials of the above-mentioned Boston, Mass., dealer are "W.K.".*

SMALL WEST VIRGINIA TOWN

We are members NYSE & NYCE by choice and members of NASD because of their over-lord authority which compels us to join or lose commission on O.C. trades. It is my opinion that NASD is not needed and is a lot of unnecessary expense and overlapping regulation which serves no good purpose.

BALTIMORE, MD.

We refused to join the NASD at its inception as we felt and still feel that it is detrimental to the security business, honestly conducted, and are and always have been in favor of the Exchange method where all trades are published and a record available to anyone interested.

BALTIMORE, MD.

The NASD is not the type of organization that in any way "fits" the investment business. It is too easy to join and the capital structure requirements couldn't hope to suffice a business like investments.

BOSTON, MASS.

I fought, as you will perhaps remember, the NASD single-handed to clear the interpretation of what is a reasonable profit. Pats on the back from fellow members—"but don't use my name" was not enough to win. Until you have real unity and cooperation you cannot get anywhere. The industry has no one to blame but themselves for present conditions, and it will get worse as all fascist movements do.

BOSTON, MASS.

I not only do "not approve" but I disapprove of the NASD in the most positive manner. I submit to regulation by the various States and Commonwealth of Massachusetts and by the SEC; therefore, consider the NASD only as a carbuncle on the business. It certainly can claim none of the virtues asserted and accepted for the others. What are so many people afraid of? They claim they don't want it, don't believe in it but don't dare exercise their rights as free Americans! A fine howdy-do! Just stop and think a minute. Here I am, properly registered, audited, and so far as I am aware, qualified to do business but because I refuse to pay tribute to a bunch of busy-bodies I cannot be allowed the usual trade concessions. We think of union members being dupes to pay tribute to racketeers in order to work; well, how about these big bankers and investment dealers? Or are they so big?

SMALL MASSACHUSETTS TOWN

The SEC should be abolished. There were, before this board was created, enough laws if enforced, to prosecute wrong doing.

BOSTON, MASS.

We resigned from this organization (NASD) many years ago, being thoroughly disgusted with it.*

OMAHA, NEBRASKA

CONFIDENTIAL: The writer has been in the investment business in this city for over 20 years. I did not joint the NRA and did not join the NASD, for the simple reason that I do not believe in the scheme of controls or the application of CIO practices and philosophy to the investment dealer-broker business. I do not feel that business ethics or business morality can be taught by the NASD or any basic control system. You either have such ethics or business morality in your business practices or you do not have them. If you do not have them, the NASD is not going to stop the things which should not be done. I am proud of my record in this community, of my customers and my business friends and there is nothing I am going to do to jeopardize that record. I don't need the NASD to tell me what do to or what not to do. I am going to trade in and deal in securities that my study and experience teach me are good; I expect to get a modest and fair profit. My customers expect that from me and keep on coming back for more advice and securities. To me that is adequate answer as to whether I have been treating them right. Quite a number of them have continued the pleasant business relationship for from 15 to 20 years. If they did not like my ways of doing business, I am sure they would quickly go elsewhere. In my humble opinion, FREE COMPETITION—NOT CONTROLS will provide the best solution of our problems.

SMALL UPSTATE NEW YORK TOWN

The idea of self-regulation is good if directed in proper channels, and based on what is good for all. Your efforts to clear up the matter are commendable, and should bear fruit.*

SYRACUSE, N. Y.

I disapprove of the monopoly and restraint of trade which the Act and the NASD inflict on the business. The alleged protection of the investing public does not need to exclude honest dealers from legitimate business just because they refuse to be forced into an unnecessary association. I commend the "Chronicle" for its good efforts on behalf of the investment business and constitutional free enterprise.*

SMALL UPSTATE NEW YORK TOWN

The NASD should be wiped out of existence. It's undemocratic, dictatorial, and definitely against the best interests of its members and the trade in general. It is unconstitutional in practice, and violates every principle of the Anti-Trust Laws, and should be outlawed and put out of business. I was a charter member of the original organization that started out to set up a self-governing body to improve the standards of the over-the-counter business, and establish the proper conduct and ethics of the business in general, and I am still in favor of such an organization, but this NASD does not serve that purpose, and has established itself by high-handed methods that should not be tolerated by any self-respecting citizen. I would like to see a national organization formed that would offer guidance and protection to its members who would conform to the proper conduct of the business and establish the highest standards and ethics of the trade, but as long as the NASD is in existence such an organization would be very difficult unless every over-the-counter broker-dealer would withdraw their membership in a body, and sign up with a movement of establishing an organization of their own based on a firm but democratic principle of self-government, fair practice, and ethics becoming a group of intelligent people. I want to congratulate you, Mr. Seibert, for the wonderful stand you have taken in this whole mess from the beginning, and I would be pleased to cooperate with you on anything that would improve this NASD situation.*

NEW YORK CITY

I feel all the restrictive measures imposed are ruining free enterprise in this country and before too long, if it continues, we will be out of business.

I think you have been sound in your position all along that the NASD has been detrimental to the average security dealer, has constricted his business and been of no value at all to him except a bother and expense. It has contributed nothing and only added to his woes.

It is all part of the scheme to kill free enterprise in the U. S. A. and is succeeding.

NEW YORK CITY

The effect of the NASD's 5% philosophy is akin to the operations of the old OPA. When other lines of business had the latter to contend with the tendency was for manufacturers to discontinue making those items on which the profit was uninviting or non-existent and concentrate on others where the profit was more to their liking. Today we find dealers in securities doing the same thing. Many, for instance, are turning to mutual funds shares because the 5% philosophy does not apply thereto, and showing lack of interest in making the secondary markets in the securities of smaller corporations. There are many factors in the economic picture that adversely affect the securities business but we do know that fundamental to the conduct of any business that is to endure is the knowledge that mark-ups may be taken in keeping with expenses without fear of being put out of business.*

LOS ANGELES, CALIF.

Investment dealers are inclined to deplore the attitude of the big labor leaders who crack the whip over their members, force men into their unions, and collect dues from them, which many members feel are unjustified. But those same investment dealers are compelled to join an autocratic ruling body, pay whatever dues are demanded, knowing that the penalty for non-compliance is to be put out of business. Any protest against the abitrary action of the NASD must be made secretly for fear of direct reprisals. Never in our history have we had one single constructive suggestion from this dominating agency but rather threats of punitive action in case of the slightest infraction of their own declared rules.*

*** Commented anonymously.**

Today's Investor and Security Analysis

(Continued from page 4)

of Moody's (or Standard & Poor's) financial manuals.

Conditions have changed somewhat since those days. Salaries run from $4,000 to possibly $10,000 a year, with or without bonuses. A few top men in charge of research staffs go higher. Some become partners or open their own firms. In the investment banking and brokerage fields, the production or selling end of Wall Street normally exerts a fatal lure on the top level analyst and many combine analytical work and commission getting activities to very lucrative advantage. Some formerly full-time security analysts have made and are today making very important money—many times the $10,000 figure above noted.

This tendency to shift into selling, where the big money lies, is entirely understandable. Some observers state that it takes 15-20 years to make a really good security analyst—but only 30-60 days to train a good salesman of, say, mutual funds (i.e. open-end investment trust). Given a good year, the income of an average salesman can dwarf that of the best security analyst who is not also engaged in producing commission or fee business.

Some Unfavorable Aspects

Peculiarly enough, there are no formal requirements for being an analyst. Even a customer's man, now called a "registered representative," is required to pass an examination (not too difficult), meet character tests, etc., before being registered by the New York Stock Exchange. Actually, the bulk of good analysts are college trained —usually in economics—and there are those who claim that as much study and effort must be expended to make the grade as is required for a lawyer or doctor.

Most of us feel that the profession is badly underpaid—that the same brains, study, judgment, drive, ability to present reports in writing and verbally, etc., would, if expended in other fields, result in far greater financial rewards. Few enjoy real security of job tenure (especially in brokerage). There are no pension plans, as a rule. The feast-or-famine nature of Wall Street and the requirement that seats on the Exchange may be held only by partnerships account in major part for this instability.

Favorable Aspects

But there are many offsetting factors of a decidedly favorable character—of the non-monetary kind. Associations are pleasant. Most firms are small and usually everyone is on a first name basis. Most analysts are well educated, personable and gregarious guys. Similarly, business officials and clients contacted are also, on the whole, of a very high type. In the Wall Street area there are many pleasant private lunch clubs in which to foregather—if possible at the firm's expense. A senior analyst, moreover, tends to be pretty much of a free lance in his comings and goings (out-of-town trips, etc.) in search of winning ideas. As a representative of the owners of a business, the analyst generally finds the doors of the mighty in business and finance open to him quite readily.

Security Analysis—What Is It?

One of the leading textbooks on security analysis defines it as "a careful study of available facts, with the attempt to draw conclusions therefrom based on established principles and sound logic." The ultimate objective is to reach a conclusion as to whether a given security is overvalued, undervalued or fairly priced. The main obstacles are three: (1) inadequate data, (2) uncertainties of the future, and (3) the irrational behavior of the market. The last named is, to me, the chief bogey.

This is far from an exact science. That is, definite and dependable conclusions do not necessarily follow from given facts—and this applies equally to so-called mechanical or technical methods of forecasting the trends of the general market or of an individual security, as it does to the "value" analysis approach.

The security analyst may work up detailed or short studies of securities, develop careful comparisons of various issues in the same line of business and form an expert opinion as to the safety and attractiveness of many different kinds of stocks and bonds. He deals with the past, present and future of any given security issue; describes the business; summarizes its operating results; and highlights the strong and weak points, the possibilities and risks. Finally, he tries to estimate or guess its future earning power.

Influence Widespread

The influence of security analysts as a group on the buying and selling of securities is out of proportion to the handful engaged in this work. Estimates show that more than 50% of all common stock purchases are made on the advice of members of the financial community—and usually back of this advise is the analyst. The mass impact of such advices today can be very great indeed. If a goodly number of top analysts were to turn thumbs down on a certain company or industry, that company or industry might find it difficult, if not impossible, to raise new capital.

Methods and Techniques Used

A sound knowledge of accounting—which is nearly as old as commerce itself—is a must for the analyst. While a relatively few simple tests usually suffice to ascertain the quality and safety of a bond or preferred stock, the analysis of common stocks is by no means so simple. In fact, the scarcity of dependable guides makes the task complicated and extremely difficult, although some uniformity in procedures has been worked out by public utility analysts on valuations of utility stocks.

The common stock analyst must first arrive at a forecast of general business—no easy task of itself—then gauge the probable levels of operations in individual industries, and next select outstanding companies in the best situated industries. From there he tries to project company earnings and dividends; as a final step he relates these to prevailing market prices. He must be a prophet.

Corporate information is the life blood of the analyst, who develops wide sources from contacts with company officials, directors, trade publications, government agencies and publications and other analysts.

New York Society of Security Analysts

The New York Society of Security Analysts, founded 12 years ago, now comprises about 1,300 members affiliated with virtually every type of financial institution. It has a constitution, a code of ethics and a quarterly journal devoted to articles of interest to analysts and the financial world generally.

Possibly the most important—and certainly the most publicized of its activities—is the luncheon forum meetings held 3 to 4 or even 5 times weekly. To these luncheons come the top officials of the nation's corporations, great and not so great, rails, industrials, utilities, banking, government officials, even ambassadors from foreign lands. So well established and successful have these meetings been that "Forbes Magazine" wrote in an article some weeks ago, that "An invitation is a mark of distinction."

Societies or clubs similar to,

(Continued on page 38)

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

Technical signs point to intermediate rally. Some signs also point to subsequent lower prices.

When I wrote last week's column I was looking forward to giving you a list of stocks in the following week's column—this one. But whatever hopes I had must be postponed to a later date. Reason? The market.

* * *

I still feel that a sharp rally can occur almost any day, to start not far from present levels. I also feel, that by the time you get this the rally may have come and gone leaving nothing but a record to point to.

* * *

As to when things will pick up sufficiently to start a real move is something that has yet to be answered. The major business picture on which all price movements are predicated, is still one of those dismal affairs.

* * *

I should stop and do some thinking at this point. From what I read it is becoming a sign of un-Americanism to view business unfavorably.

* * *

One columnist says that "the lefties" are responsible for spreading the report that the "outlook for business is black." Now, I don't know if the outlook is black, grey or heliotrope. But I do know that the future—the immediate business future—is not good. If that is a "lefty" observation, I'm afraid the market is in the pay of the reds.

* * *

In all the years I've watched the market I've never been aware that it was concerned with political ideologies. The best opinion —and the market is a cross-section of the best opinion—is always coldly realistic. When anybody buys or sells stocks, he does it either because he thinks he can sell them for more than he paid for them, or they have already seen their best prices.

* * *

Disregarding the name calling and getting back to the market, I can see that from a technical angle a rally is indicated. But until there is better sustained resistance in some of the basic issues, I doubt if anything of more than a few days importance will occur. So instead of giving you a list of stocks to buy now, I'll hold off until prices are lower.

* * *

It is quite likely the averages will go down to somewhere around 150, though they may well first rally to about 165, before attractive opportunities occur. I don't think, for example, that news will improve. On the contrary I look for news to get worse as the summer progresses. The time, however, to buy stocks is when news is bad. When everybody feels the bottom has dropped out of the business picture (and the market) that will be the time to step in. That time isn't here yet. So patience is suggested.

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.]

Today's Investor and Security Analysis

(Continued from page 37)

though much smaller than, the New York group have for some time existed in such important financial centers as Boston, Chicago, Philadelphia, Los Angeles and other major cities. Most of them, together with New York, are now joined in a loose National Federation of Financial Analysts Societies. The national group holds an annual convention featuring many forums and winding up with a dinner at which guests of national prominence speak.

Hazards of the Stock Market

Securities buying in the good old days—called by some the "Era of Wonderful Nonsense"—used to be a free and easy affair. You consulted a fortune-teller, a stargazer, your bootblack, barber or elevator operator. To a degree, things are still unchanged, because the investment of money in securities is still unique among business operations in that it is usually based on advice from others. The great bulk of investors are still amateurs. They rely on a friend, a relative, a local banker, a brokerage or banking house, a financial service, or an investment counselor. As a matter of fact, much bad advice is given free.

Every corporate security may be viewed best as either an ownership (common stock) interest in, or a claim (lien) against a specific business enterprise. Analysis of a common stock is basically the analysis of a given business entity.

It might readily seem that the chief requisite for successful investment is foresight in anticipating new economic developments. But this rare quality is possessed by few. The ordinary investor in common stocks must try for safety and a scattering of risk via diversification by industries and companies.

Some Basic Rules to Follow

(1) To speculate usually means to lose in the end.

(2) Buy when most people are pessimistic—sell when most people are optimistic.

(3) Investigate—then invest.

(4) Cut losses short—you can't go broke taking profits.

(5) Don't put all your eggs in one basket—diversify.

(6) Never buy stock after a substantial rise, or sell one immediately after a substantial drop.

(7) A "bull" may make money at times, so will a "bear," but a "hog" is bound to lose.

Nobody Can Forecast the Market

Nearly everyone interested in common stocks wants to be told by someone else what the market is going to do. A flip of a coin is just as good, maybe even better. The market is more closely akin to a voting machine than a weighing machine, and is swayed by human emotions and psychology—unpredictable elements. On the other hand, forecasts of business conditions and even of corporate profits and dividends can be and usually are far more authoritative and accurate.

A stock market analyst's aim is to determine at any given time the effective demand for stocks as well as the abundance and readiness of their supply. Technical or mechanical studies — despite their wide followings—are not yet reliable enough for conservative use. Most signals to buy emerge after a rise and to sell, after a drop. This is the exact opposite of fundamental investment principles. Moreover, market forecasting, to be successful, must be known to only a few. The more widespread the following, the more self-defeating—as a little thought will reveal. If everyone gets the signal to buy, who is left to sell? And vice versa.

The only thing and about the only thing we are sure of is—that the market will fluctuate. During the past 10 years the trends of business and stock prices have moved in the same direction less than 20% of the time.

While dividends and earnings make values, current dividends and current earnings may have little bearing on current share prices. Common stocks—even of the highest grade and with notably stable earnings and dividends—are subject over the years to surprisingly wide price gyrations. The price trends of reasonably well selected stocks are probably controlled at least two-thirds by the general movement of stock prices. If one is fully invested in common stocks in a declining phase, two-thirds of the results are virtually sure to be unfavorable. On the upside, the reverse would be true.

Of course wide changes in market prices can be profitably exploited as quotations diverge sharply from real or intrinsic values. Undervalued issues may then be bought, and sold later when they become overvalued. The trouble is that an undervalued issue may remain so for an uncomfortably long time and an overvalued situation may continue to go much higher in price. Any security can be a bad buy at too high a price and, conversely, a sufficiently low price for a stock of mediocre quality can make it a sound investment opportunity.

Conclusion

Although the seasoned security analyst is familiar with all the dangers and pitfalls of the stock market, he may still be buoyed up (as the years pass) by the hope that some day the lightning will strike, the goddess of fortune smile, and that he will finally clamp onto some real money before he succumbs inevitably to his ulcers.

Bendix, Luitweiler & Co. Opens Adirondack Branch

The New York Stock Exchange firm of Bendix, Luitweiler & Co., 52 Wall Street, New York City, opened a new office at the Saranac Inn, Upper Saranac Lake, N. Y., for vacationers to the Adirondacks. Eric M. Goldsmith, resident partner, announces that give-up orders will be solicited.

Gustav Blum Opens

Gustav Blum is engaging in a securities business from offices at 1425 Broadway, New York City.

Observations

(Continued from page 5)

given buyers. Or an inexpensive product of the company involved, or a company memento, might be tossed in.

Whatever the actual sales of stocks through such stores, and the stores might easily run at a loss, the advertising and publicity values could very well be significant. Since such stores would invite public purchases of stocks at relatively low prices, there would be less capital risk and the stores would obviously be in the public interest. The press and radio usually treat sympathetically newsworthy projects when of benefit to the public.

Most citizens are closer to business conditions than they are to the stock market. When they experience or anticipate declining business, they tend to become more cautious and conserve cash. They expect stocks to decline and think generally it is a bad time to invest. They may not know or forget that the market discounts everything known, and that prices reflect not only the situation as it is at the moment but the hopes and fears for the future. Brokerage firms have the important duty of encouraging our citizens to buy when stocks are "down, not up," and the equally important obligation to attempt to brake speculative enthusiasm when the public is becoming over-extended.

The average citizen walking by a brokerage office is not apt to see any signs that stocks are cheap. But if he passes a shoe store that is having a sale, he is immediately advised of that fact. Whether he buys any shoes or not, he is likely to tell his wife and friends about the sale if the prices looked good to him. The brokerage fraternity is without one of the biggest stimulators of business—people talking, men over their coffee, women at bridge, folks talking and swapping information in a 100,000 different ways — because brokers' products are not displayed on Main Street.

It is talk — the talk of friends, acquaintances, relatives — which encourages people to buy stocks at high prices. Why not use modern merchandising methods to get people to talk about the bargains in stocks when prices are low? Why not use retail stores—or at least "new store fronts" on brokerage offices—to get the public interested in the shares of American business?

WILLIAM H. BIESEL.

304 Allegheny Avenue,
Coudersport, Pa.,
June 17, 1949.

LETTER FROM MR. ROTHBERN

Dear Mr. May:

Your column head ["*Company Managements on the Defensive*"] in the June 9 issue is, unfortunately, too true. And we take this opportunity to express our hearty agreement with the unnamed stockholder whose cogent letter to the president of his company you reproduce in the above-mentioned column.

We have used the same arguments in discussions of exactly the same problem with corporate executives hereabouts. Management seems to have become a fifth estate concerned only with its own welfare without regard to that of anyone else. Labor is now strong enough to more than take care of itself and the various taxing authorities are fully capable of exacting their cut. Only the owners are unorganized, mute and impotent to protect such rights as they have from management, labor and tax collectors.

Writing letters will do little real good. Unfortunately, human beings—be they corporation presidents or labor leaders or politicians—are selfish and not always in an enlightened manner. We have seen that only by force can certain "managements" be **made to see the light in too many cases. What we owners need is a strong, militant UNION with legal talent, lobbyists, etc. to protect our interests in this specialized struggle for existence.**

Let's organize now.

Very truly yours,

SOL ROTHBERN.

Rothbern & Co.,
Investment Securities,
15 Westminster Street,
Providence, R. I.
June 18, 1949.

* * *

DIPLOMACY ITEM—

Lady Director Material Sidetracked to Luxembourg

WASHINGTON, June 21,—President Truman today appointed Mrs. Perle Mesta, widely known Washington hostess, as Minister to Luxembourg. . . . Mrs. Mesta already has closed her leased house here, scene of many parties, for the season. . . . She was deeply appreciative of the recognition added to women in national and international affairs by the appointment. . . . She said . . . she was much more interested in Luxembourg steel plants and other industries than in the social affairs of diplomacy.—From The New York "Times."

May we offer the following twin suggestions in the event that the Senate in its wisdom should refuse to confirm the joining of this personality-split lady to Lewis Douglas, Laurence Steinhardt et al. on our diplomatic corps: To Mr. Truman: that he then submit the nomination of Elsa Maxwell to the post. To the Federation of Women Shareholders: that because of her expertness in steel, at next year's company meetings it urge Mrs. Mesta's election to the directorate of the U. S. Steel Company.

Can Business Cushion the Recession?

(Continued from page 17)

It is, nevertheless, worth remembering that the collapse of exports from \$8.1 billion in 1920 to \$4.4 billion in 1921 was no small part of the sharp recession of that time. And the export collapse occurred in part because then, as this time, world reserves of dollars were running low.

(2) The rapidly changing relationships between government receipts and expenditures has exercised a major balancing effect on business activity in recent months. In the first half of 1948 the governmental (Federal, state and local) cash surplus of \$12.8 billion was one of the principal brakes on the inflation. It meant that government was removing from the income stream \$12.8 billion (annual rate) more than it was putting back in through cash expenditures. Private spending was thereby somewhat restricted.

The tax reductions of last year and increased expenditures at all levels of government have virtually eliminated this surplus. In the second half of 1948 this cash surplus had dropped to \$2.8 billion (annual rate) and the first half of 1949 will, in all probability, show a slight deficit, after allowing for the fact that tax collections are seasonally high early in the year. Within a year's time we have witnessed, therefore, an enormous shift in government fiscal operations from exercising real restraint on business activity to exerting some sustaining influence through a cash deficit. It has been a performance in compensatory fiscal policy of considerable magnitude. And it has played a substantial role in keeping the current recession thus far a comparatively modest and orderly one.[1]

What to Do?

This is of some importance when it comes to the question: "What to do?" Current proposals again center heavily on some form of compensatory fiscal policy reflecting presumably the prewar feeling that therein lay the key to the riddle of economic stability. The proposed Employment Expansion Act of 1949, for example, according to a recent report would provide for pumping Federal money either direct to industry or through a public works program based on a reserve shelf of projects which might aggregate \$15 billion.[2]

Since the taxing-spending activities of government will inevitably influence business activity, it makes sense to have the effects work in the direction of smoothing out business ups and downs. Therefore an appraisal of what fiscal policy can further do to cushion the current recession is all to the good. Such an appraisal must, however, take into account the fact that substantial changes in the government's taxing-spending activities have already occurred — thus correspondingly limiting the extent to which we can realistically rely on it further.

This, together with the probability that a governmental compensatory fiscal policy though useful has many more serious limitations than usually realized, suggests an important conclusion. If the current recession is to be confined to an orderly and probably not altogether undersirable adjustment, we must think less exclusively about fiscal and other public policies, and think much more about what might be called private policies—possible adjustments in the private sector of the economy.

According to Professor Slichter of Harvard, increased government spending in 1949 will just about offset the prospective decline in private capital outlays (new houses, commercial buildings, machinery, additions to inventory). Therefore, the real task is to persuade consumers to purchase about 4% more than last year — in 1948 prices about \$10 billion. In short, the real job facing private business is to make the consumer more unhappy about holding his dollars than he apparently now is.

How can this be done? The answers will not come easy. They will come all the harder because for virtually a decade we have had this problem upside down. In a diverse private business economy like our there is, furthermore, no such thing as an answer. While no comprehensive analysis is, therefore, possible, it may nevertheless be desirable to see if the problem can be pointed up a bit.

(1) **More effective selling**—Businessmen are probably getting a bit tired of being at the receiving end of continuous lectures on the need for more effective selling. The fact remains that anemic selling is an important part of the current problem. Vice-Presidents in Charge of Sales Prevention are understandably finding it hard to drop (mentally) the last word from their title. In many cases the whole selling apparatus is either rusty or unseasoned.

Sermons on the subject are not needed. The lessons of experience which come from long grappling with the problem of getting the buyer to give up his dollar are the essential things. The major problem is to accelerate the process of learning those lessons.

(2) **Prices** — A major question currently is whether price reductions of any magnitude are possible, and if so whether they would really be very effective. At present agreement on this issue seems to be limited to the belief that only the other fellows' prices are too high. There is obviously no single answer to the question. Some price cuts seem to induce buyers to hold off further in anticipation of further cuts. There is some reason for thinking, however, that more can be accomplished by price adjustments than many businessmen and economists think. More attention needs to be given to the role of price maladjustments in the current recession.

We have, I think, talked too much in terms of general price reductions. The real questions have, therefore, been obscured or overlooked. In what specific areas of the economy are prices too high? What procedures can be devised to effect an orderly price decline where such seems desirable? On what can we rely to make sure that the excessive prices do come down? On government? More effective competition?

(3) **Inventories** — Business experts have been repeatedly warning about the problem of excessive inventories in a recession. Many in the business community have painful experiences from previous recessions to serve as a guide. Within limits the cautious inventory policies currently being followed are, therefore, understandably all to the good. We may, thereby, escape the more painful aspects of inventory liquidation which often only make a recession snowball.

A cautious inventory policy carried to the extreme, however, may help to induce the very recession the results of which it is designed to avoid. With somewhat less eager buyers excessively short inventories can mean lost sales, unrealistically low estimates of potential demand, and lower activity all the way along the line. There is some evidence of this currently. And lost consumer sales are particularly serious if persuading consumers to buy more is basically a large part of our present problem.

If businesses are afraid to do business in a period such as this, it obviously follows that there will not be much business.

(4) **Product design** — This applies particularly to "hard" or durable goods. One of the major tasks facing business now is to make the consumer dissatisfied with his current paraphernalia—or with the lack of it. New product designs can play an important role. They will, of course, vary all the way from mere "new looks" to genuine technological advances.

It is furthermore probable that a great many postwar designs were fundamentally aimed at the de luxe, "carriage trade." The active programs to explore the markets for "stripped down" models can presumably help to broaden demand considerably.

The role which over-designing of products plays in pinching off demand at the peak has not yet received adequate attention. The problem is more acute if a quick shift to stripped-down models is not feasible.

(5) **Capital outlays** — Unlike many recessions, the decline in capital outlays in prospect for this year is to a considerable extent an echo effect of the decline in consumer demand. With declining demand prudent management may require that some capital expansion projects be restricted or postponed. There is, however, good reason to think that a substantial amount of private investment will still be required to restore traditional ratios of capital invested per worker. If so, many long-term investment projects may still be wise even though short-run considerations are somewhat bearish.

Avoiding Cost Increases

(6) Business bears a heavy social responsibility at this time to avoid cost increases. This means many things—bad decisions, lethargic management, unnecessarily heavy overhead costs, inadequate productivity, higher labor costs. These will no longer be bailed out by a sellers' market.

One of the critical problems here is the matter of wage rates and labor costs. There are, of course, always particular wages and incomes which need upward adjustments, and they should not be overlooked regardless of the merit of general changes.

A more important issue is whether the results of increased productivity should be distributed through increased wages or lowered prices. The practicable answer is probably to be found between these two extremes. There is at this juncture of the business situation a great deal to say for lowered prices as a means of tapping broader markets. Employment and output can thereby be somewhat better maintained.

Increases in unit labor costs, growing out of wage increases too large to be offset by rising productivity, ought generally to be avoided at this time. Costs are thereby pushed up, possible price reductions are eliminated or reduced, the market is correspondingly restricted, and the result is lower employment and activity. Since wage increases are never made uniformly or instantaneously, it is not realistic to expect the higher costs to be offset by more demand because of higher wages. The cost effect is concentrated; the demand effect gets diffused over the economy.

The problem is well-illustrated by the construction industry. Construction activity has been softening at a time when there is general agreement that the country is not over-housed or over-built. Here apparently is an industry where lowered costs and prices could tap substantially broader markets, yet reports from many areas indicate that current agreements between the building trades and the construction industry provide for substantial wage increases. It is to be hoped that rising productivity will even so permit the badly needed decline in unit labor costs. The extent to which prices can decline is, however, inevitably restricted. And the result will be less construction, less housing, lower employment and incomes, and possibly a demand for compensatory public housing and public works as a means of bailing out the situation.

These issues are not raised in the sense that appropriate adjustments and realistic policies by private business alone can do the whole job of cushioning the recession. The outcome will depend in a very substantial way on public policies and action. Nevertheless appropriate policies by private business can do a great deal—more perhaps than is generally realized. The more the private sector of the economy can accomplish, the less will be the need for government action.

And this is desirable—not because government action is necessarily bad, but because it is apt to be somewhat less effective than many now suppose.

1 Since Marshall Plan outlays are an important item in the Federal budget, the shift to a cash deficit measures in a sense the compensatory action of government spending directly and also through supporting exports.

2 New York "Times," June 2, 1949, p. 17.

Securities Salesman's Corner

By JOHN DUTTON

We all have quite a few friends in other lines of business. Have you noticed that most of them have no hesitancy in letting you know what they are doing, so that when you next need insurance, real-estate service, legal advice, etc., that you naturally think of them. On the other hand, how many of your friends are actually acquainted with the work that you are doing? Do they know much else besides the fact that you are in some way connected with the sale of securities?

It seems to me at least, that for many years most of us have waited for our friends to call upon us when they wanted to buy or sell some securities. Often we have been reticent to sell our friends investments because of the possibilities of market depreciation and the embarrassment that we would feel if such were the case. At other times we have tried to maintain a superficial and unrealistic attitude that there is something high and mighty about the investment business, and for that reason we shouldn't lower ourselves by direct solicitation along the lines that some of our friends in other endeavors might think was entirely proper.

Think it over, we go to our clubs, we see our friends in church and at their homes, we join in civic activities and of course this is right. It is also a fact that no one should make friends and join in civic activities for only personal and selfish motives. But after we have made friends, then what? Only too often we have waited for them to look us up when they had some money to invest or some securities which they desired to sell. But things don't work out that way. The plain facts are that most people are too busy to give SUFFICIENT TIME AND THOUGHT TO THEIR INVESTMENTS. Our business is the one business THAT MUST BE BROUGHT TO OUR PROSPECTIVE CLIENTS. Ask some of your friends some day how much time he spends working, and how much he spends playing, and then how much time does he give to KEEPING THE MONEY THAT HE HAS SAVED. You know the answer will be a laugh, and an admission to the effect that he hardly gives any time at all to the job of keeping what he has earned. And what an important job that is. Just think a minute, and go over in your own mind what would happen, if you could put everyone of your friends into the position of not having to worry about his financial affairs. Would not that fact alone be the most compelling reason for you to go to them and tell them about a sound investment program?

Today, if you could go to your friends and show them a real sound program for maintaining their principal and enjoying a safe return on their investments, you would definitely find them very much interested. Nearly everyone is worried today about his future. Despite the fact that people are lazy and even neglect to clip the coupons on their bonds, they are nonetheless interested in their own financial welfare. If a friend came along with a definite proposal that would help them put their own house in order you can be sure he would be welcome.

Among your friends there are some who are almost 100% invested in common stocks. On such a basis their financial position in case of a substantial market decline from present levels would be seriously impaired. Possibly among their present holdings there are a number of very speculative issues that should be sold despite present losses. Probably they are over concentrated in one or two industries, a most unsound position which could cause them considerable financial loss. Only an analysis of their list will show these things. Probably they have too much in high-grade bonds, governments, etc. A reinvestment in certain high grade stocks that fit in with their own portfolio requirements could be in order. And then there are the mutual funds. If you find that you do not have the facilities to do a job of constant watchfulness for your friends and clients AFTER YOU HAVE PUT THEIR HOUSE IN ORDER, *let the funds do it.*

It seems to me that if we are to get results in the years that lie ahead that we must go to our friends with a SOUND IDEA such as I have outlined here. We must sell diversification, safety of principal, fair returns AND PEACE OF MIND. We must go to our friends and tell them HOW THEY CAN OBTAIN THESE THINGS WITHOUT TROUBLE AND WORRY TO THEM. Our job is to help those with whom we come in contact in our lives to achieve financial health. This can be done but only through the medium of sound investment, and the application of time-tested principles. Good securities, well diversified, with a backlog of reserves at all times, will take anyone through the years of declining and advancing markets. The mutual funds are doing it and they can be sold to your friends without fear of any comebacks.

Barrett Herrick & Co., Inc.

Barrett Herrick & Co., Inc., is being formed with offices at 35 Wall Street, New York City. Mr. Herrick was formerly President of Herrick, Waddell & Reed, Inc.

Frank Securities Co.

Frank Securities Co. has been formed at 75 West 45th Street, New York City, to engage in a securities business. Partners are Ira Frank and Martha Frank.

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 26	84.4%	86.7%	94.1%	96.2%
Equivalent to—					
Steel ingots and castings (net tons)	June 26	1,555,900	1,598,300	1,734,700	1,734,000
AMERICAN PETROLEUM INSTITUTE:					
Crude oil output—daily average (bbls. of 42 gallons each)	June 11	4,875,650	4,889,150	4,899,350	5,479,600
Crude runs to stills—daily average (bbls.)	June 11	¶5,153,000	5,341,000	5,216,000	§5,592,000
Gasoline output (bbls.)	June 11	17,641,000	18,244,000	17,506,000	§17,928,000
Kerosene output (bbls.)	June 11	1,617,000	1,722,000	1,706,000	§2,270,000
Gas oil and distillate fuel oil output (bbls.	June 11	5,711,000	5,959,000	5,821,000	§7,143,000
Residual fuel oil output (bbls.)	June 11	8,305,000	7,827,000	8,519,000	§8,967,000
Stocks at refineries, at bulk terminals, in transit and in pipe lines —					
Finished and unfinished gasoline (bbls.) at	June 11	117,484,000	119,106,000	121,268,000	§105,849,000
Kerosene (bbls.) at	June 11	22,006,000	21,858,000	19,750,000	§16,897,000
Gas oil and distillate fuel oil (bbls.) at	June 11	60,402,000	58,597,000	52,476,000	§42,288,000
Residual fuel oil (bbls.) at	June 11	65,901,000	64,063,000	61,993,000	§57,481,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	June 11	808,156	693,624	771,736	906,663
Revenue freight received from connections (number of cars)	June 11	609,435	564,192	608,993	703,383
CIVIL ENGINEERING CONSTRUCTION — ENGINEERING NEWS-RECORD:					
Total U. S. construction	June 16	$150,842,000	$226,161,000	$157,773,000	$126,883,000
Private construction	June 16	71,415,000	137,222,000	59,023,000	67,953,000
Public construction	June 16	79,427,000	88,939,000	98,750,000	58,930,000
State and municipal	June 16	52,029,000	64,455,000	83,724,000	56,560,000
Federal	June 16	17,398,000	24,484,000	15,026,000	2,370,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	June 11	12,960,000	*9,990,000	11,065,000	13,321,000
Pennsylvania anthracite (tons)	June 11	1,326,000	964,000	997,000	1,210,000
Beehive coke (tons)	June 11	120,500	*104,200	149,000	145,000
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100	June 11	289	259	285	304
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	June 18	5,372,600	5,300,091	5,255,272	5,159,255
FAILURES (COMMERCIAL AND INDUSTRIAL)—DUN & BRADSTREET, INC.	June 16	196	174	172	100
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	June 14	‡3.705c	‡3.705c	3.705c	3.211c
Pig iron (per gross ton)	June 14	$45.91	$45.91	$45.91	$45.91
Scrap steel (per gross ton)	June 14	$20.92	$21.67	$22.75	$40.66
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	June 15	16.200c	17.325c	17.700c	21.200c
Export refinery at	June 15	16.425c	17.250c	17.925c	21.600c
Straits tin (New York) at	June 15	103.000c	103.000c	103.000c	103.000c
Lead (New York) at	June 15	12.000c	12.000c	14.000c	17.500c
Lead (St. Louis) at	June 15	11.850c	11.850c	13.850c	17.300c
Zinc (East St. Louis) at	June 15	9.000c	10.000c	12.000c	12.000c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Government Bonds	June 21	101.66	101.66	101.65	101.16
Average corporate	June 21	113.12	113.12	113.31	113.12
Aaa	June 21	118.80	118.80	118.80	117.80
Aa	June 21	117.40	117.40	117.40	116.02
A	June 21	112.37	112.37	112.56	112.37
Baa	June 21	104.48	104.66	105.17	106.92
Railroad Group	June 21	107.80	107.80	108.52	109.06
Public Utilities Group	June 21	114.46	114.27	114.27	113.70
Industrials Group	June 21	117.40	117.20	117.40	117.00
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Government Bonds	June 21	2.38	2.38	2.38	2.42
Average corporate	June 21	3.00	3.00	2.99	3.00
Aaa	June 21	2.71	2.71	2.71	2.76
Aa	June 21	2.78	2.78	2.78	2.85
A	June 21	3.04	3.04	3.03	3.04
Baa	June 21	3.48	3.47	3.44	3.34
Railroad Group	June 21	3.29	3.29	3.25	3.22
Public Utilities Group	June 21	2.93	2.94	2.94	2.97
Industrials Group	June 21	2.78	2.79	2.78	2.80
MOODY'S COMMODITY INDEX	June 21	340.4	338.8	344.7	438.5
NATIONAL FERTILIZER ASSOCIATION—WHOLESALE COMMODITY INDEX BY GROUPS—1935-39=100:					
Foods	June 18	214.2	218.0	215.1	242.0
Fats and oils	June 18	137.2	135.6	146.5	287.3
Farm products	June 18	228.8	233.0	229.1	276.2
Cotton	June 18	313.2	312.9	311.2	351.9
Grains	June 18	196.7	199.1	201.6	261.6
Livestock	June 18	225.1	231.2	224.3	274.7
Fuels	June 18	213.1	213.1	221.3	231.4
Miscellaneous commodities	June 18	160.9	160.3	164.6	176.9
Textiles	June 18	185.6	185.5	186.8	209.4
Metals	June 18	167.2	169.6	171.8	165.9
Building materials	June 18	211.0	212.8	212.7	230.1
Chemicals and drugs	June 18	137.5	137.6	137.6	158.0
Fertilizer materials	June 18	141.1	141.1	142.9	134.6
Fertilizers	June 18	150.5	150.5	150.5	142.9
Farm machinery	June 18	155.8	155.8	153.1	139.4
All groups combined	June 18	200.4	202.6	203.3	226.6
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	June 11	153,108	183,749	147,537	171,337
Production (tons)	June 11	165,729	137,521	166,639	193,156
Percentage of activity	June 11	79	65	79	101
Unfilled orders (tons) at	June 11	272,243	283,585	271,323	380,421
OIL, PAINT AND DRUG REPORTER PRICE INDEX — 1926-36 AVERAGE=100	June 17	128.3	128.5	130.8	147.4
WHOLESALE PRICES NEW SERIES—U. S. DEPT. OF LABOR—1926=100:					
All commodities	June 14	154.8	156.1	156.0	165.5
Farm products	June 14	170.7	173.9	172.0	193.0
Foods	June 14	163.8	166.9	163.4	180.8
All commodities other than farm and foods	June 14	145.2	145.3	146.8	149.4
Textile products	June 14	135.3	135.3	138.8	149.5
Fuel and lighting materials	June 14	131.0	130.5	130.6	133.1
Metals and metal products	June 14	166.1	167.2	168.0	158.0
Building materials	June 14	191.9	191.6	193.6	196.7
All other	June 14	127.5	127.6	129.5	135.9
Special indexes—					
Grains	June 14	157.2	154.8	161.8	209.6
Livestock	June 14	213.1	222.3	204.8	254.7
Meats	June 14	231.5	243.9	221.9	270.2
Hides and skins	June 14	189.6	190.5	188.5	210.5

*Revised figure. ¶Includes 430,000 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 3.73330c per pound.

	Latest Month	Previous Month	Year Ago
ALUMINUM WROUGHT PRODUCTS (DEPT. OF COMMERCE)—Month of April:			
Total shipments (thousands of pounds)	105,735	125,428	138,967
AMERICAN IRON AND STEEL INSTITUTE:			
Steel ingots and steel for castings produced (net tons)—Month of May	7,683,428	*7,785,276	7,580,642
Shipments of steel products, including alloy and stainless (net tons)—Month of April	5,596,786	6,305,681	5,096,161
AMERICAN TRUCKING ASSOCIATION—Month of April:			
Number of motor carriers reporting	333	*333	333
Volume of freight transported (tons)	3,159,297	*3,344,052	3,255,798
BANKERS DOLLAR ACCEPTANCES OUTSTANDING — FEDERAL RESERVE BANK OF NEW YORK—As of May 31:			
Imports	$118,469,000	$118,640,000	$155,056,000
Exports	44,450,000	46,013,000	57,315,000
Domestic shipments	10,516,000	9,994,000	10,335,000
Domestic warehouse credits	6,380,000	9,989,000	9,141,000
Dollar exchange	2,389,000	1,766,000	2,976,000
Based on goods stored and shipped between foreign countries	12,381,000	17,224,000	20,812,000
Total	$194,585,000	$203,626,000	$255,635,000
COAL OUTPUT (BUREAU OF MINES)—Month of May:			
Bituminous coal and lignite (net tons)	47,470,000	46,703,000	56,583,000
Pennsylvania anthracite (net tons)	4,410,000	3,722,000	4,867,000
Beehive coke (net tons)	592,900	*636,000	578,200
CONSUMER PRICE INDEX FOR MODERATE INCOME FAMILIES IN LARGE CITIES 1935-1939 = 100—As of April 15:			
All items	169.7	169.5	169.3
All foods	202.8	201.6	207.9
Cereals and bakery products	170.3	170.1	171.0
Meats	234.4	229.6	233.8
Dairy products	184.9	190.3	205.8
Eggs	183.8	180.1	184.7
Fruits and vegetables	218.6	214.5	217.4
Beverages	208.2	208.5	204.4
Fats and oils	149.8	155.1	191.4
Sugar and sweets	176.2	*175.6	173.6
Clothing	192.5	193.9	196.4
Rent	120.3	120.1	116.3
Fuel, electricity and refrigerators	137.4	138.9	130.7
Gas and electricity	96.8	96.1	93.9
Other fuels	187.8	192.5	176.1
Ice	140.5	140.4	133.2
Housefurnishings	191.9	193.8	194.7
Miscellaneous	154.6	154.4	147.8
CONSUMER PURCHASES OF COMMODITIES—DUN & BRADSTREET, INC. (1935-1939=100)—Month of May	297.7	*303.8	300.4
COPPER INSTITUTE — For month of May:			
Copper production in U. S. A.—			
Crude (tons of 2,000 lbs.)	81,553	*91,589	91,819
Refined (tons of 2,000 lbs.)	98,139	*93,873	104,524
Deliveries to customers—			
In U. S. A. (tons of 2,000 lbs.)	32,566	*76,134	113,389
Refined copper stocks at end of period (tons of 2,000 lbs.)	128,441	76,494	72,791
COTTON AND LINTERS — DEPT. OF COMMERCE — RUNNING BALES—			
Lint—Consumed month of May	580,078	597,031	785,516
In consuming establishments as of May 31	1,277,423	1,448,450	2,006,769
In public storage as of May 31	5,079,999	5,871,447	2,232,911
Linters—Consumed month of May	126,420	119,985	98,910
In consuming establishments as of May 31	289,901	335,166	250,819
In public storage as of May 31	96,601	112,586	75,816
Cotton spindles active as of May 31	19,862,000	19,801,000	21,723,000
DEPARTMENT STORE SALES (FEDERAL RESERVE SYSTEM)—(1935-39 Average=100) Month of May:			
Adjusted for seasonal variation	296	294	*305
Without seasonal adjustment	291	295	300
DEPARTMENT STORE SALES—SECOND FEDERAL RESERVE DISTRICT, FEDERAL RESERVE BANK OF N. Y. — 1935-39 AVERAGE = 100—Month of May:			
Sales (average monthly), unadjusted	225	242	247
Sales (average daily), unadjusted	230	237	252
Sales (average daily), seasonally adjusted	239	242	262
Stocks, unadjusted as of April 30	227	237	*248
Stocks seasonally adjusted as of April 30	224	230	*244
INTERSTATE COMMERCE COMMISSION — Index of Railway Employment at middle of May (1935-39 average = 100)	‡121.7	‡121.0	130.0
LIFE INSURANCE PURCHASES — INSTITUTE OF LIFE INSURANCE — Month of May (000's omitted)—			
Ordinary	$1,245,000	$1,256,000	$1,196,000
Industrial	431,000	414,000	418,000
Group	185,000	182,000	166,000
Total	$1,861,000	$1,852,000	$1,780,000
MAGNESIUM WROUGHT PRODUCTS (DEPT. OF COMMERCE)—Month of April:			
Shipments (in pounds)	537,000	672,000	516,000
MALLEABLE IRON CASTINGS (DEPT. OF COMMERCE)—Month of April:			
Shipments (short tons)	61,329	72,052	80,602
For sale (short tons)	31,728	38,143	46,034
For producers' own use (short tons)	29,601	33,909	34,568
Orders booked, less cancellation, for sale (short tons)	24,307	22,204	42,261
Unfilled orders, end of month, for sale (short tons)	94,958	102,379	199,578
METAL OUTPUT (BUREAU OF MINES)—Month of April:			
Mine production of recoverable metals in the United States:			
Copper (in short tons)	72,836	*77,873	74,344
Gold (in fine ounces)	161,669	*152,917	156,556
Lead (in short tons)	37,316	*39,822	35,111
Silver (in fine ounces)	3,388,198	*3,450,237	3,434,747
Zinc (in short tons)	59,091	*60,980	53,425
TREASURY MARKET TRANSACTIONS IN DIRECT AND GUARANTEED SECURITIES OF U. S. A.—Month of May:			
Net sales	$54,659,950	------	$30,404,500
Net purchases	------	$1,505,250	------

*Revised figure. ‡Preliminary figure.

The Omnipotent State and Private Lending

(Continued from page 11)

short-run considerations that we do not look ahead to perceive the indirect effects in the long run upon the system of private enterprise and individual liberty as a whole.

Moreover, only a relatively trifling number of the four million business enterprisers in this country are engaged in making consumer loans. So who cares about whether, under a control like Regulation W, the government moves in to absorb some of their functions or to hamper them in the satisfactory performance of their functions in serving the people? The railroad enterpriser may say that he doesn't care (although he is extremely disturbed over the attempt of the government to collect fantastic refunds from the railroads, which would hamstring them in satisfactorily performing their functions and thereby accomplish another important step down the planned road to the ultimate government ownership of the railroads). The steel enterpriser may say that this government control and consumer credit thing, and that railroad business for that matter, is absolutely no concern to him, and why ask him to bother thinking about it anyway? (He may possibly opine to himself, "Might be a good idea at that; the government might haul my steel cheaper." But this would be only a passing fancy, because what he is quite concerned about is the preliminary feint already made by the Planners in his direction, i.e., the proposal to construct a government-owned steel plant which, he realizes, is the logical and necessary first step toward an eventual substitution of government ownership in place of private enterprise in the steel industry.)

But without further illustrations, let us summarize from the foregoing paragraphs a principle of outstanding importance which appears to guarantee the gradual but certain establishment in due time of the Omnipotent State. The principle is this: "Pick 'em off one at a time." Or, in more scholarly language, "Gain control in one sector at a time, and accomplish this a little at a time." Gaining a little control in one sector at a time (like a Regulation W, or only one government steel plant as a starter) is easier because there will be but little opposition, and this little gain can be consolidated as a basis for further extension of government control in the same sector and for entrance in other sectors. It is consistent with this principle to offer a great number of programs involving a large number of controls so that Congress, in an attempt to placate the Planners, will grant at least some new additional government control. This now leads us to a consideration of the three fundamental steps in the technique of transition to the ultimate goal of the Omnipotent State.

The Technique of Transition

The three steps are the following. First, hamper private enterprise in various ways so that it begins to fail to perform its functions satisfactorily in serving the people. Second, publicize then the charge that "Private enterprise has failed." Third, proclaim that the government, therefore, must logically take over. These steps do not occur for the entire economy at the same time, but take place at different times for different industries and in different communities. Also, the steps do not take place in rapid sequence; there may be a long time between steps, depending upon the sturdiness of the private enterprise involved. Let us spell out the meaning of the three steps, making reference here and there to our example of the consumer loan field.

What is referred to by Step No. 1 is the gradual, long-continued substitution of government for private enterprise rather than "the dramatic breakdown of private enterprise represented by depression and unemployment." It should be understood, here, that Planners of the American type try to prevent depressions because they are out to "save capitalism," although they do strive continually for ever-increasing extension of government control and government ownership. Such extension inevitably leads to the creation of the Omnipotent State regardless of the fact that the Planners think that their method is the only one for saving private enterprise and individual liberty.

Of the various ways in which the functions of private enterprise may be hampered, undoubtedly the most effective is the extremely heavy taxation required to carry out the diverse laudable programs necessitated to make us into a Social Welfare State. Another effective method is the passage of restrictive laws, like Regulation W, or the failure to pass legislation enabling private enterprise to function satisfactorily in meeting the needs of the public under changed conditions. Examples of the latter would be a revision of state banking legislation which permits banks to carry on a consumer instalment loan business but specifies a rate of charge so low that the banks cannot function satisfactorily in fully serving their clientele, or failure to pass legislation increasing the maximum loan limit of the consumer finance companies to correspond to the changed conditions represented by doubled wage-earner incomes and the 70% increase in the cost of living.

Often Federal or state legislation hampering private enterprise is enacted against the better judgment of legislators who feel, however, that they cannot do otherwise in view of the control exercised over them by greedy pressure groups. Finally, private enterprisers themselves are important helpmates of the Planners in the well-intentioned effort to institute by degrees the Omnipotent State. Sometimes, as mentioned previously in connection with Regulation W, some private enterprisers may ask the government to take over part of their functions. More often the case is one in which one group of private enterprisers exercises pressure upon government either (1) to get a law passed for the purpose of hampering another group of enterprisers from functioning effectively in serving the public, or (2) to prevent the other group from securing legislation imperatively needed to enable it to continue to exist and serve the people satisfactorily under changed conditions.

Committing Treason Against Private Enterprise

Thus, various groups of private enterprisers are continuously committing treason against their own competitive private enterprise system; it is difficult to understand how they can expect to "save capitalism" when they are so busy undermining it. How the Planners must chuckle over this spectacle! It makes the accomplishment of their dream so much easier. The unfortunate thing about this whole matter is that the fears which lead one group of enterprisers to use government as a means of throttling or hampering another group are at bottom imaginary. For example, in the consumer loan field where free and full functioning of both banks and consumer finance companies exists, as in California, the actual area of competition between the two types of institutions does not cover more than 10% of the borrowers. This is because the companies compete among themselves for the very small borrowers and for those larger borrowers who represent more than bank-grade risks, at least 90% of which business is not considered desirable by the banks; while the banks compete among themselves for the great public represented by acceptable risks. "But," a private enterpriser may object, "there is still 10% competition, and we might be able to take this business if we get the government to hamper the other fellow in the right way." Yes, there is such competition, and there is 10 times as much, namely 100% competition, as between the banks themselves in serving the public. But when enterprisers become so soft that they are afraid and unwilling to stand on their own feet and compete freely and fairly in serving the people, then the reason for permitting the continuance of private enterprise vanishes.

With regard to the second step, it is not necessary for private enterprises to fail in the sense of closing down or going bankrupt for the Planners to seek to arouse the people with the claim that "Private enterprise had failed." For example, Regulation W was restored, not on the ground that our private institutions were failing to fully serve the needs of consumer-borrowers and buyers, but on the claim that private enterprise would not contribute toward stability in the future.

As a matter of fact, the banks, consumer finance companies and other private institutions are doing a first-class job in serving the needs of their respective clienteles. The main need of the banks, which are relative newcomers in the field of consumer instalment loans, is scientific study of their costs in this kind of business in view of the pronounced postwar rise in labor costs and other expenses. And if such studies reveal the need for higher legal rates, these should be granted by government to enable the banks to function satisfactorily in serving society. The main need of the consumer finance companies, which are the second most important institutions in the field, is higher maximum loan limits in view of the fact that their patrons, because of the higher cost of living, need to borrow $500 to obtain as much purchasing and paying power as they got out of $300 before the war. And state governments are proving that they are aware of the desirability of granting the higher legal limits so that these private enterprisers may be able to continue functioning effectively in serving their borrowers.

Various Degrees of Government "Take-Over"

With regard to the third step, there are various degrees in which the government "takes over." It may, as a starter, merely take over part of the managerial functions of the private enterprise group in question, as exemplified by Regulation W. A higher degree of taking over follows when the government introduces its own subsidized agencies to compete with a particular group of private enterprisers. Here, there occurs a very obvious shrinkage in the proportion of the economy represented by the private enterprise system, and a growth absolutely and relatively of government ownership and operation. Finally, the deciding degree is reached in the Omnipotent State where gradually in one industry after another the government achieves preponderance in ownership or control of the institutions concerned.

In conclusion, the question arises as to just what, if anything, a private enterpriser can do specifically in case he prefers the system of private enterprise and individual liberty to the Omnipotent State. He can resist the impulse to run to the government and ask it to assume his risks for him or take over other functions from him. He can protest (and let his customers know about it) the attempts of Planners to force him to surrender functions to the government. He can refuse to engage in the practice of trying to get the government to enact legislation for the purpose of preventing other private enterprisers from functioning satisfactorily in serving the American people. He can support the efforts of other private enterprisers, including his competitors, to secure conditions under which they can continue to satisfactorily perform their functions in serving the public on the basis of free and fair competition. In short, he can place devotion to a principle above the short-sighted devotion to expediency which undermines the system of private enterprise.

He can, if he is the consumer loan officer of a bank, realize that the banks occupy the position of outstanding leadership in the consumer loan field, and must accept the responsibility to rally the forces of all the private enterprisers in that field. He can decide, therefore, to get to know personally the managers of the different types of consumer lending institutions in his area, and to participate in periodic meetings of all these private enterprisers (just as in hundreds of communities throughout the country the retail credit managers of all types and sizes of firms selling at retail engage in meetings to discuss problems which are common to all). In a word, the private enterpriser can determine to compete with his competitors and to cooperate with them against the Great Competitor.

Restoring Price-Wage Balance, A Readjustment Problem

(Continued from page 4)

year would not foot this bill for more than six months.

The simple truth is that the preponderant part of governmental costs can neither be shifted to corporations nor to the "other fellow." They fall upon the whole people. We pay them not alone in high taxes but in higher prices for everything we eat, drink, wear or use. We pay even more when they throttle business expansion.

We need this long range expansion to create a much broader tax base over which we can spread the high governmental costs which are the inevitable economic heritage of great modern wars. We cannot secure this broader base without a greatly increased supply of private enterprise. Without it, we cannot provide additional production and more and better jobs for a growing population. But the outlook is dimmed because the political abuse of the taxing power, particularly the progressive principle of income taxation, has severely damaged private incentive. We have violated nearly every canon of sound taxation. Intelligent reform is an urgent but also a slow and tedious task.

The psychology of our job makers in great and small enterprise is a dominating factor in making business good or bad. Members of the press have often been called the "fourth estate," but for nearly two decades our job makers have been regarded as the "fifth estate."[3] Yet this group of able, adventurous and far-sighted men bring together capital, labor and managerial skill. They are the "spark plugs" that make our system work. Their accomplishments have been stupendous; their mistakes comparatively insignificant. Without our private job makers, our working millions would have no means of earning a high standard of living; there would be no individual liberty, and there would be no security.

Playing the Ends Against the Middle

As some enlightened labor leaders have occasionally said, we cannot solve our problems by playing the job holders against the job makers, nor by playing one social or economic group against another. When we foster such antagonisms and penalize or belittle economic motivation, we devitalize the spirit of enterprise. We make it difficult to secure much-needed unity on the economic front. We waste our "know how" which is our most precious national resource. Perhaps the best hope of weathering this current readjustment and more severe economic storms that generally follow great wars, is to recognize the necessity for economic unity and to do something about it.

These broad considerations have much to do with the making of confidence. In a free enterprise system, private money and credit cannot be forced to venture. Moreover, there is no feasible political substitute. It has been often said that we need a political and economic "climate" favorable to business growth. The current readjustment is essentially a process of restoring economic balance as a necessary prelude to that growth. Government may help or gravely impede this process.

Causes of Economic Distortions

The causes of the economic distortions that now confront us have been aptly described by our most distinguished authority on price behavior in this way:[4]

"The customary accounting and monetary measurements of economic activity and of productive accomplishment have been swelled by the factitious gains of inflation. Such inflationary differences . . . which are manifest in the unequal movements of prices, wages and profits, affect producing and consuming groups unequally. From these inequalities stem the major economic difficulties that grow out of inflation (and in the reverse situation, out of deflation). Trading relations among economic groups are altered . . . These changes affect individuals; they also modify the conditions under which broad economic groups cooperate in the productive process."

Perhaps we can better understand this term "economic balance" if we view it from our own doorsteps. As merchants we are always weighing relative values and prices. More concretely, we are now saying that basic cotton goods are generally cheap relative to worsteds, that good shoes are dear relative to good hosiery, or that rayon dresses are cheap relative to furniture. That is the way our customers regard our offerings and respond to our promotions. We relate our costs to price and volume. When these and other factors are in proper relationship, we have confidence in our ability to sell more and to earn a reasonable profit.

One rough measure of balance in the whole economy is the re-

3 Griffin, Op. Cit.

4 Mills, Frederic C., *The Structure of Postwar Prices*, Occasional Paper No. 27, National Bureau of Economic Research, New York, July 1948, p. 2.

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Trust Function Responsibility In Preservation of Capitalism

(Continued from page 7)

get that intangible feel of strength or weakness involved in making a loan or buying an investment.

Investment Function

Admitting then that we, in the nature of things, are equipped to invest, as well as to lend, money, what are our responsibilities and opportunities in these troubled times and in the years to come? I believe that our responsibilities are very great indeed — never greater — and that, if accepted, they cannot fail to bring opportunities for growth and profit, as well as public recognition of the highest order.

To say that never again will it be possible for anyone to accumulate property or to save sufficient funds to leave an estate of more than nominal proportions is to say that our free enterprise system is dead, or nearly so, and that liberty is in a fair way to follow the dodo into extinction. A capitalistic system cannot survive without capital, and capital cannot exist without savings, and savings cannot be put to useful purpose without proper administration and investment management. In this way, the banking system, if it wishes to do so, is well fitted to take a predominant part in preserving this important phase of our way of life.

I, for one, am not prepared to go on the theory that there will no longer be a significant place for the trust functions of a bank. I much prefer the thesis that the American people will in due time pass through this most unsatisfactory period of readjustment and reorientation. Perhaps it is needless to add that sound, courageous policies in our banking system can well turn out to be one of the major elements in keeping our country away from some form of "state-ism"—whether it be communism, socialism, or "welfare-ism."

Let us assume, then, that we will continue to have responsibilities of an investment and trust character to perform. How can we best carry out these duties and what can we do to establish definitely in the public mind our ability to discharge these obligations with wisdom, foresight and courage?

In the first place I believe in the value of diversification in the type of business handled. Service only as executor and trustee can be a very narrowing influence on investment policy. Adding the management of living funds——whether individual, charitable, or corporate—broadens the thinking of investment and trust departments and necessitates familiarity with and knowledge of a much wider range of security markets. Furthermore, a smaller institution, by giving complete investment service, has much greater opportunities for profitable operation in this way, than if it confined itself strictly to fiduciary appointments.

Somewhat along the same line of thought is the question of family relationships. Too often a bank or trust company has seemed a formidable and impersonal place for a bereaved family to seek financial advice and help, especially without previous contact with the institution's officers and staff. How much better it is to have a financial and investment relationship with the family over a period of years, leading to mutual confidence and understanding under all circumstances and conditions. There is no better method of increasing the number of executorship appointments lodged with banking institutions than by providing investment advisory or management facilities for individuals during their lifetime.

Investment Management Should Be Hand-Tailored

The management of investments, whether as executor, trustee, agent, or adviser, should be a hand-tailored and not a mass-production operation. Too many banks have tried to avoid liability, loss, and other troubles by reducing their personal trust business to formulas, approved lists and percentages, administered by a series of committees. Committee management, in all departments, is the curse of the banking business, and must give way to that type of individual judgment and responsibility that has in the past justified banking's place as one of the most respected professions.

I realize that the trust problems of banks differ with their size and type, and that what I am saying may appear too general for this reason. However, there is no doubt in my mind as to the need for banking services of an investment character in all kinds of communities, and I believe the responsibility rests on the local institutions to do the job.

Banks are nothing more nor less than the people in them and they have no patented product to sell. We all operate with the same legal powers, can offer the same facilities, and are susceptible to the same errors of judgment. Our differences are only in size and in people, or to put it another way, in degree and in quality. Do your utmost, then, to staff your trust departments with the best you have and can find; and above all, give them opportunities within and beyond their immediate departments. Consider them bankers, not specialists, and take measures and pains to see that they are not kept in a side alley, but that they are brought into the main stream of the business—where they truly belong. Furthermore, let them assume responsibility for their departments, without needless harassment and frustrating fear of error. Remember that to be always right in investing money can only come from the same stultifying kind of policy that would produce a loan portfolio without risk; and I need hardly tell you how long, or rather how short, would be the career of any bank that operated on that basis.

In handling investment funds, as in handling loans, each case is completely different from the next. No formula can possibly meet the needs of more than one trust, estate, or advisory account. A rather widespread attempt to do so has led to an excess of caution, and, as we all know, the loss of much valuable business that has gone to individual appointments. These are days of complicated financial and economic problems. It is particularly important that, with our whole way of life threatened, the administration of investment funds be dynamic and courageous. After all, no small part of the working capital of industry and commerce is entrusted to our care, if we look at the aggregate of trust and agency assets over the whole country.

Leadership Essential

In addition, I hope we will continue, as bankers, to warrant respect and confidence in our various communities. Our influence, in that case, goes beyond the immediate business in our several banks. This means leadership, and it must be constructive leadership, or it soon ceases to be anything at all. Too frequently in past years we have failed to exercise this leadership and have hesitated to say what we think and to fight for what we believe. Regardless of the cause for this attitude, we must now take every opportunity to point out what is at stake in present-day financial trends, speaking always from the point of view of public good rather than private gain. I urge you particularly to speak with knowledge, authority, and conviction on the ruinous effects on our free enterprise system of excessive governmental costs and resultant high taxes and government borrowings. These are complicated financial questions and the general public has, of necessity, little real understanding of them. We must explain to them how important it is to maintain the free flow of capital and how this flow is being stifled by policies that discourage investment in risk and growth enterprises. Also, we all realize that one important phase of our maintaining our high standard of living, as well as of establishing the United States in world leadership, is the investment of dollars abroad. To do this, in addition to providing for our own capital needs, will require sound thinking in all quarters, and sound leadership in the financial community, of which we of the New York State Bankers Association are a very important part.

Restoring Price-Wage Balance, A Readjustment Problem

(Continued from page 41)

lationship of various groups of wholesale prices to the general average of all prices. When economic conditions are healthy, commodity prices tend to move in a comparatively narrow range above and below the general average. During the war and postwar period, the normal balance in the price structure was greatly disturbed. From 1942 to 1949, prices of farm products and foods have been relatively high and prices of other commodities relatively low. Analysis of the consumer price indexes shows similar disparities. Prices of foods and apparel are still out of line with other commodities and with rents which have been artificially depressed.

Controls and Restoration of Balance

The problem of securing reasonable balance in the general price structure is complicated by government controls. It is our national policy to maintain supports for agricultural prices by means of the so-called "parity" formula, but now these support levels are being severely tested. As much as two billions of the people's money may be spent this year to hold up the "parity" prices of farm products, including raw cotton, wool and tobacco. Intelligent retreat from these controls is a highly complex political, economic and social problem. But the fact remains that they are important factors in the continued high cost of living. They are reflected in the wage structure, in the costs of all goods and services, and also in rising public assistance costs.

There are real difficulties in attaining economic equilibrium when important segments of the economy are under control and others are subject to natural corrective forces. Nevertheless, progress toward the restoration of sound price relationships is being made. The general situation is a little better than one year ago. Prices of agricultural products are bumping along the support levels. There have been drastic reductions in prices of basic cotton goods and rayons and a wide variety of products manufactured from these materials. Under the stress of inventory reduction, prices of some types of consumer goods may have fallen to lower levels than can be maintained. Other types of consumer goods remain relatively high and must undergo downward adjustment to safer relative levels. However, a very large part of the broad readjustment in prices of consumer goods has already taken place.

But the downward drift of the general price level seems likely to continue. It may well be six to twelve months before we attain a right degree of price balance along a broad economic front. In any event, when monetary and other factors are weighed, there appears to be little basis for the extreme fears that often characterize our current thinking on price trends.

Needed Reduction of Unit Labor Costs

Eight years of rising business volume have been accompanied by sharp advances in costs, particularly unit labor costs. Somehow we must find ways to get these and other costs down in proper relation to lower prices. Output per man hour rose sharply between 1920 and 1922 and there was considerable reduction in unit labor costs. While there is now much greater rigidity in wage rates than prevailed in the earlier period, more production at lower unit costs is by no means an insuperable problem. It is difficult to believe that the wastes and inefficiencies of great expansion cannot be corrected and substantial cost reductions effected. Lower prices, greater production and lower costs are the normal sequences of a readjustment period.

With the right sort of cooperation by government, labor and management, this readjustment period could be measurably shortened. The future is very largely what we make it. Like freedom, it is everybody's business. With broad unsatisfied markets, low personal indebtedness and great liquid resources, good leadership should make possible the beginnings of a revival within a comparatively short period, perhaps within the next twelve months.

The sales outlook for our own trade is of paramount interest to this group. Good forecasting, however, is a difficult art in which economic appraisal, historical observation, understanding of individual and mass motivation, judgment and pure "hunch" are strangely mixed. Perhaps a good guess now is that the sales trend will continue downward, possibly with minor interruptions, for the remainder of the year. Possibly a six or seven percent decline from 1948 is a good expectation for 1949. While historical comparisons have restricted value, it is worthy of note that the decline in department store sales between 1920 and 1921 was about 7%; and between 1937 and 1938, about 7½%. There seems to be no good reason now to expect a more radical change. Much will depend, of course, upon how quickly we relearn the merchandising arts we have neglected in the past eight years of easy expansion. But few trades adapt themselves more quickly to changing conditions. We have done it before. We can do it again.

With Paul R. Flynn

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Paul Keller has been added to the staff of Paul R. Flynn Co., 411 West Seventh Street.

Stone & Webster Group Offers Tennessee Gas Transmission Bonds

Additional financing for the continuing expansion program of Tennessee Gas Transmission Co. was undertaken with the public offering June 21 of a new issue of $50,000,000 of 3% first mortgage pipe line bonds, due June 1, 1969. Stone & Webster Securities Corp. and White, Weld & Co. jointly headed a nationwide group of 56 investment banking firms which won the issue at competitive bidding June 20 on its bid of 100.3399. The bonds are being reoffered at 100.75 and accrued interest, yielding 2.95% to maturity.

The major portion of the proceeds from the sale of bonds will be used for the expansion of delivery capacity of the pipeline from the present daily capacity of 615,000 MCF of natural gas to the current authorized capacity of 831,000 MCF per day.

Operation of a sinking fund will retire $48,200,000 of the issue prior to maturity at redemption prices ranging from 100.73 in 1950 to par in 1968. General redemption prices range from 103.75 in the 12 months ended May 31, 1950 to par on and after June 1, 1968.

Initially designed to deliver approximately 200,000 MCF of natural gas per day, the company has progressively increased its capacity to the present figure of 615,000 MCF. Subject to unforeseen contingencies, the company expects to reach 710,000 MCF per day by the end of 1949 and 831,000 MCF per day by the winter of 1950-51; at a cost of approximately $73,000,000.

Applications pending before the Federal Power Commission seeking authority to increase daily delivery capacity to 1,060,000 MCF involve principally the extension of the company's pipeline system to make direct deliveries of natural gas in eastern Ohio, Pennsylvania and western New York State. Such extensions are expected to cost approximately $90,000,000. In addition, the company has taken preliminary steps to obtain a certificate of public convenience and necessity to construct additional facilities to serve eastern New York and New England areas not now receiving natural gas service.

Principal customers of the company are the Columbia Gas and Consolidated Natural Gas Systems which together sell at least 60% of the gas sold in the Appalachian area. Operating revenues of the Tennessee Gas Transmission System for the 12 months ended April 30, 1949, totaled $34,313,679 and net income amounted to $7,792,892.

Capitalization of the company to be outstanding after the sale of bonds consists of $160,155,000 of long-term debt; 200,000 shares of cumulative preferred stock, in two series, and 3,333,333 shares of common stock.

Walter W. Grupp Opens

BUFFALO, N. Y.—Walter W. Grupp is engaging in a securities business from offices at 310 Depew Avenue.

Harvey Halper Opens

BROOKLYN, N. Y. — Harvey Halper is opening offices at 990 E. 31st Street to engage in a securities business.

Monetary Stability and Convertibility

(Continued from page 13)

ance is made, however, for dollars from Marshall Aid appropriations granted but not yet received then the total reserve is still somewhat above the danger point. It is encouraging in the extreme that Marshall Aid appears just about sufficient to cover our dollar deficit at the level to which it has been reduced, so that the net drain on the reserve has been halted. Even so, the level of the exchange reserve is far from comfortable and provides little margin for the taking of risks. With a reserve of the absolute minimum consistent with safety, our freedom of action is necessarily limited; that is part of the price we still have to pay for the debacle of 1947.

An early return to convertibility, then, is only feasible if we can be reasonably confident that there will be no repetition of the enormous gold drain of 1947. Such losses might be occasioned either by a dollar deficit on the current balance of payments or by capital transactions. We can therefore lay down the following conditions of convertibility:

First, the dollar deficit of the sterling area on current account must either be eliminated, or if a deficit persists then it must be covered by some means other than drafts on the gold reserve. At present, as we have seen, the deficit is being bridged by Marshall Aid. As we all know, however, Marshall Aid itself is to come to an end in 1952-53, and it is the intention of the British Government to taper off its successive annual demands at the rate of one-quarter of the original allocation, so as to be entirely independent by 1952. It follows that if we are not to be confronted with a widening of the dollar deficit involving a new drain on the exchange reserves, the dollar earnings of the sterling area must increase at roughly the same rate at which Marshall Aid is reduced.

Actually, even the British four-year program submitted to O.E.E.C. does not envisage that the deficit will be entirely eliminated by 1952, but it is perhaps reasonable to hope that the residual deficit will be bridged in some other fashion: for example, by an influx of privately owned American capital.

Western Europe Must Also Remove "Dollar Gap"

What may not be sufficiently realized is that if the convertibility of sterling is to be restored then the countries of Western Europe also must get rid of the dollar gap in their balance of payments or make alternative arrangements for the financing of any remaining deficit. In other words, given the low level of Britain's exchange reserves, it would be an illusion for Western Europe to indulge in nostalgic hopes of an early return to the prewar system which enabled them to finance a dollar deficit by running an export surplus in trade with the sterling area. That system was only made possible, in the last analysis, by the United Kingdom's large invisible earnings on overseas assets which have been used to pay for the war. A new situation has thus been created which demands certain structural changes involving a closer approach to bilateral balance between Western Europe and the sterling area. In the words of the recent report to Congress by the Economic Cooperation Administration, "Western Europe can never become self-sustaining if each country plans to balance its external accounts by earning a surplus with its neighbors which it then expects to convert into dollars to cover its deficit with the Western Hemisphere."

Two further condtions are implied. Continental Europe cannot hope to achieve dollar balance unless, first, countries which are still in the throes of inflation manage to balance their budgets and generally put their finances in order. It is well recognized that a country whose internal finances are inflationary will find it difficult to achieve external balance. What needs to be stressed is that inflation in one country also makes it more difficult for others to achieve real equilibrium. In 1948 the United Kingdom came very near to achieving overall balance, a large deficit in trade with the dollar countries being offset by a substantial export surplus to other areas. In part, this export surplus was the result of deliberate policies, such as the grants extended to some Western European countries under the intra-European payments scheme. But in part such export surpluses were involuntary, the obverse of the failure to direct a sufficient proportion of our exports to the dollar area. The difficulty was that, at the prevailing rates of exchange, the dollar countries tend also to be countries with a low price level, and therefore highly competitive markets offering no great attraction to exporters, while the exact reverse is true of many European countries. Hence it can be laid down as our second condition for a restoration of convertibility that trade cannot flow smoothly in its new channels unless exchange rates are adjusted to their new equilibrium vis-a-vis the dollar. The object of such a new alignment would, of course, be to remove the present wide disparities in price levels which give rise to the distinction between "hard" and "soft" currencies, and to restore once again something like a unified world price level. It is, of course, conceivable that this result might come about without the need for a devaluation of European currencies in terms of the dollar, given sufficiently favorable movements in such factors as the trend of relative prices and of relative productivity. What is surely incontestable is that at the present moment the domestic price level inside many European countries is definitely too high to justify the exchange rates at present in force.

Conversions on Capital Account

So much for the position on current account. Far more dangerous to the maintenance of convertibility, as we learnt to our cost in 1947, would be heavy conversions on capital account. In this respect, the situation is definitely improved, for Sterling is today in far less abundant supply in many parts of the world than was the case 18 months ago. It is true that no radical solution has been attempted of the problem of the abnormal Sterling balances built up during the war. On the other hand, the piecemeal methods adopted for dealing with this problem appear to have been reasonably successful. Useful inroads into the capital liability have been made by such transactions as the sale of annuities and surplus war stores to India, while the sum owing has been further reduced by current releases, under short-term agreements, at a greater rate than at one time seemed possible — at a pace, indeed, which has been criticized within Britain as imposing on that country too heavy a burden of unrequited exports. These arrangements have made it possible for various overseas holders of Sterling to utilize their balances for their more urgent import requirements, correspondingly increasing their desire to conserve the remainder. Moreover, the reduction in the net sum owing is not the full measure of the progress made; for this decline in the net debt results from a larger gross repayment to some creditors offset by fresh acquisitions by other countries, and this redistribution produces a more tolerable and tractable situation.

At the same time, the administrative arrangements governing transfers of sterling have been improved. In place of the unrestricted and unsupervised convertibility of August 1947 there has grown up a system of "administrative convertibility" which in practice permits considerable freedom in the use of sterling for multilateral settlements. A mere extension and liberalization of this system, should circumstances permit, would imperceptibly usher in a new era of convertibility unheralded by any formal decision like that of July 1947. Better still, of course, would be a revival of confidence in sterling on a scale sufficient to render these administrative arrangements altogether unnecessary and to permit free convertibility, at any rate of new balances, on capital as well as current account. To look forward to such a revival is surely not mere wishful thinking. On the contrary, such hopes are encouraged by a combination of favorable trends, such as Sir Stafford Cripps' austere budget policy and the consequent halting of inflation within the United Kingdom, the success of Britain's export drive and the reduction in the dollar imports of the whole sterling area, which together have brought the sterling area within striking distance of dollar balance.

Duty of Creditor Nations

Up to this point I have been discussing measures which must be taken by deficit countries if we are to return to a world of free and stable exchanges. Let me conclude by emphasizing that the creditor nations also have their responsibilities. As long ago as 1943, the U. S. Department of Commerce stressed that we cannot hope to sweep away restrictions and discriminatory practices unless the supply of dollars made available to the outside world is both more regular and more ample than in the past. To ensure regularity in the dollar supply demands "the attainment by the United States of a more fully and more smoothly operating domestic economy"; to amplify the flow we must look to a progressive increase in American purchases of goods and services from the outside world. In short, the solution of the world's long-run dollar problem calls for action by our American friends no less vigorous and magnanimous than the successive steps — from Lend Lease to Marshall Aid — by which they have made dollars available during the war and the critical postwar transition. I do not say that the whole responsibility rests upon the United States. Far from it. The deficit countries, as I have stressed earlier, also have their part to play. But it is only through the combination of their efforts with liberal commercial policies on the part of the United States that we can hope to bring into being the non-discriminatory, multilateral trading world that we all desire.

Joseph C. Hyatt Joins Fahnestock Staff in Chicago

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — Joseph C. Hyatt has become associated with Fahnestock & Co., 135 South La Salle Street. He was formerly with Paul H. Davis & Co. for many years and in the past was a partner in Addison Warner & Co.

What's Needed for Currency Stabilization?

(Continued from page 13)

dence in the national money and when that occurs one of the foundation pillars of our economy is weakened if not demolished. The Monetary Fund was in my view organized in the hope of maintaining the value in purchasing power of the world's currencies as well as their stability in terms of each other, and on this point I regret I must disagree with Sir Jeremy's words about "stability subject to periodic adjustments" for that seems to me a contradiction in terms. I might call what I have just said a theoretical statement on the subject of reducing international prices. I hope now to show that theory and practice differ widely in this field as well as in most others.

Case of Italy

Having spent a minute or two on the choice between the difficulties of falling domestic prices and the ease of devaluation, let us now turn our attention to a country where great changes for the better have been observed and try to see what brought these changes about. The country I have in mind is Italy and you will understand that this is only by way of example. The same conclusions can be drawn from observations elsewhere, but Italy is at present the most recent and striking instance of what I want to illustrate.

Two years ago in the summer of 1947 Italy had not yet found the means to stop wartime inflation. With all other countries, I think without exception, Italy had an adverse trade balance and things were going from bad to worse. The danger seemed very real that inflation might get beyond control and lead to a situation such as those we have seen in Greece and Hungary since the close of hostilities in 1945. Then in September, 1947, President Einaudi of the Italian Republic who was then Minister of the Budget and Vice-Premier, persuaded his colleagues in the government to adopt a policy of severe credit restriction coupled with a program to balance the budget over a period of two years This checked the inflationary boom and led in the following spring to rather serious unemployment. I have not seen detailed statistics but the figure of two million people out of work is generally accepted. Although this is always a bitter experience for those directly affected, there were other developments which must be borne in mind if the situation as a whole is to be accurately judged. With the period of unnaturally high domestic purchasing power at an end, producers had to export if they were to get rid of their goods and the result has been astonishing. When trade between the Marshall Plan countries was being studied and analyzed during the summer last year it became evident that Italy, during the period of 12 months which will end in just over a fortnight, would be a creditor of all Marshall Plan countries with only two exceptions. Italy was expected to have an adverse balance of payments with London by reason of buying raw materials from members of the sterling bloc, but this has not turned out to be the case. Italy is today accumulating sterling; she is a creditor of London. The situation between Italy and Austria was expected to be roughly in balance. I have not seen any recent figures bearing on this. With all the other Marshall Plan countries Italy is a creditor, a creditor even of Belgium. To my mind the transformation of Italy's position within the Marshall Plan group of countries from one of being a debtor on all sides to that of a creditor everywhere, all within a period of less than two years, is one of the most astonishing occurrences of which I know in the field of international finance.

Now let us take a look at how the question of exchange rates was dealt with during this period. The device adopted was a combination of a fixed official rate and a free fluctuating rate. Exporters were—and for all I know they still are—required to deliver a part of their receipts in foreign currency—I think it was 50%—at the official rate and they were free to sell the balance at the best price they could get. This mechanism enabled the rate to adjust itself to the needs of the economy. In spite of its being contrary to the doctrine of fixed rates, which is supported, I understand, by the International Monetary Fund, I can not take serious issue with a means, which has proved successful in practice, of answering the extremely difficult and important question of the value at which a currency can maintain itself in relation to others. The Italian lira is now in such short supply that it is giving concern to E.C.A.

At this point please let me make it clear that what I have been saying about Italy and her creditor position applies only within the Marshall Plan group of countries. There is still a substantial deficit with the dollar area, that is the Western Hemisphere. The change which has taken place has, however, also reduced the dollar deficit substantially and to that extent brought the day nearer when Italy can maintain her economy at its current level without assistance.

That brings me to the point which this brief talk is meant to illustrate. The need for dollars in world conditions as they exist today is aggravated by inflation and alleviated by checking inflation. This broad principle has been embodied in the Interim Report on the European Recovery Program issued by O.E.E.C., the Organization for European Economic Cooperation. To my mind this line of action is the one which should take priority over all others. There are a number of ways in which inflation can be brought about and probably an equal number of ways in which it can be checked. No two countries are wholly alike and each will require its own program of stabilization. Bearing these facts in mind I hope you will agree with me that, while I do not believe that the objectives of the Marshall Plan will be attained in toto by 1952, the most important step to be taken right now is to draw up and put into operation sound, practical programs of domestic monetary and fiscal stabilization. An important part of this program will deal with the adjustment of exchange rates and I hope I have argued cogently that the road to stability is through neither price reduction nor exchange rate reduction alone, but through domestic monetary stabilization accompanied, first, by a gradual adaptation of exchange rates to existing conditions and, second, by a suitable credit policy.

With Bache & Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—Norman C. Kalmar has become connected with Bache & Co., 135 South La Salle Street. He was formerly with Daniel F. Rice & Co.

Securities Now in Registration

● INDICATES ADDITIONS SINCE PREVIOUS ISSUE

Alps Mining & Milling Co., Missoula, Mont.
June 2 (letter of notification) 100,000 shares (5¢ par) common. **Price**—50¢ per share. **Underwriter**—Hachez & Brown, Spokane, Wash. To complete mill, purchase equipment and carry on development work. Office, P. O. Box 745, Missoula, Mont.

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), is offering 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 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 Loan & Finance Co., Hamilton, Ohio**
June 13 (letter of notification) 765 shares of 6% non-participating, non-accumulative preferred and 281 shares of 5% participating, non-accumulative preferred and $34,100 of 4% 5-year subordinated notes, $65,900 of 4% 5-year subordinated notes; and 954 shares of 5% participating, non-accumulative preferred. No underwriter. For operation of business and future expansion. Office 210 So. Third St., Hamilton, Ohio.

● **American Petroleum Co. of Colorado, Inc. Delta, Colo.**
June 13 (letter of notification) 100,000 shares of common stock, of which 50,000 shares would be issued for cash at $1 per share and 50,000 to be issued for the purchase of oil and gas interests and drilling and operating equipment at $1 per share. No underwriter. For a drilling and development program.

● **Anker-Holth Manufacturing Co., Port Huron, Michigan**
June 13 (letter of notification 275,000 shares of Class A common. **Price**—$1 per share. No underwriter. For payment of current and long term liabilities, for purchase of tools and inventories and for working cash capital. Office 2723 Connors St., Port Huron, Mich.

● **Atlantic Coast Fisheries Co., Boston, Mass.**
June 14 (letter of notification) 92,744 shares ($1 par) common. **Price**—$1.80 per share. No underwriter. **Offering**—Offered for subscription by stockholders of record June 17 in one-for-four ratio. Rights expire July 6. For additional working capital and for general corporate purposes.

● **Beryllium Mining Co., Inc., Seattle, Wash.**
June 14 (letter of notification) 60,000 shares (10¢ par) common. **Price**—30 cents per share. No underwriter. To purchase equipment to process crude mica. Office, 915 American Building, Seattle 4, Wash.

● **Billings (Mont.) Oil & Development Co.**
June 10 (letter of notification) 4,000 shares of capital stock (par $25). Price, par. No underwriter. To finance the corporation in its initial stages.

● **Bingham Herbrand Corp.**
June 14 (letter of notification) 10,000 common shares (par $1). **Price**—$9.50 per share. **Underwriter**—Wm. J. Mericka & Co., Cleveland. Proceeds to selling stockholder.

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.

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.

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 Ohio Light & Power Co., Findlay, Ohio**
June 17 filed 25,240 shares ($10 par) common. **Offering**—To be offered to common stockholders of record July 1 at the rate of one-for-five. **Underwriter**—The First Boston Corp., for unsubscribed shares. **Proceeds** — For construction.

Citizens Credit Corp., Washington, D. C.
June 16 (letter of notification) 2,000 shares ($12.50 par) class A common and 1,500 shares of (25c par) class B common. Price, class A, $15 per share and class B 50c per share. **Underwriter**—Emory S. Warren & Co., Washington, D. C. For general business purposes. Office: Woodward Building, Washington, D. C.

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.

Clary Multiplier Corp., Los Angeles, Calif.
June 9 (letter of notification) 60,000 shares 5½% cumulative convertible preferred stock (par $5). **Offering**—Offered for subscription by stockholders on a 1-for-5 basis at $4⅜ per share. Rights expire June 30. **Underwriter**—Walston, Hoffman & Goodwin, Los Angeles. To repay current bank loans and for general corporate purposes.

● **Coast Counties Gas & Electric Co.**
June 17 filed 75,000 shares ($25 par) cumulative preferred stock, series B. **Underwriter**—Name by amendment. **Proceeds**—To pay bank loans, if any, additions, improvements, etc.

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. Temporarily postponed.

● **Consolidated Loan, Inc., Reno, Nev.**
June 15 (letter of notification) 30,000 shares of common stock. **Price**—$10 per share. No underwriter. To engage in business of loaning money. Office, 319-329 Gazette Building, Reno, Nev.

Cornell Oil & Gas Corp., Houston, Texas
June 7 (letter of notification) 600,000 shares (1c par) common. Price, 50 cents per share. **Underwriter**—N. R. Real & Co., New York. For drilling and equipping six wells, for working capital and organizational expense.

● **Cripple Creek Mining & Milling Co., Lovelock, Nev.**
June 17 (letter of notification) 800,000 shares (25¢ par) common. **Price**—25 cents per share. No underwriter. for erection of mill and purchase of other mining property, equipment and for working capital. Office, Lovelock Mercantile Building, Lovelock, Nev.

● **Dayton (Ohio) Power & Light Co.**
June 17 filed 283,333 additional shares ($1 par) common. **Offering**—To be offered at rate of one-for-six to common stockholders of record July 7. **Underwriters** — Morgan Stanley & Co. and W. E. Hutton & Co. for unsubscribed shares. **Proceeds**—To repay the company's outstanding $5,000,000 bank loans and to finance a portion of its construction program in the remainder of 1949.

Delaware Power & Light Co. (7/6)
June 8 filed $10,000,000 first mortgage and collateral trust bonds, due 1979, and 50,000 shares of preferred ($100 par) cumulative stock. **Underwriters**—Names to be determined through competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc. (bonds); The First Boston Corp. and Blyth & Co., Inc. (jointly); Shields & Co. and White, Weld & Co. (jointly); Morgan Stanley & Co.; Otis & Co. (stock); W. C. Langley & Co.; Union Securities Corp. (bonds); Lehman Brothers; Salomon Bros. & Hutzler (bonds); Merrill Lynch, Pierce, Fenner & Beane, and Union Securities Corp. (jointly on stock). **Proceeds**—For construction for company and its two subsidiaries. Expected July 6.

Dow Chemical Co. (6/28)
June 15 filed 75,000 shares of common stock (par $15). **Underwriter**—Smith, Barney & Co. **Proceeds**—Company will receive no part of the proceeds as these shares represent a portion of the holdings of the estate of the late Willard S. Dow and the late Martha L. Dow who were killed in an airplane accident on March 31, 1949.

● **Electronic Computer Corp., Washington, D. C.**
June 13 (letter of notification) 18,000 shares of Class A common ($1 par) and 72,000 shares of Class B common ($1 par). To be offered in units of one share Class A and four shares of Class B at $15 per unit. **Underwriter**—O. H. Hecht, 1420 New York Ave., Washington, D. C. For tools, equipment and supplies, for expenses of issue; and for working capital.

Emerson Radio & Phonograph Corp.
June 7 filed 235,000 shares of capital stock. **Underwriter**—F. Eberstadt & Co., Inc. The terms and price of the offering have not yet been determined, but the stock will not be sold below the market price on the New York Stock Exchange at the time of the offering. **Proceeds**—The shares to be sold are from holdings of Mrs. Benjamin Abrams, Mrs. Max Abrams and Mrs. Louis Abrams, wives of principal officers and directors of the company, and do not involve new financing by the company. Following sale of the shares, the Abrams family will own approximately 25% of the company's 800,000 shares of common stock.

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. (6/29)
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.; Lehman Bros.; The First Boston Corp.; Carl M. Loeb; Rhoades & Co. and Bear, Stearns & Co. (jointly); Shields & Co. **Proceeds**—To pay off $3,200,000 of short-term borrowings from Central Hanover Bank & Trust Co. and for construction and other corporate purposes. Expected about June 29.

● **Gas Industries Fund, Inc.**
June 22 filed 660,000 shares of common stock (par $1). **Underwriter**—White, Weld & Co. **Proceeds**—Company will operate as a specialty fund investing in securities of companies identified with the gas industry.

● **Gate City Steel Works, Inc., Omaha, Neb.**
June 16 (letter of notification) 2,500 shares of 6% cumulative first preferred. **Price**—$100 per share. **Underwriter**—The First Trust Co. of Lincoln, Neb. **Proceeds**—To pay off $250,000 on a $1,000,000 promissory note owed by corporation to its sole stockholder, Glenn E. Nielson of Cody, Wyo.

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. Price at market. **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, and may include John J. Bergen & Co. and A. M. Kidder & Co. Underwriters 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.

● **Haskelite Manufacturing Corp., Grand Rapids, Michigan**
June 13 (letter of notification) 9,382 shares of common to be issued to 16 stockholders of Meyercord Compound Lumber Co. in exchange for their holdings of 10,422 shares of common of Meyercord. No underwriter. To operate Meyercord Compound as a wholly owned subsidiary.

● **Hawaiian Electric Co., Ltd., Honolulu**
June 21 filed 150,000 shares of series E cumulative ($20 par) preferred and 50,000 shares of ($20 par) common. **Offering**—Preferred will be offered to preferred holders at 1-for-3 rate and common will be offered to common stockholders at 1-for-9 rate. **Underwriters**—Dillon, Read & Co. Inc. and Dean Witter & Co. will buy unsubscribed preferred; unsubscribed common will be sold either at public auction or to the underwriters. **Proceeds**—To pay off short-term promissory notes and to carry merchandise inventories and receivables or to replenish treasury funds. The balance would be used for other corporate purposes or construction.

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.

Helicopter Air Service, Inc., Chicago (6/27)
June 9 filed 80,000 shares of convertible class A stock (par $4). **Underwriter**—Cruttenden & Co. **Proceeds**—To defray the cost of acquiring operating equipment, landing site installations and to provide working capital.

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.

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.

NEW ISSUE CALENDAR

June 27, 1949

Helicopter Air Service Inc.________Class A Stock
Pennsylvania Power & Light Co.________Common
Sky Harbor________Common
Wisconsin Electric Power Co. 11:30 a.m. (EDT)________Preferred

June 28, 1949

Dow Chemical Co.________Common
Michigan Consolidated Gas Co.________Debentures
Pacific Gas & Electric Co., 8:30 a.m. (PST)__Bonds

June 29, 1949

Florida Power & Light Co.________Bonds
Seagram (Joseph E.) & Sons, Inc.______Debentures

July 1, 1949

Messenger Corp.________Preferred
Mutual Telephone Co.________Preferred

July 5, 1949

San Jose Water Works________Preferred

July 6, 1949

Chicago & North Western Ry. Noon (CDT)________Equip. Trust Ctfs.
Delaware Power & Light Co.__Bonds and Preferred
New York Central RR.________Equip. Trust Ctfs.

July 7, 1949

Atlantic Coast Line RR.________Equip. Trust Ctfs.

July 12, 1949

New Jersey Power & Light Co.__Bonds & Preferred

July 13, 1949

New England Power Co.________Bonds

July 19, 1949

St. Joseph Light & Power Co.________Bonds

July 26, 1949

Columbia Gas System Inc.________Debentures

Independent Plow, Inc., Neodesha, Kan.
May 31 (letter of notification) 1,000 shares of preferred (par $100) and 25,360 shares ($1 par) common. **Underwriter**—McDonald, Evans & Co., Kansas City, Mo. For working capital.

● **Johns-Manville Corp., New York**
June 17 filed 145,300 shares (no par) common. **Offering**—To offer to certain officers and employees of the company and its subsidiaries, under an Employees' Stock Purchase Plan. **Underwriting**—None. **Proceeds**—For extensions, additions, improvement and maintenance of properties, for the carrying of inventories and for general corporate purposes.

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. **Underwriters**—Blyth & Co., Inc., and The First Boston Corp. were named as underwriters but withdrew June 21. **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.

● **Knox (Earl E.) Co., Erie, Pa.**
June 14 (letter of notification) $150,000 first mortgage convertible sinking fund 6% bonds, due May 1, 1969. **Underwriter**—Reitzell, Read & Co., Inc., Erie, Pa. Price, par and interest. Retire $55,396 first mortgage bonds, working capital.

Liquid Carbonic Corp., Chicago.
June 2 (letter of notification) 2,000 shares of common stock. **Price**—$15 per share. **Underwriter**—Walston, Hoffman & Goodwin. Proceeds to selling stockholder.

Logan (Ohio) Home Telephone Co.
June 9 (letter of notification) $150,000 20-year 3½% first mortgage bonds, series A, due May 1, 1969. **Underwriter**—The Ohio Co., Columbus, O. For installation of automatic equipment and to provide working capital.

● **M Bar Oil Co., Newcastle, Wyo.**
June 14 (letter of notification) 1,250 shares of common. **Price**—$100 per share. No underwriter. To apply on indebtedness, to erect small refinery and to drill additional wells.

● **Manhattan Mining Corp., Reno, Nev.**
June 14 (letter of notification) 80,000 shares of common (par $1). Price, par. No underwriter. To explore further mining claims. Office, Cheney Bldg., Reno, Nev.

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 held hearing June 6 to determine whether a stop order should be issued suspending the effectiveness of the registration statement.

Messenger Corp., Auburn, Ind. (7/1)
May 25 (letter of notification) 6,000 shares of 6% cumulative convertible preferred (par $25). Price, par. Convertible into common stock at $10 per share. **Underwriters**—The First Trust Co. of Lincoln, Neb., and Cruttenden & Co., Chicago.

Michigan Consolidated Gas Co. (6/28)
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. **Bids**—Bids for purchase of bonds will be received by company at 415 Clifford Street, Detroit 26, Mich., up to 10 a.m. (EST) June 28.

Missouri Utilities Co., Cape Girardeau, Mo.
May 26 filed 51,184 shares ($1 par) common. **Offering**—Offered to stockholders of record June 17 on 1-for-4 basis. Rights expire June 29. **Underwriter**—Edward D. Jones & Co., St. Louis, Mo. **Proceeds**—For construction.

Mutual Telephone Co. (Hawaii) (7/1)
June 7 filed 150,000 shares ($10 par) convertible preferred stock, series B. **Offering**—To be offered initially to holders of the common stock, in the ratio of one preferred share for each five of common held. **Underwriter**—Kidder, Peabody & Co. **Proceeds** — Proceeds will be used for construction and expansion which in 1949 will involve expenditure of about $4,340,500. Expected July 1.

● **National Memorial Park Cemetery Association, Inc., Falls Church, Va.**
June 7 (letter of notification) $300,000 5% debentures. No underwriter. To pay off a portion of bank indebtedness and to buy cemetery land.

● **National Tank Co., Tulsa, Okla.**
June 14 (letter of notification) 2,000 shares ($1 par) common. **Price**—$17 per share. No underwriter. For the benefit of Ralph G. Galloway. Office, Box 1710 Tulsa, Oklahoma.

New England Power Co., Boston (7/13)
June 3 filed $5,000,000 of series C bonds due July 1, 1979. **Underwriters**—Names to be determined through competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Kidder, Peabody & Co. and White, Weld & Co. (jointly); Equitable Securities Corp.; Otis & Co.; Union Securities Corp. and Salomon Bros. & Hutzler (jointly); Coffin & Burr; Carl M. Loeb, Rhoades & Co.; Merrill Lynch, Pierce, Fenner & Beane and Lee Higginson Corp. (jointly) and Harriman Ripley & Co. Company also plans to sell 160,000 shares of common ($20 par) to its parent, New England Electric System, at $25 per share. **Proceeds**—Proceeds of the bond and stock sale will be used to pay off $5,324,700 of bank loans obtained for construction and to provide money for construction expenditures expected to be made. Bidding expected July 13.

New Jersey Power & Light Co. (7/12)
June 9 filed $3,500,000 of first mortgage bonds, series due 1979, and 20,000 shares ($100 par) cumulative preferred stock. **Underwriters**—To be determined through competitive bidding. Probable bidders for bonds: Halsey, Stuart & Co. Inc.; Equitable Securities Corp.; Union Securities Corp.; Carl M. Loeb, Rhoades & Co.; Otis & Co.; Kidder Peabody & Co.; Salomon Bros. & Hutzler. For preferred: Kidder, Peabody & Co.; Smith, Barney & Co.; W. C. Langley & Co.; Lehman Brothers. **Proceeds**—Will be applied to the payment of the cost of, or in reimbursement of payments made for, construction of additions and betterments subsequent to April 30, 1949. Expected July 12.

● **New York & Cuba Mail Steamship, New York**
June 17 filed 190,125 shares of 5.6% cumulative preferred ($25 par) stock, which Atlantic Gulf and West Indies Steamship Lines is offering in exchange for its own preferred (5% non-cumulative $100 par) at the rate of one Atlantic share for three shares of Cuba Mail preferred plus $25 in cash. No underwriting.

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.

Oil, Inc., Salt Lake City, Utah
May 19 (letter of notification) 172,690 common shares (par $1). Price, par. **Underwriter**—Waldron & Co., San Francisco, Calif. To drill and equip five wells, working capital, etc.

Pacific Gas & Electric Co. (6/28)
May 31 filed $80,000,000 first and refunding mortgage bonds, series S, due June 1, 1983. **Underwriters**—Names to be determined through competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Blyth & Co., Inc. **Proceeds**—For construction. **Bids**—Bids for purchase of bonds will be received by company at office of Treasurer, 245 Market Street, San Francisco, up to 8:30 a.m. (PST) June 28.

Pennsylvania Power & Light Co. (6/27)
June 7 filed 415,983 shares (no par) common. **Offering**—To be offered to common stockholders of record June 27, at the rate of one for seven shares held. Employees will be allowed to buy unsubscribed shares, up to not more than 150 shares each. **Underwriters** — Drexel & Co. and The First Boston Corp. head a group who will purchase stock not otherwise acquired by stockholders or employees. **Proceeds**—For construction.

● **Philadelphia Electric Co.**
June 22 filed 972,624 additional shares (no par) common. **Offering**—To be offered initially to stockholders on a 1-for-10 basis held July 11. Then unsubscribed shares would be available for subscription to regular full-time employees of the company and its subsidiaries—up to $150 per person. **Underwriters**—Drexel & Co. and Morgan Stanley & Co. will purchase unsubscribed shares. **Proceeds**—For construction.

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.

● **Principal Theatres Corp. of America, Culver City, Calif.**
June 15 (letter of notification) 12,446 shares of common stock. **Price**—$15 per share. No underwriters. For additional working capital. Office, 9336 West Washington Boulevard, Culver City, Calif.

● **Radiation Co., Inc., West Newton, Mass.**
June 16 (letter of notification) 365,000 shares of common (par 25¢). Price, par. No underwriter. For general corporate purposes.

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.

St. Joseph (Mo.) Light & Power Co. (7/19)
June 10 filed $4,750,000 of first mortgage bonds, series due 1979. **Underwriters** — Names to be determined through competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Otis & Co.; Equitable Securities Corp.; Kidder, Peabody & Co.; White, Weld & Co.; Salomon Bros. & Hutzler; Carl M. Loeb, Rhoades & Co.; Union Securities Corp. **Proceeds**—For property additions. Expected about July 19.

San Jose (Calif.) Water Works (7/5)
June 7 filed 39,000 shares ($25 par) cumulative convertible preferred stock series B. **Underwriter**—Dean Witter & Co.; Blyth & Co., Inc.; Elworthy & Co., and Schwabacher & Co., San Francisco. **Proceeds**—To restore working capital used for property additions and improvements and of defraying a portion of the cost of future expenditures for such purpose.

Seagram (Joseph E.) & Sons, Inc. (6/29)
June 13 filed $50,000,000 25-year debentures, due June 1, 1974. **Underwriter**—Harriman Ripley & Co., Inc. **Proceeds**—Company will use proceeds with other funds to prepay outstanding bank notes.

Sky Harbor, Carlstadt, N. J. (6/27)
June 10 (letter of notification) 299,000 shares of common stock (par 10¢). **Price**—$1 per share. **Underwriter**—G. F. Hulsebosch & Co., New York. Pay expense of financing, pay accounts payable and balance of mortgage, purchase of planes, land, etc.

● **Southern Fire & Casualty Co., Knoxville, Tenn.**
June 13 (letter of notification) 10,000 shares (no par) capital stock. **Price**—$8.50 per share. No underwriter. For growth and expansion. Office, 4277 Lyons View Pike, Knoxville, Tenn.

Southern Natural Gas Co., Birmingham, Ala.
May 13 filed 141,853 shares ($7.50 par) common stock. **Offering**—Stockholders of record June 6 are given 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 New England Telephone Co.
June 2 filed 400,000 shares of capital stock. **Offering**—To be offered for subscription by stockholders of record June 21 at rate of 1-for-6 held at $25 per share. **Underwriting**—None. **Proceeds**—To repay about $4,500,000 in advances from American Telephone & Telegraph Co. with the balance to be added to general funds for construction.

Southwest Lumber Mills, Inc., McNary, Ariz.
May 31 (letter of notification) $300,000 of 5% convertible subordinated 10-year notes. **Underwriter**—E. W. Thomas & Co., 135 S. La Salle Street, Chicago, has agreed to purchase at a discount of 3½% all securities not taken by the stockholders or this group (directors and stockholders) up to a maximum of $100,000 of the securities to be issued. **Proceeds**—To restore working capital.

● **Standard Cable Corp., Westerly, R. I.**
June 15 (letter of notification) 20,000 shares of cumulative preferred (par $4) and 40,000 shares (25c par) common. **Price** — Preferred par, common 50 cents per share. No underwriter. For additional working capital.

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

(Continued on page 46)

(Continued from page 45)
$25 per share. Underwriters—Wagenseller & Durst, Inc., and Lester & Co. To buy Antelope Liquid Gas Co.

Sudore Gold Mines Ltd., Toronto, Canada
June 7 filed 375,000 shares of common stock. Price—$1 per share (U. S. funds). Underwriting—None. Proceeds—Funds will be applied to the purchase of equipment, road construction, exploration and development.

● **Travelfares, Inc., Seattle, Wash.**
June 10 (letter of notification) 120,000 shares of common (par $1). Price, par. No underwriter. To acquire a copyrighted advertising medium and solicit national advertisers and transportation companies. Office, 855 Central Bldg., Seattle, Wash.

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.

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.

● **Valentine Oil Co., Chadron, Neb.**
June 13 (letter of notification) 80,000 shares ($1 par) common. Price—$1.25 per share. No underwriter. For development of leaseholds, acquiring new leases, lease rentals and operating expenses.

Virginia Dare Stores Corp., New York
June 7 (letter of notification) 20,000 shares of common stock, class A. Price—$5 per share. Underwriter—None. Working capital and general corporate purposes.

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.

Willcox & Gibbs Sewing Machine Co., New York.
June 6 (letter of notification) 6,000 shares of 5% cumulative convertible preferred stock, series B (par $50). To be offered for subscription by common stockholders of record June 28 at $50 per share in ratio of one preferred for each 25 common shares held. Rights expire 5 p.m. (EDT) July 15. Underwriting—None. Subscriptions payable to Central Hanover Bank & Trust Co., 70 Broadway, New York. To pay bank loans ($250,000), working capital.

Worcester (Mass.) County Electric Co.
June 10 filed $5,500,000 of first mortgage bonds, series A, due July 1, 1979. Underwriters—Names to be determined through competitive bidding. 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. Proceeds—To be applied to payment of bank borrowings ($4,950,000) and for construction or to reimburse company for previous construction outlays.

Prospective Offerings

● **American Gas & Electric Co.**
June 22 company announced it proposes to offer its common stockholders on or about Oct. 1, 1949, about 500,000 shares of stock on a basis of one share for each nine shares then held, the exact terms including subscription price to be determined at a later date. It is also likely that a second offering of common stock will be made some time in the latter part of 1950 on a 1-for-12 basis. The net proceeds are to be used to pay for improvements and for additional working capital.

● **American Natural Gas Co.**
William G. Woolfolk, Chairman of the board, told the stockholders at company's annual meeting that company expects to offer additional common to stockholders, probably on a 1-for-10 basis. Financing is to take place this year to provide $5,000,000 for the company's operating natural gas subsidiary.

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; Harriman Ripley & Co. and Lehman Brothers (jointly).

● **Chicago & North Western Ry. (7/6)**
Company will receive bids up to July 6 at Room 1400 Daily News Building, Chicago, up to noon (CDT), for the purchase of $6,600,000 equipment trust certificates to be dated Aug. 1, 1949. Bidders at the sale are invited to submit alternate proposals for certificates maturing in 1 to 10 years and for the same certificates maturing in from 1 to 15 years. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Harriman Ripley & Co. and Lehman Brothers; Harris, Hall & Co. (Inc.).

● **Columbia Gas System, Inc. (7/26)**
July 21 it was announced that company plans to sell an additional $13,000,000 debentures in July. The debentures are to be issued under the indenture dated as of April 1, 1948. It is expected that the sale will represent the final phase of the program for financing company's construction and underground gas storage program. Probable bidders: Morgan Stanley & Co.; Halsey, Stuart & Co. Inc.; Merrill Lynch, Pierce, Fenner & Beane; Salomon Bros. & Hutzler. Bids expected to be opened July 26.

● **Cornucopia Gold Mines, Spokane, Wash.**
Common stockholders of record June 30 will be given the right to subscribe for an aggregate of 191,500 additional shares (par 5¢) in a 1-for-5 ration at approximately 27½ cents per share. Rights will expire Sept. 13 and are exercisable at office of Old National Bank of Spokane.

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.

Maracaibo Oil Exploration Corp.
June 15 reported corporation is planning to offer its stockholders the right to subscribe to 49,500 shares of capital stock in ratio of one new share of capital stock for each eight shares held. Funds will be used by the company for oil development and possible acquisition of additional leases.

Middle South Utilities, Inc.
June 3 reported Electric Bond & Share Co. plans sale at competitive bidding of 803,230 shares of common stock (no par) which it will receive upon dissolution of Electric Power & Light Corp. Probable bidders: Merrill Lynch, Pierce, Fenner & Beane and Kidder, Peabody & Co. (jointly); Blyth & Co., Inc.; Dillon, Read & Co. Inc.

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 York Central RR. (7/6)**
The company has issued invitations for bids to be considered July 6 on $11,400,000 equipment trust certificates. Certificates will mature serially in 15 equal annual instalments. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Harriman Ripley & Co. and Lehman Brothers (jointly).

Northern States Power Co. of Minnesota
June 11 reported company planning the sale at competitive bidding, possibly by early August, of $15,000,000 in new bonds. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Harriman Ripley & Co., Inc.; Lehman Brothers; Blyth & Co., Inc.; Equitable Securities Corp.

● **Standard Oil Co. (New Jersey)**
June 21 reported company will file shortly with the Securities and Exchange Commission a registration statement covering approximately $150,000,000 in new bonds. Proceeds from the sale will restore working capital depleted by recent heavy capital expenditures. It is expected that Morgan Stanley & Co. will be named as the principal underwriter.

Texas Power & Light Co.
May 11 reported company plans to sell $7,000,000 of bonds to the public in order to finance its construction and expansion program. In addition, it will sell $3,000,000 of common stock to its parent, American Power & Light Co. Probable bidders for bonds: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Blyth & Co., Inc.; Kidder, Peabody & Co. and Smith, Barney & Co. (jointly); W. C. Langley & Co. and Glore, Forgan & Co. (jointly); Carl M. Loeb, Rhoades & Co. and E. H. Rollins & Sons (jointly); Union Securities Corp.; Drexel & Co. and Hemphill, Noyes & Co. (jointly); Lehman Brothers; Salomon Bros. & Hutzler.

● **Upper Peninsula Power Co.**
June 16 Middle West Corp. and Consolidated Electric & Gas Co. applied to the SEC for an exemption from competitive bidding in connection with the proposed sale of their common stock holdings in the company consisting of 34,000 shares (17%) and 120,000 shares (60%), respectively. In their original application for authorization to sell the stock, filed last September, the companies proposed to sell the stock at competitive bidding. Subsequent to the issuance of the Commission's order of Oct. 1, 1948, giving notice of the filing of such proposal, the companies requested that the issuance of a final order approving the transactions be delayed because of adverse conditions affecting Upper Peninsula. The SEC has scheduled a hearing for July 6 upon the proposed sale of this stock and the request for exemption from competitive bidding.

Wisconsin Electric Power Co. (6/27)
June 2 the SEC approved North American Co.'s plan to sell competitively 13,494 shares of its holdings of Wisconsin Electric Power Co. ($100 par) 6% preferred capital stock. Probable bidders: Union Securities Corp.; The First Boston Corp.; Lehman Brothers and Robert W. Baird & Co. (jointly). Bids—The North American Co. is inviting bids for the purchase as a whole of 13,494 shares of 6% preferred stock ($100 par) of this company. Such bids will be received by North American Co. at Room 1901, 60 Broadway, New York 4, N. Y., up to 11:30 a.m. (EDT) on June 27.

Our Reporter's Report

Maybe it was the humidity, if not the heat. But at any rate things were not altogether as some people in the investment banking world would have liked them this week.

It developed that you could buy a deal easily enough, but the job of selling it after you got it was another matter. In short several of the offerings which came to market were hardly of the "out-the-window" type.

The largest single undertaking, marketing of $50,000,000 of first mortgage bonds of the Tennessee Gas Transmission Co. was reported decidedly slow.

Competition for this one set something of a record for closeness with an overall difference of only $4,950 separating the two top bids on the big issue.

The winning bid was 100.3399 for a 3% coupon while the next highest of the three bids submitted was 100.33 or only 9.9 cents per $1,000 under the best. The successful group reoffered the bonds at 100.75 to yield the buyer 2.95%.

Even though the indicated yield was fairly close to what the institutional buyers have seemingly more or less set as minimum that is attractive to them, there was apparently a lack of immediate interest on a broad scale.

Much the same situation appeared to prevail in the case of Public Service Co. of New Hampshire's $4,000,000 of 30-year bonds, brought out at 100.59 to yield 2.97%.

Standard Oil Co. (N. J.)

One of the biggest industrial undertakings in recent years appeared likely to go into registration with the Securities and Exchange Commission this week.

Standard Oil Co. (N. J.) was reported planning to file for its projected $150,000,000 of new bonds which, of course, would be handled on a negotiated basis.

This financing is designed to restore the big company's working capital which has been depleted by extensive outlays for improvements and expansion. The board chairman, it was recalled, at the annual meeting had hinted rather broadly that a substantial financing operation was in the offing.

Deal Is Called Off

The projected big stock deal for Kansas Gas & Electric Co., involving sale of 550,000 shares of new common stock originally slated for this week has been called off indefinitely.

Cleared by the SEC for sale on a negotiated basis, the issue had been the subject of a meeting between bankers slated to handle the operation and company officials early in the week. After the meeting it was announced that the sale was off, though neither side gave a clear explanation for the outcome of the meeting.

Bankers merely noted that negotiations had been "broken off" while company officials, confirming this, would not comment further than to say that they did not know when the new date would be or whether it would be negotiated or sold by competitive bidding.

Whopping Success for A. T. & T.

Indications are that the biggest of all convertible debenture offerings undertaking on a "rights" basis by American Telephone & Telegraph Co., will turn out to have been the most successful.

"Rights" on the $394,372,900 offering to stockholders expire on Monday, and preliminary figures show that subscriptions will run above $385,000,000, or approximately 98% of the amount offered.

Busy Day Ahead

Next Tuesday promises to be a busy one for the investment banking world unless there are changes made in the interim. Two sizable issues will be up for bids on that day involving a total of $105,000,000.

Largest by far is Pacific Gas & Electric Co.'s $80,000,000 of first and refunding bonds. Three banking groups are expected to be in the race for this one.

Next in line is Michigan Consolidated Gas Co.'s $25,000,000 of sinking fund debentures, and judging by its size competition should be even keener in this instance.

Gold Standard League Formed to Inform Public on Need for Stable Money

Pennsylvania business leader heads group aided by State Chairmen. Sound dollar sought to encourage enterprise and stop fiat money menace.

Formation of the Gold Standard League to inform the public of the need now for the restoration of the gold coin system at $35 per ounce was started at Latrobe, Pennsylvania, under National Chairmanship of Philip M. McKenna, President of Kennametal, Inc., Latrobe, Pennsylvania.

Philip M. McKenna

He is to be aided by Chairmen for all States in the Union. Among those who have already accepted are: David R. Dunlop, Mobile, Ala.; John B. Knox, Oakland, Calif.; James W. Knox, Hartford, Conn.; R. B. Walker, Miami, Fla.; Dean Krotter, Palisade, Nebr; Philip LeBoutillier, New York, N. Y.; J. H. Frost, San Antonio, Tex., and E. B. Tilton, Milwaukee, Wis. Dr. Walter E. Spahr, Executive Vice-President of the Economists' National Committee on Monetary Policy, has agreed to serve, ex-officio, as Economics Counsellor to the League. George F. Bauer, a former Export Manager of the Automobile Manufacturers' Association and International Vice-Chairman, New York Board of Trade, will act on group activities and coordination.

"A sound money system," Mr. McKenna says, "is needed urgently now to stop further discouragement of private enterprise, to give back to our people control of private enterprise, to give back to our people control over their public purse and to halt the menace of printing press money."

"The League, through its National, State, District and local leaders, plans to familiarize the general public by means of gatherings, forums, radio, television, press articles, addresses and other means, with the full significance of a sound money system and with the needed corrective measures."

"The League will provide a way by which all responsible people who desire a redeemable currency at the rate of $35 per ounce of fine gold may cooperate and assist each other in study and widespread information on this matter. Members of the League will work together in support of the efforts of the Economists' National Committee on Monetary Policy which will continue to operate, as it has for 16 years; at the technical level and independently of all other organizations. The League hopes to have the benefits of the advice and counsel of members of that Committee.

"Both organizations together should provide a nationwide sound currency movement like that of the Reform Club Sound Currency Association of 1891-1901, which succeeded in making plain to the people and their representatives the facts which led to the enactment of the Gold Standard Act of 1900. The central purpose of the Gold Standard League, like that of the Economists' National Committee on Monetary Policy is to point out the circumstances which make urgent the enactment of the Reed Bill H.R. 3262, designed to give the United States a redeemable currency defining the dollar as 1/35th of an ounce of gold."

Joins Continental Securs.

(Special to THE FINANCIAL CHRONICLE)

GRAND RAPIDS, MICH. — Gilbert C. Klinkner has been added to the staff of Continental Securities Co., Inc., People's National Bank Building.

COMING EVENTS

In Investment Field

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

June 24, 1949 (Kansas City, Mo.)
Bond Traders Club of Kansas City Summer Outing at Lake Quivira Country Club.

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.

June 28, 1949 (New York City)
New York Curb Exchange Five and Twenty Club Golf Tournament at Siwanoy Country Club, Bronxville, N. Y.

July 1, 1949 (Philadelphia, Pa.)
Investment Traders Association of Philadelphia Annual Summer Outing at the Whitemarsh Valley Country Club.

July 8, 1949 (Louisville, Ky.)
Bond Club of Louisville Annual Outing at the Sleepy Hollow 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.

Dec. 9, 1949 (New York City)
New York Security Dealers Association 24th Annual Dinner at the Hotel Pierre Grand Ballroom.

With David G. Means

(Special to THE FINANCIAL CHRONICLE)

BANGOR, MAINE.—Charles F. Brooks has become affiliated with David G. Means, Pearl Building.

Halsey, Stuart Group Offers So. Pac. Equips.

Halsey, Stuart & Co. Inc. and associated underwriters won the award June 22 of $12,480,000 Southern Pacific Co. equipment trust series BB, 2⅝% equipment trust certificates, due $832,000 annually July 1, 1950-1964, inclusive. The certificates, issued under the Philadelphia plan, were reoffered, subject to authorization by the Interstate Commerce Commission, at prices to yield from 1.40% to 2.70%, according to maturity.

Security for the certificates will be new standard-gauge railroad equipment estimated to cost not less than $18,720,000. This equipment consists of sixteen 6,000-hp. Diesel electric freight locomotives; two 6,000-hp. Diesel electric passenger locomotives; two 1,500-hp. Diesel electric road switching locomotives; 440 gondola cars; and 802 steel flat cars.

Associated in the offering were R. W. Pressprich & Co.; Bear, Stearns & Co.; Blair & Co., Inc.; Equitable Securities Corp.; Gregory & Son, Inc.; Hornblower & Weeks; Merrill Lynch, Pierce, Fenner & Beane; Otis & Co.; Phelps, Fenn & Co.; L. F. Rothschild & Co.; Graham, Parsons & Co.; Hayden, Miller & Co.; The Illinois Co.; Wm. E. Pollock & Co., Inc.; Swiss American Corp.; Clayton Securities Corp.; Freeman & Co.; McMaster Hutchinson & Co.; Mullaney, Wells & Co., and F. S. Yantis & Co., Inc.

Staten Island Edison Preferred on Market

Offering of 40 000 shares of 4.90% series, $100 par value cumulative preferred stock of Staten Island Edison Corp. was made June 17 by an underwriting group headed by W. C. Langley & Co. The stock was priced at $103.25 per share and accrued dividend.

Proceeds from the sale of this stock, to the extent of $4,000,000, together with 325,000 shares of new $20 par common stock, will be delivered to General Public Utilities Corp. in exchange for all of the Staten Island company's presently outstanding stocks consisting of 2,725 no par preferred shares and 260,000 no par common shares. Upon completion of the financing, the company's outstanding capitalization will consist of $2,750,000 first mortgage bonds $4,000,000 preferred stock and $6,500,000 common stock.

The new preferred stock will be redeemable at the option of the company at $106.25 per share prior to May 1, 1952, and at $105.25 per share thereafter, plus accrued dividends in each case.

Staten Island Edison Corp. was incorporated in February 1923 and in July of the same year it acquired the electric properties and franchises of Richmond Light and Railroad Co. The company is an operating utility engaged in the production, purchase, distribution and sale of electricity. The area served by the company has an estimated population of 204,000.

New Coupon Sheets Issued On Greek Gov. Bonds

As paying agent in New York for bonds of Greek Government 5% Loan of 1914, J. P. Morgan & Co. Incorporated are advising bondholders that new coupon sheets may now be obtained upon application at their office, 23 Wall Street, New York 8, N. Y. Bondholders who have not already obtained such new coupon sheets should present their bonds together with talons promptly inasmuch as the Greek Government has announced that no partial payments may be made after Dec. 31, 1949 on coupons due March 1 and Sept. 1, 1940 and March 1, 1941.

Halsey, Stuart Offers C. B. & Q. Equip. Issue

Halsey, Stuart & Co. Inc. won the award June 15 of $2,060,000 Chicago Burlington & Qunicy RR. 2% equipment trust certificates, due $103,000 semi-annually from Dec. 1, 1949 to June 1, 1959, inclusive. Issued under the Philadelphia plan, the certificates were reoffered, subject to authorization by the Interstate Commerce Commission, at prices to yield from 1.20% to 2.325%, according to maturity.

The certificates will be issued to provide for not exceeding 80% of the cost, estimated at $2,597,000, of 300 refrigerator cars.

Konselman Opens

(Special to THE FINANCIAL CHRONICLE)

COLORADO SPRINGS, COLO. —Albert S. Konselman is engaging in a securities business from offices in the Independence Building.

With Townsend, Dabney

(Special to THE FINANCIAL CHRONICLE)

PORTLAND, MAINE. — Edwin Boynton has become associated with Townsend, Dabney & Tyson, 184 Middle Street. He was formerly with Timberlake & Co.

With Titus-Miller

(Special to THE FINANCIAL CHRONICLE)

ANN ARBOR, MICH. — Wayne G. Cowell has been added to the staff of Titus-Miller & Co., State Savings Bank Building.

Washington . . . And You

Behind-the-Scene Interpretations from the Nation's Capital

WASHINGTON, D. C. — There is an entirely new look to the question of foreign military aid.

The Administration takes the thing very seriously. It insists that the full amount $1,450 million, to be increased by $150 million later, is the minimum necessary. The program must be approved this year. It will involve preponderantly new equipment rather than mere transfer of military surplus.

Only several months ago the discussions of foreign aid in arms indicated a relatively minor role to the latest equivalent to lend-lease.

Western Europe, so went the thinking at that time, was beginning to fidget under its military helplessness to stop the Reds, when, as, and if the Reds were to move. The job of outfitting Western Europe adequately with arms to be in a position to stop Russia militarily, was beyond the capacity of the United States to handle. An inadequate job was of little use. Even if the United States could produce sufficient war goods to make possible a stopping of Russia a few years hence, the diversion of U. S. productive capacity to arms, plus the parallel diversion of industry to war goods in Western Europe, would practically preclude the achievement of economic recovery in Western Europe, the stated objective of ECA.

Nevertheless, Western Europe still fidgeted over its impotence to put up a good fight against the Reds. So after a long study, it was decided to go forward with a "small" program. This limited program would not equip Europe to stop the Reds, but it would relieve the countries concerned of a little of their jitters. It was necessary to get them over their fidgets to get them knuckled down to work promoting their own economic recovery, or trying to make ECA work.

Hence, the foreign military aid program was in fact subsidiary to ECA. It was an extra contribution to morale to keep the Europeans happy over accepting U. S. recovery money and willing to use it to go to work.

* * *

With that outlook, which came to have some understanding in this capital, the foreign military aid was not taken very seriously. Numerous reports (particularly during the worry over inflation era) emphasized that a greater part of at least the first year of foreign arms aid would consist of shipping out surplus military goods now in the hands of the services. Hence the foreign military aid program would have neither an inflationary effect upon the U. S. economy (or later) result in actually very heavy expenses, since much of the money would go for nominal reimbursement of the Armed Services for stocks of goods which they let go.

Congress has been in no mood of excited anticipation over the prospective Truman lend-lease program. In fact, unless the White House brings a terrific pressure to bear, it may be doubted that Congress will hang around long enough to give it more than perfunctory consideration after the Atlantic Pact is out of the way. And unless the amount is pared down to something like $400 million, its approval is or at least has looked doubtful.

Now it develops that the Administration is likely to sell foreign military aid as vital to the stop-Russia program. It will NOT be a case of shipping out surplus military stocks. In fact, only 10% of the $1,450 million can come from surplus stocks, the Administration may say. Furthermore, this sum will do the job—for the first year. The possibilities of defense against Russia by Western Europe will be emphasized. Western Europe can be defended, it will be asserted.

* * *

In Congress there may be a cynical soul or two who will connect what is expected to be the new approach, with the deteriorating European and U. S. economic situation, who will assert that maybe the 1949 design of lend-lease is expected to do a little for Truman what the 1942 model did for Roosevelt. In any case, if the Administration should insist upon all this while Congress is irritated and anxious to go home, it may make a lively argument.

* * *

Now that Congress has finally approved a reorganization bill, observers here will be watching to see whether governmental reorganization all by itself (1) can promote economy in an Administration which wants to spend, and (2) can promote good business management in a government which has at least its share of mediocrities for administrative heads.

* * *

Those who are far from sanguine about the great and bountiful benefits of reorganization, as retailed by Herbert Hoover, note the experience of the National Securities Resources Board. This board was created in one of the past reorganizations demanded by President Truman, the reorganization of the Army, Navy, and Air Forces into the National Military Establishment.

Under the new reorganization which created it, the National Security Resources Board was supposed to plan the mobilization of the nation's economy for another war. In particular it was supposed to blue-print and define definitely the jurisdictions of the civilian agencies which would administer the vast controls of another war.

This NSRB did. However, before NSRB had a chance to submit its planning to the White House, all the other civilian government agencies that were left out of the war planning, slipped in through the back door of the White House and successfully knifed the NSRB planning. Mr. Truman allowed Arthur Hill, NSRB chairman, to "resign" before he formally submitted his plan. The President listened to complaints against the unsubmitted NSRB plan, and acted upon those complaints.

Such will happen often, now that the President can initiate governmental reorganizations. The more ambitious bureaus and agencies with the empire-building chieftans, will be at work trying to swipe business from other bureaucracies, particularly those with less access to the White House. The new reorganization act, with a President who is naive, is a trumpet to widespread, undercover bureaucratic warfare, bitter even though little of it gets aired in public.

Incidentally, under President Truman's first and most urgent scheme of reorganization, the result in accomplishment has been zero. Four years after V-J Day there still is no overall war mobilization plan. On the eve of a fresh attempt to scare Congress about war, in order to get foreign military aid appropriations, the Truman Administration is without a plan to mobilize the economy for the war it will say is an ever-present danger.

* * *

Within a short time the National Science Foundation bill, after almost a four-year argument, is likely to become law. Although this bill sets forth into another potentially large area of Federal activity, it is now being passed with very little attention, particularly on the assurances of the Administration that it is, from a monetary standpoint, just small potatoes. The committee which reported out the bill in the House estimated that the cost would "level out" at around $25 million per year.

Basic job of the National Science Foundation is described as promoting "basic research." This is to be distinguished from the application to industry, the arts, or war of the basic scientific knowledge.

NSF would promote basic research in various ways. It would subsidize students aspiring to be scientists. It would award contracts for basic research in medicine, biology, mathematics, physics and other natural sciences.

One of the pecularities of the bill is that it would also subsidize basic research "in education," whatever that may mean.

The research would be carried on mainly in universities, by contracts. Some contracts might be let to private industrial laboratories.

A group of 24 carefully selected top grade scientists would guide the management of the National Science Foundation, according to the theory of the bill. However, the outfit would be run by a Director who would hold office at the pleasure of the President of the U. S.

Industry is said to have supported the bill with misgivings. If NSF were limited in its functions to the area outlined in the bill, it might promote research in areas where industry and endowed universities are not operating.

On the other hand, if NSF were ever to be given large sums, it could probably dominate industrial and scientific research in the United States.

NSF is only a small thing—so they say. If 10 years from now it is not 10 times as large, that will be a precedent in terms of the last 17 years.

(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

"Are you quite sure, Wilbur, you're just looking at the market reports"

Canada Described as New Oil Frontier

Ultimate recovery there held likely to exceed that from West Texas.

The discovery of major oil fields in Canada "is one of the most exciting developments on the North American continent in recent years" and its effect on the Dominion's economy "will be profound," according to George Weiss, partner of Bache & Co. and director of the Stock Exchange firm's research department.

George Weiss

Mr. Weiss' comments prologued a special study entitled, "Canada — A New Frontier in Oil," just completed by Bache & Co.

The discovery of four new fields in Alberta during the past two years has evoked such widespread interest, Mr. Weiss stated, that "we sent our oil specialists there, to learn at first hand current thinking and planning."

An important Canadian oil official, according to the study, estimates crude oil reserve discovered to date, almost entirely in Alberta, at around one billion barrels. A recognized U. S. authority on the petroleum industry, meanwhile, has stated that Western Canada may contain five to ten billion barrels of oil, compared with seven billion barrels estimated ultimate recovery of West Texas.

"The future area of Alberta oil production," the study states, "is currently viewed by certain leading oil officials as a broad circle extending from the recently-discovered fields in the central part of the Province into Northwest Territories, in a formation similar to the Permian Basin in West Texas."

The three Prairie Provinces of Western Canada — Alberta, Saskatchewan and Manitoba—constitute an econmic unit with respect to oil consumption, the study added, and "it is expected that Prairie refinery capacity will be increased to around 70,000 barrels daily by the end of 1951" compared with current production of some 60,000 barrels. Production will be allowed to increase very substantially as soon as pipeline facilities can be completed.