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In 2 Sections – Section 1

The COMMERCIAL and FINANCIAL CHRONICLE

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Taft Says Atlantic Pact Will Promote War

In speech on floor of Senate, Republican Party leader opposes ratification on ground it is inextricably linked with European arms program.

Senator Robert A. Taft of Ohio, prominent Republican leader and head of the Senate Republican Policy Committee, in a speech delivered in the United States Senate on July 11, definitely announced that he would not vote in favor of the ratification of the North Atlantic Pact, a measure which has received the support of leading Democratic and Republican members of the Senate Foreign Policy Committee.

Robert A. Taft

(Continued on page 35)

ERP and Multilateral Trade

By JAMES D. CALDERWOOD

Assistant Professor of Economics, Ohio State University

Of the two aims of the European Recovery Program, viz: (1) increase in European production; and (2) restoration of multilateralism, Professor Calderwood points out that the latter is most important and least likely to be accomplished. Says multilateral trade is essential to maintenance of U. S. prosperity and urges firm stand by ECA for restoration of currency transferability and convertibility.

The conclusion of the Anglo-Argentine bilateral trade agreement, followed by the statement of ECA Administrator Paul G. Hoffman that he will use "every pressure" to prevent this agreement from going into effect, finally brings into the open a matter which constitutes in the opinion of many economists the core of the problem of European recovery. This is whether by 1952 an integrated multilateral world trading system will have emerged from the present reconstruction period or whether instead a system of controlled bilateral and discriminatory trading relationships will have been consolidated. In the final analysis the measure of ECA's success is not so much its ability to revive European production—for this has been largely achieved already—but rather its ability to push Europe in general, and Britain in particular, away from the latter type of trading system and in the direction of the former.

James D. Calderwood

When Secretary Marshall made his now-famous speech at Harvard two years ago, he emphasized that any further American aid to Europe would have to be a cure rather than a palliative. Obviously, as long as the United States is ready to pump dollars

(Continued on page 20)

Truman Prescribes for Prosperity

President transmits to Congress his and Council's Midyear Reports. Calls for private and public "positive action," and carrying-forward "essential" Government programs, to reverse falling employment and production trends. Opposes major increase in taxes, wants liberalization of corporate loss carryover provisions, while asking rise in estate and gift taxes. Recommends improved program of farm supports; rise and broadening of minimum wage; increase in unemployment, old-age, and veterans payments; enlarged investment abroad; and restoration of Reciprocal Trade Agreements Act. Advisers urge expansion of consumer markets.

President Harry S. Truman transmitted to the Congress on Monday, July 11, his legislatively-prescribed Midyear Economic Report together with the Report, "The Economic Situation At Midyear 1949," prepared for him by the Council of Economic Advisers. The full text of the President's Report, and excerpts from the Council's study, follow:

President Truman

MIDYEAR ECONOMIC REPORT OF THE PRESIDENT

To the Congress of the United States:

The United States economy is the strongest and most productive the world has ever known—and we have the resources and the skills to make it still stronger and more productive.

In recent months we have seen the abatement of postwar inflationary forces. We are now in a

(Continued on page 22)

EDITORIAL

As We See It

Dollar Shortage Soothing Syrup

Britain has for all practical purposes repudiated a huge World War I debt. She has been the recipient of a staggering amount of aid of an infinite variety since Dunkirk—and no one is asking a penny for it. She has "hired" money in huge amounts since the close of the war—and the lenders are quite foolish if they expect repayment, certainly in the lifetime of this generation. She has enjoyed for some years past several other economic considerations of substantial size. The great rank and file in that country have been given—yes, the word is given—many of the good things of life, some of which in the good old days of economic sanity they knew they could not afford, indeed could not have. All these "gains of labor" are, according to the Government in that strange land of contradictions and muddlement, quite untouchable. That is to say the Government will not "permit" men and women to do without these things even if it talks of "austerity" and the like.

And so, the British are suffering from a "shortage of dollars." Indeed, according to the apologists within her borders the whole world is short of dollars—and so presumably, it is no disgrace for Britain to be short of them. And all this tommyrot is apparently being taken quite seriously in many quarters. To what strange no-

(Continued on page 27)

I.D.A.C. PICTURES

Photographs taken at the Convention of the Investment Dealers' Association of Canada, appearing in the second section of today's issue of the "Chronicle," are by courtesy of the Canadian National Railways.

Long-Term Market Trend Is Upward

By HEINZ H. BIEL
Laird, Bissell & Meeds

Stock market analyst cites constructive external factors, as smooth readjustment from sellers' to buyers' market and lower prices; the voluble advance "advertising" of depression; large number of wage-earners; and high level of personal savings and incomes. Concludes market liquidation is past, and long-range investor should prepare for major advance.

I welcome this opportunity to discuss the outlook for the stock market, especially at this time. About 15 months ago, when the impressive 1948 Spring rally was in full swing, I had the pleasure of participating in a forum dealing with the investment outlook in general and the stock market in particular.* At that time I was asked to present the "bear" argument, which was not particularly popular then, but I presented it with relish and complete conviction. Today, however, I am not a representative of the "bear" side. It seems to me that we are approaching an important turning point, the first change in the major trend in more than three years.

Conditions have changed materially during the past year or so. Our economy as a whole has nearly completed the transition from a sellers' market to a buyers' market, from scarcity to abundance and keen competition. The transition to lower price levels is still under way, and the process of readjustment is not yet completed, but we have made good progress. The results achieved thus far are encouraging.

There is always grave danger that the inevitable economic readjustment may develop into a business depression of serious proportions. It may be premature to rule out this danger entirely, even now. Yet, the rapid and generally smooth progress of the current economic readjustment seems to justify a more hopeful attitude.

Stock Market's Warning Helpful

It has been said that some economists and the bears of Wall Street were talking this country into a depression. That, of course, is a lot of nonsense. But it may well be that the warning implied by the cautious action of the stock market has served its purpose well by reminding the managers of American business that the trees of the postwar boom would not grow into the sky. It appears that these warnings were heeded.

American business in general was well prepared for the approaching end of the sellers' market. Adequate liquidity has been maintained. Inventories were generally under control. Reserves had been set up to absorb most of the shock that results from the step-down to lower price levels. Timely efforts had been made to reduce costs, increase operating efficiency and to wake up sales departments. As a result, there have been, so far, no important casualties among well-established business concerns. Nor is there great danger of calamity now.

This does not mean that there won't be red figures in forthcoming income statements and more dividend cuts and omissions. After all, that is to be expected, and this logical expectation has been the basis of our bear market. The important point is that we need not fear any major insolvencies to undermine confidence and involve panic.

It is hardly necessary to mention that there is no credit stringency, and the policy of the Federal Reserve Board will continue to prevent it. Our entire banking structure is eminently sound.

Employment Situation Encouraging

Another encouraging factor is the employment situation. Although unemployment and part-time employment has been rising steadily, the number of wage earners is amazingly high. While certain industries have been curtailing production and laying off workers, other industries have been going full blast. Now, when the automobile industry is finally approaching the turning point, other industries—textiles, for example—may verge on incipient recovery. I believe that unemployment figures will increase in the months ahead, possibly to about 6,000,000, but may not reach proportions such as to undermine buying power seriously.

Personal incomes will be bolstered not only by relatively high employment at high wages, but also by accumulated savings and by generous unemployment benefits. Although retail sales are off from last year's high levels, much of the decline is due to lower prices. Physical volume of sales remains high and the response to price reductions seems satisfactory.

Management Realistic

Here is another favorable point: Management is approaching the readjustment problem realistically. Prices have been slashed and production curtailed with reasonable promptness. Ample reserves and a good balance sheet position make possible such drastic action.

It is to be hoped that the Administration in Washington will not interfere with the present readjustment process. Any attempt to get the boom back to the boiling point would be not only costly, but undesirable. As far as government fiscal policy is concerned, we should attempt to reduce expenditures in line with reduced tax revenues. There is no need as yet for "pump priming" and deficit financing. Distribution of $2 billion of G.I. insurance dividends early next year will in itself represent an important addition to purchasing power.

The British dollar crisis may come to a head soon. Its solution would remove another uncertainty now hanging over our stock market. It remains to be seen whether the Socialist Government can be as flexible in readjusting the British economy as the thousands of relatively free American businessmen seem to be in adjusting ours. In any case, there will be less danger of a Western European depression if we succeed in preventing a severe depression in our own country.

I do not know whether stock prices have reached bottom or whether a final shake-out is yet to come. The latter may be witnessed, possibly within the next three months. But, for the longer-range investor, this question is of comparatively minor importance. The significant fact is that the time for broad liquidation is past. The decline in equity prices since early 1946 has been long and steep. The decline has been in recognition of broad business readjustment. The readjustment was inevitable and it has run a good part of its course. Now is the time to prepare our investment programs for a major advance even though the uptrend may start from a somewhat lower level.

*Abstract of a talk by Mr. Biel before N. Y. Society of Security Analysts, July 13, 1949.

Harold Cook on Board Of Montclair Savings

Harold H. Cook has been elected to the Board of Managers of The Montclair Savings Bank. The announcement was made July 12 by T. Philip Reitinger, President.

Harold H. Cook

Mr. Cook is a partner in Spencer Trask & Co., New York.

On graduation from Williams College in 1926, Mr. Cook entered Spencer Trask & Co. In 1933 he left to head the Utility Department of C. W. Young & Co. In 1935 he became the Manager of the Corporate Bond Department of Reynolds & Co. and in 1937 was appointed assistant to the President of Reynolds Metals Co., later becoming Secretary of the company. He served in this post until 1941 when he returned to Spencer Trask & Co.

Mr. Cook was born in New York City. He is Chairman of the Alumni Fund of Williams College and a trustee of the College Chapter of Alpha Delta Phi. He is Chairman of the Trustees of Collegiate School of New York City and President of The Kimberley School in Montclair.

Mr. Cook is Secretary of the New York Bond Club, a member of The Lunch Club and the Essex County Country Club of West Orange, New Jersey.

He resides at 259 South Mountain Avenue, Montclair, with his wife and two daughters.

Harry J. Nelson With Detmer & Company

CHICAGO, ILL.—Detmer & Co., 105 South La Salle Street, members of the Chicago Stock Exchange, announce the association with them of Harry J. Nelson. Mr. Nelson was formerly associated with the First Securities Co. of Chicago as Vice-President.

With Miller, Kenower

(Special to THE FINANCIAL CHRONICLE)

DETROIT, MICH. — Carlisle Jones is now connected with Miller, Kenower & Co., Ford Bldg., members of the Detroit Stock Exchange.

INDEX

Articles and News Page

Additional Articles in Today's Second Section

Section 2 of today's issue of the "Chronicle" is devoted to coverage of the 33rd Annual Convention of the Investment Dealers' Association of Canada held at Minaki Lodge, Ontario. Included therein are articles especially prepared for this issue and the various addresses made at the Convention. In addition, there are many pictures taken during the course of the Convention, all of which were made available to the "Chronicle" through the courtesy of the Canadian National Railways. The articles in this Second Section are as follows:

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Other Publications

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

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

The Perennial 5% Yardstick

Some causes for belated "clarification" by NASD of "5% philosophy" outlined. Misunderstanding inherent in the rule. Ascertainment of current market price in over-the-counter securities. Administrative regimentation leading to planned economy.

Wallace H. Fulton, Executive Director of the NASD, started a recent address before a gathering of the New York Securities Dealers Association with this introduction: "There appears to be an increasing misconception of what the '5% Policy or Philosophy' of the Board of Governors actually is."

Mr. Fulton then proceeded to explain this "Philosophy" and to distribute a 10-page summary headed "General Review of NASD Mark-Up Policy."

The current issue of the NASD "News" informs us that "The Board of Governors voted at the May meeting to have prepared and distributed a statement which would clarify and interpret the application of the NASD Mark-Up Policy."

If after approximately six years of existence there appears to be an increasing misconception of the 5% yardstick which requires clarification, we can readily understand why this rule was dubbed an "interpretation," and the NASD membership by-passed at the time of its promulgation. Now the NASD is engaged in interpreting the interpretation and this promises to be a continuing process.

Our experience with those who earn their livelihood in the securities field is that they are of sound intelligence and if after this lapse of time the "5% Philosophy" is misunderstood we wonder where the fault lies. Would it not have been sound policy to have furnished more careful definition in the first instance, and to have submitted to NASD membership for approval this doctrine which they were directed to apply? Certainly it cannot be charged that the present admitted lack of understanding is in any wise due to the mental limitations of those who are subjected to this rule.

Let us attempt a partial explanation.

In listing the types of transactions to which this yardstick is applicable the NASD includes the sale of a security from inventory by a dealer to a customer. It then cautions "In such case the policy is applicable and has bearing only as a guide, both to the dealer and to the Association's Business Conduct Committees, in determining how much of a mark-up above the then current market is justified."

It also includes the purchase of a security by a dealer from a customer in which instance "the policy is applicable again as a guide to the dealer and to the Business Conduct Committees of the Association in determining the justification of price paid to a customer in relation to the then current market in that security."

Since these guides emphasize "current market," how does one determine the current market price of a security which is dealt in over-the-counter? What is the NASD answer?

Shall the National Quotation sheets be used? But these do not record sales; only "wants" and "offerings" are listed therein. The number of listings permissible depends upon the price paid, and applications for membership in the sheets may be black-balled by current subscribers. Besides the District Court of the United States for the Southern District of New York has held in the case of Hallgarten v. Lee that these quotation sheets do not reflect current market prices either among dealers or between the dealer and the public.

Shall the published quotations of the NASD Quotations Committee be used as a guide in determining the current market price of an over-the-counter security? Here there is a clear parallel. Such quotations are not based upon actual sales. The circulating medium is a membership organization —the NASD, in which membership is controlled and supervised. Besides there is the additional grave objection that the same medium circulates, for publication, prices as standards for the nonobservance of which its Business Con-

(Continued on page 21)

A Rate Structure for the Securities Business

By FRANCIS ADAMS TRUSLOW*
President, New York Curb Exchange

Mr. Truslow, after reviewing dwindling stock exchange transactions, discusses influence of brokers' commission rates on this development. Concludes commission rates may be inadequate and therefore do not provide sufficient incentive to reach increasingly scattered sources of business. Sees access to principal securities markets also inadequate, and advocates expanding commission schedules to include participation by non-members and large traders. Outlines scheme of "retail" and "wholesale" commission rates.

For the third time in three years you are committed to the task of hearing me speak. I am honored and you are the victims. Fortunately, you do not yet realize how dull this particular speech will be. The fact of the matter is that my subject is so technical and my approach to it is so personal that I have decided to resign my office as President of the New York Curb Exchange for the duration of this address. The institution for which I have such high regard should not be held responsible for either the boredom or the flights of fancy which will fill the next hour and one-half while I talk.

Francis A. Truslow

With this warning and this disclaimer, I urge anyone to leave who wishes to do so.

At the past two conventions of this esteemed Association I tried to raise my words above the details of the day-to-day happenings in the securities business, to describe the high path our country will follow in the trade of the world and to portray the foundations of our nation's confidence. With Kipling, I attempted to "splash at a ten-league canvas with brushes of comets hair."

Two Unhealthy Trends

Today I ask you to be my Watson, while I get down on my hands and knees and go snooping around looking for little clues among the details of the securities business — little indications of what may be adversely affecting the business and what might be done about it. I want to draw some deductions from those clues and then let you draw your own conclusions about my deductions.

For several years the business of private finance in this country has been exhibiting at least two unhealthy trends. The rates of turnover of stocks on our stock exchanges have been decreasing and the percentage of new capital raised through the sale of equity securities has been falling. Whether we are directly interested, as participants in the securities business, or only indirectly interested, as citizens of a nation based on private ownership of industrial production, we cannot ignore these trends. They are a threat to the strength and to the resiliency of our whole economy and not merely evidence of the painful deterioration of an important business.

A Sherlock Holmes is not needed to detect arsenic or malnutrition in the dietary habits of the securities business. But it may take the technique of an enquiring Holmes and the bold deductions of many Holmeses to solve the case and explain what is happening.

There are, of course, certain environmental conditions which have tended to dry up stock transactions and encourage the raising of new capital by borrowing from creditors instead of by selling equity shares to new partners. Government by pressure group demands has led the country into greater and greater spending programs and high taxes, and the threat of higher taxes, to pay for them. The spectacle of some of our representatives valiantly opposing these Treasury raids, when they can remain anonymous, and voting for them when the roll is called, does not encourage us to hope that the merry-go-round of spending and taxation will soon slow down.

Taxes the Impediment

The motives that prompt this spending and the weight and discriminatory character of the taxes that result make an unhealthy climate for business and for participation in its ownership. We will never wholly solve the "Case of the Languishing Securities Business" until we stop treating the Treasury as if it were an inexhaustible reservoir of funds. It would be unreasonable to expect investors to change their cash into shares in business ownership with eagerness while their profits may be taxed into maintaining the money of foreign nations at artificial values, into keeping farm incomes high and food prices low, into subsidizing the rents of a selected few at a multi-billion dollar price or otherwise expropriated to the support of socialism abroad and a Welfare Deal at home.

Securities Business Role in Problem

But there is considerable evidence lying around which indicates that the problem of lack of interest in stocks is not exclusively the result of disturbing government policies and high and badly based taxes. At least a part of the problem, and its solution may be within the control of the securities business itself.

During the years while stock market transactions have curved downward, sales of life insurance and annuity policies and sales of participations in stock ownership through mutual investment trusts have steadily climbed. Perhaps a clue to our difficulties may be found in the reasons for the abundant health of these similar, and somewhat competitive fields of finance. We may well ask why sales of new insurance have soared without a break from $12,000,000,000 in 1936, to $24,000,000,000 in 1948. Why have sales of mutual trust shares risen steadily from $53,000,000 in 1941 to $274,000,000 in 1948? Why, then, has the dollars volume of sales on all exchanges fallen from $23 billion in 1936 to $13 billion in 1948 and even approached $4 billion in 1942?

Certainly one important difference lies in the apparent stability of insurance policies and mutual trust shares as media of investment when compared with general investments in stocks. Yet on closer scrutiny this difference may not be as real as it seems at first glance. We can easily grasp the reason why annuity policies were sold in 1936 by advertisements which carried the then attractive question: "Do you want to retire on $100 a month?" and are today sold with the question: "Do you want to retire on $250 a month?" Even insurance cannot protect against the changing buying power of our money. We all know the importance of the diversity of investment afforded by mutual investment trust shares, but we are well aware that their values, like the values of individual stocks, rise and fall with the general market. It is also obvious that diversified investment may be obtained through fixed investment trusts and other investment programs. But such fixed trusts have not exhibited the same rise in popularity as mutual trusts.

Influence of Commission Rates

In my opinion, we must look beyond this element of safety to another difference to discover why insurance and mutual trust sales have risen counter to the trend in the rest of the securities business. We must, I think, look at the great difference which exists between the rates of sales compensation in our business and in these others. Gross commissions collected by members of the New York Curb Exchange represent about 1% of the market value of securities bought and sold on the Exchange. By contrast, the sales charge on mutual investment trust issues is about 8¾% of the sales price of the shares and on insurance policies about 12.7% of the premiums collected.

Suppose you had the choice of setting up in one of three lines of business. In each the objective is to advise customers wisely and persuade them ultimately to convert their surplus cash into certificates representing a direct or indirect participation in American business. The rate structure of business A would assure you $87.50 gross income from each $1,000 raised. In the case of business B your gross return would be $127 and in business C your gross return would be $10. Which business would you pick and at which would you work hardest?

I do not believe we need look further for the important difference which has contributed to the rising success of the business of insurance companies and mutual investment trusts and to the drying up of the stock markets. But there may be some who will doubt that a higher rate of sales compensation produces a more energetic business. I do not need to point out to them the high cost of advertising or the obvious influx of able young men into the insurance and mutual trust field: but I would like to call their attention to three small corroborative clues:

First: For many years exchanges have permitted so-called "Special Offerings" on our floors or "Secondary Distributions" of the floor of securities dealt in on our markets. These offerings carry "concessions" equal to an average of about 3% which are paid to members who place the shares. These offerings are only permitted where the normal market is too inactive to absorb the blocks being offered. A market which may normally absorb only a few hundred shares a day is found able to take quickly several thousand shares in "Special" or "Secondary" offerings. The sales that a normal "commission" is too small to pro-

(Continued on page 29)

*An address by Mr. Truslow before the 32nd Annual Convention of the National Association of Securities Administrators, Richmond, Va., July 13, 1949.

Problems of Canadian Pulp and Paper Industry

By R. M. FOWLER
President, Canadian Pulp and Paper Association

Mr. Fowler points out production of pulp and paper, Canada's leading industry and mainstay of its exports, has been adversely affected by worldwide foreign exchange difficulties, but expresses confidence it can meet situation and fulfill its responsibilities. Says future of industry will depend on careful management and maintenance of Canada's woodlands—a factor requiring increased investment and therefore higher production costs. Reveals Canadian newsprint industry is still running above rated capacity.

An elder Canadian statesman said recently that the present time is one of those mysterious periods of transition in world affairs when we are bewildered by mists of uncertainty, and everywhere there are clouds on the horizon. It is true that we are in a testing time of world affairs. We are confronted by opposing ideals of government. The war has left many vexatious problems in its wake. And grave difficulties particularly beset and harass international trading.

R. M. Fowler

In common with other industries, the Canadian pulp and industry must meet the problems and difficulties occasioned by world unrest and postwar adjustments. As Canada's leading exporter, it is acutely aware of the problem of foreign exchange. Some of its best customers are short of dollars. Their governments have imposed import controls, quotas, and other restrictions in an effort to husband their dollar resources. Thus the markets for Canadian pulp and paper outside of North America are steadily closing in because of the lack of dollars.

On this continent too, we in Canada are facing trade difficulties with the United States because of our shortage of American dollars. The importance of the pulp and paper trade in this situation cannot be over-emphasized. Canadian exports of pulp and paper account for more than 35% of all her exports to the United States. The maintenance of this trade is naturally of special importance to Canada; it is also of importance to the United States for Canada is the best customer in the world for U. S. goods. And she can remain the best customer only by maintaining her U. S. export trade which provides her with the dollars to purchase U. S. goods.

Industry Not Immune from Difficulties

In a world beset by exchange and trading problems, the Canadian pulp and paper industry is naturally, not immune from difficulties. What industry would progress if it did not have its problems to test the ingenuity and skills of those engaged in it. Yet this industry is a strong one. It is Canada's leading industry being first in employment, first in total wages paid, first in export values, first in value of production, and first in capital invested. It produces three out of five newspaper pages published throughout the world. The industry produces 1,000 types of pulp, paper, and paperboard. Some 75% of its total output is exported. The one-quarter of its production sold in Canada would alone make the industry a major element in Canadian trade and commerce. In short the Canadian pulp and paper industry is one of the major industrial enterprises in the world.

It is not through strength alone that this industry will successfully meet the challenges of the times. Strength and size create greater responsibilities. And by properly shouldering these responsibilities the industry will continue to prosper, and fill the needs of men everywhere for its products.

The future of the Canadian pulp and paper industry in the long run depends on the careful management and maintenance of Canada's woodlands, whence flows, incidentally, one-third of all the primary wealth and production of our country.

Policy for Perpetual Yield from Woodlands

More than three years ago, the industry adopted a forest policy aimed at perpetual yield of the woodlands. This was no pious and platitudinous pronouncement. It was a serious declaration of intent.

On their limits, many companies already have wood in perpetuity. Others are moving to attain that position. To attain it, sound forest management policies, requiring huge expenditures are involved.

Proper management of the forest requires protection services be established against fire, insects and disease. The industry spends large sums annually in battling these ravagers of the forests which take each year half as much again of the forest crop as does the industry. Management too requires a network of roads throughout the forests to facilitate cutting and fire production. Such roads can cost as much as $10,000 a mile. In the interests of sound forest management, the industry annually spends vast sums in guarding and ensuring future crops from the forest wealth of Canada. Many companies now have tens of millions of dollars of capital invested in their woodlands. All of which has played no small part in making the cost of wood more than twice and often thrice that of ten years ago.

The increased investment of the industry in its woodlands has, of course, been made to ensure adequate and continuous supplies of pulp and paper to consumers at home and abroad. But the extent of these expenditures is far greater than ever before for today in Canada there are, by and large, no longer large tracts of accessible forests available to produce low cost wood for the mills. In short, the increasing investment in proper forest management represents a permanent increase in the cost of producing pulp and paper.

Application of Newer Scientific Knowledge

Aside altogether from employment of silvicultural methods, wood is being increasingly conserved by the application of newer scientific knowledge in our manufacturing processes. One mill now uses twenty species of wood including the branches and bark. Another has developed a method of treating pulp which gives a substantial increase of chemical pulp per cord of wood. Throughout the industry progress is slowly being made towards a greater util-

(Continued on page 19)

Jerry C. Vasconcells And Walter Olin With Sidlo, Simons, Roberts


Walter E. Olin Jerry C. Vasconcells

DENVER, COLO.—Jerry C. Vasconcells has become associated with Sidlo, Simons, Roberts & Co., First National Bank Building, members of the Chicago Stock Exchange, as Manager of the trading department. Walter E. Olin has also become associated with the firm as sales representative. Mr. Vasconcells was formerly President of Vasconcells, Hicks & Co., with which Mr. Olin had also been associated since that firm's organization in 1931.

It is understood that Vasconcells, Hicks will become inactive but will continue in existence.

Edmund Whiting With Walston, Hoffman Firm

Edmund A. Whiting has become associated with Walston, Hoffman & Goodwin, members of New York Stock Exchange, in their New York office at 35 Wall St., as a registered representative specializing in West Coast securities. Mr. Whiting war formerly in the trading department of New York office of Kaiser & Co. and prior thereto was trading manager for Peter Morgan & Co.

Edmund A. Whiting

Halsey, Stuart Group Offers C. & O. Equips.

Halsey, Stuart & Co. Inc. and associates were awarded July 12 $3,990,000 Chesapeake and Ohio Railway third equipment trust of 1949 2⅛% serial equipment trust certificates, maturing $133,000 semi-annually Feb. 1, 1950 to Aug. 1, 1964, inclusive. Issued under the Philadelphia plan, the certificates were immediately reoffered subject to authorization by the Interstate Commerce Commission, at prices to yield from 1.10% to 2.55%, according to maturity. Associated in the offering were R. W. Pressprich & Co.; A. G. Becker & Co. Inc.; Gregory & Son, Inc.; L. F. Rothschild & Co.; Freeman & Co.; Mullaney, Wells & Co.; and Wm. E. Pollock & Co. Inc.

Clarence N. Myers With First of Michigan Corp.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—Clarence N. Myers has become associated with First of Michigan Corp., 135 South La Salle Street. Mr. Myers was formerly a principal of F. J. Brophy & Co.

The State of Trade and Industry

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

With several plants closed for the July Fourth week-end, total industrial production for the country as a whole reflected a moderate falling off in the week past and it continued to be somewhat under the high level of the corresponding period one year ago.

Unemployment in the week ended June 25 gained ground with total claims for unemployment insurance reported 4% higher. It continued to be substantially above the low point of the like period of 1948.

Employment in the steel industry declined during May, but remained slightly higher than in May, 1948, according to the American Iron and Steel Institute. The total employment figure was estimated at 637,400 in May, compared with 646,600 in April, a reduction of 1.4%.

The estimated total payroll for the industry in the first five months of 1949 exceeded $979,000,000, an increase of nearly $105,000,000 over the corresponding part of 1948.

The average hourly earnings of wage earners was $1.697 in May, compared with $1.688 in April and $1.577 in May, 1948. Wage earners' average hours of employment per week in May was 37 hours, compared with 38.5 in April and 38 hours in May, 1948.

The threatened strike in the steel industry, now more than just a subject for speculation, is serving to intensify uncertainty in the steel markets, says "Steel," the magazine of the metal producing and metal working industries. Walkout of the steelworkers looms menacingly as a result of the deadlocking of collective bargaining conferences between U. S. Steel subsidiaries and the United Steelworkers of America (CIO). In event a strike is called 189 companies and over 500,000 workmen will be involved immediately. The number will increase as contracts with other companies expire.

Whether there will be actual work stoppage in the mills over the next week or so still is uncertain. The union's future course will be determined on Tuesday of this week when its Wage Policy Committee meets. However, under its contract with the steel companies it can call a strike in event there is no agreement on the issues raised by July 16, "Steel" says. Consequently, since U. S. Steel has turned down the union's demands a strike would seem to be in the cards.

The CIO Steelworkers Union has mentioned 20 cents an hour as a possible fourth-round wage raise. This figure is not a formal demand, since the steelworkers in asking for higher wages have announced no specific amount.

Should a strike be called, the hope is held out that President Truman may step in, effect a meeting between industry and union representatives aimed at extending present collective bargaining conferences for 60 or 90 days during which time the strike would be held in abeyance. (According to reports, President Truman sought on Tuesday of this week to prevent a steel strike through an agreement by both sides to continue operations 60 days. But the United States Steel Corporation quickly rejected the proposal because it did not use the procedure of the Taft-Hartley Act.) In view of deteriorating economic conditions over recent months it is believed by some trade authorities the union would be agreeable to such postponement of action.

* * *

There was a revival in buying of several major metals last week resulting in the price of copper advancing to 17 cents, an increase of 1 cent, and leaving lead in an equally strong position, despite no price hike, according to the weekly market report of the "Engineering and Mining Journal," McGraw Hill publication.

"Large copper producers continued to hold aloof, leaving the market more or less in the hands of the custom smelters and some small producers," says the article. "Though lead was equally as strong as copper, the price was unchanged all week at 12 cents, New York."

Because of the increase in buying in the other major metals, the sentiment toward zinc was a little better, even though buying was light.

* * *

STEEL OPERATIONS FOR CURRENT WEEK SCHEDULED TO RISE 27.1% ABOVE PRECEDING PERIOD

The die is cast in steel for a long fight and if the steelworkers don't strike late this week they may walk out later unless some sort

(Continued on page 31)

Observations . . . . .

By A. WILFRED MAY

Investment Companies—The New Industry

The just-issued 1949 edition of **"Investment Companies" by Arthur Wiesenberger** *(Arthur Wiesenberger & Co., New York City, 336 pp., $15)* is particularly important now because of the activity which is uniquely occurring in the mutual funds area of Wall Street. This singular dynamism, in contrast to the long-continued depression elsewhere in finance, is significant not only quantitatively because of the quadrupling since pre-War of the open-end companies' assets and shareholders, but even more so qualitatively because of the sorely-needed new community of middle-income investors which is thereby being introduced into securities-ownership.

A. Wilfred May

The book is valuable in enlarging the public's as well as the experts' opportunities for scrutinizing the long-term investment operations, techniques, and results of skilled and objective practitioners. Also in both its approach and general running commentary the work reflects the investment community's ever-increasing yearning for *escapism* from investing worry and the desire for *defensive* situations.

This study devotes considerable space and detail toward explaining the broad aspects of investment companies—their origin, history, growth, and various uses by investors; systematic methods of investing through employing investment company issues; technical angles as leverage, use by fiduciaries, appraisal of management, tax aspects and Government regulation. A special section is devoted to the 1948 year-end portfolio holdings of 56 of the leading funds.

In various elements other than enlarged size, does Wiesenberger's 1949 edition surpass his previous issues. It is a complete revision of the 1948 manual, whose re-writing includes all of the past year's developments and their significance. Furthermore, it contains charts and graphs of greatly improved clarity and general quality.

As it stands, the work represents both a most useful hand-book for the use of dealers, and for the public at the consumer level a guide as to whether they should embrace this medium and subsequently for selection between the various funds.

Selecting from Past Performance

For the benefit of both these groups the "past-performance" demonstrations have been pointed up. As a matter of fact, the dependence of the entire industry on the demonstrated record of comparative results—down to the last percentage point—seems to be greatly overdone. Of course the justification "if not this, what else is there to use?" is unanswerable, but this does not supply logic or practicality in correlating management quality with past speculative performance, or of—*a la* horse-race doping—projecting past performance into the future. If one believes, as does this columnist, that the attainment of capital gains in the market is to a large extent fortuitous, then past performance cannot ordinarily be extended to the future. Moreover, breakdown of past records shows great variations in the comparative performances in accordance with the different time intervals that could have been used. Then too, changes in management personnel and investing techniques can render past results obsolete. This is recognized by Wiesenberger in omitting the records of some trusts on this ground stated as follows: "As a result of changes in management and/or investment policy during the period, long-term results for this company lack significance and are not a valid indication of the performance of the Fund as currently constituted." There must have been less drastic management changes in additional trusts where the validity

(Continued on page 34)

Investors and Managers—Forgotten Men

By EMIL SCHRAM*
President, New York Stock Exchange

Mr. Schram, in calling attention to government publications extolling American living standards, deplores neglect to mention part played by investors and managers. Says it is popular delusion that business profits and individual incomes must be siphoned off in taxes, and contends present tax structure seems designed to narrow rewards of risk taking. Points out functions of capital markets in creating jobs, and advocates eliminating unjust taxation on dividends and lowering of capital gains levies.

The citadel of capitalism, as the New York Stock Exchange is sometimes called—and I hope a compliment is implied—congratulates the citadel of the home furnishing and home appliance industries, the American Furniture Mart, on 25 exciting useful and fruitful years.

Emil Schram

Needless to say, we hope that your institution will continue its career of service to American business and the consumer for a long, long time.

The American Furniture Mart, housing so many competitive products, is typically American. It would be inconceivable in a totalitarian state. Why have competition in the making and selling of home furnishings, of refrigerators, washers, toasters, radios, and television sets when a committee, a bureau or a board could decide which of these products is most suitable for the purchaser's purposes and has the greatest esthetic appeal? The committee, the bureau, or the board would establish a rating system and, presumably, would prevent the consumer from making a mistake. The bureau, not the consumer, would know best. That is the essence of the difference in our ways. We say, in a liberal, democratic society, adults can think for themselves. They must have the right to be wrong. There is a line beyond which the community cannot step. The individual must be permitted to exercise choice. Otherwise he will lapse into the status of a pawn in the hands of the state.

Undoubtedly you have seen notices of patent applications for items which are, on their face, products of no utility—devices for manufacturing ice in the Arctic regions, or for better buttoning of button shoes. There is waste in not enjoining such activities, but the waste is as nothing compared with the atrophy of inquiry, adventure, and experimentation where efforts are centrally directed and controlled. Even where beginnings are made with good intentions and there is no thought of encroaching on liberties or human dignity, the chain of reactions leads to the kind of thing portrayed with graphic and almost terrifying penetration in George Orwell's new book, "1984," a devastating indictment of the servile state. It is no accident that so-called "utopias" are never democracies. Always there is an elite, a group set above the ordinary man and woman, which acts as a central intelligence agency. It is they who will decide what is best, what products should be produced, expanded, curtailed, introduced, or suppressed, in addition to determining the ethics and religion, always in the best interests of their wards. The question to which no satisfactory answer is ever given is, "Who selects the elite, or, when society plays the hangman, who is the hangman's hangman?"

New products and the constant improvement of old products are symbols of the American scene. This statement recalls the significance of your meeting today. At this point, I pay my respects to the inspirational leader of this great institution, General Lawrence H. Whiting, who for 25 years has been at the helm of the Furniture Mart. A description of the merchandise offered for sale here and 25 years ago at your opening would tell the story of General Whiting's accomplishments and of free markets more eloquently than any words of mine.

A young lady from Britain could not quite get used to the fact that the refrigerator was almost in universal use by American families—ingenious storage arrangements, the compartments for freezing and preparation of ice cubes. It was just too much for her. She cried: "You Americans are always thinking of ways to make yesterday's product seem centuries old." I suppose she is right. The fact remains that more refrigerators are used in this country than in the rest of the world combined. I know also that those who are apt to be scornful with respect to our desire for better things for a greater number of people missed the point if they thought we were necessarily less interested in the ultimate values of human freedom and dignity.

Recently the government published a most interesting pamphlet. It appears under the imprint of the Bureau of Labor Statistics of the United States Department of Labor. The 142-page pamphlet is called "The Gift of Freedom." The subtitle is "A Study of the Economic and Social Status of Wage Earners in the United States." The study describes the working people of America, living standards, distribution of the working force, social security and labor organizations, and throughout emphasizes, above all, our basic civil rights. Much space is given graphically to the food, clothing, and appliances and furnishings in the home of the average American worker and what he can buy in terms of an hour's work.

Evidently the pamphlet will be used in translation and is to be distributed broadly. A chart shows the rise in real wages and reduction in hours of factory workers 1909-1947, and below the chart appears this sentence: "The average factory worker in 1947 could buy twice as much as in 1909 and he had 11 hours or one-fifth more leisure each week." Reference is made in one place to the fact that America has the "largest and most efficient industrial plant in the world." Under "high levels of productivity," one significant sentence may be found: "Thus, it may be said that the most important factor in the expansion of production has been the increase in output per man-hour which has accompanied the improvement and expansion of the facilities for production."

Investment and Managers Forgotten

I have no quarrel with this effort to explain to doubters and the misinformed at home and abroad the gift of freedom. I take exception only to what the study omits—any tribute to American business and American investors and businessmen. This oversight is revealing. American business has created the organization methods of production and distribution that are admired and envied all over the world. Britain sends over parties of workers and managers to study our methods. In Italy, Americans find it desperately hard to explain to Italian executives the way to recovery and a higher standard of living—more goods at lower prices, a concept entirely alien in many countries. The marvels in every five-and-ten-cent store and a bewildering array of foodstuffs in shops make the average citizens of other countries rub their eyes in amazement to see if they are really awake. These are the products of these investors and managers who seem to be the forgotten men under the new dispensation. To my way of thinking, to leave out more than a casual reference to industry in a study of the worker's position is equivalent to a performance of Hamlet without the central character. American industry has made possible the high standard of living which the worker enjoys only because someone was willing to back up his ideas with money and was willing to accept the risk of failure.

Today, under a popular delusion that business profits and individual incomes must be siphoned off, the quest for security is accentuated. The most essential difference between our generation, that is, those who remember the world before 1914 and those who followed, is the note of confidence and the absence of despair in the earlier period.

The reasons for the search for security are varied. The need is to counteract the tendency. Instead, all of the forces of government and labor seem to be lined up to narrow the rewards of risk-taking. The end result may be more security, perhaps but at a grave cost in economic and social improvement. I am afraid we are trying to square the circle, or, to change the figure of speech, to have a perfect defensive team, but without the batters and speedy base runners who can score runs.

Tax Structure's Effect on Capital Markets

The tax structure's effects are vivdly mirrored in the capital markets.

It is quite clear that the capital markets are not functioning as well today as the maintenance of a dynamic economy demands. Measured against 1926, a year which economists regard as a time of balance in the general economy, activity in each of the past two years has been less than one-fifth of that of 1926. Dealings in stocks, which reflects not only volume of trading, but share prices, have since 1931 failed to equal the 40% of national income which they represented in the reasonably normal year 1926. Current high yields on common stocks are another indication of apathy in the capital markets. The sharp decline of the past three years in the ratio of price to dividends has been equal to that occurring between 1929 and 1932. Examination of data over

(Continued on page 30)

*An address by Mr. Schram at a dinner commemorating 25th Anniversary of the American Furniture Mart, Chicago, Ill., July 12, 1949.

From Washington Ahead of the News

By CARLISLE BARGERON

A fine example of organized Leftist propaganda is the tilt between Senator Hickenlooper and Chairman Lilienthal of the Atomic Energy Commission. As a matter of fact, the Senator has not been the only critic of the atomic energy chairman. There was quite a flare-up several weeks ago when Lilienthal defended the Commission's action in granting fellowships to three Communists. At that time, even Senator Vandenberg was quoted as having expressed regret that he went to the bat for Lilienthal when the question of his confirmation was before the Senate several months ago.

Carlisle Bargeron

But Hickenlooper developed to be the most aggressive of the critics and his charges of "incredible mismanagement" resolved the issue into one between him and the Chairman. Rather unusually, the matter was shaped up to become more or less of a "trial" before the Joint Energy Commission with Hickenlooper in the role of prosecutor and Lilienthal in that of defendant.

The "trial" is now nearing its end and the committee will in due time render its "verdict."

It is understood that the report of the committee, not a "verdict" in fact, will not find the Chairman guilty of any "incredible mismanagement," but at the same time it will contain quite a few recommendations designed to prevent the Commission from continuing to run hog wild. Indeed, the Senate Appropriations Committee has already taken steps towards bringing the agency's expenditures under a closer view of Congress.

These things taken into consideration, it would seem that Senator Hickenlooper has performed a public service and that his charges of "incredible mismanagement" were no more than the usual political exaggeration.

But this is not the appraisal of the Left-wing and Liberal columnists. From almost the outset they have been chorusing that the Senator's charges were a dud and that his political career is virtually at an end, that he will be defeated when he runs for re-election next year. One Leftist cartoonist in a highly influential Metropolitan paper portrayed Hickenlooper's Republican colleagues as running from him in embarrassment.

There have been several inspired articles in the Eastern Metropolitan press under Iowa date lines saying that the Iowa voters are quite annoyed over Hickenlooper and that the Republicans of this normally Republican State may even deny him the nomination next year.

Not having been out in the State where the Tall Corn Grows for sometime, I cannot refute these articles. But it strikes me as amazing that with all the problems they have out there, the daily business of making a living, worry about the Cold War and high taxes, the weather and strikes, that any considerable number of people would be wrought up about their Senator's charges against Mr. Lilienthal. The latter is not an Iowa boy who came East and made good and in whom there might be a lot of State pride. Somehow, it is tremendously difficult for me to visualize those good Iowa citizens, preoccupied as we all are, with matters far more pressing, gathering in their various assemblies, or shouting to each other across the fence, about what a terrible thing their Senator has done down in Washington.

Yet I have no doubt that by the time his campaign comes up, this will be about all the voters of Iowa will hear. Undoubtedly it will overshadow the Brannan farm plan, the housing program, subsidized medicine. The Senator's attitude on these may have been right up the Iowan's alley. But he will have committed the unpardonable sin. He challenged Lilienthal.

The fact is that he not only challenged the atomic chairman. He has brought the operations of this hush-hush agency into the open. He has just about developed, in fact, that there is little about the agency that should be secret, that Mr. Lilienthal and his colleagues, themselves, have not been worried about secrecy except to the American taxpayers. The mystery of the great atomic bomb is fastly wearing off. It is a tremendously devastating instrument as were the blockbusters used in the last war. One atomic bomb is far more powerful than one blockbuster, of course, but the bunk about the atomic bomb blotting out whole civilizations has been fairly well dissipated. In fact, in the course of the Lilienthal-Hickenlooper hearing, an Army expert has testified that a way already has been found to treat the victims. Hiroshima is also reported to be flourishing again with none of the lasting effects which were predicted.

A decided accomplishment on the Senator's part has been the complete turn-around on the part of Mr. Lilienthal in the matter of secrecy. He has come to decrying the hush-hushness and deprecating the near hysteria in which we contemplate the bomb. Certainly the public hasn't been responsible for this hush-hushness or for their near hysteria.

I can recall only a relatively few months ago when pictures appeared in the rotagravure sections depicting the atomic energy guards emptying the waste baskets. The guards, we were told, were required to look in the opposite direction from the waste baskets and there were other guards to see that they did this.

Behind this intense secrecy, we have learned, thanks to the Iowa Senator, the commission was spending on a high, wide and handsome basis. They built cities and turned their management over to contracting firms at fees larger than it costs to run any comparable city; they bought and sold as they pleased—no check on them anywhere. No one was to question their near billion dollar annual appropriation. The only reason the Senator's revelations don't constitute "incredible" mismanagement is because we probably suspected as much.

Bank and Insurance Stocks

By H. E. JOHNSON

This Week—Insurance Stocks

Although 1948 was one of the most profitable years in the history of fire insurance operations, present prospects are favorable and results for the current period should be equally satisfactory.

However, as a result of the recent changes in the price situation and the declines in business generally, the nature of the earnings this year is likely to be changed considerably.

As is generally known insurance company earnings are composed of three principal elements: (1) statutory underwriting profit; (2) increase or decrease in the equity of the unearned premium reserve, and (3) investment earnings. As is the usual practice in measuring insurance earnings a certain portion of this increase in the unearned premium reserve is added to the reported statutory earnings and reported as adjusted earnings.

During the period of rapidly rising prices and increasing premium volume, a substantial portion of the adjusted underwriting earnings of most fire insurance companies was made up of the increase in the equity of the stockholders in the unearned premium reserve. In some cases the statutory underwriting results showed losses or only small profits. At the same time equity of the stockholder in the increase in the unearned premium reserve as a result of a larger volume of business was considerable.

The following breakdown of earnings for 1948 by Geyer & Co. of a group of the leading companies illustrates this point:

	Under-writing Profit	Equity in Unearn. Premium Reserve	Adjust. Under-writing Earnings	Net Invest. Income	Net Before Taxes	Federal Income Taxes	Operating Earnings
Aetna Fire	$3.82	$2.46	$6.28	$3.42	$9.70	$1.04	$8.66
Continental Ins.	1.26	3.21	4.47	4.13	8.60	1.11	7.49
Fireman's Fund	2.43	5.87	8.30	4.17	12.47	1.61	10.86
Great American	0.62	2.09	2.71	2.41	5.12	0.54	4.58
Hartford	14.02	6.88	20.90	6.09	26.99	5.57	21.42
Ins. Co. of No. Am.	4.67	4.37	9.04	7.06	16.10	2.52	13.58

As can be seen from the foregoing a considerable portion of the adjusted underwriting earnings as well as of total earnings for last year was composed of the increased equity in the unearned premium reserve. This was also true of the prior years when premium volume was increasing resulting in larger reserves.

Since the end of last year business and prices have been declining. This will affect insurance operations in two ways. First of all, losses will be settled at lower prices, which in turn should benefit underwriting operations. Second the premium volume should tend to level off and may possibly show declines in some cases. This would reflect lower valuations and inventories as well as the lower level of prices.

Thus the leveling off of premium volume would mean no further increase in unearned premium reserves. Consequently there would not be the adjustment to satutory earnings from this source as there has been in the past several years. However, the full effect of the favorable underwriting conditions and the high volume of the past several years would be reflected in the statutory underwriting earnings. These earnings are expected to be sufficient, in most cases, to provide for a higher tax liability and maintain per share results near the favorable results of last year.

The higher tax liability will arise from an increase in underwriting earnings and not necessarily from higher total earnings. The unearned premium reserve adjustment is a method of estimating earnings used by statisticians and financial analysts. Inasmuch as the equity in the unearned premium reserve is not considered earnings for income tax purposes and because no provision is made for taxes on this amount, the earnings might be considered to be overstated to the extent of the tax on the unearned premium reserve portion. Contrariwise, when premium volume is declining, the tax liability is greater than adjusted earnings would warrant. This factor should be realized when computing earnings of insurance companies.

As premium volume will probably level off this year and earned premiums will increase as a result of the large volume of the past few years, the tax liability will increase substantially over that of last year. Adjusted earnings however, should be near those of last year even after allowing for the increased tax liability on the gain expected in statutory underwriting profits.

As a psychological factor, the gain in statutory underwriting earnings this year could be of considerable importance when companies consider their dividend policies. Whereas, in the past few years satutory underwriting earnings have been relatively small and the equity in the unearned premium reserve has accounted for a substantial portion of the adjusted earnings, this year practically all underwriting earnings will be reflected as statutory gains. With the pressure on capital funds relieved and investment earnings steady, the conservative payments of the past several years should be increased in a number of instances.

Joins Ames, Emerich Staff

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — Sterling W. Pratt has been added to the staff of Ames, Emerich & Co., Inc., 105 South La Salle Street, members of the Chicago Stock Exchange.

Two With Bache in Chicago

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — Thomas B. Crawford and Edward H. McKee have become associated with Bache & Co., 135 South La Salle Street. Mr. McKee was previously with Cruttenden & Co. and Ames, Emerich & Co.

Watling, Lerchen Adds 4

(Special to THE FINANCIAL CHRONICLE)

DETROIT, MICH. — Hugh A. D'Arcy, Constantine Eugenides, George W. J. Linton and C. A. Smith, Jr., have become associated with Watling, Lerchen & Co., Ford Bldg., members of the New York and Detroit Stock Exchanges.

With Gross, Rogers & Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Stanley M. Briggs has joined the staff of Gross, Rogers & Co., 458 South Spring Street, members of the Los Angeles Stock Exchange.

Impediments to Free Flow of Risk Capital

By HAL H. DEWAR*

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

IBA President, asserting need of revitalizing capital markets so that risk capital may again move freely at a fair price, ascribes impediments to world unrest and over-emphasis on economic security at expense of freedom. Stresses importance of sound economic education, and deplores unfriendly attitude of Administration toward business as defeating role of risk capital. Says Securities Acts should be liberalized to promote capital flow and urges better stockholder relationships.

I should like to speak to you today in optimistic tones about the investment business, but unfortunately there are so many dangers confronting it that I cannot do so. I might add that these dangers which immediately face our industry stalk the private enterprise system as well.

Hal H. Dewar

Under our modern complex economy, capital must be channeled through an investment banking system if the flow is to start from proper reservoirs and reach sound enterprise. So the welfare of a free economy and an effective investment banking mechanism are closely tied together.

I know that your group is particularly interested in the welfare of our business; so I am going to talk to you as though you were part of our industry. The solution of our problems is partly in the hands of the securities business, and the remainder is mostly in the hands of government. I realize and am thankful that the attitude of government is conditioned by public opinion, and the fact that we have not properly addressed ourselves to this forum is one of our greatest weaknesses. You are an influential segment of both the public and government itself, and so I should like to pose our problem and ask your cooperation in its solution.

Capital Markets Need Revitalization

In its simplest terms, the problem is a revitalization of our capital markets to the end that risk capital may again move freely and at a fair price. This means a fair price for outstanding securities as well as for new issues. Obviously, new enterprises, and additions to old, which are needed to keep our economy dynamic, cannot be financed if present equity securities are selling far under the replacement value of the assets they represent. There are many impediments confronting the solution of this problem, and I should like, even at the risk of going over familiar ground, to enumerate them.

First of all, and perhaps basic, is the fear engendered by world unrest. Hand in hand with this world unrest are the social ideas that are creeping in on us and undermining our free institutions. For example, high peacetime taxes which kill the incentive to employ venture capital, are very comforting to the enemies of our system. You well remember that Karl Marx, over a 100 years ago, called for a steeply graduated income tax as one sure way of bringing about a social State.

Perhaps out of this feeling of world unrest—certainly out of the type of economy which total war effort made necessary—has come another basic impediment. I am talking about the emphasis on economic security. Economic security has an important function in a free economy, but when security is placed above freedom that free economy is on the downgrade. The institutionalization of savings with its dangerous social trends and the corollary emphasis on debt financing are on outgrowth of this increasing desire for economic security. To tackle this problem, a public education program of herculean proportions is indicated.

At this point, I should like to say a word about the attempts of industry and finance to educate the public along sound economic lines. There are thousands of such attempts, and that is the trouble. There is perhaps too much pride of authorship. Scarcely a day passes that some pamphlet or some request for funds to support a new movement to tell the story of free enterprise doesn't appear on executives' desks in this country. Most of these pamphlets are good, and most of these projects are worthy; but they are not doing an effective job, and it is easy to understand why. There is too much diffusion.

Here is what should be done! The leading sponsors should initiate an organized effort to pool all projects. Careful editing of words and ideas could produce a really effective program, and the net cost would be a great deal less even though the combined project would be tremendous in scope. Perhaps such a suggestion is naive. I realize that pride of authorship, some trade association bureaucracies and promotional profits are very potent enemies of such cooperation. But the need is very great, and the leaders of industry and finance should see it.

I hope you will forgive this digression, but the answer to our problem is so tied up with sound public education that we will not have a solution before it is too late unless business can make its public education effective. Tied in with this is the great need for the various elements in our industrial and financial community jointly to work out their internal problems and present a united front in their social and political endeavors. The fact that they have not done so is another source of great comfort to the enemies of our system.

Effect of Tax Structure

I shall mention the other impediments to the flow of capital briefly so as to keep this talk in its proper sphere timewise, anyway. The next is a subject you are hearing a great deal about—the fact that our tax structure is politically and not economically designed. Any child knows the story of the killing of the goose

(Continued on page 34)

*A talk by Mr. Dewar at the Annual Convention of the National Association of Securities Administrators, Richmond, Va., July 12, 1949.

Economic Health Depends on Profits

By ARTHUR K. ATKINSON*
President, Wabash Railroad Company

Railroad executive defends profit system as most efficient and productive for public welfare, and attacks philosophy of the "Welfare State" as threat to American free enterprise system. Cites difficulty in securing business capital and ascribes it to decline in margin of corporate profits, along with high taxes on income. Points out our national defense depends primarily on sound internal domestic economy, and denounces growing pressure of big government on business activities as discouraging economic expansion. Outlines difficulties of railroads.

When the subject of this talk was announced some of you businessmen probably wondered what a railroad man could possibly know about profit. The railroad industry has enjoyed so little of that elusive substance during the past 20 years. Perhaps many of you whose businesses consistently show returns of 20 to 30% on the capital invested would be much better qualified than I to discuss the role of profit in our present economy.

Arthur K. Atkinson

I will not attempt to tell you how to operate a business profitably or at what point of the business cycle we are in at the present time. It is my purpose in coming here today to point out a few of the advantages in our American system of private enterprise and how to cultivate it for a more abundant standard of living.

We know America as a land of plenty, with more food, more natural resource development, more manufactured products, more everything than any other country in the world. We have built up our great wealth and high standard of living in a comparatively short period of years, as nations go, by working together under our democratic constitution. Our economy has constantly expanded through competitive free enterprise.

Actually we are far from being the biggest nation in the world. Both Russia and China have more lands, greater populations, and are reported to have more natural resources. Yet, their standard of living is frightfully below ours, and the four freedoms are unknown. In 30 years of Socialist organization, Russia has not learned how to produce abundance by force. The poor Chinese people are now to be given their chance under Communism.

Why is it then that some would have us believe that the profit system in America is evil, that capitalism is imposed upon the American people by a minority group of greedy businessmen? It should be obvious whether one lives in Socialist Britain, Communist Russia, or democratic United States that industrial enterprise must be operated efficiently and profitably if it is to serve the public interest and thereby justify its existence. It is just plain horse sense that any man whether he be a laborer or a corporation executive will work harder and produce more if his motive is profit. We have seen that the coal miners and railroad workers in England, though they are working for a Socialist Government are still primarily interested in their own wages and have produced not more but even less under the labor government than when employed by private capital.

Recently a group of economists known as the Economic Commission for Europe issued a report which pointed out that what Europe needs is revolutionary changes in the technique of production, that is, capital equipment and organization comparable with those in the United States. The report stated further that the productivity of European labor in industry was only one-fourth, and in agriculture, only one-sixth of labor's productivity in the United States. The main factor limiting production in Europe is the lack of capital investment. Compared with Europe, the United States has six times more capital investment per person. There is nothing new in this analysis of the critical condition of the European economy. It should serve to remind us, however, that the controlled economies of Europe have utterly failed in providing sufficient capital and we should be wary of any influence in this country which retards the flow of private capital to industry.

The New Deal Philosophy

There has been a growing demand by the American people, starting with the depression in the '30s, that government must furnish more and more services to protect the individual from every conceivable danger. Cradle-to-grave security has become an effective political theme and many unthinking Americans would sacrifice the Bill of Rights for some promised Utopia which, for want of a better name, might be called the "Welfare State." It would be foolish to condemn this desire for a better way of life, as we are all eager for that security which industrial progress can bring. It is the means by which such goal might be reached that should be questioned, and the solution must be based on sound judgment and practical thinking.

General Eisenhower recently said, "the army of persons who urge greater and greater centralization of authority and greater and greater dependence upon the Federal Treasury are really more dangerous to our form of government than any external threat that can possibly be arrayed against us."

It is this drift toward big government and a controlled economy which is the real threat to our American private enterprise system today. It seems to me that some of our labor leaders in their zeal for higher wages and better working conditions for union members are trying to trade off the goose that lays the golden eggs for a socialistic dead horse in the form of rigid Federal ownership or control.

Last December, a Joint Congressional Subcommittee headed by Republican Senator Flanders of Vermont, investigated the corporation profit situation in this country. Among those invited to testify were economists, labor leaders, accountants, and some of the nation's foremost businessmen. The investigation record provides some interesting and contrasting views on what causes our national economy to be sick or healthy. Labor charged management with the responsibility for the postwar inflation, alleging that big business raised prices as high as the traffic would bear with little regard for costs and for the purpose of building up huge reserves as insurance against an inevitable future depression. One labor leader offered a program to cure inflation which involved four basic points:

1. Higher wages for labor.
2. Immediate government action to stop all price increases.
3. Increased government spending for social welfare.
4. Higher taxes for corporations, including an excess profits tax and an undistributed profits tax.

Labor viewed corporate profits as a static portion of the national income which could be taxed away, if not distributed to stockholders, without harming the economy.

Difficulty in Securing Capital

Most of the business leaders who testified, although they represented some of the nation's largest corporations, pointed out the difficulty of securing sufficient capital from public issues of stock to take care of normal expansion. They emphatically justified their record profits by showing the earnings of their corporations over a period of years as compared with their invested capital. In most cases the ratio of profit to gross sales was clearly lower than in prewar years, evidencing the efforts made to keep prices down by reducing profit ratios and increasing volume and efficiency.

One of the most important factors consuming business profits and retarding the natural flow of venture capital is our high taxes on both corporate and individual earnings as well as on estates and gifts. I think we all agree that if the huge national debt is ever to be reduced we must operate our Federal Government by spending less than is taken in. Certainly even the credit of the United States will be impaired if we were to have successive peacetime deficits. Although there is no present statutory limit on the national debt, there is a theoretical danger point above which we dare not venture even with our tremendous wealth and productive capacity.

The recent granting by Congress of broad powers to the President for the purpose of reorganizing the vast executive branch of the Government is a challenge to eliminate the duplication and waste pointed out by the Hoover Committee's report. Let us hope that a conscientious effort will be made to streamline all executive departments and bureaus so that the taxpayers' money can be more wisely spent and that eventually the 3 billion dollars of estimated saving predicted by the Hoover group will become a reality.

If the adequacy of our national defense depends on the costly insurance of the Marshall Plan and the Atlantic Pact in addition to our own armed services and atomic energy program, let us place in office the best men available, to evaluate the amount of our aid required to do the job and to administer the distribution and spending thereof. Let us not forget, however, that the strength of our national defense is nourished entirely by our internal domestic economy. If American business enterprise from the great steel mill to the local filling station and from the huge railroad system to the corner grocery store is not

(Continued on page 30)

*An address by Mr. Atkinson before Downtown Kiwanis Club, St. Louis, Mo., June 30, 1949.

NSTA Notes

NATIONAL SECURITY TRADERS ASSOCIATION

The National Security Traders Association announces that its Sixteenth Annual Convention will be held at the Broadmoor Hotel, at Colorado Springs, Colo., from Wednesday through Sunday, Oct. 5-9, 1949.

The Broadmoor has often been called America's most complete year-round resort hotel, with every popular sport and entertainment diversion. Here, at the foot of Pike's Peak, the Broadmoor is within easy driving distance of the Garden of the Gods, Cheyenne Mountain, Will Rogers Shrine of the Sun, Pikes Peak and Cripple Creek, once the gold mining center of the world.

A championship golf course is located adjacent to the hotel. Also available are both an indoor and outside swimming pool, ice skating rink, bowling alleys, tennis courts, horseback riding, and many attractive scenic trips.

While the Convention program is not as yet completed, it will include an outdoor Chuck Wagon dinner, motor trip to Pikes Peak, and many other features in addition to the usual Convention functions.

On Tuesday, Oct. 4, the Bond Club of Denver will be hosts for a day in Denver, starting with the arrival of the special train from the East in the morning and concluding with cocktails and dinner that evening.

The special train will leave New York early Sunday evening, Oct. 2, and on Monday afternoon, Oct. 3, from Chicago, arriving in Denver Tuesday morning, Oct. 4. Trains will be parked at Union Station for occupancy while in Denver and will leave for Colorado Springs at noon, Wednesday, Oct. 5.

Hotel reservations must be made individually through the Association and in order to be assured of accommodations, which are necessarily limited, the application blank being sent all members together with check for registration fee must be forwarded to the Secretary. The rates will be $14.00 per day for two in a twin bedroom without meals, and a very limited number of single rooms will be available at $8.50 per day.

Dealer-Broker Investment Recommendations and Literature

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

Amott Baker Realty Bond Price Averages — Tabulation — Amott, Baker & Co., Incorporated, 150 Broadway, New York 7, N. Y.

Bond Market—Discussion of effect of revision of the Federal Reserve Board's Open Market Policy upon the bond market—Goodbody & Co., 115 Broadway, New York 6, N. Y.

Buy Now — Ten reasons for a bullish outlook—Bruns, Nordeman & Co., 60 Beaver Street, New York 4, N. Y.

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

Canada—A New Frontier in Oil—Extensive report on a thorough field investigation following recent impressive oil discoveries in Canada—Department C-13, Bache & Co., 36 Wall Street, New York 5, N. Y.

Colombia-Bolivia — New study of economic and political developments—Zippin & Company, 208 South La Salle Street, Chicago 4, Ill.

Comparative Insurance Stock Prices—Comprehensive tabulation—Geyer & Co., Inc., 63 Wall Street, New York 5, N. Y.

Insurance Stocks—Annual comparative analysis of a group of the country's leading insurance companies—Blyth & Co., Inc., 14 Wall Street, New York 5, N. Y.

Kentucky—History of commonwealth of Kentucky revenue and holding company bonds — The Bankers Bond Co., Kentucky Home Life Building, Louisville 2, Ky.

New York Bank Earnings—Comparative tabulation for first half of 1949—New York Hanseatic Corporation 120 Broadway, New York 5, 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.

Quo Vadis Mercator—An analysis of the current market—P. de Rensis & Company, 10 State Street, Boston 8, Mass.

Utility Operating Companies—Analysis—Central Republic Company, 209 South La Salle Street, Chicago 4, Ill.

* * *

American Airlines, Inc. — Detailed analytical brochure—Kidder, Peabody & Co., 17 Wall Street, New York 5, N. Y.

Bank of The Manhattan Co.—Circular—J. Earle May & Co., 601 Bryant Street, Palo Alto, Calif.

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

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

Helicopter Air Service, Inc. — Data—Cruttenden & Co., 231 South La Salle Street, Chicago 4, Ill.

International Utilities Corp. — Circular—Marx & Co., 44 Wall Street, New York 5, N. Y.

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

Lehman Corporation — Analysis of portfolio changes—Ira Haupt &

Co., 111 Broadway, New York 6, N. Y.

Also available are brief reviews of **Commonwealth & Southern, Benguet Consolidated Mining, and Servel.**

Louisville Gas & Electric Company — Detailed memorandum — Stein Bros. & Boyce, Starks Building, Louisville 2, Ky.

Also available is a detailed memorandum on **Standard Gas & Electric Company.**

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

J. P. Morgan & Company Incorporated—An analytical study—Paine, Webber, Jackson & Curtis, 25 Broad Street, New York 4, N. Y.

New England Public Service Co.—Analysis—Ira Haupt & Co., 111 Broadway, New York 8, N. Y.

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

St. Louis-San Francisco Second Mortgage Income 4½s—Analysis—Vilas & Hickey, 49 Wall Street, New York 5, N. Y.

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

Sprague Electric Co.—Circular—Reynolds & Co., New York 5, N. Y.

COMING EVENTS

In Investment Field

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.

Business Man's Bookshelf

Constructive Uses of Atomic Energy by Leaders in Atomic Research—Edited by S. C. Rothmann—Harper and Brothers, New York City—cloth—$3.00.

Rising Trend of Government Employment, The—Solomon Fabricant — National Bureau of Economic Research, Inc., 1819 Broadway, New York 23, N. Y.—paper—50c.

Chesley & Co. Adds

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—J. Walter Nelson, Jr., has become affiliated with Chesley & Co., 105 South Adams Street.

Illinois Brevities

Common stockholders of Central Illinois Public Service Co. of record June 9, 1949 subscribed on or before June 23, 1949 for 169,777 shares of the 446,000 shares of common stock offered at $14⅛ per share. This offering, which marked one of the largest equity financing transactions of the year in the utility field, was underwritten by a group of 51 investment houses, which included, among others, the following Chicago bankers: Central Republic Co. (Inc.); A. C. Allyn & Co., Inc.; Bacon, Whipple & Co.; A. G. Becker & Co. Inc.; William Blair & Co.; Harris, Hall & Co. (Inc.); Julien Collins & Co.; Paul H. Davis & Co.; Farwell, Chapman & Co.; The Illinois Co.; Kebbon, McCormick & Co.; Straus & Blosser; Ames, Emerich & Co., Inc.; Blunt, Ellis & Simmons; H. M. Byllesby & Co. (Inc.); Cruttenden & Co.; Dempsey & Co.; Sills, Fairman & Harris, Inc.; F. S. Yantis & Co., Inc.; First Securities Co. of Chicago; Carter H. Harrison & Co.; Martin, Burns & Corbett, Inc.; Mason, Moran & Co.; and Mullaney, Wells & Co. The unsubscribed portion (211,149 shares, not including 65,074 shares previously sold) was offered publicly on June 27 at $14.50 per share. The net proceeds will be used by the utility firm to pay in part the cost of additions and improvements to be made to its properties, principally its electric properties.

* * *

A nationwide banking group headed by Halsey, Stuart & Co. Inc., on June 29 publicly offered $80,000,000 Pacific Gas & Electric Co. first and refunding mortgage bonds, series S, 3%, due June 1, 1983, at 100.633% and accrued interest. The net proceeds are to be used in part to retire $12,000,000 bank loans, and the remainder to finance, in part, the utility company's construction program. Other Illinois investment houses participating in this offering were: A. C. Allyn & Co., Inc.; Julien Collins & Co.; Dempsey & Co.; Detmer & Co.; Ketcham & Nongard; Mason, Moran & Co.; Mullaney, Wells & Co.; Alfred O'Gara & Co.; Patterson, Copeland & Kendall, Inc.; Robert Showers; Sills, Fairman & Harris, Inc.; and F. S. Yantis & Co., Inc.

* * *

Another investment banking syndicate headed by Halsey, Stuart & Co. Inc., and including, among others, The Illinois Co. and Mullaney, Wells & Co., on June 8 publicly offered $10,000,000 Oklahoma Gas & Electric Co. first mortgage 3% bonds, series due June 1, 1979, at 101.99% and accrued interest. The net proceeds are to be used to pay in part the expenditures of the utility firm incurred and to be incurred in 1949 for additions and betterments to the company's physical properties (including the payment of $3,500,000 of short-term bank loans).

* * *

Three other groups of underwriters, also headed by Halsey, Stuart & Co. Inc., publicly offered the following equipment trust issues: On June 9, $7,500,000 Southern Ry. 2½% equipment trust certificates, series RR, at prices to yield 1.25% to 2.725%, according to maturity; on June 23, $12,480,000 Southern Pacific Co. 2⅜% equipment trust certificates, series BB, at prices to yield 1.40% to 2.70%, according to maturity; and on July 7, $6,600,000 Chicago & North Western Ry. 2% equipment trust certificates, second equipment trust of 1949, at prices to yield 1.375% to 2.675%, according to maturity. The same bankers (as sole underwriters) offered on June 16, $2,060,000 Chicago, Burlington & Quincy RR. 2% equipment trust certificates at prices to yield 1.20% to 2.325%, according to maturity.

* * *

Halsey, Stuart & Co. Inc. (as sole underwriter) also on June 22 publicly offered $4,000,000 first mortgage bonds, series E 3% due 1979, of Public Service Co. of New Hampshire at 100.59% and accrued interest, the net proceeds to be used to reduce short-term bank borrowings and the balance for other corporate purposes.

* * *

Halsey, Stuart & Co. Inc. in addition participated in the underwriting of an offering by Houston Lighting & Power Co. to its stockholders of an issue of $15,360,450 2¾% convertible debentures due June 30, 1964, or, in the alternative, 307,209 shares of its common stock of no par value. The debentures were offered at par and the common stock at $40 per share. Rights expired at the close of business on July 11, 1949.

* * *

The following Chicago banking houses on June 8 participated in the public offering of $75,000,000 Public Service Electric & Gas Co. first and refunding mortgage 2⅞% bonds, due June 1, 1979, at 101¼% and accrued interest: Glore, Forgan & Co., Blunt, Ellis & Simmons, The Illinois Co. and Julien Collins & Co. Of the net proceeds, $20,000,000 will be used to pay off bank loans due Sept. 10, 1950 in advance of maturity, and the balance will be added to general funds.

* * *

Included in the group of investment bankers who on June 9 publicly offered 150,000 shares of Clinton Industries, Inc. capital stock (par $1) at $26.75 per share were: A. C. Allyn & Co., Inc., A. G. Becker & Co. Inc., Central Republic Co. (Inc.), Kebbon, McCormick & Co., Blunt, Ellis & Simmons and The Illinois Co.

* * *

A group of underwriters, headed by Blyth & Co., Inc., and including, among others, Harris, Hall & Co. (Inc.), A. C. Allyn & Co., Inc., Central Republic Co. (Inc.) and Kebbon, McCormick & Co., on June 7 publicly offered 250,000 shares of 4.20% cumulative preferred stock of Caterpillar Tractor Co. at par ($100 per share) and accrued dividends from May 10, 1949. The net proceeds will be used in part to pay an aggregate of $21,000,000 principal amount of promissory notes evidencing borrowings from banks, and the balance will be used to pay for expansion and to increase working capital. Caterpillar's manufacturing operations are largely concentrated at a plant located on approximately 405 acres of land owned in fee in Peoria.

* * *

A group of 124 underwriters on July 7 participated in the public offering of 550,000 shares of Kansas Gas & Electric Co. common stock (no par value) at $26⅝ per share. This included 100,000 shares for the account of the company and 450,000 shares representing the remaining holdings of American Power & Light Co. The proceeds to the Kansas firm will provide funds to finance in part its construction program and to repay short-term loans. The Illinois bankers participating are: A. C. Allyn & Co., Inc., Central Republic Co. (Inc.), A. G. Becker & Co. Inc., Kebbon, McCormick & Co., Mason, Moran & Co., Blunt, Ellis & Co., John W. Clarke, Inc., Paul H. Davis & Co., Harris, Hall & Co. (Inc.), Julien Collins & Co., Ketcham & Nongard and H. M. Byllesby & Co. (Inc.).

* * *

Central Republic Co. (Inc.), A. C. Allyn & Co., Inc. and Kebbon, McCormick & Co. also on June 15 participated in the public offering of an issue of 80,000 shares of Central Arizona Light & Power Co. $2.50 cumulative preferred stock at par ($50 per share), plus accrued dividends from June 1, 1949.

* * *

In addition A. C. Allyn & Co., Inc., on June 9 participated in the public offering of $20,000,000 Virginia Electric & Power Co. first and refunding mortgage 2⅞% bonds, series G, due June 1, 1979, at 101.50% and accrued interest.

* * *

On June 17, A. C. Allyn & Co., Inc. and William Blair & Co. participated in the public offering of 40,000 shares of Staten Island Edison Corp. 4.90% series cumulative preferred stock (par $100) at $103.25 per share and accrued dividends.

* * *

Additional financing for the continuing expansion program of Tennessee Gas Transmission Co. was undertaken with the public offering on June 21 of a new issue of $50,000,000 first mortgage pipe line bonds, 3% series due 1969, at 100¾% and accrued interest. Illinois bankers participating were Central Republic Co. (Inc.), Harris, Hall & Co. (Inc.), Bacon, Whipple & Co., Kebbon, McCormick & Co. and Mullaney, Wells & Co.

* * *

In addition Central Republic Co. (Inc.) participated on June 21 in the public offering of 251,033 shares of Portland General Electric Co. common stock (no par value) at $22 per share, the net proceeds of which are to be used to finance, in part, the latter's construction program.

* * *

Straus & Blosser on June 21 participated in the public offering of 242,785 shares of Illinois Power Co. common stock (no par value) at $28.9938 per share for the account of North American Co. and North American Light & Power Co., representing their entire holdings of Illinois Power Co. common stock.

* * *

On June 29, a nationwide group of 80 underwriters offered publicly $50,000,000 25-year 3% debentures due June 1, 1974, of Joseph E. Seagram & Sons, Inc. at 99⅛% and accrued interest. Included in this group were the following named Illinois bankers: A. C. Allyn & Co., Inc.; A. G. Becker & Co. Inc.; Central Republic Co. (Inc.); Bacon, Whipple & Co.; William Blair & Co.; The Illinois Co.; Kebbon, McCormick & Co.; and Farwell, Chapman & Co. The net proceeds, together with other funds, will be used to pay outstanding notes.

* * *

Consolidated Grocers Corp., Chicago, has placed privately through A. C. Allyn & Co., Inc., a $6,500,000 15-year 3¼% promissory note due June 1, 1964, with an institutional investor. The net proceeds were used in part to retire on June 25 $3,985,000 of debentures at 102¾, and the balance was added to working capital.

* * *

A. G. Becker & Co. Inc., and Harris, Hall & Co. (Inc.) and Blunt, Ellis & Simmons on June 29 participated in the public offering of $25,000,000 Michigan Consolidated Gas Co. 3⅞% sinking fund debentures due July 1, 1967, at 101⅝% and accrued interest.

* * *

An issue of $700,000 first mortgage bonds, 3¼% series due 1978, of Northwestern Public Service Co., Huron, S. D., has been placed privately with Northwestern Mutual Life Insurance Co., Milwaukee, Wis., through A. C. Allyn & Co., Inc.

* * *

Included in the group of 34 underwriters who on June 22 publicly offered $10,000,000 Pacific Western Oil Corp. 15-year 3½% sinking fund debentures due June 1, 1964 were A. G. Becker & Co. Inc.; Blunt, Ellis & Simmons; Kebbon, McCormick & Co.; and Rogers & Tracy, Inc. The debentures were priced at 100 and accrued interest.

* * *

Temporary 25-year 2⅞% debentures, due 1973, of Swift & Co. may be exchanged for permanent debentures at The First National Bank of Chicago, trustee, and at Irving Trust Co., New York, N. Y.

* * *

The sales of National Tea Co., Chicago, for the four weeks ended June 18, 1949 amounted to $20,663,361, compared with $20,411,511 for the corresponding period in 1948, and $20,455,928 for the four weeks ended May 21, 1949.

Jewel Tea Co., Inc., Barrington, reported that its retail sales for the four weeks ended June 18, 1949 were $13,312,949, or 13.7% ahead of the same weeks a year ago. Retail sales for the four weeks ended May 21, 1949 totaled $13,136,090, a gain of 12.2% over the same period in 1948.

* * *

Farwell, Chapman & Co. was included in the group of 16 underwriters who on July 8 publicly offered 50,000 shares of Delaware Power & Light Co. 4.28% preferred stock (par $100) at $102¾ per share and accrued dividends.

* * *

Consolidated sales of Deere & Co., Moline, and its subsidiaries, for the six months ended April 30, 1949 amounted to $187,716,847, and net income after Federal income taxes to $16,435,014, compared with sales of $140,060,707 and net profit of $9,659,282 for the corresponding six months' period a year ago. Sales continued at a high level during the second quarter of the current fiscal year.

* * *

The book value of the common shares of Peabody Coal Co., Chicago, on April 30, 1949 was $12.52, compared with $9.86 a year before. Current assets at the close of the year just closed amounted to $11,726,658, and current liabilities $5,197,019.

$19,000,000 Los Angeles School District Bond Issues Marketed by Underwriting Group

A nationwide syndicate, leading members of which include the National City Bank of New York, Bank of America National Trust & Savings Association, Bankers Trust Co., Smith, Barney & Co., Blyth & Co., Inc., First Boston Corporation, and Chemical Bank & Trust Co., made public offering on July 13 of $19,000,000 Los Angeles, Calif., City School District and City High School District 2¼% bonds from a 1% yield basis to a dollar price of 98.50, according to maturity. The offering consisted of $13,000,000 City School District bonds, due on Jan. 1 from 1954 to 1972, incl., and $6,000,000 City High School District bonds, maturing on Jan. 1 from 1953 to 1972, incl.

The bonds constitute obligations of the respective issuing districts and were acquired by the underwriters via a competitive bidding sale on July 12. The group paid a price of 101.33 for the city school issue and 101.45 for the high school loan. The offering proved exceedingly attractive to investors, the syndicate managers having announced the sale of all but $5,000,000 of the total of $19,000,000 bonds within a few hours after the offering scale was announced.

Halsey, Stuart Offers Akron Depot Bonds

Halsey, Stuart & Co. Inc. offered publicly July 13 $2,000,000 Akron Union Passenger Depot first mortgage 4½% bonds, series A, due July 1, 1974, at 100% and accrued interest. Award of the bonds was won at competitive sale on a bid of 98.10. The sale is subject to authorization of the Interstate Commerce Commission.

Proceeds will be used to reimburse the company's treasury for capital expenditures made and to be made for acquisition of lands and interests in lands and construction thereon of a new union passenger station in the city of Akron, Ohio.

The bonds are guaranteed unconditionally by endorsement as to principal, interest and sinking fund payments, jointly and severally, by The Pennsylvania RR. and The Baltimore & Ohio RR.

Redemption prices for the new bonds otherwise than for sinking fund purposes are scaled from 104% to 100%. Sinking fund redemption prices range from 102% to 100%.

The Depot company was organized under the laws of the State of Ohio on May 6, 1891, for the purpose, among other things, of constructing and maintaining a union passenger station in Akron. In due course, a station was completed at Market Street in Akron and has been used by the Pennsylvania and B. & O. Railroads to the present time. It is expected that the new station will be completed and ready for operation about Dec. 1, 1949.

Hawkes With Draper, Sears

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS. — Walter L. Hawkes has become affiliated with Draper, Sears & Co., 53 State Street, members of the New York and Boston Stock Exchanges.

With Barnes, Bodell

(Special to THE FINANCIAL CHRONICLE)

NEW HAVEN, CONN.—Harry W. Confrances is with Barnes, Bodell & Goodwin, Inc., 257 Church Street.

Kafflen Investment Co.

SPOKANE, WASH. — Karl J. Kafflen is now engaging in the securities business under the name of Kafflen Investment Co., Radio Central Building.

Two With Robert C. Buell

(Special to THE FINANCIAL CHRONICLE)

HARTFORD, CONN.—Violet M. Mangone and Osmon N. Peterson are now connected with Robert C. Buell & Co., 36 Pearl Street.

With R. H. Johnson Co.

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS.—Rudolph G. Custeau has become connected with R. H. Johnson & Co., 30 State Street.

NEWS ABOUT BANKS AND BANKERS

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED CAPITALIZATIONS

At a meeting of the board of trustees on July 11 Earl Bryan Schwulst was elected President of **The Bowery Savings Bank, of New York,** which has more than 500,000 depositors and assets of over $900 million. Mr. Schwulst will be Chief Administrative Officer. Henry Bruére relinquishes the Presidency of The Bowery, which he has held since 1931, but remains as Chairman of the Board and Chief Executive Officer. Harris A. Dunn remains as Vice-Chairman of the Board, Robert W. Sparks as First Vice-President, P. Raymond Haulenbeek as Administrative Vice-President. Mr. Schwulst, who has been with The Bowery since 1936, was born in Sherman, Texas. In the financial world he has served as Research Assistant to J. P. Morgan & Co. Incorporated; Loan and Credit Manager of the Federal Reserve Bank of Dallas; Financial Adviser to the Central Bank of Ecuador and the Governor-General of the Philippine Islands; Superintendent of Banks in the Philippines and Adviser to the Cuban Government. With American Governmental agencies Mr. Schwulst has been Special Assistant to the Board of the Reconstruction Finance Corporation, Director of the Commodity Credit Corporation and President and Director of the RFC Mortgage Company. Among other current activities he is a director of The Greater New York Fund, the Institutional Securities Corp., the Regional Plan Association and a trustee of the Teacher Insurance and Annuity Association. Mr. Schwulst is a past President of the National Association of Mutual Savings Banks.

Earl B. Schwulst

* * *

Elliott V. Bell, New York State Superintendent of Banks, announced on July 7 reappointment of DeCoursey Fales, President of **The Bank for Savings in the City of New York,** and Harris A. Dunn, Vice-Chairman of the Board of Trustees of **The Bowery Savings Bank, of New York,** as trustees of the **Savings Banks Life Insurance Fund** for four-year terms beginning July 1, 1949. Mr. Fales and Mr. Dunn were first appointed trustees of the Fund on July 1, 1945. The Savings Banks Life Insurance Fund, which was organized on July 1, 1940, is managed by a board of seven trustees appointed by the Superintendent of Banks with the consent of the Governor. The Fund provides a guaranty of life insurance policies issued by savings banks, prepares the standard forms of life insurance policies and annuity contracts, determines premium rates and unifies the mortality experience of issuing banks. There are now 39 issuing banks and 25 agency banks for savings bank life insurance.

* * *

Presidents of three important corporations have been appointed members of **Chase National Bank, New York** Branch Advisory Committees. Albert V. Moore, President of Moore-McCormick Lines, Inc., was appointed to the Advisory Committee for the Produce Exchange Branch at 25 Broadway; Herman D. Ruhm, Jr., President of Bates Manufacturing Company, to the 42nd Street Branch committee, and John Jay Hopkins, President of Electric Boat Compayn, to the 45th Street Branch committee.

* * *

THE CHASE NATIONAL BANK OF THE CITY OF NEW YORK

	June 30, 1949	Mar. 31, 1949
Tot. resources	$4,677,221,404	$4,461,430,548
Deposits	4,233,944,130	4,067,176,570
Cash and due from banks	1,291,193,008	1,325,879,660
U. S. Govt. security hldgs.	1,723,449,125	1,334,139,329
Loans and bills discounted	1,382,631,244	1,524,426,11[illegible]
Undiv. profit	65,[illegible]	64,463,45[illegible]

* * *

Harvey D. Gibson, President of **Manufacturers Trust Company of New York** announces that John Quincy Adams, President of The Manhattan Refrigerating Co., has been appointed to serve on the Advisory Board of the bank's office at 14th Street and Eighth Avenue. Mr. Adams is also President of the Union Terminal Cold Storage Co., Inc., Jersey City, as well as a director and former President of the Marketmen's Association of the Port of New York.

* * *

BANKERS TRUST COMPANY, NEW YORK

	June 30, 1949	Mar. 31, 1949
Tot. resources	$1,620,504,826	$1,559,658,568
Deposits	1,416,974,201	1,360,713,914
Cash and due from banks	432,304,612	438,824,708
U. S. Govt. security hldgs.	542,627,129	485,730,622
Loans and bills discounted	570,009,752	563,849,269
Undiv. profits	55,913,519	55,422,823

* * *

John E. Bierwirth, President of **The New York Trust Company, at 100 Broadway, New York,** announced on July 12 the appointment of John Johnson and John J. O'Connell as Assistant Secretaries in the Personal Trust Division of the company. Messrs. Johnson and O'Connell have been members of the clerical staff of the trust company for several years. Mr. Johnson will continue as Manager of the Trust Accounting Department and Mr. O'Connell as Manager of the Real Estate Department.

The New York Trust Company has taken a long-term lease of ground floor space for a branch office in the new air-conditioned 488 Madison Avenue Building now being erected on the blockfront between 51st and 52nd Streets by Uris Brothers, it is announced by President Bierwirth, of the trust company, and by Robert Byrne, Vice-President of Cross & Brown, Uris Brothers' rental agents. In addition to the street-level banking space of approximately 3,500 square feet at 52nd and Madison Avenue, an additional 3,000 square feet directly beneath the banking floor will be taken by the Safe Deposit Company of The New York Trust Company. The banking office will be opened around Feb. 1, 1950, and will be the third completely equipped branch office opened by the bank.

* * *

BROWN BROTHERS HARRIMAN & CO., NEW YORK

	June 30,'49 $	Mar. 31,'49 $
Tot. resources	220,761,836	224,228,544
Deposits	192,915,952	191,3[illegible]2,22[illegible]
Cash and due from banks	53,702,649	54,316,47[illegible]
U. S. Govt. security hldgs.	56,645,319	51,963,872
Loans and bills discounted	46,109,009	51,666,819
Cap. and surp.	13,965,284	13,945,264

* * *

UNITED STATES TRUST COMPANY OF NEW YORK

	June 30,'49 $	Mar. 31,'49 $
Tot. resources	163,054,281	160,300,043
Deposits	130,095,775	127,620,083
Cash and due from banks	27,294,961	27,111,631
U. S. Govt. security holdings	65,960,493	76,613,949
Loans and bills discounted	52,962,994	38,702,894
Undivided profits	1,814,351	1,735,358

Benjamin Strong, President of the **United States Trust Company of New York** announced that the company has appointed Paul Spadone an Assistant Secretary.

* * *

Barnard Townsend, President of **Title Guarantee and Trust Company of New York,** announces the election of Lloyd Clarkson as an Assistant Vice-President of the company. Mr. Clarkson joins Title Guarantee and Trust after several years of service as a Vice-President of the First National Bank of Jersey City, N. J. He previously had been associated with the Bank of Manhattan Company and the Irving Trust Company in New York.

* * *

An agreement for the merger of the **Eastport National Bank of Eastport, N. Y.,** into the **Center Moriches Bank of Center Moriches, N. Y.,** under the title **South Bay Bank,** was filed on June 30 with the New York State Banking Department, it was made known in the July 1 bulletin of the Department. At the same time it was also announced that approval had been given to a certificate for the change in the name of the Center Moriches Bank to the South Bay Bank, and plans to increase the capital of the Center Moriches Bank from $100,000, consisting of 1,000 shares (par $100 each) to $150,000, consisting of 1,500 shares, par $100 each. The July 11 bulletin of the Office of the Comptroller of the Currency at Washington reported that the Eastport

(Continued on page 16)

Mutual Funds

By HENRY HUNT

"Ten Little Investors"

Ten little investors, back in '29,
One bought on margin; then there were nine.
Nine little investors in March of '38,
One sold the market short; then there were eight.
Eight little investors just arrived from Devon,
One played the horses; then there were seven.
Seven little investors in Florida '26,
One bought some real estate; then there were six
Six little investors, land's sake alive!
One backed an oil well; then there were five.
Five little investors, one was plenty sore,
He bought Kreuger, Toll; then there were four.
Four little investors went on a spree,
One took a flyer; then there were three.
Three little investors, all in a stew,
One bought penny mining stocks; then there were two.
Two little investors, one about to run,
The other's bonds defaulted; then there was one.
One little investor, too scared to make a peep,
He bought some mutual funds and now can really sleep.

The above parody should not be taken too literally but more and more investors are discovering today that through owning mutual funds they enjoy greater investment peace of mind and actually do sleep better.

Investment Company Index Inaugurated

Of considerable interest to trustmen and other purchasers of investment company shares is the **"Henry Ansbacher Long Investment Company Index,"** a new monthly feature published in "Trusts and Estates" Magazine commencing in the July 15 issue. Special features of the Index emphasize historical as well as current data, distinguishing between distribution of capital gains and pure income and provide a five-year moving average on income and a monthly figure indicating changes in principal value. These unique characteristics are designed to give a more complete picture than could be obtained by emphasis on any one item in the performance record. "Trusts and Estates" will further explore the theory of mutual fund investing through monthly articles by key figures in the investment company and fiduciary fields.

Wellington Reports Record Sales

Record sales of **Wellington Fund** for June and the first half year were reported by A. J. Wilkins, Vice-President of W. L. Morgan & Co. New money invested by the public in the Fund in June amounted to $3,019,000 for an increase of 89% over the same month last year, and represented the largest single month's sales in the Fund's 20-year history.

In the six months ended June 30, 1949, Mr. Wilkins reported that the public had invested a total of $14,444,000 in new money in the Fund for an increase of 75% over the corresponding period of 1948 and the largest six months' sales ever recorded by the Fund.

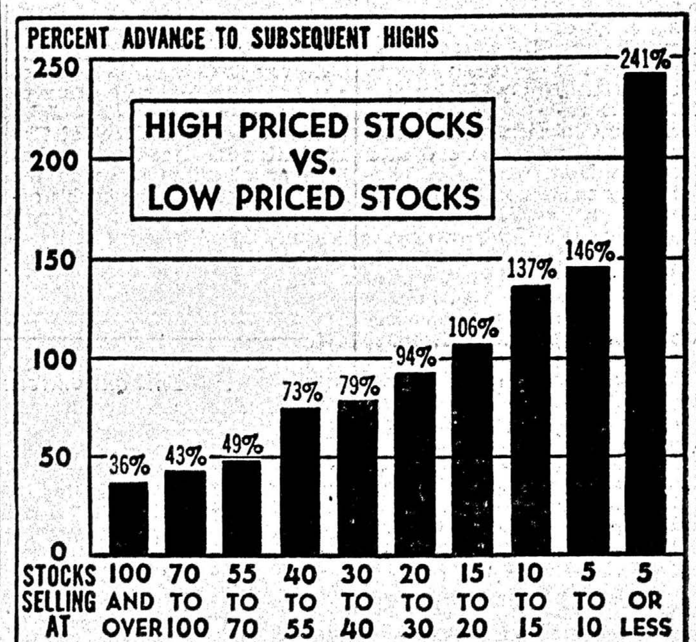
At the close of the half-year, the number of shareholders was approaching the 33,000-mark for a new high, while the number of institutional investors in the Fund increased 22% in the nine months to June 1, 1949.

Mr. Wilkins attributed the larger sales this year in the face of declining stock prices and reduced stock market activity to the growing public acceptance of mutual funds as a medium for savings, with the small investor especially finding that there is no other way in which he can spread his savings over 200 different securities.

"With present high living costs and taxes," Mr. Wilkins pointed out, "people are finding they can't afford to let their surplus cash stay idle or work for a rate of only 1 or 2%. Moreover, they don't have the time, information and experience to select and watch individual securities to get a better income and are afraid of losing their principal if they try to do this specialized job without professional advice. As a result, people have been turning to mutual funds to meet their needs for higher yields, expert supervision of investments and spread of investment risk."—Congratulations, AL.

Why Low Priced Stocks?

Because in the past, low priced stocks as a group *have always shown the greatest percentage advance in a rising market.* The chart below shows to what a striking degree, on average, the difference in performance has been.



From a study by S. Van Strum, published by Barron's.

This chart is a record of *all* stocks listed on the New York Stock Exchange in each period of rising markets from 1897 to 1932.

The chart shows that on average for *each* period of stock market advance in the 34 years between 1897 and 1932 *stocks in the lower priced groups advanced several times more than those in higher priced groups.*

A somewhat similar study of the 1935-1937 advance shows that while the Dow-Jones Industrial Average advanced by 101%:

The 50 most active—

High-priced (over $50 per share) stocks advanced____ 43%
Low-priced (under $15 per share) stocks advanced____264%

In the 1942-1946 advance when the Dow-Jones Industrial Average increased 128.7%, 30 representative stocks selling (at the beginning of the period) for over $50 per share advanced 129.5%. *Thirty representative stocks selling for less than $15 per share advanced 365%.*

There are a number of reasons why this occurs so consistently, but it is chiefly due to the desire of the small buyer to own a full trading unit of 100 shares. And small buyers, in the aggregate, make up a large proportion of the total buying power.

Low priced stocks are attractive today—and at any time—only to the investor who feels that the stock market is likely to advance *and who wants better-than-average appreciation.* If a decline in market averages should later seem probable, such stocks should be sold. For their effect is to magnify stock market performance both up and down.—**From a folder issued by Distributors Group.**

Mutual Funds Form New National Institute

Paul Bartholet heads organization which will direct program of research and public relations.

Formation of the Mutual Fund Institute was announced July 13 in a speech by its newly-elected President, Paul Bartholet, before a meeting of the National Association of Securities Administrators in Richmond, Va. This Institute, according to Mr. Bartholet, is an organization of open-end investment companies (now commonly known as mutual funds) and their underwriters.

Paul Bartholet

The Institute's initial Board of Governors, in addition to Mr. Bartholet, includes: Hugh W. Long, President of Hugh W. Long & Co., Inc., New York; Karl D. Pettit, President of Knickerbocker Fund, New York; S. L. Sholley, President of Keystone Custodian Funds, Inc., Boston; Henry J. Simonson, Jr., President of National Securities and Research Corp., New York, and Joseph E. Welch, Executive Vice-President of Wellington Fund, Inc., Philadelphia.

In his speech before the Securities Administrators, Mr. Bartholet stated that the objectives of the new Institute would be:

(1) Re-establishment of a common meeting ground between the various securities commissioners and Mutual Funds for the discussion and solution of regulatory problems;

(2) The development of a better public understanding and acceptance of Mutual Funds, and

(3) Finding means, through research, whereby Mutual Funds can improve their service to the investing public and to the economy as a whole.

Enlarging upon these objectives, Mr. Bartholet stated that it will be the firm policy of the Institute to present to the commissioners the needs and views of various segments of the Mutual Funds' business in an unbiased manner, without regard to the special interest of any particular company or group except as they affect the business as a whole.

"In the development of a better public understanding and acceptance of Mutual Funds," Mr. Bartholet said, "it is the conviction of the Institute that investors should know not only what Mutual Funds can hope to do for them, but also what they cannot do and what the public must not expect of them.

"Mutual Funds are here to stay, and their shares will represent an ever increasing portion of securities sold. At the present time they are the fastest-growing segment of the securities business. Since 1940 the assets of Mutual Funds have tripled," Mr. Bartholet said, "but the tripling of our assets has represented an actual increase of only $1 billion. Meanwhile, life insurance companies added $23 billion to their net reserves; savings banks deposits rose $28 billion. During this period, the purchasing power of life insurance and savings bank dollars declined 41%, while the value of common stocks in which Mutual Funds are invested rose more than 40%—and the dividend income on such stocks increased 65%.

"Why, in the face of these facts, have Mutual Funds not attracted a greater proportion of investment capital and surplus savings? That is the $64 question which the Institute hopes to solve through a constructive program of research and public education."

Mr. Bartholet said that the Institute proposes that the National Association of Securities Administrators and the Mutual Fund Institute conduct a joint factual survey with respect to costs and methods of distribution of Mutual Fund shares, simplification of regulatory requirements and methods of how better to enable these Funds to contribute to the equity and venture capital requirements of the national economy. The help of regulatory commissions and financial organizations will be sought in this survey, he said.

The Mutual Fund Institute has opened offices at 48 Wall Street, New York City.

H. Hentz Co. Adds Wm. Green & L. Stone

H. Hentz & Co., 60 Beaver Street, New York City, members of the New York Stock Exchange and other leading Exchanges, announce that William P. Green and Lewis E. Stone have become associated with the firm in its Institutional Department. Mr. Green and Mr. Stone formerly were with Goodbody & Co.

John J. O'Brien Co. Adds Russell Chandler

CHICAGO, ILL. — John J. O'Brien & Co., 231 South La Salle Street, members of the New York Stock Exchange, announce that Russell M. Chandler has become associated with them in their Chicago office. Mr. Chandler will specialize in the distribution of Investment Trust Shares.

Four St. Louis Firms Oppose Exchange Merger

Along with other members of St. Louis Exchange, who voted against proposition to join with Chicago, they state they will not go into the consolidation.

On July 7, four St. Louis stock brokerage firms, who are members of the St. Louis Stock Exchange, notified the Exchange authorities that they were opposed to a merger with other Mid-West stock exchanges and would refuse to go along with the plan of consolidation. It is reported that these opposing firms are in addition to the six members who registered opposition when a vote on the proposition was taken last May and approved by a substantial majority. The four objecting firms are Paul Brown & Co., A. G. Edwards & Sons, Edward D. Jones & Co. and I. M. Simon & Co.

The firms in question sent letters to the corporations listed on the St. Louis Exchange in which they said: "We do not agree that the market for your securities would in any sense be bettered by moving to Chicago. It is our belief, that unless the trading in your stock becomes and continues to be quite active, within a year's time it may be delisted from the Exchange."

The letter also stated that the St. Louis Exchange has functioned for 50 years and has become a useful and integral part of the business and financial community of St. Louis.

They therefore urged that all steps toward dissolving the Exchange and merging it with the Chicago Exchange be abandoned and denied the right of a majority of the members of the exchange to dissolve it.

Reuther States Aims of Auto Workers

In opening speech at Annual UAW-CIO Constitutional Convention, calls for health and pension benefits as well as higher wages in 1949

In a lead-off speech at the 12th Annual Constitutional Convention of the United Automobile Workers-CIO, held in Milwaukee, Wis. on July 10, Walter Reuther, head of the organization, announced his demands to be presented to the automobile manufacturers in forthcoming wage negotiations.

Walter P. Reuther

"When we drafted the economic demands of our union in January of this year," Reuther stated, "we said that the workers in our industry needed a pension plan, that every day they were getting older and every day insecurity was clouding their future. We said that when a worker had worked 25 years and reached the age of 60 he was entitled to a minimum of $100 on top of the Federal social security payments in order to be able to retire with a semblance of security and human dignity in his old age. We said that industry had to pay the bill because the workers have created the wealth that makes possible these great industries. We said that we wanted a hospital medical program financed on the basis of 5% of pay-roll to give our workers and their families complete hospital and medical care. We said we wanted a wage increase to re-establish our real wage position back to where it was in June of 1946 when OPA was destroyed.

"When we drafted these demands we drafted them because they reflected the basic needs of our workers and they also reflected the basic needs of our nation's economy. Since we drafted these demands the economic picture in America has worsened. There are soft spots developing. Unemployment is developing in serious proportions in many communities like Muskegon, for example, and because of these worsening economic factors, these negative factors, the high priests in Wall Street say to us, 'This is no time to rock the boat. Labor ought to demonstrate real statesmanship. Withdraw your demands and let's kind of weather the storm together.'

"And we in the UAW say to these people in industry, to the coupon clippers in Wall Street, that every reason that necessitated our drafting our demands in January has been reemphasized and reinforced by the fact that we are getting into economic difficulty with growing unemployment. This is not the time in America for people in the leadership of American labor to be men of little faith or little courage. This is the time for labor to stand up and say we are getting in trouble in America because the little guy hasn't got enough, and therefore, he has to fight harder now to get what he is entitled to in order to avoid going into a depression, and we have to say that loud and clear.

"Industry tells us when we are in a period of inflation, that we should not demand wage increases when prices are going up because that will create more inflation. Then when the inflation is leveling off and we are getting into trouble because people are being laid off they say, 'You should not do it now, because you ought to go this way.'

"It is a good system; they get you coming and get you going.

"We say the needs of our workers are simple and compelling, and we are not going to permit those demands to be ignored or postponed. We are going after them in 1949."

First California Adds

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF. — First California Co., 300 Montgomery Street, has added John P. Taylor to their staff.

Joins H. C. Speer Staff

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — Robert W. Kohler has been added to the staff of H. C. Speer & Sons Co., 135 South La Salle Street.

With Waddell & Reed

(Special to THE FINANCIAL CHRONICLE)

ST. PETERSBURG, FLA. — William M. Bramlette is now associated with Waddell & Reed, Inc.

With Brainard-Judd & Co.

(Special to THE FINANCIAL CHRONICLE)

HARTFORD, CONN. — Karam S. Jacobs is with Brainard-Judd & Co., 75 Pearl Street.

Canadian Securities

By WILLIAM J. McKAY

The anomalous situation of the Dominion of Canada within the British Commonwealth of Nations is likely to be thrown into sharp relief during the current Empire Conference in London. Unlike the Mother Country and the other Dominions, Canada is outside the Sterling area. Furthermore, whereas socialistic Britain, Australia, and New Zealand are firmly committed to an economic policy based on rigid controls and bilateral trade operations, Canada's best interests are served by a system inspired by the principles of multilateral trade and currency convertibility.

Thus Canada is likely to have to give serious consideration to the question whether it is now the time to make one of the most vital decisions in her history. Either to abandon her North American economic conceptions and retire within the Crippsian curtain of austerity and regimentation, or to orient her economic policies still more closely in line with those of this country. In view of the critical nature of the British economic situation it will be difficult to arrive at a satisfactory compromise. In the absence of additional dollar credits from this country or Canada, which at the moment appear to be highly improbable, the strict fulfillment of Sir Stafford Cripps' economic program under present conditions can only lead to the virtual segregation of the dollar and sterling trading areas. Such a division however would leave Canada in an indefinite and intolerable postion, neither clearly in one camp nor in the other.

On the other hand Canada is not prepared at the present time for any drastic modification of her relationship with this country or with Britain which would certainly provoke dire economic consequences. Canadian economic policies in the past have been based on the infallibility of the time-honored U. S.-British-Canadian exchange and trade triangle. Its virtual breakdown as a result of the non-convertibility of sterling unfortunately has not produced any clear-cut change of policy or successful remedial action.

It is therefore in Canada's vital interest to seek a solution that will prevent a definite cleavage between the dollar and sterling areas. In order to achieve this it will be necessary to offer a solution that will permit the resumption of multilateral trade and the convertibility of sterling. This would be possible only in the event of willingness on the part of the British Labor Government to devalue the pound to a realistic level which would once more inspire universal confidence.

There is little doubt that following such a decision Britain would find readier cooperation abroad and willingness to consider any additional assistance that might be necessary to safeguard the new level of the pound. Otherwise the democratic world as a whole and Canada in particular will be faced with the embarrassing necessity of making fundamental changes in economic policies that will do nothing to remedy the world's current ills.

* * *

During the week there was a little more activity in the external section of the bond market and prices were fairly well maintained. In sympathy with a slightly higher level of free funds following the recent relapse, the internals were likewise a shade firmer; it would appear that the influence of the fairly heavy tourist traffic is offsetting for the moment the bearish factors constituted by the weak trend of sterling and the important Dominion internal bond redemptions of October and November next. Stocks continued their recent general advance with the principal interest concentrated on the base-metals and the golds; market sentiment concerning the latter group is becoming increasingly favorable and it is confidently expected that ultimate currency devaluations and lower industry costs will soon lead to the development of a full-fledged bull market.

Stanley C. Eaton Returns to Desk

The many friends of Stanley C. Eaton of Bendix, Luitweiler & Co.,

Stanley C. Eaton

52 Wall Street, New York City, members of the New York Stock Exchange, will be glad to know that he is back at his desk after a Laryngectomy which kept him away since Feb. 8.

Eugene de Bronkart With Sills, Fairman

Eugene H. de Bronkart has joined Sills, Fairman & Harris, Inc., as Vice-President in charge of the syndicate and institutional department in the firm's New York office, 52 Wall Street, New York City. The firm's principal office is in Chicago. Mr. de Bronkart came to the financial district from Chicago in 1926 and has been connected with several New York firms in their syndicate departments. He recently terminated an eight-year association with Amott, Baker & Co., Inc.

Industrial Executive Offers Recommendations For European Policy

W. Harnischfeger, on return from extended tour of Central Europe, reports some economic progress, but sees need of change in allied policies.

As a result of observations made during a trip to Central Europe from August 28 to Oct. 12, 1948, which included Holland, Belgium, France, Switzerland and Germany, W. Harnischfeger, President of Harnischfeger Corporation, Milwaukee, Wis., reports that considerable economic progress has been made in these countries, but before full restoration to normal situation, he sees need for some important changes in Allied political and economic policies, if further and substantial progress toward complete European restoration is to be accomplished.

W. Harnischfeger

A sound peace treaty and a coordination of the three Western Zones is undoubtedly the foundation upon which the economy must be restored is the opinion of Mr. Harnischfeger. "Our State, military and commercial policies indicate lack of coordination," he adds. "One can readily appreciate the reason for some of this, as there are undoubtedly many compromises that are being made because of our Allies. As long as we are footing the bill, we should insist on sound, clear-cut, constructive and honest policies."

Continuing, Mr. Harnischfeger says:

"The total export for the three zones in Germany for the current year is 600,000,000 marks. I understand that at present, considering prevailing expenses, it will take 1,800,000,000 marks to put the economy on a self-sustaining basis. I personally question whether this can be accomplished with our dismantling and administration policies. In summarizing the conditions I found in my recent trip to Germany as compared with 16 months ago, I am of the opinion that there has been a substantial improvement in the superficial economy of the country. Starvation, which was the order of the day 16 months ago, has to a considerable extent been eliminated. The people are far more adequately clothed and housing has been reconstructed approximately 10%.

"A substantial part of this improvement is undoubtedly due to the liberal grants of food, clothing, relief and availability of dollars, mostly made by the U. S. A. The big problem will be how to put each country in the European area on a self-sustaining basis.

"In my opinion we are far from this goal. The big unsolved problem is the relation of Russia to the rest of the European economy. This situation has deteriorated rather than improved. There is much talk throughout Europe about possibilities of war with Russia. Personally, I hope and pray this can be avoided. I do believe a firm policy is essential.

"Furthermore, Europe, to a substantial extent, is now operated as a large planned economy, being controlled by rules and regulations, often poorly conceived, and sustained by paper currency. Apparently there are only two remaining countries in Europe, namely Switzerland and Belgium, which have a budget approaching balance and have a relatively free economy.

"America undoubtedly is the one country in the Western civilization that is in a position to exercise sufficient influence to unravel the situation and determine whether Europe will remain under the Western influence or be absorbed by the East. Policies which we establish with reference to the rehabilitation of Germany will undoubtedly determine the course. There is not any question but that the masses in Germany, at the moment, are more to the right than either in France or in Britain. The reason for this is found in the many personal experiences which German prisoners had in Russia. If we do not act promptly and rationally we may miss our one opportunity to straighten out the mess.

"A sound foreign policy out of Washington is essential. As long as America was the principal power which brought about victories on the battlefront, and as long as America is furnishing the wherewithal which is sustaining Europe today, we can and should insist on restoring a sound European economy. We have made a lot of treaties and agreements—many of them ill-advised. These treaties and agreements should be rationalized in line with present day requirements and necessity. I believe more bilateral agreements with the sounder powers in Europe and a sensible peace treaty with Germany will accomplish more at this time than multilateral agreements, many of them socialistic in their implications.

"America, with a $250 billion debt and $40 billion annual cost of Government, can no longer afford to waste its substance. Two great wars have been fought and I'm afraid, a third one is in the making. In the course of events I believe that we have probably contributed as much towards deterioration and human suffering because of our partnership with Russia. The stories one hears about the atrocities in Russia are shocking.

"On the economic side we have dissipated the resources of six continents; resources that, if properly conserved, could have sustained civilization for generations. The poison gas of World War I has been replaced by robot weapons and the atomic bomb. The latter, if not controlled, will surely annihilate civilization.

"The United States," Mr. Harnischfeger concludes, "is the last phase of western civilization and I personally believe that our Government's fundamental policy should be to put our own house in order—the first step of which is to reduce the Government's spending program to manageable proportions. It will be necessary to drastically reduce all Government expenses, including ECA, which, of course, will have somewhat of a retarding influence on the recovery abroad. This is all the more reason that the funds which are extended abroad will be spent in areas where they will reduce the maximum recovery program, and if this area is to restore production in the industrial section of the Ruhr and the Rhine, and convert the raw materials into steel and chemicals, this is the only possible way that these people can get exchange for goods. At the present time, we seem to be doing just the opposite; namely, that we are continuing to dismantle plants.

"With reference to the revaluation of currency, personally I believe that the drastic readjustment of currency is essential in order to bring about more natural trading between soft currency countries and to establish a more realistic value between the dollar and other foreign currencies. This will, no doubt, have some very serious repercussions in certain areas, however I believe that such a readjustment is unavoidable if we hope to get back to some form of sound international commerce."

Morgan Stanley Group Underwrites Dayton Power Com. Offering

The Dayton Power and Light Co. is offering 283,333 additional shares of common stock ($7 par value) to its common stockholders at $26 a share at the rate of one share for each six held of record at the close of business on July 7, 1949. Morgan Stanley & Co. and W. E. Hutton & Co. jointly head an underwriting group which will purchase any unsubscribed shares following termination of the subscription offer at 3 p.m. (EDT) on July 26, 1949.

Net proceeds will be used to repay the company's outstanding $5,000,000 of bank loans, the proceeds from which were used to finance a portion of its present construction program, and to finance a portion of this program during the balance of 1949. The company, to meet increasing demands for electric energy, started in 1946 a construction program which will carry through 1952. The estimated cost of this program (including the construction and also the acquisition of certain electric and gas companies in 1948) will aggregate approximately $88,000,000, of which $47,689,700 had been expended up to April 30, 1949; an estimated $6,752,200 will be spent during the remainder of 1949 and approximately $33,558,100 will be spent in 1950, 1951 and 1952.

On completion of the financing, the company will have 1,983,333 shares of Common Stock outstanding. There will also be outstanding 100,000 shares of 3.75% series A, cumulative preferred stock; 75,000 shares of 3.75% series B, cumulative preferred stock; and $51,850,000 in three series of first mortgage bonds.

The company was incorporated in 1911, under the laws of Ohio. It is engaged principally in the production, transmission, distribution and sale of electricity and in the purchase, distribution and sale of natural gas. Its business is solely in Ohio, where service is rendered in 24 adjacent counties, the principal cities served being Dayton, Sidney, Xenia, Troy, Piqua, Greenville, Urbana and Washington C. H. The service area covers approximately 6,041 square miles and has an estimated population of approximately 809,000.

Anderson, Greenberg With Floyd A. Allen & Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Clarence F. Anderson and Morris Greenberg have become associated with Floyd A. Allen & Co., Inc., 650 South Grand Avenue. Both were formerly with Paul R. Flynn Co. Prior thereto Mr. Anderson was with Carter H. Carbrey & Co. and Fewel & Co.

With Olson, Donnerberg

(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, MO.—Joel W. Pope has been added to the staff of Olson, Donnerberg & Co., Inc., 418 Olive Street.

Joins Kirchofer & Arnold

(Special to THE FINANCIAL CHRONICLE)

CHARLOTTE, N. C.—Richard A. Burke has become associated with Kirchofer & Arnold Associates, Johnston Building.

White Weld Group Offers 440,000 Shares Gas Industries Inc.

Public offering of 440,000 shares of Gas Industries Inc. is being made today (July 14) by an underwriting group headed by White, Weld & Co. The stock, representing the initial public offering, is priced at $16.25 per share on each unit sale under $50,000; $15.99 per share on each unit sale of $50,000 or more but less than $100,000, and $15.82 per share on each unit sale of $100,000 or more.

The company, organized June 16, 1949, will operate as a specialty fund, investing in securities of companies identified with the gas industry and related fields with particular emphasis on natural gas. It is the first investment company formed to specialize in this field.

According to the prospectus, the investment policy of the company is founded upon the increasing importance of natural gas as a source of fuel and energy. The assets of the Fund may be invested in all types of securities in the gas industry and related fields, including oil, gas equipment and chemicals.

The capitalization of the company consists of a single class of common stock with a par value of $1 per share, of which 2,000,000 shares are presently authorized. Upon completion of the initial offering of 440,000 shares the company will operate as an open-end investment company.

The company has retained Colonial Management Associates as investment adviser. The president of the company is James H. Orr, who is also a general partner of Colonial Management Associates, president and director of Railway and Light Securities Co. and president and trustee of The Bond Investment Trust of America. For many years Mr. Orr has been engaged in investment research and industrial management.

Directors of the company include Mr. Orr, Franz Schneider, Executive Vice-President of Newmont Mining Corp.; Henry A. Wood, Jr., Boston trustee, and Sherwin C. Badger, an officer of New England Mutual Life Insurance Co.

Halsey, Stuart Group Offers N. W. Equi. Issue

Halsey, Stuart & Co. Inc. and associates were awarded July 6 $6,600,000 Chicago and North Western Ry. second equipment trust of 1949 2⅜% equipment trust certificates, due $440,000 annually Aug. 1, 1950 to 1964, inclusive. Issued under the Philadelphia plan, the certificates were reoffered, subject to Interstate Commerce Commission authorization, at prices to yield from 1.375% to 2.675%, according to maturity. Associated in the offering are A. G. Becker & Co. Inc.; Hornblower & Weeks; Merrill Lynch, Pierce, Fenner & Beane; Otis & Co.; Paine, Webber, Jackson & Curtis; Wm. E. Pollock & Co., Inc.; Freeman & Co.; Mullaney, Wells & Co.; and F. S. Yantis & Co., Inc.

Proceeds from the sale of certificates will be used to provide for the following new standard-gauge railroad equipment, estimated to cost approximately $8,314,260: 45 diesel electric freight locomotives; four diesel electric switching locomotives and two diesel electric transfer locomotives.

With Weeden & Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — Robert L. Parish is with Weeden & Co., 135 South La Salle Street.

Britain's Gold Drain

By PAUL EINZIG

Dr. Einzig reveals extent of Britain's dwindling gold and dollar reserves, the net amount of which he estimates at around £300 million instead of £400 million as stated by Sir Stafford Cripps. Says supreme effort must be made to check drain, and points out only way is drastic cut in production cost of British goods. Asserts Britain will respond to situation.

LONDON, ENG.—The decline of the British gold reserve to around £400,000,000 during the second quarter of 1949 provides some indication of the setback that followed the progress towards balanced international accounts during the second half of 1948. Already the foreign trade figures for April and May were sufficiently unfavorable to indicate that the trend has turned for the worse. But the size of the adverse trade balance, or even the increase of the deficit on Britain's trade with the Dollar Area, does not tell the whole story. For the British gold reserve is the reserve of the Sterling Area as a whole. Its position is not determined solely by the trade balance of the United Kingdom, but by the trade balance of all Sterling Area countries. This is a fact which is not adequately realized in London. While grave concern is felt over the decline of British exports of manufactures to the United States, very little attention is paid to the much more important decline of Sterling Area exports of raw materials to the Dollar Area. Yet the Sterling Area Dollar Pool is fed mainly by such exports. The fall in the prices of raw materials, and in the volume of American imports of such materials, affects the gold outflow to a much larger degree than the fall in the volume of the British exports of textiles whisky, automobiles, etc., to the United States.

Dr. Paul Einzig

Even the decline of the gold reserve to well below what has hitherto been considered the "safety limit" does not tell the whole story. For a large part of the gold reserve is earmarked, in practice if not in law, as a security of the dollar facilities obtained in 1947 and 1948 from the International Monetary Fund. So the net gold reserve after allowing for this and other short-term external liabilities, must be about £300,000,000 only. Considering that it has to cover the requirements of the whole Sterling Area it does not seem to be any too plentiful.

In the circumstances the government will have to make a supreme effort in the near future to check the drain on the gold reserve. This could be achieved by an increase of the export drive to the Dollar Area but in face of the growing difficulties in this respect it would be unduly optimistic to expect any spectacular results in that direction. The alternative is to cut down ruthlessly British and Sterling Area imports from the Dollar Area. This is what the government envisages; hence the conference of Commonwealth Finance Minister that will take place in the near future, largely for the purpose of co-ordinating the measures aiming at cutting down dollar imports. Any such cuts are resorted to with the utmost reluctance only, as they mean the imposition of additional austerity measures which are bound to be unpopular.

The only way in which it would be possible to minimize the effect of such cuts on rations and on consumers' supplies in general would be through an extension of bilateralism. However deplorable it must appear that purchases should be diverted to high-priced markets, this has to be done to a large degree, in order to check the gold drain without causing thereby a corresponding reduction of the standard of living.

However, it is realized that the diversion of purchases to more expensive markets in an effort to save dollars is a costly device, for it tends to raise the British cost of production. Even a devaluation of the pound would only bring temporary relief, for the process which is at present making for higher prices through bilateralism would soon resume its course.

The only way in which a fundamental improvement could be achieved would be through drastic cuts in the cost of production, either through reductions of wages or through an increase of productivity. The former is politically impossible. It is difficult enough, amidst prevailing conditions of full employment, even to prevent a further rise of wages. It is quite certain that the Trades Unions would not put up with any wage reductions, unless and until there should be an increase in unemployment, and the government is pledged to preventing this.

There remains the increase of productivity. This could be achieved through more efficient management or through harder work. Mechanization of the British industries is only making slow headway, however, because even if the equipment were available there is not enough electric power. Industries have to put up with a curtailment of the use of electric power, and any wholesale replacement of men by machines is impossible until after an increase of power generation. That, however, requires time. It is now widely realized that it was a mistaken policy to concentrate on social security instead of giving plans for an increase of electric power production first priority immediately after the war.

The only way in which the situation could improve would be through inducing the workers to make better use of the existing machinery by putting in harder work. At present there is no sign of any progress in that direction. The trend is still towards shorter working hours rather than towards a restoration of prewar working hours. Nevertheless, it is comforting to remember that within the past 20 years there have been two striking instances of a sudden increase of productive effort in Britain. It happened in 1931, when the British public made an effort to save the pound, and in 1940 during the Battle of Britain when the freedom of the nation had to be saved. So it seems reasonable to assume that the moment the British public realizes the full gravity of the present situation it is certain to respond in the same way as it did in 1931 and 1940.

W. E. Hutton Installs Wire to Geo. McDowell

W. E. Hutton & Co., 14 Wall Street, New York City, members of the New York Stock Exchange, have installed a direct private wire from their New York office to George A. McDowell & Co. in the Buhl Building, Detroit, Mich., it is announced. The latter firm is a member of the Detroit Stock Exchange.

News About Banks and Bankers

(Continued from page 11)

National Bank had been placed in voluntary liquidation on July 1 with its absorption by the Center Moriches Bank.

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The 86th anniversary of the founding of the **First National Bank & Trust Company of New Haven, Conn.**, was observed by the bank on June 27, when it featured an "open house" for the inspection by those interested in its newly remodeled quarters. The bank, of which the present President is Dwight L. Chamberlain, opened its doors on July 1, 1863, with a capital of $300,000, says the "New Haven Register," which adds:

"Today, with more than 40,000 customers, resources over $75,000,000 and deposits totaling more than $68,000,000, it is New Haven's largest commercial bank and has branches in both East Haven and West Haven."

The bank, it is stated, was the first in New England to receive a National Bank charter from Washington, and it bears the designation Charter No. 2. The First National Bank of Philadelphia received the first charter.

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Plans for the consolidation of the **Passaic National Bank & Trust Company of Passaic, N. J.**, and the **Clifton National Bank of Clifton, N. J.**, were voted by the directors of both institutions on July 7 and will be placed before the stockholders for approval. Special advices from Passaic to the Newark "News" of July 8, reporting this, said in part:

"The merger, according to the announcement, will give the institution more than $100,000,000 in resources with capital of surplus and undivided profits of about $7,000,000. The two banks will continue to operate in the buildings they now occupy and no changes in staff will be made. George Young Jr., President of the Passaic bank, will become President of the consolidated unit. John C. Barbour, former Judge and State Senate President, will be Senior Vice-President, it was announced. Mr. Barbour now is President of Clifton National. Last month the **First National Bank & Trust Co. of Paterson** purchased two other **Clifton** banks—First National of Clifton and Clifton Trust Co.—and that, along with previous Paterson mergers, boosted its assets to approximately $125,000,000." The last named merger was referred to recently in these columns, one item appeared in our June 9 issue, page 2490, and the last one on page 72 of our July 7 issue. With the present plans, all the individual Clifton banks will have been taken over.

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Allison Dodd, retired President of the **Bloomfield Bank & Trust Company of Bloomfield, N. J.**, died on July 8. He was 84 years old, and according to the Newark "Evening News" had continued his financial and civic activities until he became ill in 1947. At the age of 17, Mr. Dodd began his business career, starting with the Lehigh Coal & Navigation Co. He later became identified with other coal companies, and in 1898 he organized and was President of the Hudson Coal Co. of New York and Jersey City, which in 1905 with other companies amalgamated with Burns Bros. under the latter name. Becoming first a Vice-President of the new company, Mr. Dodd retired the following year, remaining as a director of Burns Bros. until 1927 and serving as Chairman of their Executive Committee in 1926-27. The "News" also states that in 1890 he was instrumental in reorganizing the Fairlie & Wilson Coal Co. of Newark, succeeding the older Fairlie & Wilson firm. He had since served as a director, and since 1926 as Chairman of the board. As to his banking interests, the "News" said:

"Banking experience in New York for Mr. Dodd began in 1903 when he became director of the Coal & Iron National Bank, now the Marine Midland Trust Co. He was Honorary Vice-President of the Coal & Iron National from 1909 to 1926, and served as Chairman of the Discount Committee.

"Directors of the Bloomfield Trust Co. made him a member in 1902 at its founding and he was elected President in 1917. He continued as President until 1928, and when the institution in that year underwent a name change due to an amalgamation, he became President of the Bloomfield Bank & Trust Co. He became Chairman of the bank's board of directors in 1938 upon resigning as President, to be succeeded by Cecil R. Berry."

Mr. Dodd, among his other interests, was a director of the American Insurance Co. and Mutual Life Insurance Co. and a former President of the Essex County Park Commission.

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FIDELITY-PHILADELPHIA TRUST CO., PHILADELPHIA, PA.

	June 30,'49 $	Mar. 31,'49 $
Total resources	211,618,963	196,586,711
Deposits	183,536,589	168,094,648
Cash and due from banks	45,858,449	45,029,713
U. S. Govt. security holdings	59,190,342	44,601,846
Loans and bills discounted	65,756,994	66,401,739
Undivided profits	5,234,462	5,179,933

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It is announced that Roger L. Hubbert has been appointed a Trust Officer of the **Pennsylvania Company for Banking & Trusts, of Philadelphia.**

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The election of Edwin H. Krall as Assistant Vice-President of **Corn Exchange National Bank and Trust Co. of Philadelphia** is announced.

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Maurice J. Nelligan, Assistant Cashier of the **Safe Deposit & Trust Company of Baltimore, Md.**, was elected Cashier of the institution, effective July 1, according to an item in the Baltimore "Sun" of July 2, by J. S. Armstrong, Financial Editor. It is added that Mr. Nelligan is assuming the duties of Roland L. Miller who was retired on June 30 as Cashier after completing nearly 50 years of service in the trust department. Edgar H. Cromwell, Assistant Treasurer, likewise was retired after 50 years in the service of the company. It is further stated that Eugene W. Mayhorne was elected Assistant Auditor.

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Harry Y. Wright, who has served since February 1948 as Comptroller and Secretary of **The Fidelity and Deposit Company of Maryland** and its affiliate, the **American Bonding Company of Baltimore,** was on July 13 elected Treasurer of the two companies, succeeding the late Roland Benjamin, who died on July 2. Simultaneously with his election, Mr. Wright relinquished his post as Comptroller. He will continue, however, to serve as Secretary for both companies. Mr. Wright joined the F&D as clerk in its accounting department following his graduation from Baltimore City College in 1924. He was elected Assistant Treasurer in February 1945 and three years later was advanced to the dual position of Comptroller and Secretary.

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The **People's National Bank of Parkersburg, W. Va.**, was placed in voluntary liquidation effective June 18, having been absorbed by the **Parkersburg National Bank,** the Comptroller of the Currency reports. The People's National had a capital of $340,000.

* * *

The consolidation of the **Community Bank of Warren, Ohio,** with the **Bank of Commerce of Hamtramck, Ohio,** was made known in the Detroit "Free Press" of June 28. The merger, it is stated, was effected through the purchase of the assets of the Warren bank by the Bank of Commerce, which recently increased its capital to $525,000.

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THE FIFTH THIRD UNION TRUST CO., CINCINNATI, OHIO

	June 30, 1949	April 11,1949
Total Resources	$232,730.718	$237,115,297
Deposits	211,847,238	216,542,487
Cash & due from banks	60,371,130	67,349,049
U. S. Govt. Security holdings	92,473,723	83,414,786
Loans & discts.	65,848,078	69,235,219
Undivided profits	3,204,546	3,061,196

* * *

The death is announced of Oscar E. Lamble, Senior Vice-President of the **Old National Bank in Evansville, at Evansville, Ind.**, on July 2.

* * *

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

	June 30, 1949	April 11, 1949
Tot. resources	$2,188,780,892	$2,118,893,603
Deposits	1,987,989,784	1,919,952,947
Cash and due from banks	555,272,474	583,354,764
U. S. Govt. security hldgs.	1,154,853,193	1,076,869,865
Loans and bills discounted	378,867,430	358,103,789
Undiv. profits	22,390,834	19,839,942

* * *

The purchase of 1,500 shares of stock of the **Lake View Trust & Savings Bank of Chicago** by Charles Stewart Mott, President of the Charles Stewart Mott Foundation, a philanthropic institution of Flint, Mich., was reported by David Dillman in the Chicago "Journal of Commerce" of July 16. The purchase was effected at a cost somewhat in excess of $1,000,000, said the advices from which we quote, and which also stated in part:

"No change in management or personnel of the bank is involved, Mr. Murphy said, adding that Mr. Mott purchased the stock as a straight investment.

"Lake View stock acquired for Mr. Mott included more than 500 shares from the estate of Joseph J. Budlong, a former President of the bank, who died in 1942. The estate of Charles Higley, another founder, and at his death President of Hanover Fire Insurance Co., sold part of its holdings to Mr. Mott, who also bought all the stock held by W. M. Higley, a brother of Charles. William T. Bruckner, former Continental-Illinois National Bank & Trust Co. Vice-President, now a principal owner of the Cicero State Bank, sold his 547 shares of Lake View stock, but to another purchaser.

"Purchases of stock for Mr. Mott were at prices ranging from $650 to $700 a share. His purchase of 1,500 shares represents 30% of the 5,000 shares of $100 par stock outstanding.

* * *

The **Marquette National Bank of Chicago, Ill.**, increased its common capital stock on June 30 from $200,000 to $250,000 by the sale of 50,000 of new stock.

* * *

NATIONAL BANK OF DETROIT, DETROIT, MICH.

	June 30, 1949	April 11, 1949
Tot. resources	$1,233,078,566	$1,225,802,863
Deposits	1,164,573,019	1,157,531,323
Cash and due from banks	320,532,111	320,161,474
U. S. Govt. security hldgs.	592,281,143	591,228,272
Loans and bills discounted	222,299,177	219,791,302
Undiv. profits	8,923,107	8,458,037

* * *

FIRST NATIONAL BANK IN ST. LOUIS, ST. LOUIS, MO.

	June 30,'49 $	Apr. 11, '49 $
Total resources	441,736,184	457,759,343
Deposits	408,816,501	424,752,799
Cash and due from banks	112,132,854	121,375,596
U. S. Govt. security holdings	160,567,336	151,098,484
Loans and bills discounted	155,276,888	170,878,655
Undividend profits	8,883,163	9,318,383

* * *

The election of Walter H. Hill as President and Treasurer of the **North St. Louis Trust Company of St. Louis, Mo.**, is announced. In his new post, as President, Mr. Hill, who had been Executive Vice-President, and Treasurer, succeeds Charles W. Owen, who has been elected Chairman of the board. The St. Louis "Globe Democrat" of June 25 further reports that Fred H. Kruse has been promoted from Secretary to Vice-President and Secretary; Herbert R. Meckfessel has been elected Assistant Secretary, and Frank L. Stein, Assistant Treasurer.

* * *

The capital of the **First National Bank of Odessa, Texas,** has been increased from $250,000 to $500,000, effective June 22. The Comptroller of the Currency reports that part of the addition to the $250,000 capital was made through a stock dividend of $175,000, while the further addition of $75,000 was brought about by the sale of new stock.

* * *

The Bank of Haywards at Haywards, Cal., became the Hayward office of the **Anglo California National Bank of San Francisco** on July 2, according to a joint announcement by Allard A. Calkins, President of the Anglo Bank, and Temple Crane, President of the Bank of Haywards. The entire staff of the last named bank will continue with the Anglo Bank. Mr. Crane has become a Vice-President of Anglo Bank and Manager of the Hayward office. H. Henningsen, Tillie McCoy and C. F. Quigg, officers of the former Bank of Haywards, and James M. Stark, previously Assistant Manager of Anglo's Berkeley office, have been appointed Assistant Managers.

* * *

July 1 marked the 35th anniversary of the **Union Bank & Trust Co. of Los Angeles.** Officers, directors, and employees of the institution joined forces for brief ceremonies and a celebration to commemorate the event. A half-hour broadcast observing the anniversary was heard over Station KNX on July 1 at 10:30 p.m., featuring various stars, with music supplied by CBS Orchestra and the Union Bank Singers. Mayor Bowron, Chamber of Commerce President Earl V. Grover and Maurice C. Sparling, California State Superintendent of Banks, assisted Union Bank President Ben R. Meyer in signalizing the event before a birthday party audience of about one thousand. One of the original founders (along with Kaspare Cohn and Milton E. Getz), Mr. Meyer has been President of the Union Bank for the past 32 years, since the death of Mr. Cohn.

Gordon Graves & Co. Adds

(Special to THE FINANCIAL CHRONICLE)

MIAMI, FLA.—Robert A. Sherry is with Gordon Graves & Co., Shoreland Arcade Building.

Peter Waldemar Opens

Peter Waldemar is engaging in a securities business from offices at 419 East 12th Street, N. Y. City.

Says Business Can Afford Higher Wages

Robert R. Nathan Associates, in analysis prepared for Congress of Industrial Organizations, says if business can afford to cut prices, it can afford to raise wages and other types of labor income. Admits some industries cannot withstand payment of higher wages.

In an analysis of the present economic situation and a presentation of "a National Economic Policy for 1949," which was prepared for the Congress of Industrial Organizations, by Robert R. Nathan Associates, Inc., headed by Robert R. Nathan, former New Deal economist, the stand is taken that as a whole business can afford to pay higher wages, since profits are still running high.


Robert R. Nathan

"Profits are still high but declining," the report states. "If business falls much further, profits will decline precipitously. A major depression will see profits replaced by losses. If the business community acts now to help stop the recession, profits will continue to be earned. In fact, business decisions today may well determine whether there will be any profits in 1950 and 1951. Business can now afford to take steps to halt the recession. Later it may not be able to afford to do what it now can. In any case, business cannot afford to allow a depression to come.

"If business can afford to cut prices, it can afford to raise wages and other types of labor income. One or the other has been necessary all during the last nine months. If business refuses to cut prices or raise wages voluntarily in the early stages of a downturn, and the decline in activity deepens, it will be forced to cut prices later to avoid bankruptcy; or, unfortunately, prices will be slashed in the process of bankruptcy itself.

"Profits of all corporations in the first quarter of 1949 were running at an annual rate of $31 billion before taxes and nearly $19 billion after taxes. Wages and salaries of all corporation employees except corporate officers totalled slightly more than $80 billion on an annual rate. This represents profits before taxes of nearly 40 cents for every dollar of wages and salaries. On an after-tax basis, corporations earned in the first quarter of 1949 about 23 cents for every dollar of payroll except the compensation of officers. Even if profits declined another 15% in the second quarter of 1949, current earnings before taxes would equal 30% of wages and after taxes about 20%. This ratio is still a third higher than in 1944. Profits after taxes as a ratio to net worth in early 1949 were still a third above the war years and 70% higher than in 1929. Even allowing for a 15% drop in the second quarter, total profits still show higher returns to stockholders than at the peak of war profits, and much higher than in 1929. For the first half of 1949, profits were still at least 50% above the first half of 1946.

"There is not any question but that corporations as a whole can afford substantial wage increases. Just for illustration, if the $80 billion payroll of all employees except corporate officers rose $8 billion because of a 10% wage increase, first quarter 1949 profits of all corporations on an annual rate would have been $23 billion before taxes, or 26 cents per dollar of payroll, and nearly $14 billion after taxes, or 16 cents per dollar of payroll and 7.2% on investment. Assuming a further 15% drop in profits in the second quarter, a 10% increase in corporate wages and salaries would still leave profits after taxes well above the wartime peak. These facts on how high profits still remain after substantial cuts merely serve to highlight how huge they had become. Actually, the data support the conclusion that moderate wage increases do not at all preclude price decreases too,"

As to whether all industries can raise wages, the report adds: "Six months to a year ago, any talk about profits being spotty was absurd. Today, however, many firms and industries are being squeezed, especially the smaller companies. In giving full consideration to the varying profit picture, sight must not be lost of the fact that the totals are still very high. Nonetheless, a uniform round of identical wage increases is not justified, because there is no uniform ability to grant increases in every instance. Some companies and industries can afford much more than others, and some few cannot afford any raise and remain in business.

"The economic policies suggested in this report are designed to restore full employment and maximum production. Wage and price policies geared to depression conditions will in turn yield depressions. Therefore, in considering wage increases, some attention should be paid to profit conditions at full employment rather than more depressed circumstances. In other words, business must act aggressively on wage and price policies to bring prosperity, and then the action can be more easily afforded. That is why large liquid reserves should be taken into consideration, as well as current profits and profits at full employment."

Gordon Brown Opens Consultant Firm

Gordon D. Brown, formerly Vice-President of the Bankers Trust Co. in New York, has established a financial and management consultant firm under the name of Gordon D. Brown & Associates. The company is operating on a national basis from offices in Los Angeles, but shortly expects to open offices in New York.

The new firm will specialize in financial planning and management controls. It will provide a complete analytical and advisory service which encompasses design, production, sales, cost control, capital structure and all correlated subjects in their relation to corporate financing, including new financing and the adjustment of management policies and programs to fit changing conditions.

Brown has had more than 20 years' experience in finance, material control, engineering, sales and market research. Before becoming identified with Bankers Trust, he was for many years with the Douglas Aircraft Co. where he was domestic sales manager and subsequently assistant to Donald W. Douglas in charge of market research and economic planning.

Associated with Brown is W. T. Ashby, who was his assistant at Bankers Trust. The firm is located in new offices in the William Fox Building, 608 So. Hill Street, Los Angeles 14, Calif.

Now Binford & Dunlap

DALLAS, TEX.—Hugh D. Dunlap has been admitted to partnership with Joseph B. Binford of Joe Binford Company, 25½ Highland Park Village, and the firm name has been changed to Binford & Dunlap. Mr. Dunlap was previously with Dittmar & Co.

The Budget, the Business Cycle and Russia

By DAVID McCORD WRIGHT*
Professor of Economics, University of Virginia

Holding we should be prepared to meet serious business slump if it comes, Dr. Wright urges a policy of adding to purchasing power by unbalancing the budget rather than redistributing wealth through taxation. Advocates drastic tax cuts and reciprocal program to stabilize purchasing power and stimulate growth. Says, in order to have full employment, the investment and construction goods industry must be prosperous, and there must be steady growth and expansion or business will slide backward. Denies growth must be planned, and holds, despite high production levels, our economy is under-equipped.

When I spoke before the Graduate School last summer, the tide of inflation, though with a few halts, was still flooding strongly. In consequence I was able to give a fairly general philosophical and political review of the type of economic policy I believed our government should follow. Today the situation is much more confused. Industrial production, prices and employment all have begun to falter. The voices of the pessimist and the super-planner, somewhat stilled during the phenomenal expansion of the last few years, are beginning to be heard once more. On the one hand we are being warned that if we do not watch out we will "spend our way into a depression"! And on the other some people assure us that only a prompt program of government public works—deficit financed—can save us from disaster. In the midst of such confusion fairly specific analysis is in order. If we want to find our way we shall have to do a little careful thinking.


D. McCord Wright

What I propose to attempt this afternoon is to tie together a number of threads which are usually kept separate. I shall try to relate the present threat of depression, the outlook for wages and prices, the ITO charter, the Russian threat, and the so-called budget crisis. At first glance this may seem a fairly mixed list. But as we follow along I hope to make it clear that all these items are in fact quite closely related. Again it may seem that, related or not, many of them are a long way from budget policy but this too is a mistake. The recurrent fierce debates as to whether balanced or unbalanced budgets simply as such are "good" or "bad" have always seemed to me to be sham battles which only confused the basic issue. We should not ask are deficits *per se* bad or *per se* good. The question should be why do we have a deficit. And in the same way it is not enough to ask shall we run (or not run) a deficit. It is just as important to ask how shall we do it. Merely because two people, at a given time, both happen to believe either in "maintaining purchasing power" or in "economic stability", one cannot assume that they have anything really in common either in social goals or economic policy. Both "maintaining purchasing power" and "giving stability" are phrases that can cover a multitude of sins, as well as a multitude of virtues. When anyone starts to use them, the only safe thing to do is to ask just what they are really talking about. If we do not, we are quite liable to find ourselves being pushed into something very far removed from our real aim.

What, then, is my real aim? Well, first of all it is to maintain a democratic government and democratic society. And in the second place it is to maintain the kind of economy which I believe best implements that society. And in the third place this economy I believe to be a liberal and democratic capitalism. If these phrases also seem vague, I will have to cut corners and ask you to read my books. For we have a lot of ground to cover this afternoon.

I

Now, when we begin to explore the conflicts hidden in the words "maintaining purchasing power" or "ensuring economic stability," we will find that they spring from two main sources. In the first place some people will want to "maintain purchasing power" by adding to the total money supply. But others will think that the thing to do is rather to tax or in some way to capture "purchasing power," or money, which they feel is "not being used." We have therefore, the conflict of adding purchasing power versus redistributing it. Again, some people will want to maintain purchasing power and "secure stability" within the framework of a relatively free and "unplanned" economy. But others are eager to use the excuse of "maintaining purchasing power" or "stabilizing the economy" to force us into a comprehensively planned society, which, though it may nominally respect certain property rights, is otherwise indistinguishable in basic economic essentials from a socialist state.

I am neither a prophet nor a professional forecaster. I do not know whether the present industrial uncertainty will turn into a depression or not. But years ago I used to be a boy scout, and I remember their motto "Be Prepared." I strongly feel that the United States cannot afford to tolerate a serious depression and I will explain later on why I think this is so. But if that is the case, we ought to be prepared to deal with an industrial decline if it comes. We ought to be prepared

(Continued on page 25)

*An address by Professor Wright before the Graduate School of Banking, Economics Panel Session conducted by American Bankers Association at Rutgers University, New Brunswick, N. J., June 23, 1949.

We Must Remain Economically Strong: Byrnes

Former Secretary of State and New Dealer says the first line of defense in cold war with Russia is a sound, safe American economy. Warns against higher taxes and advocates reduced government expenditures and balanced budget. Opposes "lending our money all over world" in hope it will provide business, and hits again at expanding bureaucracy and "welfare state."

Backing up his address at Washington and Lee University, Lexington, Va., on June 18, James F. Byrnes, long a "New Dealer" and former Secretary of State, in an address at Greenville, S. C., before the South Carolina Division of the American Legion, on July 4, reiterated his attack on the expanding Federal bureaucracy and the theory of the so-called "welfare state." He urged immediate reduction of government expenditures to bring the Federal Budget into balance, and expressed implied opposition to President Truman's "Point Four" program, which would use U. S. funds to aid undeveloped areas, but denied any political criticism of the present Administration.

James F. Byrnes

After advocating in his address continuance of a firm policy in the cold war with Russia, Mr. Byrnes said:

"We must remain strong economically: Our first line of defense is not on the Rhine—it is a sound, safe American economy. That sound American economy is likewise the first line of defense of all Democratic nations.

"If we are to remain strong economically, we should now take stock. In the fiscal year ending June 30th your government spent $1,800,000,000 more than its income. In the face of that deficit and a dwindling national income, we are increasing appropriations for the next fiscal year. In your business you cannot spend more than you make and stay out of bankruptcy. Your government cannot do it and stay out of trouble.

"To meet the serious situation confronting us, the government can levy additional taxes, borrow money or reduce expenditures. While we are in the midst of a recession in business, it is not likely that the Congress will levy additional taxes. We cannot provide increased purchasing power by taking more money out of the pockets of the people.

"In time of peace and when government officials correctly assert we are not facing a serious depression, we should not resort to deficit financing. When government does that and when uncertainty and fear exist as to the government's financial policies, private employers abandon expansion programs; merchants purchase on a day to day basis and prudent people buy only that which is absolutely necessary. Widespread unemployment results. The government cannot take from you in taxes or borrow from you through the medium of bonds, enough money to employ all of those who will be dismissed by private employers. If at this time when there is no war and no serious depression, government spends more than its income and borrows money to meet current expenses, it is certain it will follow the same easy course should business grow worse. If it does, the time will come when the value of our bonds will be affected. Then we will be well on the road to the disaster that always befalls governments which in peace time spend more than their income.

"Every thoughtful man and woman knows that under existing conditions the wise course for the government is to reduce expenditures and live within its income.

In the light of changed conditions we should estimate our revenues and then determine how that revenue shall be allotted. We must provide for fixed obligations like the public debt and pensions. We must provide for adequate national defense. When we come to expenditures for other purposes we must reduce some and defer others.

"We must review not only expenditures proposed for domestic purposes but the requests for foreign aid. I favor adequate funds for the rehabilitation of Europe. The Congress has shown it realizes the wisdom of such aid.

"Foreign aid should not bear the entire reduction necessary to bring our expenditures within our income. But there is nothing sacred about the requests for funds from foreign governments any more than there is about requests for funds from the heads of our own government departments.

Must Decide How Much to Give Abroad

"After considering the whole picture the Congress must decide how much can be given abroad. We must not kill the goose that lays the golden eggs. We must not impair our economy, the first line of defense of America and of all free peoples.

"We must not listen to those who would urge that we lend money over the world simply in the hope that it will provide business for our people. We know the fate of the merchant whose business was lagging and who determined to lend money to all his customers in order to increase the volume of his business. It was not long before he had neither money nor business.

"If we should abandon some of the proposals advocated by various persons to have the government engage in activities heretofore regarded as within the province of the individual or of state governments, we would save money and preserve some of our liberties.

"Those patriots who signed the Declaration of Independence appreciated the blessings of liberty. They believed the least governed people were the best governed people. They were self-reliant. For a century and a half their sterling qualities were emulated by our people who were proud of their independence. They realized that whenever they accepted money from individuals or governments they ran the risk of sacrificing some of their liberties. They regarded it a duty to support themselves and a privilege to provide for the less fortunate in their families.

Too Much Government

"Today too many people lack this pride. They want their neighbors to pay taxes to support them. They want to lean upon the State, —yet the State has to lean upon each one of us.

"Our forefathers knew if they were to remain free they had to limit the powers of government. They were right. Power once transferred to government is difficult to recover. Power intoxicates men. When a man is intoxicated by alcohol he can recover, but when he is intoxicated by power he seldom recovers.

"We are not only transferring too much power from the individual to government but we are transferring too many powers of State governments to the federal government.

"There are many matters in which the Federal and State governments cooperate, which are not matters of purely local concern. Public highways is a good illustration, our roads being used by drivers of automobiles and trucks from many states. However the law provides not a dollar of federal aid shall be paid unless the road is approved by the Federal government. I do not complain. If the Federal government collects taxes from you and spends your money on roads in other states it should supervise the expenditure. But as to matters which have always been in the jurisdiction of local governments, involving local affairs and affecting the daily lives of the people, control should remain in the States. We do not want the Federal Government regimenting our lives from the cradle to the grave.

"The people are lulled to sleep by Federal Aid. Many regard it just as children regard gifts from Santa Claus. They do not realize that there are no federal aid funds except those taken from the pockets of the people. It is taken from you when you buy a moving picture ticket, a baseball ticket, a package of cigarettes or a bottle of beer. It is taken when you buy a railroad ticket, or a gallon of gasoline and when you telephone or telegraph. It is taken when you buy any goods, because if not levied directly, the prices of the goods you buy are increased in order to cover the taxes the merchant must pay when he pays freight charges.

"Some people say Federal aid will be spent in the community and increase the money in circulation. They forget that federal aid money comes from the community, from you. It is better that the federal government should leave the money in your possession to be spent as you wish, rather than take it from you, send it to Washington, pay the salaries of thousands of people and then offer part of it back in the form of federal aid for some purpose in which you may or may not be interested.

"It is said that the States have not spent what they should spend for welfare and educational programs. That may be true, but in recent years the States have greatly increased appropriations for these purposes. Give the states a chance. If the Congress, instead of trying to find new ways of spending the money which is now collected from the people, will repeal some of the approximately seven billion dollars of excise taxes, the states could get revenue from that field. They could spend more money for education and other worthy causes and still leave the people with more money and more liberty.

Not a Political Attack

"Recently I expressed similar views. It was interpreted by some as an attack upon an individual and a political party. I singled out no individual. I named no party. On the contrary, I said that each political party tried to out-promise the others.

"The persons who object to my views evidently do so because they advocate proposals in conflict with the general principles and policies I have discussed. That is their right. I disagree with them and that is my right. For my views I have no apology. I do have a conviction that any man who is worthy of the confidence of the people, must place loyalty to country above loyalty to any individual, any group or any political party.

"In two wars you have fought to give to all mankind the liberty we enjoy. On this Independence Day I hope you will rededicate yourselves to your country and determine that the freedom you fought to give others, you will work to preserve for yourselves."

Public Utility Securities

By OWEN ELY

Southern Company

The Supreme Court decision in the Engineers Public Service case, fully upholding the SEC's investment value theory, served to expedite a favorable decision on the Commonwealth & Southern break-up plan by Federal Judge Leahy at Wilmington. It now appears likely that, as soon as Judge Leahy signs the formal order in the case, "when delivered" trading will begin in two of the Commonwealth subsidiary stocks which do not now have markets, Central Illinois Light (which goes in the preferred package) and Southern Company, (which goes to the common stock).

The preferred stock has been selling around 100 compared with an estimated break-up value around 110 (2.80 shares of Consumers Power and .55 shares of Central Illinois Light plus $1 cash). The common gets .35 share of Southern Company and .06 share of Ohio Edison; its estimated immediate break-up value is $4.30 and "seasoned" or "normal" value over $5, compared with the current price of 3⅞.

Commonwealth had first set July 1 as a tentative date for distribution of its securities, and planned to sell left-over holdings—some 32,000 shares of Ohio Edison and 324,000 shares of Southern Company—in order to pay off the remaining bank loan. However, it now looks as though part of these remnant holdings might be left as free assets after providing for expenses of liquidation—perhaps leaving 5¢ or 10¢ a share for distribution to the common. However, there has been no official statement as to this possibility, and estimated values do not allow for any cash.

Commonwealth has advanced from three to four this year, and nearly half-a-million shares were traded at 3⅞ and 4 on July 7 when the Court decision was rendered. What is likely to happen when Southern Company is first traded "WD" over-counter or on the Stock Exchange? Taking Commonwealth at four, and deducting $1.70 as the value of .06 share of Ohio Edison, there would remain $2.30 as the value of .35 share of Southern or a price of 6⅝. But this price seems on the low side, since the stock is currently earning (12 months ended May 31) $1.07 per share on shares actually outstanding or $1.10 on average shares. Earnings are showing very rapid growth, net income for the five months ended May being 38% over last year, and for May alone 58%.

The company is currently paying dividends at the rate of 60¢ to Commonwealth, but there has been some conjecture in the Street that when the company is "on its own" the dividend might be raised to 70¢ or even 80¢. Of course this may depend upon what the management considers the probable level of "normal future earning-power." Recent earnings have been heavily favored by good water conditions—the southern subsidiaries get about one-third of their power from hydro plants. If earnings should continue their recent sharp advance and get up to a level around $1.20, this would leave some leeway for possible dilution if common stock financing proves necessary next year. Assuming the usual one-for-ten stock offering, this might mean pro forma earnings around the $1.10-15 level. On this basis, an 80¢ rate would seem a little generous as compared with the other two southern holding companies. However, the fact that Southern is accruing over 20¢ a share per annum for plant amortization (providing that much extra cash) might be a factor in the decision.

Central & South West is earning an estimated $1.50 this calendar year, which might be diluted by stock financing to $1.35; it is paying 80¢ or only 60% of the latter figure. Middle South, earning $1.78 in the 12 months ended April 30, is expected to pay $1.10, or 62% of earnings. With estimated potential earnings of $1.15 a 70¢ dividend for Southern would show a 61% ratio, about in line with the others.

This brief sketch does not afford opportunity for any careful comparison of statistical factors for the three southern holding companies. Southern Company appears to be earning only 5.7% on its rate base, or 6.2% if account 100.5 items are eliminated. Middle South is also earning only about 6% but is handicapped somewhat by rate regulations in Arkansas and dividend restrictions in Louisiana. Central & South West is earning a somewhat higher percentage, but operates largely in Texas where an 8% return is not considered unreasonable. It would seem as though Southern Company may have a slight "edge" over the other two systems with respect to its ability to expand earnings without encountering rate restrictions, particularly as its residential rates are very low. All three companies are of course growing rapidly, but Central & South West seems to enjoy lower operating costs because it can make fuller use of natural gas for boiler fuel.

Both Central & South West and the recently listed Middle South (which came out of the Electric Power & Light dissolution) are currently selling to yield about 7%, and price-earnings ratios average about 8½. At 6⅝, the indicated arbitrage value of Southern based on four for Commonwealth, its yield with a 60¢ dividend would exceed 9% and the P-E ratio would approximate 6%. This would appear low even on an unseasoned basis. It seems possible that the stock might sell in a range of about 7—7½ in early trading, to yield about 8—8½%. Over the longer term, when seasoned, it might approach the other two issues on a yield and P-E basis.

In any event it appears certain that, considering the importance of the new company with its $117 million revenues and 12 million shares, Wall Street analysts will sharpen their pencils and critically examine the statistical background of the system in order to appraise the relative merits of the stock, and its chance for increased dividends and market appreciation.

While an appeal to the Circuit Court by Mr. Snyder of Philadelphia (representing common stock) now is indicated, it appears doubtful that such an appeal will be sustained in view of the strong views recently expressed by the Supreme Court, limiting the review powers of the lower courts largely to legal issues.

David W. Barton in Balt.

BALTIMORE, MD.—David W. Barton has opened offices in the Mercantile Trust Building to engage in the securities business. He was formerly President of Income Foundation, Inc., of Baltimore.

Norvin Harris Co. Formed

NEW ORLEANS, LA.—Norvin Harris has formed Norvin Harris & Co. with offices at 5 Cromwell Place to engage in the securities business. Mr. Harris was formerly with Lehman Brothers.

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

Although Federal has taken a hand in matters it seems as though the government market is not going to take a breather in order to reappraise the situation despite the quick and sharp rise which carried prices to new highs for the year. . . . Some profit-taking, backing and filling would not be unexpected after the spectacular performance put on by all Treasury issues, especially the ineligible obligations. . . . However, the market is in good shape because demand is still very substantial and higher prices are expected, particularly in the longer maturities. . . . It is nonetheless believed the price rise from here on will be less sensational because it is indicated there will be some outright selling and many swaps are in the making even between the various tap issues. . . . This should tend to temper the up-trend. . . .

The ineligibles continue to give the best performance, because substantial amounts of these bonds are being put away with savings banks the largest buyers of these securities. . . . Out-of-town commercial banks still dominate the longer eligible market although large money center institutions are also important buyers. . . . The shorts are in big demand despite substantial switching into higher-income obligations. . . .

NEW RATE PATTERN IN MAKING

Government securities are in the process of establishing a new rate pattern (on a lower yield basis) because of easier money market conditions. . . . Yields on all Treasury obligations have declined since the monetary authorities adopted the new attitude toward the government market. . . . Both investors and traders are now concerned with the kind of a yield curve that is likely to evolve with more credit available and not so much interference from the Central Banks with the price trend of government obligations. . . . Treasury bills and certificates were on the way to new low yields, until Federal stepped in and supplied the market. . . . The intermediate-term obligations are adjusting to a new pattern as are the longer maturities. . . . In the interim, while the yields and prices of all governments are in a fluid state, plenty of guesses are being made as to what is likely to take place. . . .

Some of the more optimistic followers of the money markets believe yields on the longest tap bonds could eventually go to a 2.00% basis which would be about 107½. . . . Bank-eligibles, they believe, could go to a 1.95% yield and that would be equivalent to approximately 108⅜. . . . In the case of the longest-ineligible obligations, this would be a new all-time high, whereas the most distant bank issue would be about a point under the previous top made in 1946. . . . Those that are not quite so bullish are predicting that quotations of the longest bank-eligibles are likely to stabilize around 106, which would be equal to a yield of about 2.10%. . . . With respect to the Vics a yield of approximately 2.25% is forecast as a stabilization level and this would be equivalent to about 103¾ for the most distant ineligibles. . . . These differences of opinion as to where the longest maturities might go under the changed money market conditions is what is keeping the demand for these securities strong. . . . The general opinion is ample credit, that is likely to get more plentiful, coupled with a decreasing supply, will be reflected in higher prices for the longer Treasury obligations. . . .

1% CERTIFICATE RATE SEEN INEVITABLE

As to the shorter maturities, especially the certificates, a 1% rate seems to be in the cards. . . . A ⅞% rate is not ruled out in some quarters despite Federal's selling of shorts to hold the one-year obligations at 1%. . . Those that are looking for a ⅞% certificate are also predicting a 2% basis for the Victory bonds. . . . It will take time for the new rate pattern to be established and here again there seem to be differences of opinion as to how prices might act during the test period. . . . It is being pointed out there is practically no bearishness among operators in the government market, although it is believed in certain quarters quotations could be subjected to minor adjustments, because of the sharp rise that has already taken place under the changed conditions. . . . The opinion is expressed that prices of the longest maturities could move down about a half point or so, and then go on to new high levels. . . . On the other hand, there are those who hold the belief quotations are not vulnerable at current levels and an adjustment, if it should develop, would not be more than ¼ of a point. . . . In both instances price weakness would be welcomed since there is a substantial demand that would like to purchase securities at slightly lower prices. . . .

It is reported that dealers in many instances have been talked to by the Central Banks, about what was not done to supply securities to the market. . . . Because of this and the heavy demand Federal has been a seller of the shortest maturities and is watching the market and its action very closely. . . . It is evident the authorities are not pleased with the way prices advanced, which was due in no small measure to the absence of sellers and it seems they would like to slow the market down. . . . They may be able to shake out some of the quick-turn operators, but in the long run easier credit and a limited supply must bring about higher prices. . . . This leads some to believe that unless the Central Banks are able to bring securities into the market, by their own limited liquidation (shorts so far) daily price limitations might be revived. . . .

Lower reserve requirements for the banks in New York City and Chicago are expected in the not distant future by many informed followers of the money markets. . . . When this takes place it is believed Federal will be a seller of enough long-term securities to keep the market within the limits that have been established by that time.

Keizer Co. Opens

BOSTON, MASS.—Alfred H. Keizer has formed Keizer & Co. with offices at 31 Milk Street to engage in the securities business. Mr. Keizer was formerly with John G. Sessler & Co.

Harry Michaels Dies

Harry Michaels died July 6 at the age of 63. Mr. Michaels was Chairman of the Board and President of Michaels Brothers, Inc., and was also a partner in Ungerleider & Co.

Problems of Canadian Pulp and Paper Industry

(Continued from page 4)

ization of species, which permits better forest management, and towards an increasing yield from, or a more complete use of the output of the woodlands.

The industry is devoting more and more attention to research on forestry and to research on manufacturing processes and marketing. It is expending much on new machinery and plant installations. It is widening its impressive list of products and creating new by-products from materials formerly cast aside as waste.

The Canadian pulp and paper industry is not a static one. It could not afford to be so. The demands for its output and the challenge of the times will not permit lethargy. With a million Canadians depending directly on it for a livelihood, its continuing good health is vital to the prosperity of our country and vital to the requirements of its customers in many lands.

Changes in Industry's Markets

As fars as our industry's markets are concerned, there have been important changes in the past twelve months. During the war years there were restrictions on production and shortages of manpower and materials which made it impossible to meet in full the high demand for pulp and paper products. When hostilities ceased, the Canadian industry in common with those of other countries, was able to raise the levels of production and, by large capital investments, to increase its capacity. All through the last four years, production has been rising as a result of the industry's deliberate effort to meet the unsatisfied demands of its customers. During the last six months it appears as though that effort has been successful so far as markets on this continent are concerned. For most pulp and paper products, theer are now adequate supplies, and indeed for some products minor suppluses have developed. Pulps, fine papers, and paperboard can now be purchased in any reasonable quantities and with a minimum of delay in deliveries. A special situation exists in pulps; purchasers in the United States had built up large, rather ill-assorted and high priced inventories by the end of 1948. Naturally enough there was a tendency to work off these inventories, and this occurred at the same time as holders of inventories of converted products decided to do the same thing. As a result, there was a general backing up of current demands both on the converters and by the converters. If, as appears to be the case, there has been no significant reduction in usage of pulp and paper products by the ultimate consumer, this siutation is merely an inventory adjustment and consequently temporary. There are some signs of revival in demand throughout the system and certainly in Canada the situation has not developed to anything like the same extent as in the U. S.

Newsprint is an exception to the general picture. The Canadian newsprint industry is still running above its rated capacity and U. S. consumption in the first five months of this year was more than 7% ahead of last year. This is the highest level of production and consumption in history, and prospects are that for the immediate future the mills will be able to continue capacity operations. It is true that supply and demand for newsprint are in closer balance than they have been for many years. There is no longer any need for publishers to pay fancy prices for newsprint on the so-called "grey market" and therefore publishers have received a substantial reduction in their newsprint costs by the elimination of the high spot market prices. This has been the direct result of the successful efforts of the Canadian industry to meet the requirements of the North American publishers for newsprint at contract prices. The balance between supply and demand has been established but it has been done at a very high level indeed and there is every prospect that it will be maintained at or near this level for some time to come.

Dollar Shortage Is Serious Problem

To return to the problem mentioned earlier, the most serious problem in Canada today is, of course, the shortage of dollars in traditional overseas markets. And this economic maladjustment naturally seriously affects any exporting industry such as pulp and paper.

The solution of international monetary problems is not going to be found by Canada alone and certainly is not going to be found by any single Canadian industry. It will require sweeping international action by the governments concerned. At the moment no solution seems to be in sight. But it is imperative to the welfare of the trade of our two nations and indeed throughout the world that corrective action be taken, and soon.

The postwar world has not only inherited financial difficulties, but shadows of world unrest and international misunderstanding also cloud the scene. Such an atmosphere is not conducive to trade among the nations. It also requires our countries to intensify our defense preparations as the best chance of avoiding war. The Canadian pulp and paper industry, like all other industries in our country, must prepare itself for that emergency hoping always that such preparations will prove unnecessary, but having our plans in readiness in case they are needed.

While the problems are great, they are not insurmountable. The Canadian pulp and paper industry is meeting its responsibilities, and is ready for whatever the future holds. It is conserving its woodlands. It is improving its plant and equipment. Through research it is obtaining a greater yield from the forests. As the rate of literacy and the standard of living rise throughout the world, the potential demand for its products is exceedingly great. Above all, it is not a rootless industry drawing a fickle inspiration from changing fashions. The Canadian pulp and paper industry stands broad-based upon the needs and culture of all mankind.

Dir. of Blair Holdings

Robert H. Huf has resigned as a Vice-President and Director of Blair & Co., Inc., but will continue as a Director and member of the Executive Committee of the parent company, Blair Holdings Corp.

Railroad Securities

Third Quarter Traffic Estimates Encouraging

The regional Shippers Advisory Boards recently released their estimates of railroad traffic for the third quarter of 1949. On the whole they do not make particularly pessimistic reading. For all sections of the country it is estimated that loadings will be down 652,707 cars from the like quarter of 1948. This would represent a decline of 7.4%. It would compare with an actual decline of 10.0% in car loadings for the 26 weeks through July 2. If it turns out that traffic does hold up that well in the face of the general recession that is now under way it would hardly afford grounds for the present pessimism toward all classes of railroad securities.

The largest decline is expected to take place in coal loadings. This is hardly surprising in view of the unsettled labor picture, the drop in export demand, and the extent to which inventories were built up in anticipation of labor difficulties. The Boards estimate a drop of 379,301 cars (14.3%) in coal loadings for the country as a whole. This would represent close to 60% of the estimated overall decline in traffic for the period. The second most important decline in point of volume is expected in lumber and forest products, where the estimate is for 87,995 fewer cars. The balance of the anticipated drop is widely diversified, mainly among industrial freight items.

On the other side of the picture quite a few items are expected to move in heavier volume this quarter than in the third 1948 quarter. Prominent among these are grains, and flour, meal and other mill products. It is also anticipated that fresh fruits, other than citrus, will be up from a year ago. Percentagewise, the most substantial increase is looked for in vehicle parts. Movement of automobiles and trucks is also expected to improve moderately. Perhaps the most surprising feature of the reports is that only a nominal (1.6%) drop is expected in ore and concentrates which are normally very sensitive to any recession in general industrial production.

As is usual, the estimates vary widely in different sections of the country. All except one regional board expect declines in their areas. The estimated declines range all the way from 15.6% for the Allegheny District and 15.0% for New England to a nominal drop of 0.2% for the Northwestern District. The one exception to the general expectation of a falling off in traffic is the Great Lakes District where an increase of less than 1.0% is looked for. The following tabulation shows the estimated year-to-year percentage changes for the individual districts, arranged in descending order of anticipated declines.

Allegheny	—15.6%	Pacific Northwest	— 7.3%
New England	—15.0	Southwest	— 6.7
Southeast	—10.3	Central Western	— 3.7
Mid-West	— 9.9	Pacific Coast	— 1.6
Ohio Valley	— 9.1	Trans-Missouri-Kansas	— 1.3
Atlantic States	— 8.0	Northwest	— 0.2
Great Lakes	+ 0.9%		

The Great Lakes District embraces the major automobile producing centers of the country. This largely explains the expectation of a higher level of traffic in the third quarter in contrast with anticipated declines in all other Districts. Also, in this district it is estimated that ore tonnage (the most important single freight item in volume) will expand this year. In the Northwestern District, where only a nominal overall decline is expected, ore is also the most important traffic item in point of volume, and no decline is looked for. Also, the highly important grain traffic is expected to increase 10% above the year-earlier level.

On the other end of the schedule is the Allegheny District where coal is the dominant traffic item and where iron and steel tonnage, in which a significant decline is anticipated, is also important. The other two districts expecting declines of more than 10% are also quite heavily dependent on coal and have a large stake in lumber and forest products. Again it is self evident that a large degree of selectivity is necessary in formulating a railroad investment program.

ERP and Multilateral Trade

(Continued from first page)

into Europe, the European countries can avoid balance of payments crises and can maintain or even raise consumption and production levels. But the aim of ERP was then and is now to make Western Europe self-supporting so that when the crutches of ECA aid are removed in 1952 the patient will be able to walk on his own two legs. If no fundamental recovery has taken place by then, the removal of the crutches will be followed by the speedy reappearance of the "dollar shortage" crisis which brought ERP into existence in the first place.

In 1947, production indices in most European countries were still below prewar levels. The problem at that time seemed relatively simple. If production levels could be raised and exports expanded, then Europe could earn enough foreign exchange to pay for imports. American help was needed in the interim to provide food for the workers and raw materials and capital equipment for the industries. In the final analysis whether or not a European country was worthy of aid was related to its willingness to formulate a national plan for increasing production and the final test of ERP's success was to be found in production figures.

Only Half of Problem Solved

ERP has been in operation for 15 months and it is now apparent that the execution of national plans designed to raise production levels is only one-half—and the easiest half—of the problem. Actually industrial production in the Marshall Plan countries as a whole is now back to the 1938 level. Indeed, if one excludes the Western zones of Germany and Austria, it is higher—in Britain by 23%, in Belgium by 15%, in France by 9%, in the Netherlands by 13%, in Norway by 25%, to mention a few. Of course, prewar levels of production cannot be regarded as adequate. Population has increased and countries such as Britain have to fill with additional exports the gap in their balances of payments created by their loss of income from foreign investments. However, progress in the field of production should not give rise to any complaints.

Looking back over the past 15 months, however, it now appears that this was the easiest part of Europe's problem. With Marshall dollars in abundant supply European countries could hardly have not increased production unless they had incredibly mismanaged their affairs. Nor was there any problem in selling what was produced. The world was hungry for goods. Little salesmanship was needed in the seller's market that existed. The automobile shortage in the United States, for example, made it easy for Britain to boost her auto exports to this country.

Real Problem Coming

Now, however, the real problem is coming to the fore with dramatic suddenness. Not only is Europe's recovery linked up with the revival of multilateral trade on the broadest international scale but the future prosperity of the United States also. And at the present time it is not at all certain that a revival of multilateral trade is what we are going to get. Indeed the new Anglo-Argentine trade agreement and the stiff opposition being put up by Britain to any expansion of the Intra-European Payments Agreement suggests the contrary. This should be a matter of grave concern to the United States.

Generally speaking, multilateral trade permits each nation to sell its exports in the most profitable market and to buy its imports where it pleases on the basis of price and quality, which will not necessarily be from the same country to which it sells its exports. For example, the United States normally sells more to Canada and Argentina than it buys from those countries but we buy more from tropical countries than we sell to them. Canada buys the bulk of her imports from the U. S. but sells the bulk of her exports to Europe. And Britain buys more from Continental Europe than she sells to that area but sells more to the tropics than she buys. Taking all these trading relationships together, the "balances" cancel out and enable all nations to enjoy the fruits of specialization and trade on a world-wide basis.

The great threat to multilateral trade arises when pairs of nations attempt to balance their exports and imports equally with the result that neither has any surplus foreign exchange left over for the purchase of goods in third countries. This they usually do when a particular currency is scarce and when the currencies they do possess cannot be converted freely into the scarce or "hard" currency. For example, in 1947 Canada was in serious difficulties because the sterling proceeds of her exports to Britain were not freely convertible into dollars to pay for imports from the U. S. Canada was forced to impose special restrictions on American goods and divert many of her purchases to Britain even though she would have preferred to buy American. The new Anglo-Argentine trade agreement, if it goes into force, is likely to have a disastrous effect on U. S. exports to that South American country. Under the agreement, Britain and Argentina agree to exchange goods, principally machinery and beef, in approximately equal amounts for a period of five years. This is likely to result in an enforced discrimination by Argentina against U. S. goods and is the very antithesis of the type of world trading system this country is trying to build up.

In Europe itself this problem also exists. Here the principal scarce currency is, of course, the dollar. Thus, if France sells goods to Italy, she receives lire which she cannot convert into dollars for purchases from the U. S. But aggravating this problem of "convertibility" is the additional one of "transferability." The British pound and the Belgian franc, because of the relatively strong export positions of these two countries, have become relatively scarce currencies to the rest of Europe. This has resulted in countries like France being forced to ask the U. S. for "free" ERP goods when the same commodities are available in neighboring Belgium but cannot be bought because France is short of Belgian francs (and, moreover, cannot convert lire earned in Italy into Belgian francs).

The inability of European (and some non-European) countries to convert freely the proceeds of their exports into the currencies they need to pay for their imports is driving more and more of them into bilateral deals with discriminatory implications of which the Anglo-Argentine agreement is only the most recent and most flagrant example. If this trend continues, the end of U. S. dollar aid in 1952 will bring a new crisis that may undo all that the U. S. has achieved in the postwar period and necessitate a complete re-evaluation of our position in the world.

Importance of Currency Convertibility

What can be done in the face of this situation? Both Mr. Hoffman and Ambassador Harriman have made it clear that the European member-nations of the Organization for European Economic Cooperation, now that they have largely solved their production problems, must get together and plan an integrated program designed to expand multilateral trade and highlighted by a reduction of trade barriers and by measures aiming at the free convertibility and transferability of European currencies. Up till now planning has been national by individual nations but not internationally by all the OEEC nations together.

When Ambassador Harriman addressed the Annecy tariff conference last May 12, he sounded the theme that the time had come to do more than just talk about the economic integration of Western Europe. One of the factors responsible for the high living standards of the United States is our huge continent-wide trading area which permits a high degree of specialization. If Europe is similarly to enjoy the fruits of specialization, it too must develop a larger trading area by scaling down or removing many of the obstacles to the free flow of goods which exist in the form of tariffs, quotas, preferences, and arbitrary government controls of various kinds. Europe must also facilitate to freer flow of funds between countries with currency convertibility free of exchange controls as the ultimate objective. Taking such steps in the direction of integration admittedly involves risks but, since there can be no final solution to present economic problems until this integration is achieved, it is better to make the attempt now while American aid is forthcoming. Indeed our aid should be conditional on such steps being taken. The recent report of the United States Council of the International Chamber of Commerce, entitled "The Spectre of 1953," also emphasizes these points. This report underlines among other things the importance of restoring free competitive enterprise with incentives for the private trader and the elimination of arbitrary controls. The total exports of European countries are still 18% and their total imports 14% below prewar levels and the situation is unlikely to improve unless drastic measures are taken.

Must Insist on Currency Convertibility

Insofar as convertibility and transferability are concerned, the Intra-European Payments Agreement has been renewed in amended form. This year the U. S. has been giving "conditional aid" in dollars, in addition to regular Marshall Aid, to European creditor countries like Britain and Belgium on condition that they in turn extend equivalent credits in their own currencies (called "drawing accounts") to the European debtors such as France and the Netherlands. This has to a certain extent facilitated intra-European trade. We are now trying to persuade the OEEC nations to expand this system to give the debtors the privilege of transferring their drawing account rights from the granters of them to other countries. So far we are running into bitter opposition on this score from the British who not only fear a repetition of the "convertibility crisis" of 1947 but also feel that such a scheme would mean sacrificing one of their few remaining bargaining weapons in international trade — namely blocked sterling balances which can be used to push British exports in bilateral trade deals.

It would appear that a point has been reached now at which the United States should take a very firm stand. Our contribution to the postwar world has been very great. We have lowered our tariff in the General Agreement on Tariffs and Trade, taken the lead in drawing up the Havana Charter for an International Trade Organization, and given billions of dollars of aid to Europe. In return, we have a right to expect that European countries for their part will make a contribution too. Unless they work together for the construction of an integrated European trading system, ECA aid is not accomplishing its purpose and the conditions which gave rise to the need for it will reappear in 1952. If this is to be the case, the U. S. might ponder now whether it is worthwhile, apart from the purely political objectives of the policy, continuing on the present scale for another two and one-half years a program that still seems to be more of a palliative than a cure.

Cook and Sennott With Shields Co. in Chicago

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—Frederick J. Cook and William J. Sennott, Jr., have become associated with

Frederick J. Cook Wm. J. Sennott, Jr.

Shields & Co., 135 South La Salle Street. Both were formerly in the Trading Department of Clement, Curtis & Co.

Jos. Reilly Wins Golf Trophy Third Year

Joseph Reilly, a regular member of the New York Curb Exchange, won the Curb Five and Twenty Club golf trophy for the third consecutive year. His victory came in a match played to settle a tie which resulted at the club's third annual golf tournament held last week at the Siwanoy County Club in Bronxville, N. Y. Mr. Reilly shot a 78 over the same course yesterday to defeat Leonard Greene, also a Curb Exchange member.

While Mr. Reilly earned the right to retire the trophy permanently by yesterday's success, he announced following the match that he would return the trophy to competition next year.

Securities Salesman's Corner

By JOHN DUTTON

Let's Not Go Overboard On Mutual Funds!

It's easy! Advertising prepared by professionals, pictures, stories, clever appeals to the emotions, plans, campaigns, direct mail literature—most of it admittedly good and created by experts. It is about time you may say that the securities business put some life into its sales promotion. We agree. BUT DON'T BE SOLD DOWN THE RIVER. Remember that every time you sell the management OF OTHERS, you are driving a nail in your customer's faith IN YOUR ABILITY TO MANAGE HIS INVESTMENTS. Remember too, that markets and buying conditions change. There will be a time again when individual situations will come back into favor. Don't undersell yourself if you are selling the funds.

Several weeks ago we presented a sales talk that played up the fact that most people lose money on their investments. They do! Then the idea was to show that the broad diversification, balance, and expert management of the funds was the answer to most investors' problem. It is a logical idea, it probably will sell funds, but it WON'T SELL YOU AS A COMPETENT BROKER OR DEALER WHO SHOULD BE ADVISING YOUR CUSTOMERS OF BARGAINS AND ATTRACTIVE INVESTMENTS IN THE SECURITIES MARKETS.

When times are tough and security selling is difficult it is always easier to sell DEFENSIVE SECURITIES. This is true whether you are selling mutual funds, insurance stocks, or good bonds and preferred stocks. But these are the times when you can go out and select 10 undervalued common stocks (like Roger Babson suggested several weeks ago in the "Chronicle") and you can offer these stocks as a unit to your clients, and the chances will be mighty good that some day in the not too distant future that you could show your customers an overall price appreciation (on the group as a whole) that would make the performance of the average fund look mighty sick by comparison. Don't abdicate to the funds —don't let present business conditions give you an inferiority complex—don't sell out because it offers the line of least resistance.

The funds have their place. They are good for people with limited buying power. They could fit in with some larger accounts too. They have many strong points. But if we are going to become sales agents for a handful of highly concentrated managements, who sit in the larger cities of this country and collect billions of dollars of the public's money and then supervise it for a fee, we are going to degenerate into nothing more than money collectors who will be paid a living wage, and little more, for acting as their agents. **There is a limit to the amount of money that can go into these funds and still provide marketability for the shares of the funds themselves, as well as the blue chip stocks which they are constantly acquiring.** The stock market can lose its liquidity too if too much investment money goes into fifty to a hundred issues. The over-the-counter markets can dry up completely (that has almost happened today) if we neglect our true function which is supplying capital for industry, for growing new enterprises, and of making markets in individual issues.

Let us sell the funds, use their advertising, and work their sales campaigns where feasible and sound. But let us remember that we are brokers, dealers and investment men. That ours is a business that approximates a profession, and if we abdicate and turn all our efforts over to another, then sooner or later WE WILL LOSE WHAT IS LEFT OF OUR BUSINESS.

This is not a condemnation of the mutual fund idea. It is just an appeal for common sense. No one ever made a real success out of anything by becoming an extremist or a fanatic except for a short time. The way to build a lasting business is to sell securities that fit the customer (funds included). Don't sell yourself down the river. You are supposed to know security values too. Your customer expects it of you. Once he doubts it you may also find that he will go to someone else when he wants to buy or sell some stocks or bonds in which he is interested. There are still about 12 to 15 million people who own individual securities in this country and they are not going to patronize brokers and dealers who have lost FAITH IN THEMSELVES.

Phila. Electric Offers Common to Stockhldrs.

Philadelphia Electric Co. is offering to the holders of common stock the right to subscribe for 972,624 shares of additional common stock at $20 per share on the basis of one new share for each 10 shares held of record July 11, 1949. (The common stock does not include the $1 dividend preference common stock.) The subscription warrants expire Aug. 1, 1949. The offering is being underwritten by a nationwide investment banking group of 102 firms jointly headed by Drexel & Co. and Morgan Stanley & Co.

Out of any unsubscribed shares, the company will offer to each employee the privilege of subscribing for not more than 150 shares at the subscription price.

Proceeds from the sale of the new common stock will be used to provide part of the capital required for the company's construction program. The company estimates that about one-half of the funds required for the program will be provided from treasury funds including retained earnings, together with the proceeds of the new common stock, and that the balance will be provided from the sale of additional securities in 1950 and subsequent years.

The company now estimates that the construction of new plant and equipment may require the expenditure of approximately $219,000,000 during the five-year period, 1949-53, inclusive, of which $189,800,000 will be for electric facilities, $16,400,000 for gas facilities, and $12,800,000 for steam and general facilities used in all operations. Expenditures of about $51,000,000 are planned for 1949 including $13,000,000 spent up to April 30.

The company, or its principal predecessor, has paid dividends on its common stock in each year since 1902.

Gross & Co. to Be Formed

As of Aug. 15 the New York Stock Exchange firm of Gross & Co. will be formed in New York City. Partners will be Charles H. Gross, member of the Exchange, and Louis Gross. Mr. Charles Gross is active as an individual floor broker.

Frank Valenta & Co. Opens in New York City

Frank L. Valenta is forming Frank L. Valenta & Co. with offices at 1 Wall Street, New York City, to engage in the securities business. Mr. Valenta has been an officer of Distributors Group, Inc., and was formerly an officer of Group Securities, Inc.

Frank L. Valenta

Robertson-Morgan in Montreal; Davidson Co. In Toronto

MONTREAL, QUE., CANADA—The partnership of Davidson & Robertson has been dissolved and a new partnership formed under the name of Robertson & Morgan with offices at 266 Notre Dame Street, West. Partners are Roy Robertson and Col. W. E. Morgan. The new firm holds membership on the Montreal Stock Exchange, Montreal Curb Market, and Toronto Stock Exchange.

The offices at 320 Bay Street, Toronto, and 134 St. Paul Street, St. Catharines, Ont., are being continued as Davidson & Co.

With Waddell & Reed

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF. —F. Maurice Shirk has joined the staff of Waddell & Reed, Inc., 8943 Wilshire Boulevard.

The Perennial 5% Yardstick

(Continued from page 3)

duct Committee prosecutes, and then acts as judge and jury. Here the spirit of complete impartiality is absent.

What other suggestions as a means of determining current market prices of over-the-counter securities does the NASD offer?

Assuming the current market price of 100 shares of a given over-the-counter stock to be $10 a share, how much above such price would a dealer be justified in charging for a stock in his inventory which would serve to give his customer control of the instant corporation? Is there a fixed yardstick, or must the dealer take his chance that in a subsequent disciplinary proceeding, the local Business Conduct Committee will see eye to eye with him? Must there be a spirit of guess work and fear?

The NASD says:

"Certain other factors which are to be considered by both dealers and Business Conduct Committees in connection with the application of the policy are (1) whether it is a low price stock or bond or high priced, (2) the amount of funds involved in the transaction, (3) whether the market is active or inactive, (4) whether more than the usual time and effort was involved in obtaining the security to consummate the sale, and (5) any extraordinary or unusual services rendered to the customer."

Very well! The dealers who in the above direction have been set *vis-a-vis* their punitive policemen, the Business Conduct Committees, honestly try to surround their purchases and sales by a strict observance. Now then what possible assurance have these dealers that their actions will be in accord with the opinions of their prosecutors and judges on the extent of all the elements going into the foregoing five tests? How can they know that the same dollars-and-cents results will meet uniform approval?

Above are a few of the problems that account for the "5%" enigma.

Competition, not artificial regulation, should determine the extent of mark-ups.

Dealers and brokers should not be required by their anxiety to stay up nights guessing on the state of the administrative mind.

The "5% philosophy" is but another cog in the wheel of regimentation which may ultimately lead to a planned economy for all of us on the basis of a considerably reduced living standard wherein there will be small room for individual initiative.

Truman Prescribes for Prosperity

(Continued from first page)

transition period, in which we must work toward conditions that will promote a more stable and enduring growth in production, employment, and purchasing power.

The fundamental task facing us all—businessmen, workers farmers, Government — is to apply positive policies with confidence and courage in order to achieve a sounder price structure and the restoration of maximum production and employment. In so doing, we need to start with a clear understanding of the facts concerning our present situation.

Our economy today possesses vitally important elements of strength that did not exist in earlier periods. Over the course of the last 16 years, many steps have been taken by the Government to bulwark our economy against the forces of recession.

Unemployment insurance has helped to alleviate the hardships of unemployment and to sustain consumer incomes and expenditures. The old-age retirement system and public assistance for needy persons also serve to maintain purchasing power. The housing program recently enacted by the Congress will furnish positive support for housing construction and slum clearance.

Credit Relaxation

The Federal Reserve System has been developed into an instrument of such strength and elastic power that the risk of credit restriction at the very time when business requires easier credit has been greatly reduced. The insurance of bank deposits has eliminated the danger of widespread loss from bank failures. The several credit institutions established within the government go far toward preventing waves of bankruptcies and foreclosures. The farm price-support program affords assurance that our 6,000,000 farmers and the two-fifths of our population in rural communities will not be forced out of the markets for goods.

These and other government policies are providing strong supports to business activity and are enlarging the opportunities of private business. The fact that public expenditures of Federal, State, and local governments are running at a rate of close to $60 billion dollars a year is itself an element of great stability in the present situation.

Our position would be even stronger if we had taken adequate steps to control the inflation between 1945 and 1949. We were confronted, as an aftermath of the war, by an inflationary boom that lifted production and employment to extraordinary high levels. But underneath the surface of the inflationary boom, there were serious dangers. Some incomes were disproportionately high. Most prices were rising at a perilous rate, and serious price and wage distortions were being developed. The spiraling cost of living was inflicting hardship on millions of families. These conditions threatened to bring about a serious break in employment and production. Therefore I recommended repeatedly, for private and public action, an anti-inflation program to curb these dangers before we suffered the consequences.

A large part of the necessary anti-inflation program was not adopted and the inflation went on largely uncontrolled. The dangers that are latent in inflation, of which I repeatedly warned, are now being revealed.

Employment is still high, but unemployment has been increasing and veterans and others leaving school are finding it much harder to obtain work than a year ago. Production is still high, but it is lower, particularly in some industries, than it was last year. Business investment is at a high rate, but plans for new investments are being made with caution.

The 1949 decline has been moderate, and the opportunity is now ours to reverse the trend and achieve maximum production and consumption of goods and services without the evils of inflation.

The Adjustment Process

The adjustment process has been rendered less difficult by the prudent actions of many groups and individuals in our business system. We have had no speculative spree in either securities or commodities. Inventory buying has been moderate and distress liquidation of inventories, such as we experienced in 1920, is not to be anticipated. Personal indebtedness, on the part of farmers, home owners, and consumers generally, has been held to conservative levels. Many far-seeing businessmen made sincere efforts to avoid or minimize price increases during inflation, and in recent months have reduced their prices and have sought valiantly to maintain production and employment. Many labor unions have used their collective strength with moderation and with consideration for the interests of the whole economy. All groups in the Nation have gained an improved understanding of economic problems since the 1920's, and their actions reflect this fact.

We should not, however, be lulled into a false sense of security by these favorable aspects of the situation. Many of the price adjustments that have taken place have been healthy, and afford ground for expectation that our economy will work its way successfully through a difficult period of transition. But there is nothing healthy about more unemployment or less production. Such trends can and must be reversed by positive action, private and public. The way to check a decline in business investment or production is to take affirmative action that will lead to more investment and more production. The way to check an increase in unemployment is to take affirmative action that will provide more jobs. The way to prevent our economy from shrinking is to take affirmative action that will help it to expand.

These things cannot be done by business, labor, agriculture, or government acting alone. They can only be done by all of us working together in mutual respect and with common objectives.

It is with these considerations in mind that I transmit to the Congress a brief summary of the economic situation and recommendations for action at this time.

Summary Review of Recent Economic Developments

A moderate downward trend characterized most phases of economic activity in the first half of 1949.

Civilian employment averaged 58 million. This was slightly below the level of the first half of 1948, with the greatest decrease in manufacturing industries. In June of this year, civilian employment was 59.6 million; in June of last year, 61.3 million. The number of unemployed averaged 3.2 million, the increase of about one million over the first half of 1948 about equalling the increase in the total labor force. The unemployed were 6% of the civilian labor force in June, compared with 3.4% in June of last year. The number of unemployed in June was 3.8 million, and acute unemployment problems have developed in certain localities.

Production of all goods and services, adjusted for price changes and for seasonal variation, in the first half of 1949 was about 1½% less than in the second half of 1948. The decline in industrial production was rapid, and by June had reached 13% below last fall's peak. Other business activity as a whole changed but little. A moderate decrease in private construction was partly offset by a rise in public construction. This year's agricultural production seems likely to approach last year's.

Prices generally decreased, reflecting the shift from a sellers' to a buyers' market. The decreases were in most instances moderate and orderly, with no indication of a general spiraling downward. Wholesale prices by mid-year had declined 9%, consumers' prices 3%, from their high points of last August.

Wages increased in some industries, but, at least in manufacturing, the increases were more than offset by reduced overtime and shorter work-weeks. Since the cost of living decreased by about as much as workers' average earnings, real earnings generally were maintained.

Profits reflected the decline in prices and production. Corporate profits before taxes and inventory valuation adjustment in the first half of this year were about 13% below the first half of last year. The corresponding figure for unincorporated enterprises, however, fell only about 7%.

Farm income was about 8% below the first half of 1948.

Credit requirements of business decreased as inventories and customer receivables were reduced. Commercial loans of large city banks shrank 15%, but otherwise loans by banks and other investment institutions remained stable. Total bank deposits and money in circulation decreased about 2% during the past half year. Interest rates continued low.

Business investment decreased in the first half of 1949 from the 1948 level. Allowing for seasonal variations, in the second quarter it was 26% below the peak rate of the fourth quarter of 1948 chiefly as a result of reductions in inventories. Plant and equipment outlays were still about as high as a year ago, but some decrease is anticipated in the last half of 1949.

Corporate finance reflected the reduction of inventories and of customer credit. Funds thus freed helped corporations to reduce their total indebtedness by about 3.5 billion dollars.

Housing starts were less than in the first half of 1948, but since March have been moving up toward last year's levels.

Personal income of consumers after taxes decreased only about 1% from the level of the last half of 1948. Since consumers' prices dropped 2%, real income did not change significantly. Consumption expenditures in dollar terms decreased nearly 3%. Total liquid assets of individuals and business firms are now about $235 billion. However, nearly 30% of our families have no reserve of liquid assets.

In foreign trade, an increase in exports and a falling off of imports have continued the rising trend in the export surplus which began last fall. The surplus was financed almost entirely through government foreign-aid programs.

Government fiscal transactions were a source of support against other factors making for decline in the economy during the past half year. Using figures on a consolidated cash basis, rather than the conventional budget basis, to reflect the effective impact of total governmental receipts and payments upon the economy, cash payments by the Federal Government ran at a rate more than 20% higher than in the first half of 1948, and state and local payments at a rate about 13% higher. Federal cash receipts were down about 10%, state and local receipts were up about 5%. All governmental units combined showed a cash deficit in the first half of 1949 at a seasonally adjusted annual rate of $2.4 billion, in contrast to a surplus at a rate of $12.1 billion in the corresponding period in 1948. The Federal cash deficit in the past half year was at an annual rate of about $1 billion, contrasted with a surplus at an annual rate of $12.3 billion in the first half of last year.

Policies for Economic Stability and Expansion

These facts show that our economy is still operating at high levels of employment and production. The kind of government action that would be called for in a serious economic emergency would not be appropriate now.

However, it would be even less appropriate to rely entirely on "letting nature take its course" to restore economic stability and maximum production and employment. Within the memory of this generation, we have experienced both the terrible consquences of inaction and the saving value of affirmative policy. It is consistent with the whole history of American progress to recognize that, now as before, action can and should be taken to make our economy still stronger and to deal with the new problems of the present.

It is fundamentally important to recognize that we should direct our policies and actions not merely toward preventing a depression or holding our ground. Many times I have pointed out that the life and spirit of the American economy is progress and expansion. We need to use the productive capacity of a growing labor force. We need to translate improved productivity and managerial skills into constantly increasing output. If the real needs and aspirations of our people are translated into effective demand through constantly growing employment and purchasing power, our markets can absorb a vigorously expanding output. We can achieve within a few years a national output well above $300 billion, valued at current prices.

Our goal of growth and expansion determines the kind of policies that private enterprise and government should now develop and apply.

To restrict business investment curtail production, reduce employment, or slash wages, because our economy has declined somewhat, would only serve to drag us further downward. But if in every field of action we do the things that are consistent with a strong and growing economy, we will have a strong and growing economy.

It is vitally important that government policy be based upon the determination to achieve a constantly growing economy. While some businessmen may find it difficult to expand their operations under current circumstances, the government can always take conscious and positive action to counteract recessionary forces.

Yet there are those who assert that the decline in national income requires that we cut essential national programs. Nothing could represent greater economic folly than to follow this course of action. It would contribute to the very recessionary forces that we should be counteracting. It would be a defeatist admission that we cannot prevent our economy from running downhill and that those programs which are vital to the international security and domestic welfare of our people, as well as to the strength of our economy, must be steered in the same downward direction.

This issue is fundamental. Are we going to admit that the forces of progress in our economy have become so feeble that we must content ourselves with lower levels of education, health and housing, international and domestic security, and national development? Or are we going to move forward toward making our economy as strong and productive as our resources and skills permit, and adopt the programs which are consistent with that kind of economy and necessary for its attainment?

I propose that we follow the latter course.

Business investment

Initiative, ingenuity, and courage have always been characteristic of American businessmen. The production goals achieved during the war were a miracle to the rest of the world. There are now great opportunities for business investment to remove obsolescence, to make use of the rapid progress of science and invention, to improve transportation facilities, to enlarge the housing supply, to industrialize underdeveloped areas of our country, to bring conveniences and labor-saving devices to American homes and farms, and to meet the needs of a population that will continue to grow. Businessmen should lift their sights to the needs of an economy that grows and prospers from year to year.

I have previously recommended, and I again recommend, that the Congress provide for a broad study of potential business investment, expansion, and market opportunities under conditions of maximum use of our productive resources in a growing economy —conditions which the Employment Act of 1946 contemplates and which can be achieved if we have the confidence and determination to achieve them. This study should be designed especially to discover inadequacies in capacity in basic industries which may serve is limiting factors to expansion when the upward movement of business is resumed.

Price and wage policies

In addition to the need for expanded business investment, positive actions are required to enlarge consumer purchasing power.

Businessmen have a great opportunity to maintain production and sales volume by adjusting prices downward, even at the cost of temporarily reduced profits. Maintaining volume in the present situation is far more important than maintaining profit margins. The only ultimate source of sustained profits is sustained employment and purchasing power.

The same concept should guide wage policies. Business cannot be prosperous unless the purchasing power of workers is maintained. While price reductions are desirable, they should not be attained at the expense of wage cutting. Management and labor, through collective bargaining, should seek agreements which recognize that the benefits of improved technology and productivity should be reflected both in the wage structure and in the price structure.

Fiscal Policy

The government's programs of expenditures and receipts must be carefully planned in the light of economic developments as they occur.

The Federal Budget in recent years has necessarily been large, reflecting not only the needs of the people for government services but also the extraordinary responsibilities of the United States in working toward a peaceful world.

Programs Not to Be Reduced

The sound objective of government policy is to contribute toward the maximum use of our resources, not to contribute toward having them lie idle and unused. When I submitted my budget for the fiscal year 1950 last January, the programs of expenditure that I then recommended were held to a minimum consistent with our basic needs in view of the inflationary strain upon materials and manpower then prevailing. Now that this strain has been removed, it would be inconsistent with sound fiscal policy and common sense to make these programs smaller.

Continuing these necessary programs involves the problem of how and when we should achieve a balance of Federal receipts and expenditures, and a reduction of the national debt. No one has been more concerned with this problem than I, and this concern has not diminished. I will continue to exert every effort to achieve every economy in the development and execution of programs that is consistent with the national welfare. Balancing the budget and reducing the national debt are objectives to be achieved at the earliest feasible time.

But these objectives cannot be achieved without regard to the general state of the Nation's economy. During the fiscal years 1947 and 1948 we were able to achieve, although not to the extent desired, the objective of balancing the budget and reducing the national debt. I urged repeatedly during this inflationary period that government revenues be maintained to provide a surplus for retirement of the national debt. The present deficit of Federal receipts below expenditures, caused primarily by the untimely tax reduction of $5 billion during the height of inflation, against which I so strongly advised, has been aggravated by the loss in revenue resulting from the decline in production and national income.

As I said in my Economic Report in January of this year:

"The national tax policy should be flexible and should be promptly adjusted to the changing needs of business and consumers in the course of evolving economic events."

Under present economic conditions, we cannot immediately correct the tax mistakes of the past or the conditions which led to a lower level of national income and lower Federal revenues. Any tax increase should be judged by the effect which it might have upon national income and purchasing power. Under present conditions, immediate tax increases should be limited to raising estate and gift tax rates and closing the loopholes in their administration so as at least to restore the revenue from this source lost under the Revenue Act of 1948. This will have no significant adverse effects upon present economic conditions. At the same time, the tax on transportation of goods, which enters directly into such a large number of business costs, should be eliminated. Furthermore, the loss carry-over provisions in the corporate income tax laws should be liberalized in order to give an increased incentive to some business investments which may now be held back because of uncertain profit expectations. The net effect of these three changes in our tax structure, taken together, will be favorable to the expansion of business activity, without causing a significant net loss in total receipts. No changes in the tax laws which would result in a larger net loss in revenues would be justified at this time.

In view of our domestic and international obligations, an abundant economy is the only safe road to a government surplus. In 1948 the value of our national output of goods and services was above $250 billion. A 3- or 4% annual growth of our economy, which I set as a practical objective in my Economic Report in January, would increase annual national output in real terms by $7½ to $10 billion. Higher national output means more Federal revenues at any given tax rate.

Present levels of expenditures are due in large measure to the extraordinary costs of our national defense and international activities. These activities are of such paramount importance that it is out of the question to slash them at this time. But, as our policy for peace takes effect, it should be possible in future years to reduce these expenditures which now make such heavy demands upon our Federal budget. As opportunity offers, I shall make every effort to achieve an excess of Federal income over outgo consistent with our major objectives of peace and prosperity.

But if we tried to avoid a budget deficit by cutting essential expenditures, we would contribute to lower national output and lower employment, Federal receipts would fall further, and the burden upon Federal expenditures would increase. We cannot expect to achieve a budget surplus in a declining national economy.

There are economic and social deficits that would be far more serious than a temporary deficit in the Federal budget. Could we be truly prosperous if the level of business investment or consumer purchasing power should become seriously deficient? Could we be truly prosperous with gaping deficits in our educational system or our housing or our health services or our programs for resource development? If we should allow these deficits to multiply, they would drag the whole economy down, and there would be no hope for balancing the government budget. But if we prevent these deficits, if we realize the productive potentials of the American economy, the whole nation will prosper, and not only will we balance the Federal budget, but we can also move forward to improve the tax system and to resume reduction of the national debt.

Monetary and credit policy

Federal monetary and credit policies should contribute to the needs of an expanding economy.

Present conditions of ample credit supplies and low interest rates are favorable to business investment. The policy of the government will be to continue to maintain orderly security markets and to encourage banks and other institutions to maintain and expand their productive lending activities.

Over the years, Federal lending has come to exercise an important influence upon business investment by providing funds which would otherwise not be available, particularly for small and new businesses. In a period of business contraction, no matter how moderate, deficiencies in capital funds force many enterprises to the wall. It is no answer to this difficult question to say that this squeezes out the inefficient, because it also ruins many who are temporarily in adverse financial circumstances without being inefficient, and prevents others from getting a start in business.

The Reconstruction Finance Corporation, under its existing authority, will continue its support of business activity by making loans based upon reasonable assurance of repayment, not under depression conditions, but under generally prosperous, long-run conditions. The Corporation is also very properly focusing its loan activities toward areas where unemployment has become serious. New legislation is needed, however, to extend the maximum maturity periods for loans, in order to permit financial assistance by the Corporation to business ventures which are economically sound and urgently needed in an expanding economy, but which require long periods of time to develop and produce earnings that will permit orderly amortization of debt.

Agricultural policy

Millions of American consumers derive their livelihood from farming and buy the products of industry. Experience has taught us that there can be no lasting general prosperity without farm prosperity.

There is immediate need to overcome a number of shortcomings in existing farm legislation. It is necessary to assure fair and adequate supports for major farm products, notably livestock products, which have not been covered in past programs. It is necessary to authorize the use of direct production payments as an alternative to the pegging of market prices if an effective support program is to be carried forward without waste of commodities and without denying to consumers the benefits of agricultural abundance. It is desirable to recognize clearly that the objective farm support prices is to maintain an adequate level of farm income and promote shifts in lines of agricultural production which will encourage an increase in the total domestic consumption of farm products. I urge the Congress to enact at this session legislation to meet these needs.

Minimum wages

Minimum-wage legislation is essential to maintaining adequate consumer purchasing power among large groups of our population. The cost of living has been reduced very little, so that low-paid workers are still faced with a grave problem in meeting living expenses. Higher minimum wages are an element in the general improvement of American living standards which we can afford and must achieve. I repeat my request for the immediate raising of the minimum wage under the Fair Labor Standards Act to at least 75 cents an hour, and the extension of the Act's coverage.

Social security

Although unemployment has not risen to the dangerous levels which would call for all-out emergency measures, there is an inescapable obligation of government to take action when large numbers of people are unemployed through no fault of their own. Such action is important not only to the unemployed but also to business, since unemployment benefits maintain to some extent the purchasing power of those who have lost their jobs. Because these measures contribute toward isolating the consequences of unemployment and reducing its duration, it is not economical even by the measure of dollars alone to leave these protective devices in an inadequate state. The cost of such measures is determined not only by the extent of coverage or size of benefits but also by the extent and duration of unemployment.

Under current economic conditions, it is urgent that the unemployment compensation system be broadened and liberalized. I recommend that the Congress strengthen our Federal-State unemployment insurance system by establishing minimum benefit standards for all parts of the country and by broadening coverage. These minimum standards should provide benefits for 26 weeks ranging up to $30 a week for single individuals, with additional amounts for dependents.

Ample funds are available for this purpose in the trust accounts of most states. However, these increased benefits will require action by the State legislatures and it will obviously take some time before the laws of all states can be amended for this purpose. It will be necessary, therefore, to allow a reasonable period before the requirement for new standards takes effect.

To encourage the states to meet the new standards without waiting for this period to expire, I recommend that a Federal reinsurance fund be established for those states which meet the minimum standards to assure that the increased protection will not threaten the continued solvency of state unemployment funds. This would represent an extension and strengthening of the present legislation authorizing Federal loans to states whose unemployment funds run low, which expires on Dec. 31, 1949.

I further recommend that the expiration date for unemployment benefits for veterans under the Servicemen's Readjustment Act be extended for one year, to July 25, 1950. Such benefits should not be available to those eligible for unemployment compensation under state laws, except where necessary to bring state payments up to the Federal level, or when state benefits are used up.

The improvements in the old-age and survivors' insurance system which I have recommended to the Congress are also badly needed. The present schedule for increasing payroll taxes to 1½% each on employers and employees next January will provide the financial basis for such improvements without unduly reducing consumer purchasing power.

I have already recommended to the Congress that in addition to Federal aid to the states for the needy aged, for the blind, and for dependent children, such aid should be extended to other needy persons receiving general assistance. In most states, the programs now in operation are inadequate and in many localities there is no program at all. Recent economic developments have emphasized the need for aid, and I again urge its favorable consideration by the Congress.

Public Works

Public works programs, Federal, state, and local, assume added significance under present conditions as a means of maintaining consumer purchasing power and stimulating investment opportunities. My January budget proposals called for Federal expenditures for civil public works in fiscal year 1950 in the amount of about $3 billion, compared to about $2¼ billion in fiscal 1949. Continuing the programs included in the present budget, even without any new starts, will require expenditures of approximately $3 billion in each of the fiscal years 1951 and 1952, at construction rates now planned.

This is a substantial program, and, coupled with private construction expenditures at the cur-

(Continued on page 24)

Truman Prescribes for Prosperity

(Continued from page 23)

rent rate, and with local and state expenditures at a rate in excess of $3 billion a year, should maintain the construction industry at a high level of activity and thus strengthen the whole economy.

The economic situation does not now call for an immediate and sweeping expansion of public works. It would be dangerous, however, to neglect the precautionary preparation of measures which might be needed if the business downturn should become more serious. Such preparatory measures by themselves will serve to inspire confidence that the government will, if necessary, help further to maintain a high level of demand. They will thus reduce doubts that businessmen may have about planning investments for the future. They will also encourage consumers to continue their normal purchasing with more confidence.

I urge, therefore, that the Congress (1) enact legislation to provide for loans to assist state and local advance planning of public works; (2) provide funds for the Public Buildings Administration for advance planning and site acquisition for Federal construction, under the authority recently enacted; (3) enable the Bureau of Public Roads to make advances to states for acquiring and clearing rights-of-way; and (4) provide for the surveys and planning for school construction which I have previously recommended. Together with the advance planning already under way by many Federal agencies, these actions will round out a substantial backlog of planned public works.

Concentration upon areas of relatively serious unemployment

While unemployment is not now at a very high level for the country as a whole, there are many localities and even some states where it is serious. These pools of heavy unemployment need to be treated before they spread, and the responsibility is in part national.

There are a number of Federal programs of direct action or assistance to localities which can be timed and channeled so as to concentrate upon areas where unemployment is heavy without sacrifice of general national objectives. This principle of wise selectivity is particularly applicable to procurement and construction activities, but it is also relevant to other grant or loan programs designed to stimulate private enterprise or to effect public improvements. Toward this end, I am directing that a continuing review of such activities be undertaken within the Executive Office, in order to coordinate planning, to keep the various types of activity and their geographic distribution in proper balance and readiness, and to focus emphasis upon alleviating unemployment in particular areas where it becomes serious before it has a chance to spread. I am also having a study made of possible changes in the laws governing these activities which may be needed for these purposes.

Foreign economic policy

The decline in our business activity is reducing our imports, which is an important factor affecting the ability of foreign countries to earn the dollars they require to restore their economic health. The decline in imports, if long continued, could have very serious effects. If a severe shrinkage in the flow of dollars abroad occurred, it would not only reduce our exports now, but would also force other countries to try to save dollars by making discriminatory trading arrangements that would adversely affect the long-run future of our foreign trade. Moreover, it would set back recovery and reconstruction abroad, and might precipitate developments which would have serious consequences for world political stability.

For these reasons, it is especially important at this time for us to continue the efforts we are making to help rebuild a strong and advancing world economy, based upon an effective network of world trade and the growing productive strength of free nations. In addition to maintaining our foreign-assistance programs, and restoring a full-scale Reciprocal Trade Agreements Act, I urge the Congress to enact the legislation I have recently recommended to expand both technical and capital assistance for the economic growth of underdeveloped areas.

The expansion of foreign investment, by making more dollars available directly to the underdeveloped countries and indirectly to the capital-goods-exporting countries of Europe, will improve the rest of the world's ability to buy from us. The expansion of technical assistance will stimulate foreign investment by assisting countries that want capital for development to translate their aspirations into concrete projects, by creating new productive investment opportunities, and by increasing the private investor's knowledge of those that already exist. Both under its existing authority and under the new legislation I have proposed, the Export-Import Bank will be expanding its operations and substantially contributing to these objectives.

These actions are called for by both our foreign policy and our domestic economic policy. They will be supplemented by the strong support of the United States for an expansion in the development activities of the International Bank for Reconstruction and Development.

There is danger that a further reduction of economic activity may give rise to pressure to restrain imports, in an attempt to divert to United States markets part of the small fraction of total demand now directed toward foreign goods. It should be recognized that diversion is a poor substitute for expansion of total demand. Protectionist measures would not merely shift the problem of inadequate markets to other countries but would also, with the present dollar stringency, promptly reduce our own exports. Such measures would, therefore, not have a stimulating effect on the domestic economy, even in the short run.

Summary of Legislative Recommendations

In summary, I recommend that the Congress take the following actions at this session because of their vital importance in the current economic situation:

(1) Repeal the tax on the transportation of goods, liberalize the provisions for carry-over of losses by corporations, and raise estate and gift taxes. No major increase in taxes should be undertaken at this time.

(2) Extend the maximum time limit now fixed by law on the maturity of loans to business made by the Reconstruction Finance Corporation.

(3) Provide for a broad study of investment and development needs and market opportunities in an expanding economy.

(4) Adopt an improved program of farm income supports.

(5) Increase the minimum wage to at least 75 cents an hour and broaden its coverage.

(6) Strengthen the unemployment compensation system by increasing the amount and duration of benefits and extending coverage.

(7) Extend to July 25, 1950, the availability of readjustment allowances for veterans not protected by State unemployment compensation laws.

(8) Raise benefits and extend coverage under the old-age and survivors insurance system and improve the public assistance program.

(9) Enact legislation to permit Federal agencies, and assist States and localities, to intensify their advance planning and to acquire sites for useful projects.

(10) Enact legislation to provide technical assistance to underdeveloped areas abroad and to encourage investment in such areas.

(11) Restore the Reciprocal Trade Agreements Act.

* * *

The core of my message to every businessman, worker, and farmer, and to everyone responsible for the making of national policy is just this: We cannot have prosperity by getting adjusted to the idea of a depression—by cutting investment or employment or wages or essential government programs. We can be prosperous only by planning and working for prosperity, by increasing private investment, production, employment and purchasing power, and by carrying forward essential government programs.

The whole world is watching developments in the American economy. Our own people insist upon the maintenance of prosperity, and will not tolerate a depression. Our friends abroad know that their well-being and hopes for world peace are greatly dependent upon the economic strength of the United States. Those opposed to our system and way of life are hoping for the vindication of their prophecies that economic collapse is inevitable in a free society.

Ours is at once a fateful responsibility and an inspiring opportunity to prove to ourselves and to the world that prosperity and freedom will endure together.

* * *

COUNCIL OF ECONOMIC ADVISER'S REPORT

Following are excerpts from the Report to the President from the Council of Economic Advisers:

Previous economic reports have repeatedly pointed out that price levels which were geared to war-created temporary factors of demand and shortages of supply could not be sustained indefinitely. The downward adjustments now under way are a reflection of the fact that full production can no longer be absorbed by the market at peak price levels.

Edwin G. Nourse

In its initial stages, the process of downward price readjustment is almost certain to be accompanied by some declines in production and employment. Price declines not only affect the critical relationships among various prices and the size and the distribution of money incomes. They have, in addition, two other important effects: the favorable effect of increasing the purchasing power of the dollar and the unfavorable effect of generating anticipations of further price declines which lead to postponement of buying, thus depressing the levels of production, employment, and incomes.

Fortunately, the process of price adjustment has been in the main orderly. Although in individual cases it has been sharp, it has not been widely characterized by dumping at distress prices. Its orderly character is in large part due to the fact that it has been occurring while consumer demand, though weakened, is still at very high levels, with residential construction and investment in plant and equipment still very high and with government expenditures still rising. In the case of agricultural prices, an additional factor has been the existence of support prices which, while they have not prevented sharp fluctuations in prices, have been effective in limiting the extent of the price fall.

The question arises nonetheless as to the extent to which the price cuts which have been made thus far have helped to stimulate demand. In the case of wholesale prices, the reductions appear to have had little effect in stimulating business demand. For this there are two reasons: *(a)* The initial effect of price cuts when a trend is reversed is to create the expectation of additional price cuts, thus further drying up demand, a tendency which is reinforced by the fact that so many of the price cuts have been so slight in amount thus far; and *(b)* there is the natural desire on the part of business to reduce inventories in a period of slackening demand before reordering on a more normal basis even in those areas where the price declines have been substantial. Though inventories were not out of line with sales, business has been sensitive to the possibility of inventory losses due to price declines. The tendency to liquidate inventories, accompanied by cut-backs of new orders, has brought further downward pressure on prices and production.

In the case of consumer prices, the declines, as pointed out earlier, have been much more limited than in wholesale prices. In individual cases, where large cuts in prices have been made for sales promotion or where new lines at much lower prices have been introduced, consumer response on the whole has been relatively favorable. One of the distinctive features during the war and the postwar inflation was the reduction in the volume of and the actual disappearance of many stripped models and low-priced items of apparel and house furnishings, which had formed so large a part of the sales during prewar years. With the weakening of consumer demand, there is a growing trend now for manufacturers to reintroduce and emphasize such low-priced items to make products available to consumers at prices which they are able to pay. The relatively favorable showing in these lines indicates that consumers are actively seeking them. Taking consumer prices as a whole, however, the declines that have taken place have not been great enough to encourage consumers to expand their purchases of consumer goods.

Price Adjustments

The process of price adjustment to date suggests that further price reductions, made promptly to promote volume and not tardily in response to falling sales, are essential. Where and how they are made is also important.

While increasingly active competition has already brought about part of the needed adjustment, there are many fields where the power to "administer" prices is strong and where the practice of price leadership is well-entrenched. It is in these fields that the capacity of businessmen to take the long view and to adopt policies conducive to fundamental and healthy economic readjustment will be put to the test. If, while other prices are falling, they cut production to whatever degree is necessary to maintain their prices, they will impair the effort to maintain economic activity at the highest possible level.

Businessmen generally will not believe that any important group of goods can escape from the forces which are strong enough to compel the current general reduction in the price level, and they will be unsure about the situation until price cuts, which they believe are inevitable, have been made on all important groups of goods, and the results can be observed. Competition will, sooner or later, force some kind of adjustment in these areas, but voluntary and well-calculated price reductions now, with a view to maintaining volume, would be highly preferable to forced and possibly more drastic reductions later on.

A difficult problem of price adjustment is presented by the public-utility services, especially transportation, where competition is not directly effective. Their prices are a substantial element in the cost of production of manufactured goods, and, instead of falling, they are still rising in response to past advances in the cost of materials and labor. Public utility commissions as well as company executives have the special responsibilities of adjusting rates in relation to changed cost and demand conditions, with special emphasis upon the interests of the economy as a whole.

The process of widespread price readjustment is not pleasant nor easy to effect. Weaker firms are overtaken by financial difficulties. Instances of inefficiency in management and low productivity of labor, which tend to be condoned in times of inflation, have to be eliminated. These are necessary conditions for establishing a firm economic base from which a new expansion can be projected.

What price adjustments will prove feasible and helpful must be considered in close connection with wage and other income adjustments.

Wage-Cutting Damaging

Price reductions add to real income only if consumers' money incomes are not correspondingly reduced. This leads to special concern for protecting those major sources of income upon which demand so largely rests. The attempt to secure lower prices through wage cutting would clearly be damaging at a time like the present when consumption demand is proving inadequate and business slack is developing. A sound first rule to apply now is that the general level of wage rates should at least be maintained. Beyond that, there is a strong presumption in favor of having money wages move upward over the years to participate in the gains of technological progress and increased productivity. There are difficulties in applying the general principle to specific situations, but this adaptation can be worked out through sound collective bargaining. Particular consideration should be given to those in the lower wage brackets.

With wage negotiations now under way in a considerable number of basic mass-production industries, there is a possibility of an impasse. While a still very high cost of living encourages a determined attitude on the part of labor, the uncertain business situation encourages an equally determined attitude on the part of management. Should industry-wide strikes result, they would not merely reduce the spending ability of the directly affected workers, but would also spread loss of production and income to other areas and thus darken the business outlook. At the present time both employers and workers should strive to work out adjustments which will help to stimulate activity, bearing in mind the need both for holding business costs down and for maintaining consumer purchasing power at high levels.

If wage incomes are maintained, this obviously places a limit upon the extent to which prices can be adjusted downward. There would be no purpose, and much potential damage, in an attempt to get back to some drastically lower price level by wage cutting, since incomes are now geared to prices substantially higher than before the war or immediately after the war. Such an effort would involve a deep and vastly unsettling decline in wages as the accompaniment to a prolonged period of severe depression. From that, practically no one would gain; the economy would lose tragically.

Another example of the necessity of maintaining adequate buying power is to be found in the agricultural situation. The decline in the prices of farm products, which began early last summer, was not arrested until the prices of wheat, corn, tobacco, cotton, and hogs were close to or even below government support levels. Farm income as a whole has been only moderately affected, because lower prices have been in part offset by high yields. But the prospects of another year of large crop production on top of present carry-overs indicate that the problems of supporting farm prices will be increasingly difficult.

The vulnerability of a small-unit industry whose markets are dominated by exchange and auction methods of sale has led to the development during the past 20 years of governmental price supports to agriculture. It is now widely recognized that this institutional development has protected the economy against a danger of collapse in a major segment which, on past occasions, has tended to undermine the whole structure. While this institutional development needs still further improvement in the light of experience, there is also need for further reduction of the prices of industrial products bought by farmers.

* * *

Summary: The Nation's Economic Budget

For the first time since the immediate postwar readjustment period, the Nation's Economic Budget reflects a decline in business activity extending over six months or more. The Budget total, or gross national product, declined about $9 billion (seasonally adjusted annual rate) from the second half of 1948 to the first half of 1949. This is a decline of about 3½% in current dollars, or about 1½% after allowing for declining prices. The percentage drop from the fourth quarter of last year to the second quarter of this year was about 6% in terms of current prices.

The most conspicuous facts reflected in the Nation's Economic Budget are that business investment shows a sharp reduction from the second half of 1948 to the first half of 1949 while consumer income and expenditures dropped only moderately. The decline in business investment represents largely a reversal in the trend of inventory accumulation, which in turn largely accounts for the present decline in economic activity. This inventory adjustment has resulted from a basic discrepancy between the trend of increasing production and relatively stable consumer demand over the last few years. With the progressive fulfillment of extraordinary backlog demands over the past 6 to 12 months a slack developed first in the demand at prevailing prices for certain luxury items and subsequently for one category after another of consumers' and producers' goods. With production increasing more than consumption inventories were built up steadily. As consumers failed to absorb promptly the growing flow of goods, swelling inventories induced business to cut down its orders and to stop and recently to reverse inventory accumulation.

The sharp cut in industrial production and the inventory decline had only a moderate effect on consumer income and expenditures for the first half of 1949 as a whole. A noticeable decline started, however, in the second quarter. The relatively high level of the first half of the year has been due to the fact that, while employment in manufacturing and mining industries was curtailed, employment in most other activities was maintained or increased (after allowance for seasonal variation). Thus productive activity, employment, and personal incomes derived from productive employment decreased much less in the aggregate than in manufacturing industries alone. As a strengthening factor, there was a rise in expenditures by Federal, State, and local governments, as indicated in the Nation's Economic Budget table. Some of these additional government expenditures are reflected directly in an increase in transfer incomes derived from rising unemployment compensation and veterans' allowances, in part offsetting the decline in incomes derived from current production. For the first half of the year, government ran a deficit, as compared with a surplus in the preceding period.

Some conditions are now favorable for a reversal of the downward trend in industrial production and employment. Inventories in several lines of business already have been brought into a better relationship with sales, there are indications that prices are being brought into a better relationship with disposable incomes, and it is probable that orders have in many cases been cut below the level justified by current markets. The expected further rise in government expenditures will continue to give support to demand.

There are other factors, however, which could produce a further weakening. For example, present surveys indicate that business expenditures and investments in plant and equipment in the third and fourth quarter of 1949 may run increasingly below the levels attained in 1948. Thus, if counteracting forces are not marshalled, it is at least possible that the inventory and price adjustment may develop into an investment recession later this year or next year.

Despite the significance of investment, it should be stressed that the downturn commenced with a failure of consumer markets to expand in line with total output. The maintenance and stimulation of consumer expenditures are essential both for maintaining total expenditure commensurate with our increasing productive capacity under maximum employment, and for providing a substantial basis for a sustainable high level of investment itself.

The Budget, the Business Cycle and Russia

(Continued from page 17)

practically by having in mind appropriate measures, and, still more important, we ought to be prepared mentally, and morally, so that we will neither be stampeded into panic, nor yet rushed into a silly or disastrous policy.

Outlining then the basic elements of policy which we should adopt, I submit that a serious decline in industrial production ought to be dealt with by a policy of adding purchasing power rather than redistributing it, and by a policy designed merely to compensate for the irregularities of an unplanned society rather than to direct it. Let us see why this is so.

Beginning with the problem of redistribution, we find that it leads us at once to tax policy and wage policy. I have not the time to discuss the arguments of those who want to redistribute as a matter of long run moral reform. I have treated that point in some detail in my essay in the Alvin Hansen memorial volume. What I want to do here is to discuss the question of redistribution as a means of getting out of a depression. The left-wing is now seeking to encircle capitalism through a formidable ideological pincer movement. If we have an inflation many of them will say that wages ought to be raised to "maintain the standard of living." If we have a depression, they will say they ought to be raised to "maintain purchasing power." If we have a boom profits ought to be taxed to "keep down prices." If we have a slump they ought to be taxed to "maintain purchasing power." Heads I win, tails you lose.

Now it must be realized that the great majority of people who talk this way are probably perfectly sincere about it. We are not dealing just with crookedness, or foolishness, but with real misunderstanding. And, if one traces that misundertsanding to the roots, I believe it will be found to have a twofold source. In the first place many people have been misled by all the articles in the Sunday supplements and the inflammatory talk of irresponsible pseudo scientists into feeling that even if we ceased to increase our production there would already be "enough" now; the "rich" are somehow supposed to be withholding a great store of wealth presently existing which will give everyone "abundance." Again I must cut corners and just say flatly that any one who looks at the statistics will find that this is nonsense. In the depths of a depression there is always a discrepancy, sometimes a scandalous one, between the living standards people are actually enjoying and those they could receive. It is easy (for those who have an axe to grind) to dramatize and magnify this into "poverty in the midst of plenty." But we don't even at full employment, have "plenty." We don't even have enough!

But there is a second, allied, source of misunderstanding, and a still more fundamental one for our present purposes. That is the idea that we could get full employment if we merely operated at capacity those businesses and projects now in existence. This is a somewhat subtle fallacy and it is terribly important that we should understand where the mistake lies.

I said earlier that I was no prophet and no forecaster. But I am a student of the business cycle and I can give you one very simple test by which you can tell whether we are in danger of a serious decline. That test is this: "Watch durables! watch steel!" If they begin a major slump, don't let yourself be misled by the fact that consumption is at first unaffected. Trouble, if we do nothing about it, is probably just around the corner.

The reason why trouble would be likely is that in order to have full employment the investment and construction goods industries must be tolerably prosperous. When they shut down, unless there is some offsetting expansion elsewhere, a "multiplier" process sets in whereby the slump spreads over the whole economy. But now we come to the real problem. In order for the investment goods industries to be constantly and steadily employed there must be constant and steady growth and change. That is because mere replacement only takes up about half of investment output. Our society (and any growing society—capitalist or socialist) is so organized that if it tries to stand still it immediately runs backward. It must grow to stand still. It must change to remain the same. This means that even if every retail store this year is selling as much as it sold last year we have no guarantee that a depression will not be in the offing. For it is growth that we need for full employment.

II

Now it is the factor of growth which is the strategic one in our basic choice between adding purchasing power and redistributing it. The fundamental point to remember is so simple that I almost blush to give it to you; and yet it is so overlooked today that half the economic students in the country have probably forgotten it. This basic fundamental is as follows: The expected rate of return which will keep a man in a business already started is practically always very much less than the rate of return which will induce him to expand his business or start a new one. I am here quoting almost verbatim not Adams Smith but Mrs. Joan Robinson, a leading English left-wing Keynesian, almost Marxian, economist.

Once we grasp this distinction between the return needed to keep a business merely in the rut and the return needed to induce it to expand and change, we have a clue which will clear up much of our modern confusion. If we

(Continued on page 26)

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

President's message; strike news will rule market for time being. No immediate market change indicated.

From now on the chances are that news of market interest will increase almost weekly. Last week it was the Federal Reserve Board's decision on the selling of government securities. This week it will be the President's message to be broadcast Wednesday night.

* * *

How much of what President Truman asks from Congress, he'll get is a question you can get arguments about from either side of the political fence. This column doesn't know what the outcome will be. It does know that for at least the next week the deeper meanings of President Truman's message will have all sorts of market repercussions.

* * *

I have been cautious about advising new buying for some weeks. It is a position I don't particularly care for. Not only does it mean inaction but it is also a position that is regarded as highly unfavorable. Brokers can't make any money unless there's buying and selling. What is more important is that the reader can't make any profits unless he does something in the market.

* * *

Despite this unpopular position I fail to see anything in the current, or recent, market action that warrants any other stand. I know the market has gone up a little in the past week or ten days. I can also see the possibility of it going up a bit more in the next few days. Yet, as a trader I'd like to see more positive action rather than less of negative action before I suggest risking any cash on the outcome.

* * *

As a trader I'm interested in only one thing. Buying stocks at one price and selling them at a higher price in the reasonably near future. That chances of higher prices in the reasonably near future don't seem particularly bright, so the advice continues—stay on the sidelines.

* * *

If there is anything in the foreseeable future in the matter of news that is encouraging, it is that dealing with strikes and threats of strikes. This is kind of a left-handed reasoning and I'll try to explain it.

* * *

Strikes have always been regarded as market calamities. If a major company is faced with labor unrest, its stock reflects it almost immediately. Yet, I know of no single instance where a strike has hurt a stock more than just temporarily. Should any of the current strike threats develop into action it is probable that stocks will sell off. It is also likely that such a sell off will bring in additional selling. It is just that kind of selling that creates opportunities.

* * *

I'm quite aware that the above attitude is highly cynical. Morals and stock markets, however, have little in common. Stocks were made to be sold. The shrewd trader sells when the news is good and there are buyers bidding for his stock. The shrewd trader also buys when the news is bad and there is plenty of stock being offered at declining prices. Maybe the system is wrong. But I don't make the system. I just live by it.

* * *

In the past week or ten days stocks have rallied. They are now at a point where a reaction is almost imminent. The fact that the news may favor such a reaction, I think is coincidental. But it is on such a reaction that some sort of a base will be built.

* * *

I think it will take the rest of the month of July, maybe part of August before any worthwhile signal will be seen. Until it is seen we will just have to bide our time.

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.]

Three With E. E. Mathews

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS.—Alfred C. Sheffield, Joseph M. Warren and John C. Yeager are with Edward E. Mathews Co., 53 State Street.

The Budget, the Business Cycle and Russia

(Continued from page 25)

only want to stay where we are, then, within broad limits, we can pretty well do what we wish with distribution. A very low return to capital would be enough. There are, to be sure, still good reasons why it would be better to "cut labor in on the gravy" through cooperative dividends rather than wage increases. I cannot, however, develop academic marginal productivity theory here, and in any event wage theory is not immediately relevant. It is enough to realize that a stationary society would not require much or any profit or interest.

But if we want production to rise significantly, and if we want the standard of living to increase or even if we only want full employment in our society, then the picture changes entirely. A combination of taxes on profits plus constant money wage increases, which leaves the businessman little or no net profit expectation from building a new plant will keep the private economy in an indefinite slump.

III

Considerations such as these give us the necessary background for approaching the problem of a depression. Whenever we have a slump there will immediately be people to say that we have had "too much" saving and that the thing to do is to cut down on saving by redistributing wealth and raising money wages. In that way, they say, we will get the money "spent" which is "being hoarded."

Now it cannot be denied that once a serious industrial decline gets under way some money will start to accumulate which otherwise would have been spent. This gives a certain plausibility to demands for drastic redistribution. But, before we accept uncritically such a point of view, there are many things to remember.

First of all, and always, we should remember that our problem is one of food and clothes and not just one of money. Our present output is not sufficient to give everyone what most of us have come to regard as the essentials of a "decent" livelihood — no matter how evenly it is distributed. This means that we want to have more growth.

But if we want more growth and supposing we do get the wheels of industry started again, we must remember that continued growth demands continued investment; and continued investment, private or government, if it is not to cause inflation, will demand continued saving. If our redistributive program cripples the long run motive for saving then our next boom is likely to be highly inflationary. In other words, a sound economic policy cannot merely be improvised with reference to the demands of the moment. We have got to look ahead and see what is coming. If the habit of saving is on average a useful one, then we would be very foolish to liquidate it for the sake of a short-run emergency — even supposing (which I doubt) that such a liquidation would do any good.

Another idea which is important here is the notion that growth must be "planned" if it is to be stable and that a depression is solely the result of "lack of planning." I have discussed this thesis at length in my little book, the "Economics of Disturbance." In it I have shown that any economy which permits technical change, and, still more important, any economy which tries to give the public "what they want when they want it" will be liable to recurrent threats of "over" expansion which could not be avoided by mere planning no matter who did it. This thesis, furthermore, has been conceded not only by all the American reviewers of my book whom I have read including one of the leading economic theorists of socialism but also by several English reviewers, for example in the "London Economist" and the "Economic Journal."

The attempt to direct production in advance so as to avoid depression will almost inevitably take the form of a planned slowdown. And however beautiful the mathematics underlying such a theory may at time appear I consider it utterly vicious. The reason is that "back-logs" are not wholly mechanical things. If every vested interest of both labor and management starts to hold back production in order to maintain its particular prices and gains, then we will probably find ourselves all cutting one another's throats. It is true that a general expansion does not always proceed smoothly. But it is equally true that if everyone is too afraid to take a chance in his line we may all keep ourselves in self-imposed poverty.

Not only is this true of a number of private businesses and unions; it is also true of the government direction of business as a whole. Some increase might at first be generated by government But the intense vulnerability of a democratic socialism to security pressure groups will in my opinion soon cut down its net productivity almost to nil.

Coming back, now, to the main thread of our argument, I have pointed out that if the habit of saving is on average desirable and necessary, we would be foolish to liquidate it in a slump. For social habits of this sort cannot be altered just overnight. The great inflation of the last few years is in considerable part a deferred kick-back from the anti-saving propaganda of the Great Depression. But there are a number of economists who will say that on average our saving has been "too great," that once the postwar boom is over we will be confronted by a chronic excess of saving.

Again I will have to cut corners and refer you to my books and to the articles and speeches of Professor Slichter. If we can maintain some approach to our present consumption levels, still more if we can, as we all wish, continue to grow, our economy is still substantially under-equipped. Furthermore, if the rest of the world is to approach anything like an American standard of living, the sole large-scale source of saving and investing now surviving is in this country. It would be a desperate tragedy for the human race if the United States ceased to be an investing nation.

Finally we come to the notion that even if more growth is needed this can only take place if people's consumption habits rise and that the only way to get them to rise is by increasing wages and cutting profits. There are three points to remember here. In the first place it has been shown statistically that the proportional spending habits of the economy do rise of themselves over the long-run and that if we can keep fluctuations within bounds we need not expect a permanent lag in consumption as some of the more simple-minded Keynesian's have said. Again raising consumption by redistribution does not keep it rising. In the third place, investment is not rigidly and mechanically geared to consumption levels. It can fall suddenly though consumption be rising steadily (as was the case in 1929). It can rise though consumption be falling as has frequently occurred.

But beyond and behind all those technical points there is one basic question. Would drastic wage increases and tax increases, in a slump, really raise the living standards of the poor to any great extent, or end unemployment? I think the chances are that they would not. During the last 15 years much ridicule (part of it justified) has been heaped on the heads of those super-orthodox economists who said "supply always creates its own demand." But the left-wing tends to an equally vulnerable error. They are apt to suppose that "Demand always creates its own supply."

Remember what we said earlier about the need of incentives for growth. Increased money wages and increased taxation of "hoards" may, it is true, result in more spending, but will the people always get more goods? The answer is "not necessarily." They may clear the shelves of existing stocks, but if the retailer expects no profit will he always place a new order for more? If the manufacturer expects little or no profit, will he try to expand his plant? The chances are that at best we will do more than keep the existing capacity of the makers of consumers goods occupied. There will be little growth, hence unemployment in the investment goods industries may continue. More spending does not automatically translate itself into more production. Increased money demand for goods need not result in a greater demand for labor.

IV

In the light of these principles, it is time to discuss a program which we have so far overlooked—the program of the extreme right-wing. If left-wing writers tends to forget the factors I have been discussing, right-wing thinkers are apt to be hyperconscious of them and to feel that the way to get out of a depression is by "balancing the budget," cutting prices and (in most cases) cutting wages too.

Now it cannot be denied that in many cases particular industries may, as the expression goes, "price themselves out of the market." Coal seems to be well started that way, and the railroads, too. Also, as in the instances just given, the main impetus for this over-pricing may often come more from the union leader than the company. "Men of iron wills and wooden heads," as Mr. Arthur Koestler has called them. I doubt if there is any more serious misunderstanding of the economic process than the supposition that wage increases can always come out of profits. Nearly all economic theorists, even most of those whose specialty is labor economics will, I believe, concede that, at least sometimes, money wage increases will not be able to cut into profits at all except at the expense of investment, output, or employment. Assuming that we want to maintain output, price reductions may therefore be severely limited by the level of wages in the industry concerned.

But, if in one of these overpriced industries management and labor could get together to cut prices and wages, it might well turn out, other things being equal, that both sides would find themselves better off and with larger incomes than they had before. This is the argument for selective wage and/or price cuts.

But I do not believe that this type of policy alone can be relied upon always to get us out of a depression. And I certainly do not believe that it can be used as an argument for general indiscriminate price and wage reduction as a cure for unemployment. The right-wing policy, no less than the left, must be tested in relation to its effect on economic growth and new investment. Can anyone plausibly maintain that an atmosphere of continuing deflation, price cuts and wage cuts, is favorable to new investment? The position seems to me absurd. So conservative a writer as Professor

Schumpeter points out that the deflationary process may go far beyond the point of any possible usefulness.

There is, however, one final argument which, it seems to me, casts the balance overwhelmingly in favor of a policy putting more emphasis on maintaining purchasing power than cutting prices. That is the international situation. America has got to grow up. It has got to stop thinking locally. It has got to realize that we stand today with our backs to the wall ideologically. Our tragedy is that we think too much in political terms and not enough in economic ones. I am 10 times more afraid of economic isolationism than I am of political isolationism.

All during the last few years when the representatives of the United States have tried to get trade barriers and trade restrictions removed, their opponents have said: "We dare not let our economy get too tied up with yours. You are too unstable. You will let your national income drop, then raise your tariffs and ruin us as you did in the thirties." Now today we seem to have reached the pay-off. I ask you gentlemen, are we to repeat the folly of 1929—Again?

All during the last few years, when we have been plugging the freedom and the wealth of the United States, and of democratic, capitalist countries generally, the representatives of the Soviet Union have said: "Wait. They may be better off now, but soon they will be selling apples on the streets of Detroit once more." Now we seem to have reached the test. And once more I ask you: Shall we go through all that—Again?

During the last few years we have seen a gradually increasing recovery in the non-Communist European countries. The Communist ideology seems to be waning. We have begun to talk of a "year of balance" in 1952 or 1950. We have been able to cut down on our gifts and loans to Europe. But all of this depends upon the United States continuing to be a good place to sell in. If we let ourselves go now and permit a major decline to get underway, the budding recovery of Europe will be wrecked, the communists will once more become arrogant and ascendant and our frightened allies will once more be clamoring for aid — if indeed they survive that long.

V

Now then what specific policy do I suggest? First of all I would like to stress what I began by saying: I am no prophet. I do not know whether we are really going to have a major decline. But I think we should be prepared. Yet, if there does appear danger of a major recession, then I think we should unbalance the budget and not merely in a niggardly and passive way. Yet, on the other hand, I have so sympathy with those who wish to parallel the private economy with a new government sector, to subsidize overpriced unions of industries, or to direct the flow of net new investment. What shall we do?

Our task it seems to me is actually much easier than it was in 1929, if only we will assume it. What I suggest is not to reduce government expenditures, nor yet, in the first instance at least, greatly to increase them. By this I do not mean to approve some adjustment to help efficiency. What I would suggest would be rather a drastic reduction of taxes all along the line—not merely to increase consumption but also to give incentive for new investment. If as I believe our basic situation is still fundamentally favorable, the effect of such an inflationary stimulus would, I believe, in itself suffice to ward off major deflation; and we might, indeed, soon find ourselves needing to revise our policy and put the taxes back up again.

So far as our world struggle is concerned, I believe we ought promptly and without further delay ratify the ITO and continue the reciprocal trade program so as to make it possible for our friends to keep solvent without further loans from us. We cannot have it all ways at once. We can lend to them, or buy from them, or give them to Russia. There are no other alternatives.

But the policy I would suggest would not in the first instance start the Federal Government into a lot of massive capital outlay which we might soon want to discontinue. It should not in my opinion encourage labor in fourth and fifth round wage increases. Rather by stabilizing purchasing power and stimulating growth at one and the same time it will send us onward to a renewed and vigorous achievement.

As We See It

(Continued from first page)

tions slogans may lead the unthinking! Of course, the time must come sooner or later when the true inwardness of this not particularly complex or mysterious situation will appear so plainly that he who runs may read. It can only be hoped that the day will arrive before too much damage is done both the British nation and its friends all over the world, particularly in the United States of America.

Poverty-Stricken

The British are short not of dollars but of goods and services which they apparently now claim as some sort of God-given right, but which they can not or will not make for themselves and which they can not buy abroad for the simple reason that they have not produced the *quid pro quo* in goods and services which foreigners want. In plain, blunt language, Britain is poverty-stricken. In ordinary words, moreover, Britain is now in the hands of a ruling clique of radicalism which insists that each and every subject of the realm must have this and that, which in the very nature of the case he can have only if he produces vastly more than he is producing, or, of course, only if some one who does produce the goods is willing more or less in perpetuity to carry these subjects of His Majesty on their charity list.

But the plight of the British flows from deep sources. A light-headed government could insist all it wished that the rank and file have this or that as a right —but its insistence would in the end be quite futile. The real trouble is lack of production. For that lack the Labor Government, with its nationalization schemes and its grandiose talk about capital investment and all the rest, must bear a heavy responsibility. But after all, the British are able at any moment they wish to discard all this nonsense, along with those who presistently preach it. The fact of the matter is, we suspect, that the rank and file of the people of that country have long been soothed into a state of semi-lethargy by the grandiose phrases of the socialistic regime which has been in power almost ever since the war, and by its ability, repeatedly demonstrated, to persuade or cajole the people of the United States into supplying what was necessary.

An Awakening Due

The people of Great Britain are due for a sad awakening. When it will come no one can say, but the sooner the better. They have a severe trial ahead of them, not for a few days as at Dunkirk, or for a few weeks as in the Battle of Britain, but over the years that stretch to horizon. There are those who doubt very seriously whether the resources of the British Isles can support in any degree of comfort as many people as now live on them. Whether that is true or not we'll leave to others to decide for themselves. It appears that there are doubters in Great Britain itself in view of efforts to settle and develop some of the other parts of the globe. But what no one in his right senses can fail to be perfectly certain of is the fact that the resources of the British Isles can not support its present population with a reasonably good standard of living unless, and until, the British show that they can and will make much more of the resources than they are now doing. And some measure of the improvement in production that is required can be had by reference to the fact that at no time in history have those islands supported any such population.

Let it not be forgotten that long years, yes long decades (we had almost said centuries) ago the British people, then not nearly so numerous as they are now, journeyed to other lands, invested their spare income all over the world. They, moreover, served the remainder of the world as banker, as carrier of insurance, as supplier of shipping services, and in a number of other ways. It was in very substantial part from income so derived that the British were able to live as well as they did in the early years of this century. They had begun to feel competition from a number of other lands even before World War I came to take large blocks of this income from them permanently. What the first World War left undone in this respect the second consummated.

A Hard Row Ahead

Britain is no longer a creditor nation. Her position in banking, insurance and shipping has to be regained in the most competitive of markets. Obviously, then, comparison of British production or exports with prewar has little real meaning. They must be immensely greater, and the production must occur at cost levels that enable the goods to find markets in other countries. It is at this point that Britain is very weak. Loud lamentations are heard about the "depression" in the United States and the vanished demand for British goods here. To those familiar with the prices which have been charged for these goods in the past two or three years, all this appears as some sort of a ghastly jest. Britain must have known all along that the volume of sales she was making in this country arose solely out of the scarcity of goods in this country, and that as soon as conditions somewhere near normal once more returned, that market under the price conditions imposed would vanish. Except, possibly in abnormally feverish times of shortages, the loose British talk about quality justifying the high prices asked simply is not in correspondence with this real world in which we live.

The real question is this: Can and will the British produce abundantly and competitively? Will they permit conditions which encourage such production? If not, *their* day is done. If so, *they* may yet re-emerge as important world factors.

The "Shortage of Dollars" cliche had best be forgotten.

Morgan Stanley Group Sells $150,000,000 Standard Oil of New Jersey Debentures

Largest Industrial Debt Issue Ever Offered

An investment banking group headed by Morgan Stanley & Co. made a public offering July 13 of $150,000,000 Standard Oil Co. (New Jersey) 25-year 2¾% debentures, due 1974 at 100½% and accrued interest. The issue which was heavily oversubscribed, is the largest publicly offered industrial debt issue in the history of American finance.

Proceeds of the issue will be used to replenish working capital being depleted by capital expenditures and to provide funds for further capital outlays by the company and subsidiaries.

Primarily a holding company, Standard Oil Co. (New Jersey) was incorporated in 1882. Its subsidiaries and companies in which it has investments operate in the Western Hemisphere, Europe, North Africa, the Middle East and the Far East.

Approximately 50% of the $1,859,000,000 net property, plant and equipment of the company and its Western Hemisphere subsidiaries represents facilities for oil production and exploration. In 1948 these subsidiaries produced almost 400,000,000 barrels of oil, while their net purchases amounted to 128,000,000 barrels. The more important producing affiliates of the company are Humble Oil & Refining Company and The Carter Oil Company in the United States and Creole Petroleum Corporation in Venezuela. Imperial Oil Limited a subsidiary which operates in Canada, has made important discoveries in the last 12 months in the Province of Alberta. Jersey Standard also has a 30% interest in Arabian-American Oil Company which operates in the Middle East, and a 50% interest in Standard-Vacuum Oil Company which operates in South Africa, India and the Far East.

During the five years ended Dec. 31, 1948, expenditures for property and plant amounted to $1,582,000,000 which were financed for the most part from depreciation and depletion and earnings retained in the business. It is expected that capital expenditures in 1949 will remain near the 1948 level of $529,000,000.

Total crude oil refinery runs of subsidiaries in the Western Hemisphere in 1948 averaged 1,390,000 barrels daily. The company's refinery expansion program includes a $175,000,000 project at Amuay Bay, Venezuela, and a recently announced $150,000,000 refinery at Fawley, England.

The European and North African subsidiaries of the company have regained control of their properties except in those countries under Communist-dominated government control, and in most cases have been able to rebuild their businesses to reach or exceed prewar levels.

Consolidated gross operating income in 1948 amounted to $3,300,000,000 compared with $2,355,000,000 in 1947. Consolidated net profit in 1948 was $366,000,000 which after adjustment for prior years charges amounted to $378,000,000. This compares with $260,000,000 in 1947. The company estimates earnings for the first half of 1949 to be about 30% below the same period of 1948.

Cassels, Blaike Co. Formed in Toronto

TORONTO, ONT., CANADA.—Announcement is made of the amalgamation of Geo. W. Blaikie & Co. and Cassels, Son & Co., as of July 1, under the firm name of Cassels, Blaikie & Co. The new firm, which is a member of the Toronto Stock Exchange, will maintain offices at 16 Jordan Street. Partners are Gordon T. Cassels, G. Reed Blaikie, Sydney W. Smith, William J. Loveys and Norman R. Young.

Cassels, Son & Co. was founded in 1877; George W. Blaikie & Co. was established in 1907.

New York Stock Exchange Weekly Firm Changes

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

Arthur H. Bunker retired from partnership in Lehman Bros. June 30.

Jerome B. Lustig, member of the Exchange, withdrew from partnership in B. H. Roth & Co. on July 7.

Interest of the late Richard A. Kebbon in Kebbon, McCormick & Co. ceased July 6.

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)	July 17	77.8	61.2	86.7	90.8
Equivalent to—					
Steel ingots and castings (net tons)	July 17	1,434,300	1,128,200	1,598,300	1,636,600
AMERICAN PETROLEUM INSTITUTE:					
Crude oil output—daily average (bbls. of 42 gallons each)	July 2	4,819,950	4,889,400	4,889,150	5,483,800
Crude runs to stills—daily average (bbls.)	July 2	¶5,241,000	5,322,000	5,341,000	§5,701,000
Gasoline output (bbls.)	July 2	18,498,000	18,462,000	18,244,000	§18,041,000
Kerosene output (bbls.)	July 2	1,574,000	1,658,000	1,722,000	§2,116,000
Gas, oil, and distillate fuel oil output (bbls.)	July 2	5,440,000	5,148,000	5,959,000	§7,185,000
Residual fuel oil output (bbls.)	July 2	7,733,000	7,856,000	7,827,000	§9,055,000
Stocks at refineries, at bulk terminals, in transit and in pipe lines—					
Finished and unfinished gasoline (bbls.) at	July 2	114,000,000	115,715,000	119,106,000	§104,145,000
Kerosene (bbls.) at	July 2	23,617,000	23,313,000	21,858,000	§18,733,000
Gas, oil, and distillate fuel oil (bbls.) at	July 2	64,587,000	63,049,000	58,597,000	§47,538,000
Residual fuel oil (bbls.) at	July 2	65,741,000	66,146,000	64,063,000	§60,926,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	July 2	644,182	602,941	698,824	757,278
Revenue freight received from connections (number of cars)	July 2	559,030	573,848	564,192	640,258
CIVIL ENGINEERING CONSTRUCTION — ENGINEERING NEWS-RECORD:					
Total U. S. construction	July 7	$138,526,000	$180,900,000	$226,161,000	$168,718,000
Private construction	July 7	42,884,000	96,484,000	137,222,000	100,043,000
Public construction	July 7	95,642,000	84,416,000	88,939,000	68,675,000
State and municipal	July 7	64,839,000	61,621,000	64,455,000	54,663,000
Federal	July 7	30,803,000	22,795,000	24,484,000	14,012,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	July 2	1,360,000	*11,850,000	9,990,000	3,678,000
Pennsylvania anthracite (tons)	July 2	63,000	1,139,000	964,000	100,000
Beehive coke (tons)	July 2	33,000	*73,300	104,200	28,100
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100	July 2	237	247	259	265
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	July 9	4,982,173	5,410,392	5,300,091	4,760,316
FAILURES (COMMERCIAL AND INDUSTRIAL)—DUN & BRADSTREET, INC.	July 7	153	177	174	88
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	July 5	‡3.705c	3.705c	3.705c	3.211c
Pig iron (per gross ton)	July 5	$45.91	$45.91	$45.91	$40.51
Scrap steel (per gross ton)	July 5	$19.33	$19.33	$21.67	$40.91
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	July 6	16.525c	15.700c	17.325c	21.200c
Export refinery at	July 6	15.925c	15.925c	17.750c	21.550c
Straits tin (New York) at	July 6	103.000c	103.000c	103.000c	103.000c
Lead (New York) at	July 6	12.000c	12.000c	12.000c	17.500c
Lead (St. Louis) at	July 6	11.850c	11.850c	11.850c	17.300c
Zinc (East St. Louis) at	July 6	9.000c	9.000c	10.750c	12.000c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Government Bonds	July 12	103.37	103.27	101.63	101.2
Average corporate	July 12	113.50	113.31	113.12	113.31
Aaa	July 12	119.41	119.20	118.80	118.2
Aa	July 12	117.80	117.60	117.40	116.2
A	July 12	112.56	112.37	112.37	112.5
Baa	July 12	104.83	104.66	104.83	107.0
Railroad Group	July 12	107.62	107.44	107.98	108.8
Public Utilities Group	July 12	115.04	114.85	114.46	114.2
Industrials Group	July 12	117.80	117.60	117.40	117.2
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Government Bonds	July 12	2.26	2.26	2.38	2.4
Average corporate	July 12	2.98	2.99	3.00	2.9
Aaa	July 12	2.68	2.69	2.71	2.7
Aa	July 12	2.76	2.77	2.78	2.8
A	July 12	3.03	3.04	3.04	3.0
Baa	July 12	3.46	3.47	3.46	3.3
Railroad Group	July 12	3.30	3.31	3.28	3.2
Public Utilities Group	July 12	2.90	2.91	2.93	2.9
Industrials Group	July 12	2.76	2.77	2.78	2.7
MOODY'S COMMODITY INDEX	July 12	337.9	333.7	342.1	435.
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	July 2	161,576	158,700	183,749	215,85
Production (tons)	July 2	153,817	169,612	137,521	171,58
Percentage of activity	July 2	75	80	65	8
Unfilled orders (tons) at	July 2	243,297	241,787	283,585	381,06
OIL, PAINT AND DRUG REPORTER PRICE INDEX — 1926-36 AVERAGE=100	July 8	127.8	127.9	128.8	146.5
STOCK TRANSACTIONS FOR THE ODD-LOT ACCOUNT OF ODD-LOT DEALERS AND SPECIALISTS ON THE N. Y. STOCK EXCHANGE—SECURITIES EXCHANGE COMMISSION:					
Odd-lot sales by dealers (customers' purchases)—					
Number of orders	June 25	14,062	20,572	17,682	27,427
Number of shares	June 25	388,337	560,201	503,806	850,966
Dollar value	June 25	$13,834,953	$19,165,927	$20,229,968	$32,392,94
Odd-lot purchases by dealers (customers' sales)—					
Number of orders—Customers' total sales	June 25	13,717	19,061	18,698	28,044
Customers' short sales	June 25	141	383	141	134
Customers' other sales	June 25	13,576	18,678	18,557	27,910
Number of shares—Customers' total sales	June 25	363,141	527,860	504,287	798,072
Customers' short sales	June 25	5,577	15,314	5,410	5,100
Customers' other sales	June 25	357,564	512,546	498,877	792,972
Dollar value	June 25	$16,678,126	$16,938,143	$17,992,606	$28,621,771
Round-lot sales by dealers—					
Number of shares—Total sales	June 25	109,400	165,510	198,090	234,350
Short sales	June 25	-------	-------	-------	-------
Other sales	June 25	109,400	165,510	198,090	234,350
Round-lot purchases by dealers—					
Number of shares	June 25	160,410	204,750	167,920	268,500
WHOLESALE PRICES NEW SERIES—U. S. DEPT. OF LABOR—1926=100:					
All commodities	July 5	152.7	*152.9	*155.9	167.2
Farm products	July 5	165.6	*164.0	*172.7	196.7
Foods	July 5	161.3	*161.2	*167.0	184.4
All commodities other than farm and foods	July 5	144.5	*145.2	*145.8	149.6
Textile products	July 5	138.3	*138.2	*138.4	148.9
Fuel and lighting materials	July 5	130.6	*130.6	*130.1	133.6
Metals and metal products	July 5	165.6	*165.7	*167.3	159.2
Building materials	July 5	189.9	*192.3	*192.2	197.6
All other	July 5	124.6	*126.1	*127.2	135.6
Special indexes—					
Grains	July 5	153.2	151.2	154.8	193.4
Livestock	July 5	206.7	208.2	222.3	269.1
Meats	July 5	224.0	225.1	243.9	258.5
Hides and skins	July 5	181.6	182.9	190.3	217.9

*Revised figure. ¶Includes 421,000 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.

NOTE—The National Fertilizer Association has decided to discontinue publication of its weekly wholesale commodity price index. It will, however, continue to compile monthly indexes covering mixed fertilizers.

	Latest Month	Previous Month	Year Ago
ALUMINUM (BUREAU OF MINES)—			
Production of primary aluminum in the U. S. (in short tons)—Month of April	54,076	54,852	53,277
Stocks of aluminum—short tons—end of Mar.	11,746	11,786	9,258
AMERICAN PETROLEUM INSTITUTE—Month of April:			
Total domestic production (bbls. of 42-gallons each)	162,700,000	174,738,000	176,213,000
Domestic crude oil output (bbls.)	150,354,000	161,955,000	164,509,000
Natural gasoline output (bbls.)	12,335,000	12,772,000	11,676,000
Benzol output (bbls.)	11,000	11,000	28,000
Crude oil imports (bbls.)	11,952,000	11,085,000	9,757,000
Refined products imports (bbls.)	5,832,000	5,107,000	5,048,000
Indicated consumption—domestic and export (bbls.)	174,649,000	190,375,000	182,950,000
Increase—all stock (bbls.)	5,835,000	555,000	8,068,000
AMERICAN ZINC INSTITUTE, INC. — Month of June:			
Slab zinc smelter output, all grades (tons of 2,000 lbs.)	74,054	77,537	68,303
Shipments (tons of 2,000 lbs.)	67,083	*52,689	69,402
Stocks at end of period (tons)	82,796	*75,830	43,160
Unfilled orders at end of period (tons)	42,705	58,644	69,345
BUILDING PERMIT VALUATION — DUN & BRADSTREET, INC.—215 CITIES—Month of May:			
New England	$15,743,360	$18,842,667	$15,783,492
Middle Atlantic	71,679,066	65,937,616	86,795,445
South Atlantic	36,416,666	35,885,670	30,726,324
East Central	86,694,490	83,446,186	63,359,155
South Central	43,937,872	47,565,461	47,664,798
West Central	18,772,574	18,660,959	22,400,668
Mountain	11,488,857	12,723,982	10,703,903
Pacific	65,848,188	64,935,015	75,605,873
Total United States	$330,581,073	$347,997,556	$353,039,658
New York City	38,898,668	38,753,201	47,943,465
Outside of New York City	291,682,405	309,244,355	305,096,193
COAL OUTPUT (BUREAU OF MINES)—Month of June:			
Bituminous coal and lignite (net tons)	35,274,000	47,470,000	53,118,000
Pennsylvania anthracite (net tons)	3,407,000	*4,403,000	4,590,000
Beehive coke (net tons)	279,700	*539,500	561,300
COKE (BUREAU OF MINES)—Month of May:			
Production (net tons)	6,337,684	6,393,513	6,345,400
Oven coke (net tons)	5,798,230	5,760,570	5,746,000
Beehive coke (net tons)	539,454	632,943	599,400
Oven coke stocks at end of month (net tons)	1,747,677	1,472,537	801,900
CONSUMER CREDIT OUTSTANDING—BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM—Estimated short-term credit in millions as of May 31:			
Total consumer credit	$15,847	$15,622	$14,311
Instalment credit	8,884	8,631	7,318
Sale credit	4,711	4,516	3,590
Automobile	2,386	2,241	1,536
Other	2,325	2,275	2,054
Loan credit	4,173	4,115	3,728
Noninstalment credit	6,963	6,991	6,993
Charge accounts	3,249	3,258	3,245
Single payment loans	2,745	2,765	2,816
Service credit	969	968	932
COTTON SPINNING (DEPT. OF COMMERCE)			
Spinning spindles in place on May 31	23,782,000	23,783,000	23,742,000
Spinning spindles active on May 31	19,862,000	19,801,000	21,723,000
Active spindle hours (000's omitted) May	7,358,000	7,442,000	10,080,000
Active spindle hours per spindle in place, May	325	327	450
DEPARTMENT STORE SALES (FEDERAL RESERVE SYSTEM)—(1935-39 Average=100) Month of June:			
Adjusted for seasonal variation	284	*293	303
Without seasonal adjustment	267	*288	289
FACTORY EARNINGS AND HOURS—WEEKLY AVERAGE ESTIMATE — U. S. DEPT. OF LABOR—Month of May:			
Earnings—			
All manufacturing	$53.08	*$52.70	$51.76
Durable goods	56.93	*56.86	54.65
Nondurable goods	48.98	*48.35	48.61
Hours—			
All manufacturing	38.6	38.3	39.8
Durable goods	39.1	39.0	40.1
Nondurable goods	38.0	37.6	39.5
Hourly earnings—			
All manufacturing	$1.375	*$1.376	$1.301
Durable goods	1,456	*1,458	1,365
Nondurable goods	1.289	*1.286	1.231
METAL PRICES (E. & M. J. QUOTATIONS)—Average for month of June:			
Copper (per pound)—			
Electrolytic, domestic refinery	16.342c	17.763c	21.200c
Electrolytic, export refinery	16.543c	18.019c	21.696c
Lead (per pound)—			
Common, New York	12.000c	13.720c	17.500c
Common St. Louis	11.850c	13.562c	17.300c
Silver and Sterling Exchange—			
Silver, New York (per ounce)	71.500c	71.500c	74.625c
Silver, London (pence per ounce)	43.500d	43.500d	45.000d
Sterling Exchange (Check)	$4.02557	$4.02690	$4.02750
Zinc (per pound)—East St. Louis	9.548c	11.880c	12.000c
Tin (per pound)—			
New York Straits	103.000c	103.000c	103.000c
New York, 99% min. (§§)	102.000c	102.000c	102.000c
Gold (per ounce U. S. price)	$35.000	$35.000	$35.000
Quicksilver (per flask of 76 pounds)	$80.269	$82.200	$76.000
¶Antimony (per pound) (E. & M. J.)	41.730c	41.730c	38.170c
Antimony (per pound), bulk, Laredo	38.500c	38.500c	35.000c
Antimony (per pound), in cases, Laredo	39.000c	39.000c	35.500c
Antimony (per pound), Chinese Spot	Nominal	Nominal	Nominal
Platinum, refined (per ounce)	$70.154	$72.000	$82.154
†Cadmium (per pound)	$2.00000	$2.00000	$1.75000
‡Cadmium (per pound)	$2.07500	$2.07500	$1.77500
§Cadmium (per pound)	$2.15000	$2.15000	$1.80000
Aluminum, 99% plus, ingot (per pound)	17.000c	17.000c	15.115c
Magnesium, ingot (per pound)	20.500c	20.500c	20.500c
**Nickel	40.000c	40.000c	Not Avail.
RR. EARNINGS — CLASS I ROADS (ASSOC. OF AMERICAN RRS.)—Month of May:			
Total operating revenues	$741,068,551	$747,259,313	$796,402,811
Total operating expenses	600,852,442	594,269,852	616,231,264
Operating ratio—per cent	81.08	79.53	77.38
Taxes	$69,181,314	$74,794,116	$75,966,676
Net railway operating income before charges	57,595,281	64,759,903	90,178,066
Net income after charges (est.)	32,000,000	40,000,000	65,000,000
ZINC OXIDE (BUREAU OF MINES)—Month of May:			
Production (short tons)	10,920	12,840	Not Avail.
Shipments (short tons)	10,054	9,026	Not Avail.
Stocks at end of month (short tons)	30,096	29,230	Not Avail.

*Revised figure. †Based on the producers' quotation. ‡Based on the average of the producers' and platers' quotations. §Based on platers' quotations. ¶Domestic, five tons or more but less than carload lot packed in cases, f.o.b. New York. **F.O.B. Port Colbourne, N. S. U. S. duty included. §§Tin contained.

A Rate Structure for the Securities Business

(Continued from page 4)

duce are induced promptly by the higher "concession."

Second: In November, 1947, the New York Stock Exchange raised its minimum commission rates. The New York Curb Exchange did not raise its rates until February, 1949. As a result a higher scale of commissions existed for Stock Exchange transactions than for Curb transactions throughout 1948. In the 20 years preceding 1948 the ratio of Curb volume to Stock Exchange volume never failed either to go up and down with the Stock Exchange volume or to go up when the Stock Exchange volume went down. In none of these 20 years did the Curb ratio ever go down when the Stock Exchange volume went up. This happened for the first time in 1948. This departure from normal may indicate that our daily business, too, moves from a lower to a higher area of compensation.

Third: Recently a dealer firm in the Northwest decided to establish its own mutual investment trust rather than handle the sale of shares in the excellent trusts of Boston and New York. The firm patterned its investment policies and selections on a well-known Eastern trust that it had handled for years, but it decided to make its shares more attractive by applying a substantially lower "loading" charge for sales. The venture was unsuccessful.

Is Commission Rate Structure Obsolete

These clues may not point to the solution of some of the problems in the securities business; but I think they do. I believe these clues suggest that we may be studying a case of incipient suicide and not a murder. It may well be that our present rate structure is obsolete and that for lack of an adequate system of compensation we are denying to our business the funds which it needs to reach the scattered sources of investment it must now reach and to provide those who work in it with the inducement without which men are not attracted to the job of increasing our services.

If these were the only clues we might make the mistake of merely increasing commissions and overlooking other problems of equal importance. Our business is not as simple as that.

In my opinion, there is no idea in the securities business which is more sound, more fair or more in harmony with the long rise in the ethical standards of American business than the idea that the market value of a widely distributed security should be established through competition between buyers and between sellers in a public market. Through many years of mechanical and human development, stock exchanges, such as the New York Curb Exchange, have created a system for giving wide and continuous public information on bids, offers and prices and a system for providing convenient and rapid access to the central market place for members and their customers so that their bids and offers may be concentrated and produce open market prices.

This idea, and the market machinery it has created, have been expanded and perfected over many decades. But it seems to me that we have tended to overlook one important element in their development. We have neglected to utilize fully all of the channels of access to our central markets. To the extent that bids and offers in a particular security, available at any moment, are not channeled into the central market, to that extent the central market fails to perform to the maximum degree its function of producing the fairest price.

At first appearance our system of access appears to be highly developed and complete. Orders may be placed in member offices all over the country and almost instantaneously register their impact at the central point. However, an informed look may tell another story.

Orders to buy securities do not arise by some sort of spontaneous combustion in the minds of potential buyers. They are more normally the result of a personal relationship between that buyer and someone whose business is securities. They are the result of advice, discussion, persuasion, dissuasion and all other elements which make up a decision to buy.

Non-Member Participation in Commissions

When we consider the accessibility of the central market to orders we must not overlook its accessibility to all those people in the business who are the advisors of buyers and sellers and their grass-roots channel to any market.

There are hundreds, even thousands of people in the securities business who are members of the Curb or partners or employees of its member firms; but there are many thousands more who are not. These thousands of non-members each surrounded by his own customers, are potential conduits through which orders might flow to the central market. Today those potential avenues of access are blocked. The rate structure of stock exchanges *does not* provide for the assistance or participation of a non-member. There is seldom any business reason why a non-member should send his, or his customers', orders to the central market for execution.

This limitation of access to our markets is an understandable hangover from the early days of exchange development. It is the result of the long campaign which exchanges have waged to establish high standards of membership and conduct. I believe that the national character which our exchanges have attained, and the advances in the standards prevailing throughout the securities business, may now have made this old limitation obsolete.

Perhaps we have reached a stage in the development of our business and in the wide dispersion of wealth in our country which requires us not only to raise the minimum level of exchange commissions, but also to convert the commission structure of an exchange into a rate structure which is industry-wide. Perhaps the time is now here when the whole securities business must be integrated with our great public markets, not by pious words of cooperation but by a rate structure into which each professional, whether member or non-member, fits and finds his benefits and inducements to channel bids and offers to a central point.

But the development of such a rate structure would be an idle and useless gesture unless it reconciled the two different methods of doing business which today divide our industry. The normal exchange method of doing business is the procedure under which a member acts as agent or broker for his customer, buys or sells for his customer's account and receives his compensation in the form of a commission. The normal non-member method is the dealer procedure under which the non-member acts as a principal and buys from or sells to his customer and receives his compensation in the form of a profit.

Broker and Dealer Compensation

The average "commission" compensation under the first method amounts to about 1% for the buyer's agent and 1% for the seller's agent. The average "profit" compensation under the second method is difficult to estimate, but recent tests indicate that it probably exceeds 3% in 48% of such transactions and is less than 3% in 52% of such trades.

Over the years, in practice and in the contemplation of the law, most of the differences between the two methods have tended to disappear. I doubt whether the average public customer today realizes that there is any real difference between selling through a securities firm and selling to that firm. In each case the firm calls him its "customer" and he probably calls the firm his "broker." However, the important difference which has persisted is the difference in the amount of compensation. Because of this difference and the complex reasons that underlie it, it would be an idle gesture to permit members of exchanges to divide their 1% commissions on any basis with non-members. Such a step would not create a realistic rate structure nor increase the channels of effective access to the central market. Experience has shown that it would amount to no more than a general cut in exchange commissions. The amount so conceded to the non-member would be far too little to fit his type of business or to induce him to adopt the brokerage method and give up the dealer method.

"Out of Town" Dealings

For a moment, let us leave to one side the problem of giving non-members effective access to the central market and consider the access problems of members who do not have offices in the city where the market is located. Here also we find that limitations on access have grown up.

An "out-of-town" member sends his orders to market through a correspondent member, a "wire house," in the market city. This arrangement usually involves a division of the commissions earned on each transaction between the "out-of-town" and the correspondent members. No matter how mutually agreeable and fair this division may be, it constitutes a potential reason for the "out-of-town" member to execute his orders elsewhere when he can.

I believe that we must improve the channel of access of the "out-of-town" member coincident with any establishment of an effective and industry-wide rate structure. If we don't we will not have completed the job of developing fully the national channels of access to our central markets.

Many solutions to this problem are now being pioneered. Chicago has taught us all a great deal about the feasibility of out-of-town clearance by exchange machinery. Our member firms are experimenting with new forms of omnibus accounts. Our clearing corporations are studying custodial services which may result in direct access by "out-of-town" firms. These experiments and studies must be diligently pursued.

We have compared our business methods to the more successful ones of insurance and mutual trust, we have reviewed some of the problem of access to our central markets for non-members and for members separated by geography from the market place. But we will not be finished accumulating clues until we have powdered the finger prints of one other essential element in sound central market performance.

Role of Speculative Trader

That other element represents perhaps a small percentage of total market volume, but it may well constitute the difference between reasonable price continuity and erratic price fluctuations. That element can be called the speculative trader—the non-member who buys and sells and takes his compensation, or his losses, from changes in price. Access for that element to the market must be maintained if the market is to remain reasonably liquid and satisfy the needs of those who wish to buy or sell to meet their investment or cash requirements. If the rate structure does not provide the large trader with ready access to the market consistent with his type of business, but instead bars him by establishing prohibitive costs, then it will be inappropriate and unsound.

I believe that our present commission system was evolved under circumstances which we have now outgrown. In the distant past the speculative trader probably provided a much greater percentage of the exchange volume. The handling of such orders by member firms, and the earnings on the debit balances they entailed, involved a minimum of effort and a high rate of profit on a low rate of commissions. In effect this volume business paid the way for the numerous, relatively small and much more costly accounts of the general public.

For many years this condition has not existed. So far as the evidence permits a guess, the percentage of speculative volume on exchanges has grown smaller over the years. Long ago price manipulation and security pools were run out of our stock markets. No one can honestly regret their departure from our private business, but we have too long failed to recognize that with their departure a part of the "low cost-high volume" assumption, on which our commission structure was based, disappeared.

But although the character, methods, and volume contribution of the large trader have changed radically over the years, what remains of the professional or semi-professional speculative element in our markets must be preserved and encouraged and not barred by prohibitive costs if we revise our system of compensation. Conditions have already changed our markets fundamentally and wisdom urges us to recognize and adjust to this change.

Conclusions

I warned you that this would be a dull and detailed speech. Perhaps I had better not try your patience further. Perhaps this is the time to make a break with details and lunge into some deductions as to where these clues may be pointing.

They seem to point toward several conclusions:

First: The present general level of compensation for securing and executing orders to buy securities on our central markets may be inadequate not only from the point of view of costs, but more particularly because it does not provide sufficient incentive to reach increasingly scattered sources of business;

Second: Avenues of access to our central markets for bids and offers originating in the offices of "out-of-town" members and in the offices of non-members should be improved and established;

Third: If our central markets are to approach the maximum service of which they are capable and to perform their functions with the maximum centralization of all available bids and offers we should expand our commission schedules into an industry-wide rate structure in which members non-members, large traders and the general public would each have an appropriate place.

It should not be impossible to reconcile these conclusions or to produce from them a workable and effective program. Perhaps this final job of specific suggestion should be left to industry committees and to industry and public consultation. That would be the safer course, but it does not appeal to me because it seems to leave the matter hanging in the air. Ultimately a program, or the decision to do nothing, will be made by the people affected; but no harm can come from piecing together these clues and various ideas which are being discussed in the business today and drawing from them a tentative procedure.

The heart of such a program might be what I have called a "rate structure for the securities business."

Proposed Rate Structure

Such a rate structure might be based on two minimum rates of commission which exchange members would charge in executing orders in exchange securities. One rate, which might be called the "retail" rate, might be fixed at about 3½% of the purchase price when securities are bought and 1% of the sales price when securities are sold. The other rate, which might be called the "wholesale" rate, might be fixed at around ½ of 1% of the market price when securities are either bought or sold.

Under such a rate structure exchange members would be required to charge the "retail" rate to all customers except those who have filed a commission agreement with the exchange and who fall into one or more of the following "wholesale" rate categories:

(1) Brokers and dealers registered with the Securities and Exchange Commission;

(2) Members of other national securities exchanges or recognized foreign exchanges; or

(3) Customers who have paid gross commissions in excess of $1,000 during the preceding year on exchange transactions made through the member firm executing the order.

Under such a program, the commission agreement which a customer would be required to file with the exchange before becoming entitled to the "wholesale" rate might express his agreement to three conditions:

First: Observance of the minimum "retail" rate in executing orders for his customers in exchange securities;

Second: Placement of bids and offers for his own account in exchange securities on the floor of the exchange for a reasonable time before attempting execution elsewhere; and

Third: Consent that the exchange might cancel his privilege to receive the "wholesale" rate at any time if his financial condition or business conduct should in the opinion of the exchange require such action.

Such a tentative outline of a rate structure for the securities business necessarily omits, for the sake of clarity, many important details. In fact it does no more than give simple form to various ideas which others have suggested. It is not a program but rather a springboard to discussion.

It seems possible, however, that under some such system each member and non-member element might find an appropriate place in the business of our central markets and receive compensation adequate to cover the costs and provide the incentive without which the business can not go forward.

We must continue to seek improvement in the environment in which American business and American finance work and support our nation. Certainly, we must protect our securities markets from threats to their freedom made from without or within. But it seems to me that we must also beware that our markets do not move toward their own destruction through failure to adjust their systems of compensation to new conditions of business or failure to develop fully all potential channels of access through which bids and offers might flow to their central posts.

Economy's Health Depends on Profits

(Continued from page 8)

able to survive profitably, then we are like a hollow egg shell. A hard crust outside with no substance inside.

The Federal budget for the coming fiscal year calls for the expenditure of approximately 42 billion dollars. A requirement this large to run one government for 12 months is difficult for the human mind to understand. I was impressed by the significance of 42 billion dollars when a "U. S. News and World Report" article recently compared the budget with the present day value of all the world's gold mined since Columbus discovered America—456 years ago—which is estimated to be worth only 40 billion dollars. The United States is said to have 60% of the world's gold stock, or 24 billion dollars worth, but this would be barely enough to cover our Federal expenditures for seven months. Surely this is a day of credit expansion!

To avoid a deficit for the coming fiscal year the President has asked Congress to enact tax legislation providing another four billion dollars of revenues. While it is not expected that Congress will comply with the President's request for tax increases during the present session, there is also very little hope for tax decreases or revisions to remove long-standing inequities.

Transportation Excise Tax

As an example, the excise tax on transportation which adds 15% to the cost of your passenger ticket was enacted during the recent war to discourage public use of hard-pressed transportation facilities. Now that almost every railroad is suffering substantial losses on passenger traffic, with more seats empty than filled, many understanding Senators and Congressmen of both parties have introduced bills to repeal this tax, but to date the problem of balancing the budget has foreclosed favorable consideration of these bills. Many other measures introduced to repeal other wartime luxury taxes have likewise been stalled by the revenue needs of our big government. Time and again tax experts, on invitation of Congressional Committees, have urged in hearings the removal of double taxation on corporate dividends, the repeal of the 2% penalty tax on consolidated returns, the easing of the Treasury's policy regarding depreciation allowances, and many other needed revisions in the Tax Code, to no avail.

Just how big our Government is now and how much bigger it can grow should be of deep concern to all taxpayers from the wage earner to the large corporation. In just 20 years our annual rate of Federal expenditures has mounted from 3 billion dollars to 42 billion dollars. The "bite" taken from our national income by the Federal tax collector has changed from a crumb of 4% in 1928 to a large mouthful of 20% in 1948, and when the other "bites" taken by the State and local tax collectors are added, the total is more than 25%. I maintain that this overall tax burden is choking the flow of private venture capital and strangulating the free enterprise system.

In 20 years we have seen the top surtax rate on individual incomes jump from 20% to 83%, the maximum rate on estates jump from 20% to 77%, and the income tax rate on corporations go from 11% to 38%. These taxes overlap and duplicate in many ways and are further complicated by the various other excise and import duty levies. It is small wonder that the potential investor of risk capital feels he has little to gain and much to lose under our present tax structure.

Recently the Finance Minister of Canada, in announcing sweeping tax cuts for the Dominion, indicated a sound understanding of the problem when he said:

"Today we find governments in this country, as well as in most other countries, taxing away at least a third of corporate profits. In addition, the personal income tax rates apply in full to what is distributed out of the remaining two-thirds. The tax may be as high as 80% upon distribution to stockholders.

"It seems to me that under a system of private enterprise which depends for its existence on a steady flow of venture capital, that we cannot afford to neglect the implications of this defect in oux tax system.

"It is not a question of the immediate profit position of Canadian business . . . rather it is a matter of concern for the future under a system where we depend, and must depend, for full employment and the creation of new wealth on the willingness of our people to risk their money in constructive enterprises."

I think the Canadian Minister hit the nail squarely on the head, and I'm glad to see that his party won last Monday's election in the Dominion by a landslide.

Government Pressures on Business

Another factor, no less important than taxes, preventing private enterprise from making adequate profits is the ever increasing pressure both from big government's maze of bureaus and from special interest groups to encourage further Federal control, ownership and subsidy. A few months ago during the inflationary period the President asked Congress for power to construct Government-owned industrial facilities where private industry could not increase production to a satisfactory rate. Now that the turn has come in the inflationary trend, the President asks for the same powers to guard against deflation and to provide full employment. It seems to me that business has been faced with one national emergency after another for the past 20 years.

Every business, whether large or small, must be constantly alert to Government regulation and competition, but I believe the critical situation which the railroads face today is the most outstanding example. Being the first of the large industries to be regulated, we have operated under Interstate Commerce Commission control for more than half a century. Not only are our revenues controlled by rate regulation, but our accounting, financing, borrowing, and inter-railroad relations are constantly under the surveillance of some Government bureau or commission. While our costs for materials and supplies began rising in 1940 and continued upward at an accelerated pace until recently, it was not until July of 1946 that freight rates were increased. Railroad operating expenses, including taxes, have risen 93% in the 10 years since 1939. On the other hand, freight rates charged by the railroads have increased progressively beginning with a 6.5% rise in mid-1946 until now when the total increase is still only 51.7% over 1939. Passenger fares have gone up but 25.4% during the same period. While appeals were pending for rate increases we have watched expenses mount higher so that when the increase was granted its benefit had already been lost.

Difficulties of Railroads

With the slacking off of traffic volume since the war the railroads have been facing stiff competition from other forms of transportation. The railroads and the pipelines are the only public transportation not subsidized by Government aid. While we must spend huge sums for maintenance and real estate taxes on our roadbeds, the airlines, truck lines, and barge lines use facilities costing millions of dollars and paid for by the public treasury.

Airlines pay only nominal rent for the use of Federal and municipal airports, and nothing for the benefit of costly Government aids to air navigation and traffic safety control. The airlines receive more mail pay for carrying 6% of the first class mail tonnage than the railroads receive for carrying the remaining 94%.

While the truck lines pay license and gasoline taxes, sufficient to cover about 7% of the cost of building and maintaining our highway network, road engineers agree that 93% of the highway damage is caused by overloaded trucks traveling at dangerous and excessive speeds.

The Federal Government has already spent 2 billion dollars on our waterways to make them navigable and appropriations are pending to spend 2 billion more, yet no tolls have been charged for the use of the river channels or locks since 1880. The Government-owned Inland Waterways Corporation is presently seeking 18 million dollars in additional appropriations from Congress for the purchase of new barge equipment to operate their tax-exempt agency in competitive public transportation.

Recently a New York "Times" editorial pointed out that in spite of the fact that our transportation structure represents one-fifth of all the invested capital in the United States, for which our people pay 30 billion dollars annually for services, so far there has been no serious effort to formulate an over-all transportation policy to coordinate activities under centralized direction while preserving the driving force of private enterprise and competition.

Surely if such a policy were adopted and followed in operation, the plight of railroad profits would be greatly relieved. The railroads are not asking for Federal subsidies. All we ask is a chance for fair competition with other transportation agencies with a minimum of Federal Government interference. The increasing diversion of business from the railroads to other carriers could soon be reversed if the railroads had the same opportunities to adjust rates and the freedom from control now enjoyed by our competitors.

It has been said that Government regulation has been most effective in keeping the railroads from making too much money—but has not been equally effective in allowing them to earn enough.

We handled a record volume of freight and passengers during the recent war and have had good business through 1948. Much progress has been made by the railroads toward better service and greater efficiency of operation.

Capital expenditures for equipment and other improvements to railway property made by Class I railroads in 1948 totaled more than 1¼ billion dollars, the greatest amount spent for any year on record. Of course this sum purchased only about one-half as much as it would have 20 years ago, nevertheless, it represents a substantial amount of freight and passenger cars and diesel-electric locomotives, as well as heavier rail, automatic train control systems, signals and interlockers, improvements to freight and passenger stations, etc. We are spending every dollar available for these improvements which will not only result in better service, comfort and safety for the public but will enable us to reduce costs.

New methods, modern equipment and technological aids can bring about more profit for us and lower rates for you. The problem is to attract sufficient venture capital to permit this modernization program to progress. Our funds for capital expenditures under our present economy now come from a combination of only three sources:

1. Depreciation reserves,
2. Retained net profits, and
3. Public borrowing on equipment trust obligations.

It should not be necessary for me to remind you of the important role played by the railroads in the development of our great country. The railroad industry is justly proud of its record of service during the recent war and stands ready to act as the bulwark of our internal defense by its desire to remain economically healthy. Our strength like that of any business depends on an adequate profit. I am certain that none of you would call our average return of 3.62% on invested capital for the past 27 years adequate.

We have received many warnings from economists and writers that the railroad industry is threatened with public ownership or nationalization. If this should happen it will be due to inaction on the part of Government which could prevent such a catastrophe by permitting the railroads to earn reasonable profits. When Government ownership engulfed railroads in most of the other countries of the world, it took other forms of public transportation as well, and then by gradual process, the mines, public utilities and all other basic industries. It could happen here—but it need not happen.

The present prospects for business in this country have become clouded by the stock market shakedown, the rise in unemployment, and a general softening of price scales. The Communists would like to believe this is the start of a serious depression which will spread to all democratic nations in the world.

Depression, like many diseases, is psychological—one man feels sick because he sees a few others tottering. The experts in this country recognize the present situation as a healthy readjustment. We are returning from the war and postwar seller's market binge to a sober buyer's market with normal competition. If free enterprise is allowed to operate, confidence will be restored and our economy will have the healthful vigor that adequate profit can bring.

Investors and Managers —Forgotten Men

(Continued from page 6)

a 50-year period shows that rarely has the ratio been as low as at present. There has also been a striking divergence between stock and bond yields during the past decade. This spread has been widening, with irregular interruptions, since the great onslaught on ownership began around 1936. I believe the unhealthful condition of the equity capital markets is the inevitable consequence of tax discriminations.

Function of Capital Markets

In a study, "Economic Progress: Jobs and Taxes," to be published very shortly, we have enumerated the most important functions of the capital markets. One of them is that security prices as determined in the markets are important measures of value. A large part of the country's wealth today takes the form of corporate securities, and since a security is worth only what it will bring in the market, quotations are used in assessing the wealth of individuals, figuring estate tax liabilities, and determining the financial condition of business institutions. Security prices are also important to businessmen who wish to use corporate stocks and bonds as collateral for bank loans.

So much for generalities. Recently one of the most important metropolitan banks found it advisable to raise capital. Because of the state of the market, the offering had to be made at a price representing about two-thirds of conservative book value, so that the offering diluted the equity. Insurance companies have had similar experience in the last several years. Other companies, unwilling to accept what appeared to be unreasonably low prices for their stocks, have delayed stock financing, only to find themselves in a more disadvantageous position later on. Basically, it is almost impossible to interest savers in new ownership interests when they and their friends are trying to explain the mystery of stock prices of important companies which seem to be worth more dead than alive—in other words, as liquidating propositions rather than as going businesses.

Dangers of Present Tax Policies

We must stay continually alert to the danger of tax policies that discourage the risk-taking essential to enterprise and that cause both new savings and existing pools of funds to take shelter in "safe" investments. Unfortunately, a drying up of the supply of venture capital is not generally accompanied by spectacular danger signals of the sort that arouse people to action. The resulting deterioration in national productivity and living standards is not immediate or dramatic, but comes slowly and almost imperceptibly, and there is no specific way to compare the performance of the economy with what it might have been if investment had not been impeded. In fact, one of the ironical consequences of governmental policies that result in shutting off the flow of equity funds is to make it appear that the government itself is the only source of capital.

We hold firmly to the position that the surest road to economic progress is through the time-tested American system of individual enterprise and that our system is more compatible with freedom of individual action and democracy than any other. We are equally convinced that we must give that system a fair chance to survive and to prosper by removing the handicaps which certain features of our tax laws place upon it and which threaten to destroy the sources of its vitality.

Jobs—First Requisite

The nearly one and a half million young people who are completing their education this year are entitled to an opportunity to make themselves useful citizens, contributing through their own efforts to raising their living standards over those of the preceding generation. Their first requisite is jobs. Private industry can be relied on to provide an ever-increasing number of jobs and the tools necessary for such jobs when tax laws permit the necessary venture capital to be formed and encourage their constructive use.

In the study to which I have alluded, we have shown that two basic developments in our economy in recent decades are responsible for drying up the stream of risk capital. There are the increasing preference for security as contrasted with risk, and the constantly increasing portion of the national income passing through the hands of the Federal Treasury. Without losing sight of the Federal Government's revenue needs, we have offered two specific recommendations, the adoption of which would go a long way in correcting the tendencies which can only result in either arresting economic progress or in government financing of private industry, or both. These recommendations are:

(1) Make a start in eliminating the unjust double taxation of dividend income by allowing individuals to take a credit equal to 10% of their dividends on common stocks when computing their income tax liability.

(2) Revise the treatment of capital gains and losses by reducing the tax rate on long-term gains to 10%, increasing to $5,000 the amount by which capital losses can be offset against ordinary income each year, and shortening the holding period to three months.

The most appealing feature of these proposals, compared with other tax plans, is that little or no loss of revenue is involved, and a welcome interim period would be provided until a thoroughgoing revision of the whole Federal tax structure can be undertaken.

In conclusion, may I state a blunt truth:

Ownership Weakened

Ownership, which lies at the base of the whole economic structure, is threatened. When farmers were injured by forces of a general character in relation to the conditions affecting the rest of the country, farm parity was devised to correct the situation. When legislation lagged behind economic forces and labor was at a disadvantage, labor was granted the equivalent of parity treatment. What I am striving for, in effect, is merely fair treatment for ownership insofar as the extraordinary fiscal situation will permit. We cannot in this country at the present time cater to large-scale social and welfare demands —much as some of the proposals in restricted form may warrant our approval—and at the same time be militarily prepared and offer needed help to Europe in a world of uneasy peace. We can meet pressing social demands despite our large-scale obligations only if the country is prosperous.

You will note that I began this talk with a reference to the citadel of capitalism. I did so deliberately, for I am convinced we must cast aside half-hearted apology and a defensive attitude. The gift of freedom, by the only test worthy of the name, the acid test of experience, has not been the priceless heritage that we know it to be except where private ownership is encouraged and respected. As I have said elsewhere, there is another way, but he who pays the piper calls the tune. Who can look upon an expansion of government lending to business without the certainty that it must lead inevitably to the direction of industry and the allocation of resources, and finally the end of the freedom of both labor and ownership? We shall be remiss in our responsibility if we fail to do our part in the most urgent business at this moment— the business of explaining why job holders and job seekers have the greatest stake in removing the barriers to further economic progress.

Chicago Exchange Members

CHICAGO, ILL.—The Executive Committee of the Chicago Stock Exchange has elected to membership William B. Holton of Holton, Farra Co., Lexington, Ky., and Edmund W. Harrison of Harrison & Co., Cincinnati Ohio.

The State of Trade and Industry

(Continued from page 5)

of a concession is gained. Mr. Truman does not want a national steel strike and will do everything in his power to prevent one. It is probable that in the end he will have to resort to an injunction. The only thing that could prevent it would be a fact-finding report that would suit both the steel companies and the union and the chances of that are not good, "The Iron Age," national metalworking weekly states in its current summary of the steel trade.

Mr. Murray can hope that he will get favorable treatment, the trade magazine states, but this time the steel firms will buck harder than at any time since before the war against any attempt to raise wages, grant noncontributory pensions or agree to high social security demands. The economic pattern seems to favor the steel side with orders off, production declining and customers hammering at the price line. But with the government in the picture it may finally mean a compromise at some future date.

The situation in steel is radically different now than it was in 1946, 1947 or 1948 when wage increases were reluctantly granted, "The Iron Age" points out. There are three major points of difference: (1) Steel demand is weakening every day; (2) higher wage costs will either mean higher steel prices or forestall the kind of cuts that may appear necessary later on to stimulate business; (3) price increases didn't hurt steel demand during the past few inflation years but they would be rough on business in the current deflation.

The theory that a steel strike would so deplete steel users' inventories as to produce a boom in steel sales at the strike's end is partly wishful thinking. If basic steel is shut down many of its customers will also be struck by the steelworkers' union. The automobile industry, steel's No. 1 customer today, is an exception, this trade paper observes. The Big Three in Detroit have been putting pressure on their steel suppliers for weeks in efforts to build up inventories. They've been buying distressed sheet stocks and even purchasing big quantities from warehouses. As a result most Detroit motor car plants have 30 to 60-day steel stocks on hand.

But the question of how long the auto industry can go in the event of a steel strike probably rests with its parts suppliers. Many of them have unbalanced inventories and may have to depend on their customers to bail them out in case of a long strike. This could lead to a mad scramble for certain steel items which might bring the automobile industry grinding to a halt. On the other hand, concludes "The Iron Age," it would clear up excess finished goods inventories now in the hands of automotive parts suppliers and return them to the market for steel at the end of the threatened steel strike.

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 77.8% of capacity for the week beginning July 11, 1949, as against 61.2% in the preceding week, or an increase of 27.1%.

This week's operating rate is equivalent to 1,434,300 tons of steel ingots and castings for the entire industry, compared to 1,128,200 tons a week ago, 1,598,300 tons, or 86.7% a month ago, and 1,636,600 tons, or 90.8% of the old capacity one year ago and 1,281,210 tons for the average week in 1940, highest prewar year.

CARLOADINGS ADVERSELY AFFECTED BY COAL MINERS' ANNUAL VACATION PERIOD

Loadings of revenue freight for the week ended July 2, 1949, which included the coal miners' annual vacation period, totaled 644,182 cars, according to the Association of American Railroads. This was a decrease of 158,759 cars, or 19.8% below the preceding week. It also represented a decrease of 113,096 cars, or 14.9% below the corresponding week in 1948, but an increase of 14,978 cars, or 2.4% above the similar period in 1947, which included the July 4 holiday as well as the miners' vacation period.

ELECTRIC OUTPUT DROPS FURTHER IN PAST WEEK

The amount of electrical energy distributed by the electric light and power industry for the week ended July 9, was estimated at 4,982,173,000 kwh., according to the Edison Electric Institute. This represented a decrease of 428,219,000 kwh. below output in the preceding week, 221,857,000 kwh. or 4.7% higher than the figure reported for the week ended July 10, 1948, and 451,640,000 kwh. in excess of the output reported for the corresponding period two years ago.

AUTO OUTPUT LOWER DUE TO JULY 4th HOLIDAY

Production of cars and trucks in the United States and Canada the past week dropped as a result of the Fourth of July holiday to an estimated 116,878 units from last week's postwar record of 144,822 (revised) units, "Ward's Automotive Reports" states.

Volume production, enhanced by nine-hour shifts in some plants, offset production losses because of scattered walkouts because of the heat and kept the daily automotive assembly output at 29,000 units, Ward's reported.

The total for the week compares with 98,700 units a year ago and 114,318 units in the like week of 1941.

Last week's output consisted of 91,246 cars and 18,937 trucks built in the United States and 4,378 cars and 2,317 trucks in Canada.

BUSINESS FAILURES OFF IN HOLIDAY WEEK

Commercial and industrial failures declined in the holiday-shortened week ending July 7 to 153 from 177 in the preceding week, Dun & Bradstreet, Inc., reports. Although at the lowest level since January, casualties were considerably more numerous than in the comparable weeks of 1948 and 1947 when 88 and 82 occurred respectively. They were not as high, however, as in the corresponding week of prewar 1939 when 208 concerns failed.

Casualties involving liabilities of $5,000 or more fell to 123 from 147 last week, but exceeded the 71 of this size which occurred a year ago. Small failures, those with liabilities under $5,000, remained at 30; they were almost twice as numerous as in the similar week of 1948.

Retail, manufacturing, construction and commercial service failures declined in the week, while wholesale trade casualties rose to 19 from 13 last week. Both manufacturing and retailing had about twice as many failures as in 1948, while construction was the only industry group with fewer failures than a year ago.

WHOLESALE FOOD PRICE INDEX OFF 3 CENTS TO EQUAL YEAR'S MAY 17 AND FEB. 8 LOW

Down 3 cents from a week ago, the Dun & Bradstreet wholesale food price index registered $5.66 on July 5 to equal the low touched on two previous occasions this year—May 17 and Feb. 8. The current level represents a drop of 20.5% from the corresponding date a year ago when it stood at $7.12.

COMMODITY PRICE INDEX IN PAST WEEK ESTABLISHES FURTHER NEW LOW SINCE EARLY FEBRUARY, 1947

Trading volume in leading commodity centers was considerably slower during the past holiday week. The daily wholesale commodity price index, compiled by Dun & Bradstreet, Inc., fell to 237.39 on July 2, a new low since early February, 1947, and closed at 237.45 on July 5. This compared with 238.15 a week previous, and with 283.16 on the corresponding date a year ago.

Grain markets fluctuated irregularly in comparatively light trading. Demand for wheat was disappointing and prices worked lower despite a somewhat poorer crop outlook.

Corn offerings were small and prices held fairly steady. Oats and rye showed declines for the week. The outlook for the corn crop continues excellent. Domestic flour bookings remained small as large users continued to buy only for immediate and nearby requirements in the hope that expanded wheat marketings in the Southwest would bring about substantially lower prices.

Cocoa displayed a somewhat firmer trend as demand for actuals improved and offerings from primary markets continued light. The undertone in the coffee market remained strong, reflecting a tight statistical position. A moderate amount of new business was noted in the spot market at firm prices.

Consumer demand for butter remained slow but prices were steady to slightly higher as the result of better speculative interest and government support buying.

In the Chicago livestock market, demand for hogs was light in the face of relatively large market receipts; prices trended lower throughout the period. Cattle prices fluctuated unevenly and closed about 60 cents higher for the week, aided by improved pre-holiday demand from the East. Increased marketings of Spring lambs brought sharply lower bids from big packers and prices as a consequence were down sharply from a week ago. Lard and vegetable oils continued weak.

The cotton market developed a firmer undertone last week; spot prices at New York showed a net gain of about 30 points for the period.

Some of the supporting factors included the announcement of the mid-June parity price for cotton at the same level as a month previous, whereas a decline was generally looked for in the trade, and the possibility of a continuation of the 90% of parity loan rate on next year's crop.

Also lending support were reports of increased weevil infestation in parts of the cotton belt and the confirmation of the purchase of 60,000 bales of cotton by Spain. Carded gray cotton cloth markets continued quiet with most buyers withdrawn from the market at the approach of the holiday period.

RETAIL AND WHOLESALE TRADE VOLUME MAINTAINED AT A LEVEL MODERATELY UNDER LIKE PERIOD OF 1948

The interest of many consumers in vacation goods was stimulated by very warm weather in many parts of the nation the past week. Dollar volume of all retail purchases rose moderately in the period ended on Wednesday of last week, but was slightly below the high level of the corresponding week in 1948, Dun & Bradstreet, Inc., reports in its latest summary of trade. July clearance sales were started in many localities and shoppers generally responded favorably.

As temperatures climbed in many sections, the demand for lightweight apparel rose noticeably.

The retail volume of women's bathing suits, sun-dresses, shorts, skirts and housedresses increased moderately. Mark-down sales of men's shirts attracted considerable attention. Men's tropical worsted suits remained very popular and promotions of rayon suits evoked the interest of many shoppers.

Total retail purchases of food were about equal to those of the preceding week with unit volume practically unchanged from the high level of a year ago.

Housewives displayed a slackened interest in large meat cuts, though canned meats and picnic items were in substantial demand. Dairy foods and fresh fruits were very popular and demand for canned and bottled beverages rose seasonally.

While interest in furniture and large appliances dipped slightly, the demand for other home furnishings rose noticeably. Small kitchen appliances, electric fans, refrigerators, fiber rugs and curtains were sold in an increased volume. The retail volume of automobile accessories and sporting goods also rose moderately. The sales of new automobiles continued to be above those of a year ago.

Total retail volume in the period ended on Wednesday of last week was estimated to be from 1 to 5% below a year ago.

Regional estimates varied from the levels of a year ago by the following percentages: New England 0 to —4; East —2 to +2; South and Southwest —1 to —5; Midwest —4 to —8; Northwest and Pacific Coast —2 to —6.

The number of buyers attending wholesale markets fell considerably from the previous week, but was slightly above the level of a year ago.

As many businesses closed for the long holiday week-end, the dollar volume of wholesale orders dipped moderately in the week and continued to be somewhat below the high level of the comparable week in 1948.

Department store sales on a country-wide basis, as taken from the Federal Reserve Board's index for the week ended July 2, 1949, decreased by 11% from the like period of last year and compared with a decrease of 6% in the preceding week. For the four weeks ended July 2, 1949, sales registered a decrease of 7% from the corresponding period a year ago and for the year to date a decline of 4%.

Retail trade here in New York last week suffered a sharp contraction in dollar volume when compared with one year ago. Estimates for department stores place the decline at about 20%.

According to the Federal Reserve Board's index, department store sales in New York City for the weekly period to July 2, 1949, declined by 15% from the same period last year. In the preceding week a decrease of 7% was registered below the similar week of 1948. For the four weeks ended July 2, 1949, a decrease of 10% was reported under that of last year. For the year to date volume decreased by 7%.

Securities Now in Registration

● **INDICATES ADDITIONS SINCE PREVIOUS ISSUE**

● **All States Oil & Gas Co., Washington, D. C.**
June 28 (letter of notification) 280,000 shares (50¢ par) common stock. **Price**—$1 per share. No underwriter. To drill new wells and complete wells, for general corporate purposes. Office—327 Southern Bldg., Washington, D. C.

● **Associated Development Research Corp., N. Y.**
July 1 (letter of notification) 50,000 common shares (par $1) offered for subscription by stockholders of record July 8 in ratio of one-for-2½ at $2 per share. Rights expire July 22. Stock donated to company by large stockholder and proceeds will be used for general corporate purposes. Underwriting, none.

● **Bay Brook Oil & Gas Co., Inc., Brooklyn, N. Y.**
July 6 (letter of notification) 100,000 shares of capital stock. **Price**—$1 per share. No underwriters. To be used for oil development. Office, 47 President St., Brooklyn, N. Y.

Berry Motors, Inc., Corinth, Miss.
June 21 (letter of notification) about 4,300 shares (no par) common stock. To be sold for the benefit of R. Howard Webster, Montreal, Quebec, Canada at $11 or $12. **Underwriter**—Gordon Weeks & Co., Memphis, Tenn.

● **Big Tree Timber Co., Samoa, Calif.**
July 5 (letter of notification) corporate notes in the amount of $20,000. No underwriter. Proceeds to be paid on minimum annual timber payments. Office, P. O. Box 462, Samoa, Calif.

● **Capital City Telephone Co., Jefferson City, Mo.**
July 5 (letter of notification) 3,000 shares of 4½% preferred stock ($100 par). Price, par. No underwriters. To redeem outstanding 6% and 7% preferred stock. Office, 319 Madison St., Jefferson City, Mo.

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 Electric & Gas Co. (7/20)
June 29 filed 132,874 shares ($3.50 par) common stock. **Underwriters**—Paine, Webber, Jackson & Curtis and Stone and Webster Securities Corp., New York. Price and underwriting terms by amendment. **Proceeds**—to finance an $8,400,000 expansion program for two telephone subsidiaries.

Central Ohio Light & Power Co., Findlay, Ohio
June 17 filed 25,240 shares ($10 par) common. **Offering**—To be offered to common stockholders at the rate of one-for-five. **Underwriter** — None. The First Boston Corp. withdrew as underwriter. **Proceeds**—For construction.

● **Century Shares Trust, Boston**
July 8, filed 200,000 trust shares (par $1). Price, market. **Underwriter**—Harriman Ripley & Co., Boston. **Proceeds**—For investment.

Chicago Pump Co.
June 20 (letter of notification) 29,000 shares of 70-cent cumulative preferred stock. **Price**—$10 per share. **Underwriter**—Straus and Blosser, Chicago. To retire an interim loan of $250,000. Office, 2336 Wolfram Street, Chicago.

Citizens Credit Corp., Washington, D. C.
June 22 (letter of notification) 2,800 shares of Class A common stock ($12.50 par) and 1,400 shares (25¢ par) Class B common stock. To be offered in units of two shares of Class A and one of Class B stock for $29.75 per unit. Underwriter—Emory S. Warren & Co., Washington, D. C. **Proceeds**—General corporate purposes, including establishment of a small loan office in Mt. Rainier, Md.

Columbia Gas System, Inc., New York (7/26)
June 29 filed $13,000,000 debentures, due 1974. **Underwriters**—Names to be determined through competitive bidding. Probable bidders: Morgan, Stanley & Co.; Halsey, Stuart & Co. Inc.; Merrill Lynch, Pierce, Fenner & Beane; Lehman Brothers and Goldman, Sachs & Co. and Union Securities Corp. (jointly); Salomon Bros. & Hutzler. **Proceeds**—To finance construction program. Expected July 26.

Cooperative G. L. F. Holding Corp., Ithaca, N. Y.
June 29 filed 44,088 shares 4% cumulative preferred stock. **Offering**—To be offered at $100 to farmer and non-farmer patrons of the G. L. F. Exchange and its affiliates. **Underwriting**—None. **Proceeds**—To replenish working capital.

Cooperative Grange League Federation Exchange, Inc., Ithaca, N. Y.
June 29 filed 1,200,000 shares ($5 par) common stock. **Offering**—To be sold to members and farmer patrons. **Underwriter**—None. **Proceeds**—To be added to working capital and used for general corporate purposes, including payment of $12,693,000 in loans to an affiliate, Cooperative G. L. F. Holding Corp.

● **Crescent Junction Exploration Co., Las Vegas, Nevada**
July 8 (letter of notification) 1,500,000 shares (10¢ par). No underwriters. To defray cost of exploratory drilling and development work. Office, P. O. Box 1228, Las Vegas, Nev.

● **Den Orado Industries, Inc., Denver, Colo.**
July 7 (letter of notification) 91 units of an oil lease at $250 a unit. No underwriters. Proceeds to pay general operating expenses, including salaries. Office, 1117 11th Street, Denver, Colo.

● **Durham Aircraft Service, Inc., New York**
July 1 (letter of notification) 40,000 common shares (par $1). Price, par. No underwriting. Working capital.

● **Duval's Concensus, Inc., New York**
June 22 (letter of notification) 10,000 shares of 5% cumulative preferred stock. Price, $5 per share. Underwriting, none. Working capital, etc. Office, 13 West 46th St., New York 19, N. Y.

Economy Forms Corp., Des Moines, Iowa
June 27 (letter of notification) 7,500 shares of preferred stock, of which 6,000 shares will be publicly offered and 1,500 shares will be offered to officers and employees without underwriting. **Price**—$25 per share to public, $23.75 per share to employees. **Underwriters** — T. C. Henderson & Co. and Wheelock & Co., Des Moines, Iowa. To buy additional equipment, plant additions, etc.

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.

● **Federal Services Finance Corp., Wash., D. C.**
July 7 (letter of notification) 2,930 shares (no par) common stock. **Price**—$45 a share. No underwriters. Operating capital for finance business. Office, 718 Jackson Place, N. W., Washington, D. C.

● **Financial Industrial Fund, Inc., Denver**
July 5 filed 2,300,000 shares of common stock (par 1c). **Underwriter**—Investment Service Corp. Price, market. **Proceeds**—For investment.

● **Financial Industrial Fund, Inc., Denver**
July 5 filed systematic investment certificates, periodic payment, the aggregate not to exceed $2,500,000, and cumulative investment certificates, fully paid, the aggregate not to exceed $300,000. **Underwriter**—Investment Service Corp. **Proceeds**—For investment.

Florida Power & Light Co. (7/19)
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. **Bids**—Bids for purchase of the bonds will be received up to noon (EDT) July 19 at 2 Rector Street, New York.

● **Gas Industries Fund, Inc., Boston, Mass.**
July 7 filed 340,000 shares ($1 par) common stock. Price, at market. **Underwriter**—Colonial Associates, Inc. **Proceeds**—For investment.

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 $1,060,000 promissory note owed by corporation to its sole stockholder, Glenn E. Nielson of Cody, Wyo.

● **Geneva (Ohio) Telephone Co.**
July 8 (letter of notification) $125,000 15-year 3¼% first mortgage bonds, series A, due July 1, 1964. **Underwriter**—The Ohio Co., Columbus, Ohio.

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.

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.

● **Huyck (F. C.) & Sons, Rensselaer, N. Y.**
June 24 (letter of notification) 1,000 common shares (par $5) and 500 class A preferred stock. Price, common, $36, and preferred, $55 per share. Underwriting, none. Reimburse company for cash spent in 1948 to purchase this stock.

● **Ice-Flo Corp., New York**
June 28 (letter of notification) 35,000 shares common stock (par 5c). Price, $2 per share. Underwriting, none. General working capital. Office, 160 Broadway, New York.

● **Idaho Maryland Mines Corp., San Francisco**
July 7 (letter of notification) 9,000 shares of common stock. **Price**—$1.80 a share. Offering to be made by Errol Macboyle of San Francisco. **Underwriter**—E. F. Hutton & Co.

Illinois Power Co., Decatur, Ill. (7/26)
June 30 filed $15,000,000 first mortgage bonds, due 1979. **Underwriters**—Names to be determined through competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Harriman Ripley & Co. and Glore, Forgan & Co. (jointly); The First Boston Corp. **Proceeds** — To repay short-term bank loans made to finance construction.

● **Increte Industries, Inc., Pittsburgh**
June 23 (letter of notification) 500 shares of class A stock (par $100). Price, par. Underwriting, none. Working capital.

● **Insurance Finance Co., Inc., Kensington, Md.**
July 8 (letter of notification) 1,000 shares of common stock to be offered at $10 a share and 1,000 shares of preferred stock, to be offered at $25 a share. No underwriters. Working capital.

Inter County Telephone & Telegraph Co., Fort Myers, Fla.
June 27 (letter of notification) 4,500 shares ($25 par) 5% cumulative preferred stock. Price, par. **Proceeds**—To improve the company's property. **Underwriter** — Florida Securities Co., St. Petersburg, Fla.

● **Jennison, Taylor & Co., Inc., New York**
June 24 (letter of notification) 1,000 common shares (par $1); 500 shares 4% cumulative preferred stock (par $100), and $50,000 10-year 1½% bonds. Price, par. Underwriting, none. Operation of business. Office, 149 East 61st St., New York.

● **Judea Development Corp.**
June 23 (letter of notification) 19,250 class A preferred (par $10), 90 shares common (par $50) and 5,000 shares class B non-preferred (par $10). Price, each class, par. Underwriting, none. To engage in commercial enterprises in Israel, etc. Office, 1133 Broadway, New York.

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.

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.

● **Kingswood Films, Inc., New York**
July 6 (letter of notification) 290,000 50c voting common shares (par $1). Price, par. Underwriting, officials and shareholders of company. Acquisition of equipment and facilities. Office, 301, 25 W. 73d Street, New York 23, N. Y. Communications and inquiries should be addressed to Barclay's Bank (Dominion, Colonial and Overseas), 120 Broadway, New York.

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,

NEW ISSUE CALENDAR

July 19, 1949

Chicago Great Western Ry. Noon (CDT)	Equip. Trust Ctfs.
Florida Power & Light Co., Noon (EDT)	Bonds
New Jersey Power & Light Co. Noon (EDT)	Bonds
St. Joseph Lt. & Power Co., 11 a.m. (CDT)	Bonds

July 20, 1949

Central Electric & Gas Co.	Common
New England Power Co.	Bonds
Kansas City Southern Ry.	Equip. Trust Ctfs.

July 26, 1949

Columbia Gas System Inc.	Debentures
Illinois Power Co.	Bonds

July 27, 1949

Worcester County Electric Co.	Bonds

par and interest. Retire $55,396 first mortgage bonds, working capital.

● **Lewis and Kaufman, Inc., Los Gatos, Calif.**
July 5 (letter of notification) 3,700 shares ($10 par) common stock. Price, par. No underwriters. To expand facilities for repair of vacuum tubes. Office, 90 El Rancho Ave., Los Gatos, Calif.

Lucky Stores, Inc., Oakland, Calif.
June 27 filed 400,000 shares ($1.25 par) common stock. **Underwriter**—Names by amendment. **Proceeds**—Shares being offered on behalf of Blair Holdings Corp.

● **Macco Corp., Paramount, Calif.**
July 5 (letter of notification) 1,000 shares ($1 par) common stock. **Price**—About $5 per share. **Underwriter**—Edward A. Pellegrin, 1611 Fletcher Ave., South Pasadena, Cal.

● **Maracaibo Oil Exploration Corp.**
June 30 (letter of notification) 49,500 shares of capital stock (par $1). **Price**—$5 each. **Offering** — Offered for subscription by stockholders of record July 13 in ratio of one new share for each eight shares held. Rights expire Aug. 9. Underwriter, none but Alfred J. Williams, President, has agreed to exercise rights to buy 1,487 shares and his wife 651 shares, to which their holdings entitled them. Mr. and Mrs. Williams will buy 17,862 more shares if other stockholders don't buy this much. **Proceeds**—To develop properties in Louisiana, Texas and Kansas.

● **Merrimack Playhouse, Inc., Concord, N. H.**
July 7 (letter of notification) $20,000 6% cumulative preferred stock (no par). **Price**—$50 a share. No underwriters. Finance dramatic productions. Office, 88 N. Main Street, Concord, N. H.

● **Mechanics Finance Co., Jersey City**
June 30 (letter of notification) 25,000 shares of preferred (par $10) and 4,000 shares of class A common. Price, preferred, par; common, $12.50 per share. Underwriting, none. Working capital.

● **Mellin's Food Co. of North America, Boston**
June 30 (letter of notification) 1,000 shares of 5% cumulative preferred stock ($100 par) and 500 shares ($10 par) common stock. **Price**—$200 for a unit of two preferred and one common shares. No underwriter. For inventory and advertising. Office, 41 Central Wharf, Boston, Mass.

● **Middle States Telephone Co. of Illinois**
July 6 (letter of notification) 968 shares of common stock. **Price**—$14 a share. Middle States is making the offering on behalf of Central Telephone Co. No underwriters.

Mutual Telephone Co. (Hawaii)
June 7 filed 150,000 shares ($10 par) convertible preferred stock, series B. **Offering** — Offered initially to holders of the common stock June 20 in the ratio of one preferred share for each five of common held at $10 per share (flat). Rights expire July 20. **Underwriter**—Kidder, Peabody & Co. **Proceeds** — Proceeds will be used for construction and expansion which in 1949 will involve expenditure of about $4,340,500.

New England Power Co., Boston (7/20)
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 20.

New Jersey Power & Light Co.
June 9 filed 20.000 shares ($100 par) cumulative preferred stock. **Underwriters**—Names to be determined through competitive bidding. Probable bidders: 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. Sale deferred until later this year.

New Jersey Power & Light Co. (7/19)
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: Halsey, Stuart & Co. Inc.; Equitable Securities Corp.; Union Securities Corp.; Carl M. Loeb, Rhoades & Co.; Otis & Co.; Kidder Peabody & Co.; Salomon Bros. & Hutzler. **Bids**—Bids for purchase of the bonds will be received up to noon (EDT) July 19 at room 2401, 61 Broadway, New York. **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.

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.

● **Northern States Power Co. (Minn.)**
July 8 filed $15,000,000 first mortgage bonds, series due Aug. 1, 1979. **Underwriters**—To be determined through competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Lehman Brothers and Riter & Co. (jointly); Equitable Securities Corp.; Merrill Lynch, Pierce, Fenner & Beane; Union Securities Corp.; Glore, Forgan & Co.; Smith, Barney & Co. **Proceeds**—Will provide part of the new capital needed for company's construction program.

● **Oil Hunters, Inc., Fort Worth, Texas**
June 28 (letter of notification) 750,000 shares (10¢ par) common stock. **Price**—10 cents. To maintain an oil company. No underwriter. Office, 203 Majestic Bldg., Fort Worth, Texas.

● **Pacific Outdoor Advertising Co., Los Angeles**
July 1 (letter of notification) 1,000 shares (no par) common stock. **Price**—$50 each. No underwriter. For general corporate purposes. Office, 995 North Mission Road, Los Angeles 33, Calif.

Palestine Cotton Mills, Ltd., Tel Aviv, Israel
June 29 filed 300,000 ordinary (common) shares, one (Israeli) pound par value. **Underwriter**—The First Guardian Securities Corp., New York. **Price**—$5 each. **Proceeds**—To expand weaving facilities.

● **Pearl Harbor Cooperative Association, Inc., Honolulu**
June 27 (letter of notification) $230,000 common stock. **Price**—$50 per share. No underwriter. To build, equip and stock complete supermarket. Office, P. O. Box 982, Honolulu 18, Hawaii.

● **Philadelphia Reserve Supply Co.**
June 24 (letter of notification) 1,520 5% cumulative preferred stock and 65 shares of common stock. Price, $100 per share. Underwriting, none. Working capital and debt reduction. Office, Luzerne and F Sts., Philadelphia, Pa.

● **Pitney-Bowes, Inc., Stamford, Conn.**
July 8 (letter of notification) 10,000 shares of common stock. **Price**—$8.54 a share. No underwriter. Stock is to be sold to employees only.

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**—P. G. Cranwell & Co., New York. **Proceeds**—For administration expenses and drilling. Statement effective June 27.

● **Rose Hillis Memorial Park, Whittier, Calif.**
July 5 (letter of notification) $294,500 20-year 3½% convertible debentures. No underwriters. Working capital and new cemetery property acquisition. Office, P. O. Box 110, Whittier, Calif.

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. **Bids** — Bids for purchase of bonds will be received by company at Suite 2200, 105 West Adams St., Chicago, up to 11 a.m. (CDT) July 19.

Spring Coulee Perpetual Royalty Trust, Alberta, Canada
June 30 filed 1,120 units of non-producing landowners royalty trust certificates, at $247.50 a share. **Underwriter**—Thomas G. Wylie Co., New York City. **Proceeds**—For development purposes.

Suburban Gas Service, Inc., Ontario, Calif.
March 31 (letter of notification) 4,000 shares ($25 par) series B preferred and 20,000 shares ($1 par) common—issuable upon conversion of preferred. **Price**—Preferred $25 per share. **Underwriters**—Wagenseller & Durst, Inc., and Lester & Co. To buy Antelope Liquid Gas Co.

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.

● **Topside Oil Corp., Denver**
July 1 (letter of notification) 1,000,000 shares of Series A capital stock (10¢ par) at 25 cents; 100,000 shares of the same stock reserved as a "bonus," and 100,000 shares at 10 cents to the stockholders of Topside of record May 1, 1949. No underwriter. To drill and equip oil wells in Colorado. Office, 838 Symes Bldg., Denver, Colo.

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.

● **U. S. Rubber Reclaiming Co., Inc., New York**
June 29 (letter of notification) $100,000 5% notes, 1,000 options to purchase 15,000 shares of convertible cumulative preferred stock and 15,000 shares of convertible cumulative preferred stock. Notes will be offered at par and interest for subscription by stockholders and Ladenburg, Thalmann & Co. and Milton Dammann, as underwriters, will purchase and hold as investment any notes not taken by stockholders. Each $100 unit will carry an option to purchase 15 shares of convertible cumulative preferred stock at $6 per share. Subscriptions to note are payable before 3 p.m., Aug. 15, next. Proceeds for working capital.

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.

● **Warren (Ohio) Telephone Co.**
July 5 (letter of notification) 3,000 shares (no par) $5 dividend preferred stock. **Price**—$100 a share. No underwriters. To help capitalize $587,226.05 worth of hitherto uncapitalized expenditures.

● **Washington Theater & Opera Co., Washington, D. C.**
June 27 (letter of notification) 1,700 shares of preferred stock. **Price**—$25 per share. No underwriter. To buy property and equipment and provide working capital for the staging of theatrical productions. Office, 452 Washington Bldg., Washington 5, D. C.

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.

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.

● **Woodruff (S. D.) & Sons, Inc., Orange, Conn.**
July 5 (letter of notification) $35,000 of 5% debentures, due 1964. **Underwriter**—Day, Stoddard & Williams, New Haven, Conn. To liquidate indebtedness and for additional working capital. Office, Old Grassy Hill Road, Orange, Conn.

Worcester County Electric Co. (7/27)
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. Expected July 27.

● **Workers Finance Co. of North Bergen**
July 12 (letter of notification) $150,000 6% cumulative deferred debentures, due in 20 years. Price, par. No underwriting. To make small loans.

Prospective Offerings

Arkansas Power & Light Co.
June 29 reported company plans sale in September of $8,700,000 bonds. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; White, Weld & Co.; Lehman Brothers and Stone & Webster Securities Corp. (jointly); Equitable Securities Corp.

California Oregon Power Co.
June 27 reported company may issue $7,500,000 bonds for expansion purposes. Probable bidders: Shields & Co. and E. H. Rollins & Sons (jointly); Halsey, Stuart & Co. Inc.; Merrill Lynch, Pierce, Fenner & Beane and Kidder, Peabody & Co. (jointly); Lehman Brothers; Blyth & Co., Inc. and The First Boston Corp. (jointly).

California Oregon Power Co.
Company has applied to the California P. U. Commission for exemption from competitive bidding on a

(Continued on page 34)

(Continued from page 33)

proposed issue of 250,000 additional common shares. Proceeds from sale would be used to repay loans and for expansion. Probable underwriters: Blyth & Co., Inc. and The First Boston Corp.

Chicago Great Western Ry. (7/19)
Company will receive bids up to noon (CDT) July 19 at its office, 309 West Jackson Boulevard, Chicago, for the sale of $6,150,000 equipment trust certificates, due semi-annually Jan. 15, 1950-July 15, 1964. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Harris, Hall & Co. (Inc.); Harriman Ripley & Co. and Lehman Brothers (jointly); The First Boston Corp.; Lee, Higginson Corp.

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.

Iowa Southern Utilities Co.
Aug. 9 stockholders will vote on creating an issue of $3,000,000 cumulative preferred stock and increasing the authorized common from 360,000 shares to 560,000. Company plans to sell as much of the preferred issue as "can be marketed on advantageous terms."

Kansas City Southern Ry. (7/20)
The company will receive bids July 20 for the purchase of $3,990,000 of equipment trust certificates. Bidders are to submit alternative proposals covering certificates maturing half yearly over a 12-year period and certificates maturing over a 15-year period. Probable bidders: Halsey, Stuart & Co. Inc.; Harriman Ripley & Co. and Lehman Brothers; Salomon Bros. & Hutzler; Harris, Hall & Co (Inc.).

• **Louisiana & Arkansas Ry.**
July 8 reported company plans sale at an early date of about $5,700,000 equipment trust certificates. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Harris, Hall & Co. (Inc.); Lee Higginson Corp.

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.
July 1 this company, recently organized, will be publicly financed, to build a pipe line costing $8,000,000, 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. Company proposes to sell $6,000,000 3½% first mortgage bonds. Probable underwriters: Blyth & Co., Inc.; Merrill Lynch, Pierce, Fenner & Beane.

Pacific Power & Light Co.
June 28 company contemplates the issuance by Nov. 15, next, of approximately $7,000,000 additional first mortgage bonds to retire outstanding notes and to finance its construction program. Probable bidders: Halsey, Stuart & Co. Inc.; Lehman Brothers and Riter & Co. (jointly); Equitable Securities Corp.; Merrill Lynch, Pierce, Finner & Beane; Union Securities Corp.; Glore, Forgan & Co.; Smith, Barney & Co.

Pennsylvania Power & Light Co.
June 29 company reports that additional financing will be undertaken to finance construction program. It is expected to take the form of an issue of 75,000 preferred shares. Traditional underwriters: Drexel & Co. and The First Boston Corp.

• **Rochester Gas & Electric Corp.**
July 11 General Public Utilities Corp. applied to the SEC for authority to dispose of its stock interest in the Rochester Gas & Electric Corp. GPU stockholders would be offered prior subscription rights to the Rochester Gas stock. As owner of all 775,914 shares of Rochester stock now outstanding, GPU would cause Rochester to reclassify the stock into 835,000 shares at a stated value of $24 a share. Details of the proposed distribution of the 835,000 shares, including the record date, subscription price and other terms are to be supplied by amendment. Unsubscribed shares would be offered for public sale.

• **Teco, Inc.**
Under the terms of a proposed contract between Zenith Radio Corp. and Teco, Inc., to be considered at the annual meeting of stockholders of Zenith Radio Corp. to be held on July 26, Teco, Inc. will, if such contract is approved at such meeting, become obligated to offer, (upon effective registration) to holders of common stock of Zenith of record July 15, the right to subscribe, at $10 per share, for stock ($10 par) of Teco, Inc., to the extent of one share for each five shares held. The contract provides that the right to subscribe will expire 20 days after the offer is made. Under the terms of the proposed contract, Teco, Inc. will agree that, unless its entire authorized capital of $1,000,000 shall have been obtained through the sale of its stock within seven months after such stock shall first have been offered for sale, the amounts paid by subscribers will be returned after deducting certain expenses.

• **Telluride Power Co., Salt Lake City**
July 8 FPC authorized company to issue 3,000 shares (par $100) 6% preferred stock, to be offered for subscription by stockholders at par. Any unsubscribed stock is to be sold without limit to stockholders and employees. Proceeds for construction.

Union Gas System, Inc.
Company is offering preferred stockholders the right to buy 2,000 preferred shares at $100 a share in ratio of two new shares for each five shares held and 7,000 common shares at $11 per share in ratio of one common for each share of preferred owned. The offer expires July 5. Stock not purchased by preferred holders will be underwritten by an investment group (probably Beecroft Cole & Co., Topeka, Kan.), and offered to the public. The price of the public offering will be $102 a share for preferred and $11.25 a share for common.

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. The SEC has scheduled a hearing for July 6 upon the proposed sale of this stock and the request for exemption from competitive bidding.

• **Wheeling & Lake Erie Ry.**
July 11 company asked ICC permission to sell competitively $6,870,000 series B general & refunding mortgage bonds, dated Aug. 15, 1949, due Aug. 15, 1974. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp. and Kidder, Peabody & Co. (jointly); Harriman Ripley & Co.; Salomon Bros. & Hutzler; Shields & Co. and Harris Hall & Co. Inc. (jointly).

Impediments to Free Flow of Risk Capital

(Continued from page 7)

that laid the golden egg. It is reasonable to assume that the members of Congress realize that our present taxes are drying up the well springs of investment from which flow jobs and production and that this, in turn, means less real income for the Government and less real wealth for everyone. It would, therefore, seem very simple to get this tax structure revamped along lines that would stimulate the economy. But this, again, is naive thinking. The public doesn't understand the effect of the Robin Hood philosophy of redistribution of wealth on capital formation. It, of course, doesn't understand the role of capital formation and its productive use in a free society. The public likes the Robin Hood idea in taxes and will continue to do so until it receives a truly effective grounding in fundamental economics. The members of Congress are naturally going to be responsive to what the public wants.

Another important impediment is the attitude of the Administration toward business, particularly the financial section of business. I'm sure I don't have to elaborate on the effect that this has on our financial markets. Political slogans such as "Wall Street Gluttons of Privilege" coming from high officials in the Administration have a Kremlin ring about them and are class hatred breeders of an insidious character. Mr. Stalin was quoted by the Baltimore "News" last winter as saying that this is an era of Communism, not of Wall Street. Which side are *we* on, anyway? Can it be possible that our Government leaders do not know that our financial markets are made in Main Street and that Wall Street, as such, is only the major clearing house of our financial community — certainly not the community itself. Here again the real trouble is a lack of public understanding. The politician may know better, but he is going to say what the people want to hear. Don't forget this—any move that investment banking makes will be from Main Street to Pennsylvania Avenue. The public must understand this and make the choice.

Government Laws and Regulations

Not to be confused with the Administration's attitude toward finance, but historically growing out of it, is the impediment of Government laws and regulations. The securities business does not quarrel with the basic purposes of the Securities Acts, but we do believe the Acts need changes which will permit a freer flow of much needed capital. I am glad to say that the Administrators of these Acts are likewise concerned with this phase of our problem, and it is heartening to report that this is one field in which there are encouraging signs of progress. No less important is the progress being made in your own part of the regulatory process. Avoiding duplication, cutting down red tape, and bringing into operation as much uniformity as possible are objectives which cannot be accomplished too soon.

Another serious impediment is one that lies at the door of many of our industrial leaders in their concept of the responsibility of management toward stockholders—the real owners of the business. This involves the whole field of dividend policy, pension plans, and general stockholder relationships.

Over-Emphasis on Security

We can also trace part of the problem back to the over-emphasis on economic security. A great many of our young men, bred in this philosophy, who are knocking at the doors of industry for jobs, are more interested in pension plans than anything else. This attitude is a dark cloud on the horizon of any dynamic economy. The prospective provider of equity capital takes stock of these pension plans and dives back into his own hole of riskless investment.

I have heretofore spoken about the impediments whose removal requires the active cooperation of the public, the Government and all industry. The final, being a highly important factor, is one that our own investment business is responsible for, and we are the only ones who can do anything about it. I am talking about the various internal problems of our own merchandising—in particular, the archaic form, the defensive concept of profits, the wheel-spinning of our activities from the standpoint of playing our role in economic society, and the very serious manpower problem. Time does not permit an elaboration of these, but I can assure you that many of us are conscious of them and are doing all that we can to make our business conscious of them, and find a real solution for at least this part of the over-all problem.

Widespread individual ownership of securities can be a tool of great potency in strengthening our democratic processes. The opportunity is here, because of the much broader base of ownership of wealth, to solidly put these owners in the fighting ranks for a free economy. This cannot be done by an institutionalization of their savings because this is only a predicate for more Government power and, therefore, a gradual socalization of our enterprise. It can only be done through a direct ownership of this enterprise by the American people. While these many difficulties I have mentioned stand in the way if each of us does his part I still have high hopes for the accomplishment of this task.

Observations

(Continued from page 5)

of their past performance record could be similarly challenged, but whose records are nevertheless included.

In fact, the market recognizes this fallacy to some extent, as seen in the non-correlation of the closed-end companies' discounts with performance. State Street, a temporarily closed-end company, has consistently sold at a premium over-the-counter; whereas other closed-end funds with better investment result performance sell at discounts of between 10 and 35%.

Neglect of Closed-Ends

Following the times in the trust field, this latest edition has increased the relative emphasis devoted to the open-end funds, overweighting their advantages as contrasted with the closed-end units. This year discussion of the closed-end field is relegated to the rear of the book, and nowhere are their numerous relative advantages and greater investment value adequately mentioned.

Glorifying the American Trust

Also "in line with the times," the Wiesenberger book conforms to the general over-selling tendency, in "glorifying" the trusts, and comparing them with other "sacrosanct" investment media such as life insurance and government bonds, which in reality are different "breeds of pups." This tendency is epitomized in the book's frontispiece, designed by Rockwell Kent, which shows the temple of "Security" resting on four pillars designated as "Life Insurance," "Savings Banks," "Government Bonds," and "Investment Companies." Constructive restraint on the industry's excessive enthusiasms will no doubt be exercised by the newly-formed Mutual Fund Institute under the direction of Mr. Paul Bartholet.

Although Mr. Wiesenberger's book represents a masterful and voluminous statistical achievement, some of its methodology reflects industry practice which is open to question. For example, in showing the comparative expense ratios, in cases of leverage trusts the interest item is excluded from the expense total although the additional assets and income which it has brought in are included in the base on which the asset and income ratios are calculated.

The public's uncertainty over the nomenclature of this new American industry is typified by the book's title, "Investment Companies." Although this designation is technically correct, per the SEC legislation, it is confusing to the public at the consumer level. "Mutual Fund" or merely "Fund" seems to more apt, and not prone to imply some other functioning in the investment field. It is hoped that this will be taken into account in the elaborate advertising campaign scheduled to be launched next Fall.

Taft Says Atlantic Pact Will Promote War

(Continued from first page)

In support of his attitude, Senator Taft stated:

"It is with great regret that I have come to the conclusion that I cannot vote in favor of ratifying the North Atlantic Treaty because I think it carries with it an obligation to assist in arming at our expense the Nations of Western Europe, because with that obligation I believe it will promote war in the world rather than peace, and because I think that with the arms plan it is wholly contrary to the spirit of the obligations we assumed in the United Nations Charter. I would vote for the Pact if a reservation were adopted denying any legal or moral obligation to provide arms.

"The purpose of American foreign policy, as I see it, is to maintain the freedom of the people of this country and, insofar as consistent with that purpose, keep this country at peace. We are, of course, interested in the welfare of the rest of the world because we are a humane nation. Our huge economic aid however is based more on the belief that a world which is prosperous and well off is less likely to engage in war than one in which there are great inequalities in the economic condition of the people.

"In the past, we have considered that the best method of preserving the peace and security of this country is the maintenance of of American armed forces sufficient to defend us against attack, and a wise diplomatic policy which does not antagonize other nations. These still are the main essentials to the maintenance of peace.

"But as the world shrinks in size, as new weapons are developed, as we inevitably become more involved in the affairs of other countries, it has become apparent that these weapons alone will not assure peace. And so we have committed ourselves to the principle of an association of sovereign nations banded together to preserve peace by preventing and punishing aggression. In the United Nations Charter we accepted the principle that we would go to war in association with other nations against a nation found by the Security Council to be an aggressor. This was a tremendous departure from our previous policy, but one which I have always urged and approved from the days of the League of Nations. I believe that all nations must ultimately agree to an international law defining the duties and obligations of such nations, particularly with reference to restraint from aggression and war. I believe that there should be international courts to determine whether nations are abiding by that law, and I believe that there should be a joint armed force to enforce that law and the decisions of that court. I believe that in the end, the public opinion of the world will come to support the principle that nations like individuals are bound by law, and will insist that any nation which violates the law be promptly subjected to the joint action of nations guided by a determination to enforce the laws of peace.

"It is quite true that the United Nations Charter as drafted does not as yet reach the ideals of international peace and justice which I have described, but it goes a long way in that direction. It is defective principally because any one of the large nations can veto the action of the Security Council, and because there is not sufficient emphasis on law and justice as a guide to the action of the Council. But we have advised the President that prompt action should be taken to improve the Charter. Senate Resolution No. 239, adopted by the Senate on May 19, 1948, contained three clauses proposing improvement in the United Nations Charter: first, a voluntary agreement to remove the veto from many questions; second, maximum efforts to obtain agreement for a United Nations armed force and the reduction of national armaments; and, third, a review of the Charter by a general conference called under Article 109 of the Charter. As far as I know, the State Department has entirely disregarded those injunctions of Senate Resolution 239 and concentrated only on that clause of the Resolution which proposed a compact under Article 51, based on the defects of the United Nations Charter.

"The North Atlantic Treaty might have been an effort under Article 51 to create a small United Nations within the larger group, improving upon the United Nations Charter, eliminating its defects, and furnishing an example of an improved international organization which could be followed by the United Nations itself. It might have established a law between the nations signing it and a force to prevent aggression between those nations without veto and with reliance on the decision of a competent court. This was suggested by Mr. Hamilton Fish Armstrong in an article in Foreign Affairs in October, 1948. It is the general plan suggested in Senate Resolution 133, introduced by the distinguished junior Senator from Alabama and ten other Senators on Friday, with which I have great sympathy.

"But the State Department did not adopt any of these suggestions and has shown no intention of doing so or even followed the advice of Senate Resolution 239. We have to consider here the North Atlantic Treaty as it has been drafted without the improvements Senators would like to see made, but which twelve nations probably would not agree to once this Treaty is ratified. The Atlantic Treaty as drawn is certainly no improvement over the United Nations, nor can it by any stretch of the imagination be regarded as a perfection or supplement to that Charter. Apart from the obligation to provide arms, the Treaty is permitted by the Charter, which says: 'Nothing in the present Charter shall impair the inherent right of individual or collective self-defense if an armed attack occurs against a member of the United Nations until the Security Council has taken the measures necessary to maintain international peace and security.' The Charter merely recognizes this inherent right as necessary because the veto provison of the Charter may result in complete inaction on the part of the Security Council.

"What is the nature of that Treaty?

"It is obviously a defensive military alliance between certain nations, the essence of which is an obligation under Article 5 to go to war if necessary with any nation which attacks any one of the signers of the Treaty. Such an attack may come from outsiders, or it may come from one of the signers of the Treaty. The obligation is completely binding for a period of twenty years. It imposes an obligation upon the United States to each member nation whether or not there is consultation or joint action by the Council, or a finding by any court that an unjustified armed attack has occurred.

"Some doubt will always remain as to whether the Congress must declare war before our armed forces actually take part, I am inclined to think such action is not necessary if the President chooses to use our armed forces when an ally is attacked. But whether it is or not, the obligation to go to war seems to me binding upon the United States as a nation, so that Congress would be obligated to declare war if that were necessary. It is pointed out that the President could fail to act and Congress could refuse to declare war, but certainly we are not making a treaty on the theory that we expect to violate it in accordance with our own sweet will."

Our Reporter's Report

Summer's heat apparently is no deterrent when bankers have a readily acceptable piece of business under way. That was proven quite conclusively by the rousing demand which greeted this week's offering of $150 million of new, 25-year 2¾% debentures of the Standard Oil Co. (N.J.).

Largest industrial offering ever placed in registration with the Securities and Exchange Commission, this huge undertaking, offered by a national underwriting group numbering some 175 underwriters and dealers proved a real "fence-buster."

This was the case in spite of reports that one or two of the largest domestic and Canadian insurance companies decided to forego their subscriptions at the last moment when the offering price of 100½ was announced.

At that level the indicated yield was around 2.72% to the purchaser. And from current reports there had been a disposition on the part of some potential buyers to anticipate a price of 100 which would have raised the yield basis slightly.

But withdrawal of the few prospective buyers did not materially affect the undertaking. On the contrary, demand was heavy and widespread and the subscription books closed quickly with the issue reported commanding a small premium in the over-the-counter market.

This highly successful project provided at least a good temporary antidote for the Summer doldrums which have been gradually settling down over the market and brought a note of cheer to the investment banking community.

Kansas Gas & Electric

Very evidently there is equity money around if the people handling an issue know where to go and look for it. This has been proven time and again in recent months by the marked success of a number of common stock undertakings.

The most current support for the theory is found in the case of the sale of 550,000 shares of Kansas Gas & Electric Co. common stock recently disposed of to bankers by the American Power & Light Co., and the issuing company.

Bankers paid the sellers $25 a share for the stock and proceeded with reoffering to the public at $26.625 a share. Most recent reports indicated that the issue is between 80 and 90 per cent sold.

Clearing the Shelves

Dealers' shelves may not be entirely bare at the moment, but they are considerably lighter than was the case a forthnight ago, prior to the sudden shift by the Federal Reserve and the Treasury in their monetary policy.

Along at that stage of the game new issues, particularly municipals, were showing a tendency to "back up" and sizeable inventories were in hand.

But municipal dealers have found real solace in the sharp downward adjustment in yields on Treasury issues, and a perusal of prevailing markets reveals that virtually every one of the 15 or so more or less recent new bond issues is now ruling at or above the original offering level.

Small Issues Ahead

With the big Standard Oil Co. issue out of the way bankers now are turning their attention to a series of relatively small utility offerings which are scheduled to reach market early next week.

Largest of these is Florida Power & Light Co's $10,000,000 of new first mortgage, 30-year bonds on which it is indicated that at least eight bids will be opened next Tuesday.

The same day St. Joseph (Mo.) Light & Power Co. will sell $4,750,000 of first mortgage, 30-year bonds, and signs now point to at least nine bids for this offering.

The New Jersey Power & Light Co. has also scheduled for July 19 an offering of $3,500,000 of 30-year first mortgage bonds. The proposed offering of 20,000 shares of $100 par cumulative preferred stock has been deferred until the Fall.

Nice Business

Philadelphia Electric Co's offering of 972,624 shares of additional common stock to its shareholders, and possibly to employees got under way this week.

Bankers acting in a "stand-by" capacity have agreed to take over any unsubscribed portion of the issue when "rights" expire on August 11 next.

The company will use the proceeds to finance construction.

Lohrman-Myers Wedding.

Miss Margaret Helen Lohrmann of Woodhaven and Schroon Lake N. Y., (Miss Schroon Lake 1942) was married July 4, 1949 at a nuptial high mass, 11 a.m., at St. Thomas the Apostle R. C. Church, Woodhaven L. I., to Andrew Breen Myers of Elmhurst, L. I.

The bride wore an ivory satin gown with a flowing train of about 12 feet; a beaded pearl crown finger tipped illusion veil; prayer book with white orchids. The maid of honor wore a beautiful pink gown; the brides-maids aqua gowns; and the flower girl (7 years of age and beautiful) wore a lovely, most distinctive pink dress. (She is the bride's sister.)

There were seven priests at the altar. Rev. Father John Browne who officiated is a boyhood friend and school chum of the groom. The sub-deacon honored the bride by his presence, he is Rev. Father Jose Pando, Dean, St. John's University, where the bride had received a B.S. (pre-Med.) degree a few years ago and was a dean's list student. The couple received a special Papal blessing.

The bride received her B.S. at St. John's University; studied for M.S. at Fordham, and is now a junior at N. Y. Medical College N. Y. C.

The groom received his BS:MS and is now studying for his doctorate in English. His schools were St. Peters, N. Y. C.; Fordham Columbia University, and he studied in Europe. World War 2 veteran in foreign service. He teaches English literature, etc., at Fordham University. Lectured for them on radio in 1948 and 1949, 16 times on lives of famous authors.

The church and the main ball room at McAlpin Hotel were jammed with guests from all over the world, some coming from Switzerland.

The band leader thought they were actor and actress.

DIVIDEND NOTICES

Washington . . . And You

Behind-the-Scene Interpretations from the Nation's Capital

WASHINGTON, D. C.—Should the State Department's prescription for the latest British crisis just happen to be that England should be given another loan, the Congressional answer, at least as of today, would be an emphatic "don't give them another dime."

Congress has been watching intensely the news out of London. Yet Congressmen have refrained pretty well from sounding off on the subject. The restraint indicates not inattention, but a great deal of caution.

The boys are not jumping to the conclusion that the White House actually will back another loan proposal. The Senators and Representatives are refraining from expressing the thought for publication generally which many of them seem to have in the back of their minds, that what is happening to England's economy at present is a pretty good indication of either one of two things:

Either the Marshall plan is falling flat on its face, or it will fall flat if this government takes any more steps to buttress the socialist government crowd in England.

For the moment the only clear indication is that a proposed additional loan won't have a ghost of a show—but there is no assurance that a loan will be proposed.

The ECA appropriation will be passed, but the final achieved cut under the amount requested by President Truman might be $100 million or so greater than it would have been but for the beginning of disillusionment over the way things are working out in Britain. The 10% cut recommended at the beginning of this week by the Senate Appropriations Committee was in the works, more or less, before the British crisis, and the final appropriation probably will not be reduced so much as the Senate group proposed.

The British crisis, particularly the hint that Britain might enter into more preclusive barter swaps at the expense of the dollar area, will build up just a little more opposition to the trade agreements extension and help a little toward the adoption of the "peril point" modification proposed by the Republicans.

* * *

Apart from a cut in ECA, key economy advocates of Congress confess privately that they are pretty pessimistic about getting any blanket appropriation reduction passed this year. Nevertheless, they say there still is some chance. A strong effort will be made toward the end of the session to get the 5 to 10% directive brought up on the floor of the Senate, despite the Administration's opposition. If it does get considered, this economy cut will pass the Senate.

If it passes the Senate there will be an awful pressure brought to bear against the House leadership block of this proposition. The final effort will be a Senate economy rider on one of the last of the appropriation bills.

* * *

Taken as a whole, the President's economic message was widely regarded as conservative, not in any absolute, but only in a relative sense.

Absolutely, the President declared himself flatly for deficit financing during a period of declining business activity. He renewed, as was expected, of course, his welfare state proposals. These included the familiar schemes to expand the benefits and scope of social security, the Brannan plan for direct cash subsidies to farmers, a minimum wage of 75 cents per hour with broadened coverage, and so on.

The President also got aboard the bandwagon to continue the 52-20 club for veterans. He asked for the extension of the Reciprocal Trade Agreements Act, for the carrying out of Point IV for aid to underdeveloped countries, and in favor of the plan to finance state planning of a shelf of public works.

No one expected the President to turn Right and call for sound finances and the abandonment of the welfare state program.

On the other hand, the President definitely turned down the scheme of the CIO-left wingers in the form of the "Economic Expansion Act of 1949" bill with its plans for a Federal production planning agency, government-in-industry, and government loans, and government insurance and guarantees of loans.

The proposed "broad study of investment and development needs" was one of the few concessions to the extreme Left. The President indicated that such a study "should be designed especially to discover inadequacies in capacity in basic industries which serve as limiting factors to expansion when the upward movement of business is renewed." This was the note both of the earlier "Economic Stability Act of 1949" and of its redesigned model for the summer and fall political trade, the "Economic Expansion Act."

The President also gave only indirect encouragement of the current drive of organized labor to get a fourth round of wage increases.

* * *

There were also signs that the President was instilled with some thinking about the part business investment plays in maintaining business activity, albeit he approached the subject about as charily and clumsily as a long-time heathen walking down the church aisle.

One proposal was to extend the carry forward of business losses. Another was to cut the transportation tax. Congress is obviously unlikely to attempt such a restricted tax program, as it would be difficult to open up the tax laws to these changes without submitting to others, more costly. The President, as a concession to his old sales line, again proposed higher estate and gift taxes.

The proposal to extend the maximum maturity of business loans made by the Reconstruction Finance Corp., is a rabbit which did not come out of the RFC hat. Two years ago, in revising RFC's statutes, the Congress placed a maximum maturity limit of 10 years on business loans, on the theory that anything longer than that certainly was not a loan but a sharing of equity risks. Actually RFC does not use the maximum maturity, the greatest proportion of its loans being for five or six years with the borrowers customarily paying off in less time.

This economic report is negatively important, in the view of the conservatives in Congress. The President not only did not propose the broad socialist economic program of last Spring, but he hardly gave lip service to it. There was always a worry that this summer the President might get jittery and go overboard for the entire left-wing line. That worry is not out of the way.

* * *

During the war the Advertising Council was created. This consisted of advertising agencies and others, who devoted free the efforts of advertising men and the dollars of big advertisers, to plug for everything needed to win the war, whether it be selling war bonds or saving fats and oils. The White House is now reported to be "interested" in a proposition said to have been discussed within the Council, that there be an advertising campaign pitched along the theme that there ain't going to be a depression. The campaign may never get under way, however, because of the technical difficulties obvious in trying to figure how to sell that one.

* * *

If any business house is interested in spreading the word about the Truman Administration's medical program and what it would cost and wouldn't do, the Chamber of Commerce of the United States, 1615 H Street, N. W., Washington 6, D. C., has got out a pamphlet entitled, "You and Socialized Medicine, The Basic Facts and a Call to Action." The Chamber will mail out copies on application.

Some time this fall a monetary study will get under way by a subcommittee of the Senate Joint Economic Committee. The Chairman of this subcommittee is an outstanding believer of the government way of solving things, Senator Paul Douglas, Illinois Democrat. Another member is Senator Ralph Flanders, a Vermont Republican, and often identified with the left wing of his party. Another member is Rep. Wright Patman of Texas, a professional fighter of business monopolies and one who often thinks it's wrong for banks to collect much interest on government bonds.

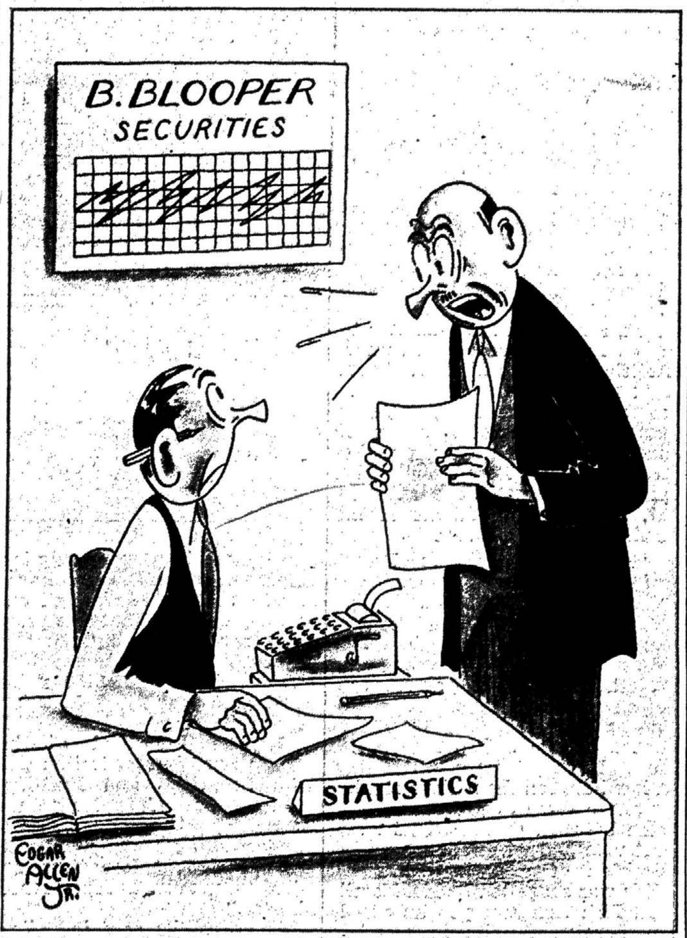
The only member of the subcommittee who might be suspected either of understanding the monetary system or of having any sympathy with the system as it grew up with the country is Rep. Jesse P. Wolcott of Michigan, ranking Republican member of the House Banking Committee. Ordinarily Wolcott disdains the JEC, which has become more and more a forum where witnesses can sound off in favor of the "Fair Deal." In this case, Wolcott may take a hand so that at least a minority opinion can be written to whatever the subcommittee may hash up.

* * *

Rep. Emanuel Celler, New York Democrat, who will head the House Judiciary subcommittee study of revision of the antitrust laws, has served notice that, although he has been stopped by the House Democratic leadership from his pet project to set up a special Joint Committee to soften up the insurance companies against the day of Federal regulation, he, Manny, will at least get at this business in connection with his antitrust probe.

(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



"A fine statistical report this is, Pemberton—'Blond, five feet five, 120 pounds and a very warm party'!"

Ralph De Pasquale Opens Office in N. Y. C.

Ralph De Pasquale has opened offices at 25 Broad Street, N. Y. City, to engage in the securities business. Mr. De Pasquale was formerly in the trading department of E. F. Gillespie & Co. and Amos Treat & Co. In the past he was manager of the trading department for Clark, Kohl & Eyman and was a principal of Income Investors of New York.

Robt. McConnaughey Joins Law Firm

Robert K. McConnaughey, who recently resigned as Commissioner of the Securities and Exchange Commission, has become a member of the firm of Greenman, Shea, Sandomire & Zimet, which will continue the general practice of law in New York City under that name, and in Washington, D. C., under the name of Shea, Greenman, Gardner & McConnaughey.

Earl Goldbold With Mercantile Commerce

ST. LOUIS, MO.—Earl W. Goldbold is returning to St. Louis and becoming associated with the Mercantile-Commerce Bank and Trust Company, Locust-Eighth-St. Charles, in the sales department. Mr. Goldbold recently resigned from partnership in Rotan, Mosle and Moreland of Houston. He was in the investment business in St. Louis for many years with the exception of the last few which he has spent in Texas.

With Fabian & Co.

(Special to THE FINANCIAL CHRONICLE)

BEVERLY HILLS, CALIF. — Charles O. Franzen, Jr. has been added to the staff of Fabian & Co., 9500 Santa Monica Boulevard.

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Canadian Budgetary Policy and Economic Trends

By HON. DOUGLAS ABBOTT
Minister of Finance, Dominion of Canada

Holding postwar price inflation has now ended, chief financial officer of Canadian Government outlines tax reductions put into effect to conform with this changed trend. Estimates one-third loss in revenue from personal income taxes in 1949, and upholds Canada's reduction of corporate taxation and partial elimination of double taxation of dividends as aiding development and increasing risk capital. Describes excise tax reforms, and contends, despite tax reductions, nation's budget will be balanced. Defends Canada's exchange restrictions and calls for increased U. S. imports to remedy situation. Sees strong Canadian economy.

On March 22 it was my privilege as Minister of Finance for Canada to present the annual Budget. In many respects this Budget marked the end of a chapter in Canadian economic and financial history. In other respects it marked the opening of a new chapter.

Hon. D. C. Abbott

For it was the judgment of the Canadian Government that, barring catastrophe, the postwar price inflation had come to an end. There might still be a few shortages and some ups and downs in prices but, speaking generally, the powerful inflationary forces generated by war had largely spent themselves. Recent events appear to have justified our view.

Taxes Reduced

Substantial tax reductions were therefore recommended to Parliament and, in accordance with our practice, put into effect immediately. The details are readily available and I shall not give more than a brief description of the main changes. The cut in income taxes took two forms: first, an increase in the basic exemptions and in the income deductions for children; and, second, a reduction in the rates of tax. The basic deduction for single persons was raised from $750 to $1,000, and for married persons from $1,500 to $2,000. Where the taxpayer is in receipt of family allowance payments (ranging from $6 to $9 per month), the deduction for a child was raised from $100 to $150. For other dependents the exemption was raised from $300 to $400. These changes meant a return to prewar levels of exemptions.

Apart from a reduction in rates, the structure of the tax schedule was thoroughly revised and simplified. As a result, three out of every four of those liable to pay income tax will be subject to a rate of 15% of their net taxable income — no more and no less. While most of the reductions resulting from the new exemptions and reduced rates accrue to the benefit of the lower and middle income groups, the government also realized the importance of providing additional incentives to those earning somewhat higher incomes. This is reflected particularly in the fact that the point at which the taxpayer is required to surrender to the Treasury 50% or more of his additional earnings has been raised to the $25,000 taxable income level.

It is estimated that the combined effect of the higher exemptions and reduced rates will be to bring in one-third less revenue from personal income tax than the 1948 rates.

Reform of Corporate Tax Structure

Before the Budget was introduced, Canadian corporations were required to pay a flat rate Federal tax of 30% on all corporate profits. As in the United States, dividends, when distributed, were taxed again as part of personal income. For several years it has been the declared aim of the Canadian Government to introduce a measure of reform into this system of corporate tax. During war and the inflationary period following the war, little could be done. In 1949, however, when substantial tax relief could be given without fear of feeding inflation, the opportunity arose of making a start on the reform of the corporate tax structure.

First, we reduced the rate of tax on the first $10,000 of corporate profits to 10%. This reduction was specifically designed to help the small family-type of business. On profits in excess of $10,000 the rate was raised to 33%.

At the same time individual shareholders resident in Canada were allowed a credit against their personal income tax equal to 10% of the dividends they receive from common shares of Canadian taxpaying corporations. Thus, double taxation on the dividends received by an individual shareholder of a small corporation earning up to $10,000 is, to all intents and purposes, removed. Shareholders of larger corporations receive significant, though less, relief.

These reforms were undertaken, not because of any deterioration in the profit position of Canadian corporations, but because in the government's view, the economic development of Canada depends upon the willingness of our people to risk their money in constructive enterprises.

Reform in Excise Taxation

The 1949 Budget also did a major job of simplification and removal in the field of excise taxes. Special wartime taxes on such items as transportation, telegrams, soft drinks and candy were abolished. These were "nuisance" taxes which we did not wish to carry forward into our permanent tax structure. In addition, a number of retail taxes were transformed into taxes at the manufacturers' level. All special excise taxes which were higher than 10% at the manufacturers' level have been reduced to 10%.

I give prominence to tax changes because I believe readers of the "Commercial and Financial Chronicle" will be interested to know something about recent Canadian developments in this field. Yet, probably the most significant feature of the recent Budget was that, even after giving a substantial measure of tax relief, I was able to predict a balance between revenue and expenditure—indeed if things continue as they are, a small surplus. In other words, the 1949 Budget was a prudent Budget, as well as a popular one.

This result was possible partly because in recent years we have been following a deliberate policy of debt reduction. During the past three fiscal years, i.e., during the three years ending March 31, 1949, the net debt of the Federal government has been reduced by $1,625,000,000, roughly 12% from the level of March 31, 1946. Last year our surplus of just under $600,000,000 was in excess of total expenditure of the Federal government in a typical prewar year.

While it did not seem desirable to maintain taxes at a level calculated to produce another substantial surplus in 1949-50, neither did there seem to be any reason to budget for a deficit. The view we then had — and I see no reason to alter it now — is that incomes and employment will remain at high levels in Canada for some time to come.

Not that we are free of troubles and anxieties. The crippling effects of the war on world trade could not help but have some effect on Canada, depending as she does to such an extent on the export of her surplus products.

During most of the war period, Canadians found themselves, in common with the rest of the world, unable to purchase a great many things which they had come to regard as essential to their standard of living. Both voluntary savings and savings enforced by the government accumulated to ensure a carry-over of this unsatisfied demand into the postwar period. Some of this demand was for goods usually imported from Europe, which were not available. This unsatisfied demand was therefore channeled into sources of supply in Canada and the United States. Canadians have almost always imported more from the United States than they exported to that country, but after the war this diverted and pent-up demand for American products reached record proportions. Imports from the U. S. soared from a level of about $500 million in 1939 to $1,405 million in 1946 and almost $2,000 million in 1947.

Exchange Situation

Before the war, in the days of free convertibility of currencies, Canada had sold more to countries outside North America than she had bought from them, and had used the foreign currencies resulting from this export surplus to purchase U. S. dollars to pay for her import surplus from the United States. The war had changed all this. Currencies were no longer freely convertible. As long as she was able, Canada supplied credit to overseas countries to bridge the gap on a level at least as generous as that provided by the United States. But goods sold on credit produced no earnings with which to buy the American goods Canadians were demanding. We therefore had to pay for them with reserves of gold and American dollars built up during the war.

Obviously this could not go on forever. Our exchange reserves fell from about $1,500 million at the end of 1945 to $500 million by November, 1947, and to a low of $461 million in December, 1947. Quick action was necessary, and in November, 1947, the Canadian Government imposed rather severe restrictions on the importation of a number of commodities from all countries. No one regretted these restrictions more than we Canadians, who have become so accustomed to American products and who, as a matter of principle, do not like quantitative restrictions on trade. Fortunately these restrictions, coupled with our drive for more exports to the United States and large off-shore purchases by European countries out of ECA funds, resulted in a marked improvement in our exchange reserves which reached a level of $1,067 million by the end of March, 1949. Consquently, we have been able to remove or relax many controls on imports.

Any lasting improvement in our exchange position, however, depends on more fundamental factors, involving conditions of world trade generally. As long as the rest of the world is unable, for one reason or another, to earn enough dollars through commodity exports, the providing of services, and imports of capital, to enable them to buy more freely in North America, the Canadian exchange position vis-a-vis the United States will depend upon the level to which we can expand our own exports to the United States. Put in its boldest terms, unless United States imports from the rest of the world, and Europe in particular, can be increased sufficiently for Europe to pay for its import surplus from Canada, or unless the United States accepts far more imports from Canada than she has in the past, Canadians cannot purchase as much from the States as they would like to.

Multilateral Trading Favored

The Canadian Government has recognized clearly that a solution to this basic problem must of necessity involve a reestablishment as far as possible of the system of multilateral world trading, and a breakdown of artificial barriers to the movement of goods. Canada has therefore taken an energetic part in the discussions leading up to the formation of the International Trade Organization. We participated actively in the trade talks which resulted in the Geneva Agreement on Tariffs and Trade, and we are continuing to lend our assistance in the negotiations now taking place at Annecy, France, for the extension of the Geneva Agreement.

As part of the effort to overcome the adverse trade balance with the United States, the Canadian Government places a great deal of importance on tariff concessions granted by the United States in return for reductions in the Canadian tariff. The reduction in the American tariff on beef and beef cattle, and the increase in the size of the quota of Canadian cattle allowed to enter the United States have been of particular importance to us in helping to expand our earnings of American dollars.

The Canadian Government and Canadian businessmen generally attach great importance also to attempts to relax customs formalities and practices which are often more effective than tariffs themselves in hindering the international flow of goods. The Geneva Agreement dealt with this problem, and we earnestly hope that those countries which signed the Agreement will make a serious effort to comply with its terms. Canada itself amended its own Customs Act for this purpose in June, 1948.

Recent developments have given us hope that our dollar shortage will not be a permanent problem. I refer in particular to the discovery of large oil reserves in Western Canada and the extensive iron and titaniferous ore deposits in Labrador and Quebec.

In Alberta, extensive drillings have uncovered large deposits of oil, and already production figures have doubled. Futher discoveries have been made both in Alberta and in Saskatchewan, and output from these new fields should soon be sufficient to supply the requirements of the Prairie West. Plans are under way for the building of pipe lines to important centers throughout the west.

Exploitation of the recently discovered deposits of iron ore along the Quebec-Labrador boundary has not yet begun, but experts are satisfied that a minimum of 300 million tons of ore is assured. The deposits are large and of good grade and conditions favor low-cost open pit mining during six months of the year. There are several large sources of water power within convenient reach of the ore zone. Plans are under way for the building of a 350-mile railway to the St. Lawrence, from where the ore can be shipped to the steel-producing areas of Canada and the United States.

A third discovery is also being watched with keen interest in Canada, that is, the discovery of more than 200 million tons of ilmenite at Allard Lake in Quebec. Plans have been made for the building of a railway and a processing plant to exploit this deposit in the near future. So far, titanium, which is derived from the ore, has been used chiefly as a pigment. Recent experiments, however, have resulted in the production of metallic titanium, a new metal which may have many important uses. When the costs of production have been reduced sufficiently, production of the metal may be begun on a commercial scale.

These important natural resources which are just on the verge of development should greatly improve our exchange position vis-a-vis the United States, both by reducing our imports and by increasing our exports. Already it is being predicted that within a relatively short period of time the output of oil from Alberta will be sufficient to satisfy the needs of the whole of Canada, although it may be economically more efficient to continue a two-way trade in petroleum products between Canada and the United States. If this forecast is realized, it will eliminate an enormous drain on Canada's reserves of United States dollars. If the Labrador field produces 10 million tons of ore a year, and most of it is sold in the United States, we will have found a very profitable new source of American dollars in the export of iron. Similarly, imports of titanium may be reduced to negligible proportions as a result of the titanium discovery. These three sources alone of savings and earnings of American dollars will go far to overcome our adverse balance of trade with the United States, which by 1948 was already reduced to $300 million.

I have dwelt at some length on Canada's trade position because of the importance it holds in the economic life of our nation. But this report would not be complete without some mention of the domestic economic outlook. Internally, demand remains high. After the war there was a tremendous upsurge in capital investment, surpassing in relative terms even the huge investment boom in the Uninted States. The impetus given to the industrialization of Canada as a result of war demands had provided a supply of trained workers and of technical knowledge, and a domestic market ready to accept Canadian products. Continuing shortages as a result of the destruction of plant in Europe and the extraordinary back-log

(Continued on page 27)

In Attendance at I.D.A.C. Convention

AUSTEN, J. F.
Nesbitt, Thomson & Co., Ltd. Montreal

AYLSWORTH, A. R.
Cochran, Murray & Co. Toronto

BACKHUS, H. S.
McLeod, Young, Weir & Co., Ltd., Toronto

BARTLETT, H. D.
Midland Securities Ltd. Toronto

BEATTY, D. S.
Burns Bros. & Denton, Ltd. Toronto

BEAUBIEN, A. S.
L. G. Beaubien & Co., Ltd. Montreal

BELL, H. B.
W. C. Harris & Co., Ltd. Toronto

BELSHAW, J. A. M.
Brawley, Cathers & Co. Toronto

BEVES, GEORGE E.
Calvin Bullock, Ltd., Montreal

BLACKMORE, O. RALPH
"Globe & Mail," Toronto

BLAIR, K. S.
James Richardson & Sons Vancouver

BONVOISIN, PIERRE
Bank de la Societe Generale de Belgique, Brussels

BORRIE, W. J.
Pemberton & Son Vancouver, Ltd., Vancouver

BRENNAN, F. J.
F. J. Brennan & Co., Ltd. Saint John

BROOKS, L.
Gardiner, Wardrop, McBride, Ltd., Toronto

BULGIN, J. D.
Dominion Securities Corp., Ltd. Winnipeg

CHALMERS, L. P.
W. C. Pitfield & Co., Ltd. Toronto

CLARK, J. W. G.
The Investment Dealers' Assoc. of Canada, Toronto

CLARK, ROBERT E.
Calvin Bullock, Ltd. New York

COCHRANE, A. C.
Bankers Bond Corp., Ltd. Toronto

COLVEY, D.
Canadian Dow-Jones, Montreal

COMBE, C. V.
The Winnipeg "Tribune" Winnipeg

COPLAND, R. A.
Oldfield, Kirby & Gardner, Ltd., Winnipeg

COX, MURRAY
Greenshields & Co., Inc. Toronto

COYNE, B. L.
F. H. Deacon & Co., Toronto

COYNE, J. E.
Bank of Canada, Ottawa

CURRY, PETER D.
Peter D. Curry & Co., Ltd. Winnipeg

DEAN, R. H.
Nesbitt, Thomson & Co., Ltd. Montreal

DEWAR, H. H.
Investment Bankers' Assoc. of America, New York

DINGLE, D. B.
Wood, Gundy & Co., Ltd. Toronto

DUFFIELD, A. R.
Wood, Gundy & Co., Ltd. Montreal

DUGGAN, K. P.
D. M. Duggan Investments, Ltd. Edmonton

DUNCAN, J. L.
Wood, Gundy & Co., Ltd. Vancouver

ELY, E. H.
Wood, Gundy & Co., Ltd. Toronto

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A. E. Ames & Co., Ltd., Toronto

ERTL, E. C.
"The Financial Times," Toronto

EVANS, F. O.
McLeod, Young, Weir & Co., Ltd., Montreal

EVANS, W. J. S.
Guildhall Securities, Ltd., Montreal

FALKENBERG, CARL
Carlile & McCarthy, Ltd., Edmonton

FARNSWORTH, H. R.
Royal Securities Corp., Ltd. Calgary

FRASER, G. LYALL
Western City Co., Ltd. Vancouver

FROST, JACK
"The Investment Dealer's Digest," New York

GALLAGHER, C. A.
Mills, Spence & Co., Ltd. Montreal

GASSARD, H. L.
The Investment Dealers' Assoc. of Canada, Montreal

GEE, HARTLAND W.
Canadian Alliance Corp., Ltd. Montreal

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Rene T. Leclerc Incorporee Montreal

GLASGOW, EDWARD E.
Peter D. Curry & Co., Ltd. Winnipeg

GOODEVE, C. W.
F. B. Ashplant & Co. New York

GOWER, WM. E.
Melady, Sellers & Co., Ltd. Winnipeg

GRAY, R. A.
James Richardson & Sons, Winnipeg

GUITE, J. P.
Credit Interprovincial Limitee Montreal

GUNN, E. H.
Midland Securities Ltd., Toronto

GUNN, N. H.
Bell, Gouinlock & Co., Ltd. Toronto

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HANSON, T. R.
Goulding, Rose & Co., Ltd. Toronto

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JENNINGS, JOHN E.
Jennings, Petrie & Co., Ltd. London

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Wills, Bickle & Co., Toronto

JOLLY, C. E.
Dominion Securities Corp., Ltd. Toronto

JOYCE, JAMES H.
"The Financial Post," Toronto

KEATOR, A. S.
Dominion Securities Corp., Ltd. Montreal

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Pemberton & Son Vancouver Ltd., Vancouver

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R. A. Daly Co., Ltd., Toronto

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Mills, Spence & Co., Ltd. Toronto

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Dominion Securities Corp., Ltd. Ottawa

MATTHEWS, PAUL W.
Matthews & Co., Toronto

MITCHELL, N. A.
Harrison & Co., Ltd., Toronto

MURPHY, HAL E.
"Commercial & Financial Chronicle," New York

MURRAY, J. R.
A. E. Ames & Co., Ltd. Winnipeg

NESBITT, A. D.
Nesbitt, Thomson & Co., Ltd. Montreal

NEWMAN, M. F.
Cochran, Murray & Co., Ltd. Toronto

NICKLE, CARL O.
"Oil in Canada," Calgary

OLIVER, A. E.
Wood, Gundy & Co., Ltd. Toronto

de PENCIER, JOSEPH
Collier, Norris & Quinlan, Ltd. Toronto

de PITRAY, L.
Paris

POPE, E. R.
Milner, Ross & Co., Toronto

(Continued on page 10)

Consumer's Interest Comes First

By EDGAR G. BURTON, C.B.E.*
President, Simpsons, Limited

Leading Canadian retailer contends distributor's aim is to see highest living standard is given consumer, which he, as a producer, makes possible. Says only practical solution of this problem is found in private business under free profit-motive enterprise, and denounces devices for restricting international trade and weakening domestic competition. Attacks economic system based on "congery of private and government efforts."

As a Canadian retailer, I welcome the opportunity of addressing this world Congress of fellow businessmen in Quebec City. It is particularly fitting that you should have chosen this picturesque city where Europe's best traditions and our own Canadian life are so finely blended. Indeed Quebec is symbolic of our free world, of a successful experiment in cooperation between two races and cultures of different origins. In a way it epitomizes the belief of most Americans and Canadians that values of the past should be cherished but made use of in accordance with the apparent needs of the future.

E. G. Burton

In Europe, the Chairman of our Distribution Commission, Mr. Emile Bernheim, has subscribed to these fundamental beliefs for many years. His splendid service to businessmen engaged in distribution the world over has long been recognized. It has been, however, in his reasoned enthusiasm for more service to the consumer that the greatest tribute should be paid to Mr. Bernheim. I am honored to be able to do that here today.

Distributor's Aim

In addressing myself to the subject of the consumer as the distributor's priority No. 1, I might point out that the views expressed here today may perhaps offer a different side to this question which is of such vital importance to every distributor irrespective of the country in which he does business. To begin, it is important we remember that the consumer is a human being, not some weird specie of economic man. Part of the time in addition to being a consumer he is also a producer and a supplier. And it is through the functioning of the market place that he is able to change roles to achieve his ultimate material goal which is of course the consumption of goods and services. The sale to a consumer is the point at which this final claim on a long chain of productive effort takes place. The total price which the consumer pays represents value at every stage along the line from the primary producer. It is readily understandable therefore why the retailer discharges a particularly important and often unappreciated responsibility. What is the challenge to distributors? **It should be the distributors' aim to see that the highest standard of living is delivered to the consumer which the consumer by his activities as a producer make possible.**

That is a most difficult but important challenge. When goods are delivered to a retailer, many decisions of importance to the consumer have been made but not all of them by any means. The retailer finds he cannot exercise quite the same control over the rate of distribution that the manufacturer is able to exert over production. The maker of cars, of radios, of any other object can almost, at will, control output within limits. The retailer must also face the fact that while only a portion of everyone's time is spent in productive effort, everyone is a consumer 24 hours a day. Whether eating or merely sitting in a favorite chair, or sleeping, those things already made for the consumer are gradually depreciating at a varying but sure rate. The retailer has really no satisfactory way of measuring these changes in replacement demand.

In most of the countries whose representatives are here there is a tendency of a recurrent character, to produce goods and services in excess of the rate at which they can be distributed. We must remember that while the capacity to distribute may at times be overloaded, the limits on consumption or more correctly our standard of living have not as yet been approached. Of course, in totalitarian States the major swings of our business economies do not exist. The governments of those countries, therefore, tell their people of our apparent inadequacy to meet this problem. The reason why there are no such fluctuations in the volume of business in dictator States is that those regimes operate on a minimum basis where production is barely geared to the basic necessities to sustain life. Nevertheless, in our own economies there is a challenge to retailers to deliver goods in balance with a high level of production.

There is no tidy formula, no set and simple recipe for solving this the most complex problem of democratic society, yet I am convinced that the only practical solutions will be found by businessmen rather than by governments. Because the distributor can best exercise some control where needed, there we must begin. Let's look at this further.

First of all we must look again at the basic idea on which the tremendous advance in our standard of living has been made over the past hundred years. Adam Smith, who wrote the "Wealth of Nations," has come to be regarded as somewhat old-fashioned and archaic. In our disillusioned world Marxism in various guises is substituting a religion of burnt offerings and half-truths for the true pathway to progress. We must realize the hard fact that however well intentioned, ideologies can be no substitute for our extremely complex and delicate pattern of business experience where the greatest advances were made under the stimulus of rewards and penalties.

Freedom has come to be thought of mainly in political terms, an intangible to which most of us give lip service but little further thought. In its specific application freedom of the market is the most valuable tool which any businessman can have to assure that the consumer receives the value to which he is entitled. The open market is, at the same time, the generator and also the balance wheel of our progress economy. It makes provision for the buying and selling of goods on a basis of competition regulated by the laws of supply and demand. Businessmen may enter it at will or withdraw from it when they wish. It is the arena where the forces of competition are intense enough to forge and shape individual distributors' policies according to the ever changing needs and priorities of their customers. Surely the point where the competitive stimulus must be most imperative is where goods pass from the hands of the retailer. That competitive spur makes itself felt right back to all levels of business. It is a goad to technological progress.

Risk and Profit

It is true of course where the open market is allowed to function effectively, the risk element is great. Some businesses will fail because others are more efficient, doing a better job but slow and consistent progress is made towards the greater wealth of nations. No promises are or can be made about even shares of all consumers but on balance each should and will receive according to the contribution he has made as a producer.

Unfortunately there has grown up during the years of this century a belief that a central authority can and should legislate greater wealth into being from which distribution of a preselected standard of living can be made according to a defined pattern. Strangely enough, in addition to those who look to the state as the magic source of legislated wealth, of adding by division, there are all too many in the business community who think they should be protected from competition using various devices of their own of monopoly, cartelization, price-fixing and the power of the state to establish restrictive standards. Both these shortsighted groups who wish to throttle competition using the excuse of either general or special interest have adopted, knowingly or not, the fetish of "security."

Ever since the First Great War we have witnessed this tendency to shrink the area in which the open market is able to operate. This process of fastening a burden of increasing weight on our economies is subtle, hardly noticeable in the palatable way it is offered. You can measure, gentlemen, how close you are to the static state where there is little risk, little production and consequently little distribution, by to what degree the country in which you live is labelled a "mature economy." To me this is a term which should have no place in the world in which we live, for there is no real limit on the ability of man as a **consumer to consume. Progress can be made as long as there is the challenge of risk, the lure of profit, the fear of failure and the satisfaction of success.**

In this country although competitive forces are hampered at various points, risk capital and risk effort are finding outlets in business. During the past four years Canadian business has undertaken the greatest capital expansion in the history of our country. In this short space of time about $10 billion will have been spent by business as their bet on the future. It is a decisive rejection to those who would make Canada a static state. As you can see, we do not agree that all our consumers wants can be satisfied by existing plant. Nevertheless, restrictive practices either of governmental, industrial or labor origin have been growing in the past 20 years and were given added impetus by the control philosophy which permeated our thinking during World War II.

Within this more restricted competitive area, retailers are doing what they have always done, attempting to find new ways and means of serving the consumer. What are some of these developments? There has been a two-way shift within the structure of retailing. On the one hand we see the development of the self-service, low cost, type of store; on the other, established department stores have been enlarging both their merchandise ranges and service facilities in response to consumer demand. Such organizations as the one which I represent, sell not only merchandise but merchandise plus service. That should always be realized when the statisticians talk about mounting costs of department store operations. Nearly all this increased cost has an offset in the value which the customer receives in the form of service. The use of instalment selling has been matured and refined in recent years. Credit selling is no longer regarded on this continent as a somewhat dubious virtue as it has unquestionably given our people a much higher standard of living. We now know that it is the principle method whereby mass distribution of durable goods is possible. It contains within it a further constructive influence since the greatly increased market make possible by its use also permits the economies of large scale production.

Decentralization in Distribution

Decentralization in distribution, particularly in some of the larger centers of the United States, has been another marked development. The tremendous increase in the number and use of automobiles has created traffic conditions and shifts in population which are bound to exert an influence on store location. There is also the effect on shopping habits of the shorter work-week. The supermarket which is usually a one-story operation for the self-service sale of foods is no longer the exception but the rule in the environs of North American cities. In the United States, and more recently in Canada, a hybrid but completely integrated form of retailing has come into being. It is known as the community shopping center, about a half-hour's driving distance from a key city or surrounding towns. Situated in a semi-rural area it usually consists of a department store, food market, specialty shops of various kinds, a restaurant and that typical American landmark, the motion picture theatre.

At the merchandise level today, there is greater use of product marketing research in order to pin down the particular wants of the majority of consumers. This can be very valuable in that it helps to avoid waste by reducing the gamble in producing the mass markets. Used intelligently it should mean lower prices and better goods. I might point out, however, there are two possible dangers in placing too much faith in market research. By putting so much emphasis on the majority's wishes there is always the danger that the minority of consumers will not get what they want. Secondly, by placing too much regard on producing for a current market, sufficient attention may not be given to experimenting with new and improved products. Market research at the manufacturer's and retailer's level does, however, help to eliminate some of the guesswork in merchandising.

On the continent we have recently initiated one of Europe's tested methods of making known established lines as well as new products. Our Second Canadian International Trade Fair has just come to a close in Toronto. It has had a real measure of success in permitting wholesalers and retailers to discover new and desirable goods to sell. Our friends in

(Continued on page 26)

*Introductory speech by Mr. Burton at the Fourth Plenary Session of the International Chamber of Commerce, Quebec, Can., June 16, 1949.

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(Continued on page 11)

Dewar Praises Work of IDAC

In short talk at annual convention, President of IBA tells Canadian securities dealers they have set a pattern to cope with socialistic forces which are encroaching on us.

Hal Dewar, President of the Investment Bankers Association of America, and a partner in Dewar, Robertson & Pancoast, San Antonio, while attending the Annual Meeting of the Investment Dealers' Association of Canada at Minaki Lodge, Ont., made a short informal talk on June 23, in which he stressed the magnificent job which Canadian securities dealers are doing in distributing securities by a grass roots approval approach and at the same time setting a pattern for dealers in the United States to "become protagonists of a free economy."

Hal H. Dewar

"I have one short message," said Mr. Dewar, "which I mentioned on a very pleasant visit to Montreal recently, and I should like to repeat it here. Most of the problems which we have are common to each of us. The most important, perhaps, is how to cope with the socialistic forces which are encroaching upon us. To tackle this problem the securities business has a highly important role. In the ownership of wealth in the form of securities, we have a weapon of great democratic power. The pattern of savings has changed and there is now a large base of savers to tap. If we can sell these people equity securities they will become protagonists of a free economy and I don't know of any better method to make them so.

"This involves a grass roots approach and door bell ringing, an art—an arduous art— which I am sorry to say we have about lost in our business in the States. In Canada you are much better fitted to do such a job because of the magnificent manner in which you handled your war loans. The task is one that is almost equally important to you if our way of life is to be preserved. Once again, I should like to see you set a pattern for us and I hope that this time we shall follow it closely and soon."

Canadian Pacific Railway—Master Work of Private Enterprise

By W. A. MATHER
President, Canadian Pacific Railway Company

Asserting free enterprise is today being challenged, President of Canada's leading transportation system urges those who believe in work to explain and maintain it. Holds organized business concerns can make most effective use of natural resources, labor and capital under system in which consumer is "boss." Extols profit motive and hints C. P. R. is "designated for nationalization." Says present level of freight rates is inadequate, and new capital to expand facilities is not available to meet transportation demands. Cites low price of C. P. R. shares.

It may be of more than passing interest to you to know that from the outset it was recognized that the responsibility and risk of constructing and operating the Canadian Pacific Railway in perpetuity was a matter for private enterprise. This fact was repeatedly declared by Parliament in the 10 years before the company was incorporated. Moreover, the preference of Parliament for construction and operation of the railway as a private rather than a government enterprise, is stated in the preamble of the Charter incorporating the company.

William A. Mather

There are two aspects of our relationship which I should like to discuss briefly. The first is in regard to our position as owners, operators or managers of private enterprise in a free economy. The second is the contribution which transportation is called upon to render in the development of our free way of life and the conditions under which that contribution may be made with the greatest efficiency and benefit.

You and I believe in the free enterprise system. We sometimes take it for granted, because throughout the lifetime of your Association and the history of the company which I represent, free enterprise has been the accepted basis of our order of doing things. But today free private enterprise is being challenged, in one way or another, in nearly every part of the world. Even on this North American continent, where it has achieved its greatest success in promoting high living standards, the principles of the system are by no means universally accepted. Believing as we do, it is our duty to follow through in two main courses of action:

First, to tell our fellow citizens why we believe in it;

Second, to do everything within our power to maintain the conditions under which the free economy can grow and prosper, and can continue to promote the general well-being of all of the people.

Does Not Condemn Social Legislation

In doing so, we are not condemning that social legislation by which opportunities in health and education are more evenly distributed, and which affords some protection against poverty in old age or other personal misfortune. Far from being opposed to humanitarianism, we welcome it. The fruitfulness of private initiative and enterprise has made it possible for the State to afford gradually increasing measures of social welfare.

Nor do we question the need for some measures of governmental control to see that fair regulations are provided and the rules enforced.

Our concept is that, under free enterprise, individuals or groups of individuals, organized as business concerns, can generally make the most effective use of our natural resources, labor and capital in producing goods and services to satisfy human wants. The very simple reason for this is that under a free economy the consumer is the "boss." He is at liberty to spend his dollar where it will go farthest in providing his wants. The producer must govern himself accordingly and his profit will be measured by his success in satisfying consumer demands.

In some quarters, at home and abroad, profit is represented as being a most unworthy objective and anyone who strives for it is regarded as being anti-social in thought and action. We know that is not so; but perhaps we should more frequently and with greater conviction give the simple refutation to this mistaken and harmful idea. Profit is the regulator that directs the means of production into those channels where it can satisfy consumer demands to the maximum degree. Under a system in which production and prices respond to consumer preferences (and this is the essence of the free economy), the existence of profit calls into service more resources, labor and capital where the consumer has indicated a need for them. Conversely, the absence of profit is a signal for the release of means of production from their previous use to others in which they will find greater favor with the consumer. The profit incentive and the fear of red figures are the spurs constantly prodding businessmen into serving consumer wants with the utmost diligence.

The merit of this system is that it is almost completely self-adjusting. It requires only such governmental attention as is needed to ensure honesty and fair play. The alternative to this system, by whatever name it may be called politically, is a bureaucracy of planners. Any bureaucracy tends to entrench itself and to gloss over its mistakes. But however, well-intentioned a bureaucracy may be, it can never gauge the wants of consumers with such delicate precision or such constant solicitude as a multitude of businessmen and producers, whose very existence depends upon their ability to anticipate and meet consumer requirements.

Dangers of Bureaucratic Plannning

The tendency toward bureaucratic planning was powerfully stimulated by the experience and necessities of war. Such planning was inevitable and is indeed indispensable in wartime, because the wants of civilian consumers must be subordinated to the military requirements. That is the answer to those who say that if planning is good in wartime, it should be good in peacetime. It is one thing, however, to plan for the needs of the General Staff, whose common purpose is to defeat the enemy, but quite a different thing to estimate the myriad and shifting wants of the whole population in peacetime.

CPR Designated for "Nationalization"?

A strategy has been worked out for the attack against the free way of business. The Canadian Pacific Railway Company is one of the enterprises already designated for "Nationalization," if and when the planners are able to govern the Nation's affairs. Why we should be so honored, I do not know, unless it be the propensity of the hunters for big game and the establishment of a reputation. I warn you, however, that the hunters are not likely to be satisfied after having killed off the big game. The fate of the moose will await the deer, the antelope and maybe even the sprightly jack rabbit, if the hunters can catch him. No doubt the lowly gopher will be the last on the list.

May I now turn to certain more immediate and pressing problems faced by the Canadian Pacific Railway in the realm of transportation—problems, the solution to which bears upon the interests of all the producers and consumers in Canada. I need hardly stress the vital role which railways play in the economy of the country. Canada as a nation stretching from the Atlantic to the Pacific came into being through the building of the railways and the railways have provided, in war and in peace, the basic transportation upon which the national economy has grown and prospered since Confederation. Although other forms of transportation have come into existence or have been developed during that period, the railways are still the major artery of transportation. There is every reason to believe that, given a fair chance, they will continue to serve the country in this way for many years to come.

That they have given cheap, as well as efficient transportation cannot be denied. Last year the average cost to freight shippers on the Canadian Pacific was only 1.13 cents per ton mile. In 1885, almost 65 years ago, the corresponding figure was 1.20 cents per ton mile. I believe that in no other modern industrial country in the world can there be found rail transportation provided at any lower average cost. Detailed comparisons in connection with various specific commodity movements bear out the idea that railway services are rendered more cheaply in Canada than in the United States; for example, one hundred pounds of wheat move from Billings, Montana, to Duluth at 60½ cents, while the movement from Saskatoon to Fort William costs only 26 cents. The distance is almost exactly the same in both cases. Lumber moves from British Columbia to Central Ontario more cheaply than from the State of Washington to the Detroit and Chicago area. Potatoes move from shipping points in Maine to Philadelphia at 81.62 cents per 100 pounds, while the movement from shipping points in New Brunswick to Toronto, which is a longer distance, is at 46 cents.

The same comparison exists in connection with many important movements of manufactured commodities. Agricultural machinery moves from Western Ontario to Prairie points at less than the rates which are charged from Detroit and Chicago for movement over equal distances to agricultural areas in the Western United States.

Cheap Transportation in Canada

We are proud that Canadian railways have been able to give cheap transportation, not only last year, but for many years in the past. It is our ambition to maintain the record for we know that it is good for Canada and what is good for Canada is good for the Canadian Pacific.

Unfortunately, the present level of freight rates is below the true economic cost of rail transportation. Notwithstanding the unprecedented volumes of traffic we have enjoyed in recent years, the railway revenues have not kept pace with the rising cost of wages and materials. As a result, our railway net earnings are at an unhealthy and dangerously low level. They do not give anything like a fair return on the investment in railway property. We have been able to provide some return to the owners because of the unusually large income derived from other than railway operations. Much of this other income is attributable to the temporarily high prices of base metals in the world markets, and we have benefited through our stock ownership in the Consolidated Mining and Smelting Company.

As you know, there is presently pending before the Board of Transport Commissioners an application by the Canadian railways for a 20% increase in freight rates, which, if granted, will still leave our rates in Canada considerably below the average level in the United States. Moreover, even if the 20% increase is allowed, the level of freight rates in Canada would represent an advance since 1939, percentagewise, much less than has been experienced in wage rates, material costs, or the cost of living in that period.

A moment ago I mentioned that the level of freight rates today is below the true current economic cost of rail transportation and that railway earnings fall far short of yielding a fair and equitable return on the investment in railway property. There is a factor in this situation which weighs heavily upon us and it is one that I am sure many of you have encountered in your own industries. I refer to the problem of replacement costs.

Accounting practice dictates and income tax authorities permit depreciation to be charged against expenses in the amount of, but not in excess of, the original cost of property being worn out in service, less the salvage value of equipment and installations. The cost of replacing that property today is much in excess of the

(Continued on page 26)

U. S. Direct Investments in Canada Increase

A recent report on "United States Direct Investments in Canada," excluding Newfoundland, issued by the Canadian Department of Commerce and published under authority of the Rt. Hon. C. D. Howe, Minister of Trade and Commerce, reveals a steady and increased flow of United States capital into Canadian enterprises during the last three years. According to the report, direct investments of United States capital in Canadian industries and other businesses controlled in the United States had a value of $2,428 million in 1946 and $2,544 million in 1947. A further substantial rise in the value of investments occurred in 1948. This resulted from the transfer of large amounts of new capital to Canada and from continued reinvestments in Canada of the earnings of Canadian branches and subsidiaries by United States parent concerns. Preliminary incomplete returns indicate that the value of United States direct investments in Canada by the end of 1948 may have exceeded $2,700 million, with the major part of the increase during the year being in manufacturing.

The investments in Canadian manufacturing concerns controlled in the United States were $1,366 million in 1946, $1,488 million in 1947, and probably well over $1,600 million by the end of 1948. The group of direct investments occupies a special place in total investments of United States capital in Canada which were $5,157 million in 1946 and $5,187 million in 1947. Included in these latter totals of all types of investments are United States holdings of Canadian government and municipal bonds, portfolio holdings in Canadian corporation stocks and bonds, and miscellaneous investments, as well as the direct investments in Canadian industries and businesses. Total investments in Canada by all non-residents are estimated at $7,175 million in 1947, including investments held in the United Kingdom of $1,642 million, and investments held in other overseas countries of $346 million.

Direct investments of United States capital constitute a special group of non-resident investments in Canada. As these investments represent active or potential control over a group of Canadian businesses they constitute a more positive form of investment than the more passive types like portfolio investments in public issues of securities. Direct investments have led to the development of Canadian resources and the introduction of new industries and businesses into the Canadian economy. They have consequently accelerated and diversified Canadian industrial development. A substantial expansion has occurred in this group of investments in recent years as shown in statements 1 and 2. Between 1939 and 1947 the value of the whole group increased about $663 million or 35% through reinvestments of earnings and fresh inflows of capital for new investments and expansions of existing establishments. During this eight-year period the value of United States direct investment in Canadian manufacturing rose by $500 million or more than 50%.

The direct investment group has been taken to include all investments in Canadian companies where 50% or more of the capital was owned in the United States. In addition certain other instances of important minority holdings by United States companies have been included where they are known to have constituted control. There are in the category of direct investments certain instances were the majority of the shares may be widely held in the United States rather than concentrated with one company because of the inclusion of all instances where one-half or more of the capital is owned in the United States. The group, therefore, is not limited to investments which are actively controlled in the United States but includes cases where potential control may rest with the majority shareholders in that country.

Because of the characteristics of non-resident control there is a special interest in the place which direct investments occupy in Canadian industry. This position is not one which can be readily appraised by any single criterion. Of significance in judging the position of United States direct investments in Canada there are such objective factors, for example, as the relative place which these occupy in the total number of Canadian businesses, in the value of investment, and in the value of production and employment. But in addition to factors such as these there are others which cannot be measured statistically such as the extent to which control is exercised, the influences upon style and design of Canadian products and upon the business environment generally, and many subjective factors arising from close business relationships between Canada and the United States. The degree of control and active management exercised in Canadian companies controlled in the United States varies greatly from company to company and from industry to industry.

The study which appears in Section II of this report has been prepared with the object of analyzing some of the factors in the position which United States direct investments occupy in Canadian industry. An analysis is presented of the investment, the value of production, and the operating expenses of the larger Canadian manufacturing companies controlled in the United States. In making this analysis only the larger United States controlled companies in Canadian manufacturing have been included. These constitute, however, approximately 81% of the total investment of all United States controlled manufacturers in Canada large and small as there is a concentration in the operations of 154 concerns in which the capital investment was at least $1,000,000. In using the analysis, therefore, it should be borne in mind that,

(Continued on page 25)

Increasing Ontario's Power Facilities

By ROBERT H. SAUNDERS, C.B.E., K.C.
Chairman, The Hydro-Electric Power Commission of Ontario

Chairman Robert H. Saunders furnishes details of construction program of The Hydro-Electric Power Commission of Ontario designed to supply adequate electric service to Canada's leading manufacturing province and to meet the ever-increasing power demands of manufacturer, householder and farmer. Estimates 1,125,000 kilowatts capacity will be added by 1951. Tremendous Frequency Conversion Program to cost approximately $200,000,000.

In Ontario, Canada's front-ranking manufacturing province, low cost hydro-electric power is the vital force sparking an un-

ROBERT H. SAUNDERS

precedented era of industrial development.

To keep pace with the ever-increasing demands for more electricity from the manufacturer, the householder and the farmer, The Hydro-Electric Power Commission of Ontario is making ing rapid progress with a vast expansion program designed to add 1,125,000 kilowatts, or well over 1,500,000 horsepower, to its power resources by the end of 1951. At the same time plans are proceeding on schedule for the conversion of the 25-cycle areas of Southern Ontario to 60-cycle power, a project requiring from 10 to 15 years to complete and expected to cost approximately $200,000,000.

Initial steps of the construction program got underway with the end of the war in 1945, from plans drawn up prior to the close of hostilities and previously blocked by the lack of essential materials. In fact the shortage of materials has persisted but in a lessening degree, almost up to the present time. Nevertheless, work went ahead as rapidly as possible and in September, 1947, the first chapter was completed with the opening of a second 57,000 kilowatt (77,000 h.p.) generating unit at DeCew Falls in the Niagara Peninsula.

In 1948 two new waterpower developments were completed and put into service—one in Eastern and one in Northwestern Ontario. The former is at Stewartville on the Madawaska River and the latter Aguasabon on the north shore of Lake Superior. With a capacity of 60,000 kilowatts (80,000 h.p.), Stewartville serves the highly-industralized sections of Eastern Ontario with 60- and 25-cycle power through the medium of a frequency changer at Scarborough just outside of Toronto.

Aguasabon is an important source of power for the pulp and paper industry and a key station in the future development of the province's flourishing Lakehead district. This plan has a capacity of 40,000 kilowatts (53,000 h.p.). The generating resources of Northwestern Ontario were further augmented in 1948 by the opening of a fourth unit at Ear Falls in the Patricia district. The addition brought the station's capacity up to 18,750 kilowatts (25,000 h.p.) and provided a valuable source of power to the important gold mining properties in the Red Lake and Woman Lake areas.

The fourth addition to Hydro's power resources during 1948 was not from a water power development but was from the Polymer Corporation's huge steam generating plant at Sarnia. Through this medium an added 22,500 kilowatt (30,000 h.p.) has been made available to the Southern Ontario System. This is 60-cycle power but can be changed to 25-cycle at the new Westminster Frequency Changer and Transformer Station near London.

Major theatre of the Commission's construction program at the present time is on the upper reaches of the Ottawa River. At three strategic sites along this historic stream, dams and power plants are in varying stages of construction. First, both in point of importance and degree of completion, is at Des Joachims, 40 miles upstream from Pembroke. Designed for an ultimate capacity of 358,000 kilowatts (480,000 h.p.), second only to the great Queenston-Chippawa station among the Commission's plants, Des Joachims is expected to be delivering power from four of its eight generating units by the Summer of 1950.

Down the Ottawa from Des Joachims and 12 miles from the town of Renfrew, work is proceeding on the Chenaux project. It is designed to have an ultimate capacity of 119,000 kilowatts or approximately 160,000 horsepower, and six of its eight units are expected to be in service by 1951. The third Ottawa project is about 60 miles upstream from Des Joachims near the town of Mattawa at LaCave Rapids. Present estimates place LaCave's potential generating capacity at 153,000 kilowatts which is the equivalent of 204,000 horsepower. Initial deliveries from this plant are expected to begin in the latter part of 1951.

Closely-Knit Grid System

Power from Des Joachims and Chenaux will be fed into the Southern Ontario System. LaCave is in the unique position of being able to serve both Southern and Northeastern Ontario. In this respect it will be the initial link between the two great power systems of the Commission in the Northern and Southern parts of the province. This presages a day, long visualized by Hydro engineers, when through the tie-ins of a closely-knit grid system. Hydro power wherever generated, will be interchangeable throughout Ontario. The power from LaCave for Northern distribution will be carried on a transmission line built through to Sudbury. To feed the Southern System another line will be built to the transformer station in Barrie.

The two remaining hydro-electric developments underway at the present are located at Pine Portage on the Nipigon River and Tunnel, on the Mississagi River near Thessalon. The latter, a spectacular canyon project, is scheduled for completion early in 1950 and will furnish 42,000 kilowatts (56,500 h.p.) for the Sudbury, Nipissing and Temiskaming districts. Pine Portage, far to the northwest, above Lake Superior, will deliver power to the Thunder Bay System, augmenting the supply now received from existing plants at Cameron Falls, Alexander and the previously mentioned Aguasabon Generating Station. It will have an ultimate capacity of 120,000 kilowatts (160,000 h.p.) and will start initial deliveries with a capacity of 60,000 kilowatts (80,000 h.p.) in 1950.

Another phase of Hydro's expansion program is the building of steam generating power stations. One of these projects, with an ultimate capacity of 120,000 kilowatts (160,000 h.p.) will be built at Windsor and construction is underway. A second steam generating station is scheduled for the Toronto area and it is expected that it will have an initial capacity of 155,000 kilowatts or approximately 200,800 horsepower. When completed, the steam generating stations will provide a reserve of power to meet the expected increases in consumer demand in the Southern Ontario System. They will also assist in offsetting power supply shortages due to low river flows—such as occurred in the latter part of 1948.

Along with the work at the power sites, extensions and improvements to the transmission systems are being carried on throughout the province in 1949. New transformer stations and condenser stations for the regulation of voltage have been erected, and a frequency-changer was built at Westminster to handle increased demands in the western section of Southern Ontario.

New Generating Facilities

The Commission has also been active in exploring potential sources of power to help meet anticipated consumer demand growth over the period that must necessarily elapse before the major developments upon which it is now engaged can be brought into service. As a result, emergency generating stations are being installed and are to be supplemented to some extent by Diesel electric units. Some of the former will be installed where existing sources of steam are available thereby eliminating the need for the installation of steam generators. Arrangements are proceeding for emergency installations having a total capacity of approximately 60,000 kilowatts (80,000 h.p.).

Hydro is also giving consideration to further power developments on the English and Winnipeg Rivers in Northwestern

(Continued on page 22)

In Attendance at IDAC Convention

(Continued from page 5)

POSE, ALFRED,
La Banque Nationale pour le Commerce et l'Industrie, Paris
POUTNEY, F. B.
Houston, Willoughby & Co., Ltd., Regina
RATCLIFFE, J. H.
McLeod, Young, Weir & Co., Ltd., Toronto
RHUDE, FORBES
Canadian Press, Toronto
RICHARDSON, GEORGE T.
James Richardson & Sons Winnipeg
RIDLEY, W. B.
A. E. Ames & Co., Ltd. Toronto
ROBERTS, R. G.
Dominion Securities Corp., Ltd. Toronto
ROBERTSON, W. H.
Mills, Spence & Co., Ltd. Toronto
ROBINSON, C. S.
Osler, Hammond & Nanton, Ltd., Calgary
ROBINSON, R. W.
R. A. Daly Co., Ltd., Toronto
ROWLAND, L. O.
"Canadian Finance," Winnipeg
RYAN, GERALD G.
L. G. Beaubien & Co., Ltd. Montreal
ST. PIERRE, G.
Dominion Securities Corp., Ltd., Winnipeg
SELLERS, GEORGE H.
Melady, Sellers & Co., Ltd., Winnipeg
SELLERS, WARREN
"The Telegram," Toronto
SEYMOUR, H. F.
Greenshields & Co., Inc. Montreal
SHARPE, S. G.
Gairdner & Co., Ltd., Toronto
SHAW, D. B.
A. E. Ames & Co., Ltd. Winnipeg
STANLEY, H. D.
Royal Securities Corp., Ltd. Toronto
STEPHENS, S. C.
James Richardson & Sons, Winnipeg
SWINDELL, G. S.
Wood, Gundy & Co., Ltd. Winnipeg
TAFTS, W. M.
Bell, Gouinlock & Co., Ltd. Winnipeg
TOMASIC, A. E.
Thomas & Co., Pittsburgh
TURNEY, A. H.
James Richardson & Sons, Calgary
URQUHART, D. E. B.
James Richardson & Sons, Kingston
WATT, CLYDE T.
Eastern Securities Co., Ltd. Saint John
WEBB, G. W. M.
Bell, Gouinlock & Co., Ltd. Montreal
WEST, R. B.
A. E. Ames, & Co., Ltd. Toronto
WILLIAMS, L. B.
Hagar Investments Ltd., Victoria
WILLIAMSON, A. H.
Wood, Gundy & Co., Ltd. Vancouver
WOOD, J. M. D.
Fry & Co., Toronto
YOUNG, N. D.
Dominion Securities Corp., Ltd., Toronto

Canada and the National Railways

By R. C. VAUGHAN, C.M.G.
Chairman and President, Canadian National Railways

Canadian rail executive points out though Canada had European settlements early in 17th century, its actual development as a great trading nation did not begin until coming of railways three-quarters of century ago. Since that time, in peace and war, railroads have been inextricable part of Dominion's economy. Describes vast operations of Canadian National Railways, extending into all transportation services on land, sea and air. Sees railways suffering from inadequate rates and insufficient capital to improve facilities.

Forgetting the Indians, and taking no note of the Vikings, who established colonies a thousand years ago but left scarcely a trace, the history of Canada begins with the discovery of Newfoundland by Cabot in 1497. A decisive step forward was taken with the arrival of Jacques Cartier about four decades later and the history of the country really got under way with the first French settlements of 1604 and 1608. But in the modern, political sense, Canada is no more than 82 years old. It was on July 1, 1867, that the British North American colonies were united, under Confederation, into the Dominion of Canada. Even in 1867 it was not complete. The province of Manitoba was not created until 1870, British Columbia the following year and Prince Edward Island in 1873; Alberta and Saskatchewan came into being in 1905, and this year Newfoundland entered the union as the tenth province.

R. C. Vaughan

Eigthy-two years is but a moment in the history of a nation. Yet Canada's development into an independent sovereign nation within the framework of the British Commonwealth and as one of the leading trading nations of the world, taking an increasingly important part in world affairs, has been concentrated in an even shorter span of time; most of it has taken place within the present century.

This tremendous development would never have happened without the railways, which opened up the country and made possible the stream of 2,000,000 immigrants within ten years. Without them, Confederation would have been meaningless and, indeed, railway service linking the provinces was one of the provisions of the union. The railways came on the scene three decades before Confederation.

Progress came on wheels, driven along steel rails by the power of steam. This is so self-evident that we take it for granted. We sometimes forget that the development of this vast continent could never have been had transportation remained in the primitive age of the stage coach, the wagon, the canoe, the barge or even the steamboat. It was railway service that made the intensive industrialization of eastern Canada possible, that opened the empire of the western grain and ranch lands to settlement and exploitation, that tapped the mineral and pulpwood wealth of the north. It has been said that trade follows the flag. It would be just as true to say, in North America at any rate, that trade follows the locomotive whistle. And that implies population. The railways went ahead of colonization; they brought the people in; their bands of steel were the lifelines that kept the settlers connected with the older centres; the trains brought in the things they needed from outside and took out to the markets of the world the product of their enterprise and toil. In a few years there was no outside or inside except in the far north; the frontiers were abolished and Canada was all one, its enormous distances and its great diversity held together by a complex network of transportation service.

Over the decades, in war as in peace, the railways have been an inextricable part of the Canadian economy, so closely identified with it that it could not exist without them, any more than the human body could live without arteries. It is not for nothing that we call the railways the arteries of commerce. Nor is the whole story of their importance told when we speak of their daily work as carriers accomplishing their essential duty of carrying men and goods from place to place. To do its job of transporting in a year 86,000,000 tons of freight and 21,000,000 passengers, operating more than 24,000 miles of lines, the Canadian National System, for example, requires a staff of 100,000. Such a concentration of buying power is important in any country's economy and as the largest single employer of labor in Canada, paying out more than $300,000,000 in wages every year, the Canadian National plays no small part in the development of the country as a whole. A gigantic consumer, we are also the largest individual purchaser, spending approximately $235,000,000 a year for materials and supplies, and the whole country benefits when we go shopping.

The Canadian National System

The Canadian National System, it should be pointed out, is much more than a railway. It operates its own express service, handling nearly 2,000,000 shipments every month in the year and carrying a large volume of money order business. It maintains a commercial telegraph company which, with some 23,000 miles of pole line and more than 173,000 miles of wire circuits, handles more than 1,000,000 messages a month. It operates three ocean steamship lines, one serving the Pacific Coast ports between Vancouver, B.C., and Skagway, Alaska, one carrying on Canada's trade with the West Indies and the third connecting the outlying communities of Newfoundland with the capital and with the mainland. While it is operated as a separate company, Trans-Canada Air Lines, flying over 16,000 miles of routes, across Canada, south to important United States centres, south to Bermuda and the West Indies, across the Atlantic to Great Britain, is the property of the Canadian National Railways. The System owns 12 hotels and its manifold auxiliary services include bus and tram lines, car ferries, lake steamers, coal mines, oil wells and stockyards.

The largest railway in Canada (and, in mileage, the largest in North America), the Canadian National is also the oldest. Canada was quick to realize the potentialities of railway transportation when it was in its infancy a century ago. It was in 1832, only three years after Stephenson demonstrated the efficacy of his "Rocket" and railroading took a firm foothold in history, that the proprietors of the Champlain and St. Lawrence Railroad were granted a charter by the legislature of Lower Canada. In 1836, Canada's first railway was opened for traffic. It connected La Prairie on the St. Lawrence River with St. Johns on the Richelieu and served as a "portage" on the water route between Montreal and New York. The second railway in this country, the Montreal and Lachine, which began operations in 1847, was also a portage line, designed to bypass the Lachine Rapids. These two railways, merged in 1857, ultimately became part of the Grand Trunk.

Public Grants Failed

In the early days, the railways were encouraged by public grants. When they failed, they were taken over and operated as public services. The Federal Government itself built the Intercolonial and the National Transcontinental. When those great enterprises, the Grand Trunk, Grand Trunk Pacific and the Canadian Northern could no longer carry on as private enterprises, they too became public property. All the government lines were welded into the system now known as the Canadian National, which, with the completion of Confederation, includes the Newfoundland Railway.

The Canadian National System not only supplies efficient service to commerce and agriculture but fulfills broad economic and social obligations to the people of Canada. The country profits incalculably by a complete and modern railway service. As a pioneering and developing agent, as a public service, the C. N. R. has a number of unremunerative "thin-traffic" lines. But Canada needs them. It has been demonstrated that even when they are operated at a loss they are of vital importance to the development and the defense of the country.

The Canadian National, in common with other railways in Canada, is suffering the disabilities imposed by the times. Such freight rate increases as have been granted do not cover the enormous increases in the cost of labor and materials. While the provision of essential service comes first, the C. N. R. is also concerned about financial results. It needs money to maintain that service at high standards and to improve its facilities.

The Government of Canada has appointed a Royal Commission on Transportation. In its submissions, the National System will cover the wide field of railway transportation and ask the Commission to make recommendations directed toward placing the railways in a better position to serve in the development of the country and its commerce.

The Canadian people have their problems but they have every reason for faith in their country. Before the second world war, Canada stood fourth in world trade; in 1944 and 1945 she held second place; today she is third. In the production of newsprint, nickel, radium, platinum and asbestos, wheat and fish she stands in the front rank. Her known natural resources are still immense and technological advances will multiply the usefulness of many of them. Vast areas of the country remain practically unexplored but enough is known about them to promise great things for the future. The manufacturing industries have expanded amazingly since the beginning of the century, at a pace accelerated by the two world wars, capital expenditures have increased and employment is at a high level.

Through the efforts of her vigorous, practical and far-seeing people, Canada in her relatively short history has risen to greatness in the world. Still greater years lie ahead.

I. D. A. C. Committees

(Continued from page 7)

THOMAS, G. N.
Melady, Sellers & Co., Ltd.
Winnipeg

Alberta District

DUGGAN, K. P. (Chairman)
D. M. Duggan Investments, Ltd.
Edmonton
FARNSWORTH, H. R. (V.-Chm.)
Royal Securities Corp., Ltd.
Calgary
BAXTER, HARRY
James Richardson & Sons
Edmonton
MORGAN, R. T.
Wood, Gundy & Co., Ltd.
Edmonton
SYDIE, JOHN E.
Sydie, Sutherland & Driscoll, Ltd., Edmonton
TURNEY, H. A.
James Richardson & Sons
Calgary
YORATH, E. J.
Carlile & McCarthy, Ltd.
Calgary

Pacific District

BORRIE, W. J. (Chairman)
Pemberton & Son Vancouver Ltd., Vancouver
BROWN, COL. A. M.
Odlum Brown Investments, Ltd., Vancouver
DINGLE, H. H.
Wood, Gundy & Co., Ltd.
Vancouver
EDGELL, R. H.
Yorkshire Securities, Ltd.
Victoria
GLASGOW, F. L.
Royal Securities Corp., Ltd.
Vancouver
SAMIS, B. C.
Samis & Co., Ltd., Vancouver
SHERWOOD, G. D.
McMahon and Burns, Ltd.
Vancouver
DUNCAN, J. L. (Sec'y-Treas.)
Wood, Gundy & Co., Ltd.
Vancouver

Gerald Ryan, *L. G. Beaubien & Co.*, Montreal; Hal Dewar, *Dewar, Robertson & Pancoast*, San Antonio, Texas; John B. Ridley, *A. E. Ames & Co.*, Toronto; Joseph W. G. Clark, *Investment Dealers Association of Canada*, Toronto

R. B. McKibbin, *Bank of Canada*, Ottawa; N. D. (Jack) Young, *Dominion Securities Corp.*, Toronto; R. G. Roberts, *Dominion Securities Corp.*, Toronto; J. E. Coyne, *Bank of Canada*, Ottawa

Investment in Canada Expands

By GERALD G. RYAN*
Retiring President, The Investment Dealers' Association of Canada
President, L. G. Beaubien & Co., Ltd., Montreal

In presidential address, Mr. Ryan lauds European Recovery Program as beneficial to Canada. Says investment of capital in Canada continues at impressive levels and is in contrast with lack of enthusiasm reflected in low security prices on stock exchanges. Expresses confidence Canadian Government, which has already taken first step to eliminate double taxation of dividends, will ultimately abandon it altogether. Praises educational program of Investment Dealers' Association of Canada, and concludes with plea for broadening field of institutional investment.

Gerald G. Ryan

It gives me great pleasure to open the 33rd Annual Meeting of The Investment Dealers' Association of Canada and to thank the members present for their large attendance.

I am happy to note the presence of officials of the Bank of Canada and the International Chamber of Commerce. The latter held its Congress in Quebec City last week, at which I had the honor of representing the IDAC.

Representatives of the Press are cordially welcomed. Their cooperation during the past year, as in other years, is warmly appreciated and has been most helpful in making better known to the public the work of our Association.

An address of this kind is necessarily highly selective. As investment dealers, we are closely concerned with events and trends in public finance, private enterprise and general business, a field too wide to permit a general review of the period elapsed since our last Annual Meeting. I shall therefore speak only of a relatively few things which seem to me of outstanding interest, with the hope that my choice will be confirmed by your approval.

European Recovery Program

Perhaps the most powerful single influence, economically and politically, discernible in the western world today is the European Recovery Program. And not only the most powerful but the most beneficent. Naturally, the operation of the Program marks a transitional period which, unless terminated earlier by the United States Congress, will end on June 30, 1952. Already Canada, amongst others, is experiencing some of the trading difficulties inherent in the unaided future. But the essential point which I would like to make is this: That ERP is meeting considerable success in its prime objective which, as we would do well to recall, is to promote the economic recovery of the participating countries, not the easy prosperity of the exporters of the western hemisphere. The remarkable achievement of ERP is measured by the return of hope and vitality to one of the key areas of the world. Given this, we are all given much, and Canadians by no means the least. With this, plus intelligent cooperation between the nations concerned, the eventual return of reasonably satisfactory trading conditions should not prove impossible despite the formidable problems involved.

Investments in Canada

Investment in capital goods in Canada continues at impressive levels, both in terms of physical volume and dollar value. During 1948, capital expenditures by Canadian business (including agriculture), governments and institutions, excluding the cost of repairs and maintenance, amounted to slightly more than $3,000 million, a remarkably close approximation to the government forecast of $2,800 million. The survey for 1949 forecasts an all-time high of capital investment, the total being estimated at almost $3,300 million. Compared with the actual results of 1948, this estimate indicates an increase of 8% in dollar value and a slight advance in physical volume. Massive investment in capital goods has been one of the prime contributors to our postwar economic prosperity. Both private and public spending have played important parts but naturally a special interest lies in the proportion of capital expenditures attributed to private enterprise. It is worth noting, therefore, that in 1947 the expenditures of business undertakings (excluding housing and government-owned corporations) accounted for $1,400 million, or 58% of the total $2,400 million of new capital investment during that year; in 1948, $1,600 millions, or 53% of the total $3,000 millions; the indicated share of business for 1949 being $1,580 millions, or 48% of the forecast total of $3,300 millions. Assuming expectations for 1949 to be realized this means a total new capital investment by business of almost $4,600 millions during the three years, 1947 to 1949, inclusive. If the figures for repairs and maintenance were included, the total would rise to $7,000 millions, equivalent to 57% of the 12¼ billion dollars raised by cash sales of War Loan and Victory Bonds during 1940-45. Even after allowing for increased prices, these are handsome figures which, during the immediate postwar period, would have seemed well beyond reasonable expectations either as to size or continuity of expansion. Investment of this magnitude points to a boldness of leadership in business which contrasts oddly with the lack of enthusiasm reflected in the low price levels currently obtaining on the stock exchanges.

The record of Canadian bond and stock financing, less retirements, during 1948 compares as follows with the figures for 1947: Dominion direct and guaranteed (excluding banking issues)—a net decline of $211 millions as against a net decline of $271 millions in 1947; Provincial—a net increase of $188 millions, up very sharply from the net increase of $65 millions reported for 1947; Municipal—a net increase of $52 millions, also up very substantially from the $28 millions shown for 1947; corporate bond and stock issues—a net increase of $195 millions and $45 millions, respectively, comparing with $121 millions and $110 millions in 1947. Up to early 1948, a favored form of corporate bond finance was the serial issue, of which the first 10 maturities were usually offered to the banks. The changed policy of the banks in regard to such offerings has restricted the market for short-terms and necessitated a greater reliance on the single term, sinking fund issue.

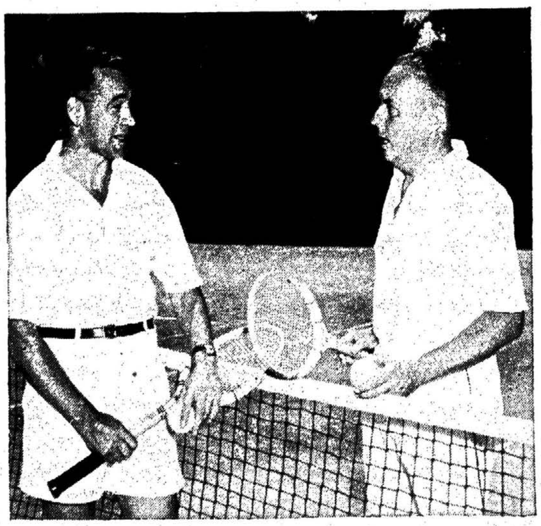
A Step Toward End of Double Taxation of Dividends

A novel feature of the Budget brought down last March was of outstanding interest to investor and investment dealer alike, both in its immediate tax relief and in its hopeful implications for the future. I refer, of course, to the step taken towards the eventual elimination of double taxation of corporate profits by the allowance to individuals of a credit against personal income tax equal to 10% of the dividends received on common stocks of Canadian tax-paying corporations. The purpose of this concession is to render more attractive the purchase of equities and thereby to stimulate the flow of venture capital into sound Canadian enterprise. The move is opportune because, as we all know, in an economy based on private enterprise, the buyer of equities is a V.I.P. Judicious risk-taking and an adequate supply of venture capital, arising as much as possible within our own borders, are essential to Canada's economic progress. Obvious impediments are heavy personal income taxes and the double taxation of corporate profits. Both obstacles received sympathetic attention in the recent Budget, and there is good hope for the progressive removal of the second.

Consequently, the position is considerably better than it was but not, in my view, as good as it should be. On this point I would like to make two observations: First, the tax credit is limited to the most junior class of shareholder whereas of recent years at any rate, it is the buyer of senior stocks who has provided the bulk of the capital raised in Canada by equity financing. My second remark relates to the anxious and doubting mind which, understandably enough, is characteristic of our times. We hear very frequently the fear expressed that the present prosperity cannot last. This is quite true. Obviously, it cannot go on forever and certainly cannot continue in its present pattern for more than a few years at the very most, if that. Our current export activity is abnormal to the extent that it is temporarily and artificially stimulated by ERP off-shore purchases in Canada. Domestic investment in capital goods is abnormal to the extent derived from

(Continued on page 22)

*Extracts from Presidential address of Mr. Ryan at the 33rd Annual Meeting of The Investment Dealers' Association of Canada, Minaki Lodge, Ont., June 22, 1949.



Peter Kilburn, *Greenshields & Co.*, Montreal; Hal Dewar, *Dewar, Robertson & Pancoast*, San Antonio, Texas, President of the Investment Bankers Association of America

R. H. Dean, *Nesbitt, Thomson & Co.*, Montreal; C. S. Robinson, *Osler, Hammond & Nanton*, Calgary, Alta.

Dean Nesbitt, *Nesbitt, Thomson & Co.*, Montreal; Ian Matheson, *Dominion Securities Corp.*, Ottawa

Significance of Alberta Oil to Canadians

By C. O. NICKLE*
Editor, "Oil in Canada" Magazine
Publisher, "Daily Oil Bulletin," Calgary

Holding Alberta may become the Texas of Canada, Mr. Nickle contends, in Alberta alone, oil industry has potential resources of $2½ billions. Points out importance of oil industry in defense and in development of Canada, and looks for expanded markets for products when pipe lines are built. Sees need for additional large capital investment in Northwest Canada's oil projects, and concludes Alberta oil is destined to be one of Canada's greatest industries.

Carl O. Nickle

Texas is a remarkable state — vast, husky and rich. The majority of its people—to a greater extent than those of any other American State—is used to thinking big, talking big, and doing big. Anything that Texas has must be at least the "biggest and best in the whole Yewnited States." Outside of size—whether referring to land area, industry, hats or mouths — Texas has plenty of reason to boast.

Texas and Texans have grown to wealth and stature in world affairs because of petroleum and natural gas. The State is producing about one-quarter of all the oil being used by the whole world—enough to provide eight to nine times the entire needs of all Canada—and is the world's biggest gas producer. Americans living outside of Texas will agree with the latter statement — but they won't necessarily be thinking of natural gas of the kind to which I refer.

I come from Alberta—a province whose people now have good reason to believe their land will become the Texas of Canada. Furthermore, I come from Calgary — that Foothills City, Oil Capital of Canada, whose citizens over the past half century have contributed greatly to making other Albertans, other Canadians, and the world oil industry, conscious of the rich promise of oil and gas underlying the province.

Being a Calgarian and an Albertan, I have been pretty good reason to start talking like a Texan. I may dish out some staggering sort of figures and predictions. When I'm finished speaking, I hope that you will believe —as I sincerely do—that what is taking place in Alberta, and to a lesser extent in other western provinces, is of such importance to Canada and the world that even a blowhard Texan or Albertan would be hard put to do the matter full justice.

Over the Plains and Foothills of Alberta, four score companies —Canadian and American, large and small—have some 4,000 men at work. They are carrying on a job which has during the past 2½ years vastly altered the economy of Alberta, now and for generations to come; has greatly affected the economy of the Prairie Provinces; has made its weight felt in increasing degree in the Canadian economy; and has become of increasing importance to the continent and the world.

This Alberta oil and gas industry has already uncovered natural resources worth at least 2,500 million dollars, despite the fact it has so far completed only a minute fraction of the ultimate, thorough exploration job. It has recorded the fastest growth of any Canadian industry in the postwar years, in terms of spendings, production and revenues. This year, for the first time in history, Alberta oil has made the Prairie Province's self-sufficient in petroleum. There is good reason to hope that, in from three to five years, Alberta can develop oil reserves and productive potential large enough to make all of Canada self-sufficient in petroleum. When — and, still, if — that day comes, Canada can achieve at least two major objectives: (1) self-sufficiency in a resource as vital to the economy as the basic necessities, food, clothing and shelter; (2) elimination of the greatest single drain on Canada's U. S. dollar supply, and the achievement by Canada of a long-term favorable "balance of trade."

Mighty Important to Canada

These Alberta oil reserves are mighty important to Canada and our friends among world nations from the defense viewpoint. The more oil found, the more secure will we be should Joe Stalin and his gang decide to turn the present "cold war" into a "shooting war."

During World War II the democracies had to use about two million barrels of petroleum daily to fuel the armed forces, on land, sea and air. If Communism forces war on us, we and our allies will need at least two million barrels daily for the fighting job alone. During the last war the United States carried the supply burden. It is no longer capable of fueling a war and still look after its own minimum civilian needs. In the Middle East are located half the world's proved oil reserves. The Arab countries are the only ones presently capable of expanding production fast enough to fuel a war—and Joe Stalin sits right at the back door to those reserves. He could take over, or at least neutralize, Middle East oil in event of war.

For safety's sake alone, if for no other reason, great oil reserves in Canada and the means of producing, transporting and refining those reserves, are vital not only to us, but also to the United States, Great Britain, and our other good friends in the world.

As some of you know, southwest Alberta enjoys each winter what we call "Chinook Winds"—warm winds which blow across the Rocky Mountains at frequent intervals, sometimes raise temperatures 40 to 70 degrees in a few hours, melt away the snow and bring us Spring weather — until the next blizzard appears.

The Rev. John MacDougall — a pioneer missionary who built a church in the Foothills west of Calgary more than half a century ago—had a favorite Texas-style "true experience" story about Chinooks. He claimed that one day, many winters ago, he hitched a horse to his sleigh to drive from his church to Calgary. There was plenty of snow on the ground, but he knew he had to hurry, because he could see a warm Chinook Wind heading down towards him from the mountain pass to the west.

Just as he climbed aboard the sleigh and started his horse towards Calgary, the Chinook caught up with him. He raced the Chinook all the way to Calgary, but could never quite get ahead of it. He finally reached Calgary, but the race was nip and tuck. As Rev. MacDougall explained, the Chinook Wind melted the snow so fast as it raced beside his sleigh, he was barely able to keep the front sleigh runners in snow, and the rear runners travelled all the way in water.

The Chinook story has a lot in common with Alberta's oil industry. Chinooks are beneficial. So are oil discoveries. Sometimes Chinooks can be temporarily embarrassing as one almost was to John MacDougall. So can oil discoveries and expansion of productive potential — as they are right now in Alberta.

Chinook winds can travel fast. Ability to produce oil can expand far faster than transport, processing and marketing facilities can be created to cope with potential. That is Alberta Oil's problem today. The industry is straining its britches, suffering growing pains, getting bigger every day, waiting for pipelines, refineries and markets to give it a vastly greater place in the North American economy.

Before looking into the future, and discussing what is being done about it, let us look back at the past and review the present picture.

A long history precedes the Leduc discovery of February, 1947, which started the modern, greatest era of Alberta oil. The first Alberta oil boom was a half century ago. It started because Alberta pioneers Kootenai Brown and Lafayette French saw a band of Indians, back to 1898, skimming a brown, vile-smelling, oily liquid off the top of a slough near Pincher Creek, in the southwest corner of Alberta.

Kootenai and Lafayette figured the liquid—which the Indians were using for internal and external lubricant (for purgatives and rub-downs)—was rock oil. They made a deal with the Indians, traded them a pack horse for the slough, and then headed for Calgary. Calgarians joined them to provide capital, and in 1901 a forest of tents sprang up around the slough and drilling was started. In those days a few hundred feet was "deep drilling." The first oil promoters reached

(Continued on page 19)

*An address by Mr. Nickle at the Annual Meeting of the Investment Dealers' Association of Canada, Minaki Lodge, Ont., June 23, 1949.

J. H. Ratcliffe *McLeod, Young, Weir & Co., Ltd.*, Toronto, with Indian guide at start of fishing trip

J. E. Coyne, *Bank of Canada*, Ottawa; K. P. Duggan, *D. M. Duggan Investments*, Edmonton, Alta.; R. B. McKibbin, *Bank of Canada*, Ottawa; D. B. Dingle, *Wood, Gundy & Co.*, Toronto; George Richardson, *James Richardson & Sons*, Winnipeg

Norma Ross, teletypist for *Canadian National Telegraphs*, who put a special wire through for the I. D. A. C. Convention

Canada's Role In Europe's Problems

By ALFRED POSE*

General Manager, Banque Nationale pour le Commerce et l'Industrie, Paris

Prominent French banker reviews problems facing Europe as result of two destructive wars and extols U. S. European recovery aid and Atlantic Pact as leading to united and more prosperous Europe. Cites world-wide industrialization following World War I as creating need for new patterns of international cooperation, and urges Canada to cooperate with European nations in a common program of action to foster world-wide economic expansion. Sees Canada benefiting through international investment.

We Frenchmen, have dreamed so much in the days of our childhood, of the French-Canadian adventure symbolized by the glorious names of Jacques Cartier, Champlain and Montcalm, that, as men, every one of us has in his heart a special feeling for Canada. And although our minds are free from obsolete and narrow nationalism, we feel "at home" in a very deep sense, in this country where French peasants from Brittany, Normandy, Charentes and Poitou lived, suffered, died, sometimes were killed in action and succeeded in keeping alive in this land the French language and a French culture.

Alfred Pose

Our gratitude to these pioneers does not imply a feeling of hostility toward their adversaries. England and France opposed each other in North America in the belief that they were separated by major causes. And even when they ceased to fight with one another, after the fall of Napoleon, a real friendship did not develop because the two nations were not yet able to perceive their common ideals. The First World War opened their eyes. Faced with the German conception of war and of international relations, England and France had the same reaction. They realized that they were bound together not only because they had a common enemy, but because they had a common sense of justice. They felt closely associated for the defence of a common cause, and not merely fighting the same enemy.

However, the time was not yet ripe for the establishment of a thoroughgoing and lasting cooperation between the two countries. Traditional nationalism remained much stronger in England than in France. Relations between the two nations continued to be friendly, but each considered that its basic duty was to serve its own interests.

The Second World War, in which Germany put into practice with unrestrained brutality all the theories implicit in the doctrine of pan-Germanism, that is, the refusal of any rights to the human person, created for Eternal Glory, and the denial of the very foundations of our Christian civilization, revealed to England and France their profound spiritual kinship, based upon their common Latin and Christian inheritance. Thus, from the outset, the Second World War was an ideological war in which the fate of Christianity itself was at stake.

But the victory of the United Nations over Germany was not synonymous with the victory of Christian principles because the Communism of Marx was among the victors. Thus arrived the day when the Christian nations, at last, became fully aware of the futility of any past motive for disagreement and of the urgent need of unity.

*An address by Mr. Pose before the Annual Meeting of the Investment Dealers' Association of Canada, Minaki Lodge, Ont., June 22, 1949.

Atlantic Pact—Symbol of Unity

Gentlemen, a solemn diplomatic act, known to the public as the Atlantic Pact, from now on justifies the profound solidarity of these countries, each of which had, for centuries, struggled for its own supremacy.

Truly speaking, before it became officially sanctioned, this solidarity was imposed in fact, and has proved its existence. Since time immemorial, the armies of the East have periodically descended on the West; but since 1914, there have been no similar invasions of Western Europe without the intervention of England and America.

England and America which, in the past, flattered themselves on their attitudes of either "splendid detachment" or "isolation" have been compelled to acknowledge, and have today proclaimed that their spiritual boundaries run across the center of Europe. These boundaries include those countries where a certain type of civilization dominates, where a certain scale of values are recognized, where a certain conception of Man triumphs, in short where an order prevails without which life would not be worth living.

It is indeed comforting, in this era where materialism seems preponderant everywhere, to welcome such pure idealism in the realm of international politics where only such a short time ago, utmost brutality and even cynicism ruled.

Why did this happen? Because the long treasured civilization which Western European nations inherited in common from the Greco-Latin tradition and from Christianity, the new order and culture which Christianity has established, after the upheaval caused by the fall of the Roman Empire, are in danger. Now, again, the inherent tyranny of the Orient threatens to force the Occident into outrageous slavery. And this danger reveals to all of us how futile it is for neighbors to waste their time in disagreements when the very heart and soul of their civilization is at stake.

A United Europe

Twelve centuries ago, the whole of Christianity rose to check the tide of Mohammedanism; once more today, it rises to oppose a danger even greater. Members of Christianity, faced with the menace that weighs upon their common civilization, suddenly acknowledge that they are brothers and must remain such if they do not wish to perish. "Unite or perish," such is now the European nations' dilemma, and the reason why the first step was taken toward a United Europe.

A steady movement to that end, is making progress under the powerful and generous impulse of the great Republic of North America, that crucible of all European races. The example of Canada where elements of two nations live closely associated, after being so fiercely opposed in the past, shows how fruitful such a movement may become.

The birth of a European federation is not only the consequence of a common danger; it is also the expected outcome of an evolution which had its start at the time of the First World War and was only hastened by the Second.

The modern European nations which took shape among the ruins of the Roman Empire are no longer in a position to protect their independence. For the fate of a nation engaged in modern warfare does not chiefly depend on gallantry and self-sacrifice on the part of its soldiers. The issue of war is today determined in the first place, by the level of manufacturing production: those nations are barred from independence whose own resources are not adequate to the development of a very powerful industry, warranting considerable output.

It was just after the war of 1914 that so-called key-industries were first spoken of, this expression referring to industries considered vital to national defense. The war of 1939-1945 has but considerably enlarged the scope of this recent concept. Industries delivering means of destruction have become so vast, so complicated, that among the industrial nations themselves, very few possess the combined assets necessary to conduct war. In Western Europe, mother of modern industry, nations have become the very victims of Science with which they had, with such pride, endowed the world. Obviously none of them owns the huge resources now adequate to the safeguard of national independence.

Unable, today, to protect themselves without outward assistance these nations, moreover, cannot afford to maintain the standard of living which they enjoyed before the First World War. Before 1914, Europe, where powerful modern industry was located, supplied the world with its industrial products and in exchange, received raw materials and agricultural produce. Division of labor was thus established between Europe, primarily a manufacturing producer, and the rest of the world. Consequently, several European countries had allowed their agriculture to decline in order to devote themselves, on a larger scale, to manufacturing activity from which they found themselves able to derive important resources: this caused their population to increase considerably while enjoying a continuous rise in the standard of living.

The first setback to such a specialization of labor was the industrial development, in the United States of America. Specialization was further impaired by the war of 1914-1918 which almost compelled Western Europe to retire from the manufacturing markets. Europe began to import products that she formerly exported, while the United States of America brought their own output to a huge volume and, in doing so, increased their control of world markets. They were, finally, driven themselves into war. Many new countries then, which had re-

(Continued on page 23)

Facing camera, left to right: Andrew Beaubien, *L. G. Beaubien & Co.*, Montreal; W. J. S. Evans, *Guildhall Securities, Ltd.*, Montreal; back to camera: Frank Evans, *McLeod, Young, Weir & Co.*, Montreal; A. D. Hunt, *W. C. Pitfield & Co., Ltd.*, playing bridge on the special train in the Fort Pitt Modern Lounge Car of the Canadian National Railway

H. F. Seymour, *Greenshields & Co.*, Montreal; Peter Kilburn, *Greenshields & Co.*, Montreal; Lyall Frazer, *Western City Co.*, Vancouver; A. R. Duffield, *Wood, Gundy & Co.*, Montreal

Outlook for International Investments

By P. C. BONVOISIN*

Vice-Chairman of the Board, Banque de la Societe Generale de Belgique, Brussels

Belgian banker points out important role of international investment in world economic development and looks for United States to replace Britain and France as lenders of capital abroad. Praises ECA program, and lays down as conditions essential to international investment: (1) removal of war fears; (2) secure political structure of would-be borrowers; (3) mutual respect of creditor and debtor countries; and (4) removal of controls on foreign exchange and capital transfers. Upholds recommendations of International Chamber of Commerce regarding foreign investment protection.

As a Belgian I may add that from the very start of our economic history, and certainly since the industrial revolution, we have always been confronted with the uneasy task of finding on an ever-increasing scale the capital requirements of our growing industry. Being a land of moderate wealth, having been the battlefield of Europe for centuries, we have never had among us rich people and large estates to supply the adequate means to meet the needs of our economic expansion. Yet we succeeded in doing so, thanks to the organization of our investment market, thanks to our strong banking organization and most especially to the Société Génerale de Belgique, to the group to which I feel honored to be attached, the Société Générale which was originally created under a formula which was quite audacious in 1822, as a company formed to promote the national economic development.

Pierre Bonvoisin

What International Investment Has Accomplished

What is rather strange to point out is that in 1949 the present generation all around the world seems to understand less and less about international investments. Yet it was only because the mechanism of investment was well-known and worked smoothly that the great ventures of the 19th Century were successfully brought to completion. It was because in those bygone days the private houses of old Europe knew how to study new business opportunities, how to finance them and how to spread among the portfolios of their clients the bonds and the capital equities which were needed to create industries and trade in the so-called undeveloped countries. If European capital had not originally taken the risk of developing what was then called in Europe the New Continent, how would Canada have become such a well-equipped community? How would the United States have risen to the limelight of economic supremacy?

Then came World War I, leaving the Western European countries exhausted. Great Britain, which had been for so long the financial center of the world, could hardly tackle the problems arising from its impoverishment and its re-adaptation to a new world economy. France, who used to be quite instrumental in absorbing in her long-term market the bond issues of many a foreign government, had not enough resources to rise again from her war destructions. And tremendous needs of capital were apparent everywhere, in Belgium, in Germany, in central European countries, not to speak of Russia which had definitely been cut, and has been ever since, from what was before 1914 the European economic area. The whole investment system of the world was completely out of balance.

Then appeared a chance for something new. The New Continent came into the foreground. The United States which had been previously a debtor country saw its balance reversed in 1917 and gradually became the bankers of the world. But it seems that to become an international center it is not enough to be possessed of large financial means. The United States lacked the experience and the technique which it had taken London centuries to acquire. Investments were not made out of savings but rather with short-term money. So, when eventually the deflationary crisis started the system collapsed. Numerous claims had to be written off. The social and political stability of the new world were shaken and recovery was not yet completed when World War II started.

And now once again we are faced with the same problems of rehabilitating the world economy. The destruction is far greater than after World War I. Great Britain has been badly hit. France, which had devastated areas in 1918 only along the front line, has now to repair ruins spread over the whole of her territory. Germany has hardly a large city which has not been seriously damaged. Europe has been cut by the iron curtain and natural currents of bygone days are to be replaced by a new mechanism. And on top of this material destruction the social stability seemed to be undermined. Men and women had lived so many years under such appalling circumstances that in many countries they could hardly pull themselves together to get down to work and start over, sometimes all anew. The ground was thus prepared for social troubles and for an easy penetration of the desperate ideology of the Reds.

Role of United States

Under such gloomy conditions a brilliant hope was brought about when the United States, realizing that Europe could not rise again without help, came to the rescue with various devices at first, and with the Marshall Plan for the last two years. For this most generous aid given to the impoverished countries of the European Continent, Europe and the world will always remain indebted.

The emergency measures have then been taken. But now the responsible people are faced with long-term problems. Everybody is aware that the economic life of the world is at present engaged in a temporary period which will come to end in 1952. According to the expectations given, the trade balance of the beneficiary countries will not yet, by then, be in full equilibrium. So the experts are already working on a long-term program. For it is a necessity that the equipment of each community be adapted to its requirements so that each may try to restore at least a minimum standard of living.

Then the problem of investments comes into play.

Already the Marshall Plan has set out the principle that part of the dollars given away should be employed for long-term use as soon as the first urgent needs for food and raw materials have been met. And so, the building up of new plans and the development of already existing industries has started. I am not going to go too deeply into the many intricacies of such a planning. Though it is something of a paradox that a country believing in liberalism, in individual initiative and in private enterprise has been obliged to indulge in government planning to distribute its long-term help. It would have been difficult to do otherwise.

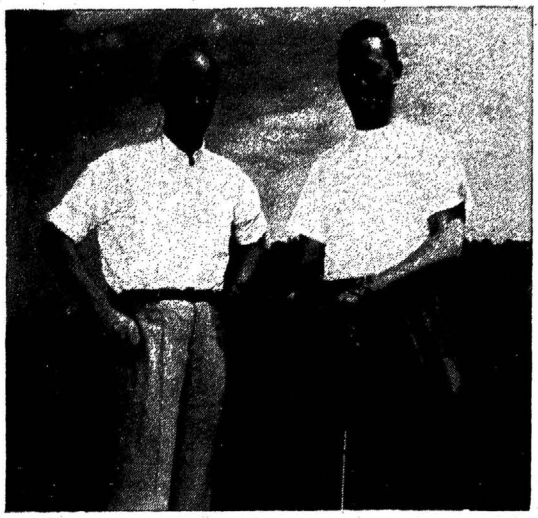
But again this first achievement among all others brought by the E.R.P. is still a feature of the transitory period. After 1952, and of course so much the more later on, it is most likely that there will still remain quite a lot of capital requirements which will not be provided for. So many needs exist at the present moment in Europe, both for private enterprise and for the services which are discharged by the public authorities.

After Marshall Plan Ends, What?

Who will finance them? That is the question. Not much can be expected from the citizens of the countries upset by the war. There will still elapse quite a time before savings can be adequate to the needs. Has the time come when it is only logical to expect that the rich communities of today will help out those econ-

(Continued on page 18)

*From an address by Mr. Bonvoisin before the Annual Meeting of the Investment Dealers' Association of Canada, Minaki Lodge, Ont., June 24, 1949.



Robert Clark, *Calvin Bullock*, New York City; James MacMurray, *Eastern Securities Co.*, St. John, N. B.

Eddie Gunn and Harry D. Bartlett, *Midland Securities Limited*, Toronto, displaying catch of fish

Hal Murphy, *Commercial & Financial Chronicle*, New York; J. P. Guite, *Credit Interprovincial Ltee.*, Montreal

The Retail Securities Market Is Still Here!

By D. BRUCE SHAW*

A. E. Ames & Co., Ltd., Winnipeg, Man.

Asserting retail securities market is not melting away, but, instead has been expanding like a puff ball, Mr. Shaw cites increasing number of securities holders. Says Canadian people have more idle funds than ever before, and ascribes lack of active retail market development to small profit margins and keen competition in bidding for new issues. Urges simplified language in merchandising securities, and suggests instalment buying of securities as new investment instrument.

What has happened to Retail Market for securities? Even a cursory examination will show that it hasn't disappeared. Instead, the market—if by market we mean present holders of investment instruments with money on hand to buy more, or people who may not now own securities but have savings to invest if they could be persuaded to do so—that market, far from melting away, has been expanding like a puff ball.

D. Bruce Shaw

In the first War Loan there were 178,363 individual applications for bonds. In each of the Victory Loans from the Fifth to the Ninth, inclusive, there were roughly 3,000,000 individual applications for bonds.

In 1930, the Chartered Banks had 46,712 shareholders; now there are 55,371 names on the shareholders' lists of Canadian Chartered Banks.

*A talk by Mr. Shaw at the Forum Discussion of the Investment Dealers' Association of Canada Annual Meeting, Minaki Lodge, Ont., June 23, 1949.

The Bell Telephone has 52,500 people sharing in the profits of that company, and having the right to vote at its shareholders' meetings. This is nearly three times the number listed in 1935, and nearly double the number in 1945.

There can be scarcely a family in Canada that doesn't now own, or has not at one time owned a Victory Bond. The number of people owning and familiar with other types of securities—provincial, municipal and corporation bonds, preferred and common shares, must run into the hundreds of thousands.

People Have More Uninvested Money

And more people have more money uninvested now than ever before in our history. Bank deposit figures are familiar to you, but let us take another look at them. In 1934 there were 4,000,000 savings accounts in our banks, for a total of $1,370 million. Two hundred seventy-eight thousand of these people had accumulated more than $1,000.

As of Sept. 30, 1948, these accounts had grown from 4,000,000 to 6,600,000 in number for a total of $4,048 million. Now there are 887,000 of these people whose savings have passed the $1,000 mark.

So, we see that in 15 years, Canadians have tripled the amount of money they are carrying in savings accounts, and there are more than three times as many people now as there were then whose bank accounts run into four figures.

Patently the market is there. True, the impact of war time and postwar taxation seriously affected the accumulation of new capital in the upper income tax brackets. Equally true, heavy succession duties have broken up many previously large accounts. The fact still remains, however, that there is plenty of money available for investment. The catch seems to be that this money is in the hands of people who, for some reason, prefer to leave it in bank accounts, rather than placing it in investment securities. Surely these people stand to benefit if we can persuade them to put their money more effectively to work.

How Can Retail Market Be Developed?

This brings us to the second part of the topic assigned to this discussion period, "What can we do to develop this Retail Market?" How can we entice these dollars out of the savings accounts and into deposit boxes in the form of securities? The implication, of course, is that some, if not all of us have not been too successful to date. There is, perhaps too, an implication that we are losing our touch, and that we are not as successful as we were 15 or 20 years ago on a relative basis. The problem is to get at the reasons for our lack of success and, if possible, to find some corrective measures.

There are, undoubtedly, many reasons. Perhaps we lack salesmanship in the better sense of that word. Yet we are the people who largely developed and directed the sales program so successful during nine Victory Loans.

Perhaps our merchandise hasn't the necessary appeal—isn't cut to the measure of our prospects. It may be that we need some kind of packaged merchandise attractively wrapped and put up in standard sizes of sufficient variety to meet the most common needs. This resort to standard packages may be necessary to overcome the cost involved in custom tailoring.

Perhaps we aren't getting the business simply because we cannot afford to go after it with our present margins of profit. When many of us in this room began our careers in the investment business, we carried a vastly different line in our brief bags. I have before me an offering letter of my own firm from which I worked in my first sales territory. I could put on display Dominion of Canada Guarantees—C.N.R. 5s of 1954—Ontario 5s of 1948—Torontos, Hamiltons, Londons, Kitcheners, Winnipegs, at yields ranging from slightly below 5% to something better than 5%. In the corporation field I could choose from Bell Telephone at 4.96%, Gatineau Powers at 5.22%, Manitoba Power 5½s, fetching 5.42%, Shawinigans on a 4.90% basis, and an attractive group of industrials yielding close to 6%.

Also important, it was common in those days for an offering list to carry a perforated strip at the right hand side, indicating concessions available to sub-agents. These sub-agents were important to us. There was scarcely a town too small to have one or more good sub-agents available to search out investment funds for us. These men were not willing to work for nothing, and did not find it necessary to do so. Our profit margins permitted us to give them worth-while commissions, usually ½ of 1%, and still have enough left to compensate the salesman and the firm.

You know the situation now. With the keen competition in bidding for new issues, margins of profit have narrowed so as to make the use of sub-agents practically out of the question. Our merchandise is largely out to the specifications of institutions, and not designed to attract the modest investor. No longer can we send salesmen into the field in search of these $1,000, $1,500 and $2,000 clients. The salesmen would starve even if the employer could stay in business long enough to pay his traveling expenses and the small pittance which would represent his share of profit.

Unintelligible Selling Language

Another possible difficulty could be the language in which we talk. There may be too many terms which may mean something to us, but which are unintelligible to the investor making our business and our merchandise a mystery to him. It seems to me that we might take a leaf from the merchandising manual of the Insurance Companies and the Investment Trusts. Terms like Ordinary Life, 20 Pay Life, Endowment and Pension Plans, have been so incessantly used by all insurance salesmen, and terms like Living Protection and Life Trust so commonly used by Mutual Trust salesmen, that the public at least assumes that they understand what they mean. These are accepted. Perhaps we have a job to do on our glossary of terms used in the investment business. It may be that it should be carefully culled and unnecessary or meaningless terms eliminated, or at least sparingly used.

And finally, if we are serious about developing this Retail Market, we may need a new investment instrument. The type of instrument which will permit us to work along with the program of the thrifty Canadian making a practice of regularly saving some part of his income, however small. Surely there must be some way too, of making the buying of common stocks more popular. The profit margin in this type of business is more realistic than in the bond business, if costs can be kept down.

Maybe there is an analogy to be drawn between our business and the grocery business. The small corner grocer might logically sit down some evening and wonder what has happened to the retail grocery business. He could scarcely conclude that the grocery potential today is any less than it was 20 years ago. He might come to the conclusion that HIS lack of success is a matter of profit margin—OR—if he is a keener analyst, he might come to the conclusion that the chain grocers' growing success is the result of a stream-lined merchandising operation. Operators like Safeway, Loblaws, and Dominion Stores buy top flight merchandise, tack on a competitive profit, dress it up in attractive packages, put it out where it catches the eye, and arrange their stores so that the merchandise is easy to get at. They let their customers serve

(Continued on page 17)

Harold Backus, *McLeod, Young, Weir & Company, Limited*, Toronto; Frank Evans, *McLeod, Young, Weir & Company, Limited*, Montreal; Murray Cox, *Greenshields & Co.*, Montreal

A. S. Keator, *Dominion Securities Corp.*, Montreal; G. Saint-Pierre, *Dominion Securities Corp.*, Montreal; A. E. Tomasic, *Thomas & Co.*, Pittsburgh, Pa.

Importance of Greater Profit Margins to Dealers

By ALAN H. WILLIAMSON*
Wood, Gundy & Co., Ltd.

Mr. Williamson calls attention to higher overhead and operating costs as well as intensified competition in retail distribution of securities. This has been accompanied by lower profits margins caused largely by established maximum spreads and other marketing restrictions. Calls for more freedom in marketing of securities and larger profit margins to dealers on new issues. Holds there should be more active market if present profit margins were increased.

This is a subject which I wish to approach from the point of view of its benefit to the investing public of Canada and to prospective borrowers, rather than from the desire of the members of our industry to increase their earnings. It follows, however, that if we are successful along the lines I propose to discuss the results should benefit our industry.

Alan H. Williamson

Referring to Bruce Shaw's excellent paper on the disappearance of the retail market, I can recall a period when there were probably 100,000 people in this country who comprised the retail market for securities and who, as a group, were well informed because they were thoroughly well serviced by investment dealers. When this situation existed underwriting firms could, with confidence, purchase new issues of good securities for distribution without being largely dependent on institutional money for the success of the selling campaign.

In the years that have intervened the situation has changed so that this group that formerly comprised the retail market has largely disappeared and has been replaced, through the distribution of wealth which is going on, by probably 10 times as many people having capital of from $1,000 to $10,000 or $15,000.

As Bruce Shaw has pointed out, there are infinitely more holders of securities in Canada of a much greater aggregate amount and a 50% increase in savings accounts in the banks in the past 15 years. Bruce has ably discussed what can be done to service this market and, having in mind the subject allotted to me, I would point out that the cost of carrying on business has increased substantially during the past 10 years through two developments—first, through the increased cost of almost every item in an investment dealer's overhead, and, second, through the more extensive service rendered to investors.

Higher Overhead Costs

Overhead items obviously include higher rent, higher cost of equipment and stationery, higher wages and salaries, higher traveling expenses, higher printing and advertising expenses, and higher legal expenses.

In addition to these, the regulations of the Dominion and Provincial Companies Acts and the Security Acts of the various Provinces have necessitated preparation of voluminous prospectuses which require not only more time and labor but also higher legal and printing costs. Year by year the business becomes increasingly complex and involved. It requires better trained and abler staff to handle day to day business.

Investment service has also become more and more extensive and intensified. More detailed information is expected by investors on new offerings and also on securities already held. The analysis of investment portfolios takes time and capable handling. It is only necessary to compare an annual report, a prospectus or a report issued by a financial service on any individual company for 1948 and 1938 or 1928 to obtain a striking illustration of the extent to which the presentation of financial information has developed.

This broadening of the scope of financial information expected as an every day function of the investment dealer has very materially increased the cost of operation. This phase of the subject could be expanded at considerable length, but suffice it to say that the cost of operation of investment dealers has increased very materially.

Intensified Competition

While the trend of costs has continued to rise, the competition in the business has intensified and with it profit margins have continued to narrow. It is only through the volume of business handled that investment dealers have been able to balance their budgets and earn a reasonable return for their efforts. As the investment business is subject to the ebb and flow of volume the same as other businesses, careful attention must be given to the matter of profit margins if the investment dealer is to continue to exist and render to investors and to the economy of our country the service that is so important to the growth and development of a young country with its great potentialities.

I think all that I have said would be true if it were not our duty to try and be of service to this great group of people that are not now being given the benefit of the advice and experience of the members of our industry. If it is true that without vigorously attacking this great responsibility we require a better profit margin in order to fulfill our proper functions, it is even more evident that this is necessary if we are to service clients who will be investing in small amounts only occasionally.

While the public generally is aware that the mark-up on retailing most lines of merchandise is from 25% to 50% or more, there are probably very few people in Canada who realize that our business is operated on a very small gross margin of profit, running as low as a fraction of 1% on short-term Victory Bonds. From this small margin all expenses of operations must be met and if a dealer had a net return of ⅛ of 1% on his total volume, I think most of us would be happy.

I believe that a good broad retail market would be ultimately of immense benefit to borrowers and that the cost of securing it, represented by increased margins that our industry would have to have to develop it, would benefit the borrower materially in the long run and, in addition to this, it would enable us to give service to this very broad group of people who, more than anyone else, need expert and experienced guidance in the investment of their funds.

Having, I hope, justified by these remarks the effort by the industry to search for some method of increasing profit margins, I will now discuss how this may be brought about by proposing some questions for consideration by the meeting.

How Can It Be Done?

But how can profit margins be widened? This is probably one of the most difficult questions that faces our Association and one which requires a broad and fully considered approach which is really beyond the scope of the time allotted. Let us look first at the trading of Dominion of Canada direct and guaranteed issues. At the present time trading is carried on in spreads of .05 in price for one-five year maturities and ⅛ spreads in price on longer maturities. At our convention 20 years ago it might have surprised those present if they had been told that such a regulation would come into effect among Canadian investment dealers and yet it has now been in practice and a recognized procedure for some years.

Would it be possible to alter these regulations to give a wider spread? For example, could a change be made so that one-three year maturities would be traded on spreads of .05 in price and three-five year maturities on, say, a .10 spread with longer than five year maturities on, say, a spread of ¼? Immediately, of course, a number of difficulties come to mind but every phase of this problem is beset with similar difficulties and some useful discussion may be developed on this suggestion.

There have been recommendations by the Business Conduct Committee of the Central District on this subject and recommendations by a Special Committee of the Eastern District on the possibility of establishing minimum profit spreads. It may be that the meeting will wish to discuss these subjects, but I do not propose to make this approach. The regulations under which The Investment Dealers' Association of Can-

(Continued on page 25)

*A talk by Mr. Williamson at the Forum Discussion of the Investment Dealers' Association of Canada Annual Meeting, Minaki Lodge, Ont., June 23, 1949.

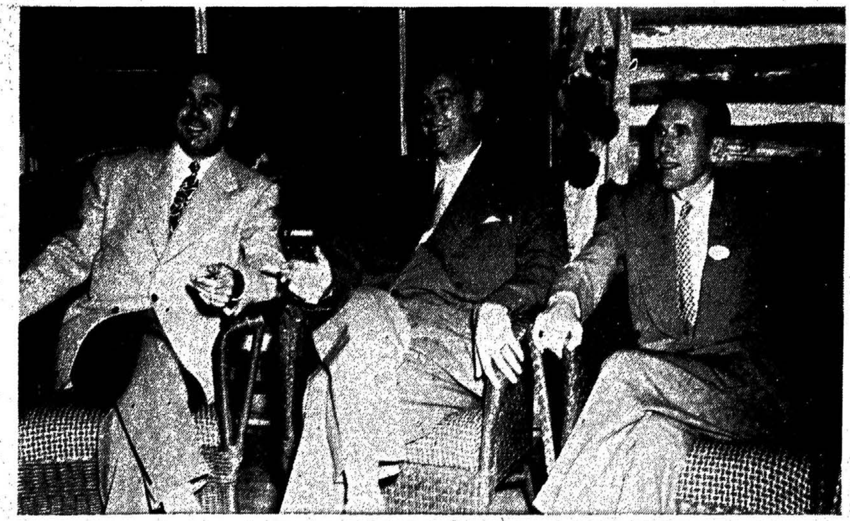
The Retail Market

(Continued from page 16)

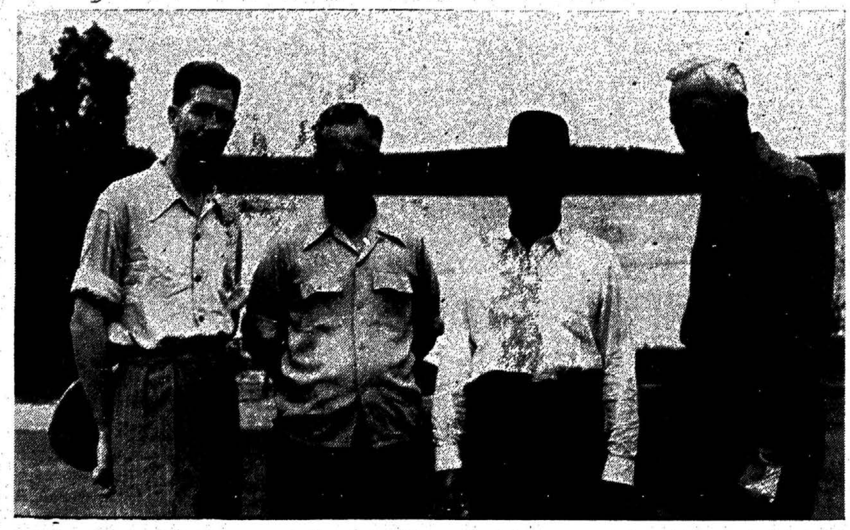
themselves and make their whole selling operation as simple as possible. Perhaps we have something to learn from them. We may have to develop means to bring the customer into our shop and make him want to come back. The retail operation under present margins or profit, may have to be approached from a mass standpoint.

To go from groceries to the men's clothing business we may have to pay less attention to custom tailoring, be less of a Levy Brothers and more of a Tip Top Tailors operation. We will have to be sure that we have good materials, make our measurements carefully, but do our cutting from a standard pattern and hope that the finished article rides neatly on the shoulders and doesn't bind under the arms.

How to promote and execute such an execution profitably and economically is the $64 question. This is where I get rid of the ball to you.



Len Brooks, *Gardiner, Wardrop, McBride, Ltd.*, Toronto; Bill McAlpine, *Brawley, Cathers & Co*, Toronto; E. R. Pope, *Milner, Ross & Co.*, Toronto



J. R. Murray, *A. E. Ames & Co., Ltd.*, Winnipeg; S. B. Kimber, *A. E. Ames & Co.*, Montreal; Joseph W. G. Clark, Executive Assistant to the President of the *Investment Dealers Association of Canada*; R. A. Gray, *James Richardson & Sons*, Winnipeg

Bank Exhibits Canadian Progress

Pamphlet issued by Canadian Bank of Commerce reveals Canada's important position in world economy. Furnishes data on Agriculture, Forestry, Mining, Industry, indicating Dominion's role as a leader in economic development.

The Canadian Bank of Commerce, whose head office is in Toronto, has recently issued a pamphlet, entitled "Canada, A Modern Leader in World Economy," which contains elaborate data on Canadian economic progress.

The primary object of the Bank in issuing the publication is to give Canada its proper setting in world economy. Canada is world-renowned for certain outstanding achievements—the production and export of high-quality bread wheat; the mining of the largest supplies of nickel and asbestos; the manufacture of sufficient newsprint paper to print three of every five newspaper pages published around the globe; and for a splendid war effort in the 1939-45 period of hostilities; as well as for contributions to European economic reconstruction. All these have given Canada prominence abroad. In fact, these great achievements may have obscured other progressive movements, notably those of an industrial character, which have made Canada one of the most advanced countries economically. A vast quantity of domestic raw materials drawn from an immense area of natural wealth goes through many forms of refinement to become a substantial part of the most necessary and valuable supply of products which mankind the world over requires.

Economic diversification, says the pamphlet, has long been regarded as a distinguishing characteristic of great nations, particularly in the division of labor and specialization of industry, and these have been foremost in Canada's development in the last few decades.

In order to demonstrate the position of Canada in world economy, the pamphlet outlines the historical background of several of the most important Canadian products, and the major sources from which they are now obtained. This part of the work has involved, of course, a selection of considerable basic material, drawn largely from the Bank's own experience extending over a lengthy period (most of that since the establishment of the institution in 1867) in which it has had Canadian economic conditions under constant study. All these records, however, are no more than presentations of the work and commercial spirit of the Canadian people whose efforts have made possible an economy which is now not only on a high level of productivity but is, also, one of the best balanced in the world.

The value of the Gross National Product of Canada in 1948, is given as $15,400 million, was the highest in this country's history. The valuation, made by an official organization in Ottawa, was based on the market prices of all goods and services furnished by the enterprise, capital and labor of the Canadian people and includes, of course, the national income, to which was added indirect taxes and depreciation allowances that entered into the cost of goods and services, less government subsidies. The national income itself covered salaries, wages and other earnings of employees, together with military pay and allowances, corporation profits and sundry returns on investment, as well as the net revenue of farmers and others in business on their own account.

The value of the Gross National Product increased by about 14% over that of 1947, most of the rise being due to higher prices, although it is estimated that there was some gain in physical output. The most notable feature in 1948 was the more even distribution of income, owing mainly to larger and more uniform crop yields throughout most of the agricultural domain than were harvested in the preceding year. Wages and salaries increased by about 14% to over $7,000 million; investment income rose by 11% to $2,590 million; and the net income of agricultural and other unincorporated business by 27% to $2,995 million.

The national income last year was about three times greater than in 1939 and, after adjustment for price changes, probably two-thirds higher.

Outlook for Int'l Investments

(Continued from page 15)

omies short of capital as the wealthy countries of the 19th Century engaged in equipping the New Continent? Furthermore, government loans can only be considered as temporary measures and altogether they have not the same flexibility as that which is given by private capital.

Of course, I realize that it is only too logical also to see the would-be lenders hesitating in front of the chaos still prevailing in the world. A better atmosphere should certainly be created.

The first condition should be that the fear of war vanish and not remain as a permanent threat to all long-term programs.

The second condition should be that the political structure of the would-be borrowers should be secure.

The third condition should be that by one way or another the various countries in the world try to command again the respect of other nations as it was customary between first-class communities in the old days. It is not to be forgotten that all the measures taken to counteract free movements of capital have not led to the creation of confidence in foreign investments. There has been too much of exchange controls, and too many balances frozen by non-transferability. There has been too much disguised robbery by expropriation and nationalization with indemnities far from representing the counterpart of the true value incorporated in the business taken over by the public authorities. And, finally, there has been too much disregard for the rights of capital and of the foreign lenders and too many investments trapped into many borrowing countries.

ICC Recommendations for Foreign Investments

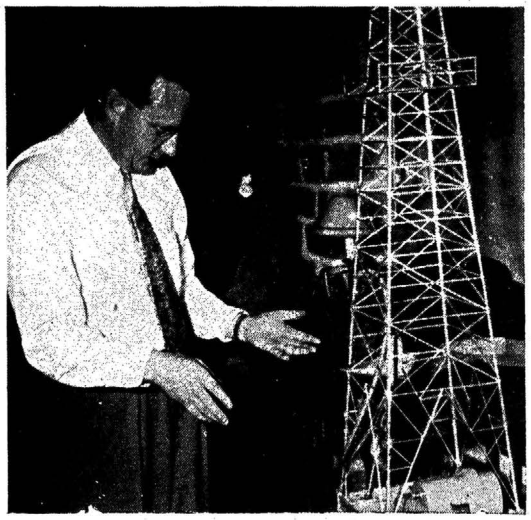
In order to contribute to the restoration of the conditions required for a large movement of capital, the International Chamber of Commerce, in its Congress of last week at Quebec, has just approved the conclusions of its committee for foreign investments. It recommends that a new "International Code of Fair Treatment for Foreign Investments" be submitted to the attention of the various governments, as well as of the Economic and Social Council of the United Nations. The International Chamber of Commerce suggests that this code be given immediate consideration so as to be incorporated as soon as possible in new agreements between countries.

But already a new hope has spread over the world in that connection. Again it comes from the United States. It is already known as the "Fourth Point" of President Truman's Inaugural address where he stated that the United States must embark on a bold new program for making the benefits of their scientific advances and industrial progress available for the improvement and growth of under-developed areas. The President added: "I believe we should make available to peace-loving peoples the benefits of our store of technical knowledge in order to help them to realize their aspirations for a better life. And in co-operation with other nations we should foster capital investments in areas needing development."

As it is, this Point Four is bound to promote throughout the world a sound approach to the problems of private foreign investments.

You will certainly allow me as a European to rejoice at the idea that after the Marshall Plan, meant to meet short-term problems, the Point Four comes now to solve long-term difficulties. And I feel hopeful for the future when I see that once again with the generosity of thought, with the efficient methods and with the experience which are now prevailing on this side of the Atlantic, peace, prosperity . . . and sound international investment might spread over the world from this Continent.

Carl Falkenberg, *Carlile & McCarthy, Ltd.*, Edmonton, Alta.; Sam Sharpe, *Gairdner & Co.*, Toronto



Carl Nickle of *"Oil in Canada,"* Calgary, Alberta, demonstrating his miniature oil drilling equipment

Gerard Gingras, *Rene T. Leclerc, Inc.*, Montreal; Alfred Pose, *La Banque Nationale pour le Commerce et l'Industrie*, Paris, France

Significance of Alberta Oil to Canadians

(Continued from page 13)

their limit, found no oil and the boom collapsed.

That Pincher Creek boom has a sequel. In 1941 Gulf Oil Corp. began a geological study of the region, followed up with a four-year geophysical survey, and then decided to drill. 20 months ago Gulf discovered gas and light oil, over 12,000 feet down, and is now embarked on a multi-million dollar program to determine whether or not a major field has been tapped. Pincher Creek is at least a great "wet gas" field. It might also become a large crude oil field.

Alberta's next oil boom started because of "Fried Eggs." Legend has it that, back in 1911, W. S. "Bill" Herron noticed seepages of gas coming out of fissures in rock formations studding the surface of what is now called Turner Valley. Rancher Herron reasoned that gas seeps could mean a lot of gas and perhaps a lot of oil in the rocks far below the surface

Bill Herron came to Calgary to persuade businessmen that drilling for oil should be done. He met with little success, until one day he persuaded two Calgarians to visit Turner Valley for a demonstration on the spot. They arrived at the gas seeps. Bill Herron hauled out a match, set fire to the escaping gas, pulled out a frying pan and a pair of eggs broke the eggs into the pan and casually proceeded to fry them The demonstration convinced. The Calgary Petroleum Products Co (we now know it as Royalite Oil Co.) was formed and drilling started.

In May, 1914, at a depth of 2,700 feet, the well famed as the "Dingman Discovery" reached production. It came in with a heavy flow of natural gas, saturated with a straw-colored light oil so pure and clean it was used straightway to operate automobiles then at the well-site.

From that beginning grew Turner Valley—the British Empire's first major oil and gas field. located 25 miles southwest of Calgary. That field had many ups and downs before it reached maturity. As oilmen dug ever deeper into the rocks below the Valley. the full worth gradually became apparent. In 1924 Royalite Oil Co. drilled below the shallow sands where Herron and Dingman first found oil, and discovered the Madison Limestone—the same formation later tapped at Pincher Creek. Until 1936 Turner Valley's Madison was classed as a major "wet gas" source. Then R. A. "Bob" Brown and Calgary associates drilled to 6,800 feet at Turner Valley Royalties No. 1, and opened up a major oil pool down the west flank of the structure.

So far Turner Valley has produced nearly 100 million barrels of oil and about 1,500 billion cubic feet of natural gas. It still has upwards of 25 million barrels of oil and 400 billion cubic feet of gas to go. In 1942 Turner Valley reached its peak of 30,000 barrels of oil daily and then—as all fields must — began to age, and commence a long, slow decline. Today the Valley puts out between 12,000 and 13,000 barrels daily, serving Calgary area refineries. The Valley's gas serves Calgary, Lethbridge and other south Alberta communities.

During World War II, Turner Valley played a vital role in supplying aviation gasoline requirements for the British Commonwealth Air Training Plan, and part of the civilian needs of the prairies. As the field aged and production declined, exploration for new fields in the prairies was intensified.

Turner Valley marked the Alberta production start for many of the companies active in Canadian oil today—Imperial Oil, British American, Royalite. Home, Anglo Canadian, Pacific Pete, Commonwealth, General Pete, Herron's Okalta Oils, Brown's Federated and Coastal, and many other.

Exploration of Canadian and American Oil Companies

It seemed to Canadian and American oil companies who carried the exploration burden until 1947 that a province that had given Turner Valley should contain many other oil and gas fields. For a long time, however, the finding proved difficult. Guesswork gave way to science. Geology and geophysics were called on in increasing degree in the search for subsurface wrinkles or structures that might be productive. Better equipment made deeper drilling possible.

By 1946 hopes for major oil discoveries reached a low ebb. Several small oil fields had been found on the Alberta Plains—at Princess, Taber, Conrad, Vermilion, Wainwright and Lloydminster but none very big. A lot of gas, however, was found—and several major oil companies started thinking seriously about using gas to create synthetic gasoline for use in the Prairie Provinces. Imperial, Shell, California-Standard, McColl Frontenac, Union of California and smaller companies opened up large natural gas reserves with synthetics in mind.

Then on Feb. 13, 1947, a new era dawned. Imperial Oil brought in its Leduc No. 1 as a thousand barrel gusher from a Devonian formation of 20 miles southwest of Edmonton. California-Standards, back in 1941, had first found oil in Devonian at Princess, over 200 miles southeast of Leduc, and had started the industry's widely scattered probing of that formation.

Leduc's discovery made the Devonian the "hottest" objective of oil-seekers in Western Canada, for the Leduc find rapidly emerged as a major oilfield larger than Turner Valley. Leduc's core —D3 zone—is a coral reef—a prolific source of oil and gas in several parts of the world, including West Texas, and Norman Wells (in Canada's Northwest Territories).

Today Leduc is rated an oil reserve good for upward of 250 million barrels, plus 500 billion cubic feet or more of natural gas. The mile deep field, rapidly developed, is now capable of putting out over 40,000 barrels daily. Market pro-ration holds it down to under 30,000 barrels daily.

With the Leduc discovery came a very rapid expansion of exploration and development in Alberta, and beginnings of major pipeline and refinery expansion. Here are a few measures of the growth:

Estimated oil industry spendings were only about $12 million in 1946. They mounted to an estimated $25 million in 1947; $50 million in 1948; and are expected to reach $100 million this year.

Revenue from oil sales—gross value before operating costs, royalties and taxes—amounted to about $14.5 million in 1946; climbed to about $18 million in 1947; exceeded $36 million in 1948; and will probably reach $60 million this year, despite market proration of production.

At the time of Leduc's discovery only 20 drilling rigs were operating. Now some 90 are at work. When Leduc was discovered only 15 geophysical parties — seismograph, gravitymeter and magnetometer crews—were working. Now over 70 geophysical parties and dozens of geologists are in the field.

At the time of Leduc's discovery about 20 million acres of oil rights in Alberta were under exploration, reservation or lease. Now, in Albert, over 56 million acres are being actively explored, spread from the American border northward over 600 miles, from the Rocky Mountains on the west to Saskatchewan on the east.

This exploration and land play has also spread to other sections of Western Canada where oil and gas possibilities exist. Over 36 million acres of government and freehold rights in the south 400 miles of Saskatchewan have recently been taken under commitment, to start off a long-range, and perhaps large -scale exploration program by Canadian and American oil interests. Other millions of acres have been committed in southwest Manitoba and in the Peace River Block of northeast British Columbia.

Proven Oil Reserves Already Over 700 Million Barrels

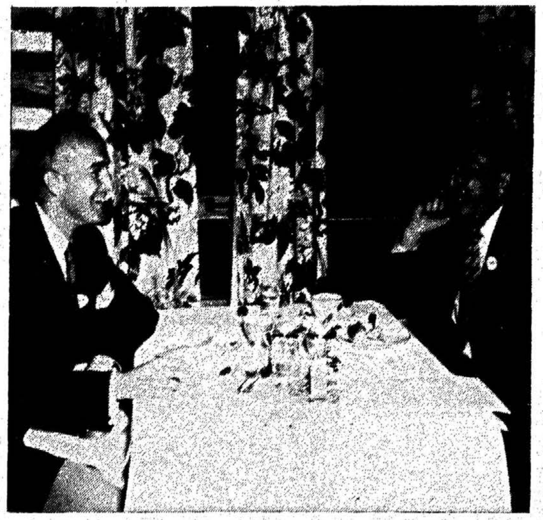
The intensifed exploration in Albert has—as might be expected —brought material results. Today it may be reasonably said that Alberta's proved oil reserves exceed 700 million barrels, and that development of fields already established and of recent discoveries may boost total proved reserves to around 1,000 million barrels.

How many more millions or billions of barrels will be added to reserves by further discoveries is anybody's guess. Odds favor, however, that the present reserves are little more than a drop in the bucket of the ultimate Alberta and Prairie Provinces oil reserves. The past eight months have brought seven oil discoveries. More are certainly coming.

Natural gas reserves now proved in Alberta exceed 4,200 billion cubic feet, between 70 and 80 times Alberta's annual requirements, making allowances for substantial increases in Alberta consumption. The gas figure—large as it is—includes only reserves actually established by development drilling. It does not

(Continued on page 20)

A. E. Oliver, *Wood, Gundy & Co.*, Toronto; Howard Hunter, *Fairclough & Co., Ltd.*, Toronto



J. A. M. Belshaw, *Brawley, Cathers & Co.*, Toronto; Fred Embury, *A. E. Ames & Co., Toronto*

Pierre C. Bonvoisin, *Banque de la Societe Generale de Belgique;* Gerald G. Ryan, *L. G. Beaubien & Co.*, Montreal

Significance of Alberta Oil to Canadians

(Continued from page 19)

include estimates for over forty Alberta areas where gas has been discovered by single wildcat wells, which were caped or abandoned for lack of an immediate market. The search for oil is adding more such gas discoveries of still unknown worth. This year alone has already yielded half a dozen or more.

I have already referred to Leduc, Turner Valley and Pincher Creek. Let's take a brief look at other oil areas.

In January, 1948, Imperial Oil discovered Woodbend-Devonian reef field a few miles north of Leduc. Recently the Home-Anglo-C. & E. team tapped oil between the west edges of Leduc and Woodbend, to indicate a link between the two. Eight months ago Continental Oil of Canada—Calgary independent—tapped light crude in the Cretaceous formation east of Woodbend, and a sizable oil pool has been developed. West, southwest, south and southeast of Imperial's Leduc strike, Devonian production has been tapped and field reserves expanded by such firms as Globe Oil & Leduc-West Oils, British American, Home Oil, Okalta Oils, and Leduc-Calmar Oils, all Canadian independents.

In September, 1948, Imperial discovered Redwater—a Devonian reef field 50 miles northeast of Leduc which has developed into a reserve larger than any other yet found in Canada. Redwater, whose D3 oil pay has a maximum thickness of 150 feet compared with combined D2 and D3 average Leduc pay of 70 feet, is now rated good for at least 300 million barrels. Actual reserve may prove considerably higher. Redwater production rapidly built up this spring to over 10,000 barrels daily, and is being held around that figure by market proration. Actual potential has already climbed to around 30,000 barrels daily by completion of over 60 wells with initial flush flows ranging from 500 to 2,500 barrels daily.

Leading Redwater producers are Imperial Oil, the Home Oil-Anglo Canadian team, Royalite, the Pacific Pete-Sunray-Calvan-Princess-Atlantic group, British American-Hudson's Bay team, Western Leaseholds, Canadian Gulf Oil Company and the Barnsdall-Honolulu-Seaboard-Los Neitos team.

In March and April, this year, came several discoveries, all still to be evaluated. Imperial Oil discovered Golden Spike, several miles west of Woodbend, with initial well showing Canada's biggest flush flow to date—12,000 barrels daily rate—from 545 feet of Devonian reef D3 pay. A major discovery is indicated. Imperial also made a D2 Devonian zone oil strike at Bon Accord, ten miles southwest of Redwater; and a Cretaceous discovery at Whitemud, several miles east of the Woodbend Cretaceous pool.

Around 60 miles northwest of Leduc, Stanolind Oil & Gas Company found heavy crude in the Madison Limestone, on a farmout block of land secured from Imperial. Twenty miles east of Leduc, the independent team of Superior Oils-General Pete-Kroy Oils-Jupiter Oils made a promising discovery of light crude in the Viking sand at Joseph Lake, also on a farmout block from Imperial.

In recent weeks the "hot news" was made by Canadian Gulf Oil Company, at Stettler, in south central Alberta, about midway between the original Devonian oil find at Princess, and the several Devonian pools stretching out from Leduc. Gulf's Stettler well, on drillstem tests, indicated a potential exceeding 3,000 barrels daily of light crude oil from about 100 feet of pay zone in D2 and D3 sections of Devonian.

The Stettler strike has heated up a broad stretch of territory in south and central Alberta, and has assured expanded exploration on the Plains reaching east from the cities of Red Deer and Calgary.

Another important feature of the prairie oil play the past two years has been emergence of the Lloydminster region, straddling the Alberta-Saskatchewan border east of Edmonton, as a large reserve of "Black Oil." Lloyd oil is molasses-thick crude which, unlike the light oils of Leduc, Redwater and Turner Valley, yields little gasoline. In its crude state, Lloyd oil makes good railway or ship oil. Processed, it yields asphaltic products as good as any on the continent. The Cretaceous Sands of Lloydminster have a proved oil reserve of at least 30 million barrels, and some geologists believe the sands may give up from 100 to 300 million barrels.

Partly because of the rapid expansion of light crude production, which has cut into prairie markets that could be served by Lloyd, and partly because of freight rate and fuel tax inequalities (as compared with the competitive fuel, coal), Lloydminster is suffering growing pains. This summer Lloyd is producing from 4,500 to 5,500 barrels of oil daily, during the seasonal peak, while its many small independent producers and its major marketer (Husky Oil & Refining) press for new outlets to ease the seasonal cutback this fall and winter. Lloydminster is a rich asset to Alberta and Saskatchewan. In time it will play a more important role in Canadian economy.

Oil Production Climbing

At the time of the Leduc discovery, prairie oil production was lagging along at about 19,000 barrels daily. During 1947 production amounted to 7.3 million barrels. In 1948 production climbed to about 11 million barrels. This year total production will likely be between 19 and 20 million barrels. This year's increase—large as it will be—is not a measure of ability to produce, which brings us to market proration, the transition period, and the expansion of markets ahead.

In recent weeks oil production climbed to a peak of about 58,000 barrels daily. By that time the flood of oil from Alberta fields had swept across the Prairie Provinces, displacing American oil, filling storage tanks at refineries and fields. The first natural marketing area had been made self-sufficient in petroleum, to the limit of its current refining capacity. The day of prairie saturation came faster than expected, largely because of the very rapid expansion of Redwater production, within six months of that field's discovery. As a result, came "growing pains"—market proration.

During the transition period ahead there won't be any great increase in oil production, though there will be a continued growth of oil potential, or ability to produce. As new wells are placed on production they will come in for a share of the available market. The result will be reduced production quotas for individual wells.

To ease the strain of transition, steps will probably be taken to allow a fair volume of Alberta light crude to reach the Pacific Coast and Eastern Canada by railway. Negotiations are under way for special rail freight rates to make such shipments feasible.

Meanwhile, during the next 2½ years, there will be an increase of at least 50% in prairie refining capacity for light crudes. In 1948 the capacity was 46,000 barrels, having been boosted by the completion of first phases of Imperial's Edmonton refinery, the first refinery in the vicinity of the Leduc-Redwater fields. This year capacity is being stepped up to at least 54,000 barrels, by additions to Imperial-Edmonton refinery and North Star's Winnipeg plant. In 1950, capacity will increase to at least 61,000 barrels and in 1951 to at least 70,000 barrels, by construction of McColl Frontenac's first prairie refinery at Edmonton, and expansion of Imperial and British American plants at such refinery centers as Calgary, Moose Jaw and Regina. There may be a Winnipeg refinery built by Imperial. Refinery projects by others can be expected.

Such refinery expansion—necessarily fairly slow, and highly costly—is needed to meet increasing demands for all types of petroleum products on the prairies. Overall prairie area demand in 1948 was 58,000 barrels daily. Estimated demand this year will average about 65,000 barrels daily. It will continue to grow in years to follow. By 1958 prairie demand is expected to reach the 100,000 barrels daily level.

It is now reasonable to expect that Alberta oil could, within a few years, make all of Canada self-sufficient in petroleum. Our Dominion is a large petroleum consumer, with a per capita demand not far short of that of the United States, and far ahead of that of any nation outside of North America. This year Canada is using around 290,000 barrels of oil daily. Demand is growing steadily. It has nearly doubled the past decade. By 1958 economists estimate Canadian demand will exceed 400,000 barrels daily.

As far as Alberta's ability to produce is concerned, it is now

Les Rowland, Editor, *Canadian Finance,* Winnipeg; K. S. Blair, *James Richardson & Sons,* Vancouver; Syd Stephens, *James Richardson & Sons,* Winnipeg

R. G. McCulloch, *Osler, Hammond & Nanton,* Winnipeg; James Duncan, *Wood, Gundy & Co.,* Vancouver; H. B. McIntosh, *Pemberton & Son Vancouver Limited,* Vancouver

estimated that under proper conservation methods existing wells could put out at least 80,000 barrels daily. By the end of this year potential will probably exceed 100,000 barrels. By the end of 1950, making due allowance for decline in potential of older wells, completion of more wells in existing fields, and for new discoveries, potential might grow to anywhere between 150,000 and 250,000 barrels. Beyond 1950 is anybody's guess.

That outlook requires markets for Alberta oil beyond the prairies. That means pipelines, to lower costs of transport and thus permit competition in a broader market. Large pipelines can transport oil for as little as one-third the cost of rail transport. In effect, they eat up two-thirds of the distance between oilfields and outer fringes of market, and move more distant markets proportionately closer.

Provision of Pipe Lines

The first major oil pipeline out of Alberta is that to be built next year by Interprovincial Pipeline Company, a unit of Imperial Oil. Planning for a line from Edmonton to Regina was started as soon as it became apparent Leduc was a major field. As more discoveries came, and oil reserves expanded, the pipeline plans also expanded. Until a few weeks ago the plan called for a 16-inch line stretching for 475 miles to Regina with initial capacity of 50,000 barrels daily and ultimate capacity of up to 140,000 barrels daily. It was to be a $45 million project, to be ready for delivery of oil by the fall of next year.

Now the plan has been further expanded. Nineteen-fifty will probably see completion of a 1,000-mile pipeline, from Alberta to the head of the Great Lakes. Pipe of 20-inch diameter, with ultimate capacity of over 200,000 barrels daily, will probably be laid as far east as Regina. The 16-inch pipe will probably be used from Regina to the Great Lakes. The cost of the enlarged project is now estimated at $100 million.

This east pipeline will permit Alberta crude to move by tanker through the Great Lakes to Sarnia and other Ontario refining centers, during the months of open water. It will also permit Alberta crude to break into the great oil market that exists in the Midwest United States.

In fact, it is quite possible that the bulk of Alberta crude pipelined east beyond the prairies will go to the United States. The bulk of the Ontario and Quebec market—which accounts for 70% of Canada's consumption—would continue to be served with foreign crude through existing channels. Canada would come closer to petroleum self-sufficiency "in balance" by a trade of oil with the United States designed to let the reserves of both nations serve the most economic and logical market.

The Great Lakes pipelines alone, however, won't end the transition period for Alberta oil. Refineries must be built by some one in such States as the Dakotas and Minnesota, which now are largely served with refined products hauled in from other American States. There must also be major additions and revisions to refining capacity in the Eastern Canadian Provinces, as well as further additions to refining capacity on the prairies.

Several oil companies are seriously considering a westward pipeline—convinced that Alberta's oil reserves are going to be adequate to provide for export both to the Pacific Coast and to the East. Such a westward line would have to be fitted into refinery projects in both British Columbia and the American Northwest States. A Pacific market for Alberta oil is logical, if our oil reserves warrant, for the present major supplier along the Pacific—the State of California—is unable to keep pace with its own growing needs, let alone those of Oregon, Washington and British Columbia.

So far as natural gas is concerned, plans are also being made for export from Alberta. Westcoast Transmission Company, sponsored by Pacific Petroleums and its American partners in Alberta exploration, proposes a gas line across north central Alberta and British Columbia to Vancouver, with ultimate terminus northern California. Northwest Natural Gas Company, sponsored by financially strong New York interests, proposes a network of lines linking Alberta gas fields with an export line from southwest Alberta to Seattle, Portland, Trail and Vancouver. Prairie Pipeline Company, sponsored by the Osler, Hammond & Nanton interests of Winnipeg, proposes a line from the Calgary area to feed natural gas to Regina, Saskatoon, Winnipeg and other Saskatchewan and Manitoba communities with possible ultimate objective such Midwest American cities as Minneapolis and St. Paul.

Capital Investment Projects

These projects—oil and gas pipelines, refineries, within and outside Canada—involve in total several hundred millions of dollars. The oil and gas reserves already found in Alberta ensure completion of several of the great capital-investment projects.

The balance is dependent upon, in large degree, continuance of the present vast oil and gas exploration program in Canada's West, and the continued success of that program in discovering more and more oil and gas reserves. This continuing exploration—and the development of reserves as they are found—will also call for, during the years ahead, the spending of more hundreds of millions of dollars.

Oil and gas is a business of many phases. Reserves of oil and gas are its broad base. These must be found by "risk capital," provided by men or companies who recognize the odds against discovery and are still willing to shoot the works in the knowledge that when long shots pay off, they pay off with profits commensurate with the risk.

There's plenty of room in Canada's West for more of that kind of "risk capital." The bulk of it now is being provided by a score or more of American major and big independent oil companies, and some 15 Canadian major and established independent oil companies. The balance is being provided by small new companies and exploration syndicates, which have raised most of their funds in Western Canada, and have only lightly touched as yet the great "risk capital" of the East. Intelligently invested, after a study of the oil picture, the East's "Risk capital" could do much to aid the growth of a great Canadian industry, and perhaps share in the "commensurate profits" which are every "wildcatter's" objective.

Discovery brings need for great sums of "investment capital," for the development of oil and gas fields as they are found, for gathering and transport pipelines, for oil refineries, absorption plants, storage facilities—and all the other items which are needed to turn oil reserves in the ground into revenues at the surface.

Many companies operating in Alberta have already created real values in terms of oil and gas in the ground, which will be turned into cash as the reserves are produced during the decades ahead. A few are now drawing out enough to meet capital requirements of today. Many, however, will need more capital than can be secured from immediate production revenue, if they are to carry out at desired speed their exploration and development programs. Production revenues of today—plus the profits now being derived by some integrated oil companies from their pipeline, refining and marketing operations—fall far short of meeting the "investment capital" requirements of the major pipeline and refinery projects made necessary by the Alberta discoveries.

There is plenty of room, and security, in Western Canadian Oil for "investment capital" from Canada's Banks, Insurance Companies, private groups, and individuals.

Alberta Oil, from humble beginnings, has grown into one of the great Canadian industries. Its role in the West's, Canada's and the world's economy is still small, however, compared with the role it appears destined to play in the future.

American capital, risk and investment, necessary and welcome, has been pouring in by the scores of millions of dollars—to supplement the Canadian capital that pioneered the Alberta oil industry.

The capital needs of our oil industry have changed in a short space of time from terms of millions to terms of hundreds of millions of dollars. For Canadians who want to take risks for high stakes, and for Canadians who want to make safe investments, it seems to me that oil offers opportunities far greater than Canadians have yet taken advantage of.

If, in years to come, the cry should be raised that American capital dominates the Canadian oil and gas industry, it will only be because our friends across the border were more alive to, and more willing to risk and share in, the responsibilities and opportunities created by the finding of major reserves in Alberta.

Oil is a fascinating business. It has gone a long way, and become even more fascinating, since Kootenai and Lafayette traded a horse for a Pincher Creek slough, since Bill Herron fried eggs in Turner Valley, since Bob Brown drilled the deep Turner Valley oilwell in 1936, and since seismograph found the wrinkle that became Imperial's great Leduc discovery 2½ years ago.

You—key men in the Canadian investment field—would perform a valuable service to yourselves and to the nation by taking a close look at, and keeping well informed on, the Alberta oil boom and its allied projects. The old familiar rule applies—"Investigate before you speculate or invest." I feel sure that if you investigate, Canadian capital in future will play a much greater role in the development of one of Canada's most vital industries.

E. C. Ertl, *Financial Times*, Toronto; Jack Kingsmill, Secretary and Treasurer of the *Investment Dealers Association of Canada*, Toronto; Strathy R. Mackellar, *S. R. Mackellar & Co.*, Toronto

Doug Colvey, *Canadian Dow Jones*, Montreal; Warren Sellers, *Telegram*, Toronto; Lou Williams, *Hagar Investments*, Victoria, B. C.; Jim Joyce, *Financial Post*, Toronto

Edward E. Glasgow, *Peter D. Curry & Co.*, Winnipeg; Robert W. Robinson, *R. A. Daly Co.*, Toronto; W. J. Borrie, *Pemberton & Son Vancouver Ltd.*, Vancouver

Increasing Ontario's Power Needs

(Continued from page 10)

Ontario. Boundary Falls, located on the Winnipeg River, three miles from the Manitoba boundary, is estimated to have a potential capacity of 112,500 kilowatts (150,000 h.p.). Kettle, Oak and Manitou Falls, on the English River below Ear Falls, should produce well over 75,000 kilowatts (100,000 h.p.).

Another important part of the Commission's operation is in the field of rural electrification. It has always been a policy, in fact, the duty of Hydro to furnish power to electrical consumers throughout the province on an equitable basis according to their needs. Farmers and rural consumers must be provided for as well as manufacturing industries and urban consumers. In 1948, 3,479 miles of new rural lines were constructed and service provided to 26,036 new rural consumers. Those figures represent a substantial increase over 1947 when 1,007 miles of line and 20,691 consumers were added, and 1946 with 1,188 miles of rural line and 16,802 consumers. The 1949 rural program, to the end of the present year, calls for the building of 5,314 miles of new line to serve 42,820 new consumers. A substantial inroad has already been made on these totals during the present fiscal year with the completion of 2,071 miles of rural line providing service for 17,103 new consumers. Today the Commission has approximately 239,226 rural consumers in the province.

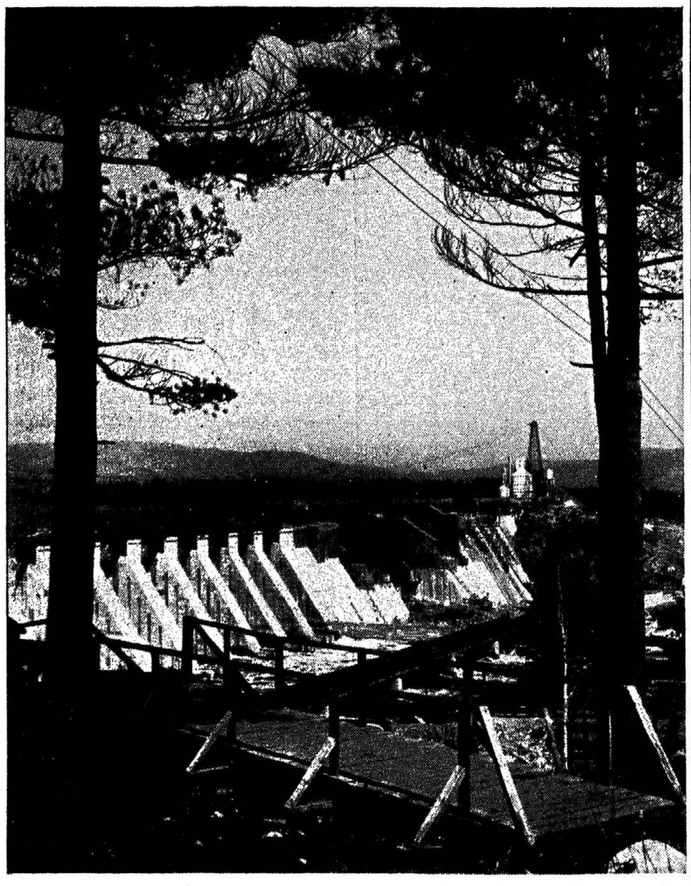
The use of electricity fosters a higher standard of living on the farm. But it goes much further than that. It save times and labor in the performance of many tasks, especially on the mixed farms that are so typical of Ontario. A prosperous and progressive agricultural industry is essential to economic balance. At the present time Ontario farmers are not only meeting the demands of the domestic market but are contributing substantially to the needs of Great Britain and the countries of the Continent. Electrical services are a great incentive in keeping the farmer and his helpers on the land by bringing them similar advantages to those enjoyed by city folk.

While the Commission is accelerating in every way possible the construction of new power plants, transmission lines and other facilities to keep pace with the economic expansion of Ontario, attention is also drawn to the role the frequency conversion program occupies in this planning for the future. When this gigantic undertaking is completed the 25-cycle areas in the province will have been changed to the more standardized 60-cycle power widely used in other parts of this continent.

The Commission has established an organization made up of its own engineering personnel to direct the progress of frequency conversion and already preliminary surveys are being made in a number of areas. An important step designed to expedite progress of the change-over was taken with the retention of the Canadian Comstock Company to undertake the initial stages of converting consumer equipment.

Statistics of the Dominion Government show that Ontario is Canada's leading manufacturing province, being first in number of establishments and employees, salaries and wages paid, cost of materials and net and gross value of goods produced. It is estimated that more than 860,000 persons are employed in industry. Assuming the population to be approximately 4,000,000 that is an average of one out of every five and clearly reflects the all important contribution that industry of all kinds is making to the economic development of the province.

Hydro is doing its utmost to sustain the tempo of that development by making available the power to keep production and employment at the highest possible level. At the same time the Commission is employing thousands of men in skilled and unskilled categories for work on its own numerous projects. Thus the benefits to the people and industries of the province are realized both directly and indirectly.



Construction work is proceeding rapidly on the great Des Joachims power development, which, when completed, will be the second largest source of power operated by The Hydro-Electric Power Commission of Ontario. Situated on the Ottawa River some 38 miles upstream from Pembroke, Des Joachims will supply 358,000 kilowatts (480,000 hp.) at 60 cycles, to serve Hydro's Southern Ontario system. Power from this development will be transmitted for a distance of some 200 miles over 230,000-volt steel tower transmission lines. Actual construction at the site began in the Fall of 1946 and it is expected that the first four units of this eight-unit plant will be ready for operation by 1950 with the remaining four scheduled for service by 1951.

Investment in Canada Expands

(Continued from page 12)

sizable deferred needs. And so on. But this is a rich and favored country: rich, amongst other things, in natural resources and technical skills; favored in geographical position. Recent discoveries of oil, iron ore and titanium-iron ore mark the beginnings of developments for which probably more than a billion dollars and the labor of many workers will be required during the years to come. The future holds much promise for Canadians who have enough faith in their country to further its continued development and enough judgment to perceive over-all progress despite the ups and downs inevitable in business enterprise. I am not, of course, urging the indiscriminate buying of speculative securities. As a matter of fact, most of the money required for the initiation of great industrial undertakings is supplied by the direct investment of private capital and, in the case of established companies, out of corporate resources, rather than by the public flotation of security issues. My object, as an investment dealer, is to emphasize the need for adequate venture capital in a free economy and the value to this country of the alert and well-informed investor.

Since our last annual meeting, Newfoundland has formally joined forces with Canada. Newfoundland brings to the Dominion many valuable assets in fisheries, forests, mines and water power, as well as undeveloped mineral wealth of great potential value in Labrador. As fellow Canadians, we wish every good fortune to this latest comer, whose entry into Confederation promises substantial and mutual advantages.

When I reflect upon the happenings of the past 10 years and the complicated problems of organization and production which we, as a nation, have successfully resolved, my confidence in the future of this country takes on new strength. Invaluable experience has been acquired and with it, I think a more assured approach to the problems that lie before us. I certainly feel this to be true of our own Association. Of recent years, it has acquired a growing importance as an articulate and closely-knit body, anxious to promote high ethical standards and capable of effective leadership in the protection of the investor's legitimate interests.

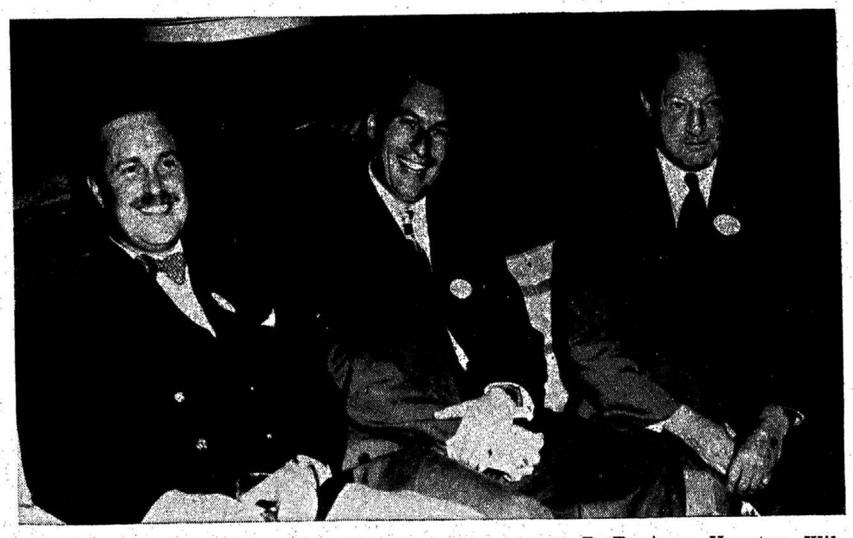
An Education Program

One of the best ways of protecting the investor is to make sure that our own staffs are well trained and able to give skilled service. Accordingly, our Association has instituted an Education Program which makes available to the staffs of its members detailed instruction in the principles and practices of the investment business. Some 400 students are at present enrolled for these courses, which include exacting tests of knowledge of the fundamentals of government and corporate finance, analysis of financial statements, investment policy and other subjects considered required reading for the competent investment dealer. This program, now in its second year, is operating most successfully and is a source of justifiable pride to our industry.

In addition, our Association has on various occasions submitted the investor's viewpoint to Royal Commissions, the Departments of Finance and National Revenue, the Bank of Canada, the Foreign Exchange Control Board and a number of the provincial governments, and in doing so has, I feel, served a most useful purpose. This aspect of our work is perhaps not generally known and I thought it worthwhile to touch briefly upon it before turning to technical matters reserved for the attention of members of the Association.

Statistics on the disposition of personal income show that the personal savings of Canadians aggregate vast sums in years of prosperity. For example, the indicated total of savings for 1946, 1947 and 1948 amounted to $961 millions, $650 millions and $1,146 millions, respectively. A high proportion of these savings is paid to insurance companies under life insurance and endowment policies, annuity contracts and kindred benefits. Now the employment of the very large sums so received is subjected not only to legislative restrictions but also to the rigorous tests set up by the individual institutions. It is my personal belief that if these savings are to be put to their best use, a broadening of the field of institutional investment and, in particular, a more extensive investment in promising common stocks of Canadian corporations are essential. A larger participation by insurance companies in the development of commerce and industry is required in the national interest and should it seems to me, be feasible within the bounds imposed by present legislation,

Geo. Beves, *Calvin Bullock*, New York City; J. R. Hughes, *Royal Securities Corp.*, Montreal; Kenneth P. Duggan, *D. M. Duggan Investments, Ltd.*, Edmonton, Alta.



E. D. B. Magee, *Dominion Securities Corp.*, Toronto; F. B. Poutney, *Houston, Willoughby & Co., Ltd.*, Regina, Sask.; A. W. McLennan, *R. A. Daly Co.*, Toronto

Canada's Role In Europe's Problems

(Continued from page 14)

mained so far of little if not negligible, industrial importance strove in order to manufacture on their own territory goods which could no longer be found on the world market for the reason that former suppliers of these goods had been compelled to withdraw.

After the war, European industry was kept busy for several years, both restoring ruins and rebuilding stocks which had been consumed by countries only interested in destroying each other. However, when all these exceptional needs had been dealt with, when keen competition again made itself felt on the international market, the world, due to overproduction, suffered a crisis which revealed in a clear light the disruption of the prewar system. It became obvious that a new equilibrium of economic forces had to be found. But Germany was determined to achieve this equilibrium by means of war. Because of her aggressive attitude, there remained for the rest of the world no choice but to devote to the preparation of another war, then to throw into its abyss the overproduction which found no outlet on the world market.

This second war has wounded Europe far more cruelly than the first one and will undoubtedly bear far-reaching consequences which I do not propose to examine here. However, a problem of the utmost importance for the immediate future of Europe is facing us now. The trend toward industrialization which had sprung up in the new countries during the First World War, grew stronger between 1939 and 1945: many more countries developed industrial activity. Therefore, less than ever may Europe hope to reestablish the old division of labor which allowed the exchange of Europe's industrial products for the war materials and foodstuffs it requires. Indeed, European nations with their dense population and growing needs, have been driven into a deadlock as is revealed by the scarcity of the dollar.

New Patterns of Industry Needed

The generous step taken by the United States of America through the Marshall Plan offered the European nations the means of surviving during the length of time necessary to modernize their industries and to start their reconstruction. But it is quite clear that these nations cannot be rebuilt upon the bases which were sound at the time when the rest of the world wanted their manufactured products and provided them, in exchange, with raw materials and foodstuffs. If they try to reconstitute their economy according to obsolete patterns, they will inevitably be plunged into a social and industrial crisis even more serious than the one they experienced in the period after 1929-1930. It is therefore necessary both for the European nations and for the industrial producers of the entire world that Europe, admitting its unity, should rationalize its industrial possibilities, eliminate all duplication and organize itself in such a way that a division of labor is established between countries henceforth united. The various branches of industry must be localized where they can best develop, and this can be achieved only if free circulation of manpower, goods and capital in the various parts of Europe, is assured. In other words, in a world where the international division of labor is tending to disappear, where each nation is becoming an independent unit, not only politically, but also economically, where, consequently, economic exchanges between countries are becoming more and more restricted, the old countries of Europe, whose entire economy was formerly based upon international trade and who, for that reason, depended upon the outside world for their very existence, have no choice but to unite.

Looks for African Development

Even this union, however, will not be a sufficient answer to the problem, for the entire territory of Europe lies in the temperate zone, and the old Continent, therefore, lacks the agricultural products that grow only in the Tropics. It also lacks some of the minerals essential to its industry. To regain its equilibrium, it must, then, find a complementary continent. Such a complement Europe will find in Africa, a land that is very sparsely populated, for the most part still untapped, and where Europe has gained strong positions. Thus the development of Africa becomes a vital question for Europe, and the effort that is now being made to give the European countries the modern equipment necessary for the utilization of their natural resources, must be accompanied by a similar effort to investigate and then utilize the economic possibilities of Africa. But, if Europe cannot by itself even supply the modern equipment it needs, how can it find the enormous capital required to exploit Africa? Here, gentlemen, we are confronted with a problem which, in some degree, is analogous to that which the countries that were not yet industrialized, the so-called new countries, have had to solve during the XIX Century.

You know the role played by European capital in the industrialization of these countries. European people, especially the English and the French, did not hesitate to put large savings at the disposal both of the governments of these countries and of various private groups engaged in the exploitation of new discovered resources. And these sums—which, incidentally, were not always put to the best use—enabled the new countries to pay for the machinery which the European manufacturers sold to them. Thus, Europe gave to the new countries both the machinery which they required and the means of paying for it. We should resort to a somewhat analogous procedure in order to develop Africa. As you know, in view of modernizing European industry, the United States has chosen, in the Marshall Plan, a system in which the American taxpayer makes the principal contribution, since the payments to American industrialists in return for sending supplies to Europe, come out of the budget of the United States. But, for the equipment of the undeveloped countries, President Truman contemplates calling upon American private capital. And, in order to give private initiative an incentive in this field, the United States Government plans to guarantee whatever capital is invested for this purpose. No guarantee of this sort was given to the European investors when they financed the industrialization of the new countries, and there is no doubt that such an arrangement would have spared the small European shareholders many losses. The conditions under which American private capital will operate in the undeveloped countries today, will therefore be much more favorable than those under which the European savings were invested during the XIXth Century. That is why we hope that President Truman's appeal will be heeded and that American private initiative, following the example of European investors in those times when the old Continent had an excess of capital, will take their turn in providing assistance to the new countries.

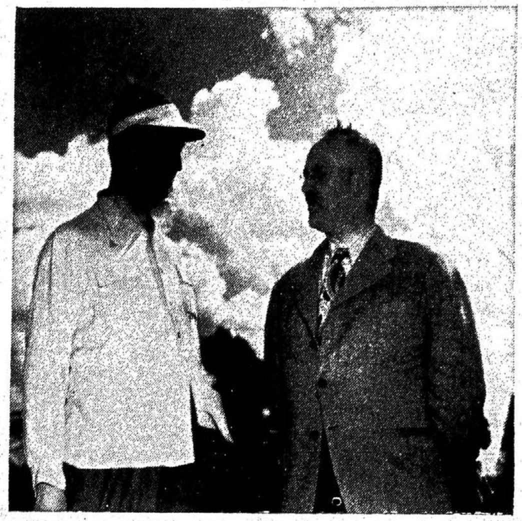
Such are the problems which Europe faces and the solutions which are being tried or considered. I would now like to discuss the question what role can Canada play in this situation? I know very well, Gentlemen, that Canada is still, in a large part, a new country, and that she must, therefore, make heavy investments in order to discover and exploit her own riches. Vast stretches of your national territory are still almost uninhabited. Only a small part of your mineral resources have been located and even though you have already made a great industrial effort in view of utilizing your own resources and satisfying your needs, there are still broad possibilities for those who wish to start new enterprises. You do not need to seek a profitable outlet for your capital, in distant lands: it can be invested in your own country.

It is quite possible, though, that in order to obtain for Canada, commodities and foodstuffs that are not produced here, the participation of Canadian groups in the exploitation of certain new countries, would be advantageous. You can, indeed, invest in Central and South America, and, as well, in certain countries of the British Commonwealth. However, would it not be profitable for Canada to remain in contact with Europe and to seek opportunities to cooperate with her in a common program of action. I, for one, believe that this would be your real interest, for, among the countries of the Western Hemisphere, Canada is one of the closest to Europe, if only because of that large group of farmers of French origin whose mentality has remained so much like that of our French peasants. I do think that, to complete your industrial expansion in the great-

(Continued on page 24)

W. Harold Robertson, *Mills, Spence & Co.*, Toronto; Herbert Bell, *W. C. Harris & Co.*, Toronto

R G. Roberts, *Dominion Securities Corp.*, Toronto; J. D. Bulgin, *Dominion Securities Corp.*, Winnipeg



D. N. Knight, *Wood, Gundy & Co., Ltd.*, Winnipeg; H. R. Farnsworth, *Royal Securities Corp.*, Calgary

Canada's Role in Europe's Problems

(Continued from page 23)

est possible harmony, you should remain in contact with Europe and base yourself on some of its formulas, for these formulas are undoubtedly more in accord with the genius of your country than the enormous industrial structures of your neighbors. In my view, the best method of ensuring such a contact would be joint participation in a common enterprise. But there is no reason why this common action should be limited to the exploitation of new countries. I can very well imagine Canadian groups profitably investing in certain large European enterprises, the latter giving Canada the benefit of their tried and tested techniques.

In our Europe, crippled as it is by inflation, most business concerns have insufficient capital and it is more and more difficult to find complementary funds in the public. Therefore, those countries which have been able to maintain a sound currency are in an exceptionally favorable position to acquire an interest in European firms of long standing whose stock exchange quotation is, at present, out of all proportion to their replacement cost. Provided they made a judicious selection, Canadian groups could, through such investments, reap the benefit of the experience of many first-class European firms, as well as secure the assistance of their managerial and technical personnel to aid them in completing the industrialization of Canada.

In many instances, Canadians will not have to make such investments. They have already been approached and will most certainly be approached very often in the future by leading groups of European industrialists who wish to establish branches in the New World and are attracted by the integrity, wisdom and spirit of Canada. Such groups can provide technique, patents, technicians and, sometimes, machines. But they usually lack capital. Why would not Canadian financiers welcome them, once they have assured themselves of the merits of these European firms. I am sure that they will not regret it, as the economy of their own country will thus be enriched not only with very fine firms, but also with technicians who are often rather scarce in young countries, while they may be too numerous tomorrow in Europe, whose role in world economy will be less considerable than in the past.

Gentlemen, I could very well stop there. But since I have alluded to the benefit that close and consistent cooperation with Europe might present for your economic development, I should like, even though I may be going beyond the scope of this meeting, to say a few words concerning the moral advantage to be gained from an intimate, spiritual and intellectual union with the European peoples. This statement may surprise some of you, for it is quite common, in the New World, to speak of Europe as of a very ill person breathing his last. Your healthy attitude toward life and your faith in effort and the spirit of enterprise, are quite naturally repelled by the capitulation of the individual implied in Communism, against which Europe is defending itself with so much difficulty. Permit me, however, to point out to you that your indignation stems from the fact that you might not realize the dangers which threaten you.

You may be sure that Europe's illness is that of our whole civilization, and, if its symptoms are more acute in certain European countries than elsewhere, this does not mean that any country which has our culture, is immune.

Trend Toward Government Intervention

Even in the greatest industrial country of the American continent, the belief in the absolute perfection of a system of complete economic freedom, is dead. At the slightest sign of a slump, we see politicians of every shade of opinion becoming worried, studying how best to avoid the social consequences of an economic crisis, and advocating, with this end in view, that the State intervene in one form or another. In America, as in Europe, people have a tendency to believe that governments can do anything, and feed upon the illusion that men can somehow escape the results of their own mistakes. Such errors are likely to lead toward Communism and despotism, people who, though willing to avoid all evil eventually arrive at the worst. This is unfortunately true in America as it is true everywhere else. And, frankly, if a crisis as serious as that of 1930-1935 occurred again, this trend might develop in America more dangerously than in many European countries. The reason for this is that, on this young continent, people are carried away by action, intoxicated by it. With all the dynamism of your youth, you have accepted the ideal of our civilization, of which the primary objective is the multiplication of needs and demands and the satisfaction of these needs and demands through ever greater production.

Of course, it is important that the people should have the highest possible standard of living. But what do we mean by this expression? Man must consume to live, but he must not live to consume. For, if this becomes his sole purpose in life, any restriction imposed upon his consumption disorients him to the point where he is willing to sacrifice everything, even his freedom, in order to maintain that standard of living which has become his only reason for existence.

Our misfortunes have made us Europeans realize not only the precariousness of worldly goods, but their inadequacy. We know that in order to avoid ruin, in order not to lose everything—including a certain amount of material comfort—we must have another ideal than that of constantly increased consumption. Our mistakes and our sufferings have enabled us to grasp, in all its dazzling truth, the great principle that man does not live by bread alone. The salvation of our threatened order requires that we awaken within ourselves other aspirations, that we make a serious effort to simplify our lives, not allow ourselves to fall victim to the frenzy to consume. Europe is once more discovering this in its hour of grief.

A new phase in the development of our world is now opening and Europe, because it is older, is further advanced in this phase than America. Saved from despair by the generous support of the New World, our old Continent must and will find the road that leads to the rescue of our imperilled civilization.

The Noranda Mines

Town of Noranda with Smelter Stacks of Growing Noranda Mines in the Background.

Harry Gassard (putting), *Investment Dealers Association of Canada;* N. H. Gunn, *Bell, Gouinlock & Co.,* Toronto; A. D. Hunt, *W. C. Pitfield & Co.,* Montreal

Charles W. Goodeve, *F. B. Ashplant & Co.,* New York City; Gerald G. Ryan, *L. G. Beaubien & Co.,* Montreal; J. B. Ridley, *A. E. Ames & Co.,* Toronto

U. S. Direct Investments in Canada Increase

(Continued from page 9)

while the smaller firms which have not been included only represent a minor part of the total investment, they do constitute an appreciable number of businesses as shown in statement 4. In many respects, however, the chief influences which United States direct investments have upon Canadian industry are through the smaller number of larger firms covered in this special analysis.

An outstanding feature disclosed by the analysis in Section II is the varying proportion which United States controlled companies occupy in different branches of Canadian manufacturing according to such criteria as the value of investment, the value of production, employment and other factors. These variations range from the automobile industry where almost all of the investment and production are in firms controlled in the United States to industries which are entirely Canadian controlled, an example of which is sugar refining. Instances where there is a predominance of United States control are limited to particular industries, often industries in which United States manufacturers have had long experience and have established an outstanding place in world production. In the aggregate, the larger United States controlled companies constituted 30% of the capital invested in Canadian manufacturing and about 20% of the value of manufacturing production. All United States controlled companies, small as well as large, represented some 37% of the total investment in Canadian manufacturing in 1946, including the value of minority investments in controlled companies owned in Canada and elsewhere. The value of the United States owned investments in all controlled companies represented something like 31% of the total value of Canadian manufacturing establishments. The influence of United States direct investment upon Canadian industry is greatest in specific industries, therefore, rather than in the total of all Canadian industrial activity.

STATEMENT 2

Value of United States Direct Investments in All Canadian Businesses by Types of Business, Selected Years 1926 to 1947*

(Millions of dollars)

	Value of United States Investment				
Type of Business—	1926	1930	1939	1946	†1947
Manufacturing—Total	818	1,041	984	1,366	1,438
Vegetable Products	69	94	93	146	160
Animal Products	18	38	47	42	46
Textiles	18	20	20	29	32
Wood and Paper Products	256	334	281	350	383
Iron and Products	180	199	188	283	312
Nonferrous Metals	83	113	130	208	219
Nonmetallic Minerals	109	126	112	138	148
Chemicals and Allied Products	60	86	88	134	147
Miscellaneous Manufactures	25	31	22	36	41
Mining and Smelting	141	210	198	245	253
Utilities	249	423	399	366	345
Merchandising	89	122	119	165	178
Financial	58	136	126	232	221
Miscellaneous	48	61	55	54	59
Total—All Companies	1,403	1,993	1,881	2,428	2,544

*Direct investments include branches, subsidiaries and controlled companies.
† Subject to revision.

STATEMENT 3

Number of Canadian Concerns Controlled in the United States, End of 1946

Kind of Business—	No. of Subs. or Controlled Companies	Number of Unincorporated Branches	Total Number
Manufacturing, Total	915	107	1,022
Vegetable Products	93	10	103
Animal Products	42	2	44
Textiles	52	4	56
Wood and Paper Products	115	16	131
Iron and its Products	199	19	218
Nonferrous Metals	117	8	125
Nonmetallic Minerals	59	3	62
Chemicals and Allied Products	192	38	230
Miscellaneous Manufactures	46	7	53
Mining	73	11	84
Utility, Total	92	15	107
Railways	11	2	13
Other Utility	81	13	94
Merchandising	342	50	392
Financial, Total	73	191	234
Insurance	10	184	194
Investment Trusts	19	--	19
Other Financial	44	7	51
Miscellaneous	131	15	146
Total, all concerns	*1,626	389	2,015

*Includes 232 wholly-owned subsidiaries of Canadian companies.

STATEMENT 1

Book Value of United States Direct Investments in all Canadian Businesses, by Forms of Investment, 1926-1947*

(Millions of dollars)

	1926	1930	1933	1939	1945	1946	†1947
Capital Stock	1,000.0	1,329.4	1,271.3	1,289.2	1,613.0	1,691.0	1,796.0
Bonds	187.6	336.3	338.3	305.8	292.0	320.0	300.0
Other Investments	214.9	327.0	323.4	285.9	399.0	417.0	448.0
Total	1,402.5	1,992.7	1,933.3	1,880.9	2,304.0	2,428.0	2,544.0

*Direct investments include branches, subsidiaries and controlled companies in Canada. †Subject to revision.

Importance of Greater Profit Margins to Dealers

(Continued from page 17)

ada operate contain in paragraph three of the constitution the following: "It is expressly declared that this Association is not formed for the purpose of affecting the price of Government, Municipal or Corporation securities, nor to enable the members of the Association to form or effect combines, agreements or arrangements tending to affect the price of Government, Municipal or Corporation securities, nor shall the Association at any time discuss or take action upon questions which would in any way interfere with free and fair competition among its members in the business of buying, selling and dealing in Government, Municipal or Corporation securities."

Effect of Market Restrictions

I am one that feels that for our Association to be successful over a long period of years this basic principle must be kept in mind and that we will never succeed in proposals which try and restrict the freedom of the membership to market securities as and how they feel necessary for their own protection. Accordingly, my views on this subject are really restricted to the thought that we must have a much wider distribution to the type of retail client I have been discussing and that we must realize that we will have to be well remunerated for such service.

I am afraid that my conclusion is that attempts to set up minimum profit spreads are doomed to failure and that the dealers will have to work out this problem of increasing their margin by the school of hard experience which will soon prove that only in times of great volume and advancing markets is it possible to pay overhead on the margins which some of us have been trying to use in recent years.

There is one portion of our business, however, where I feel that an improved profit can be obtained by the dealers and that is on new issues of securities which have been properly priced in the market. I would suggest that it would substantially improve the net profit spread if dealers were to limit their liabilities in these new issues to the amount which they themselves can distribute to their own clients and thereby obtain for themselves the net profit provided for by the spread in the business without the apparent necessity of reducing this spread through paying more for the securities that they take in exchange on trades made necessary to reduce this excessive liability.

I am afraid that the membership, Mr. Chairman, will feel that this is a very feeble effort to deal with an important subject, but I hope that what I have said will form the basis for an interesting discussion here today.

J. M. D. Wood, *Fry & Co.*, Toronto; A. R. Aylsworth, *Cochran, Murray & Co.*, Toronto

A. B. Massey, *Mills, Spence & Co.*, Toronto; C. A. Gallagher, *Mills, Spence & Co.*, Montreal

Gerry Swindell, *Wood, Gundy & Co.*, Winnipeg; Rod Copland, *Oldfield, Kirby & Gardner*, Winnipeg

Consumer's Interest Comes First

(Continued from page 6)

the United States are also developing similar Trade Fairs as an effective way of disseminating information on what manufacturers the world over have to offer in the way of consumer goods.

Aside from this, within Canadian and American retailing, scientific techniques have been further developed such as accounting and merchandise controls or warehouse and service buildings to meet special needs. Those, gentlemen, are the developments in the interest of the consumer which are being hammered out by competitive forces. The other side to this is less promising. What are the road blocks?

There are those which stem from governmental sources. Foremost is the burden of taxation itself which lies heavy on the consumer dollar. There is also a growing element of inequity in taxation, which we distributors over here no longer regard with complacency. The cooperative principle as applied to some forms of business enterprise may be laudable, provided the State does not dole out fiscal dispensation unfair to other business. Discriminatory tax advantages bonus high cost operations. The seeping extension of untaxed State enterprise is itself not to be regarded lightly. For every time the era of taxed enterprise in our respective countries is reduced, the remaining burden borne by responsible taxpaying enterprise grows at an accelerating pace.

Beyond the sphere of taxation itself, governments have been making increasing use of wartime precedents for further limitations on the way business can be done.

Compulsory standards legislation, no matter how palatable it may sound, is usually of an inflexible character which places a clumsy bureaucratic hand on competition. The processes of criminal law, if properly enforced, should stamp out cases of misrepresentation and malfeasance. Competition is, I submit, the best way to improve any or all standards affecting the sale of merchandise. There is also the threat of minimum and maximum price legislation. It, too, cuts down the part which competition can play. Again, the application of government resale price maintenance whereby the price for a specific article is set for all by an individual agreement between retailer and supplier, strangles the efforts of distributors to give their customers better values. Legislation on the hours of sale on a reasonable basis is socially desirable but, unfortunately, it too may be carried to the point where it is not in the interest of the community of consumers as a whole.

Besides these influences of governmental origin which are making incursions into the free domestic market for business, even more important are the devices which are restricting international trade. I shall only enumerate those which are paramount in the minds of businessmen on this continent. Interference in the operation of the international money markets of the world to the point where all currencies are controlled, cannot but have a decisive influence in adding to the pressure towards unbalanced world trade. Unrealistic maintenance of the status quo in currency valuations is not the means by which Europe can restore its prewar trading position with the North American Continent—or Canada with the United States. Instead, we find resort to the amoral device of import restrictions in almost every country. That, gentlemen, is not in the interest of consumers generally.

Import restrictions substitute the decisions of a small group of administrative officers as to what our citizens want to buy, at a price intended to ration supply, for those made by thousands of importers who directly reflect the changing wants of their customers. In such circumstances tariff and customs regulations while they too limit the movement of goods across national boundaries, are secondary to this method of trade suicide which so many countries have adopted.

It is not government alone, however, which is to blame for weakening competition. Some industries and labor groups have adopted restrictive practices which it is difficult to defend. Resale price maintenance in some countries is carried beyond the point of social value, when industrial agreements are formed to decide not only for how much an article shall be sold, but who shall sell it and where it shall be sold. Statistical studies in those countries where price competition and market distribution is severely limited have shown that higher prices usually result from such practices.

The retailer may in a few cases gain something of value from them, but unless he is able to lower the price of what he sells to the consumer, he is not able to discharge his full responsibility.

I was interested to read that the Council of Economic Advisers to the President of the United States has defined the American economy as "A congery of private and government efforts." That could also be applied to Canada. It is recognition, gentlemen, of the distance we, on this continent, have covered towards the Controlled State, where either statutory law or administrative power invades every sphere of business decision; where too the State expands by preponderant weight its own forms of economic activity; and business or labor accept the bad example by enforcing or asking the Government to institute special measures to lessen the risk of competition. This is not, I submit, the way to a higher standard of living. Abraham Lincoln once said that his country could not survive half slave, and half free. Those words can be applied to many countries in which the distributor tries to do business today. Yet it is not inevitable that we retailers should surrender all our power of business decision to central authority, whether of governmental, industrial or labor origin. **Our creed as distributors should be a simple one: We must work not to reduce but rather to enlarge our ability to deliver the highest standard of living to consumers the whole world over.** Governments instead of making more regulations in the name of "security" should enforce those laws which are designed to restore effective competition.

Canadian Pacific Railway—Master Work of Private Enterprise

(Continued from page 8)

original cost. In any healthy business concern, it is generally accepted by prudent management that the cost of restoring worn out work capacity is a real element in the cost of operations and should be a charge against earnings. When this concept is accepted, as it should be, our net railway earnings in the real economic sense are still further reduced and for the past several years almost to the vanishing point. This problem is the child of inflation. For many businesses, it has given the illusion of profits greater than those which have actually been earned.

New Railway Capital Needed

There is one further aspect of the earnings problem which I am sure you will understand and appreciate from you own experience. That is, the need for new capital to expand facilities and to modernize plant and equipment. The railways are affected by growth and changes in the national economy in exactly the same way that you are affected. Technological improvements have become available to us as they have become available to you. The railways must keep pace with the times if they are to serve industry, agriculture and commerce in the way and to the degree that they should be served. The railways form a link, an indispensable link, in the chain of manufacturing and trading processes that take place between the producers of raw materials on the one hand and the consumers of finished products on the other. More and more you manufacturers, your suppliers and your customers, are demanding completely reliable and ever-faster scheduling in the flow of goods from one place to another. The need for timing and expedition has increased with the tempo of modern business.

The railways can meet the challenge of these growing and changing transportation demands. It is in the national interest that they do so. But to do that adequately, we must make substantial capital expenditures over a period of years. Many of those expenditures will enable us not only to improve and expand services, but also, ultimately, we hope, to reduce costs. To obtain the capital in the required amounts, our credit position in the security markets must be restored. That in turn is dependent upon our earnings position. No industry is in a sound condition unless its earnings are sufficient not only to hire labor at fair wages and pay for materials, but also to fairly recompense the owners of the property so that investors may be induced to put their savings to work in that industry. It may be of interest to you to learn that there are, as of May 1 this year, 93,827 individual owners of the Canadian Pacific enterprise, more by some thousand than all of the employees required to manage, operate and staff all of our facilities for public service. It is a startling fact, also, that of the total number of owners I have mentioned, 70,632, or 75%, each own less than 100 shares of the capital stock. Surely the interests of such a large number of individuals should have equal and fair consideration in our attempts to resolve the problems which beset the industry.

Investors' Lack of Conference

Current stock market quotations for Canadian Pacific shares indicate the investors' lack of confidence in the present situation. I realize that this is partly a reflection of the rather cautious view which investors are taking of the investment market generally. But that is by no means the full explanation.

Nor can the poor earnings of railways be attributed to a lack of demand for rail transportation or to a lack of patronage. The situation has been caused by artificial restraints which have prevented rail transportation prices from finding their natural economic levels.

In view of the general interest in the inquiries which are taking place into the freight rate structure, you may expect me to say a few words on that score. We welcome these inquiries and we are prepared to assist them in every reasonable way, for we feel that there is no conflict between the Canadian Pacific Railway and the real national interest in any matter of transportation policy.

I do not profess to be an expert in the intricacies of the freight rate structure, the management and understanding of which is both an art and a science requiring long years of constant attention and study. There are, however, certain fundamental underlying principles that make common sense.

The first principle, with which I have already dealt, is that the general level of tolls and charges should be high enough to pay all operating expenses, maintain the work capacity of plant and equipment, and return a yield to investors sufficient to attract new capital into the enterprise in the amounts needed. A corollary to this principle is that each individual freight rate should return something more than the actual out-of-pocket cost of handling the commodity. Unless transportation enhances the value of goods by an amount at least equal to the cost of transportation, then obviously such transportation is economically wasteful and the resources used in providing it should be turned to the provision of some other service or goods.

The second principle in rate making arises out of the fact that the railway is an agency of mass transportation. Its greatest efficiency and lowest per unit costs are achieved when it is moving large volumes of traffic. For that reason rates are set at levels calculated to induce volume traffic where that is possible— consistent with the principle that rates must be compensatory to the railways. It is this desire on the part of the railway to stimulate and maintain large volumes of traffic that establishes the essential community of interest between the railways and the shippers.

Within the framework of these principles, however, there are many factors which have been taken into consideration in making freight rates. Numerous rates have been established reflecting the varying force of these factors and the rates are by no means uniform. With the exception of certain rates which are fixed by statute, notably the rates on grain moving out of Western Canada,

F. J. Brennan, *F. J. Brennan & Co., Ltd.*, St. John, New Brunswick; M. F. Newman, *Cochran, Murray & Co.*, Toronto; J. Frank Austen, *Nesbitt, Thomson & Co.*, Winnipeg

D. S. Beatty, *Burns Bros. & Denton*, Toronto; J. E. Jennings, *Jennings, Petrie & Co., Ltd.*, London, Ont.; Harold Stanley, *Royal Securities Corp., Ltd.*, Toronto

all rail freight rates are subject to approval by the Board of Transport Commissioners which is charged with seeing that rates are fair and reasonable and free from unjust discrimination or undue preference.

Notwithstanding the general low level of freight rates, enjoyed throughout Canada for many years and the supervision over those rates by a competent and impartial tribunal, there is a feeling in the Western Provinces and in the Maritimes that these sections suffer from economic and geographic disadvantages that may be corrected by some revisions in the freight rate structure.

It is true that these sections are far removed from the major centers of population and that the goods they exchange with the rest of the world have to be moved long distances. That, admittedly, is a disadvantage. The very fact, however, that economic activity exists and even flourishes in these sections indicates that this disadvantage of distance is compensated by advantages such as cheap land, climate, soil fertility, mineral and other natural resources. Rail transportation has made it possible for the natural advantages to be turned to good use on a much larger scale and with far greater benefits to the areas concerned than otherwise would have been possible. Rail transportation has partially overcome but not eliminated the disadvantage of distance.

There is a feeling in the Prairie Provinces, too, that they are at a disadvantage in not having competitive forms of transportation, particularly water transport. That, also, is true, for water carriage is cheaper than rail transportation. Here again. this disadvantage has been reduced but not entirely eliminated by the provision of rail transportation.

Competitive Rail Rates

This leads us to the question of competitive rail rates. Sometimes the railways are obliged to reduce rates in order to meet the competition of other carriers. Obviously it would not be in the interests of the railways to offer rates which are unremunerative to themselves, but frequently they can obtain traffic through these competitive rates which yields something more than out-of-pocket costs and thus makes a contribution to the overall or constant expense of the railway. Within limits, this has always been regarded as good business practice. But there seems to be an idea in some parts of Canada that these competitive rates are unjustly discriminatory and that thy should not be allowed unless made universal. This is due to misunderstanding. The railway, in making a competitive rate, does not thereby create a transportation advantage for shippers in a given part of the country, but simply recognizes that this advantage already created, exists. In offering a competitive rate to a shipper who enjoys that advantage, the railway takes nothing from the shipper who does not already enjoy such an advantage, nor is the handicap increased under which he operates in comparison with the other shipper. On the other hand, if the railways were denied the right to seek remunerative revenue from competitive traffic, then in the long run other railway traffic would simply have to bear the share of railway expenses which formerly were borne by this competitive traffic, and the burden of rail transportation would be increased upon those who were still obliged to use it. To extend competitive rates to large volumes of traffic where the conditions I have mentioned do not exist would be ruinous to the railways unless they were compensated in some other way. In either event, wasteful transportation would result.

No doubt all these matters will be thoroughly dealt with in the inquiries now taking place and we trust that a sound understanding of the facts will enable wise decisions to be reached.

Canada Marching Forward

In closing, there is one thought I should like to stress as sincerely and strongly as I am able, and I think it is particularly appropriate to do so at this important gathering of Canadian businessmen. Canada is marching forward to become a great industrial country, taking her place proudly among the leadings nations of the world. Canada is strong and free. We have our problems and we may have our economic set-backs, but basically our nation is sound. We of the Canadian Pacific want to go forward. We want to help build a bigger and better Canada in the future as we believe we have helped in the past. The officers and employees of the Canadian Pacific today are just as enthusiastic to explore new frontiers, just as anxious to develop new and better methods and just as capable of solving the problems of modern transportation as were our predecessors in the company who built the railway and set it in operation over 60 years ago. This summer we inaugurate our trans-Pacific air services to the Orient and the Antipodes. That symbolizes our faith in the future and our still-venturesome spirit. The time has long passed when the Canadian Pacific could be called a monopoly and we do not seek to become one. We ask only that we be given that freedom of opportunity which will enable us to operate our business in such a way that we will be able to provide the kind of transportation Canada needs today and will need in the future. Private enterprise cannot remain healthy without the faith and the aid of private investors. If it remains healthy, it has an excellent chance of survival. If it languishes for long in a starved and sickly condition, it will surely pass over the great divide into the arms of the bureaucrat.

Canadian Budgetary Policy And Economic Trends

(Continued from page 4)

of demand which taxed to capacity the productive resources of North America made it profitable for war plants in Canada to be converted to peacetime production, and for established industries to expand. Discoveries of new and important natural resources, such as I have already mentioned, require enormous capital expenditures, which should continue to keep demand for capital goods active for some time. Public expenditures of a capital nature were of necessity postponed during the war, and the high level of private demand immediately after the war made it advisable for governments to refrain from competing with this demand. Some expenditures could not be avoided, of course, but they have been kept to a minimum. Consequently, there is a large back-log of demand of a public nature.

Consumer demand has also remained at a high level, although, naturally enough, it is not as insistent as it was. Demand for housing is far from satiated, and there has been no slump in housing construction. Demand for durable consumers' goods in most lines exceeds supply. In many lines our import restrictions have tended to reduce the supply of goods available to satisfy backlog demand. The great expansion of the Federal Social Security program during the war, including Family Allowance Payments, Unemployment Insurance, and increased Old Age Pensions, involves payments to individuals of hundreds of millions of dollars annually. Since the recipients are mostly low income groups, they are spent largely on consumer goods. The recent tax reductions and the distribution to farmers of surpluses accumulated by the Canadian Wheat Board have had much the same effect on consumer demand.

In short, the Canadian economy has not only come through the war and immediate postwar period stronger than ever before but it is still in a dynamic phase of development. Hence the confidence about the immediate future which I expressed at the beginning of this article and which underlies the general financial policy of the government.

The longer-term outlook is more obscure. But given a reasonably sensible structure of world trade in which Canada can take advantage of her demonstrated productive capacity, there is every reason for confidence. In common with other countries, and perhaps to an even greater degree, we shall be affected by economic policies and conditions in the United States. If your domestic economy remains buoyant, and if your government encourages world trade by such means as the removal of trade barriers, we can continue to pursue policies which are in your interest as well as our own.