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Stock Rights and The Income Tax

By HERBERT A. STRANGMAN
Tax Accountant, Los Angeles, Calif.

Mr. Strangman cites cases illustrating practical application of income tax regulations with reference to exercise or sale of stock rights.

When a stockholder receives rights to subscribe to new stock, unless they are neither exercised nor sold, income tax enters the picture. If the rights are sold, the gain or loss will have to be reported in the income tax return, and the cost basis of the stock must be adjusted; and if the rights are exercised, it is necessary to establish the cost basis for the new stock, and also to adjust the cost basis for the old stock. This procedure must be followed so that gain or loss upon the subsequent sale of all or a part of the respective stocks may be determined in accordance with the provisions laid down in the income tax regulations.

In order to determine the gain or loss on sale of rights, the "cost" of the rights must be established, and this is done by prorating the cost of the stock in respect of which the rights were acquired, between the stock and the rights, on the basis of their respective market values at the time the rights were issued. The prices used are the mean, or average, of "high" and "low," and *not* the closing quotations. Frequently, there will be trading in rights for a few days prior to the date of issue, but these prices are disregarded; the quotations at such

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Devaluation and Our Stock Market

By ALLEN M. BERNSTEIN
President, Bernstein-Macaulay, Inc.

Investment counsel, expecting pound devaluation, asserts long-term advantages through world trade revival will outweigh possible disadvantages to us. Nevertheless, fears ensuing general decline in world commodity prices would entail further drastic inventory adjustments in this country. In any event looks for further production and price falls here, with 70-80% drop in profits—concluding our stock market cannot maintain a sustained rally.

There has been considerable discussion as to the immediate future of the pound sterling. While devaluation of any currency is an internal question, the exchange value of the pound may have a profound and far reaching effect upon our own economy. To say that money *per se* has no value is elementary. However, used as a medium of exchange it becomes valuable, its value being measured by the amount of goods, and services for which it may be exchanged. Naturally, the credit and the ability of the issuing government to perform on its promise to pay is likewise an important consideration. Both of these may affect its value nationally and internationally, but not necessarily coincidentally.

Allen M. Bernstein

We may recall two striking examples of this truism. In 1931 England went off gold. The exchange value of the pound sterling as expressed in dollars had been approximately $4.86. When it was divorced from gold it immediately dropped to $3.50. But in England,

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Is Government Spending Right Way to End Recession?

By HARLEY L. LUTZ
Professor Emeritus of Public Finance, Princeton University

Dr. Lutz, in commenting on President's recommendation that government spending is essential to prevent further recession, contends policy of spending in excess of tax revenue will be inflationary. Holds small doses of inflation are not effective in relieving depression and large doses would be disastrous. Decries "purchasing power" theory of prosperity maintenance, and points out capital formation is essential to expanding economy. Advocates government spending cuts as means of increasing national income.

In the midyear Economic Report of the President, and again in a broadcast to the country on July 13, Mr. Truman emphasized that large public spending is essential to prevent further economic decline. He is certain that this is the only way to keep the economy from sliding further down the hill, and that by an increase of spending, financed through new issues of public debt, it can be made to run uphill again.

Dr. Harley L. Lutz

This viewpoint is shared by many persons in public and private life. It rests on the idea that there is some peculiar virtue in public expenditure. We are heavily indebted to the late J. M. Keynes for this doctrine, which included the concept of a "multiplier" of each dollar of public spending.

It is necessary, in appraising the President's theory, to consider

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EDITORIAL

As We See It

"Disinflation" and Cost Inflexibility

For a long while past production has been growing more and more loaded with excessive costs. Not only have necessary elements of costs been unduly inflated in many instances, but wholly unnecessary cost elements have entered and are entering. Such developments as these usually do arise when for one reason or another competition temporarily subsides and the pressure of prices is not great. It is competition exerting itself through prices which tends to keep business free of these encumbrances or to remove them at periodic intervals, and thus to save the consumer the burden of inefficient production and toll to this or that element in the population which happens to be in a position to levy exactions upon industry. It has in the past been this cleansing influence which tended to prevent the economy from accumulating burdens through the years which would, as time passes, tend to bog it down more and more.

Of course, special conditions such as shortages of goods and excesses of "liquid savings" following war, or just plain credit inflation carried forward on the

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Business Views Foreign Policy

By NOEL SARGENT*

Secretary, National Association of Manufacturers

Spokesman for NAM reviews attitude of his organization on foreign policy problems. Opposes ITO Charter and urges curbs on economic aid, particularly in furnishing aid to nations that discriminate against American private investment and engage in discriminatory bilateral agreements. Sees British adverse economic situation a barrier in promoting freer world trade, and calls for treaty guarantees of fair treatment of American investments abroad. Concludes we can have no real peace without free contacts among peoples of the world.

Why should business—both individual industrial leaders and business organized in an association such as the National Association of Manufacturers—have a general or special interest or concern with matters of foreign policy? Here briefly are some of the reasons, which will assist you in properly evaluating industrial thinking on foreign policy.

Noel Sargent

1. The primary concern of people in the United States is the domestic prosperity and well-being of this country. Developments in communications and transportation in the past 50 years have made it very clear that sustained prosperity and well-being in most parts of the world depend on the maintenance of world-wide peace and order, and that no country can long be prosperous if the people of other nations cannot buy its products or supply it with the materials needed for its own development. Similarly, no people can achieve maximum prosperity if there is economic stagnation in a large segment of the world, or if the major efforts of the peoples of many other nations are directed into economically unproductive channels of war and preparation for war.

2. Dislocations caused by the war have created many problems, over which the United States exercises a very great influence. Since attempts to solve these problems may have great effect upon this nation's economy, it is both proper and desirable that businessmen and organizations, such as the National Association of Manufacturers, take an active interest in their solution.

3. Because American industry abhors war—with its holocaust of lives, its wreckage of property, its misery and destruction of happiness, its bureaucratic control over the acts of citizens—it feels that it has a legitimate right and duty to formulate and present to the American people and to their government its views as to how world order may be established and maintained so as to make it unnecessary for American youth to fight a third world war.

4. International peace, with a reasonable prospect for its continuance, gives the best chance for economic freedom in this country, for production of consumer goods instead of war goods, and for rising living standards for the American people.

Business Thinking on Foreign Policy

Having thus summarized the basis for business interest in problems of foreign policy, I now turn to a review of business thinking on foreign policy problems; subsequently, I will comment on some current major problems of international relations, especially ECA, the proposed International Trade Organization, and the "Bold New Program" for international economic development.

The NAM believes that the international policy of this country should rest upon a unified foreign policy based upon preservation of our constitutional, representative form of government. This, in turn, must be accompanied by a sincere desire to establish and maintain peace while providing adequate preparedness to meet attack, within the capacity of a free, competitive enterprise system. We should not adopt totalitarian principles here at home while preparing to resist aggressors who follow totalitarianism in their own countries.

The NAM believes that this government's international policy should also rest upon the concept of cooperation with other nations, both large and small, in efforts to bring about peaceful relations and make them secure.

The Association in 1942 called for some kind of world organization "through which the political and economic relationships between nations of the world can be developed and maintained on an orderly basis."

In the following year, 1943, the Association declared that the "most desirable type" of a "general international cooperation organization" would be one "open to all nations of the world who subscribe to the principle of cooperative action to prevent any nation from engaging in aggression by use of military force and also to the principle that disputes between nations should be submitted for decision and settlement to an independent international judicial tribunal."

The United States Senate has recently been considering the Atlantic Pact and it may be of interest to note that the National Association of Manufacturers approved "within the limitations of a world organization" regional federations which subscribe to the principles above stated as they affect the member states of the particular federation. This was followed by a statement that "regional federations can have real usefulness, as do local governments, but they should not become aggressive in their attitude toward non-members."

Additionally, the National Association of Manufacturers has advocated an extension and perfection of international agencies and organizations designed for cooperation in specific fields. Many such agencies have had long histories and have been successful in minimizing international friction in specific fields.

As examples of successful international cooperative agencies in the economic field, we find the International Telecommunications Union, established in 1869; the Universal Postal Union, 1874; the International Bureau of Weights and Measures, 1875; the Union for the protection of Industrial Property (patents), 1883; the International Institute of Agriculture, 1905; and the International Labor Office, 1920.

In other major fields of social life, we find such international cooperative agencies as the International Red Cross, established in 1864, and the International Opium Commission, established in 1909. If such efforts at international cooperation could be extended to enough areas of actual and potential international friction, they might go very far in preventing strife and discord.

It is of interest to note that because of its activity in the study of international relations problems in 1942, 1943, and 1944, the National Association of Manufacturers was invited by this government's State Department to have an adviser present during the San Francisco deliberations on the United Nations Charter. The NAM was both willing and well prepared to accept the invitation, since many NAM recommendations on the Dumbarton Oaks proposals had been incorporated by the State Department in its work in drawing up the proposed charter. When the San Francisco charter was published, the National Association of Manufacturers, while recognizing several shortcomings in the charter, nevertheless was one of the first organizations to publish its recommendations that the charter be approved as a desirable step towards international peace — this being done within three weeks after the San Francisco Conference.

Turning more directly to the economic sphere, we find that six years ago—well before the U. S. and British governments jointly proposed an International Trade Organization—the National Association of Manufacturers said that "an international board of trade should be established as a fact-finding and advisory board" and

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*An address by Mr. Sargent before the First Annual Conference on American Foreign Policy, Colgate University, Hamilton, N. Y., July 26, 1949.

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1949 Economic Outlook And Forecast

By HUBERT J. SOHER

Partner in Charge of Research, Walston, Hoffman & Goodwin

Mr. Soher reports on 10 week trip throughout East and Midwest in which he made inquiries regarding business conditions, opinions and forecasts. Foresees price adjustment cycle of the economy completed not later than first quarter of 1950 and looks for new products and greater labor productivity to bolster up downward trend. Says business executives are optimistic on long-term outlook.

PREFACE

This treatise on the economic conditions of the United States is based on a 10 weeks trip throughout the East and Middlewest. During the trip senior executives of 141 American corporations, two Cabinet members and two leading senior executives of Labor as well as numerous brokers, investment bankers, economists, bankers and publishers were interviewed by the writer during March, April and May, 1949 in 26 cities within 12 states. Substantially the same line of questioning was asked of all to determine a general pattern. Here is the composite picture portrayed by business, labor and government officials:

The Outlook—1949 and Beyond

We are in a price adjustment cycle which started early in 1947 and which should be completed not later than the end of the first quarter of 1950. Concensus of opinion of all interviewed was that the bottom of the adjustment would be reached between May 15, 1949 and March 31, 1950. The severity of predicted decline ranged from minor price adjustment to one of sharp drop in price and volume and considerable unemployment. Business, labor and Washington executives were unanimous that it would not be of 1929 intensity.

It was generally agreed that the decline in volume and prices would be intensified if the fear complex, now prevalent with jobbers and retailers, spread to the manufacturer and consumer levels. There is no present indication of that occurring.

Because of the sound fundamentals of our economy, the lack of surplus inventory, the absence of stock or commodity market speculation, the $215 billion estimated national income for 1949 the over $200 billion of cash on hand, in banks and in Federal savings and loan associations, the low interest rates, the enormous construction program under way this year and anticipated for next year and the sensational new products which manufacturers have developed the past decade and have been withholding for a buyers' market, there is every indication we will have a period of sustained prosperity for several years to come.

Mental Complexes of Business in the Past

During my trip in the fall of 1945, the investor worried over reconversion of industry from war to peacetime operations. Business, however, was worried over the more practical problem of lack of materials available for production. O. P. A. ceilings had been removed, rationing was at an end and the scramble to buy steel and fractional motors, as well as thousands of other products, was the focal point of industrialists' concern at that time.

The 1946 field survey revealed worry over labor conditions was the principal basis for industrial concern. John L. Lewis and A. F. Whitney had called their unions out on strikes; second round of wage increases were occurring and industry worried over the problem of pricing itself out of the market.

In early 1948, I observed a major interest in politics—a belief by business that a change in political leadership would reinspire industry and investors to hasten a period of postwar prosperity. All other problems were of minor import at that time.

This recent trip of the spring of 1949 has indicated that neither materials, labor or politics are as important as the factor of competition; that we are today back for the first time in as highly a competitive era as we were during the so-called Golden Days of the 1920s. Business and industry are more worried today over the new products their competitors have hidden away or are in the process of introducing; of the price reductions announced or the breakeven points that might spell success for one and disaster for another; of the aggressiveness of some to entice skilled and executive employees from others.

Material

Virtually all material is available at will today. There may be an insignificant item of a particular size or quality that might require a week or two delay in delivery, but generally speaking there are no shortages. No corporation executive indicated his ability to produce was being hampered by material shortages.

Labor

A segment of the U.A.W.-C.I.O. has struck against the Ford Motor Co.; contract discussions are stalemated between the Steel Workers C.I.O. and the United States Steel Corp., and discussions are forthcoming between the United Mine Workers and the Coal Operators. At this writing, it appears quite probable that there will be a coal strike; that a steel strike may be averted by a compromise formula without involvement of higher wages or pension plan and that the premature strike at Ford may disrupt the strategy of the U.A.W.-C.I.O. right wing leadership. It would appear that

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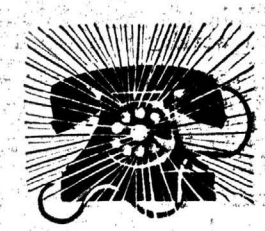

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Permanent European Recovery— Its Structure and Achievement

By EDWARD T. DICKINSON, JR.*
Director, Program Coordination Division, Economic Cooperation Administration

Asserting European living standards must be restored to prewar level before European Recovery Program ends or political and social objectives sought will fail, ECA official foresees a deterioration in Europe's competitive position unless U. S. aid is continued. Sees need of major structural change in Europe's manufactured goods markets. Advocates end of European trade barriers and installation of multilateral negotiation machinery for free trading and currency exchange operations under a key currency system. Urges setting up an Intra-European Commerce Commission for coordinating economic policies.

I should like to make it clear that the speech I am about to deliver reflects my personal views only and does not necessarily represent those of the ECA or of the United States Government. The problem of permanent European recovery is basic. The fault lies in the present structure of the western European economy and its historical development. Structural reform must be resolved, and resolved now, if the Marshall Plan is not to become merely an seemingly endless series of "interim" aid measures.


E. T. Dickinson, Jr.

It is perfectly true that structural changes will take time to initiate and longer to produce results, but that is all the more reason for initiating them now rather than later. The longer we continue to miss the opportunities, provided by every crisis, for taking bold steps, or persist in taking on isolated and superficial expedients, the longer we will delay the basic work which in the end must and will be done.

Task of Restoring Europe's Competitive Position

The problem before us is to restore Europe's competitive position in world markets. This competitive position is compounded of two factors: the productivity of its labor and its standard of living as compared with the same two factors in the economy of its chief competitor, the United States. More immediately, Europe's competitive position in relation to that of the United States involves a comparison, between the two areas, of industrial output per man hour in relation to industrial wages. It is not the static relation to which I refer, but the relative rates of growth of output per man hour in industry and the rate of improvement in real wages. Perhaps a generation ago it could be assumed that the European working man would be content with a slower rate of improvement in his standard of living than would the American working man, but it would be dangerously unwise to make this assumption for the future. The political stability and military potential of Western Europe can now be assumed to depend upon a rate of growth of consumption levels at least equal to those which will be enjoyed in the United States. Thus, the competitive position of the two areas will be determined by relative rates of growth of output per man hour in industry.

Because at present, and probably for the remainder of the European Recovery Program, the Western European nations will devote about 20% of their gross national product to capital formation, the Western European output per man hour will probably increase at a rate greater than the increase in output per man hour in the United States. Thus, for that period, Western Europe's competitive position should tend to improve relative to that of the United States unless serious and prolonged deflation in this country lowers American wages and other costs sufficiently to more than offset a more rapid improvement in Europe's productivity. Deflation of that magnitude does not appear probable at the present time. However, if the structure of the European economy remains as it is today, it is more than doubtful that a continuing high rate of productivity increase can be maintained after the end of the European Recovery Program. There are several reasons for this:

(a) American aid enables European countries to devote resources to capital investment which otherwise would have to be used for consumption or exports. New plants and improved media of production into which Europe at the present time is pouring so much of its capital in order to increase the output per man hour will inevitably decline once American aid is eliminated and Western Europe is again forced to divert a greater portion of its resources to consumption and exports.

(b) Before the war the low rate of capital formation and of productivity increase enabled Europe's relative wages and living standards to be maintained. The war and post-war difficulties substantially lowered real living standards, but the consumption expectations of Europe's population still remained. The European standard of living must return to the pre-war level before the end of the European Recovery Program or we shall have failed to accomplish its political and social objectives. Living standards could not thereafter decline again in order to provide resources to maintain a high rate of capital investment without creating a serious political crisis. Not only will the compelling necessity for a rising standard of living during and after the ERP limit the magnitude of resources devoted to investment but it will also affect the composition of capital investment itself. The European nations cannot much longer delay the initiation of substantial housing programs to replace housing destroyed by the war, make up for the complete lack of normal replacements since 1939 and provide for the growth of population which by 1952 probably will be 10% greater than pre-war.

(c) Finally, the technological backwardness of some sectors of Europe's engineering, the scarcity of dollars with which to buy more advanced American equipment, the desire to achieve national autarchy and the lack of a competitive environment within Western Europe mean that a significant portion of the capital formation will continue to be less efficient than its counterpart in the United States.

Major Structural Change in Europe's Markets Needed

Thus, after the next two or three years, and sooner for some countries, when the rate of industrial and total productivity falls to, and possibly below, the prewar trend, Western Europe's competitive position will again tend to deteriorate relative to that of the United States with inevitable serious results for Western Europe's balance of payments, military potential and political stability. We cannot allow this to happen. To achieve in the long run a permanent rate of growth of productivity in Western Europe greater than prewar and comparable to that in the United States implies a major structural change in the characteristics of the Western European market, particularly the market for manufactured goods. Structural change in effect implies the reversal of the historical tendencies which have characterized the development of modern capitalism in Europe. Basically, this means the formation of a single, pervasive, highly competitive domestic market in Western Europe of sufficient size and scope to support mass production for mass consumption. This requires the elimination of barriers to the

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*An address by Mr. Dickinson, Jr., at First Annual Conference on American Foreign Policy, Colgate University, Hamilton, N. Y., July 25, 1949.

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By HENRY GELLERMANN
Advertising and Public Relations Director
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Financial advertising in newspapers and magazines is a direct, effective means of creating mass understanding and goodwill through mass communication. Only recently, and in a very small way, has the financial community realized the importance of institutional and educational advertising—especially houses maintaining numerous branch offices — as part of their community relations. By such advertising, an investment house and its management does not leave the interpretation of its facilities and services simply to chance or to word-of-mouth dissemination.


Henry Gellermann

Management in the security industry, spends countless thousands of advertising dollars annually to offer its services and to describe its activities. Perhaps the renowned builder of the better mouse trap actually did increase his business through the sheer brilliance of his work. But that was back in the days of the horse and buggy. Financial advertising budgets for services, facilities and sales must increase many fold in coming years—to meet stiffening competition and growing public apathy.

Because public opinion is the dominant force in our democracy, the financial community is paying also closer attention to the public mind as well as the public's dollar. Obviously, if it loses the battle of public opinion and consequently public goodwill, it will cease to be a formidable competitor for the public's dollar. The prime purpose of financial advertising is to create and maintain better public understanding of:

(1) The financial firm—its policies, facilities, services and contribution to social advancement.

(2) The industry.

(3) The economic system of which both are a part.

Every public opinion survey on the subject of the financial community's activities has shown—even though there has been a modest improvement in recent years—that there is a dangerous confusion and lack of understanding in the public's mind about Wall Street, its basic attitudes, policies and practices. A basic cause of this situation is that the Street has not for one reason or another always taken its full story to the people. The same public, however, has been exposed day after day to the rumors, misinformation and strong critical attacks on the industry and individual companies.

Institutional or educational advertising is a major vehicle for doing this very thing—for putting down all the facts in black and white for everyone to see and to come to fair-minded conclusion for himself.

Education through advertising requires the same careful planning and practices as any major public relations approach. As much depends on the manner in which the story is placed before the public as on the material which is presented. In institutional advertising, the emphasis must be on the facts—not on the floss; remember to:

Be frank, fair and honest.

Don't talk up or down to anyone.

Use simple unvarnished words and facts, so that every housewife in the community will both understand and believe what you have to say.

Tell one story at a time, don't overload your copy.

Use figures sparingly and only when illustrated by simple everyday examples.

Rather than risk the pitfalls of launching any type of institutional advertising without proper guidance, consult in advance with reputable experts in the field of advertising and public relations.

Here are two basic, integrated programs and approaches to institutional advertising at the investment industry level. They dovetail readily and are listed below in what may be suggested as their current order of importance.

(1) A campaign to correct the misinformation that exists in the public mind about methods of operations, purpose, social contribution, salaries, working conditions and other vital policies, practices and plans.

(2) Information on profits, dividends, relations to industries and their workers.

(3) Mutual dependence and close inter-relationships between the financial industry and the community.

(4) Working conditions in the industry itself with emphasis on wages, years of employment, safety, security and employee morale.

(5) The financial industry's appreciation of its responsibilities to the people and the community.

The second campaign should confine itself to re-educating the community on some of the pertinent fundamentals of the financial industry of which the firm which advertises is a vital part. Its purpose would be to drive home what we all enjoy under our system of competitive enterprise and what it can give us in the future if we protect and strengthen it. The themes for this campaign can well be developed as follows:

(1) The contributions to financial industry and their bearing on the life of every citizen.

(2) Expanding productivity in the past has largely made possible healthy gains in human well being—economic social and political.

(3) Our American standard of living is the highest in the world because we produce more (part Wall Street plays in this).

(4) Our future as a nation depends on how well we all work together to increase production for the benefit of all.

People on the local community level have a natural curiosity about your company, especially your customer whose account and money are entrusted to you. People like to know what's going on.

Don't expect immediate and startling results from a campaign of institutional advertising. Current public attitudes were built up in a matter of years. Winning a favorable balance of public opinion in your community will take time—but it can be done if started now.

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No Serious Recession, Says Harry A. Bullis

Chairman of General Mills, Inc. looks for price adjustments to nourish our economy.

At a press conference in New York City on July 29, Harry A. Bullis, Chairman of the Board of General Mills, Inc., expressed the opinion we are making good progress in an inevitable economic adjustment from the postwar inflation and there would be no depression. Said Mr. Bullis:

Harry A. Bullis

"In my opinion, we are not heading into a depression. We should not have even a serious recession. We are making good progress in an inevitable economic readjustment from the postwar inflation. The declines from the abnormally high records reached in the immediate postwar years are taking place as 'rotational adjustments' of business. There have been sharp dips in some lines of business, but at the same time other industries have continued strong. Price adjustments will probably continue until the stored up buying power of the public once again is released to nourish our economy.

"The big problem is not insufficiency of private spending power. Today's problem is the lack of confidence on the part of both producers and consumers.

"The simple fact of the buyer's market is a salient factor in all business. It means that we must all work harder and we must become more efficient producers.

"This is not the time to be fearful. This is the time to be a realist. to see that we produce more industrial goods and sell them at prices that more people will be willing to pay. This is the time for business to strengthen its merchandising, advertising, and selling programs and bring out new and more attractive products.

"Now that much of the plant expansions of the immediate postwar years are completed, we are seeing real gains in output, and with an improved productivity on the part of everyone, we are on our way towards a soundly priced American prosperity that can be sustained."

Michael J. Heaney Co. Formed in New York

Michael J. Heaney and Jerome T. Meighan, member New York Curb Exchange, announce the formation of Michael J. Heaney & Co., with offices at 1 Wall St., New York City.

Michael J. Heaney

Mr. Heaney is a former president of the Security Traders Association of New York and is second vice-president of the National Security Traders Association.

The State of Trade and Industry

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

The three-man Truman-appointed fact-finding board held their first public hearing last Thursday at the United States Court House n Foley Square, New York City, before which Philip Murray, President of the CIO, appeared and had his say. As was to be expected, Mr. Murray voiced the demand of the steelmakers Union for a 30-cents-an-hour-fourth-round increase "package." The package to consist of a 12½ cents an hour wage increase, 11.23 cents an hour to provide steelworkers with a $125 a month pension after the age of 65, and 6.27 cents an hour for health insurance benefits. Thursday's hearing was disrupted when Mr. Murray made a personal attack against the leaders of the steel industry. The board chairman admonished Mr. Murray and told him curtly that it would not stand for such argument. Mr. Murray's tirade led him to describe the steel industry's leaders as "the most sanctimonious band of professional racketeers in this country" and when objection was made, Murray then described the industry's leaders, without naming them individually, as "prevaricators and provocateurs." Mr. Daugherty, the board's chairman, ordered Mr. Murray's exchanges sticken from the record, after John A. Stephens, Vice-President of the United States Steel Corporation, and Roger Blough, General Solicitor of the same company, entered objections to Mr. Murray's harangue.

The CIO President contended that the steel industry's net profits for 1949 would approximate $1 billion . . . pensions under the U. S. Steel's current plan averaged less than $5 a month . . . while the three top officials of that corporation will receive pensions of $63,815 to $70,323 a year when they attain 65.

Mr. Murray accused the steel industry of inaugurating "a series of unjustified price increases," helping "to bring about inflation—the aftermath of which is now being experienced." Mr. Murray argued that granting the Union's demands "would have a decidedly beneficial effect upon the national economy."

The companies represented at the hearing received an important procedural setback by the fact-finding board at the hearing when Chairman Daugherty denied the request of the companies to have the pension demand considered separately from the Union's other demands and its consideration given first disposition by the board. The Steel companies maintained that their contracts with the Union, prohibit consideration of pensions under the current re-opening clauses. The Union contested this view. Mr. Goldberg, General Counsel for the Union, argued that the contracts "leave the question of pensions open for bargaining at any time and that "pensions are within the scope of the re-opening clause" and that "the Union has not waived its right to bargaining on pensions." The companies contend that the Union's contract forbids bargaining on pensions, that the contract can be re-opened to discuss **wages and social insurance only**; while the Union on the other hand argued that pensions are deferred wages and are therefore to be discussed. Chairman Daugherty made it plain that the board was not ruling on whether pensions are a bargainable issue but would hear all evidence on the pension question. The chairman said further that the board **would not make a recommendation** on the merits of the pension increase if the board decides the issue cannot be properly raised by the Union at this time.

At Friday's session the CIO advocates said that the steel industry can meet the Union's demand for the 30-cents-an-hour wage increase "package" without increasing their current production costs This, and other similar statements by Robert R. Nathan, the former New Deal economist, retained by the Union, were to the effect that recent decreases in the cost of many basic steel materials would more than offset the cost of the Union's demands. Mr. Nathan, in his presentation, said that the steel industry operating at its present 80% of capacity rate would save $300 million in the reduced cost of materials. 30-cents-an-hour wage increase would total $270 million at the 80% production level. According to Mr. Nathan, the steel industry would net at least $698 million profits after taxes in 1949 on the basis of June steel prices, material costs and 80% capacity rate. Mr. Nathan also maintained that the steel companies would net $250,800,000 this year even if the production rate dropped to 70%, made possible by savings of $262 million, the price decrease for scrap, zinc and oil still offsetting the $228 million (30 cents wage increase) at the 70% production level.

The board granted the companies' request for a five-day recess after the Union completes its presentation. The Union has eight days to present its case and the 64 steel companies the same period.

(In announcing his company's second quarter earnings, Eugene R. Grace, Chairman of the Bethlehem Steel Corporation, stated that the steelworkers' demands would add $10 to $12 a ton to the cost of making steel. Mr. Grace explained that this was a "quick estimate," based on "the increases we would have to pay for our raw materials with other wage rates going up, as they would.")

At Monday's session this week, Mr. Nathan elaborated his theories in greater detail before the fact-finding board, expressing the view that the Steel industry in the interest of the country and the industry itself has an obligation to meet the Union's fourth-round wage demand, adding that the companies have enjoyed such a profit "windfall" that they can easily meet those obligations and "those to their employees" at the same time. Noting the reduced demand for steel, Mr. Nathan said he thought the producing companies "would be more hesitant about raising prices" at such a time. For a real exposition of Nathan's views showing up his errors and fallacies, this Department urges readers to be sure to read Elisha M. Friedman's article on page 3 in our July 21 issue.

Mr. Nathan attributed the current economic "slowdown" to continuing high price levels combined with lagging consumer purchasing power. All industry must help revitalize purchasing power or face possible "self-destruction," he added.

Some observers believe that Mr. Murray is more interested to

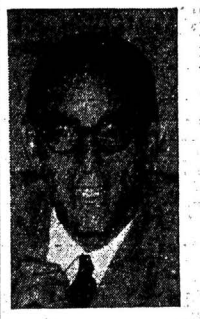
(Continued on page 29)

Observations . . . .

By A. WILFRED MAY

Establishing Stockholder Communication with Management

Surely one of the important opportunities for improving management-stockholder relations and at the same time filling a broad investment need, lies in vastly increasing the amount of direct personal contact between the shareholder and his company. Whereas the presently-existing points of director-shareholder contact—chiefly the annual meeting via the largely-unsatisfactory proxy system—are sporadic and insufficient, a *continuing* medium for the airing and mutual disposition of matters of concern to the stockholders should be made available.



A. Wilfred May

One method for thus providing information to the investing public as well as to already-existing stockholders that apparently has met with success, is the engagement on their payroll by some companies of a special representative to supply background and current company information to security analysts, stockholders, prospective investors, and anyone else in "the Street" that exhibits interest. The main *caveat* to be observed regarding this role is that it should not be prostituted into "stooging" for the company—which role of objectivity seems in practice to have been fairly well observed thus far.

The question of establishing continuity in stockholder-management communication, with concrete suggestions, is interestingly treated in the following communication addressed to this column by Mr. Harold Hodgson, a long-time expert in stockholder relations.

MR. HODGSON'S LETTER

Dear Mr. May:

I am a frequent and appreciative reader of your column. May I compliment you on your attitude toward stockholder organizations and other phases of stockholder-management relations as evidenced by the space you have given recently to letters from various individuals on this subject. It seems to me that this is particularly helpful on your part as there is undoubtedly a great lack of understanding and realistic thinking on the whole question of stockholder relations.

I have felt for some time that this subject can be greatly clarified if a fundamental basis and a few near-term objectives were established, viz:

(1) The natural and fundamental basis is a clearer realization on the part of stockholders of the notable accomplishments of American corporation managements in the past, some understanding of present operations of the companies in which they are part owners, and some knowledge of the managements' problems; and above all, much greater confidence than now exists in the proved ability of American business men to meet and overcome obstacles and set-backs.

(2) I believe that you and I are in tune with many others who feel that an important near-term objective is to bring home to many managements a fuller realization of their accountability and responsibility to stockholders as a whole. This of course includes many things, ranging from acceptance on the part of management of the desirability of holding stockholder meetings in readily accessible places and the sending of post-meeting reports, to more complex matters, such as the determination of fair dividend policy, methods of bonus payments and incentive plans, etc.

I think many will agree that good progress is being made on this near-term objective of making management actively aware of its accountability to stockholders, owing in large part to the effective and cumulative efforts of Messrs Lewis and John Gilbert, Mrs. Wilma Soss, etc. On the other hand very little has been

(Continued on page 30)

Who Made 50 Points While The Dow Stood Still?

In 1948 the Dow ended the year where it began . . . but those who followed Major Angas' advice were able to make 50 points profit. This is not an isolated instance—it follows the pattern established by Major Angas during 20 years of business and market forecasting. For instance, he has—

1. Side-stepped the last 7 crashes in America.
2. Hit almost on the nose, 10 of the last 12 intermediate swings.
3. Bought at the recent 161 bottom on a flash message which said "Exploit this panic blindly."
4. Sold out a month previously 14 points higher up.

COMING BARGAIN-COUNTER $2 □

. . . is the title of the latest Angas Digest. It is actually six Digests for the price of one. It is Angas' personal X-ray of this slump and the coming revival. He considers it one of the best Digests he has ever written. Nevertheless he recognizes that this Digest will seem wrong to the majority *right now*. Most good advice is bound to be thought wrong *"by the majority"* when first issued. But after a lapse of several months, most of his apparently unorthodox predictions have proved in practice to be correct.
To those who enter a regular subscription as below, the above Digests will be sent FREE.

60% OFF

We cordially offer a reduction in our regular rates *provided only* that you enroll before *August 10th*. The offer is virtually a 60% gift, and we do not intend to repeat it this year.

Digest Service, One Year (reg. $25), only $15 [ ]
Wire Service*, One Year (reg. $25), only $5 [ ]
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*Check how you wish Wire Messages sent:
Collect Wire [ ] Regular Mail [ ] Airmail [ ]

Digests are issued whenever market conditions warrant. Minimum 15 per calendar year. Fees deductible from taxable income. F-84

The author believes that this group of essays is one of the best he has ever written. Indeed, if the reader is not highly pleased, subscriptions will be returned (two weeks time limit.)

Major L. L. B. ANGAS, 570 Lexington Ave., New York 22, N. Y.

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New York Central R.R.—In Good Shape

By HUBERT F. ATWATER
Gammack & Co.

Fortunately, the access to information regarding the operations of railroad companies is not difficult to acquire as for many years the uniform system of accounting as prescribed by the Interstate Commerce Commission has been in effect. The method of such accounting is available in textbook form and can and should be required study in this field.

Hubert F. Atwater

From time to time new regulations are published, methods are changed or refined and additional data is required.

The effect of all this is to keep the operating and financial statements of all important railroads before the public, monthly income accounts on the 25th day following and balance sheets, statistical data, etc., a short time later.

I have found in discussing railroad accounting with clients, a great lack of understanding of how income accounts or balance sheets are prepared and what the items thereon really mean.

My experience indicates that investors should be informed on four fundamental points regarding accounting and taxation.

I

Depreciation—Road Property

In the separation of Operating Expenses, the railroads report five major classifications, two of which "Maintenance of Way" and "Maintenance of Equipment" include three items of deduction for depreciation.

Under "Maintenance of Way," the ICC has required an accrual of depreciation since Jan. 1, 1943. This factor will usually amount to about 2½% of gross as reported in 1941 (it varies with each road.) It produced a howl when first proposed but the railroads have learned, as Dr. Sweet predicted they would, that depreciation set aside in this manner was a way to accumulate cash free of Federal taxes. Such depreciation does not apply to running track but to all improvements and auxiliaries on the line. In the New York Central, the Depreciation Charged to Maintenance of Way has been as follows:

Year	Amount
1943	$8,680,517
1944	9,812,888
1945	9,770,930
1946	10,192,235
1947	10,208,066
1948	10,356,297

Average $9,670,000 and rising

During the war years a further charge for accelerated amortization of defense projects was permitted to allow railroads to write off in 60 months or less the high cost of certificated improvements or additions during the period of recognized excess earnings but this will not be a factor now.

II

Depreciation—Equipment

Since July 1, 1907, railroads have been required to report under "Maintenance of Equipment" a charge for "Depreciation of Equipment" and from Jan. 1, 1943 a further charge for depreciation of "Shop and Powerhouse Equipment." The latter is a relatively small item. To set up "Depreciation of Equipment", however, was quite an undertaking. On June 30, 1907 (then the end of the ICC fiscal year) each railroad was required to inventory and appraise its equipment or rolling stock, stating dates acquired, etc., and was given an arbitrary ratio of depreciation to apply to each class of equipment then owned. Subsequently each additional purchase of equipment was added to the roster at cost and depreciated monthly in accordance with ratios set by the Commission.

At this point, I should say that Depreciation of Equipment is in **addition to** and **not** in **substitution** for the factor of expense usually referred to as maintenance. A car or locomotive needs care and attention, i.e. "maintenance," to keep it at its best but "depreciation" is to compensate for the invisible wearing out or obsolescence, and perhaps provide a fund for replacement.

Using the New York Central again, we find that under Maintenance of Equipment charges for Depreciation have been:

Year—	Deprec. of Equipment	Deprec. of Shop Equipment
1943	$17,670,743	$866,044
1944	18,585,779	854,310
1945	17,766,840	840,935
1946	18,858,012	860,008
1947	19,583,365	890,931
1948	20,892,372	919,331
Average	$18,893,000	$872,000

III

Tax Free Debt Retirement

Before the war, a corporation buying its own bonds at a discount for retirement was taxed upon the discount as "profit" unless it filed a statement with the Bureau of Internal Revenue, saying that the issuer was in an unsound financial condition. Since many roads were hoping to borrow money in 1935, I can find only one railroad of importance that took advantage of this provision, namely Illinois Central. It has paid them well and helped save the property for the stockholders.

Later the Internal Revenue act was amended permitting any corporation to buy its debt at a discount without liability for a tax on profits. This permission, as it effects railroads, expires Dec. 31, 1949 but may be extended.

In the case of the New York Central, the record of debt reduction and its effect on carrying charges has been as follows:

	Dec. 31, 1932	Dec. 31, 1948
Debt of N. Y. Central	$744,296,923	$616,988,380
Debt of Lessors	364,511,029	260,131,125
	$1,108,807,952	$877,119,505
Interest of N. Y. Central	31,745,872 (.042%)	22,245,193 (.036%)
Interest of Lessors	15,656,751 (.043%)	10,983,875 (.042%)
Reduction in Debt of System	$231,688,446—equal to 20.895%	
Reduction in System Int. Chgs.	14,173,554—equal to 29.92%	

IV

Bureau of Internal Revenue Ruling re Depreciation on Consolidated Returns

In general a lessee railroad company cannot deduct for tax purposes depreciation on property of a leased line, under either "Maintenance of Way" or "Maintenance of Equipment," unless it actually settles annually with the lessor company for such depreciation. The New York Central has been doing just this and the results in the cases that I have examined are illuminating.

In any application of the data that is acquired by a careful study of the accounts of an individual railroad, it is futile to look only at the cash and current items and overlook the Temporary Cash Investments of the Parent, its subsidiaries or leased lines. After this is done, it is time to look at the "maturity problem."

No one can count the many red flags that have been unfurled in calling attention to the problem of meeting future debts, not only of the New York Central that we will examine in a moment, but the scare over 1955 when Southern Pacific refunding 4s would fall due. They sold at 52 in 1938 and were redeemed at 105 in 1945. Thus the dragon of a $140-million maturity was met and slain.

It is interesting to note that the net debt retirement accomplished by the New York Central and Southern Pacific systems was about equal in amount over the same term.

New York Central 10-Year Maturities

The annual report of the New York Central for 1948 shows that maturing obligations due in the decade starting Jan. 1, 1949 are as follows:

Year—	Equipm't Obligations	Funded Debt	Grade Crossings Obligations
1949	$17,325,280	None	$650,807
1950	16,425,280	$3,999,000	650,807
1951	15,385,280	5,274,000	650,806
1952	12,795,280	13,372,000	650,806
1953	12,424,640	2,745,000	650,806
1954	11,810,000	None	650,806
1955	10,260,000	None	650,169
1956	8,630,000	17,293,000	650,169
1957	6,860,000	1,500,000	596,036
1958	3,920,000	None	594,516

Now let us compare the average charges which produce cash with the average requirements of the next 10 years.

Period 1943 through 1948:	
Average depreciation of road property	$9,670,000
Average depreciation of equipment	18,893,000
Average depreciation of shop equipment	872,000
Composite	$29,435,000
Period 1949 through 1958:	
Average maturity of funded debt	$4,418,000
Average maturity of equipment trusts	11,584,000
Average grade crossing obligation	640,000
Annual average	$16,642,000

The total charges for depreciation in 1948 aggregated $32,168,000, whereas the largest annual payments due in any one of the next ten years are less than $27 million.

Some increase in the annual maturity of Equipment Trust obligations has occurred since the first of 1949 for the New York Central has bought additional motive power and new cars to reduce costs, produce more revenue, or both. There is still ample margin in the depreciation charges to service the increased amount of serial maturities.

Hidden Dollars

Under heading IV I mentioned that lessors of the New York Central system have been accumulating funds out of the settlement for its depreciation which remains in the possession of the lessors.

These items do not appear in the Annual Report but are found in the New York Central's detailed report of Lessor Companies, filed with the Interstate Commerce Commission. The details are found in account 707.

Account 707 is entitled "Other Investments" and in the New York Central's report of Lessor Companies this account is built up out of the "net of Depreciation and Retirement Charges, less additions and betterments." In each item that I examined the investment of the funds in this account was limited to U. S. Treasury obligations of very early maturity, 1-2 years.

It may be stated authoritatively that these segregated investments are available for payment of debts.

The funded debt of the New York Central system as it matures in the current decade divides into direct obligations of the parent and those of the several lessors for which the parent is responsible under the various leases.

New York Central directly owes:

1950	$3,999,000	Indiana Illinois Iowa 4s
1956	14,193,000	Chicago Indiana & Southern 4s
10-year total	$18,192,000	

Michigan Central owes:

1951	$577,000	Jack. Lansing & Saginaw 3½s
1952	12,004,000	Michigan Central first 3½s
1956	3,100,000	Toledo Canada Southern Detroit 4s
1957	1,500,000	Joliet & Northern Indiana 4s
10-year total	$17,181,000	
Holds	$10,075,000	U. S. Treasuries in Account 707

Cleveland Cincinnati Chicago & St. Louis owes:

1951	$419,000	Cincinnati Northern 4s
1953	2,745,000	Chicago Indpls. & St. Louis Short Line 4s
10-year total	$3,164,000	
Holds	$8,245,000	U. S. Treasuries in Account 707

Toledo & Ohio Central owes:

1951	$243,000	Two small 4% issues
Holds	$1,970,000	U. S. Treasuries in Account 707

Beech Creek Extension owes:

1951	$3,393,000	First mortgage 3½s

Boston & Albany owes:

1951	$642,000	Terminal Mortgage 3½s
1952	1,368,000	Mortgage 3½s
10-year total	$2,010,000	

At the close of 1948, the Boston & Albany, reporting separately, showed the following investments:

$5,500,000	New York Central Bonds
82,713	American Tel. & Tel. Co. Bonds
943,234	U. S. Government Bonds
76,094	Miscellaneous Bonds
$6,602,041	Total Book Values

In May, 1949, the Port of Boston Authority agreed to purchase a pier from the B & A for $3,000,000 cash.

The lessor companies as a group (excluding B&A) therefore held $20,463,000 face amount of U. S. Treasury short-term obligations on Dec. 31, 1948, whereas the total maturing debt of the leased companies due in a 10-year period amounts to $25,988,000. Of the entire System funded debt, only $25,380,000 matures before Jan. 1, 1954.

The New York Central reports net current assets of $60 million or more on April 30, 1949, not including the Acct. 707 investments of the lessors.

Voluntary Reorganization

Every so often the rumor is heard that New York Central will be forced to ask its creditors to compromise their claims for interest or immediate payment of principal or both because of the "impending maturity problem." The answer should be apparent for, on the basis of this examination, the suggestion is absurd.

The Voluntary Reorganization Plan as it has been re-enacted from time to time has helped such systems as Baltimore & Ohio, Lehigh Valley and Boston & Maine. It is designed to give the relief of a Creditors Composition in those cases where the debtor is temporarily embarrassed but not in such difficulties as to require reorganization as a Bankrupt.

On application to the Interstate Commerce Commission for approval of its program, the Debtor may then proceed to secure the consent of creditors to his proposals. It is required that 75% of the holders in amount (and voting) of the **affected** securities must file their consent in writing within a specified time. For the New York Central to effect a compromise of either interest rates or dates of maturity of its short-term bonds is out of the question.

No debtor can plead poverty with $50 million or more cash on hand.

No creditor in his right mind is going to vote to extend an early maturity of nominal amount at possibly a smaller rate of interest when he knows the facts of the debtor's position.

Where, then, has any purpose been served by the speculation that nearby maturities of the New York Central are to become a problem or the subject of a compromise.

We have seen how relatively small the maturities of the ten-year period really are, how much cash accrues and has accrued through depreciation accounts and the preparation that has been made to meet the maturing debt. It is not unimportant to mention also that free treasury assets of the New York Central were valuable enough for a $30 million loan some 15 years ago and they are still in the box.

I have written this report to show how remote is the possibility of a proposal of voluntary reorganization for the New York Central and hope that in doing that, I have convinced others that the maturities of the ten years 1949-1958 will be honored as "it is written in the bond."

Since 1932 the New York Central has met large maturities of notes or debentures and it will be nearly 50 years before any large amount of debt matures.

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From Washington Ahead of the News

By CARLISLE BARGERON

Quite a ripple and considerable lifting of noses was caused among the daily newspaper publishers a couple of months ago by the disclosure in the St. Louis "Post-Dispatch" and the Chicago "Daily News" that a score or more Illinois newspapermen had been on the State payroll during Governor Dwight Green's administration. Now, at the instance of the American Society of Newspaper Publishers, the Atlanta "Journal" has looked over the Georgia scene and found several editors on the State payroll under old Gene Talmadge's son, Herman. Presumably the ASNE is pressing the investigation in other States.

Carlisle Bargeron

It looks to me as if the Big Boys are trying to hold up the smaller fellows to scorn in a simulated cleansing of the press demonstration. All of the alleged culprits so far have been small town editors, of weeklies mostly, although an occasional daily may have been involved. And certainly there is nothing new in the practice. As a matter of personal knowledge, in my early days in the South, if the reporter did not do publicity on the side for the mayor or some of the aldermen or something of the sort, he could not earn his daily bread. The situation may have changed in recent years with the coming of the Guild and better wages in the newspaper game, but up until just a few years ago the newspapers could be counted on the fingers of the two hands regardless of size, that frowned upon a reporter's doing outside work for a politician or a political party.

The question might be asked, indeed, of a newspaper that is wedded to a particular political party or political clique, why its reporters shouldn't be on the party's or clique's payroll. They can't get anything printed that is unfavorable to the party or clique. It is, in fact, ridiculous for the favored politicians to pay them anything but if out of the goodness of their heart or through ignorance, they do so, more power to the reporters. Newspapermen working for a newspaper wedded to a cause or group are not really newspapermen, except that a newspaperman is one who works for a newspaper. The work they do, except on murders, crimes and routine stuff is publicity and it is a crying shame that they don't get the pay of the self-avowed publicity men who prepare the stuff for them to put in their papers.

I think that our bigger publishers, at least a great number of them, could better do a little soul searching of their own just now instead of critically beholding the little dailes and weeklies. What is the difference, for example, between the editor of a little weekly being on a State payroll and the publisher of a metropolitan paper going whole hog for Roosevelt or Truman in order to get an ambassadorship? I can give you names and dates. What about the editor or publisher who gives his unstinted support to the New Deal or Fair Deal and is constantly being appointed to "missions" to make "studies" abroad? What about the editors and publishers who have taken frequent junkets all over the world at the expense of the Military and returned to boost the Marshall Plan, the ECA and the Big military establishment? The little weekly editor who gets $100 a month from a State payroll is a piker compared to what the Big Boys are doing.

I know of publishers galore, important ones, who are flattered to death to come to Washington and meet our Bureaucrats. They rate the ability of their local correspondents to be able to fix them up for dates and they go back home swelled up with importance at having met with the Great.

The New Deal has been too much of a windfall for all too many of our editors, publishers and newspapermen generally, for them to be ooh-ing and ah-ing at the small town fellows on a State payroll. Too many of them of mediocre ability have gone to fame and fortune by getting on the bandwagon. And again I can name names and dates.

It would be looked upon as a tremendously scandalous thing, I suppose, if it were to be turned up that a large number of Washington correspondents were on the government payroll. And no such situation exists.

But the only reason they aren't is because they aren't acquisitive or are lacking in what is known as business sense. Because, Heaven knows, all they do is to take a handout from the government or what some Bureaucrat tells them and send it to their papers as the gospel truth.

It has long seemed strange to me that the most conspicuous paper in the country to shun this sort of stuff, to thumb its nose at the handouts, the favors of the Bureaucrats, is the paper that is most often denounced by its colleagues. It is held up rather generally in the fraternity as what a newspaper ought not to be. To my mind the Chicago "Tribune" has been a shining beacon in the journalistic morass of the past 16 years.

It hasn't depended upon the New Deal or the Fair Deal to thrive. It hasn't sought favors from anybody or anywhere. Recently it bought the Washington "Times-Herald" and it is good to see it come here.

There's propaganda in its columns, of course. But it's the "Tribune's" own propaganda, not that of the Washington government. A diversion in propaganda is, these days, a treat.

Two With King Merritt

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Stuart S. Goode and John T. Newton have become affiliated with King Merritt & Co., Inc., Chamber of Commerce Building. Mr. Newton was previously with C. E. Abbett & Co.

With Morgan & Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Dick R. Linch is now connected with Morgan & Co., 634 South Spring Street, members of the Los Angeles Stock Exchange. Mr. Linch was previously with King Merritt & Co., Inc.

New Markets Through Cotton Research

By HON. CHARLES F. BRANNAN*

Secretary of Agriculture

Administration's agricultural spokesman, citing drop of 18% in farm product prices compared with 2% drop in other classes of commodities, asserts domestic markets must be expanded to offset decline in exports. Warns welfare of national economy is at stake if farm prosperity is not maintained, but expresses confidence, despite large cotton crop carry-over, cotton problem can be solved through research and education.

Three trends in particular deserve our close observation and thorough understanding. I have singled them out largely because they are basic to the welfare and security of the cotton farmer. But their effect is not restricted to farming alone because business and industry cannot for long escape any trend harmful to farming.

Charles F. Brannan

The most important of these trends concern farm prices and farm costs. Farm prices are now 18% less than they were in January of 1948. The prices farmers pay for what they use in production and family living also have dropped, but the decline has been only about 2% from the peak they reached in August last year.

Lower prices for grain, cottonseed, and other farm products used in feeding livestock account for a substantial part of it. This needs little emphasis in the South where, in addition to the expanded production of corn and other feed grains, cottonseed now represents 20% of the value of the lint from the average cotton crop.

Some of the things farmers buy have increased in price within the past year. Farm machinery is one example.

The result of farm prices falling faster and farther than nonfarm prices has been to reduce farm purchasing power.

The second trend is in the realm of international trade. The dropping dollar-balance of the United Kingdom and the other nations of the sterling bloc could seriously disrupt the South's exports in cotton and tobacco. What this could mean is forcibly illustrated by the fact that nine of out ten bales of Texas cotton normally are shipped in the export trade.

Big Cotton Carryover

We will begin the new cotton year next week with a carryover of about 5½ million bales.

This is much larger than the carryovers of 1947 and 1948 when we scarcely had enough year-end working stocks. But every carryover for eight years in a row beginning with 1938 and ending with 1945 was at least double this year's carryover.

Well-informed cotton men say that our carryover is well balanced in grade and staple. It is far from being an accumulation of poor quality cotton. This is also true of the loan stocks portion of the carryover which amount to 3¾ million bales and represent the first substantial government holdings in two years.

Of course, our individual attitudes toward the carryover will be colored by whatever yardsticks we use to measure its size. Certainly we should scale these stocks against the need for cotton in the United States and in the cotton-buying countries of the world.

Let's look at what these needs could mean here at home where our growing population is in the neighborhood of 148 million people.

In the past year, they consumed less than we expected. The average was about 28 pounds per person.

Of course, this looks good against our long-time rate of about 25 pounds. But there is little genuine comfort in bettering the average. It is far below the wartime average of more than 35 pounds and almost as far under our potential requirements. These have been estimated at 34 pounds per person.

If we could push our consumption to this goal and then hold it there, our home market for cotton would be almost 2 million bales larger.

Our carryover still is manageable in size but we could have a carryover of 7 or 8 million bales with a 1949 crop about the same size as last year's crop of 14.6 million running bales. This figure is nothing more than a statistical projection of the 26 million acres plus in cultivation at the first of the month at the average yields for the past five years. We will know much more about the crop in less than two weeks when the Crop Reporting Board issues its first estimate of the 1949 production.

Well-informed men in the cotton trade expect that domestic consumption and the export market in the coming year may amount to about 13 million bales. This points to a 1950 carryover of something over 7 million bales.

A Challenging Trend

A steadily rising carryover is a challenging trend. We cannot afford to undergo again the exhausting experience of another gigantic accumulation of cotton.

These three elements of farm income, international trade, and the trend of our carryover form the background of the present situation.

The South has made notable advances in recent years and this has been especially true in agriculture.

Better varieties, improved farming and conservation practices of all kinds, wiser land use, and mechanization are the means by which modern science has come to the aid of cotton farmers. The net results are startling and enlightening to those who are unfamiliar with the modernization of cotton production.

Greater productivity per acre

(Continued on page 22)

*Address by Sec. Brannan at the 10th Annual Cotton Congress, Dallas, Texas, July 28, 1949.

This announcement is not an offer to sell or a solicitation of an offer to buy these securities. The offering is made only by the Offering Circular.

$6,870,000

The Wheeling and Lake Erie Railway Company

General and Refunding Mortgage 2¾% Bonds, Series B

To be dated August 15, 1949 To be due August 15, 1974

In the opinion of Counsel, the Bonds will be legal investments for Savings Banks organized under the laws of the States of California, Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island and Vermont.

Price 98.875% and accrued interest

The issuance and sale of these Bonds are subject to authorization by the Interstate Commerce Commission. The Offering Circular may be obtained in any state in which this announcement is circulated from only such of the undersigned and other dealers as may lawfully offer these securities in such state.

HALSEY, STUART & CO. INC. R. W. PRESSPRICH & CO.

August 3, 1949.

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A Defense of Direct Buying by Insurance Companies

By LEROY A. LINCOLN*
President, Metropolitan Life Insurance Company

After reviewing development of private placement of securities, prominent insurance executive points out preference for borrowers to have their obligations with small number of investors, together with legal restrictions placed on public offerings, made it inevitable that such investments should be sold to large scale holders. Sees no fundamental difference between private and public distribution, and contends insurance company direct buying has served useful purpose to national economy and has also been beneficial to insurance business as well as to corporate borrowers. Denies question of monopoly is involved.

The attitude or policy of a life insurance company relative to the acquisition of corporate obligations direct from the borrower, instead of through an investment banker as intermediary, has been the subject of much misunderstanding. The development of such procedure during the last 15 years was probably a natural step in large scale financing incident to many factors, including the provisions of the original law creating the Securities and Exchange Commission and its subsequent regulations. Large borrowers found themselves balancing the relative advantages of the necessary documentations with the Securities and Exchange Commission together with time and expenses involved, as against the opportunity to have proposed obligations in the hands of one or a few large investors with whom questions of indenture modification or other questions could be handled without the complexities which would be incident to a widespread holding.

Leroy A. Lincoln

Large borrowers, either on their own initiative or guided by an investment banker, came to approach a large investment organization, such as a life insurance company, with a direct offering which was then subjected to whatever negotiations were indicated, and then the issue was purchased by one or by one or more substantial investors.

An Inevitable Development

The law of the State of New York forbidding underwriting by life insurance companies and the antitrust laws of the United States made it impossible for such a large investor to undertake the leadership in a distribution directed toward smaller investors.

Two factors—the preference of the borrower to have its obligations with a limited number of investors and the legal objections to any effort on the part of a large investor to allocate portions of the investment to smaller investors—both operated to make it inevitable that large scale investments should find their way into the hands of large scale investors. In the case of the Metropolian Life Insurance Company, and I dare say in the case of other large investors, there would be a genuine desire to have the holdings of such investments allocated more widely. I am prepared to say, categorically, that, if the laws of New York and of the United States would permit, and if a borrower were not unwilling to have such a course followed, then the company would be glad to undertake whatever suitable allocation might be indicated, and certainly with no desire to have and to hold so large an issue if it were possible to have it distributed among a larger number of life insurance companies.

A discussion of the subject of so-called "Private Placements" was contained in a memorandum filed on behalf of the Metropolitan Life Insurance Company with the Joint Legislative Committee on Insurance Rates and Regulations of the New York Legislature. This memorandum bore date Nov. 22, 1948. A complete discussion of the subject as contained in such memorandum follows:

No Fundamental Differences

There is no fundamental difference between investments acquired by an insurance company through private placements and those acquired through public purchase. Private placements have become an accepted, simple form of financing, advantageous to both the borrower and the lender, and do not affect adversely the public interest. The making of private placements is not limited to insurance companies, but is open to other institutions and funds with money to invest. If restrictions are placed upon life insurance companies the result is that they will be placed in a straitjacket when seeking these investments while their competitors will be free to act as they may deem advisable. Furthermore, there is no more reason for attempting to force borrowers to raise their funds publicly through the investment banking fraternity than there is to require borrowers desiring bank credit to negotiate the loan through an intermediary who would then choose the bank which would extend the credit. Private placements represent one means by which investments may be acquired, just as purchase of a public offering is another means. The inherent character and quality of the investment should not be confused with the method of acquisition.

Normally limitations as to amount or percentage in the investment statutes are for the purpose of deversifications and to prevent undue concentration in one type of security; witness, among other limitations on the amount of life insurance assets which may be invested in mortgages, housing and income producing real estate. Were such limitations to be applied to corporate securities, they might be applicable to the percentage of assets to be invested in the oil industry, the public utility industry or some other industry, but in this event they should be applicable to the total investment in the classification concerned, irrespective of the method of acquistion. Is there any reason why there should be any different limitation on the amount of any particular security in which a life insurance company may desire to invest when it is acquired directly versus acquisitions through an investment banker? A limitation upon the method of acquisition would be entirely novel as well as unsound. This is not intended to be an advocacy of limitations on the percentage of assets invested in particular industries. Our feeling is that decision as to diversification of this character, which is now left to the judgment of the appropriate officals and directors of the insurance companies, should continue to rest there. Attempts to control matters of this sort by legislation should not be made. Management should be free to diversify in the manner it feels most desirable. History indicates very clearly that the credit standing of a particular industry may change radically over the years. For example, at the turn of the century, loans to interurban trolley lines were considered sound investments. We all know the change in their credit standing which took place with the introduction of private automobiles, buses and hard surface roads.

Private Placement Generally Beneficial

For some 15 years now, private placements have been served a useful purpose in the national economy, as well as being beneficial to the life insurance business. It is felt that a brief review of their advantages from the points of view of the borrower, lender and public interest, would serve to demonstrate the soundness of the conclusions just stated in regard to possible limitations. It might also be helpful to review some of the questions which have been raised regarding private placements by one of the examiners of the New York Insurance Department.

Private placements are currently taken to refer to investments made by one or more financial institutions in corporate securities through the medium of direct negotiation with the issuer. While there have been a few instances where purchases of preferred stocks have been made in this manner, in practically all cases the investments are in the form of debt obligations. In a sizeable percentage of the cases, investment bankers act as agents or financial advisors to the borrowing corporation and are in such cases normally paid for their services by the borrower. Such transactions are in many ways analogous to real estate mortgage loans, which are made by direct negotiation with the owner, or in some instances, through the intermediary services of a real estate mortgage broker.

Private placements are no different in character or security from publicly offered issues, but the carrying out of the transaction in this manner has certain definite advantages to both the borrower and the lender.

The advantages to borrowers might be said to consist particularly of the following:

(1) The ease with which direct negotiations between borrower and lender can be carried out.

(2) The speed with which binding commitments can be entered into. Particularly in periods of fluctuating markets this has considerable appeal to borrowers.

(3) Flexibility—terms are negotiated on a tailor-made basis to fit the particular requirements of the situation at the time of issue. Furthermore, should conditions change at a subsequent date, appropriate adjustments may be made in the indenture terms by negotiation. It goes without saying that the representatives of the insurance company would be quite as diligent in protecting the insurance company's interests in any change in the indenture as they had been in negotiating the terms of the original

(Continued on page 21)

*A statement by Mr. Lincoln before a sub-committee of the House Judiciary Committee, Washington, D. C., Aug. 1, 1949.

Dealer-Broker Investment Recommendations and Literature

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

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

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

Florida Bonds—List of recent quotations on counties and municipalities—Clyde C. Pierce Corporation, Barnett Building, Jacksonville 1, Fla.

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.

Railroad Stocks for Capital Gain — Analysis in "Fortnightly Market and Business Survey"—E. F. Hutton & Co., 61 Broadway, New York 6, N. Y.

Also available are circulars on **E. I. du Pont de Nemours & Co.** and **United States Steel Corp.**

* * *

Allied Stores Corporation — Memorandum—Dreyfus & Co., 50 Broadway, New York 4, N. Y.

American Cyanamid Company —Summary bulletin—J. R. Williston & Co., 115 Broadway, New York 6, N. Y.

Also available is a bulletin on the **Pennroad Corporation.**

C. I. T. Financial Corp.—Circular — Fahnestock & Co., 65 Broadway, New York 6, N. Y.

Also available is a circular on **J. P. Stevens & Co., Inc.**

Flour Mills of America—Circular—Barret, Fitch & Co., 1004 Baltimore Avenue, Kansas City 6, Missouri.

Foote Mineral Company—Analyses of issue, tax-free in Pennsylvania—Coffin, Betz & Co., 123 South Broad Street, Philadelphia 9, Pa.

Also available is an analysis of **Smith, Kline & French Laboratories,** also tax-free in Pennsylvania.

National City Bank of New York — Circular—Paine, Webber, Jackson & Curtis, 25 Broad Street, New York 4, N. Y.

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

North American Company — memorandum—Gerstley, Sunstein & Co., 213 South Broad Street, Philadelphia 7, Pa.

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

Pfeiffer Brewing Company — analysis of growth of company to major position in Michigan with comparative statistics showing its relation to other brewery issues—H. M. Gartley, 68 William Street, New York 5, N. Y.

Republic Natural Gas — memorandum — Goodbody & Co., 115 Broadway, New York 6, N. Y.

Rockwell Manufacturing Company—analysis—Scherck, Richter Company, Landreth Building, St. Louis 2, Mo.

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

Southern Company—analytical bulletin—Hill Richards & Co., 621 South Spring Street, Los Angeles 14, Calif.

Trane Company — circular — Cruttenden & Co., 209 South La Salle Street, Chicago 4, Ill.

United Corporation — Detailed Circular—Write Dept. C-16, Bache & Co., 36 Wall Street, New York 5, N. Y.

Western Airlines — analysis—Townsend, Graff & Co., 15 Broad Street, New York 5, N. Y.

Predicts Treasury Deficit Financing in 1950

Federal Reserve Bank of New York, in review of Treasury financing in fiscal year 1949, says this will be necessary, unless substantial cuts in Federal expenditures are made.

The August issue of the "Monthly Review of Credit and Business Conditions," published by the Federal Reserve Bank of New York, contains a leading article analyzing U. S. Treasury financing in the fiscal year just ended. The article, after reviewing the changing conditions which affected the Treasury's receipts, outlays and cash balances, concludes with the following statement:

"Recent changes in economic conditions are clearly reflected in the government's cash operating expenditures, the sum of all payments from the government to the public. Government outgo increased from $36.5 billion in fiscal 1948 to $40.7 billion in fiscal 1949. The major changes seem to have been in the 'automatic adjusters' and in national defense, veterans' expenditures, and foreign aid expenditures. Among the 'automatic adjusters' are increases in expenditures of $1.8 billion by the Commodity Credit Corp. and of $0.5 billion for unemployment and old age benefits. National defense outlay increased by $0.7 billion. Expenditures for veterans showed a net decrease of $0.8 billion if the drop of $1.3 billion in redemptions of armed forces leave bonds and adjusted service bonds is included regular budgetary veterans' accounts increased, however, by $0.5 billion. Expenditures of the major foreign aid accounts, including the $3 billion expended from the Foreign Economic Cooperation. Trust Fund, rose by $2.4 billion. This was partially offset by decreases in expenditures by the Export-Import Bank and in redemptions of International Bank and Fund notes, amounting to $525 million and $800 million, respectively; the net increase was therefore only $1.1 billion. Finally, the 'clearing account' showed a net decline of $0.8 billion.

"The fiscal repercussions of the current economic readjustment and the present low level of the General Fund point to the conclusion that the Treasury will find it necessary to resort to some deficit financing in fiscal 1950, unless very substantial cuts can be made in contemplated Federal expenditures."

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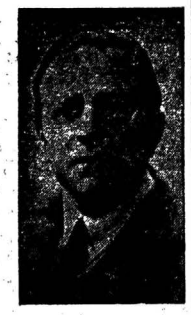
Can the Sterling and Dollar Areas Be Fused?

By PAUL EINZIG

Commenting on British suggestions of a fusion of the Sterling Area with the Dollar Area, Dr. Einzig finds this solution unworkable under present unbalanced international payments situation. Sees in it stop-gap arrangement which would only postpone day of reckoning.

LONDON, ENGLAND—During the last few weeks the British Government's desire to bring about a fusion between the Sterling Area and the Dollar Area was expressed in several official statements. These pronouncements conveyed the impression as if some action to achieve the declared end was imminent. Although it is impossible to predict what decisions will be reached at the Washington meeting in September, on the face of it seems most unlikely that any such fundamental change could be effected in the near future. Even the relaxation of currency barriers within the Western European countries encountered obstacles which could only be mitigated slightly with the utmost difficulty. When it comes to removing or even relaxing the barriers between the Sterling Area and the Dollar Area these difficulties become unsurmountable in existing conditions, unless the United States are prepared to grant additional financial assistance on a very large scale. Even such assistance would not solve the fundamental problem; indeed it would increase the difficulties of arriving at a solution of the long-range problem involved.



Dr. Paul Einzig

Clearly, the rapidly dwindling British gold reserve could not stand the strain of a convertibility of Sterling into dollars—which is the practical form of the vague idea of a merger between the two currency areas. We had some experience of the extent of that strain in 1947, and Sir Stafford Cripps can hardly be blamed for wishing to avoid a repetition of that experience. Even in the absence of the addition of such a strain, the gold outflow is likely to become accentuated, judging by the deterioration of the British trade balance in June. The only question is, would it be worth while from an American point of view to grant large additional financial assistance, in order to bring about the merger. Such assistance would have to assume one of the following forms:

(1) Another dollar loan of considerable size.

(2) Redistribution of the American gold reserve.

(3) Undertaking on the part of the U. S. Government to convert Sterling into dollars to an unlimited extent.

The idea of yet another dollar loan is not very popular in most quarters, after the way in which the proceeds of the large dollar loan of 1946 disappeared in twelve months. It is for this reason that attempts have been made to devise some new formula for American financial assistance, some formula which has not yet become discredited through disappointing experience.

One of the suggestions is that, instead of granting a dollar loan, the United States should re-distribute a large part of the gold stock at present lying idle in Fort Knox. The Foreign Secretary, Mr. Bevin, was the first to put forward this suggestion some two years ago, but it met with little response. Now it has become revived in Paris. Those who advocate this solution fail to realize that the political difficulties of obtaining the approval by Congress of such a transaction would be even bigger than the difficulties of securing the ratification of another dollar loan in addition to Marshall Aid. In any case, in practice there is no particular advantage in obtaining American assistance in the form of gold. Owing to the existing state of the trade balance between the Eastern and Western Hemisphere, the gold would in any case find its way back to Fort Knox in a relatively brief space of time. For this reason, it would save trouble and expense if, instead of shipping gold abroad, dollar loans would be granted. There is no magic in the redistribution of the gold reserve; anything that could be attained with the aid of such a solution could also be attained with the aid of a corresponding amount of dollar loan.

The other suggestion is that, in order to ensure the convertibility of Sterling into dollars, the United States Government should undertake to provide the dollars required for the purpose of conversion. But such an undertaking would be equivalent to giving a blank cheque, for it is impossible to foresee the amount that would be required under the scheme. Moreover, such an arrangement would produce a demoralizing effect on the British public. It would become more difficult than ever to persuade the British worker to work harder and the British consumer to put up with austerity, seeing that even in the absence of extra effort and sacrifices Sterling would be safely through unlimited American support. Another disadvantage of formula would be a sharp deterioration of the British trade balance. Foreign holders of Sterling, if they are short of dollars, would divert their purchases from Britain to the United States and pay by means of converting their Sterling into dollars.

Either of the suggested solutions would only solve the immediate problem. The long-range problem, that of balancing trade between the Dollar Area and the rest of the world would remain. Indeed, owing to the facility with which the non-Dollar Area could continue to have trade deficits in relation to the Dollar Area, there would be no inducement for finding a long-range solution. Any such stop-gap arrangement would only postpone the day of reckoning.

Business Man's Bookshelf

Controlling Factors in Economic Development—Harold G. Moulton The Brookings Institution, Washington, D. C.—paper.

Why Industry Moves South—A Study of Factors Influencing the Recent Location of Manufacturing Plants in the South—Glenn E. McLaughlin and Stefan Robock—National Planning Association, 800 Twenty-first Street N. W., Washington 6, D. C.—cloth—$6.

The Menacing Forces of Monopoly

By DONALD R. RICHBERG*

Former Administrator, National Industrial Recovery Administration

Mr. Richberg contends the three forces now menacing free economy are (1) business monopolies; (2) labor union monopolies; and (3) combinations of big business and big unions. Says monopolistic labor unions can force monopolistic practices and agreements in industries, and urges antitrust laws be applied to labor organizations. Holds mere size should not be conclusive evidence of monopolistic power.

The prevention and destruction of private monopolies is absolutely necessary to maintain a free enterprise economy. No private organization can be permitted to control and fix the prices, quantities or qualities of essential products, no matter how noble its purposes or how benevolent its managers.

Donald R. Richberg

The automatic, uncontrollable regulator of fair competition is the only price fixer that is impartial and just—the only controller of industry that never becomes a tyrant, the only ruler of our lives that never seeks to enslave us, but on the contrary always helps to keep us free.

Historically, state monopolies, which we in fact operated for private profit, were perennial obstacles to a free economy. Then the businessman emerged from his low estate into genuine freedom and great political power and developed the nineteenth century monopolies that depended not so much on political favor as on the absence of political restraint.

The Three Forces

One inevitable product of big business organization was big labor organization, so that today the preservation of a free economy is menaced by three great forces: one, big business monopolies; two, big union monopolies; three, monopolistic combinations of big business and big unions.

It is sheer hypocrisy to demand the destruction by government of monopolies developed and controlled by business managers and at the same time to demand the *protection* by government of monopolies developed and controlled by labor managers. Monopoly controls of prices, wages, quantities and qualities of products are equally destructive to a free economy when exercised by a business manager alone, or by a labor manager alone, or by the combination of a business manager and a labor manager.

As a wholehearted anti-monopolist I challenge the good faith or mental integrity of any man who acclaims himself an enemy of monopoly, but supports and defends monopolies created and operated for the benefit of his political and economic associates. Businessmen who denounce labor monopolies, but defend their own stifling of competition as a fair trade practice, or as the benevolent protection of investors, workers and consumers, are helping to destroy free enterprise and to make additional government controls and the advance of national socialism inevitable. Labor leaders who denounce business monopolies and defend their own stifling of competition as necessary to protect the livelihood of working men and women, are helping to destroy the freedom of labor and to make further government controls and the advance of national socialism inevitable. Business managers and labor managers who combine to impose monopolistic prices, wages and production controls upon industry are actively engaged in destroying free enterprise and are making further government controls and the advance of national socialism inevitable.

It is a common complaint that the antitrust laws have failed to prevent the growth of monopolies, and I suppose that that failure is the underlying reason for the present Congressional inquiry. But the primary reason for the failure of the antitrust laws is a very simple one: No one wants anti-monopoly legislation enforced against himself; and, certainly, no one wants anti-monopoly legislation enforced against him and not enforced against the other fellow who is equally or more guilty of a violation.

The present antitrust laws violate all the rules of sound law-making. They are so vague, confusing and uncertain in their commands that compliance and prosecution are both extraordinarily difficult. They are subject to exemptions and qualifications which would destroy the efficacy of even a clear, well-reasoned law.

The Sherman Act makes unlawful that vague thing called "restraint of trade." The true objective of an anti-monopoly law, the maintenance of free and fair competition, is not even mentioned in the Sherman Act.

The Clayton Act creates a vague exemption of labor unions, which has been broadened by Supreme Court interpretations into practically a license to create and maintain monopolies.

Under the Sherman Act, as interpreted by the courts, there is on the one hand no governmental restraint against a practical control of the market by virtue of the size of business operations, but, on the other hand, efforts to eliminate competitive abuses and to maintain orderly and fair competition by any form of industrial code or agreement are likely to be invalidated if they may have any effect whatsoever upon the price of products or services. Finally, the elimination of competitive labor costs, which are the major factor in price determination is held to be entirely lawful if accomplished through the medium of standardized trade-union agreements.

It is a most significant development of recent years that the great labor organizations which are dominant in our major industries have developed the philosophy that competition between workers is utterly destructive and of their well-being, although the same labor philosophers contend, and rightly, that competition between businessmen is absolutely essential to the welfare of the workers.

One-Sided Philosophy of Labor Movement

In order to make this one-sided philosophy of the labor movement entirely clear, I will make a few

(Continued on page 30)

*A statement by Mr. Richberg before the House Judiciary Committee, Washington, D. C., July 27, 1949. Mr. Richberg is now a member of the law firm of Davies, Richberg, Beebe, Busick & Richardson, Washington, D. C.

This announcement is not an offer to sell or a solicitation of an offer to buy these securities. The offering is made only by the Prospectus.

$5,500,000

Worcester County Electric Company

First Mortgage Bonds, Series A, 2¾%, due 1979

Dated July 1, 1949 Due July 1, 1979

Price 100¾% and accrued interest

Copies of the Prospectus may be obtained from the undersigned.

HALSEY, STUART & CO. INC.

July 29, 1949.

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Pennsylvania Brevities

Corporation News and Notes

Warner Company

With gross sales reaching a new first half-year high of $8,409,842, Warner Company reports earnings of $2.55 per common share, compared with $1.62 for the like period of 1948.

Charles Warner, board chairman, attributes the substantial improvement to the mild weather prevailing in the first quarter, greater operational efficiency resulting from extensive capital outlays and moderate price increases scheduled last year to meet labor increases and higher costs of supplies.

By the end of the present year, approximately $6,000,000 will have been expended in the company's five-year program of capital improvements, all of which has been provided out of earnings without resorting to new financing.

In a semi-annual report to stockholders, Mr. Warner states: "While the contract position on our principal product, central-mix concrete, in the Trenton, Philadelphia and Wilmington markets, is receding somewhat, it is still large by any standards previous to 1948, and the potential volume in construction projects, particularly in public works and public utilities, is large. It is indicated that the second six months' earnings will be less than for the corresponding period of last year, but the overall results for the full year 1949 should exceed those of 1948."

Last year, gross sales of $16,678,298 produced per share earnings of $4.78.

Penna. Gas to Dissolve

Under the provisions of a liquidation plan filed with the SEC, Pennsylvania Gas & Electric Corp. proposes to reduce its present holdings in 12 companies to two, applying the proceeds to the retirement of its outstanding $2,100,900 6% debentures, due 1976, the remainder to be distributed to its stockholders. Hearings on the plan are scheduled for Aug. 23.

Allegany Gas Co., Port Allegany, Pa., and Crystal City Gas Co., Corning, N. Y., would be the surviving companies. Allegany Gas will own all the stock of Crystal City Gas.

Properties to be sold include York County (Pa.) Gas Co., New Penn Development Corp. and Newport (R. I.) Gas Light Co. To these proceeds is to be added cash realized from the liquidation of North Penn Gas Co.

In addition to its debenture bonds, capitalization of Pennsylvania Gas & Elec. Corp. consists of 10,000 shares 7% preferred, par $100; 20,000 shares $7 preferred, no par; 112,223 shares class A common and 224,267 class B common. Arrearages on the preferred issues amount to $73.87 per share.

Details of the proposed distributions will be filed by amendment.

West Penn Electric Re-Shuffle

The SEC has approved the corporate simplification plan of West Penn Electric Co. which, when completed, will pave the way for the refinancing of the company's $39,300,000 outstanding senior securities.

At present, the ownership of West Penn's three principal subsidiaries, Monongahela Power Co., Potomac Edison Co. and West Penn Power Co., is divided within the system. The simplification plan provides that West Penn Electric will repurchase 584,000 shares of Monongahela Power common, now owned by West Penn Power, for the original purchase price of $7,000,000, plus interest.

S. S. White Dental Mfg. Co.

Fred E. Steen, President of S. S. White Dental Mfg. Co., reports company sales of $9,833,304 for the first six months of 1949, somewhat higher than the $9,528,505 recorded in the same period last year, according to the "Philadelphia Inquirer." Due to higher costs, however, per share earnings will probably be around $1.83, compared with $2.09 in the corresponding 1948 period.

Mr. Steen believes that the company's domestic business in 1949 may be off as much as 11%, due to a catching-up in postwar demand and the smaller classes of new dentists entering the profession. Offsetting these factors, the English subsidiary, S. S. White Co. of Great Britain, Ltd., is reporting sales and profits almost double last year's rate. The domestic industrial division of the company showed increased sales largely reflecting a demand for flexible shafting by the automobile industry and a growing inquiry for molded plastics.

Pennsalt vs. Love

William P. Drake, Vice-President of Pennsylvania Salt Mfg. Co., commenting on the most profitable six months in the company's history, found it of importance to refer to the relative abundance of insect pests as a factor in maintaining a high level of sales of the company's insecticide products.

"The successful love life of the bugs this year," said Mr. Drake, "which resulted from the mild winter in the East and South, has resulted in heavier insect, infestation than usual on the farms. This is particularly true of the South and Southeast, although even in the West, which had a relatively mild winter, there is a serious bug problem. Nevada is now being plagued with grasshoppers, and the spruce bud worm has invaded the Pacific Northwest."

The company is today the largest producer of DDT.

Fruition of the company's $15,000,000 postwar improvement and expansion program is credited with maintaining of sales and profits at high levels. Six months' net of $1,304,570, equivalent to $1.61 per common share, compares to $984,633 and $1.18 per share in the similar 1948 period.

Cancels Rate Increase

HARRISBURG—The Pennsylvania P. U. Commission has granted the request of Pennsylvania Power & Light Co. to withdraw a scheduled $2,096,000 rate increase filed last April 21. The request was made by Charles E. Oakes, Allentown, Pa., company President, who said, "The company has had extended conferences with complainants and the commission staff and as a result the company will make a new filing with the commission in the near future."

Last Monday the company filed an amendment with the SEC covering an additional 12,000 shares of 4½% preferred, bringing to 87,000 shares the amount which will be offered to the public about Aug. 10. Proceeds will be used for construction.

Crying Towels for PTC

PHILADELPHIA—What may be regarded as a final petition in support of its plea for a 13-cent fare has been filed with the Pennsylvania Utility Commission by Philadelphia Transportation Co. Citing its failure to earn full interest charges by $1,314,000 in the first six months of 1949, and stating that in the "absence of rate relief the loss for the remaining six months of this year will be in excess of $1,000,000," PTC officials averred that reserves of cash and marketable securities have been reduced "at an alarming rate."

"It is readily apparent," the petition concludes, "that unless adequate rate relief is promptly afforded to the company, it cannot continue to operate without jeopardy to its essential public service and its solvency."

An equally plaintive petition, contra, has been filed by the city of Philadelphia.

Pittsburgh Railways Plan

Details of the proposed plan of reorganization of Pittsburgh Railways Co. and underliers are contained in official copies, dated July 1, 1949, now available at the New York offices of Standard Gas & Electric Co. Hearings on the plan before the SEC are scheduled to begin Sept. 7 in Washington.

As reported in the "Commercial and Financial Chronicle" of June 2, the plan provides for the distribution of not less than $17,000,000 in cash and not more than $6,000,000 in new first mortgage bonds in exchange for approximately $27,100,000 presently outstanding publicly-held system securities. That the amount of cash may exceed the amount indicated, resulting in the issuance of fewer bonds, is strongly hinted in the following paragraph, quoted from the plan:

"In the event that the total cash distributed approximates $17,000,000, each unguaranteed bondholder will receive for each $1,000 bond approximately $488 in cash and $512 of new bonds in addition to shares of new stock. To the extent that the cash available for distribution exceeds $17,000,000, the excess cash will be distributed in substitution for an equivalent amount of new bonds. For example, if the distributable cash should approximate $19,500,000, each $1,000 unguaranteed bond would receive $700 in cash and $300 in bonds in addition to shares of new stock."

Analysts point out that the issuance of fewer bonds will add to the strength of the new company's capital structure, improving the statistical position of the mortgage and increasing the common stock equity.

On a pro forma basis, and based on the distribution of cash and new bonds in the $488-$512 ratio, the new common reflects an indicated book value of about $40 per share, with annual earnings somewhat in excess of $1 per share. Present quotations for system securities indicate a current market appraisal of $4 to $5 per share.

A pending schedule of fare increases, when and if permitted to become effective, is expected to improve the net earnings of the system substantially.

The new bonds will be dated Jan. 1, 1950, will bear interest at 5% and mature in 20 years. The plan provides for the establishment of a sinking fund consisting of the payment in cash to the trustee, semi-annually, of an amount equal to 4% of the bonds initially issued, such payments not to exceed $200,000. In addition, the company will make annual cash payments to the trustee in an amount equal to 20% of net earnings in excess of $500,000.

Cambridge Bldg. 3s 1953
N. E. Walnut & Juniper 5s 1963
Phila. Warwick Common
Phila. Suburban Water Com.
Phila. Transportation Co.
Issues
John B. Stetson Common

Samuel K. Phillips & Co.
Members Phila.-Balt. Stock Exchange
Packard Bldg., Philadelphia 2
Teletype PH 375 N. Y. Phone COrtlandt 7-6814

Atlantic City Elec. Com.
Interstate Power Co. Com.
Merchants Distilling Com.
Phila. Transp. Com. & Pfd.
Richmond Cedar Wks. Com.
(Alan) Wood Steel Common
(Alan) Wood Steel Pfd.
Bought—Sold—Quoted

E. H. Rollins & Sons
Incorporated
PEnnypacker 5-0100
1528 Walnut St., Philadelphia 2
New York Boston Chicago

Underwriters
and
Distributors

STROUD & COMPANY
Incorporated
PHILADELPHIA 9
ALLENTOWN • PITTSBURGH NEW YORK SCRANTON • LANCASTER

Leslie Gould Criticizes NASD 5% Philosophy

Financial editor, writing in N. Y "Journal-American," says cries of "Kill the Umpire" could apply to its rulings.

Writing in the New York "Journal-American," for which paper he is the financial editor, Leslie Gould asserts in the issue of July 29 that cries of "kill the umpire" could apply to the National Association of Securities Dealers, "the umpire of the unlisted market." According to Mr. Gould:


Leslie Gould

"One of the big 'reforms' of the era of Roosevelt and the 'bleeding hearts' was to make the securities market 'safe' for the little investor.

"In the furtherance of this program, a law called the Maloney Act was passed for the self-policing of the over-the-counter market. This is where securities not generally listed on an accredited exchange are bought and sold.

"To carry this out, an organization known as the National Association of Securities Dealers—called NASD, for short—was set up, with headquarters in Washington.

Over-the-counter dealers must be registered with the NASD to get dealer discounts and the association has the power to suspend such registrations, with rights of appeal by the dealer to the Securities and Exchange Commission and the courts.

"One of the abuses by the fringe operating in this field was the wide spread in the market price for unlisted securities. The procedure is for an over-the-counter dealer to buy a security from another dealer or customer and resell it, with the dealer's profit the difference between his purchase price and the sale price to the customer. There have been several scandals on the size of that mark-up.

"In 1943, the NASD announced a policy of a 5% mark-up. This was considered by the NASD governors as a fair profit, and for most of the firms operating in that market this has been followed, and a great many even charge less. On the Stock Exchange the commission is much less on listed shares, averaging about 1%.

"When this policy was adopted—the NASD calls it a 'philosophy' and maybe for good reasons—the association interpreted its rules of fair practice in these words:

"'It shall be deemed conduct inconsistent with just and equitable principles of trade for a member to enter into any transaction with a customer in any security at any price not reasonably related to the current market price of the security.'

"That would seem to be clear, but apparently this is not so, for the NASD comes out as of now and reports 'an increasing misconception of what the 5% policy or philosophy . . . actually is. Put in another way, it is not clear in the minds of many of the members what this policy or philosophy is not.'

"That last is a little Pennsylvania Dutch. Not so this exception to the policy:

"'First the policy is not applicable to the sale of securities sold in a public offering under a prospectus in which underwriting concessions and dealers' discounts are set forth.'

"Thus, it would seem it is o.k. to offer publicly stock at 25 cents a share in a so-called underwriting when an individual can go out—as this reporter did—and buy the stock at 15 cents a share.

"This would be the same thing as a firm offering American Telephone stock in a public offering at $250 a share when it was selling on the Stock Exchange at $150.

"If this were to happen there would be loud and long cries of 'kill the umpire.' Maybe that is what should be done with this umpire of the unlisted market—the NASD."

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Lower Wages Better Than No Job at All

By ROGER W. BABSON

Mr. Babson, stating "it's a crime for any of us to loaf," points out accepting lower wages under present conditions is better than no job at all. Says both price fixing and wage fixing by legislation or by unions has failed.

Unfortunately, Gloucester—like most of New England—has some unemployment. That is, there are many who cannot get jobs which pay the wages these unemployed want. It is very hard for girls, who got over $45 per week during the war, to work for $25 which is all that many employers can now afford. As my old friends and their children, here in Gloucester, ask my advice as to what to do, I say:

Roger W. Babson

"Take the $25 a week job; be the first there every morning; the last to leave every night; and help your employer make some money. The important thing is to 'get your foot in the door.' When I graduated from college, I tramped the streets six weeks looking for a job and finally took one at $8 per week. Of course, $8 then bought more than double what it does now;—but this is not the fault of any employer."

A Lesson in Economics

The cost of honest and sensible living is the real thing in which we all should be interested. It's not how much money we get in our pay envelope, but rather how much that pay envelope will buy in food, clothing and shelter. Well, to increase this latter requires that more people shall work. Short hours and loafing send up costs whether this loafing is on the job or off the job. Only as more goods are produced, is there more to divide. This is another reason for taking a $25 to $30 a week job. It's a crime for any of us to loaf.

The business honeymoon is over, but there is no need of a depression now if everyone will keep busy. The wages received are of secondary importance. Lower wages will cramp us for awhile and force our families to give up temporarily some things we now enjoy—perhaps beauty shops, dry cleaners, telephones and even automobiles—but the family income at one half war wages will give nourishing food, good-looking clothes and a place to sleep. Smart are those who first realize this. Foolish are those who are now unnecessarily accepting unemployment insurance.

President Truman's Theory

It is unpopular amongst businessmen to say a good word for Mr. Truman; but there may be some sense in the theory of his leading Cabinet Member Charles Brannan, Secretary of Agriculture. His advice—as I understand it—is to let prices and wages find their natural levels and then have the government protect farmers with subsidies, and protect wage workers with old age assistance, free medical service government housing and other "welfare benefits." This is contrary to good Republican doctrine; but I fear it will be tried.

Certainly, the system of price fixing was a big failure; and I believe that wage fixing, either by legislation or labor unions, is bound to create unemployment and hence hold up costs. It seems fine to have a minimum wage of 75 cents per hour if you can get a job at that wage; but if your employer can't afford it and you lose your present job at 60 cents per hour you are worse off.

Reduce Costs and Lower Prices

The above is my advice to farmers; but fight for fair subsidies. My advice to wage workers is to cheerfully accept the "market wage" whatever it may be, but not be ashamed to take reasonable government assistance. As manufacturers are protected by a tariff, so farmers and wage workers are entitled to some similar protection.

Of course, the above means either higher taxes or more debt. As taxes are now higher than the country can long stand, the Brannan policy may force an increase in the Federal debt or a reduction in Federal expenses. It is a crime to waste the people's money. I favor a cut of 10% for all departments. If the so-called "deficit money" is used for permanent improvements, the Federal Government may be as entitled to increase in debt some years the same as is the Telephone Company; but only when so used. Perhaps we must also recognize: If our capitalistic system (in order to exist) depends on encouraging people to spend all they earn during good times by instalment buying, expensive advertising and high pressure selling, then it perhaps must in come way take care of these people in lean years when their income is cut off.

Assn. of Stock Exch. Firms to Hold Fall Meeting October 11-13

As previously announced, the Fall Meeting of the Board of Governors of the Association of Stock Exchange Firms will be held at Haddon Hall, Atlantic City, but it has been necessary to change the dates to Tuesday, Wednesday and Thursday, Oct. 11, 12 and 13, with the following as the tentative schedule:

Oct. 11: *Association Board Regular Meeting.*

Oct. 12: *Joint Meeting* — New York Stock Exchange and Association Boards; *Association Dinner Meeting*—Speaker of National importance to be announced. To be attended by members of the New York Stock Exchange and Association Boards, member firm partners and guests.

Oct. 13: *Open Board Meeting*—To be attended by partners of Association member firms who will participate in discussions. Emil Schram will give an informal off-the-record talk.

It is hoped that out-of-town partners who are planning a Fall trip to New York will arrange their schedules to be present, and that a large number of partners from Richmond, Washington, Baltimore, Philadelphia, New York and other nearby cities will plan to attend at least the dinner on Wednesday, Oct. 12. This is to take the place of the Annual Dinner Meeting in November.

In order to plan for this meeting for transportation and hotel accommodations, those planning to attend should contact Sidney L. Parry, Executive Vice-President of the Association, 24 Broad St., New York City.

On April 2, 1949, HOLMES of New Orleans celebrated its 107th birthday!

One of the oldest department stores in America, Holmes is a store that stays young and alert. Its policies, as laid down by Daniel Henry Holmes over a century ago, are: "Sell to the customer only as you would buy yourself," and "Obtain the finest quality in the market, and price it as fairly as possible." These two maxims have merited long, successful, continuing growth.

From its early frontage on Canal Street, Holmes has grown until today it occupies almost all of the original square in which it is located, and much of an adjacent city block, with huge warehouses in other parts of New Orleans.

The Holmes store occupies one of the most valuable parcels of real estate in the South, and its dimensions give Holmes the largest selling area of any department store in the city of New Orleans.

Holmes store includes all of the departments usually found in a complete department store, plus a restaurant that is one of the show places of New Orleans.

Holmes, today, serves not only its immediate trading area, but draws patronage from all parts of the United States and Latin America.

This is another advertisement in the series published for more than ten years by Equitable Securities Corporation featuring outstanding industrial and commercial concerns in the Southern states. Equitable will welcome opportunities to contribute to the further economic development of the South by supplying capital funds to sound enterprises.

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Mutual Funds

By HENRY HUNT

Mutual Funds vs. Closed-End Trusts

Leslie Gould, Financial Editor of the New York "Journal-American," recently ran a couple of articles comparing the results of a $1,000 investment in each of 20 mutual funds vs. 10 closed-end trusts for the 10-years ending Dec. 31, 1948. In the case of mutual funds, he used asset values while with closed-end trusts he used market prices, with all dividends being included in both cases. Mr. Gould points out that although 15 out of the 20 mutual funds out-performed the "Dow" during this period, you would have made more money investing in closed-end trusts 10 years ago, the inference being that the managements of closed-end trusts have done a better job than mutual fund managements during the past decade.

We would like to point out to Mr. Gould that in making this comparison he has overlooked several important facts, namely;

(1) The period he selected witnessed higher market levels at the end than at the beginning, a period favorable to leverage funds.

(2) Seven out of his 10 closed-end trusts were leverage funds.

(3) Two of the three remaining closed-end trusts bought in large amounts of their own common shares at a substantial discount from asset value, thereby automatically increasing their value on a per share basis.

(4) Partly as a result of the above mentioned purchases, the discount below asset value at which they formerly sold had largely disappeared by the end of 1948. In other words, during the past 10 years their prices have advanced more than their asset values.

Had Mr. Gould checked the preceding decade, i.e. 1928-1938, he would have found that at the beginning of this period shares of closed-end trusts sold well above asset value and at the end, well below. As a result of this situation a comparison with mutual funds which may be liquidated at any time at asset value would have made the closed-end trust market performance look pretty sick.

Eaton & Howard Balanced Fund

Eaton & Howard Balanced Fund in June 30, 1949 report, shows the Fund at a new high of $40,774,332. It is owned by 10,561 shareholders, also a new high. Asset value per share was $23.60 compared with $23.65 at the beginning of the year. 20.4% of the Fund was invested in government and corporate bonds, 21.0% in Preferred Stocks, while 56.5% was invested in Common Stocks. 2.1% was held in Cash. The largest common stockholdings were in the Power and Light, Oil, Insurance and Natural Gas industries.

Principal Portfolio Changes During Second Quarter

Additions	Eliminations
Pac. West. Oil Deb. 3½s, 1964	Westinghouse Electric Cumulative Debenture 2.65s, 1973
Peoples Gas, Lt. & Coke 3s, 1963	Cleveland-Cliffs Iron Co. $5 Pfd.
Merck & Co., Inc. $4 Cv. 2nd Pfd.	Electric Power & Lt. Corp. $7 Pfd.
Pac. Lighting Corp. $4.50 Pfd.	United Corporation $3 Pref.
Cincinnati Gas & Electric Corp.	Bankers Trust Company
Middle South Utilities, Inc.	Cluett, Peabody & Company
Oklahoma Gas & Electric Co.	E. I. duPont de Nemou s & Co.
Public Service Electric & Gas Co.	Thompson Products, Incorporated
Republic Natural Gas Co.	
Tennessee Gas Transmission Co.	
United Gas Corporation	

William Parker Comments

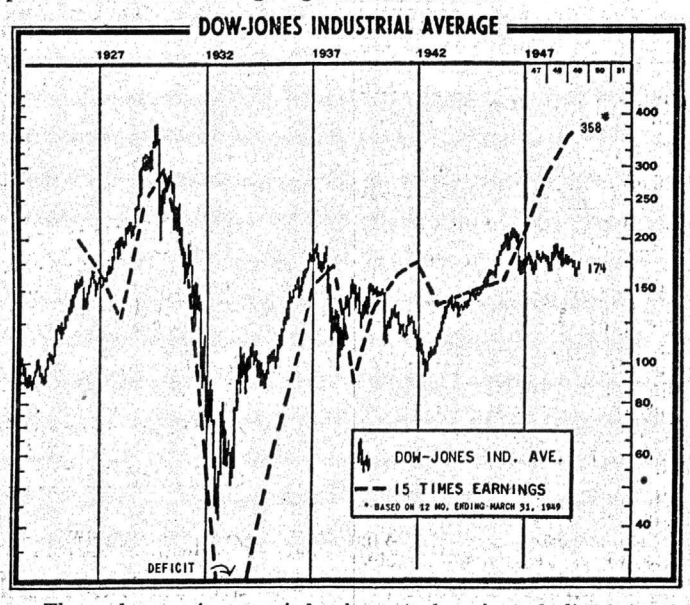
"Your management continues to keep the funds of **Incorporated Investors** fully invested in common stocks. This action is in accordance with its policy of concentrating on common stocks as long as the longer term outlook for earnings and dividends is good. And despite the decline in stock prices since 1946, the outlook for earnings and dividends has been good—and still is. It is recognized that earnings for 1949 for most corporations will not be as large as in 1948, but they will still be so large that current prices for stocks are placing an unusually low value on earnings. In other words, 1949 earnings will in our opinion look very good compared with most years except 1948.

"Your management looks upon the stockholders of Incorporated Investors not as short-term speculators, but as business partners in the companies which make up its portfolio. We, therefore, attempt to adopt the partnership viewpoint. In considering, for instance, whether or not we should eliminate a given steel stock from our portfolio, we do not ask 'is this stock likely to sell temporarily at lower prices?' but rather 'as a partner in this particular steel business should I quit and go into some other business, or should I be perfectly happy about my partnership on the basis of its long-term prospects for earnings and dividends even though there may be some decline currently from previous high earnings?'

"We believe this approach which disregards what a company may be currently selling for in the market place is sound. Look at the successful businessmen in your own community. Many of them are individual owners of businesses, or members of partnerships, for which there are no public quotations. These owners and partners never know at a given time what their businesses might be worth if they wanted to sell. They do not care because by and large they have no thought of selling as long as the long-term outlook for earnings in their businesses is good. We believe that there would be more successful investors in stocks for which there are daily quotations, if the stockholders would concern themselves more with the fundamentals of the business than with the daily price fluctuations."

If You Had to Pay the "Normal" Price for Stocks Today

The Normal Price Is 15 Times the Earnings. The Dow-Jones Industrial Average is a widely accepted measure of common stock prices as a whole. One consistent pattern that has been developed from study of this index is a normal relationship between prices and earnings of the representative stocks used to compute the Average. A price that is about 15 times the earnings per share has proved to be normal. The dotted line on the chart represents this normal price—what the price would have been each year, if it had always been exactly 15 times the annual earnings—using the longest period for which earnings figures are available.



The only previous period when stock prices declined in the face of rising earnings was from 1939 to 1942, as indicated by the divergence of the lines on the chart. This decline was followed by a major rise in prices—even though earnings declined during part of the period when prices were rising. The typical relationship was thus soon restored.

Current Prices Are Only 7.5 Times Earnings. The last two and one-half years have seen a similar divergence. And today, if the investor had to pay the "normal" price, it would be in the neighborhood of 360—about twice the current price level of 170-175. Even if earnings should decline, as they did in 1942, it is likely that a substantial adjustment would still be necessary to bring the prices of these representative stocks back up to their historical relationship to real values.—From "Keynotes," issued by **The Keystone Company of Boston.**

GROUP SECURITIES, INC.

53rd CONSECUTIVE DIVIDEND

The following 3rd quarter dividends from net investment income have been declared payable Aug. 31, 1949 to shareholders of record Aug. 16, 1949.

Class	
Agricultural	.09
Automobile	.12
Aviation	.07
Building	.12
Chemical	.07
Electrical Equipment	.14
Food	.05
Fully Administered	.09
General Bond	.10
Industrial Machinery	.12
Institutional Bond	.09
Investing Company	.10
Low Priced	.08
Merchandising	.07
Mining	.09
Petroleum	.10
Railroad Bond	.03
Railroad Equipment	.07
Railroad Stock	.08
Steel	.09
Tobacco	.07
Utilities	.07

W. S. Hancock Conducts

(Special to THE FINANCIAL CHRONICLE)

SHELBY, OHIO.—W. S. Hancock will continue as sole proprietor of the investment business formerly conducted under the name of Laser & Hancock, 53 West Main St. The former partnership was dissolved due to the death of C. J. Laser.

COMMONWEALTH INVESTMENT COMPANY

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New Eng. Fund Elects Armitage as Trustee

BOSTON, MASS.—Trustees of the New England Fund announce the election of Albert T. Armitage to its board of trustees. He is president of the investment banking firm of Coffin & Burr, Inc., general distributor of New England Fund.

Albert T. Armitage

Mr. Armitage recently was nominated president of the Investment Bankers Association for the term beginning in December this year. He has been in the investment banking business for 37 years and is an authority on public utility and industrial companies.

He is a director of Bates Manufacturing Co. and of Keyes Fibre Co.

In addition to Mr. Armitage, the board of trustees of the New England Fund now comprises Henry E. Kingman, of Boston, investment and industrial analyst and president of the Franklin Management Co.; Francis G. Goodale, of Boston, attorney and trustee, and Ray Vance, New York economist, trustee and investment counselor.

Bateman, Eichler Add

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Warren W. Webster has been added to the staff of Bateman, Eichler & Co., 453 South Spring Street, members of the Los Angeles Stock Exchange.

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The Labor Outlook

By LEO WOLMAN*
Professor of Economics, Columbia University,
Member, Research Staff, National Bureau of Economic Research

Asserting labor's outlook is not separate and distinct from nation's outlook, Dr. Wolman notes three powerful forces at work throughout world, viz: (1) substitution of collective for individual action; (2) planning and formulation of decisions by central agencies, private and public; and (3) restrictivism, as illustrated in limitations on crops and acreage, restriction of output by labor and obstacles to entry to trades, professions and business.

The question behind my subject today is whether all of us—labor and everybody else—know whither we are moving in the United States. Along what road are our political and economic policies leading us and what are likely to be their successive resting places?


Prof. Leo Wolman

This question will not be satisfactorily answered by appealing to details or the professed aims of governments and organized blocs. It will not be clarified by arguments about the meaning and purposes of collective bargaining, or the causes of strikes, or the virtues and evils of arbitration, or the numerous issues which constitute the subject matter of labor relations.

Nor will we make much headway in comprehending our current and future problems by behaving as if there is a "labor outlook" separate and distinct from the "nation's outlook." Labor and the rest of us are in the same boat. Whoever started them, this country is busy applying policies that determine the present and future welfare of all of us, labor included. If these policies are incorrect and unworkable, their inventors and sponsors need not expect to derive greater benefit from them than do other groups of their fellow citizens. The consequences of political and economic policies are universal.

I am concerned, then, with finding and describing the underlying forces which, allowed to continue with their present pace and power, will determine our labor outlook for many years to come. What these forces are seems to me clear and unmistakable. They are easy to see and they are being accepted by more and more people. This acceptance may be thoughtless and uninformed (as I think it is), but it is none the less real and menacing in its effects. A democratic people has the right to choose whatever economic and political policies it desires. But in making the choice, it certainly ought to know what it is doing and what it is letting itself in for.

The first of these forces is the substitution of collective for individual action. This is one of the most powerful forces at work throughout the world today. The United States got into the race toward collectivisim late, but it is rapidly making up for lost time. The key to collective action is organization. I need not tell you with what feverish haste public authorities and many leaders of opinion are urging organization upon their followers and fellows. The larger an organization becomes, the more it needs to grow. It is constantly too small and too weak to accomplish its aims. It wants more members and more power. In this process, we are attempting to revolutionize the springs of human action by undermining the motives of self-development, weakening the incentives that caused men to realize their talents, and persistently narrowing the area of competition for both individuals and business. What the new motives and incentives are to be no one seems to care, in spite of the accumulating evidence of their inadequacy in Europe, England and Russia.

Closely allied to this force is the equally strong movement toward plans and decisions made by central agencies, private and public. Government and private organizations are rapidly assuming the authority to decide matters previously left in the hands of each of us to decide for ourselves. An increasing proportion of individual incomes is collected at the source to be disbursed according to standards and for purposes set forth in the law or the rules of private organizations. Already the government of the United States is undertaking to assure its citizens economic security and rising material standards of living through policies of its own making. Private organizations are not far behind with equally alluring and magnificent promises for the future life. What some of my colleagues want when they agitate for a national labor policy or a national price and wage policy is the same thing. It is an invitation to central authorities to carry us further along the road to collectivistic society.

The third force is restrictionism, or as an Englishman calls it, the policy and practice of "the little less." It appears in many forms—the destruction of crops, limitation of acreage, restriction of output in the shop, erection of obstacles to entry into a trade, or profession or business, operation of codes of economic behavior, and the like. The aims of restrictionism are everywhere and always the same—achievement of a common rule of conduct and economic stability. The English have had a long history of restriction through law and custom and are now tasting its bitter fruits. How to rid themselves of restrictions which they spent generations creating is today the leading problem of the English people. The dilemma of the British seems to have little effect on the United States, whose people appear determined to repeat Britain's errors in the belief that they will be able to avoid the evil consequences of those errors.

These forces of collective action, central policy-making, and restrictionism are the determining influences on the American labor and economic and political outlook. There is nothing new or strange about these forces. Many of us have been afforded numerous opportunities in the past quarter century to watch them at work. They produce well-known effects in the behavior of government toward its citizens. The Italians called the kind of society these forces lead to the corporate state. The broader designation is totalitarianism. To the average American citizens the conditions associated with these forms of economic and political organization must arouse distrust, fear, abhorrence. This being so, it is strange and inexplicable that the social and labor policies based on these forces are accepted with the equanimity and favor which they today receive in the United States.

*Abstract of an address by Dr. Wolman at Conference on Profitable Personnel Policies, Industrial Relations Section, California Institute of Technology, Pasadena, Cal., July 21, 1949.

Emdon Fritz With Blair In Los Angeles Offices

(Special to THE FINANCIAL CHRONICLE)

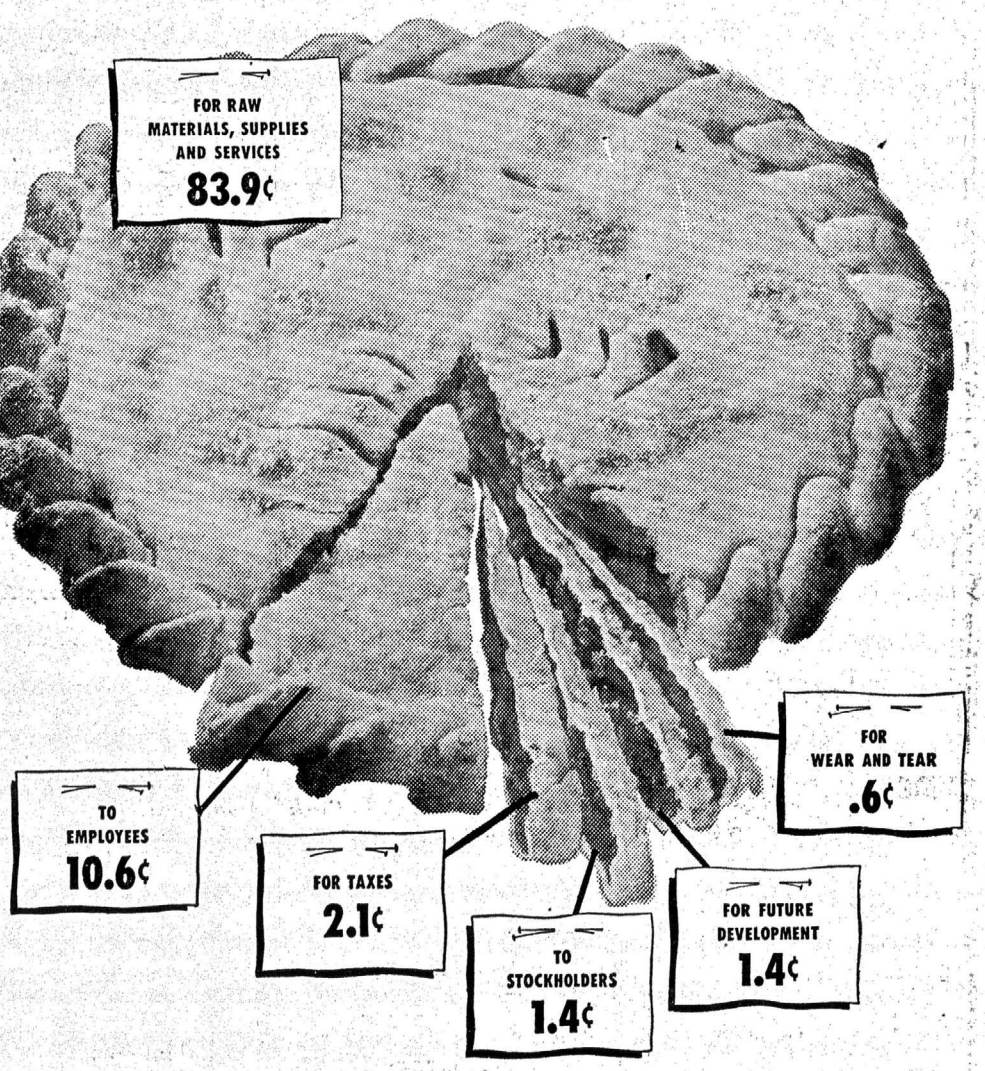
LOS ANGELES, CALIF.—Emdon Fritz is now associated with the Los Angeles office of Blair & Co., Inc. of New York, 639 South Spring Street. Mr. Fritz was formerly Vice-President of American Securities Corp. of New York City and prior thereto was an officer of Schoellkopf, Hutton & Pomeroy, Inc.

With F. H. Breen Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Edwin S. Roberts has joined the staff of F. H. Breen & Co., 609 South Grand Avenue.

How the General Mills sales dollar was divided last year



GENERAL MILLS' SALES TOTALLED $410,646,564 during the last fiscal year, compared with $458,473,576 for the previous year. Earnings were $11,654,036, as against $13,068,057 for the preceding year. Total dividends were virtually unchanged: $5,934,019 last year . . . $5,934,006 the year before. If you would like to know more about our twenty-first year, write for a copy of our complete annual report. Address General Mills, Minneapolis 1, Minnesota.

General Mills

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Canadian Securities

By WILLIAM J. McKAY

Largely because of exaggerated and ruthless exploitation of the process of currency devaluation in the past, monetary authorities today are inclined to regard this occasionally essential means of economic defense as bordering on the unethical. Rather than resort to currency adjustment in this direction, other artificial expedients are lightly adopted that are not only detrimental to the national interest but also affect adversely international economic relations.

Curiously enough, few inhibitions are demonstrated concerning upward revaluations, the recent examples of which have been uniformly discouraging. After World War I, the United Kingdom restored the value of the pound to its old parity at the expense of loss of foreign trade, an unprecedented level of unemployment which brought about the institution of the dole, as well as an intolerable flight of capital. Canada and Sweden in 1946 raised the value of their respective currencies and thereby passed from a period of free and flourishing international trade to one marked by loss of export markets, exchange difficulties, and the imposition of drastic import restrictions.

Such restrictions serve only to perpetuate the overvalued condition of the currency in international exchange. Economic policies are then largely dictated by the level of the exchange and gold reserves. In the case of Britain an exchange crisis is precipitated whenever the sterling area reserves fall below £500 millions. The Canadian dollar is jeopardized as soon as the Dominion's stock of U. S. dollars and gold is less than $500-600 millions.

As it now appears, British and Canadian financial policies hew to the rigid line that the present currency levels must be maintained at any price. In addition to placing an insuperable obstacle in the path of freer world trade, strict adherance to such policies under present conditions can only lead to an unnecessary drain on exchange reserves and thus still further weaken the standing of the currencies.

As far as the pound is concerned, nothing can now restore international confidence in the $4.03 level. The Canadian dollar, on the other hand, could be maintained at its current parity, but in view of recent economic developments this apparently can be achieved only at the expense of unnecessary controls and restrictions. As in the British case, there is a natural reluctance to reverse an economic policy that has been staunchly defended over a long period. But the question remains whether Canadian interests are best served by a Canadian dollar maintained at its present parity by an elaborate system of controls, or by a dollar at a level where all exchange and trade restrictions could be abolished.

In addition to the benefit to both Canadian and world commerce that would accrue as a result of the abolition of the present controls, a discount dollar would also promote the influx of U. S. capital. At the present, Canadian economic stage a steady flow of foreign investment funds is essential for the full development of the Dominion's enormous wealth of natural resources. Already there are indications of awareness of potential exchange risks on the part of would-be U. S. investors in Dominion enterprises; with the exchange at 10%-15% discount experience has shown that such hesitation is almost entirely lacking. Although not an overriding consideration, the fact that Canada is the world's second largest gold producer is, nevertheless, also an important factor in favor of a discount dollar. The dominant question, however, still remains, both in the case of Britain and Canada, whether the exchange level or economic logic should be the determinant of official policy.

During the week, there was an almost complete absence of business in both the external and internal sections of the bond market. Prices in the Dominion bond market in Canada, however, were marked up doubtlessly in preparation for the important refinancing operations that will be necessary as a result of the October and November redemptions. The corporate-arbitrage-rate was unchanged at 13¾%-13¼%, but free funds again showed distinct strength. Stocks, with the exception of Western oils, were generally active and higher. The gold issues and notably the senior producers were once more the principal feature of the market.

CANADIAN BONDS

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PROVINCIAL
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CORPORATION

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Constance E. Brouillet With Curlette & Co., Miami

(Special to THE FINANCIAL CHRONICLE)

MIAMI, FLA. — Constance E. Brouillet has become associated with Curlette & Company, Inc., Chamber of Commerce Building. Mrs. Brouillet was formerly with Atwill & Co. and Fenner & Beane.

C. E. Brouillet

Gordon Graves Co. Adds

(Special to THE FINANCIAL CHRONICLE)

MIAMI, FLA. — Jonathan H. Winters has been added to the staff of Gordon Graves & Co., Shoreland Arcade Building.

Currey, King, Dirs. Of American Express

The election of Brownlee O. Currey, President of Equitable Securities Corporation of Nashville, Tenn., and Joseph H. King, President of Union Securities Corporation of New York, as directors and as members of the Executive Committee of American Express Co. and The American Express Co., Inc., was announced following a meeting of the board of directors Aug. 2.

Brownlee O. Currey Joseph H. King

Equitable Securities Corp. and Union Securities Corp. recently purchased the principal stock holdings of Albert H. Wiggin in Amerex Holding Corp., which owns over 99% of the shares of American Express Co.

COMING EVENTS

In Investment Field

Aug. 26, 1949 (Denver, Colo.)
Bond Club of Denver-Rocky Mountain Group IBA summer frolic and golf tournament, Park Hill Country Club.

Sept. 9, 1949 (New York, N. Y.)
Security Traders Association of New York annual summer outing and dinner at New York Athletic Club, Travers Island.

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

Sept. 16, 1949 (Cleveland, Ohio)
Bond Club of Cleveland fall party at Sleepy Hollow Country Club.

Sept. 23, 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.

Oct. 11-13, 1949 (Atlantic City, N. J.)
Fall meeting of the Board of Governors of the Association of Stock Exchange Firms at Haddon Hall.

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

Davies & Mejia Adds Two

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF. — Robert M. Harkness and Van Loan Whitehead, Jr. are with Davies & Mejia, Russ Building, members of the New York and San Francisco Stock Exchanges.

With Denault & Co.

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF. — Helen C. Fung has been added to the staff of Denault & Co., Russ Building.

Dewey Says Depression Can Be Avoided

New York Governor and former Presidential candidate, in speech before New York State Federation of Labor says there is still time to repair mistakes which a short-sighted national economic policy has made.

Gov. Thomas E. Dewey, in an address at the Annual Convention of the New York State Federation of Labor in Syracuse, N. Y., on Aug. 1, expressed the belief that, despite unemployment becoming a threatening problem, we can prevent a depression. "I have been asked many times within the last six months, both at home and abroad," the Governor said, "whether in my opinion America is headed back into a depression such as we experienced in the 'thirties. My answer has been that a depression can be prevented; that there is still time to repair the mistakes which a short-sighted national economic policy has made. I have just last month created a special "Watchdog Committee" to appraise the economic trends as they affect employment and prosperity in our State. Under the chairmanship of Industrial Commissioner Ed Corsi, this committee is directed to exercise a constant vigilance over economic and business conditions and come forth with proposals well in advance of any emergency so that the State can act to fend off any economic storm."

Thomas E. Dewey

Concerning the situation in New York State, Gov. Dewey remarked:

"It is reassuring to report that our Unemployment Insurance Trust Fund is in a thoroughly healthy condition, with a balance on hand of $929 million as of July 15.

"Although fewer people had jobs, just as much went into pay envelopes in the first quarter of 1949 as in the booming first three months of 1948; and in the second three months the drop was only an estimated 3%.

"Between $7 and $8 million weekly in unemployment insurance payments currently bolster consumer purchasing power in New York State. Unemployment insurance claims now stand at an all-time high. Nearly 600,000 totally or partially unemployed workers have active claims, but up to May there were more jobs than a year ago.

"I want you to know that our best information now is that about half the people on the unemployment insurance rolls are either only temporarily laid off and will be going back to their old jobs before long, or still have their regular jobs, but are working on temporarily reduced schedules of two or three days a week. It is a good sign. But, nevertheless, we are keeping our unemployment insurance data under constant analysis and using it to forecast whatever new policies may be required for minimizing the effects of a slump.

"There is some further reassurance to be found in the accelerated activities of the State Employment Service. In the fiscal year just ended, it filled 600,000 jobs in all branches of business and industry. It is an anti-depression tool we are going to keep sharp and in good working order. In the last session of the Legislature we achieved a bold new advance for wage earners against one of the basic causes of insecurity and want. As a new and important measure of real security, as a successful way of beating socialized medicine, as a genuine American way of helping the sick, our new Sickness Disability Law may be considered in the future as the soundest advance of our time.

"You will all remember the battle we had to write that simple principle of progressive social welfare into law. I say 'we' because it was a joint effort in which the New York State Federation of Labor joined with enlightened employers and my Administration against a powerful alliance that sought to defeat us. Lined up against us solidly were the CIO, the Democratic Party, and a group of employers who yearn to return to the dark ages. They offered one after another objection to our simple, straightforward proposal for providing disability insurance. It was a combination of those who wanted no further advance in social welfare, and those who wanted it only on their own selfish terms.

"Well, we licked them. And we undertook another piece of pioneering in the interest of the people of the State of New York. And I have no doubt that as other such issues arise, we will have to deal with their opposition again. Working together, we will lick them again—have no doubt about it. I want, here and now, to acknowledge the effectiveness of our partnership — yours and mine, in this job—to thank you for it and to congratulate your leaders in helping bring about a wonderful boon to the workers of our State.

"Our new disability insurance law grants the fullest possible latitude to individual employers and unions. It preserves the values to be found in free enterprise and reduces to a minimum interference and regulation by government. Every portion of this law is consistent with the philosophy that while the public welfare is served by insuring wage earners against the economic effects of disability, public welfare is also served by reducing governmental restriction and avoiding monopoly or domination by the State. Benefits under this law will begin to be paid next July 1. That day will see opened a period of greater security and heightened morale for the wage earners of New York State. It will also provide living proof that teamwork among government, organized labor and business can provide a fuller life for our citizens.

"When I was in Europe this Spring I saw the dead-end bitterness which is the inevitable result of class division. The class struggle has paralyzed those arteries through which national energy must flow. Nation after nation flounders on the brink of despair, unable yet to make even the effort to master their destiny because of the Marxian dry-rot which keeps them paralyzed. May God forefend us from such a fate. It need never touch this land of ours, if only we resist the drift to Socialism; not by embracing reaction, not by hysterical opposition, but by free men acting gloriously in their freedom to work together in their mutual interest."

With Gross, Rogers Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Hugh H. Crowe is now with Gross, Rogers & Co., 458 South Spring Street, members of the Los Angeles Stock Exchange. He was previously with C. E. Abbett & Co.

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Sees Easier Credit as Federal Reserve Policy

National City Bank of New York holds changed system of "price controls" on government securities is already reflected in lower yields on both short and long-term securities. Holds new policy restores traditional role of Federal Reserve System by placing emphasis on general credit situation.

The August issue of the "Monthly Bank Letter," published by the National City Bank of New York, discusses at length the implications of the recent change in the Federal Reserve System's new credit policy. According to the "Bank Letter":

"Developments in July cast light on the significance of the new Federal Reserve policy announced on June 29, which changed the system of 'price controls' on government securities operative since 1942. The bond market, which in recent months had been held down by price stabilizing sales out of the Federal Reserve portfolio, responded to the statement with eager enthusiasm. It was plainly evident that the authorities wanted to make credit easier, and the only question was how the new policy would be implemented, especially in light of the impending drop in member bank reserve requirements. The 'supplemental' reserve requirements, imposed last September and partly rescinded in May, were scheduled to lapse entirely on June 30 and release about $800 million bank funds for lending or investing.

"What the Federal Open Market Committee did at this juncture was to withdraw entirely from the government security market. No effort was made to supply securities in which the banks could put to work their newly-released funds. Under the circumstances the $800 million piled up excess reserves, which rose from $640 million on June 29 to $1,410 million on July 6.

"The reaction on security yields and prices was swift, as banks with idle funds competed for what offerings appeared on the market. Treasury bills, which had been stabilized by the Federal Reserve on a 1.15 or 1.16% yield basis for the previous seven months, temporarily were bid up to prices which brought the yield below 0.90%, and 1¼% Treasury certificates of indebtedness rose to premiums which reduced available yields to around 1%. Rates on bankers acceptances were shaved ⅛ to ¼%, depending on maturity.

"Indeed, for a brief time the market for short-term government paper verged on the disorderly and a reasonable equilibrium was restored only after the Federal Reserve authorities, during the second and third weeks of the month, sold or let mature substantial amounts of Treasury bills and certificates from their portfolio. These operations cut back the volume of excess reserves to around $950 million which is still about $200 million higher than the average level of the February to June period. Yield rates on bills and certificates firmed again and appeared to be establishing a new level around 1% for bills and 1.04 to 1.08 for 1-year certificates.

"The Federal Reserve restricted its operations under the new policy to short-term government paper. In government bonds the Committee maintained a 'hands-off' policy and allowed their announcement, and the simultaneous rise in excess reserves, to have their full effects. The demand for corporation and municipal obligations, already strong, was further stimulated. On long-term taxable Treasury bonds, prices advanced a full point or better, cutting yields realizable to the purchaser by around ⅛%.

"The following table compares yields on various classes of securities on July 29 with those prevailing on June 28, before the policy statement became public, and on June 30 of 1948 and 1947.

YIELDS ON SELECTED SECURITIES

	July 29, 1949	June 28, 1949	June 30, 1948	June 30, 1947
Long-Term Corporate—				
*Aaa corporate bonds	2.64%	2.71%	2.77%	2.56%
*Baa corporate bonds	3.44	3.48	3.35	3.21
†High grade preferred stocks	3.94	3.97	4.07	3.75
Long-Term Government—				
†High grade municipal bonds	2.25	2.29	2.31	1.91
Victory Loan 2½s, Dec. 1967-72	2.34	2.44	2.48	2.33
Bank eligible 2½s, Sept. 1967-72	2.16	2.22	2.37	2.16
Part. tax-exempt 2¾s, Dec. 1960-65	1.51	1.54	1.86	1.59
Intermediate and Short-Term Govt.—				
September 1956-59, 2¼s	1.54	1.62	1.96	1.65
December 1952-54, 2s	1.27	1.40	1.30	1.44
1-year certificates	1.04	1.20	1.09	0.85
91-day Treasury bills (new issues)	1.02	1.16	1.00	0.38

*Moody's Investors Service. †Standard & Poor's Corporation (figures are for last Wednesday in each month).

"Aided by the exceptionally favorable market conditions, and following an unusually heavy second quarter, offerings of corporate, State and municipal bonds continued to come out in large volume during July. Indeed, on the basis of the first seven months' record, this year bids fair to equal 1948 in the volume of new money raised through corporate bond flotations. The same holds for the States and municipalities where postwar construction programs are being financed through the sale of serially maturing bonds. The following table compares security issues for purposes of raising new capital for the first six months of 1949, 1948, and 1947.

NEW SECURITY ISSUES FOR PURPOSES OF RAISING NEW CAPITAL
(In Millions of Dollars)

	First Six Months 1949	1948	1947
Corporate:			
Railroads	$288	$258	$103
Public utilities	1,730	1,427	698
Industrial and manufacturing	771	636	689
Oil	180	391	127
Other corporate	267	352	267
Total corporate	$3,236	$3,064	$1,884
State and municipal	1,410	1,582	1,327
Total corporate, State and municipal	$4,646	$4,646	$3,211

Source: Commercial and Financial Chronicle.

"Bank loans to business continued to shrink during July although the rate of decline slackened. For the weekly reporting member banks, the contraction in business loans so far this year now has run beyond $2½ billion—three times the expansion that occurred during 1948. One substantial factor in the decline, aside from inventory reductions and price declines, has been a refunding of bank loans out of the proceeds of new bond issues, a substitution of long-term for short-term debt. Seasonal forces, which come into play in the second half of each year, should have an influence in sustaining loan volumes in the months ahead. Banks continue sizable purchases of State and municipal obligations.

Implications of New Policy

"The emphasis laid, in the new policy statement, on the general business and credit situation as the primary consideration determining Federal Reserve open market operations, represents a return by the Federal Reserve System to its traditional role as an influence toward economic stability. As a matter of fact, before December, 1941, there was never any question but that 'the general business and credit situation' was supposed to be the principal determinant of Federal Reserve open market policy. Section 12A of the Federal Reserve Act, with reference to open market operations conducted by the Federal Open Market Committee, stipulates that:

"'The time, character, and volume of all purchases and sales (of government securities and other paper eligible for open-market operations) shall be governed with a view to accommodating commerce and business and with regard to their bearing upon the general credit situation of the country.'

"This language has been in the Federal Reserve Act since 1933 when the Federal Open Market Committee, informally organized in 1923, was made a statutory body.

"The objective of 'maintaining orderly conditions in the government security market,' restated with secondary emphasis in the new policy statement, has no foundation in statute, though the Reserve System has always been attentive to the problems of Treasury financing and in the two world wars made assistance to the vast loan drives its prepossessing concern. The 'orderly markets' language was first used publicly in the spring of 1937 when reserve requirement increases, invoked to cut down excess reserves, threw the bond market into turmoil. The Federal Reserve entered the market and, with $200 million purchases of long-term governments, restored order. They again intervened in the market to soften the impact of the outbreak of the war in Europe in September, 1939, and the blow of Pearl Harbor in December, 1941.

"The wisdom of these emergency open market operations, in the circumstances, was never seriously questioned. But the easing of an unexpected shock is quite a different sort of thing than the detailed control of prices and trading which has been in effect since the 'pattern of rates' technique was adopted in 1942. The experience of the postwar period has taught—not only here but in England, Sweden and elsewhere—that when a central banking system devotes itself to controlling government security prices it reduces its power to control credit. The two things are incompatible.

"In time of war, financing the government's war effort is of course the first essential and in fact the dominating influence on general credit conditions. As we move away from a wartime economy, the responsibility of the Central Banking System shifts and broadens."

NSTA Notes

BOND CLUB OF DENVER

The Bond Club of Denver announces that with the Rocky Mountain Group of the Investment Bankers Association it will hold its annual summer frolic and golf tournament at the Park Hill Country Club on Friday, Aug. 26.

Fees for golfing members $7; for non-golfers, $5; for guests $15.

SECURITY TRADERS ASSOCIATION OF NEW YORK

James F. Fitzgerald, W. L. Canady & Co., Inc., President of the Security Traders Association of New York, announces that the association will hold its annual summer outing and dinner on Sept. 9


James F. Fitzgerald


D. Raymond Kenney


Arnold J. Wechsler

at the New York Athletic Club, Travers Island. Special features of the event will be golf, soft ball and horse shoes, with prizes awarded to the winners. Cost is $8 per person.

Chairman of the arrangements committee is D. Raymond Kenney, Kenney & Powell; Arnold J. Wechsler, Ogden, Wechsler & Co., is in charge of ticket reservations. They are assisted by an able committee consisting of Clifford Channell, First Boston Corporation; Charles O'Brien Murphy, Merrill Lynch, Pierce, Fenner & Beane; Homer Wirth, Mabon & Co.; Milton Pinkus, Troster, Currie & Summers; William J. Kumm, Dunne & Co.; Gustave Levy, Goldman, Sachs & Co.; Daniel P. Mullin, Tucker, Anthony & Co.; Bernard J. Conlon, P. F. Fox & Co.; Frank J Orlando, Goodbody & Co., Edward J. Kelly, Carl M. Loeb, Rhoades & Co.; Nat Krumholz, Siegel & Co.; and Henry J. Peiser, Ira Haupt & Co.

Employees of Carl Marks & Co., Inc., Renew Annual Fishing Party

Thirty employees of the Foreign Securities Firm of Carl Marks & Co. Inc., of 50 Broad Street, New York City, renewed an old annual custom of this firm by holding a fishing party, the first one since the start of the war. The party went out on the "KISMET" (Captain Clifford Weis) out of Bay Shore.

The party caught a rather fair assortment of fluke, sea robins and blowfish. The women in the party proved better fishermen than the men, standing up in the rather rough weather like seasoned veterans.

Carl Marks is a noted big game fisherman and has caught large species of salt water fish in Nova Scotia, Cuba, the Caribbean and in Lower California waters.

In former years, these annual fishing parties were held over the Labor Day weekends in the Thousand Islands.

The catering for the fishing party was done by Callanan's well known downtown food store.

J. Barth Adds Two

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF. — Wyllys R. Betts and Louis H. Mueller are now connected with J. Barth & Co., 482 California Street, members of the New York and San Francisco Stock Exchanges.

Rejoins Dewar & Co.

(Special to THE FINANCIAL CHRONICLE)

SAN DIEGO, CALIF.—Jackson D. Dewar has rejoined Dewar & Co., First National Building. He was recently associated with the Los Angeles office of Buckley Brothers.

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I'm on the Trail!

I'm heading for the NSTA Convention at the Broadmoor Hotel, Colorado Springs, Colo., Oct. 5-Oct. 9. Make your reservation now to meet me there. For reservations and additional information communicate with Larry A. Higgins, Hulberd, Warren & Chandler, Chicago; Harold B. Smith, Pershing & Co., New York; Herbert H. Blizzard, Herbert H. Blizzard & Co., Philadelphia; John E. Sullivan, Jr., F. L. Putnam & Co., Inc., Boston.

Joseph A. Babbert Joins Shillinglaw, Bolger & Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—Joseph A. Babbert and Irene D. Prescott have become associated with Shillinglaw, Bolger & Co., 120 South La Salle Street, members of the Chicago Stock Exchange. Mr. Babbert was previously with Central Republic Co. and Ames, Emerich & Co.

Joins Cruttenden Staff

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—Lazare Z. Felsher has been added to the staff of Cruttenden & Co., 209 South La Salle Street, members of the New York and Chicago Stock Exchanges.

Hill Richards Adds

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Henry L. Montgomery has been added to the staff of Hill Richards & Co., 621 South Spring Street, members of the Los Angeles Stock Exchange.

With John L. Ahbe Co.

(Special to THE FINANCIAL CHRONICLE)

PALM BEACH, FLA.—Robert A. Canon is now with John L. Ahbe & Company, 208 South County Road. He was previously with Atwill & Company.

Joins Ranson-Davidson Co.

(Special to THE FINANCIAL CHRONICLE)

ST. PETERSBURG, FLA.—Roger D. Greenlaw is now associated with The Ranson-Davidson Company, Inc., Florida National Bank Building.

With William S. Beeken

(Special to THE FINANCIAL CHRONICLE)

WEST PALM BEACH, FLA.—Karl S. Roberts is now with William S. Beeken Co., Harvey Building.

Public Utility Securities

By OWEN ELY

Ohio Edison Company

Some time ago Ohio Edison issued some "new money" stock which was listed on the Stock Exchange, although most of the stock is held by Commonwealth & Southern. The stock has become fairly well seasoned, is currently earning nearly $3 after a 40¢ charge for plant amortization, and is paying $2. Last year it had a range of about 26½-34½ and this year 27½-33.

The dissolution program of Commonwealth & Southern, recently approved by a Federal Court and effective Oct. 1, provides that each of the 33,673,000 shares of Commonwealth & Southern common will receive .06 share of Ohio Edison (along with .35 share of Southern Company). Ohio Edison recently declined to 27½ due to the pressure of arbitrage operations in connection with the pending distribution of the Commonwealth-owned shares. The practice of arbitrageurs has been to buy Commonwealth & Southern and go short of the fractional shares of Ohio Edison and Southern Company. Since it is hard to borrow Ohio Edison due to the limited supply in the hands of the public, a "when distributed" market was created and this has now been transferred to the Stock Exchange; the "W D" price is currently about 1⅝ points below the regular price (27⅞ vs. 29½). However, part of the spread is accounted for by the fact that the "W D" stock will not receive a 50¢ interim dividend.

At the current "W D" price, therefore, it is possible to buy the stock to yield about 7.2%, or at a price-earnings ratio of about 9.4 (or 8.2 if the amortization charge be added to earnings). Since Ohio Edison is one of the larger utilities with gross revenues of nearly $48,000,000, it might normally seem entitled to sell on a better yield basis, as utilities with revenues of $50,000,000 and over show an average yield of about 6.3%.

The company supplies electricity to Akron, Youngstown, Springfield and surrounding areas in Ohio, with a population of 800,000, and through a subsidiary, Pennsylvania Power Company, to the adjacent western Pennsylvania area including such cities as New Castle, Sharon and Farrell, with a population of 225,000. Industrial business accounts for about 37% of revenues and is derived principally from steel, rubber, machinery, automobiles and parts, and chemicals. Outlying regions are largely agricultural. Residential sales provide 34% and commercial sales 23% of gross.

The company's average residential rate is 2.56¢, 14% under the national average; usage was 2,131 kwh. for the 12 months ended June, an increase of 32% over the national average. Ninety-seven per cent of farms in the area are supplied; there are no REA's or Federal Power projects in the company's area. Farmers use 3,775 kwh. annually, far above the general average.

Industrial revenues were off 3½% in the month of June compared with 1948, this being the first decline; it was offset by increases in commercial and residential. In the first six months of 1949 there was a gain of 5.3% in industrial revenues, due to obtaining some 15,000 kw. new business. In the six months, kwh. sales increased 4½%, customers 3% and revenues 5.8%.

Capitalization as of Dec. 31, 1948, was as follows:

	Millions	Percentage
Long-Term Debt	$80	53%
Preferred Stock	22	15
Common Stock Equity	48	32
Total	$150	100%

Regarding rates, Ohio has liberal regulatory standards under a State law which directs the commission to consider cost of reproduction, less depreciation, as the sole factor in "fair value" of plant.

Depreciation and maintenance ratios are normal; in 1948, 16.7% of revenues (excluding purchased power) were charged for depreciation and maintenance and there was, of course, $967,000 amortization of electric plant acquisition adjustments, or 2.1% of revenues. The depreciation charge for the year was equivalent to 2.3% of gross plant excluding intangibles. In 1948, 13.8% of gross revenues was brought down to net for the common.

The company brought in a 44,000 kw plant last December and a 23,000 in February. If each of these had been in operation for a full previous year they would have saved an estimated $1,400,000 before taxes (based of course on 1948-49 fuel costs). A 60,000 kw plant comes in in September this year which, if it had been in operation for the previous 12 months, would have saved the company an estimated $1,000,000. Another 60,000 kw comes in next January, and an 85,000 kw plant in the fall of 1951.

Charles Rodgers Joins Rambo, Close & Kerner

PHILADELPHIA, PA.—The Philadelphia investment firm of Rambo, Close & Kerner, Inc., 1518 Locust St., announces that Charles

Charles G. Rodgers

G. Rodgers has become associated with them as a vice-president. Formerly a partner in the firm of Butcher & Sherrerd, Mr. Rodgers was previously with the underwriting firm of Burr & Co. Inc., and the old National City Company.

Association of Mr. Rodgers with the firm was previously reported in the Chronicle of July 28.

With Security Associates

(Special to THE FINANCIAL CHRONICLE)

WINTER PARK, FLA.—Louis A. Hornstein has become affiliated with Security Associates, 108 N. Park Avenue.

With Mason, Moran & Co.

(Special to THE FINANCIAL CHRONICLE)

JOLIET, ILL.—Charles W. McIntyre has become affiliated with Mason, Moran & Co., Chalstrom Building.

With R. H. Johnson

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS.—Oscar M. Poeld is with R. H. Johnson & Co., 30 State Street.

Hickok Foresees Excellent Fall Trade

Executive of men's jewelry concern points out aggressive salesmanship can change hesitancy of retailers to buy and stores must have merchandise to sell.

Addressing his sales organization in Rochester, N. Y., on Aug. 1, Ray Hickok, President of the Hickok Manufacturing Company, manufacturers of belts and men's jewelry, predicted excellent holiday trade this fall. "The day of the salesman—your day—has returned," he told his salesmen.

Ray Hickok

"All business has had easy sailing during the war and immediately afterwards. The wind has been brisk and cool. Today the hot breath of competition once again fans our necks.

"But that is as it should be. It is the fight of individual against individual, rather than the mass direction of peoples by a dictator, that makes America great; that will make each of you great as individuals in your own particular and spectacular field of selling.

"Before we called this national sales conference, we thoroughly surveyed our field. We know, as you do, that there has been some recent hesitancy on the part of retailers to buy. That is a temporary phase that smart, aggressive salesmanship can change.

"One fact is absolutely sure in this country. No American ever turns down an opportunity to make a profit on good merchandise he knows will develop continued trade for him. No merchant wants to be caught without merchandise to sell.

"Talk about recession and depression in the United States at the present stage," Mr. Hickok pointed out, "need cause no fear in the heart of a good salesman, provided he has good goods to sell at a right price, and provided production has been properly geared to the sales potential.

"We have confidence," he continued, "that sales for the balance of this year and for the Holiday season especially can be increased over 1948. We have geared our production to an increase of 20% in men's jewelry and wallets. We have confidence that suspender sales can be advanced about 10%. While the dollar sales of belts may be higher than last year, unit sales may remain about the same. They will not be under 1948.

"You have this specific cure for lack of confidence in the business future: Give the public something it will be compelled to buy, because of its newness, quality, style and right price. That is what will break the serious bottleneck that arises from lack of confidence. That is the salesman's job today."

Business Activity Still Drifting Downward

Trends in nearly all lines are toward lower levels. Increased construction activity a major exception. Peak automobile output another. Constructive readjustments taking place. Agricultural prospects favorable, with close to peak production of crops.

(From the August issue of the "Business Bulletin," issued by LaSalle Extension University, a correspondence institution, Chicago, Ill.)

Business activity continues to decline gradually and the seasonal slackening in production and trade has been somewhat greater than usual. The total output of factories and mines has fallen off 15% since the postwar peak of last fall and is now the lowest in three years. Even that reduced amount, however, is more than 65% above the prewar average and is about the same as it was in the fall of 1941, when production of war materials and equipment constituted a large percentage of total output. The recession so far has been quite widespread and has affected most industries but it has been moderate as compared with most preceding slumps in business. Some indicators point toward a possible reversal in the downward trend before long, but changes are likely to be gradual when they do start upward again.

Wide Variations Among Industries

Declines among the different industries have varied widely both as to the time at which they started and as to the extent to which they have gone. This piecemeal readjustment which has been going on for almost two years without seriously affecting the general average of all industries is one of the more encouraging aspects of the current business situation. It indicates the possibility that even though the decline should extend farther, as it has under similar conditions in the past, enough time has elapsed since the first declines started for several major industries to have completed their adaptations to more nearly normal peacetime conditions.

Some industries passed their peaks two years ago and since then have declined much more than the general average. The first of these industries to start downward was leather and shoes, rubber products, alcoholic beverages, miscellaneous lines in the construction and container industries, and nonferrous metals. Declines in these fields and in others which started downward sometime later have been substantial. Especially striking has been the drop in textiles which has amounted to over 30%. Reduction has been almost as great in the output of nonferrous metals, flour milling, and furniture. Some of these lines reached their peaks over a year ago and now show signs of stabilizing or rebunding from the low point.

Some of the major industries kept on going up after the decline started in the general index of production. Only recently have they wavered and one, the automobile industry, has been making new peaks in recent weeks. In this group of industries which have supported the last stages of the boom are food products, transportation equipment, some types of machinery, and steel. Readjustments are yet to be completed in these lines, but the declines in them may be offset to some extent by the rising trends among those industries which started down first. Recovery, whenever it comes, is likely to be piecemeal just as was the decline.

Several Promising Trends

Construction, steel, and automobiles have been the major supports for industrial production so far this year. Although construction of all kinds declined during the first quarter, it has since expanded considerably and is now running ahead of last year. The number of new dwelling units

(Continued on page 34)

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NEWS ABOUT BANKS AND BANKERS

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED CAPITALIZATIONS

At the regular meeting of the directors of **The National City Bank of New York,** held on Aug. 2, George C. Scott, Jr., was appointed a Vice-President, and James J. Hoolan was appointed an Assistant Cashier. Mr. Scott has been with the bank since 1929 and will succeed Farris Campbell in charge of the bank's southwestern district. Mr. Campbell retires Sept. 1 after more than 34 years of service with the National City.

* * *

The Marine Midland Trust Company of New York announces the election of General Lucius D. Clay to its board of directors on Aug. 2.

* * *

It was announced on July 28 by John E. Bierwirth, President of the **New York Trust Company of New York,** and Charles S. McVeigh, Chairman of the board of **Fulton Trust Company of New York,** that the respective boards of the two companies had approved an agreement of merger under the State Banking Law providing for the merger of Fulton Trust into the New York Trust. It is now necessary to submit the terms of merger for the approval of the New York State Superintendent of Banks. After his approval, the agreement will be placed before the stockholders of both companies for approval at special meetings to be held on Aug. 30. The general terms of the merger provide for the payment to the stockholders of Fulton Trust Company of $250 per share upon surrender of their certificates of stock for cancellation after the merger becomes effective. It also provides that the personnel of Fulton Trust will be offered employment by the New York Trust and that Charles S. McVeigh, Stephen C. Clark, Charles J. Nourse and Walter N. Stillman, now members of the board of Fulton Trust, will become members of the board of the New York Trust. When the merger is completed the combined business will be conducted under the name of the New York Trust Company at its present offices and at the present branch office of Fulton Trust at 1002 Madison Avenue.

* * *

With demolition of the building on the site already under way, construction work will begin in the near future by the **Irving Trust Company of New York** on a new banking and office building at 23-29 West 51st Street. The Irving's new quarters, adjoining the Esso Building, will increase the company's facilities for serving the Rockefeller Center area. Irving's new building will be six stories high and will be air-conditioned. The bank will occupy the main floor and the two floors below. The upper floors will be rented to business. The site of Irving's new building is leased to the Irving by Immer Realty Corp. with provisions for renewal which can extend the term to the year 2053.

* * *

The Chemical Bank & Trust Company of New York through its Quarter Century Club is holding an essay contest open to all employees on the subject "My Bank And My Job." Cash prizes totaling $800 will be awarded in each of two classifications, those employees whose age is less than 22 years and those employees whose age is more than 22 years. In each classification, first prize is $250, second prize, $100 and third prize $50. Contest is to close Sept. 30, and is limited to employees of the bank, excluding officers of the Quarter Century Club and officers of the bank.

* * *

Andrew A. Peaty, an Assistant Cashier of the **Chase National Bank of New York,** died of a heart attack on July 30. Mr. Peaty, who was 58 years old, resided in Brooklyn. He had been associated with the Foreign Department of the Chase for 26 years as a specialist in foreign exchange. Prior to that he had been with the Guaranty Trust Company for 10 years, two of which were spent in London and Paris.

* * *

Albert I. Tabor, Secretary of the **Kings County Trust Company of Brooklyn, N. Y.** for the last 20 years, died on July 22. The Brooklyn "Eagle" states that Mr. Tabor became associated with the trust company at the age of 16 years. Before becoming Secretary in 1929 he was Assistant Secretary. At his death Mr. Tabor was 71 years old.

* * *

The Canal National Bank of Portland, Maine, has increased its capital from $600,000 to $750,000 through a stock dividend of $150,000. The enlarged capital became effective July 15.

* * *

Horace W. Smith, Assistant Treasurer of the **Travelers Bank & Trust Company of Hartford, Conn.,** observed his 25th anniversary with the organization on July 21, said the Hartford "Courant" of that date. Mr. Smith graduated from the American Institute of Banking in 1933. His banking career says the "Courant" has carried him through various positions with the Travelers and its affiliate, the Connecticut River Banking Company.

* * *

The recent action of the stockholders of the **First National Bank of Philadelphia** in approving the recommendations of the directors for an increase in the bank's capital stock from 311,100 shares to 388,875 shares raises the capital from $3,111,000 to 3,888,750. The increase was effected through a stock dividend of 25%—or $777,750. The new capital became effective July 15. A previous item in the matter appeared in our July 21 issue, page 272.

* * *

Fifty years in the trust field have been completed by H. W. Hawkins, Trust Officer of the **City National Bank & Trust Company of Chicago,** it is learned from the Chicago "Daily Tribune" of July 28. The paper quoted added; "His first banking position was with the First National Bank of Elgin. In 1897 he entered the American Trust & Savings Bank of Chicago and two years later was transferred to the trust department. He has been Trust Officer of City National since its formation."

* * *

American National Bank & Trust Company of Chicago, announces the appointment of Luther C. Dilatush as a member of the bank's trust investment division. Mr. Dilatush was formerly with Barrett Associates, Inc., New York investment counsel firm.

* * *

The directors of the **South East National Bank of Chicago,** have elected Franklin L. Marshall and Ernest W. Kilgore Assistant Vice-Presidents. The Chicago "Daily Tribune" of July 28, reporting this said:

"Mr. Marshall, who came to the bank in 1937, is Manager of the real estate loan department. Mr. Kilgore, head of the instalment loan department, has 20 years experience in banking."

* * *

The First Savings & Trust Company of Tampa, Fla., changed its title to the **Marine Bank & Trust Company,** on July 1, according to the weekly announcement July 23 of the Board of Governors of the Federal Reserve System.

* * *

The American State Bank of Mackay, Idaho, has been absorbed by the **American National Bank of Idaho at Idaho Falls, Idaho,** it is announced by the Board of Governors of the Federal Reserve System. As a result of the absorption a branch was established at Mackay by the American National Bank to be known as Mackay Branch. It was indicated in these columns July 28 (page 386) that the American National Bank of Idaho, increased its capital on July 14 from $300,000 to $350,000.

* * *

Chester M. Latimer has been appointed Vice-President of the **Seattle-First National Bank of Seattle, Wash.,** with increased duties at the main office, it was announced on July 26, when action was taken by the directors, according to the Seattle "Times." At the same time Glenn V. Humphrey was advanced to Assistant Manager at the bank's Yakima Valley branch at Yakima, where he has been Manager of the consumer credit department.

The advices in the Seattle paper further said in part:

"Advancement of Mr. Latimer from Assistant Vice-President in the public relations department is coincident with the bank's plans to expand its service for Alaskan firms, individuals and banks in their business activities in the states, according to Lawrence M. Arnold and Thomas F. Gleed, Seattle-First's Chairman and President, respectively.

"Mr. Latimer, a son of the late Norval H. Latimer, for many years President of the Dexter Horton National Bank, will continue his duties in the public relations department and will also be associated with Emil B. Kluckholm, Vice-President, in Seattle-First's Alaskan department," Chairman Arnold said.

"Mr. Latimer started his banking career in 1915 with the **Dexter Horton National.** The Seattle-First National was formed by a merger of that and other banking institutions. Two of Mr. Latimer's brothers, Earl H. and Walter B. Latimer, are also officers of the Seattle-First National Bank.

* * *

Announcement is made by the **Imperial Bank of Canada,** head office **Toronto,** of the election of I. K. Johnston to the board of directors. Mr. Johnston continues as General Manager of the bank.

Clucas Co. Merges With J. R. Williston & Co.

E. W. Clucas & Co. and J. R. Williston & Co. announce the consolidation of the two firms. The combined business will be conducted under the name of J. R. Williston & Co., which will maintain offices at 115 Broadway, New York City.

Royal E. Peterson, Arthur Jansen and George Gelston Moore, Jr., all formerly of the Clucas organization, have been admitted to the enlarged organization as general partners. Vincent M. Gowen has been appointed Manager of the Trading Department.

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

Prices of government securities seem to be stabilizing after the recent decline. . . . Some recovery has taken place on not too heavy volume. . . . Profit-taking appears to be about over, and selling to get money for other purposes seems to be drying up. . . . Tight money conditions should be passing, and this should mean more funds will be finding their way into the government market. . . . It is believed in some quarters the long end of the list was pushed down too far. . . . This does not, however, indicate an immediate and sharp turnabout for quotations of these securities. . . . Buyers are still cautious. . . . As a whole, money market conditions are favorable, deficit financing through Treasury bills is under way, but smaller corporate takings are indicated for the balance of the year. . . . This should have a favorable effect upon the governments. . . .

Recently created reserves have not been fully invested and despite minor seasonal increases in loans in certain Federal Reserve areas, there are still ample bank funds that will be seeking an outlet in the longer government market. . . . Non-bank investors continue to put away the restricted issues, with large buy orders appearing during price weakness. . . .

BUYING ON WEAKNESS SUGGESTED

Whether quotations in the government market have corrected enough of the advance and formed a base for future price rises will be determined in no small measure by the psychological attitude of traders and investors. . . . The monetary authorities are making good use of their ability to create uncertainty which keeps operators in the money markets on the anxious seat. The fear as to what might happen to change quotations a few thirty-seconds up or down seems to carry more weight with certain money market followers than does the basic fundamental of easy and ample credit conditions. . . .

To be sure, the monetary authorities can bring about tight money for short and temporary periods, in order to prevent prices and rates from going up and down too fast. . . . But this cannot have a lasting effect as long as the policy is to maintain low interest rates, in an attempt to reverse economic conditions. . . . Sooner or later the surplus funds and reserves that are brought about through easy money conditions will have to be put to work and that means purchases of Treasury obligations. . . . . Since the supply of long-term obligations is not being increased and the demand factor is being strengthened, there will have to be higher prices and lower yields for these obligations. . . . . True, a sizable part of the demand can be taken care of with short-term securities but on the other hand, there are enough institutions that have to acquire higher-income obligations to mean a very large amount of these issues will find their way into permanent homes. . . .

Accordingly, until the easy money program of the monetary authorities has been reversed, it seems as though setbacks in prices of government securities, especially the longs, should be buying opportunities for investors and position building spots for dealers and traders. . . .

OPPORTUNITY FOR TRADING PROFITS

An up-and-down gyrating market within trading limits, which should be better defined, as we move along under easy credit conditions, should enable dealers to buy and sell Treasuries and make trading profits. . . . A one-way market does not make for such operations, because when quotations are going up there are no sellers and when they are going down, Federal is the only buyer. . . . Also, there should be a pick-up in volume in a moving market because there are still plenty of switches to be made. . . . Likewise it is easier to suggest and make reinvestments in a market that swings about, than in one which moves only in one direction. . . . Although the heaviest vacation period of the year is here, and this may curtail activity somewhat, if market conditions are right, ways and means will be found to consummate transactions which are beneficial to both investors and traders. . . .

All in all, it seems as though more money market operators are now of the opinion that a moving market is to be expected, and if prices go ahead too fast setbacks will take place. . . . Likewise, when quotations level off and turn down, only modest reactions are looked for because under low interest rates declines cannot go too far. . . . Recovery from recent psychological jitters seems to be under way, and this should make for better action in the government market. . . .

LOWER RATES EXPECTED

A new rate schedule is still in the making and despite the interference of Federal in the short market, many astute operators believe lower rates will be eventually seen throughout the entire list. . . . Rates, they point out, do not go immediately to the indicated objectives but move in a zig-zag fashion, which is part of the whole pattern. . . . They do not see anything in the business situation which would cause an abrupt change in monetary policy. . . . However, there seem to be differences of opinion on economic developments, since it is indicated a few of the so-called well-informed sources believe a turn for the better is not too far away.

Rocky Mt. IBA Group to Report Favorite Issue

DENVER, COLO.—The Rocky Mountain Group of the Investment Bankers Association of America is sponsoring in October a special meeting at which 15 dealers will present three-minute reports on "The Security I Like Best for the Future." The stocks may be listed or unlisted, speculative or for investment.

Scheduled to make reports are E. Warren Willard, Boettcher & Co.; Edward Coughlin, Coughlin & Co.; J. H. Myers, Harris, Upham & Co.; William McCabe, McCabe, Hanifen & Co.; Waller Brinker, J. K. Mullen Investment Co.; Gerald Peters, Peters, Writer & Christensen, Inc.; Ernest Stone, Stone, Moore & Co.; John Sullivan, Bosworth, Sullivan & Co.; Donald Bromfield, Garrett-Bromfield & Co.; Karl L. Mayer, J. A. Hogle & Co.; Norman C. Barwise, Merrill Lynch, Pierce, Fenner & Beane; John T. Webb, Otis & Co.; Burdick Simons, Sidlo, Simons, Roberts & Co.; Amos Sudler, Amos C. Sudler & Co.; and Earl M. Scanlan, Earl M. Scanlan & Co.

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Railroad Securities

Southern Pacific

Although it has so far been given little, or no, market recognition railroad analysts have been favorably impressed with the marked turn for the better in Southern Pacific's operating performance in the past few months. In part this may presumably be traced to expanding use of diesel power for road freight service. To the extent that this is the answer to the improving efficiency the trend may be expected to continue in coming months as more diesel units are delivered and put into service. Another factor has probably been a decline in fuel oil prices, particularly on the eastern section of the system lines.

The road got off to a particularly poor start early in 1949. It was one of the hardest hit of the western roads by the particularly severe winter weather and the unusually heavy snows in January and February. Ever since the end of the war the company had been experiencing considerable difficulty in getting its transportation costs under control. This trouble was highlighted last year when the transportation ratio increased over the preceding year and was appreciably above the relatively high industry average. As the unfavorable trend continued in the opening quarter of 1949 considerable concern developed as the company's future earnings status. More recent reports have done much to allay such fears.

The railroads as a whole in the first quarter of 1949 reported a modest drop in their transportation ratio compared with a year earlier. Southern Pacific was one of the few that went contrary to the trend, and its year-to-year increase in the ratio was one of the widest among the major Class I carriers. The rate of increase contracted sharply in the opening month of the second quarter. In May the unfavorable comparisons had been reversed and by June the ratio for the month had dropped sharply below that of a year earlier. As a result, the cumulative increase of the opening months had been all but wiped out. The 41.2% transportation ratio for the six months was only 0.4 points above the like 1948 interim.

The June report alone is quite impressive. Gross revenues were roughly $2,000,000 lower than in June, 1948. Maintenance outlays were approximately a half million dollars heavier than they had been a year earlier. There was a debit of $1,380,695 for payroll taxes contrasted with a credit of $1,336,960 in that account in June, 1948, while all other taxes, including Federal income tax accruals, were about unchanged. Despite all this, net operating income was down less than $600,000 at $5,084,765.

The decline in gross, aggravated by heavier maintenance and tax accruals, was largely offset by the cut of $4,200,000 in the critical cost of transportation. If this favorable operating trend continues, as is expected, and if the anticipated curtailment of maintenance work after Sept. 1 materializes, quite satisfactory results would be indicated for the full year.

There are a number of favorable aspects to the Southern Pacific picture. The management has done a good job on debt. More than $215 millions par value of non-equipment debt was retired in the years 1941-1948. Through extensive refunding operations fixed charges were further reduced and a favorable maturity schedule was worked out. Charges last year were down to around $20 millions compared with $30 millions 10 years earlier. The road is the dominant rail carrier in California. Population growth and industrial expansion in that and other parts of the service area have improved the traffic status of the system and augur well for future freight volume.

Earnings on the company's stock last year amounted to $10.27 a share and the dividend rate was increased from $1 to $1.25 quarterly with the Sept. 20, 1948, payment. It has been continued at this rate in 1949, affording a return of 13.16% at recent prices for the stock. There is little question but that 1949 results will fall short of the 1948 level. It is expected, however, that at least $7.50 to $8 will be earned this year. Considering the strong financial status of the road such earnings should certainly justify maintenance of the $5 annual disbursement.

Los Angeles Stock Exchange Uses Video

Tells its story through Station KTTV, with Allan H. Crary, of E. F. Hutton & Co. as guest.

Los Angeles Stock Exchange has become the first West Coast Exchange to tell its story through the medium of television when Station KTTV presents a special program entitled "Bears and Bulls" Saturday evening, July 30, from 9:40 to 10:00 p. m. with Allan H. Crary, general partner of E. F. Hutton and Company, as guest representing the local securities market.

Bob Purcell, director of public service of KTTV, appeared on the program with Mr. Crary. What a stock exchange is, how the investor can determine what is a wise investment, what is the difference between stocks and bonds and what kind of services a broker renders to the public are typical of the questions which were answered.

Crary is one of the best-known brokers in the West, having been in the business since 1911. For more than 20 years he has been with the Hutton firm, which has 14 offices throughout Southern California, is a member of the New York and Los Angeles Stock Exchanges and his firm is a member of other principal exchanges throughout the country.

He has served as a member of the Board of Governors of the New York and Los Angeles Stock Exchanges, also represents his firm as a member of the New York Cotton Exchange and formerly as a member of the Chicago Board of Trade.

The pioneering telecast is part of a new public service program by the Los Angeles Stock Exchange to increase its services to Western business and finance and to encourage the general public to a better understanding and acceptance of the role of securities investments in the American economy.

Carr Pross Joins Shearson, Hammill Co.

Carr F. Pross is now associated with the investment advisory department of Shearson, Hammill & Co., 14 Wall Street, New York City, members of the New York Stock Exchange, it is announced.

Mr. Pross formerly was with Shields & Co.

Hard Sense vs. Buncombe

"We believe our program of keeping wages and other labor costs steady over the uncertain period ahead is a sound one. We believe it offers the best promise of providing the largest number of steady jobs to our employees.

"Our aim is to keep the greatest possible number of people at work at present high-wage rates—not to keep a much smaller number working at much higher rates.

"We believe, in short, that taking any action which would raise our labor costs at this time would boomerang swiftly. Increased costs now mean increased prices, and increased prices mean fewer sales. That means fewer jobs."—Ford Motor Company.

"Ford workers can set a pattern for wage increases throughout the basic industries, if Ford and other automobile workers have more purchasing power they can buy more food, more clothing, more electrical appliances, which means more jobs and more purchasing power for other workers, which in turn means a bigger market for automobiles and greater job security for auto workers."—United Automobile Workers.

The union leaders apparently are determined to push on until they have "set a pattern" for a good deal upon which they are not counting—and for which they will certainly blame employers when it comes.

Reports Effect of Dollar Shortage on Exports

National Industrial Conference Board survey indicates recent drop in foreign sales by U. S. manufacturers is attributed to stringency of dollar exchange. Finds business executives generally favor President's Point IV Program.

The drop in foreign sales in recent months is attributed to the stringency of foreign exchange, import restrictions imposed by foreign governments and, to some extent, increasing foreign competition, according to a majority of companies surveyed by the National Industrial Conference Board.

In contrast with the majority, some executives report "a considerable increase" in exports and state that the rise has come almost entirely because the ECA has listed their products as essential to the European recovery program. The outlook for exports, however, seems contingent on "the future availability of dollars all over the world, and the establishment of a stable exchange."

Executives generally favor the President's Point 4 program calling for the export of American know-how and point out that "much has already been done" along this line by individual companies. Executives in opposition to the program feel that it will not only fail to increase foreign sales, but will eventually damage this country's competitive advantage in world markets. Cooperators agree, however, that capital investments abroad must be safeguarded if we are to stimulate such ventures.

Trend of Sales

In general, demand for American products abroad "continues heavy," but many manufacturers find themselves in the "unfortunate position of being unable to take advantage of such markets." As a result, a dip in foreign sales is reported by most industries.

Currency Conditions Main Deterrent

The dollar shortage abroad is reported as the principal factor restricting foreign sales at the present time. Demand, in the form of inquiries and prospective sales, is "as lively as ever," but actual sales to dollar-short countries "are virtually at a standstill."

Some manufacturers of capital goods point out that demand for certain classes of capital goods is higher at the present time than ever before. A number of companies of the machine-tool industry are also enjoying a heavy demand for their products, but sales have been dropping very sharply to a point where they now are "scarcely more than a trickle because of the stringency of dollar exchange."

Fight for Markets

Exporters realize that they have little control over the monetary situation, but a few executives report that "steps are being taken" in their individual organizations in an attempt to retain markets that are rapidly disappearing. One company has arranged for the manufacture of their machines in England in the hope that this will facilitate greater sales in the sterling areas. The majority of the companies surveyed, however, say they will depend upon sales promotion to maintain their exports abroad.

Domestic Controls

Executives are almost unanimous in reporting that domestic controls have "little serious effect" on exports. This is in direct contrast with the findings of a survey made on export controls last year by the Board. At that time, United States controls were found to be the major factor inhibiting foreign sales.

Foreign Competition Making an Appearance

Foreign competition "has not become a major problem as yet," but manufacturers report that it is on the rise.

Manufacturers feel that competition will continue to grow and they speculate what this will do to already dwindling foreign sales.

Political Unrest

The political unrest of some countries is reported as curtailing American exports. In some cases, markets have been "almost completely eliminated" owing to the political situation. It is difficult to determine whether these markets are lost temporarily or forever, executives say, but United States exports will suffer as long as the present political conditions prevail.

Effect of ECA on Exports

ECA funds have eased the exchange problems of participating countries and as a result industries whose products are considered essential to the program are enjoying an upward climb in foreign sales. This is particularly apparent in the industrial machine, chemical, and instrument and control industries. Controls, it is felt, will also be eased to permit the export of less essential items. In view of this, most of the reporting executives are optimistic about their foreign sales to Marshall-plan countries.

The Export of American Know-How

"The "bold new program" of President Truman's inaugural address, known as the Point 4 program, which proposes to make the know-how of American industry available to backward areas throughout the world, meets with favor with the majority of the cooperating executives. It is pointed out that countries with the highest standards of living have been the best customers of the United States in the past.

Foremost in the minds of many manufacturers, however, is the fact that the President's proposal is neither "new" nor "bold."

Opposition to Point 4

The greatest opposition to the export of American know-how stems from the belief that to make our scientific and industrial knowledge available to the world means that there will be increased competition and the destruction of certain export markets.

Stepping Up Capital Investment

Since the primary interest of investors is the realization of a return on investment, executives contend that there must be "assurance that the capital can compete under fair practices and can be recovered in United States dollars in case of necessity, assurance that profits earned under fair competitive conditions can be remitted to the investor, and some assurance of stable currencies."

A considerable number of the cooperators see tax exemption on foreign earnings as an important incentive for stimulating the flow of American capital abroad. Some feel that the portions of the tax law holding dividends from foreign investments to be wholly taxable while permitting an 85% exemption on corporate dividends from other American enterprises has not "given benefit to the American entrepreneur who is willing to risk capital in foreign development."

Lawrence Robbins With Hayden, Miller & Co.

CLEVELAND, OHIO—Lawrence S. Robbins, Jr. has become associated with Hayden, Miller and Co., Union Commerce Building, the 46-year-old investment firm announced.

Mr. Robbins, who was graduated from Yale College in 1930 and the Harvard Business School in 1932, was formerly with the investment counsel firm of Comey-Everett and Co. from 1933 to 1938 and rejoined it last year. From 1938 to 1941 he was a Department Manager of the Cleveland Chamber of Commerce. At that time he was also a member of the Cleveland Defense Housing Committee, the Cleveland Defense Highway Committee, and the Public Works Committee Regional Association.

He was the author in 1941 of a study "Decentralization: A Problem in Cleveland's Future," which received wide acclaim as an appraisal of the city's urban problems.

During World War II Robbins served with the Navy as a Lieutenant Commander. From 1944 to 1945 he was Deputy Chief of Naval Operations for Air stationed at Washington.

At Hayden, Miller and Co. his activities will be chiefly in the field of corporate financing.

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Securities Salesman's Corner

By JOHN DUTTON

What DOES Your Prospect WANT?

What is your prospect's point of view? What does he want from his investments? These are the two main ideas which you should encourage him to express to you. Once you know these things you can show him how and where to find the answers to his investment problems. Friendliness, interest, yes even concern, are the factors that bring you closer to your prospect and build within him a feeling of confidence in you. Objections fade away when you find out that you can obtain a benefit from something you are buying that far outweighs its cost.

Some of the things people want today are: more security—they would like to feel safer about their investments—they would like to worry less about depreciation of principal. Some would like to build up a larger nest egg—for a rainy day, for some future benefit. They would like to feel that they were getting somewhere with their money. There isn't anyone living in this country today that would hesitate to make an investment if they could be convinced that it would earn at least 5% per annum and that it would be worth at least as much as they paid for it five years hence. No one could guarantee this plan but you can come close to such an excellent program through sound diversification between stocks and bonds. If you select carefully, and watch continuously after you invest, you may even do much better than 5% per annum, and also add a capital gain to your fund to boot. Others have done it. After all 5% at straight interest adds 25% to your capital in five years. If you leave your assets in cash it will depreciate at the rate of 5% (interest lost per annum). If we have further inflation the purchasing power lost may cause cash to depreciate even more. Those who put all their funds into government bonds during the last 5 to 10 years have lost from 50% to 60% of their capital in depreciated and lost purchasing power; and in the difference between 2% and 5% (obtainable on other investments) each year. These are good talking points. Most people don't realize that when money lies idle or wastes away at 2% or 3% that they will be losing about half their principal in ten years in lost income alone. Money is no good unless it is working. You can't eat it or wear it. The only time money should lie in the savings bank is as a reserve for a rainy day, or for future buying opportunities.

But to get back to finding out what people want. *Ask them* when you talk with them. Get their problems before you. Be friendly. Don't argue. Go in with a spirit of helpfulness. Show them how to achieve their objectives; how they can earn 5% or 6% on good securities. Show them why they can safeguard their principal by putting some of it into GOOD inflation hedges today. This government of ours is slowly depreciating the value of our money. Billions more are going to be squandered. The present Administration knows that it can only stay in office by buying up votes. It will continue to do this even if it has to bring the buying power of our money to lower and lower levels.

You can show your investor who is hoarding cash today that he had better protect himself against the loss of his purchasing power through sound investment policies. You can sell protection today. Good stocks for income and inflation protection. Good bonds and preferred stocks for protection against deflation. You can go in to see him with a sound idea—and that is nothing more than HELPFULNESS. Show him that you can give him MORE SECURITY, MORE PEACE OF MIND, MORE INCOME, MORE PROTECTION AGAINST EITHER INFLATION OR DEFLATION—HE'LL LISTEN AND HE'LL DO MORE—HE WILL GIVE YOU HIS INVESTMENT BUSINESS.

Market for World Bank Bonds Widened

Number of states that have made obligations legal investments for various types of investing institutions materially increased in 1949.

According to an official press release on Aug. 1, the number of states in which bonds of the International Bank for Reconstruction and Development are legal investments for various types of investing institutions was materially increased during 1949 legislative sessions. States which enacted statutes in 1949 authorizing investment in obligations of the International Bank are:

Arkansas — Commercial banks, savings banks, trust funds.
*Illinois—Insurance companies.
Maine—Savings banks.
Minnesota — Non-life insurance companies.
North Dakota — Savings banks and trust funds.
Ohio—Commercial banks, savings banks, insurance companies, trust funds.
Pennsylvania — Non-life insurance companies.
Washington—Savings banks.
West Virginia—Insurance companies.

*Enacted but not yet signed by the Governor.

Subject to the qualifications and conditions contained in the various statutes and rulings, the Bank's securities now are or soon will be legally authorized investments for institutions as follows:

For commercial banks in 45 states and the District of Columbia.

For savings banks in 29 of the 36 states having such institutions, and the District of Columbia.

For insurance companies in 36 states.

For trust funds in 33 states and the District of Columbia.

The bonds are also a legal investment for all national banks in the United States, under a ruling of the Comptroller of the Currency.

New York Stock Exchange Weekly Firm Changes

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

Transfer to William H. Pflugfelder of the exchange membership of the late J. W. Fuller Potter will be considered by the Exchange on Aug. 11. Mr. Pflugfelder will continue as a partner in Pflugfelder & Rust.

Joseph H. Willson retired from partnership in Billings, Olcott & Co. on July 31.

Arthur J. Schwarts retired from partnership in La Grange & Co. on July 31.

Baird & Noyes Elected IBA Governors

CHICAGO, ILL.—The election of Andrew M. Baird, A. G. Becker & Co. Incorporated, and George F. Noyes, The Illinois Company, both of Chicago, to serve as Governors of the Investment Bankers Association of America has been announced by the Central States Group of the Association. They will serve for three-year terms, beginning at the close of the 1949 IBA convention. Mr. Baird is now Chairman of the Central States Group, and Mr. Noyes is Chairman of the National State Legislation Committee.

Andrew M. Baird George F. Noyes

The Executive Committee of the Group also announced the appointment of the Chairmen of three Group Committees for 1949-1950 and the appointment of an additional member to the National Municipal Securities Committee as follows:

Chairman, Education Committee: David J. Harris, Sills, Fairman & Harris, Incorporated, Chicago.

Chairman, Legislation Committee: Earl F. Meyer, Blyth & Co., Inc., Chicago.

Chairman, Municipal Securities Committee: Newman L. Dunne, Robert W. Baird & Co., Incorporated, Milwaukee.

Member, National Municipal Securities Committee: Woodward Burgert, Harris Trust and Savings Bank, Chicago.

The Fourteenth Annual (1950) Conference of the Central States Group will be held in Chicago March 29 and 30 at the Drake Hotel.

Halsey, Stuart Offers Worcester County Electric Co. Bonds

Halsey, Stuart & Co., Inc., offered to the public July 29 $5,500,000 Worcester County Electric Co. first mortgage bonds, Series A, 2¾%, due July 1, 1979, at 100¾% and accrued interest. The firm was awarded the bonds at competitive sale July 27 on its bid of 100.31.

Net proceeds will be applied to the payment of notes issued and to be issued and to additional construction expenditures or to reimburse the Treasury for construction expenditures previously made.

The bonds will be redeemable at general redemption prices ranging from 103.75% to 100% and at special redemption prices scaled from 100.82% to 100%.

The company's business, conducted largely within Worcester County, Mass., is principally that of the generation, purchase and sale of electricity for light, heat, power, resale and other purposes, and, to a minor extent, the manufacture and sale of artificial gas for general use.

Russell McNeill Opens

FT. MORGAN, COLO.—Russell Davis McNeill is engaging in a securities business.

Bank and Insurance Stocks

By H. E. JOHNSON

This Week—Bank Stocks

There have been several developments during the past few weeks of importance and current interest to bank stock investors.

On Thursday, July 28, 1949 the New York Trust Company and the Fulton Trust Company formally announced plans to merge these two institutions. The transaction is to be in the form of a cash settlement with the stockholders of the Fulton Trust receiving $250 a share for each of the 20,000 shares outstanding or a total purchase price of $5 million. At the end of June the Fulton Trust had a book value including capital, surplus and undivided profits of approximately $5,391,000 equal to $269.55 a share.

If the merger is effective New York Trust will continue the business under its present name acquiring the assets of the Fulton Trust amounting to $36,158,000. After the consolidation of the Fulton Trust's assets with the $670,836,000 of the New York Trust's, the surviving company would have combined resources of approximately $706,994,000.

According to the press reports, it is the intention of the New York Trust to operate the branch office of the Fulton Trust at 1002 Madison Avenue, New York. The present headquarters of the Fulton Trust at 149 Broadway, however, would be closed. Employees, officers and directors of Fulton Trust would be absorbed into the New York Trust organization.

Because of the terms and nature of the proposed merger, it is reasonable to expect that it will become effective. However, it is subject to the approval of the State Superintendent of Banks and the stockholders of the respective companies.

This is the second well-known institution in a little over a year in the New York area which has been absorbed by one of the larger banks. Last May the Continental Bank & Trust sold its banking business and certain other assets to the Chemical Bank & Trust Co. Because of the rate of earnings and the burden of overhead expenses in maintaining essential customer services, it is difficult for the smaller institutions to compete with the larger ones. Then as a cash settlement offers the opportunity to realize something close to the book value, at a time when the market values of the shares are at discounts of over 40% in some cases the advantage to shareholders is obvious. These same factors will continue to exert their influence and it may be that other similar consolidations will be made. There are recurring rumors to this effect concerning certain of the other New York banks and as with New York Trust and Fulton Trust, Chemical Bank and Continental Bank, they could eventually take place.

One of the items of particular interest to shareholders resulting directly from the merger proposal of New York Trust and Fulton Trust is the action of the stock of Fulton Trust. Trading in the stock became more active about two weeks ago and was the first indication that something significant was taking place. From a price of around 148 bid on July 14 the stock moved up sharply to around the present market of 220 bid, 250 asked. Thus the current market is close to the anticipated cash settlement of $250 a share and near the book value of $269.55.

It is of interest also that in contrast to a generally stable market for bank shares, the action of Brooklyn Trust and Sterling National Bank has been very noticeable. Brooklyn Trust added 10 points to the bid side last week rising from 106 to 116. Sterling National over the past several weeks has moved erratically higher from 64½ to the present bid price of around 82.

Another item of importance to bank operations which has been in the news recently is the matter of assessments by the Federal Deposit Insurance Corporation.

Because of the fact that the FDIC has built up a reserve fund of over $1 billion since its formation in 1933, there has been considerable discussion that the assessments should be reduced or eliminated entirely until the reserve fund goes below $1 billion. At present the assessments are equal to 1/12 of 1% and the coverage on any one deposit is $5,000.

Many officials both in government and private banking consider the present resources of the FDIC adequate to meet any emergency and believe that in view of present conditions some adjustment in assessments is justified.

The FDIC is deferring its report to Congress on the question of assessments until it has had ample time to review the final banking figures for June 30. In view of previous statements by Chairman Maple Harl, however, some recommendation for a modification of the present rate of assessments or deposit coverage is expected.

Edgerton, Greenbaum With Televsion Shs.

CHICAGO, ILL.—John W. Edgerton, formerly account manager in the investment counsel division of Brown Brothers Harriman & Co., and Edgar N. Greenebaum, Jr., formerly regional manager for Emerson Radio & Phonograph Corporation, have joined the research department of Television Shares Management Company, 135 South La Salle Street, distributors of Television Fund, Inc.

Mr. Edgerton, a graduate of the Harvard School of Business Administration, also has been associated with the investment department of American Automobile Insurance Co., as assistant to the chairman of the investment committee, and with the R. E. Corporation, a private investment company in Chicago, as secretary and general manager.

Mr. Greenebaum has been a consultant in the television field and during the war served as assistant to the Commanding General, Wright Field Signal Corps Procurement District, and was in charge of the Special Devices Division, radar and television. Before the war he was manager of the radio and music departments of John Plain & Co., Chicago.

Joseph W. Dixon Opens Offices in New York

Joseph W. Dixon has opened offices at 14 Wall St., New York City, to engage in the securities business. Mr. Dixon was formerly a partner in Graham, Parsons & Co.

C. G. Rothschild Dies

Clarence G. Rothschild died at the age of 69 after a long illness. Mr. Rothschild, before his retirement a number of years ago, was a stock broker in New York.

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Business Views Foreign Policy

(Continued from page 2)

that "this board should undertake studies aiming toward a statement of international policies which, if applied, would reduce trade barriers as far as possible under the conditions then existing."

The Economic and Social Council, provided for in the United Nations Charter, permits the designation of organizations as consultants to the Council. Recognition of NAM's fortright and timely statements on international issues was demonstrated when the United States State Department successfully sponsored it, along with only one other national organization—the Carnegie Endowment—for consultative status with the Economic and Social Council.

Problem of Foreign Trade Gap

There has just been published a special study made by a group of Tufts College economists for the Association's International Relations Committee upon the problem of the foreign trade gap — the problem created through a greater volume of exports from the United States than is offset by imports into the United States. This study says:

"We must close the gap by gifts temporarily; by loans and investments during a transition period, and in the end, by a high level of imports. There is, actually, no alternative solution."

No comment on the interest of the National Association of Manufacturers in international relations would be complete without reference to the Association's position on cartels. In 1943, the Association recommended international action to prevent "cartel agreements among producers of different countries to restrict production, fix prices, or allocate markets." The Association believes that such prohibitions should extend not only to cartel agreements among private producers but should also apply to intergovernmental cartels, sometimes called intergovernmental commodity agreements, such as the new wheat agreement. The booklet "NAM Looks at Cartels" has had world-wide distribution, and many universities are using it for classroom discussions. The unalterable opposition expressed to cartels and intergovernmental commodity agreements had made the NAM the foremost organization in this country in leading the battle against such practices.

As concerns economic aid to foreign countries, the Association has advocated the extension of such aid, but believes the goal should be to help other nations stand on their own feet, and that such aid should not impair or imperil the economic structure and financial solvency of the United States. The Association further believes that any such economic aid by the United States should be continued only if recipient nations utilize such aid primarily to promote their own economic recovery; only if they will cooperate with each other to promote economic recovery; and only if in reasonable time they are able to show substantial progress in efforts to achieve economic recovery. In other words, the Association believes that nations receiving economic aid from this country should also practice self-help and cooperation with other nations receiving such aid.

In 1947, the Association approved the extension of economic aid to Greece, and Association witnesses appeared before House and Senate Committees in 1948 to urge the enactment of E.C.A. The NAM was the first major national organization to take a definite position on the subject. Currently, the Association has two staff men in Europe studying E.C.A. operations.

The Association has urged that economic aid to other nations be used entirely for economic recovery and development and not for political purposes. It believes that nations receiving economic aid from the United States should not, during the period of such aid, initiate projects which destroy or impair private competitive enterprise. The Association takes this position because it believes that only through the force of competition can other nations become self-sustaining and achieve living standards which are at least reasonably consistent with their own resources and abilities. The Association's position does not say that other nations should abandon socialistic enterprise while receiving aid from this country, but only that they should not use aid furnished by the United States to expand the field of state enterprise.

Office for European Economic Cooperation

Based upon reports of many careful and competent observers of European problems and upon personal observations in the summer of 1948, it is my belief that the greatest possibility for E.C.A. making a worthwhile contribution to the economic recovery of Western Europe is through the O.E.E.C. (the Office for European Economic Cooperation). The net effect of the O.E.E.C. is to provide that, as relates to a very large proportion of aid from this country to the Western European nations, we say to them in effect:

"Here is the total amount of aid which we can provide during a specified period. We are not going to say how that aid should be divided among you, but it is up to you to sit down with each other and determine how much of this aid should be allocated during the period to each of the recipient nations."

In this fashion, the United States is obligating governments and peoples, who in many cases have never cooperated before in peacetime and who actually have been taught for generations to distrust and even hate each other, to sit down and try to work out their own salvations. If this process can continue as a post-Marshall Plan experience, it could be of the very greatest value to the economic well-being of Western European nations, and to that of the entire world. I recall that in a conversation in Rome last year with Count Sforza, he said it was entirely incorrect to discuss the post-Marshall Plan economic solvency of any Western European nation by itself, but that the real goal should be the establishment of economic solvency of Western European nations as a whole.

One of the aspects of Western European economic development is the much-discussed problem of East-West trade. There are two widely divergent schools of thought. There are the opponents of communism who maintain that the United States and other non-communist countries should reduce all trade with the Iron Curtain countries to a minimum because they need our goods more than we need theirs, and if we can starve them out, it would be a great advantage for the Western countries.

There are other people, also opponents of communism, who take the opposite viewpoint. They think that so far as is economically and politically possible, this nation should encourage such trade on the theory that every time we lift the Iron Curtain a little bit, we gain some advantage. Also, it is maintained that the American taxpayer will benefit because we would have to supply less to Western European countries by increasing East-West trade in Europe.

British Economic Situation a Barrier

As I see it, one of the great barriers to the success of E.C.A. is the British economic situation. Many of the Continental nations —even those whose cabinets are designated "socialist" in lands where that term has a much different meaning than in this country—question the continuance of controls over the economic activity of citizens or are relinquishing them. In England, however, controls and nationalization are being extended. The tendency is for England to become more and more isolationist in the field of economics. This, it may be observed, is a logical result of efforts to achieve prosperity through governmental economic planning.

The English find it difficult to reconcile free economic cooperation with Western European nations and the special preferences which they wish to maintain for the British Commonwealth nations. In fact, the British Government has now had to go so far as to threaten discriminatory action against trade with the United States and with E.C.A. recipient nations. The government and people of the United States have great sympathy with the economic problems of other nations, especially when they are caused either by natural disaster or are the result of war dislocations. It is more difficult to have such sympathy with the problems of other nations when it is believed that the continuance, or even increase, of such difficulties is the result of their own misguided economic practices, the failure to adequately increase productivity, and the existence of major strikes in defiance of the government and the public welfare.

The most encouraging aspect of the English productivity problem is the work of the Anglo-American Council on Productivity, established in October, 1948, and financed from E.C.A. appropriations, which consists of representatives from management and labor from the United States and the United Kingdom. The Council has as its primary objective the recommending and taking of such measures as may be possible to assist the United Kingdom in increasing the level of productivity in British industry. In order that the best practices within American industry are made known to British management and labor, the Anglo-American Council, as one facet of its activity, is currently embarked on an ambitious program of American plant visitation by British employees from all levels of production. This effort, it is hoped, will lead to far reaching results.

Nevertheless, in looking at the English economic picture as a whole, it would certainly be both appropriate and correct if the billboards of England could be covered with posters, perhaps signed by the government itself, to the effect that "Preservation of economic planning and government enterprise in England depend on continued aid from free enterprise United States."

The ITO Charter

Perhaps in the next session of Congress there will be debated the question of whether the United States should ratify the pending charter, the Havana Charter as it is called because it was formulated in Havana, for the establishment of the International Trade Organization. It is the result of three years or more of arduous work by the representatives of many nations. Considering the pulls and hauls represented by the differing economic interests and political viewpoints of many countries, this may be as good a charter as could be expected at this time from the representatives of so many nations.

The National Association of Manufacturers has closely followed the development of the different drafts of this Charter and has, at all stages, submitted its views to the representatives of the United States Government. As I indicated previously, six years ago the Association advocated establishment of an international board of trade which could lay down rules of the game needed for the maintenance and extension of mutually beneficial international trade among all nations. It is therefore regrettable that the Association must oppose ratification of the proposed ITO Charter.

Here are the major reasons for opposition to the Havana Charter:

(1) The economy of many nations of the world is such that their efforts to maintain, or to establish, discriminatory trade relations, to curtail their imports, to make bilateral trade agreements and abandon multilateral trade, and to prohibit currency convertibility, would render futile any contrary efforts under the Charter. No charter should be put into operation until there is at least reasonable assurance that it can function—and that its signers will try to make it function.

(2) The Charter contains some fine statements of principles, but in at least three major respects the principles enunciated are unsound.

(a) There is inadequate recognition of the need for free private competitive enterprise to release the regenerative forces required to bring about world recovery.

(b) The provisions of the Charter would permit the Organization to interfere to a large extent with the freedom of action of member countries in regard to their domestic policies.

(c) The pending Charter, in effect, sanctions the elimination or reduction of competition through its failure to place adequate curbs upon the operation of international cartels.

(3) The correct statements of principles which are in the pending Charter are surrounded with so many compromises, ambiguous statements and commitments, exceptions and saving clauses, that the principles could well be honored more in their breach than in their observance. As the Charter has progressed through various stages, the area of international agreement as to methods of attaining its objectives has become increasingly limited.

(4) The Charter not only authorizes but in practice would encourage nations to use quantitative trade regulations in many different forms, thus actually lessening the opportunity for increased trade between nations on terms satisfactory to private sellers and buyers.

(5) Under the Charter, whenever freedom of socialistic planning in any country comes into conflict with the requirements of a well-knit world economy, the former has the right-of-way. The result is that trade currents can at any time be modified by unilateral action of governments. The general tone, as well as many specific provisions, of the Charter favors state socialism as against private enterprise.

In addition to these five general objections to the proposed Charter, there are two important specific objections, namely:

(a) The Charter gives a wide scope to intergovernmental commodity agreements, which have a vast potentiality for restricting production and trade and requiring for their effectuation widespread economic controls over their own economies by countries subscribing to the Charter. We cannot support the idea, which seems to be assumed in this Charter, that restrictive trade agreements, when carried out by governments, are less harmful to world trade than private cartels. Actually, they are worse, since government cartels can use the collective and coercive power of government for their enforcement.

(b) The Charter contains provisions relating to private foreign investments by nationals of one country in another country. The original aim of such provisions was to help create a climate in which international private foreign investments could be resumed on a substantial scale, thus stimulating economic growth throughout the world. Actually, however, the Charter provisions would produce the opposite effect, since Article 12 sets forth a status for foreign investors which provides no substantial encouragement to those who consider taking the risks of investing their capital in foreign lands.

The "Bold New Program"

Now let us look at the "Bold New Program," which also raises the question of foreign investments. President Truman, in his inaugural addres, declared: "We must embark on a bold new program for making the benefits of our scientific advances and industrial progress available for the improvement and growth of underdeveloped areas. . . . This should be a cooperative enterprise . . . through the United Nations." Very recently, legislation has been undertaken in Congress designed to implement this program of the President.

While President Truman envisaged cooperative action through the United Nations to assist in "the improvement and growth of underdeveloped areas," he was not attempting to rely on the United Nations alone to accomplish his objective. He declared: "With the cooperation of business, private capital, agriculture and labor in this country, this program can greatly increase the industrial activity in other nations and can raise substantially the standards of living."

The statement by President Truman did not itself mention the need for private foreign investment and adequate incentive for it, but both Secretary of State Acheson and Assistant Secretary of State Thorp have done so. Mr. Thorp, for example, says:

"We consider it natural, and desirable, to look to these same private sources (as developed the United States) to service the foreign field. . . . This form of capital flow . . . carries, along with the capital, a flow of experience and technical knowledge. . . . Today there appear to be many barriers to the flow of private capital in considerable quantities."

That is certainly true. Past experience of many foreign investors and the prevailing economic and political climate in many foreign countries make investment of funds abroad a very risky proposition.

Since we need substantial private investment abroad in order to accomplish the objectives set forth by the President, the answer must be found in the treatment of foreign capital which will make taking risks worthwhile. This does not mean preferential treatment for United States nationals, but it does mean that countries which discriminate against United States private investment cannot expect to receive very much private investment from this country. The United States Government, moreover, should not long continue economic aid to any nation which discriminates against United States private investment. If foreign nations are willing and able to provide a political and economic climate which makes foreign investment reasonably attractive, the National Assotiation of Manufacturers believes that, after E.C.A. is terminated, such private foreign investment could amount to approximately $2 billion per year.

In connection with proposals to increase the volume of private foreign investment from this country, we believe that the United States Government should nego-

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tiate as rapidly as possible a bilateral treaty with a specific country which could serve as a pattern for negotiations with all governments which desired to increase the amount of private foreign investment from the United States in their own countries. Among other things, this bilateral treaty should include commitments as to measures which should be taken to put their fiscal houses in order and to stabilize their currencies, and satisfactory guarantees to private investors that any profits they may earn (and their investment, if liquidated) may be transferred in dollars, without discrimination as between new and old investments.

Various suggestions have been made for guarantees by this government as to the safety of foreign investments. This is not advocated by the National Association of Manufacturers. Last May, Curtis Calder, Chairman of the Association's International Relations Committee, declared that "assurances" desired by potential private investors, "do not involve guarantees by the United States Government against losses to investors." Most such proposals for guarantee of investments are objectionable because they relate only to new investments and would discriminate against old investments. Moreover, investors who send their funds abroad should not do so unless they are willing to assume all ordinary economic and political risks.

Concluding Observations

In conclusion, I present, based on many years' study and analysis, principles and observations upon the essential requirements for international peace and well-being.

(1) We can have real peace in the world, free not only from actual physical strife but from the fear of it, only if all nations become completely isolationist, or if we have relatively free contacts among the peoples of the world. The latter alternative is the only one for free people to prefer. It is the only one which can bring increased living standards, both in the volume of goods and services, and in the realms of art, music, literature, and science. Such a course for nations means that people must be able to exchange goods and services when they feel it is mutually advantageous to do so; that they must be able to visit other countries without arbitrary restrictions either by their own or other goverements; that they must be free, without coercion or intimidation from any source to publish their impressions of foreign countries. These things will not come to pass as long as some nations retain the national inferiority complexes they now have—there is no other reasonable way to explain international policies being pursued by some countries.

(2) It is possible for nations with differing political and economic systems to live in the same world, and to get on well together—provided that no nation interferes in the internal affairs of another, or permits the organization within its territory of civil strife in other nations.

(3) Nations do not respect the foreign policy of another nation if they believe that it is likely to be basically altered with every change in domestic political administration.

(4) While it is important to seek to maintain and develop an international organization for the prevention and elimination of armed strife, it is equally important to endeavor to lessen the causes of international friction. Great attention should, therefore, be given the activities and potentialities of such agencies as the Economic and Social Council of the United Nations, and the great number of international bodies functioning in specific economic and social fields.

(5) The best incentive for efforts to bring about political freedom and better living standards for the peoples of the world is the existence of at least one outstanding example. One of the greatest benefits and incentives the United States can give to the rest of the world is an example, if we all pull together, of the manner in which freedom can be made to work for the benefit of men, women, and children through representative democracy and individual, competitive enterprise.

A Defense of Direct Buying By Insurance Companies

(Continued from page 8)

investment. Over a period of years, situations often develop under which a change in terms is beneficial both to the lender and the borrower. Practically speaking, no such adjustments can be made in an issue which has been publicly distributed, the only available procedure being one of calling the original issue and refunding it with one containing the new terms. We believe it can be well demonstrated that almost all changes in indenture provisions of private placements made subsequent to the time of the original issue (and there have been many of them) have been for purposes which were beneficial both to the borrower and the investor. We agree, however, with the view of the examiner referred to, to the extent that it would be desirable to devise some method of advising the supervisory authority, that is, the Insurance Department, when indenture changes are made. We believe, however, that this should be the subject of departmental regulation and that legislation on this subject is unnecessary.

(4) Savings in expense which include both registration and issue costs, as well as underwriting and distribution costs. Such savings might normally be expected to be split between the borrower and the lender.

From the standpoint of the lender, the advantages include the following:

(1) Lenders feel that, generally speaking, they can obtain better, that is to say, more effective protective provisions in such issues.

(2) As indicated above, generally speaking, a better yield is obtained because of the savings in expense involved.

(3) In periods such as we have been going through, when sound investments have been difficult to obtain, private placements have provided a sound and attractive channel for investment.

Public's Advantages

From the standpoint of the public interest, the following may be noted:

(1) The insurance companies invest the savings of many millions of policyholders, most of whom are people of modest income. These people are not trained in investment matters but are accumulating savings through personal sacrifice. Surely, if any group in the country is entitled to have their money invested with maximum security and the best possible interest rate consonant with safety, it is this group of life insurance company policyholders who have endeavored through thrift to make provision for their families and their own old age.

(2) Industry has demonstrated its desire for this simple and effective means of obtaining its long-term capital requirements. It should continue to have available to it the alternate routes of handling its financing. There are times when industry may well prefer a public issue, and other times when it will prefer the private placement method. In a free economy, management should have the right to make its choice.

As a matter of fact, our Company does not go out to solicit such loans, but it is well known that we are prepared to make them. We look on our borrowers much as a bank looks on its depositors and its borrowers. We endeavor to view their financial problems constructively and in this manner there is the mutual advantage of being of assistance to them as well as making sound investments for our policyholders. A sound investment depends more on character and ability of those charged with handling the affairs of a company than any other factor. The negotiations leading up to private placement give the insurance company's investment officers an opportunity to study the management and its detailed operations in a manner seldom offered through the public issue route. The investment officers of the life insurance companies have the major responsibility as to the security of the investments made. They should continue to make use of this method of personal investigation. These savings of the people are not static—they must be invested and reinvested in the safest, most expeditious manner possible to afford the greatest return consonant with security. Private placements provide the simplest and most direct route.

Monopoly Dangers Refuted

The following questions have been raised regarding private placements:

(1) Do they not provide the means by which domination or control is exercised? The answer is "no" as to New York companies. Since private placements in practically all cases are in the form of debt and carry no voting rights, the question of dimination or control does not arise. Were life insurance companies permitted to buy common stocks such questions might be raised, but the New York law very properly has not countenanced common stock investments. I know of no evils in the way of domination or control which could be cited with regard to private placements.

(2) Might control be exercised through resort to the security of a private placement?

No insurance company ever makes a loan that it expects to foreclose. If, through changed economic conditions or other circumstances, it does become necessary to foreclose to protect its interest, it is true that the insurance company might through reorganization become temporarily the owner of some equity interest. This, however, is equally true whether the security originally purchased is a public issue or a private one. Under the New York law, the insurance company is compelled to dispose of its common stock holdings as soon as it prudently can. It may not hold such issues as permanent investments.

(3) Should not all security issues be registered with the SEC?

This question was considered at the time of passage of the Act. The purpose of the Act was to protect the inexperienced investor by public disclosure of all pertinent facts, and no attempt was made to channel the flow of all private credit through a Federal Government bureau. Since insurance company investment officers are experienced in investment matters and capable of ascertaining all pertinent facts for themselves, specific exemption from the registration requirements was very properly made for private placements.

(4) Are insurance companies doing a banking business in investing in private placements? It has not been clearly stated as to whether "banking business" means commercial banking or investment banking, but in either event, the answer is "no," except insofar as the personal relationship referred to above is concerned.

From the nature of their business, commercial banks must be highly liquid to meet withdrawals on short notice. As a consequence, their assets are customarily used to finance the short-term needs, such as seasonal or temporary loans, of business. The life insurance companies' obligations are long-term commitments with little need for liquidity, and their investments are customarily long-term in character. Commercial banks are banks of deposit where individuals or corporations may deposit funds subject to withdrawal, the bulk of such deposits being withdrawable on demand, the lesser portion on some limited notice. Lite insurance companies perform no such function.

Commercial banks also can create money in the form of deposits by making loans and crediting the proceeds to the borrower's deposit account, a function not possessed by the life insurance companies. Both institutions do lend funds, one customarily on a short-term basis, the other customarily for long terms, but here the analogy ends.

If the reference is to investment banking, no close analogy is present either. Their business is to underwrite and sell the loans they make as promptly as possible, whereas life insurance companies are long-term investors and rarely dispose of either the corporate securities purchased or the real estate mortgage loans made.

Question of Marketability

(5) Are not private placements less liquid than public issues?

The broad answer is "no." Many private placements provide for exchange into thousand dollar bonds, which could be sold as readily as any public issue of similar character. Even where this is not the case, if the character of a security remains top notch, the chances are there would be little difficulty in disposing of the obligations to one or more sizable purchasers. This has, on occasion, been done in the past. If the credit standing of the issuer deteriorates, there would be the same difficulty of disposing of a block of bonds that is experienced with a public issue. When the credit standing of a company is substantially lowered, the market for its obligations dries up very quickly and that is true whether the obligation has been publicly issued or placed privately.

As a matter of fact, there is little marketability for sizable blocks of bonds in periods of stress anyway, because, generally speaking, so many try to sell at the time when few buyers are available.

The really important point involved in this question is that the insurance business is not one which requires liquidity of assets anyway. It would seem reasonable to expect that such United States Government bonds as Life Insurance Companies may hold as permanent investments would provide all the liquidity necessary.

(6) Would it not be desirable to require private placements to be amortized at some specific rate during the life of the loan?

As a matter of fact, the bulk of private placements are made with substantial sinking funds. This is true particularly of the industrial loans. Incidentally, these amortization payments do provide an added source of liquid funds. To try to legislate on such a matter, however, would be a great mistake and interfere with the proper responsibilities of those determining the indenture provisions. It is extremely important that such matters be discretionary so that indenture provisions best suited to the particular case may be provided.

In purchasing private placements the life insurance companies are performing the same function as they do when purchasing bonds underwritten by investment bankers and sold publicly. That is to say, they are merely making long-term investments. In either event they must appraise the security and judge for themselves whether the interest return obtainable appropriately measures the credit risk.

In conclusion, we submit that no weaknesses have developed in the private placement procedure, but, on the other hand, there are strong advantages to all concerned. Under these circumstances, we do deem it not desirable to place limitations either as to amount or percentage on this form of investment.

Halsey, Stuart Offers Wheeling & L.E. Bonds

Halsey, Stuart & Co., Inc., and R. W. Pressprich & Co. are offering, subject to Interstate Commerce Commission authorization, $6,870,000 Wheeling and Lake Erie Railway general and refunding mortgage 2¾% bonds, Series B, due Aug. 15, 1974, at 98⅞% and accrued interest. The bonds were awarded to the bankers on their bid of 98.132%.

The proceeds from the sale of these bonds will be used to pay a similar amount of first consolidated mortgage 4% bonds, due Sept. 1, 1949. After cancellation of the first consolidated mortgage, the new bonds will be secured by a mortgage which will be substantially a first lien on all of the property of the company and the company may then designate these bonds as first mortgage bonds.

Commencing with the year 1950, the company will pay as a sinking fund, from its residuary income, $100,000 annually. This obligation will be cumulative and for this purpose bonds may be redeemed at par. For other purposes bonds may be redeemed at prices ranging from 101⅞% to 100%.

The Wheeling and Lake Erie Railway is controlled through stock ownership by the New York, Chicago and St. Louis RR., which has received tentative approval from the Interstate Commerce Commission to lease the lines of Wheeling. The main lines of Wheeling extend from Toledo to Terminal Junction, near Wheeling, and from Wheeling to Zanesville, Ohio.

Wm. K. Hartzell Dies

William K. Hartzell, for many years associated with the Philadelphia trading department of Kidder, Peabody & Co., died July 28 after a long illness. He was 41.

During World War II, Hartzell served with the Marine Corps, retiring with the rank of captain. He was president of the Investment Traders Association of Philadelphia in 1937-38. Burial was in Allentown, Penna., his birthplace.

B. Walter Vos Dead

B. Walter Vos died at the age of 65 after a long illness. Mr. Vos was formerly a special partner in Boody, McLellan & Co., New York City, until his retirement a year ago.

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New Markets Through Cotton Research

(Continued from page 7)

and per hour of labor has already been recorded, and the end is far from being in sight.

In the 1920's the average yield was slightly more than 160 pounds of lint per harvested acre. Now it is about 270. This is an increase of almost 60%. Probably no other major crop can show equal progress.

Cotton farming shows the greatest increase in labor productivity since 1920. About 180 hours of work are needed to grow and harvest a bale of cotton at the present time. In 1920, it took about 280 hours.

Nevertheless, cotton's labor requirements still are among the heaviest for all types of farming.

Machine pickers, cotton strippers, and other powered equipment could eliminate as much as 50% of the hand labor from cotton production in the years ahead. What machine picking can mean is illustrated in a new research report. Five hours of labor can harvest as much cotton with the picker as 100 hours by hand.

Harvesting machinery has yet to contribute its real savings in labor to cotton farming. Probably not more than 5% of the crop was harvested by machines last year.

The potential labor savings in complete mechanization could convert cotton areas to a new way of life. Research is playing an important role in the endeavor to bring fully successful mechanization to cotton farms—small as well as large. Many of the research projects of the Department and the experiment stations of the cotton States are financed with funds provided under the Research and Marketing Act.

The development and improvement of harvesting equipment is only part of the research. Other areas of study include varieties better adapted to mechanical harvesting, new defoliants, weed and grass control, and improved methods of handling machine-picked cotton at the gin. These examples show the breadth of the RMA research in cotton production.

The panorama of cotton research is a forthright promise of greater progress in the future. The cotton industry will discover in the Research and Marketing Act, which it has supported so ably, a landmark in cotton improvement to stand beside the Smith-Doxey Act of 1937.

Cotton improvement groups organized under the Smith-Doxey Act have been a powerful influence in achieving the adoption of better varieties by a majority of farmers. Seven varieties now account for 80% of the present-day crop instead of hundreds of varieties years ago.

The cotton classing service available to farmers under the provisions of the Smith-Doxey Act is the one major innovation in cotton marketing since 1935. In 1947-48, about half the cotton moving through selected markets was sold on the "green card" class reports of the Department's Smith-Doxey classification service. The service was called upon to class about 8 million bales of the 1948 crop. The Act has taken the mystery out of cotton marketing for many farmers as well as country buyers—not only by its classification service, but also by its up-to-the-minute market news.

"Green card" reports have been a proven incentive for farmers to adopt the variety and farming practices which produce better qualities in cotton.

Research is also being employed in the solution of cotton's marketing problems through the use of Research and Marketing Act funds. Marketing costs are one of the major targets of the RMA program. This is an essential starting point if cotton is to meet the challenge of synthetic fibers, paper, other materials, and foreign cotton. Marketing cost studies are moving forward on a front virtually as broad as the cotton industry itself. Individual projects include studies of the costs of ginning seed cotton, handling, transporting, and storing raw cotton, spinning cotton yarn, retailing cotton textiles, and the marketing of cottonseed products.

Companion research in utilization is designed to improve the usefulness of cottonseed as well as cotton fiber. I was glad to see that your program calls for a thorough discussion of the project in this field. Some of the going research is frankly aimed at improving the quality of cotton and cottonseed products, while other studies are directed at ascertaining and utilizing their superior qualities. The goal is a wider field of consumption for cotton by reclaiming old markets and discovering new ones.

Foreign markets likewise have been explored by RMA research for the excellent reason that, in times past, American cotton supplied upwards of three-fifths of the world's cotton exports. But our share dropped to nearer two-fifths just before the Second World War. When the war choked off cotton trading along with all international commerce, our exports ebbed away to about 2 million bales annually.

Export Outlook

Largely because of our foreign recovery programs our exports may rise to around the 1935-39 average of 5⅓ million bales. This rests in part upon the fundamental fact that American cotton has been a good buy for a cotton-starved world. But, in reality, the programs upon which we have embarked have been essential to the recovery of those countries—raw material for their industry—fabrics for their people—finished products for their commerce. We have had a good demonstration also of the importance of a healthy world trade to markets and jobs in this country.

Under our export programs for Germany and Japan we have shipped nearly 1½ million bales at an invoice price of $214 million. These business-like programs have been operated with net savings to the United States Treasury of nearly $30 million. The cotton moved when prices were about 35 cents a pound. These are accomplishments worth noting. But the chief benefit, aside from the genuine help the program has been to German and Japanese recovery, is to be found in the markets which the program restored.

In similar fashion, the Department of Agriculture has worked in close cooperation with the Economic Cooperation Administration to supply needed cotton to a number of countries of Western Europe.

The net results are visible in the exports of the crop year now coming to a close. We shipped abroad about 4¾ million bales and bettered our own estimate of last fall that the export market would take about 4 million bales. At that time our estimate was thought by some to be too optimistic.

Now we believe that the export market may take even more American cotton in the 1949-50 crop year. A doubtful area is the Chinese market for a half million bales.

The British position in the American export market also must be considered dubious at this time. Great Britain's depleted dollar balance could turn the Lancashire mills to other countries for their supplies. However, if this happens, Western European nations now relying on foreign countries might be expected to acquire more American cotton for their spindles. The British experience illustrates again the fact that in the long run if we are going to export we shall also have to import in order for our foreign customers to acquire dollars for their purchases. The only cotton-exporting countries now with excess stocks are Egypt and the United States, and the net increase in the world's carry-over this year is about one million bales.

Domestic Consumption

This year's domestic consumption rate is apparently about 28 pounds per capita. This is not alarmingly low at all. It is better than our long-time average. It is far above the depression performance.

Nevertheless, it is less than we had expected and far less than both our wartime average and our estimated needs.

Rayon production in the United States last year exceeded a billion pounds for the first time. But I am informed that rayon production was reduced earlier this year.

What has happened to cotton and rayon alike demonstrates that healthy demand and purchasing power generally are even more important to cotton producers than competition. The welfare of our farming and industrial enterprises alike depend upon abundant production and consumption. And because experience of the past would indicate that farm income is the key to prosperity, I have proposed that we do a better job in the future of protecting farm income. That's the first step.

Beyond that we need to do a better job of conserving our soil resources and we need to do a better job of making use of the abundance which we can produce in this country.

Abnormally high exports of farm products during and after the war have concealed from casual observance the tremendous advances we have made in this country in farm production capacity. As export demand goes down to more normal levels the problems of balancing production, increasing consumption, and assuring farmers a fair return will become more evident.

In 1948, we exported three or four times as much food as before the war and still consumed 12% more food per capita in this country than we did before the war. We can't expect export demand to continue at this rate and so we must expect greater supplies for domestic use. The big problem now is to see that farmers have the largest possible market and that all of the people in this country have a chance to share in our abundance. Anyone who remembers the depression knows that surpluses do not help farmers or consumers.

I am convinced that through a sound support-price program we can get better balanced production that will supply our increased national appetite for livestock products and encourage greater consumption when we have a surplus of a perishable commodity by giving consumers a price advantage. I believe we can do this without interfering with our present method of supporting prices of cotton, tobacco and wheat.

The same principles that apply to food apply as well to cotton. If our farm programs are going to serve the best interests of all the people they must encourage the greatest possible domestic consumption and exports, encourage greater conservation of soil resources, and protect farm income, not only for the good of farmers but for our whole national economy.

Permanent European Recovery—Its Structure and Achievement

(Continued from page 4)

free movement of goods, persons and, ultimately, capital. It entails the abandonment of governmental and private restrictionist and protectionist practices and the end of open or covert autarchies of a local or national character.

Population in Western Europe is very dense. In the absence of the artificial barriers or uncertainties created by economic nationalism, a very large potential market, highly competitive, will be open to each producer. Thus, it is within Western Europe itself that the greatest gains in productivity, from geographical specialization, from product specialization and the economies of large scale operations, and from intensification of competition can be realized. In brief, a continental market as large as the whole or most of Western Europe is large enough to realize the full benefits of modern productive techniques and to acieve a rate of growth comparable to that in the United States.

A Continental Economy

The foregoing line of reasoning is sometimes challenged by the view that an important change in Western Europe's competitive position in the world economy can only be a remote objective of policy and is therefore of no immediate practical significance since it presupposes a vast change in the whole structure of European industry and agriculture. This argument, which seems to be now current in certain quarters, confuses the absolute level of European productivity with its rate of growth. It is indeed true that to raise Western Europe's productivity quickly to the present or prewar level of American productivity in absolute terms would require impossibly vast structural changes, but as noted above, Western Europe's competitive position is not a function of the absolute level of its productivity but of the rate of growth of productivity. The creation of a large, single and highly competitive home market within Western Europe would exercise a far-reaching and immediate effect on the rate of growth of productivity, both because of increased internal competition and because of the immediate effect on entrepreneurial attitudes and expectations and thus on the character and magnitude of new investments. Vast changes in the total structure of the Western European economy may eventually result from the creation of a truly continental economy, but they are not prerequisites to a major improvement in Western Europe's competitive position, for it is the character of present and future additions to productive capacity rather than the total structure of existing plant, which determines whether there will be an increase in the productivity rate.

The foregoing indicates some of the basic structural changes necessary in Western Europe for creating the type of internal economic environment which would be conducive to restoring its competitive position in the world economy. The importance of immediate, necessary and practicable internal structural changes cannot be underestimated. American aid has an ameliorating effect on all of Europe's basic problems but in itself removes none of them. Consequently, unless the opportunities provided by the ERP are used now to initiate the immediately necessary structural changes, the benefits of American aid will be short-lived.

The basic disparity in Western Europe today is the fact that the particular size of the economic unit necessary for its continued successful existence in the medium of the world economy is larger than the actual size of the existing political units. The needs of the Western European economies have outgrown the confines of the Western European national states. This phenomenon, or its converse, has happened often in the past and the disparity has been dissolved either by the breaking of the limitations or the collapse of the economic and political structure. The Greek City States lost their indedendence when they could no longer carry on a successful economic existence within their narrow political confines. Conversely, ancient empires, and eventually the Roman Empire itself, collapsed when the size and demands of the political unit outgrew the ability of the economic organization to support them.

Conflict Between Economic and Political Structure

Thus, the economic needs of Western Europe have come into conflict with its political structure in at least two ways: (a) because the political structure has over the last generation been responsible for an atmosphere of insecurity which has weakened the basic motivation of private enterprise, and (b) more immediately relevant, because national boundaries of economic nationalism have increasingly limited the growth of the European market on which the rate of growth of productivity depends. As shown above, there is nothing implicit in the course of European economic development which will automatically bring about those structural changes acceptable to the United States. In fact, it is very likely that the contrary is true and that time and circumstances, if unchecked, will intensify the characteristic divisions and restrictions of the Western European economies until the internal pressures and external trends bring about the sterile unification of a communist solution. Consequently, it will require a major conscious effort to induce precisely those structural changes and that type of liberal solution which would perpetuate free, though perhaps novel, political institutions.

In order to create a permanently stable continental economy in Western Europe, the first objective is to remove as rapidly as possible the major existing barriers to current trade and payments; in the first instance, quantitative restrictions and exchange controls on current transactions. In principle, this objective has already been accepted by the participating countries, but in principle only.

A Multilateral Negotiation Machinery Needed

To make real progress it will be necessary to set up machinery for the multilateral negotiation, of a fixed schedule according to which all quantitative trade and exchange controls on current transactions would be eliminated within the next two years. The creation of such negotiating machinery and the conduct of these negotiations does not in itself present great difficulties. The difficulties arise in the serious resistance which national governments and private interests may be expected to raise to the removal of these insulating barriers. More specifically, opposition to the removal of exchange and trade controls will certainly arise from (1) those

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industrial and agricultural producers whose high cost products would be subject to severe competition as controls are removed, (2) labor groups associated with such producers, (3) government officials responsible for monetary policy and the maintenance of financial stability and full employment, (4) organized labor generally to the extent that it fears that the removal of barriers will interfere with the ability of its national government to maintain full employment or avoid inflation, and (5) government officials responsible for the balance of payments with other participating countries who will fear that the removal of trade and exchange controls will result either in the accumulation of large amounts of soft currencies or large debts which will require settlement in gold or dollars.

All of these are quite rational fears; to them will certainly be added others less rational. It is therefore certain that the possibility of success in creating a continental market in Western Europe in the next few years will depend upon the extent to which the economic dangers lying behind these fears can be provided against by means other than the retention of trade and exchange controls.

Perhaps the most difficult single aspect of creating a freely trading area will be the problem of maintaining in each country a reasonable degree of financial stability and at the same time reasonably full employment. In theory it would be sufficient for each government to maintain an effective full employment policy but without inflationary pressure. This ideal of prewar economic thought has never been accomplished for any considerable period by conscious governmental action. Moreover, there are features of the "mixed economies" of Western Europe (particularly the unstable character of the propensity to save and of private investment) which will make it very difficult for them to achieve this ideal and to prevent fluctuations of considerable magnitude in money incomes, prices and employment. As far as their domestic effects are concerned, such fluctuations could perhaps be kept within bounds and might not be particularly damaging; but their impact on external payments with other Western European countries might be quite sufficiently severe to dampen the enthusiasm for the removal of trade and exchange controls, or to cause the reimposition of controls already removed.

A Flexible Payments Mechanism

It will therefore be necessary, in order to make progress in the elimination of trade and exchange controls to provide a payments mechanism sufficiently flexible to be able to absorb large and frequently rapid changes in payments positions without breaking down. In addition, it will probably be necessary to establish among the national monetary authorities machinery for continuous consultation, in order that (a) national monetary policies can be subject to continuous criticism in terms of their impact on other countries, and (b) that deflationary or inflationary measures in the different countries can be taken in a coordinated manner.

Strain on the payments mechanism during the process of the removal of controls would be considerably eased if negotiating machinery were established among the participating governments within which adjustment in exchange rates and in the rate of removal of trade and exchange controls could be agreed. The guiding principle of such negotiations should be that disequilibria should be redressed as far as possible by greater freedom of trade and payments rather than by restriction.

Beyond these short-run changes in the existing payments scheme, the problem will be to set up a payments mechanism which can persist after the end of ERP and which will permit full automatic transferability of European currencies (not just of drawing rights) and controlled convertibility of net surpluses on intra-European account into dollars.

It is not unlikely that full transferability will require the use of a key currency into which all national currencies will be freely convertible on current account and in which the various governments and central bank authorities will have a sufficient confidence to be willing to hold substantial balances for extended periods. It would, of course, be necessary to give all member countries a voice in the management of such a payments mechanism.

A more permanent payments mechanism would also presumably include some mechanism for dollar-pooling and rationing during the period prior to restoration of full freedom of dollar payments.

Formidable Difficulties

Even if the foregoing problems are adequately met, the cushioning of the impact on particular interest groups during the process of removal of controls will still present formidable difficulties. In part this need can be met by scheduling the removal of controls so that unfavorable impacts on politically powerful groups are not to sudden. If full employment policies are effectively pursued in all countries, the impact of increased competition on marginal producers should be sufficiently gradual to prevent excessive political resistance from developing. If serious deflation is avoided, structural changes can be carried out to a large extent by differential rates of growth as between the various sectors rather than by an absolute decline in some sectors. Perhaps the most difficult problems and serious resistances will arise in the agricultural rather than the industrial sector, because of the greater conservatism of agricultural interest and greater immobility of resources in agriculture. No doubt means will have to be found (1) for compensating particular groups which suffer unusual hardships as a result of loss of protection from competition and (2) for assisting in the movement of labor (including international movements) from declining to expanding sectors. Counterpart funds might be used for these purposes.

It will doubtless prove politically necessary to permit agreements among powerful producer groups to cushion the impact of the removal of controls on their competitive positions and the value of their investments. However much the United States may dislike such agreements in principle, they will be to a considerable extent unavoidable and indeed necessary. Doubtless they will be camouflaged by some such disarming designation as "coordination of investment plans." The problem will be to limit the scope and particularly the duration of such restrictive agreements as narrowly as possible and above all to establish the principle that they are transitional devices only, on the road to freer competition. This problem will be essentially a political and tactical one; a doctrinaire approach will prove both futile and damaging to the basic ERP objective.

Sooner or later, measures to eliminate major differences in excise and business turnover taxes as between the countries, not to mention tariffs, will also prove to be necessary in order to prevent excessive (and uneconomic) competitive damage to some producers and uneconomic advantages to others, as trade and exchange controls are removed. More urgently, before trade controls can be relaxed, it will be necessary to get rid of most remaining specific domestic controls such as rationing since these would operate inefficiently and very inequitably once trade controls had been removed. This underlines again the necessity for elimination of all inflationary pressure as a prerequisite to the removal of trade and exchange controls. The experience of Benelux demonstrates the reality of these prerequisites.

The major types of problems likely to arise during and after the removal of trade and payments barriers have already been outlined and some of the possible means for dealing with them have been suggested. The serious obstacles are more likely to arise not so much in the negotiation of the removal of barriers as at a later stage when the concrete effects are beginning to be felt. The pressures to retain or re-impose barriers in order to offset the internal effects of freer trade and payments may then become so great as to require an international supervising authority which really has the authority to supervise and is not simply a forum for debate or for bargaining.

An Intra-European Commerce Commission

A possible device for handling such problems might be the establishment of an Intra-European Commerce Commission modelled on our own Interstate Commerce and Federal Trade Commissions. Like its American counterparts, the Intra-European Commerce Commission should have quasi executive and judicial powers. Above all, the Commission should not consist of national representatives but should be an impartial, truly international body comprised of outstanding individuals chosen by lot from a panel nominated by the governments and serving for a fixed term of years.

Based on a set of agreed principles of commercial policies and practices embodied in the convention which creates it, the Commission should exercise a general regulatory jurisdiction over intra-European trade including the power to issue and receive complaints to or from participating countries; grant exceptions and order compliance with the agreed commercial principles and practices; conduct investigations and hold hearings; and issue cease and desist orders to participating countries legally enforceable against their officials as individuals until the Commission reaches a decision on a particular problem. The right of judicial appeal of the Commission's decisions and actions to the International Tribunal at The Hague should be provided to the participating countries.

Since it consists of national representatives, the OEEC should act in the capacity of a legislative body *vis-a-vis* the Commission. In the first instance the OEEC should draw up the set of basic commercial principles and fair and competitive trade practices and should, by agreement of the participating countries, improve and extend these as circumstances may require.

In this way, a body of international law and precedent can gradually be created in the field of European commercial policy and practices which it will become increasingly difficult for the participating countries to ignore or circumvent.

To put it more positively, the removal of economic barriers among participating countries might create a need for a coordination of all their economic policies so extensive as to be beyond the capacity of normal diplomacy or of intergovernmental committee procedures. If this proves to be the case, the OEEC and the Intra-European Commerce Commission may well be the nuclei about which other supra-national "functional" agencies could be built.

Superficial remedies will solve superficial problems. The whole burden of this paper has been an attempt to show that Western Europe's problems are basic, structural. No panacea however simple, no temporary expedient however often resorted to, will accomplish the work. The remedy in this case, as in all others, must be appropriate to the disease. If the problem is structural, the solution must be equally so.

I have outlined my personal views as to the nature of the structural problem in achieving permanent European recovery. Western Europe as we know it today cannot survive a prolonged series of economic crises. Structural changes must take place. Let us hope that we can move boldly and rapidly to assure that these changes shall conform to the free democratic tradition.

A Spending Record Without Parallel

Our distinguished contemporary and neighbor, The New York "Sun," through Phelps Adams, its Washington correspondent, has brought the spending record of the "World's Costliest Nation" from 1788 down to July 1, 1949. It shows how the United States Government, in the four postwar years under President Truman has grown to be "the world's most expensive luxury."

The taxpayers of this day might well wonder whether our so-called "public servants," from the Chief Executive down to the last Bureaucrat, really think that money grows on trees and can be dispensed like water. The reckless waste and stupid duplication of public funds in some of these bureaus and Congressional appropriations is enough to give us palpitation of the heart.

Maybe "we the people" and not our elected representatives are in fact public servants and our politicos and bureaucrats are our masters. But the day of reckoning is coming when the 145 million people in this blessed land of ours, will again have to practice frugality and thrift in all things.

Would that there were 531 members in Congress as economy-minded as Senator Harry Flood Byrd of the proud State of Virginia!

WORLD'S COSTLIEST NATION; HOW IT GREW: 1788-1949

President—	Number of Fiscal Years Served	Average Annual Expenditures	Average Annual Receipts
George Washington	8	$4,261,063	$4,083,221
John Adams	4	8,565,637	8,746,210
Thomas Jefferson	8	9,053,036	14,175,104
James Madison, War of 1812	8	22,059,247	16,288,885
James Monroe	8	18,404,737	21,486,994
John Quincy Adams	4	16,356,759	23,707,822
Andrew Jackson	8	19,121,125	31,507,671
Martin Van Buren	4	30,581,316	25,554,895
*Harrison and Tyler	4½	24,201,042	23,206,787
James K. Polk, Mexican War	4	43,869,305	30,784,915
Zachary Taylor	1	39,543,492	43,603,439
Millard Fillmore	3	46,696,016	54,664,391
Franklin Pierce	4	63,788,536	70,543,232
James Buchanan	4	68,233,373	49,429,093
Abraham Lincoln, War of Secession	4	838,095,103	190,756,531
Andrew Johnson	4	394,639,414	456,312,115
U. S. Grant	8	281,673,348	333,863,198
Rutherford B. Hayes	4	258,067,014	306,474,992
Garfield and Arthur	4	256,935,689	368,505,852
Grover Cleveland (first term)	4	269,407,275	368,539,784
Benjamin Harrison	4	353,078,975	384,112,711
Grover Cleveland (second term)	4	360,418,546	329,237,222
William McKinley, Spanish War	4	523,479,634	519,052,037
Theodore Roosevelt	8	581,931,314	584,593,495
William Howard Taft	4	699,802,969	698,516,262
Woodrow Wilson, World War I	8	5,867,282,518	3,046,972,711
Warren G. Harding	2	3,333,617,715	4,058,119,816
Calvin Coolildge	6	3,097,591,523	3,993,323,650
Herbert Hoover	4	3,872,619,164	2,863,250,628
Franklin D. Roosevelt, World War II	12	31,020,193,854	13,813,402,113
Harry S. Truman	4	45,016,855,863	41,688,267,575

**Until 1843 the Government's fiscal year coincided with the calendar year, but was then changed to run from July 1 to the following June 30. Thus the fiscal year 1949, for example, is the year beginning July 1, 1948, and ending June 30, 1949. President Tyler, due to this change, was accountable for 4½ fiscal years instead of 4.*

RECAPITULATION

Expenditures, Receipts, Deficit and Public Debt. (In millions of dollars).

President—	No. of Fiscal Years Served	Expenses	Receipts	Deficit	Public Debt at End of Term
Total, 30 Presidents, 1789 to 1933, Washington to Hoover	144½	$112,203	$91,586	$20,617	$22,539
Franklin D. Roosevelt—World War II	12	372,242	165,761	206,482	258,682
Harry S. Truman	4	180,067	166,753	13,314	252,770
Total	**160½**	**$664,512**	**$424,100**	**$240,413**	**$252,770**

COMPARISON

Truman versus all Presidents up to beginning of World War II.

Total 31 Presidents, pre-war 1789 to July 1, 1941	**152½**	**$179,722**	**$131,661**	**$48,061**	**$48,961**
Harry S. Truman, post-war July 1, 1945 to 1949	**4**	**180,067**	**166,753**	**13,314**	**252,770**
Truman outspent and out taxed all his predecessors by		**345**	**35,092**		

Reynolds Sales Office

LUMBERTON, N. C.—Reynolds & Co., members of the New York Stock Exchange, have opened a sales office at 316 Elm St. under the management of Thomas C. Darst, Jr. Mr. Darst formerly headed Thomas Darst & Co., of Greensboro.

James D. Pell Dead

James Duane Pell died in Philadelphia at the age of 71 after a long illness. Mr. Pell was a partner in Mann, Pell & Peake and Pell, Peake & Co. until the firm was dissolved a number of years ago.

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1949 Economic Outlook and Forecast

(Continued from page 3)

there will be no important strikes this year among A.F. of L. leadership or within the Railroad Brotherhoods.

It is generally recognized by labor, management and government that the C.I.O. has and is continuing to mature in negotiating skill, in accepting and developing contract responsibility and in minimizing inter-union strife. The C.I.O. leadership has been working arduously and successfully to eliminate the radical left wing and the small, but potent, group of communists from within its executive ranks; the latter group are facing their Waterloo this October.

C.I.O. strategy appears to have chosen the line of fringe increases rather than wage increases, recognizing the fallacy of the latter. Union leaders have openly indicated they would prefer price rollbacks to wage increases and as the free enterprise system has been built upon the willingness of the corporate executive to strive to give the best for the least price, there appears to be no dispute on this point.

The CIO has asked for a 4% contribution by employers to a pension and health and welfare fund to be administered by a board of trustees to be composed half of management and half of plant labor representatives. The fund would give men reaching the age of 60 a sum of $100 per month as a pension. It would give men injured on the job, hospital and medical expenses and salary from the date of the injury; employees whose sickness is not attributable to employment, would receive medical and hospital expenses paid and half salary after the 8th day of sickness; members of the immediate family would receive hospital and medical payments after the eighth day of illness. The worker would receive an insurance policy equal to a year's wages.

It is obvious that this is a long-range program and not one of immediate expectation. A certain company has a 50-year average age factor; it would have to anticipate every workers' retirement in 10 years; another corporation has an average age of 28 and would have 32 years to accomplish the same objective; one company would be seriously injured; to the other it would be of minor importance. The unions likewise have a problem educating their own men. The CIO is composed largely of young men. To them an additional $5 a pay check would be more impressive than to anticipate what might happen to them 32 years from now, particularly if they changed jobs repeatedly.

It would appear the goal of the CIO is to strive for a minimum health and welfare contribution at this time and to build up toward the maximum objective as both its membership and industry can gear itself to the costs and problems involved. Numerous companies have pension, health and welfare funds.

It is reported that the coal miners have been paying out more in benefits than they receive in contributions, largely because of lack of actuarial experience. A new contract, requiring a higher contribution to the fund, will be sought by Lewis to correct this problem. There is reason to believe that no such concession will be granted and that industry is prepared for a long siege with a large supply of coal above ground. It is believed that the pre-Easter vacation of the miners for two weeks was an attempt to reduce the stores of coal in possession of industry.

Recognizing these potent dangers, the American Federation of Labor is believed to be adopting a policy of refraining from rocking the economic boat during the current precarious period of adjusting a period of inflation to normalcy rather than from inflation to deflation.

It is probable that the AFL will approve a new compromise Labor Bill, closely paralleling the Simms Bill, which would

(1) Guarantee to industry the right to talk with, write to or communicate with their employees prior to, during, or after labor negotiations as long as no threats or intimidation prevailed;

(2) That unionists and employers both sign non-communist affidavits;

(3) That full financial statements be rendered to the public by unions;

(4) That collective bargaining be recognized;

(5) That the President be given the right to seize any industry vital to public health or welfare that was struck and that the Government operate the company or industry until an agreement had been reached. They feel that neither employee nor employer can strike against the Government, but that those affected have been able to "go to church" or take "vacations" from a court injunction.

The AFL are highly pleased with the relations between labor and employer at the bargaining conference table. Neither threats nor poppycock prevail. Management treats labor as a commodity that must be purchased for a given period of time. It employs industrial relations experts to handle labor negotiations as it employs purchasing agents.

Politics

Industry is not worried about the political situation. It is heartened by the conservative attitude of Congress in refusing to take what it considers a socialistic program of the President. There is a sincere belief on the part of business that business recovery and stability would be enhanced by a more conservative policy in the future. Those who were loudest in their praise of Governor Dewey a year ago are most vocal in their criticism today for what is alleged to be his program of spending New York State into chaos.

Backlog

More than 85% of the corporations visited had no backlog. Those with backlog were apologizing for them and predicted their elimination by year-end. Most backlogs disappeared in November and December 1948 and first quarter 1949. Earnings do not reflect benefit of backlogs—rather they reflect the subnormal effect of liquidation of inventory.

Excessive production is not always profitable. When customers are demanding delivery, the manufacturer must go into the black or gray market or convert operations which cost sizable premiums. The second shift is usually composed of apprentices and the third shift are the miscellaneous assortments of persons who are normally not part of the employed groups. In the second and third shifts, premiums are paid and the most inefficient supervision and results are obtained.

Cutting back from three or two to one shift does not always reduce profits proportionately; the reverse is sometimes true.

Breakeven Point

Business and industry is carefully scrutinizing breakeven point. An era of intense competition resolves itself into a problem of the survival of the fittest. If one firm has a lower breakeven point than another, he can reduce prices and, in effect, force his competitor out of business if he chooses.

During the war, and the three postwar years, business and industry was, in effect, encouraged to spend all they could as Uncle Sam paid 85% of the bill (via excess profits taxes). Advertising was expanded; ventures into exploration for oil were undertaken; telephones were used instead of letters; travel expenses gyrated; help was inflated numerically and in compensation. The decline in volume of business, the elimination of excess profits taxes and the factor of competition has caused industrialists to review costs and to institute extreme economies for the first time in nearly a decade.

Theory of breakeven point is exceptionally wide; one industrialist somewhat facetiously, but nevertheless pointedly, asserted that in his opinion it would be the total of the cost of insurance, taxes, heat (for machinery tolerance) plus watchmen, divided into the amount of cash on hand. This would give the length of period the plant could remain shut without loss. That, of course, assumes closure because of economic conditions or strike and the firing of every person, including key personnel and executive staff.

Perhaps the more logical theory is one in which the manufacturer revises his estimates every 60 to 90 days. He reviews his order book, desires a profit factor on sales and determines his objective. Against this, he totals the cost of labor and materials to produce the sales estimate, and adds to this such fixed costs as interest, taxes, insurance and depreciation. The differentiation, between that total and sales, is the amount left available for administrative costs, including sales costs, and the profit factor. If a corporation desires to maintain profit margins, it must pare down expenditures for advertising, research, etc.; if it believes that such expenditures are necessary to maintain, then profit factor must come down.

Breakeven point, of course, can be reduced by installation of labor saving devices in factory and the back office; by more efficient line production methods and by the elimination of much involved paper work. It requires many different formulas depending on volume and prices received. At each point of volume and each change of price, the breakeven point varies. One corporation that has never experienced a loss, asserted they follow a miltary program; they have a knowledge of breakeven point in their march to progress during periods of prosperity and are flexible enough to have a breakeven point designed for an orderly retreat in adversity.

Plant Expansion

Virtually every corporation executive interviewed expects to spend less money for capital improvements in 1949 than 1948. Expenditures for brick and mortar will be radically less, but expenditures for machinery and equipment will be substantially larger. This change in trend is due partly to the timely completion of the three-year postwar expansion and modernization program by industry, and the desire to substitute efficiency of operations, rather than expansion of activities, as the theme for the present.

Research and Engineering

A very noticeable increase in budgetary appropriations for research and engineering prevails. Industry recognizes the intense need to improve quality and develop new products. This division is responsible for the development of design and mechanism for production within the plant itself.

Management

The research analyst recognizes management factor as the place of greatest vulnerability in a corporation. Old management becomes self-satisfied; young management lacks the wisdom of experience and stability; venturesome management lacks caution and cautious management lacks progress. The transition from one to the other becomes noticeable even during a single year.

Corporation executives recognize this and capable leadership develops second, third and fourth line replacement. Some institutions, such as General Motors, composed of many large subsidiary corporations within its structure, can draw upon many of those corporations for leadership when necessary.

During the war many executives, who should have retired or been retired, were prevailed upon to remain to allow younger executives to accept positions of responsibility within the government. Some of these corporate executives remain—far beyond their age of usefulness in a period which requires aggressiveness and youthfulness. A few have chosen to be tyrannical leaders, harboring no advice from their associates. Each class is easily distinguished as to prevailing characters.

It has been interesting to note that most corporation executives are in the 55 to as high as 75-year age classification. The second line of executives are in the 50 to 60 group and the third line are in the 30 to 40 group. There are very few in the 40 to 50 group.

New deal leaders, such as Leon Henderson and Paul Porter, and the young labor leaders such as Walter Reuther, are in their 40's. During the period from 1930 to 1941, many capable young men became the victims of the depression of 1929-32, the recession of 1937-38, and the Second World War. Business could not find a place for them, but labor and the New Deal did. The latter groups benefited from the brains of able men and business suffered.

Capable young men of today are back in business and industry. These men not only will enjoy the normal 15 years of executive responsibility, but an additional ten years that should have been the heritage of the lost business generation. It would appear that business should have a keen aggressive group of capable young men to reestablish the principles of private enterprise for a quarter century ahead.

Sales—Profit Outlook for 1949

Record-breaking gross of 1948 was, of course, not indicative of normalcy. Production in 1946, 1947, and 1948 not only represented demand for those years but also the deferred demand for 1942, 1943 and 1944 when war halted the manufacture of many consumer articles. With backlog gone and pipelines having largely been filled with the passing of 1948, the current year assumes the role of normalcy.

The general belief, of the corporation executives interviewed was that business in 1949 would be 10 to 15% below 1948, and that net profits would be between 20 and 25% below the preceding year. Even on that basis, gross and net would be comparable to the exceptionally fine records established in 1946 or 1947.

There is every indication that business in all lines has returned to seasonal influences which, of course, were eliminated during the war due to capacity demands. It would appear that net in 1950 should improve for the better situated companies, decline sharply for those unable to compete because of high breakeven point or without prewar competitive experience.

Gross and profits declined almost immediately after the election, reached a low about the first week of March and have either stabilized or shown a slight tendency of increase. This, of course, has varied widely as to industry. Some groups, such as office equipment and machine tools, tire and rubber companies, have apparently reached bottom and are showing a substantial improvement; textiles have reached bottom and are stabilizing; metals, leather, lumber, motion pictures, advertising and pulp and paper have been showing a tendency to continue their decline, while motors and steels are still strong, but appear to be topping out in their strength.

Health of the period of adjustment has been the gradual correction of industry by industry one at a time without simultaneous collapse. Relatively few corrections remain; hence, the belief that normalcy should return within a year.

Inventory

Manufacturers, jobbers and retailers remember vividly the factors that created catastrophies of 1923, 1929 and 1938—the creation of debt and the need for inventory liquidation. The recession or price adjustment period has been advertised for nearly three years and has indoctrinated all in the need for caution.

Inventories have been liquidated rather substantially, both with respect to units and dollars, through the reduction of prices. The factor that inventory reduction has played in the recession to date may best be indicated by four stories that were related by executives of corporations visited:

(1) A plumbing supply company suffered a sizable drop in business immediately following the election. Soon after Jan. 1, 1949, the executives found that customers were buying a normal amount of products from the plumbers, liquidating a two months inventory. Prewar plumbers received immediate delivery from the jobber, but during and since the war had been unable to make fast delivery, and defensively the plumber had to maintain a two months supply. The jobber informed the manufacturer that he had maintained a six months inventory since 1942 as the lead time of manufacture had increased from one to six months. The manufacturer can now deliver within 30 days and inventory was being reduced to one month. Hence, the jobber and retailer were reducing eight months inventory to one month, which objective was to have been reached May 15. With excess inventory liquidated, the demand of plumber and jobber from manufacturer would be normal.

(2) A large paper manufacturer experienced somewhat the same result; business dropped sharply last winter. Upon investigation it was found that customers were reducing inventory from six months supply to a normal of one month. First quarter profits dropped in half; second quarter profits were expected to be 10% below first quarter; third quarter was expected to return to first quarter levels and fourth quarter was expected to be 33⅓% better than first quarter, with 1950 expected to be close to 1948 results.

(3) A merchandising company reported second best year in history in 1948, despite a sizable inventory loss, compared with a mediocre year in 1947 which included a substantial inventory profit. Even with four 1949 quarters of inventory losses, resulting from inescapable markdowns, it was expected that the company would be able to show a very satisfactory operating and net profit. They are able to reduce prices, liquidate excess inventory, maintain volume by consumer demands and show excellent profit.

(4) A food products company sensed the break in prices June 15, 1948. The president ordered inventory liquidated to a minimum and has maintained that policy all this year, as well. Had he hesitated six weeks longer, his loss would have been $10,000,000 greater. The company will probably show record earnings in 1949

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and increase its dividends, despite the adjustment.

Unless the fear complex develops at consumer level, which it has not to date, this price adjustment period will go down in history as the most orderly, the most sophisticated and the least harmful in United States economic history.

Dividends

Company managements appreciated that earnings of the past two or three years were abnormal, and in most cases have established dividend rates based on an ability to maintain them through bad years as well as good ones. The better managed companies will be able to continue regular dividends, although those that have been characterized as extras will be paid only as earnings justify.

New Products

America has not as yet benefited commercially from the huge number of innovations, discoveries and developments resultant from the war and the postwar era. It is obvious that corporations would not bring out new products postwar until the public demand had been satisfied. With the return of a buyers' market, it became mandatory to introduce many hidden developments, to offset the factor of competition and the apathetic attitude of the public with billions to spend. Here are a few postwar miracles of American genius:

(1) **Atomic Energy:** A major corporation executive expressed the opinion that electric power could be developed by operation of a pilot plant supplied with atomic energy in about 4 to 4½ years. A Washington official indicates that atomic energy will be available for pilot plant operation in between 5½ and 6 years, and for public consumption in 15 years. Whether or not it will be four, six or 15 years is of minor importance by comparison with the 25 years of experimentation before television was perfected. In its future development, billions of dollars will be expended and resulting employment will prevail.

(2) **Television:** The perfection of the television picture, larger screens, mature staging of programs, improved quality of commercialization and the impending transmission of television to full theater motion picture screens, widens the potential of this giant young industry. A year ago it was estimated that 25,000,000 sets would be a potential for American homes; the figure may now be closer to 40,000,000. Production in 1949 is estimated at 2,000,000. This means that the nation will enjoy capacity production of television manufacturing facilities of from 12½ to 20 years. In the interim, new techniques may be found that will obsolete the present and make necessary the replacement of those now in existence. One need remember how fast the wet battery radio sets were rendered obsolete by electric current. One such development is scheduled for October. As each new station comes into operation, or each new city introduces television, the field of users expands. Multiple usage of television sets in the home is actually a proven reality as father, mother and children each require separate sets for their preferred program.

(3) **Electronic Automatic Bookkeeping Machine:** This new development now undergoing final tests, is scheduled for public introduction in about three years. By scanning method, magnetism, photograph, television and electronics, it could automatically take a deposit tag, select the account, place the deposit to the account, forward the deposit to the proper branch, add the account of the individual and the branch, proof the account and render a statement at the end of the month. The machine, which would cost approximately $1,000,000, would be of inestimable value to banks, insurance companies and mail order firms and would, to a lesser degree, be of great value in minor adaptions to others.

(4) **American Telephone Computing Machine:** The Bell System now has three cities, such as San Francisco-Oakland, tied in so that toll calls can be dialed without the use of an operator. Recently a machine was perfected whereby all bookkeeping relating to the call can be handled without human assistance. The machine, by tape, records the exchange and station number calling, the station and number called, the time of day and the number of minutes used and then computes the charge, all automatically.

(5) **Houdaille Hershey's Viscous Torsion Vibrator Damper:** This product is, in effect, a cup placed around the end of the drive shaft of an automobile. Around the cup is another slightly larger cup, attached to the chassis of the car. Between the two cups is a viscous fluid that dampens the vibration and does not permit it to spread to the body. It is considered the outstanding automotive invention of a generation and is now in widening use.

(6) **Kemstrand:** A new type yarn to be jointly produced by Monsanto Chemical Company and American Viscose, and is believed to be superior in quality, price and in every characteristic to rayon, silk, cotton or nylon.

(7) **Panelyte Interior Trim for Automobiles:** Panelyte, a product of St. Regis Paper Company, currently used as a backing for refrigerator doors, is being tested as a decorative interior trim for the ceilings, side panels, backings of front seats and even for the finishing of trunk compartments of 1951 models of automobiles. This product would be easy to wash and to keep clean compared with prevailing textiles.

(8) **Borg-Warner Torque Converter Transmission:** This transmission converts torque or reduces the revolution of the axle in relation to the shaft and combines fluid coupling. There are two types of automatic transmission, the new Dynaflow and torque conversion. Borg Warner believes it has the superior product.

(9) **American Telephone Transitor:** This is a small product about the size of a marble that is attached to a telephone wire approximately each 50 miles to boost the voice and improve its quality in long distance communications. It is being tested and is believed to be a satisfactory substitute for the present bulky voice boosting equipment that is more costly to build, operate and maintain.

(10) **Spheroidal Graphite:** For 1,000 years man h as tried to make cast iron nonbreakable and malleable; for 100 years work has been carried on intensively in research. Last year International Nickel solved the problem which involves the use of magnesium and nickel, combined with iron, to make cast iron, nonbreakable, stronger and malleable. Cost is about the same and it is believed to be the greatest development in the field of metallurgy in several generations.

(11) **White Motor Company Cab Over Engine Truck:** This now well advertised truck has a cab which revolves frontward to permit inspection of or work on the engine. The driver's compartment is as low or lower than any other. The truck turns in its own dimension and is one of the most modern and efficient truck developments of a generation.

War

It is my understanding that the Russian cold war attitude has been terminated, and that military activities are being deemphasized. It is believed they intend to turn to subversive activities in schools, unions and politics.

Economic Conditions Abroad—Gold

It is believed that economic conditions abroad are considerably better than the public appreciates. While European nations still operate at deficits, this is due primarily to high expenditures for armament. If these nations were demilitarized, they would be operating at budget surpluses. Two or three years hence, revaluation of currencies should be possible and this should lead to a redevelopment of foreign trade which has been lacking in volume the past year or two.

While currencies are soft, there can be no basis for increasing the value of gold; it would serve no purpose except to encourage foreign nations with gold to liquidate at higher prices at the expense of our taxpayers. When currencies are revalued and stabilized, the temptation to sell gold to Uncle Sam would be minimized.

Interest Rates

The policy of the Treasury Department of maintaining low interest rates, within a minimum range of flexibility, has proven not only correct but also profitable. Wall Street economists and bankers throughout the United States, as well as industrialists generally, believe that the nation is fortunate to have a man of the outstanding stature of John Snyder as Secretary of the Treasury.

Labor Productivity

Labor productivity has improved proportionately with increase of unemployment. Men who were willing to idle on the job are now working nearer to normal capacity.

Management is realizing that it must have business for its men to process or they will naturally idle to spread the work; that men work better when they have efficient tools to work with. Much of the problem of productivity stems from the skills or deficiencies of management.

Agriculture

It appears that both the corn and wheat crops in 1949 will be the largest in history. Farm income should again be very substantial. While many people worry about the so-called government support for commodities, they do not realize that the Department of Agriculture sets the rules for support. One year it can set moisture content at 10% and another at a higher level to encourage or discourage selling the product to the Government.

Conclusion

Without an exception, every executive I visited was optimistic for the long term outlook and expected fair profits for 1949 and good normal business in 1950. They characterize the present cycle as a price adjustment period that is now, and will continue to be healthy, if the fear complex does not reach down to the consumer level.

The era is being characterized by intense competition. Only the stronger companies will survive. There are many corporations, like Farnsworth Television and Waltham Watch, that will face difficult problems. That is the normal development of the free enterprise system of competition and survival of the fittest. The determination of the strong and the weak can only be measured by close scrutiny by a research analyst who maintains constant vigilance of the philosophies and activities of management, the ability to keep breakeven point low and to keep abreast of changing conditions within industry.

This is not a period to be pessimistic. Those who preach pessimism are encouraging investors not to buy. Corporations needing equity capital for expansion, but which may not be available due to investor apathy, must then go to insurance companies. There has been some government criticism of the widespread loaning of money by insurance companies and if this source was stopped, then industry must go to the RFC. Government financing leads to Federal domination and that to State capitalism or socialism. A pessimist, therefore, encourages State socialism and is, in a sense, unconsciously following the party line of Communists.

The writer, as an optimist, believes fundamentals are sound, that industry is fighting valiantly to bring chaos of inflation to a halt and to convert it into orderly normalcy without repercussions and that a great period of prosperity is ahead. Industry, labor leaders and Washington officials are all optimistic.

Pessimists are mostly to be found among commentators and those so-called authorities who do not take the trouble to investigate at the source. The majority of firms with research staffs contacting corporate executives, find a common ground for optimism. The securities market has for three years been anticipating that which has now developed; time is close at hand where the security market should reverse the 36 months trend and become the ally of business which needs its help so vitally at the moment.

Forty Outstanding Securities

Of all the 141 corporations visited the following 40 appear to have early dynamic and favorable potentialities:

Addressograph-Multigraph Corp.
Admiral Corporation.
Allied Stores
Allis-Chalmers
American Tel. & Tel. Co.
Black, Sivalls & Bryson
Borg Warner
Burroughs Adding Machine Co.
Detroit Harvester Co.
Dumont Laboratories
General Electric Co.
General Motors Co.
General Mills, Inc.
Gillette Safety Razor Co.
Gleaner Harvester Co.
Glidden Company
Great American Insurance Co.
Grinnell Corp.
Home Insurance Co.
Hooker Electro Chemical Co.
Houdaille Hershey Co.
Illinois Central RR.
International Harvester Co.
International Nickel Co.
Link Belt Co.
Maryland Casualty Co.
May Department Stores
Monsanto Chemical Co.
Minneapolis Honeywell Co.
National Dairy Products
Oliver Corp.
Phillips Petroleum
Providence Washington Insurance Co.
Radio Corp. of America
Springfield Fire & Marine Insurance Co.
U. S. Fidelity & Casualty Co.
U. S. Gypsum
U. S. Steel Co.
Van Norman Co.
White Motor Truck Co.

Explains Britain's Need for Increased ECA Aid

Britain's supplementary memorandum raises requirement for 1949-50 program from $1,114 million to $1,518 million. Says increase arises from impact of American recession, which has "worsened" sterling dollar gap.

A statement issued by the British Embassy in Washington on July 28, "for the information of British officials," purports to give the economic background for the request for an additional $404 million of Marshall Plan aid, covering the fiscal year 1949-50. According to the document, the increase results primarily from a reduction in the estimates of dollar receipts, both from the United Kingdom exports to the dollar area and from the sale to U. S. A. of Colonial and other sterling area produce, e.g., rubber, tin, wool, cocoa, jute goods. The latter estimates were worked out by the Meeting of Commonwealth Finance Ministers. These earnings did not envisage a further decline in United States business activity.

The figure of $1,518 million now requested, instead of $1,114 million as originally proposed, represents the estimate of the aid needed in order to enable Britain to continue the full expansion of production previously contemplated. For this reason, the import requirements (in terms of volume) are unchanged in the memorandum. It is not possible at this time to say what will be the effect upon expenditure in the year 1949/50 of the measures being taken by the other sterling Commonwealth countries. The rate of deficit for the year of $1,518 million envisages a considerable improvement compared with the second quarter of 1949, when the annual rate of deficit was $2,400 million a year on comparable definition. In the forthcoming OEEC negotiations, it is explained, no country's full requirements are likely to be met as their total requirements will be considerably in excess of the amount of aid likely to be available. Naturally, the British Government will accept whatever cut may be decided upon in accordance with the general principles on which the division of aid is made, after examination of all countries' programs on the same basis.

"The essential point is," the British document points out, "that the $1,518 million, calculated on as realistic a basis as possible, represents the aid Britain needs in order to maintain full industrial expansion and progress and to enable herself and the Commonwealth to play their full part in European and world recovery."

It is further stated in the memorandum that "it is clear now that world economic conditions have turned out very differently from the assumptions made by OEEC when the 1949/50 and long-term programs were drawn up last Autumn. The United Kingdom and the sterling area as a whole have felt the impact of the American 'recession' or 'readjustment' first because they are by far the largest exporters to the dollar area. The sterling area shipped last year more than twice as much by value as all the rest of the OEEC countries put together. Transactions between the sterling area and the dollar countries are of the order of $4,000 million a year in each direction, and British earnings of dollars are extremely sensitive to fluctuations in world conditions."

Nils Geruldsen With First Securities Co.

CHICAGO, ILL.—First Securities Company of Chicago, 134 So. La Salle Street, announce the appointment of Nils S. Geruldsen as Manager of their Municipal Bond Department. Geruldsen has been in the municipal business for 23 years and is well known in municipal bond circles. His previous associations were Detmer & Company; Paul H. Davis & Co.; Glore, Forgan & Co., and Stone & Webster. The appointment is effective Aug. 1, 1949.

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Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

Now that the market is in reaching distance of the 180 Dow industrial figure, the bullish sentiment has stepped up its tempo. The optimists now outnumber their opposites by a considerable mapority.

* * *

I'm torn between two forces. I'd like them to go through because its easier to be bullish than bearish. At the same time I'd like to be in at the beginning of a move if for no other reason than to feed my vanity. But as a trader, I can't see the percentage in trying to clamber aboard a wagon that seems to be creaking to a stop at the top of an incline. There may be enough power behind it to get it to go still higher, but there is the larger chance that it is now closer to a peak with a sharp incline on the other side.

* * *

Some weeks ago I mentioned that an oversold short interest could carry a minor rally to what could be major proportions. You saw what happened. Now the opposite side comes to the fore. An overbought long interest can carry a minor decline much lower than technical signs indicate. For example, the 180 figure is considered a major hurdle. It is recognized as such by the general public which interests itself in technical yardsticks. It is therefor easily possible that the averages will go through this figure by maybe a fraction or even a full point, and then when everything favors a resumption of the up move, stocks can turn around and slip back for what will be "no reason."

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.]

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As We See It

(Continued from first page)

wings of a public exuberance have for varying periods of time stimulated the growth of such untoward conditions. Naturally, the process of eradicating these conditions has usually been painful. However, assuming the growth of unsound conditions, both industry and the consuming public have benefited immensely in the long run by these periodic cleansing processes. Without them, there is certainly every reason to believe that we should never have made the progress that we have during the past century or two.

No Cleansing Permitted

It has long been evident that the politicians, aided and abetted by pseudo-economists, are interesting themselves not in efforts to prevent the rise of untoward conditions which must be purged from the economy, even as a ship must at intervals have barnacles scraped from its bottom, but of making it virtually impossible to institute the cleansing or scraping process. Indeed a good deal of the New Deal and the Fair Deal "economic management" could not well fail to encourage the growth of barnacles, even if for the time being it spread abroad an illusory feeling of economic well-being. Politically, of course, it was an attractive "package," one which appeared to provide an added impetus to prosperity while the going was good and countermanded any effort of natural forces to collect for the spree.

But, naturally, it would be foolish to suppose that such courses as this can be really effective in the long run. It is, of course, quite possible to add to the follies that inevitably occur in periods of economic intoxication, but no guaranty against the necessity of paying the fiddler at one time or another is possible. For several years past, the work of further inflating of the balloon has been in progress with Washington calling the plays. During much of this period the Administration was screaming to high heaven about the "dangers" of what was going on. It never for a moment suggested removing the causes—which were for the most part outgrowths of its own policies—but instead insisted upon being given authority to control natural forces by executive fiat. The President did not get what he wanted, but if he had gotten it the most that he could have done would have been to take the edge off the boom, and hasten the arrival of its end.

Obstructing Natural Forces

The emphasis now both in the Administration and elsewhere, with the obvious blessing of the former, is to obstruct the natural processes which cleanse the ship of its barnacles. Not a word is said about getting out of the way and permitting agriculture to seek its own economic level even in the degree which existed in years past — and agriculture for decades has lived in no small part from the public purse. The President has retreated from his original ideas of boosting taxes at this time, but has not the slightest notion, apparently, of going to work on the tax structure to emancipate business. He is still bent upon "soaking the rich" to enable the poor to buy—apparently imbued with the foolish notion so widely held that "the rich" do not spend their income. Not even a hint has dropped from official lips that the economic situation would be greatly helped if employees dropped many of the foolish restrictions unions now inflict upon employers and, generally speaking, set to work to give a full day's work for a full day's pay. While it would be difficult to point to any official utterance which encouraged —as several of them did in years past—the insistance of the unions upon a so-called fourth round of wage increases at this time, he would be naive indeed who did not understand that, lacking support from the White House, the case of these monopolistic groups of workmen would not be sufficient to carry them through and probably would not be pressed at this time with great vigor.

Labor costs, particularly wage rates, hours of labor and working restrictions, have now become far more a matter of politics in the broader sense of the term than of calm business judgment. Negotiations today are carried on by the unions with one eye (or should we say half an eye) on the realities of the economic situation and two or more eyes (if that were possible) upon "public opinion," or in plainer terms, the political aspects of the situation. This is partly the cause and partly the effect of the fact that the party today who catches the public fancy or "sentiment" in the course of these campaigns (for that is what they are) has not to worry a great deal about what the other party thinks or what the rights or wisdom of the situation are.

Current Strategy

The "tactics" and the "strategy" of the steel unions during the past week or two has brought this fact sharply to the attention of all thoughtful men. The maneuvering of the President in avoiding use of the law of the land and his success in making the steel companies yield to his plan, which has no sanction in law, is another case in point. Tactics of a broadly similar sort have been in use by the railroad unions for decades past, and if there ever was an industry enslaved to its employees it is this one. The steel industry is, at the moment, at the center of the stage, but the motor industry is in the wings and is certain to move under the floodlights in a short time. There are few cleverer manipulators of public sentiment than Messrs. Murray and Reuther—and the politicians well know it.

As a matter of practical politics this situation is bad enough, but if in addition it means that labor costs are under the control of a roller ratchet and consequently can move only in one direction until such time as the people of the United States learn the truth the hard way, then the outlook is far from bright.

World Bank Reports Profit of $10 Million

Net income since Bank began operations up to July 1 placed at $13,641,094. Loans granted total slightly above $650 million. Austria and Thailand became members during year. Netherlands and Finland get loans; Yugoslav advance is under consideration.

The International Bank for Reconstruction and Development in its financial report for the fiscal year ended June 30, 1949, shows its total income for the fiscal year was $21,578,413, excluding $4,989,210 set aside in the Special Reserve, and expenses aggregated $10,968,166. This left a net income for the year of $10,610,247, bringing the total net excess of income over expenses since the Bank began operations to $13,641,094. At the same time the increase in the Special Reserve of $4,989,210 in the fiscal year brought the total of that item up to $8,074,141 as of June 30, 1949.

Loan commitments by the International Bank, during the fiscal year, increased from $497,000,000 to $650,100,000, the Bank having granted a total of 12 loans aggregating $153,100,000 in the year.

Disbursements on loans amounted to $56,235,263, making disbursements to June 30 total $526,291,014. This left $123,808,986 yet to be disbursed on loans effective at the end of the fiscal year.

The subscribed capital of the Bank increased $62,500,000 in the year as a result of two more countries becoming members. Austria, subscribing to 500 shares, became a member Aug. 27, 1948, and Thailand, subscribing to 125 shares, became a member May 3, 1949. Each share of stock of the Bank has a par value of $100,000. Of the total authorized 100,000 shares of stock the 48 member countries have subscribed to 83,485 shares, or to $8,348,500,000 of capital stock.

During the fiscal year the governments of Canada and the United Kingdom granted permission to the Bank to loan the equivalent of $8,000,000 and $2,015,000, respectively, out of the portions of their subscriptions to the Bank's capital paid in their own currencies. As previously announced the United States has granted the Bank the right to use the full amount of its 18% subscription, and Belgium had approved the use of the equivalent of $2,000,000 of its currency.

Loans Granted to Netherlands and Finland

On July 29, the Bank announced it had granted a loan of $15 million to the Finance Corporation for National Reconstruction (Herstelbank), of the Netherlands. The purpose of the loan is to finance imports of equipment for the reconstruction or modernization of plant to be carried out through 24 different projects. These projects affect virtually every sector of Dutch industry. The loan is guaranteed by the Kingdom of the Netherlands.

It was also announced on Aug. 1 that the Bank had agreed to grant a $12,500,000 loan to the Bank of Finland, the first nation "within the claws of the Russian Bear" to be granted an advance. In its original application, Finland asked for $100,000,000, but after consultation with representatives of the Bank the amount was cut to the present figure.

The loans to Netherlands and Finland are for a term of 15 years and will bear interest at 3%, plus commission at the rate of 1% a year, which, in accordance with the Bank's articles of agreement, is to be allocated to its special reserve fund.

Yugoslavia Seeks Loan

It has been officially announced by the Bank that it was under consideration a Yugoslav Government loan and is sending a mission to Yugoslavia. The mission will study the country's economy in relation to the loan application made by the Yugoslav Government to the Bank and will examine the projects submitted for financing. It is expected that the mission will leave Washington in the second week in August and that its investigations will take several weeks.

The mission will consist of A. S. G. Hoar, Assistant Loan Director, who will head the mission; S. R. Gope, Loan Officer, and Martin M. Rosen, E. Harrison Clark, and Samuel Lipkowitz, economists on the staff of the Bank. Two or three technical consultants will accompany the mission.

The Yugoslav Government has recently submitted to the Bank plans covering agricultural mechanization, irrigation and drainage, development of mining and metallurgy, rehabilitation of the transportation system, improvements in forestry, and the expansion of capacity in existing industries and the establishment of new ones.

Three With Franklin Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Raymond B. Jarecki, Paul Keller, and Loren L. Noble have become affiliated with Samuel B. Franklin & Co., 215 West Seventh Street. Mr. Jarecki and Mr. Keller were previously with Paul R. Flynn Co.

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Is Government Spending Right Way to End Recession?

(Continued from first page)

where government gets the money it spends. According to the mid-year Economic Report, the total Federal spending is at an annual rate of some $42.4 billion, and if the spending of state and local governments be included, the grand total is upwards of $60 billion annually.

How Government Gets Funds

There are two ways in which government can get its funds. One is by taxation, the other is by the printing press. Government bonds are simply a variant of printing press money, and when they are sold to the banks they have exactly the same kind of inflationary effect as would be produced by the issue of fiat currency.

When government collects income from the people by taxation and spends it, there is simply a transfer of purchasing power from private to public control and disposition. The citizens have less to spend and therefore spend less, while government pays out that which it has taken from them. There is no net increase in the total capacity to spend within the economy from this transfer. There is not necessarily an increase of gross national product, for the additions made by the "roll-over" of taxes and public spending are in substitution for the additional "roll-over" of private spending and investment, which could have been on a larger scale if taxes had been lighter.

On the other hand, when government resorts to loans for a portion of its spendable funds, there is a net addition to the nation's spending power, provided the funds are obtained through bank loans. If the deficit is covered by sale of bonds to nonbank investors, it is a transfer of private purchasing power in exchange for the bonds which is similar in all respects to the transfer of private income by taxation. Bank loans normally result in bank deposit credits, and this is the case, whether the borrower is a private individual or the government. In either case the expansion of bank credit is inflationary. The great difference in ultimate effects is that the banks are in position to limit the amount of private borrowing and to enforce prompt repayment of such loans, while they have no control over either the amount or the repayment of the loans to government.

Deficit Spending Inflationary

It follows, therefore, that if a policy of spending in excess of tax revenues is adopted, and if the deficit is financed by bank loans, the result will be inflationary. The amount of such inflation that may be required to reverse the present trend and inaugurate a new upward spiral will probably need to be large, if one may judge by the record. During the 1930's there was deliberate use of credit inflation for the purpose of restoring prosperity. But the desired result came only slowly. Gross national product, which had been $103.8 billion in 1929, was only $100.5 billion in 1940, after years of deficit spending, and there were still large numbers unemployed. The second war period provided an effective demonstration of government spending and credit inflation on a massive scale. Gross national product was lifted to $213.4 billion in 1945. When government operations are on a scale large enough to dominate the economy, as was the case through the war years, it is possible to generate an immense inflation potential. In fact, this potential went ahead under its own momentum, raising gross national product to $231.9 billion in 1947, notwithstanding that government spending declined from $82.8 billion in 1945 to $28 billion in 1947.

A conclusion which seems warranted from the record is that a small dose of inflation is not likely to be effective, and that a very large dose would be disastrous. Serious responsibilities must therefore be assumed by those who face this problem. If a new inflationary spiral should be generated, there will be, inevitably, a renewed demand for broad powers of control in order to protect the people from the consequences of ill-advised government action.

Reduce Government Spending

There is another way out of the difficulty which does not involve deficits and inflation. This is by a reduction rather than a further increase of government spending. This spending is already at the highest rate ever known in our peacetime history, and it has accelerated materially over the last 18 months. In the first quarter of 1948 government purchases of goods and services were at an annual rate of $30.5 billion. In the second quarter of 1949, this rate was $42.4 billion. Yet the rapid expansion of government purchases did not prevent recession. Gross national product was at an annual rate of $265.6 billion in the last quarter of 1948 and it fell to an annual rate of $250.5 billion in the second quarter of 1949. The Federal Reserve Board index of production reached a postwar high of 195 in October and November, 1948, and for the whole year the average was 192. In June, 1949, the index was down to 169. It would be interesting and important to know just how much more government spending would have to be increased to reverse the recession trend, if an advance of the annual rate by $12 billion was not adequate to prevent the decline.

The proposal to find the way out by reducing the burden of government encounters at once the conflict of theories regarding mass purchasing power versus capital formation as the key to prosperity. The increase of public spending, by inflation if necessary, is evidently based on acceptance of the purchasing power doctrine.

It should be said that the opposition or conflict between these theories is one of where to put the emphasis. Advocates of the purchasing power doctrine concede some importance to capital formation but insist that this will occur in adequate volume if consumer buying power is sustained. Advocates of capital formation as the essential factor recognize the importance of a large, steady market, but hold that buying power is generated by production which involves wage and other payments as goods are produced.

Clearly, there must be a proper and reasonable balance, because it is necessary to have both the facilities of production and consumer expenditures for the goods produced. The economy would be in an equally bad way if the national income consisted entirely of wages or if it consisted solely of profits. The indisputable fact that is derived from the historical record of national growth, and that is supported by economic analysis, is that there must be a certain amount of saving and investment in capital formation if productivity is to expand. Mere growth in the number of workers will not increase production. Without a parallel growth of capital, the increase of population results in poverty and declining standards of living. Wages, the principal form of mass purchasing power, are generated only by production, and the productivity of labor is directly related to the amount of capital available for the workers to use.

There are certain data in the mid-year Economic Report which are of interest in connection with the issue under discussion. These are presented in tabular form herewith.

TABLE I

Disposable income, consumption expenditures, salaries and wages, and gross private domestic investment, annually adjusted rates, by quarters, January, 1948-June, 1949.

(Billions of Dollars)

Periods—	Disposable Income	Consumption Expenditures	Salaries and Wages	Gross Private Domestic Investment
1948:				
1st quarter	183.9	172.5	128.9	38.5
2nd quarter	190.2	177.3	131.1	39.3
3rd quarter	196.2	180.1	137.4	42.0
4th quarter	199.4	181.0	139.8	43.6
1949:				
1st quarter	197.8	176.6	136.7	38.9
2nd quarter	193.0	175.0	134.0	32.4
Drop 4th qtr., 1948, to 2nd quarter, 1949	6.4	6.0	5.8	11.2

Purchasing Power Maintained

In the national income accounts, the term "disposable income" means the total of personal income after deduction of individual tax and nontax liabilities. It is the income available for consumption spending and saving. The 18-month record covered in the table indicates that while there was some decline in disposable income, it was at all times much more than would have been required to sustain consumption spending, even at the high levels of the 3rd and 4th quarters of 1948. Hence, though consumption spending did drop, there is no evidence that it was from lack of buying power.

The close agreement in the amount of drop in salaries and wages, disposable income, and consumption expenditure is in large measure coincidental. Total personal income, which includes farm incomes, business and professional incomes, rents, interest, and dividends, declined more than any of the drops shown in the table, but the tax reductions of the 1948 Revenue Act left more income in the possession of the people as disposable income. It would be convenient for the purchasing power doctrine if it could be established that the reason for the drop in consumption was the decline of salaries and wages, for all that would then be necessary to expand markets through greater consumption spending would be to raise salaries and wages, particularly the latter, by such number of billions as it was desired to reflect in the consumer spending.

Unfortunately for that theory, this degree of casual relationship cannot be granted. Part of the consumption spending is always made by farmers, by business and professional people, and by those who receive rents, interest, and dividends. It does not all come from the expenditure of wage incomes. Income from farms, businesses, and professions came down during the period under review, and part of the diminution of consumption spending is attributable to these groups. Moreover, the rate of consumption had virtually reached its peak in the 3rd quarter of 1948, for the gain in the annual rate in the 4th quarter was only $0.9 billion. Yet there was a further advance in the annual rate of wages and salaries of $2.4 billion into the 4th quarter. In other words, the spending had practically stopped its increase a full three months before the peak of salaries and wages was attained.

What Causes Variation in Disposable Income?

It is undeniable that the volume of consumption expenditure is influenced by the amount of disposable income. It therefore becomes important to consider what causes the variations, in the present instance the decline, of disposable income. Two factors are germane to the present argument. One is the amount of taxes paid, for it has been noted that disposable income means total personal income less tax and nontax liabilities. At any given national income level, a reduction of taxes means a larger disposable income, hence greater capacity for consumption spending. The second factor is the volume of investment. In the above table the annual rate of gross private domestic investment is shown to have fallen off, during the first half of 1949, by nearly 25% from the 4th quarter rate of 1948. Here is an obvious and inescapable reason for the drop in salaries and wages, and for some part, at least, of the rise in unemployment.

It is too well established to require argument that both the ability to save and invest, and the willingness to do so, are directly affected by the tax burden and the tax outlook. When the burden is already heavy and the prospect is for still higher levies as was the case when the year 1949 opened, it is axiomatic that plans for business investment will be adversely affected. The reported cases of drastically modified investment plans are far outnumbered by the unreported similar cases, and the grand total of these decisions has already added up to almost a 25% decline in the annual rate of business investment.

Nevertheless, the President suggested in his mid-year Economic Report that within a few years national output should be above $300 billion. It is doubtful if he is aware of the position that such a goal puts him in with respect to government spending. For an understanding of this difficulty, the prescription written by the Council of Economic Advisers in the Economic Report of January, 1949, should be considered.

In that report the Council said (p. 61) that consumption expenditure, then at about 70% of gross national product, should advance within a few years to 75%. In another place (p. 62) it was said that gross private domestic investment, which was then at 15% of gross national product, could safely fall back eventually to some 11-12%. It was also said (p. 52) that a reasonable rate of annual growth for the next few years would be 3%. Now the record of capital formation in relation to gross national product from 1869 to 1929 shows an average annual increase of 2.9% and an average annual "plowback" of 15% of gross national product. In view of this long experience, it may be doubted if a capital investment ratio of 12% will sustain an annual growth rate of 3%, but this issue is not of first importance for the immediate discussion. It is apparent, however, that the "musts" or essentials for the increase of gross national product are capital formation and consumption expenditure for goods and services. The Council said nothing about the relative share to be represented by government purchases, and it must be assumed, therefore, to be in the residual position. Here is how the Council's prescription would work out at the $300 billion gross national product level.

It should be understood that the item "government purchases" in the national income accounts includes the purchases of state and local governments, as well as those of the Federal government. Total government purchases were running, in the second quarter of 1949, at an annual rate of $42.4 billion, and there is no intention on the part of the President to reduce them. Rather, if possible, he plans to increase them. But his own economic advisers have applied a pincers movement which is rather disastrous for the logic of more spending. This group did not spell out, in one place, the significance of its own prescription for prosperity, but the meaning is plain.

TABLE II

Components of Gross National Product of $300 Billion

(Billions of Dollars)

Components—	Amount
Consumption expenditures (at 75% of total)	225
Gross private domestic investment (at 12% of total)	36
Net foreign invest. (for Point 4 & other programs) say	1
Sub-total	262
Avail. for government purchases of goods and services	38
Total gross national product	300

Suppose, however, that instead of looking at the far off goal of $300 billion, the formula be applied to the present situation, for there is nothing that the President would like more than to see a substantial upturn of gross national product here and now. This is the way to work it out.

Gross national product in 1948 was $255.9 billion, and a 3% increase for 1949 would lift the total for the present year to $263.6 billion. Consumption expenditures at 75% of that total would be $197.7 billion, leaving $65.9 billion for all other purposes. Assuming gross private domestic investment at 12%, this would require $31.6 billion, leaving for net foreign investment and all government purchases only $34.3 billion.

Cut Government Spending

Again the conclusion is clear. The way to lift gross national product in 1949 by 3% above the 1948 level is to cut government spending by not less than $8 billion. Some part of this cut would properly be allocable to state and local governments, but they are hard to get at and precious time would be lost. The sure way to get results is to reduce the Federal spending.

The immediate response to a drastic cut in the burden of government would be a burst of optimism much more sincere and enduring than any artificial cheer induced by the fiscal adrenalin of inflation. Talk and worry about a recession would end, and all over the place there would be broad smiles and laughter at the very idea that such a thing could have been imagined. Many plans for business development now gathering dust on the shelves would be brought out and set in motion. There would be more jobs, more income, and more spending. Mr. Truman's difficulty is that while he wants the blessings of a grateful people, he fails to realize that the way to receive a shower of these blessings is to take a substantial part of the load of government off of their necks.

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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)	Aug. 7	81.3	81.5	61.2	94.2
Equivalent to—					
Steel ingots and castings (net tons)	Aug. 7	1,498,800	1,502,500	1,128,200	1,697,900
AMERICAN PETROLEUM INSTITUTE:					
Crude oil output—daily average (bbls. of 42 gallons each)	July 23	4,684,700	4,671,350	4,889,400	5,447,800
Crude runs to stills—daily average (bbls.)	July 23	¶5,148,000	5,130,000	4,307,000	5,647,000
Gasoline output (bbls.)	July 23	18,301,000	18,117,000	15,629,000	17,879,000
Kerosene output (bbls.)	July 23	1,491,000	1,531,000	1,587,000	2,166,000
Gas, oil, and distillate fuel oil output (bbls.)	July 23	5,807,000	5,699,000	4,428,000	6,587,000
Residual fuel oil output (bbls.)	July 23	7,489,000	7,785,000	5,357,000	9,056,000
Stocks at refineries, at bulk terminals, in transit and in pipe lines—					
Finished and unfinished gasoline (bbls.) at	July 23	110,569,000	111,464,000	99,115,000	100,641,000
Kerosene (bbls.) at	July 23	24,544,000	23,791,000	22,480,000	20,267,000
Gas, oil, and distillate fuel oil (bbls.) at	July 23	69,802,000	68,622,000	53,407,000	50,562,000
Residual fuel oil (bbls.) at	July 23	68,517,000	*67,799,000	31,761,000	47,899,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	July 23	718,516	724,100	802,941	882,129
Revenue freight received from connections (number of cars)	July 23	558,004	531,788	573,848	687,484
CIVIL ENGINEERING CONSTRUCTION — ENGINEERING NEWS-RECORD:					
Total U. S. construction	July 28	$131,819,000	$158,751,000	$180,900,000	$114,276,000
Private construction	July 28	51,921,000	65,229,000	96,484,000	52,226,000
Public construction	July 28	79,898,000	93,522,000	84,416,000	62,050,000
State and municipal	July 28	61,870,000	77,984,000	61,621,000	48,377,000
Federal	July 28	18,028,000	15,538,000	22,795,000	13,673,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	July 23	6,970,000	*6,640,000	11,850,000	12,335,000
Pennsylvania anthracite (tons)	July 23	1,059,000	1,034,000	1,139,000	1,191,000
Beehive coke (tons)	July 23	4,600	*6,600	73,300	141,400
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100	July 23	207	*213	247	231
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	July 30	5,518,485	5,461,665	5,410,392	5,352,439
FAILURES (COMMERCIAL AND INDUSTRIAL)—DUN & BRADSTREET, INC.	July 28	168	182	177	98
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	July 26	‡3.705c	3.705c	3.705c	3.721c
Pig iron (per gross ton)	July 26	$45.91	$45.91	$45.91	$43.72
Scrap steel (per gross ton)	July 26	$19.33	$19.33	$19.33	$43.16
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	July 27	17.325c	17.325c	15.700c	21.200c
Export refinery at	July 27	17.550c	17.520c	15.925c	22.175c
Straits tin (New York) at	July 27	103.000c	103.000c	103.000c	103.000c
Lead (New York) at	July 27	14.500c	14.000c	12.000c	17.500c
Lead (St. Louis) at	July 27	14.300c	13.800c	11.850c	17.300c
Zinc (East St. Louis) at	July 27	10.000c	9.500c	9.000c	12.000c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Government Bonds	Aug. 2	103.21	103.20	102.83	100.73
Average corporate	Aug. 2	113.89	113.89	113.12	112.00
Aaa	Aug. 2	120.22	120.02	119.00	116.61
Aa	Aug. 2	118.40	118.20	117.40	114.66
A	Aug. 2	112.93	112.93	112.37	111.44
Baa	Aug. 2	105.17	105.00	104.43	105.86
Railroad Group	Aug. 2	108.34	108.16	107.44	108.16
Public Utilities Group	Aug. 2	115.43	115.43	114.66	112.37
Industrials Group	Aug. 2	118.40	118.40	117.60	115.82
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Government Bonds	Aug. 2	2.27	2.27	2.29	2.45
Average corporate	Aug. 2	2.96	2.96	3.00	3.06
Aaa	Aug. 2	2.64	2.65	2.70	2.82
Aa	Aug. 2	2.73	2.74	2.78	2.92
A	Aug. 2	3.01	3.01	3.04	3.09
Baa	Aug. 2	3.44	3.45	3.48	3.40
Railroad Group	Aug. 2	3.26	3.27	3.31	3.27
Public Utilities Group	Aug. 2	2.88	2.88	2.92	3.04
Industrials Group	Aug. 2	2.73	2.73	2.77	2.86
MOODY'S COMMODITY INDEX	Aug. 2	341.8	339.5	333.5	431.8
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	July 23	152,210	145,799	158,700	159,210
Production (tons)	July 23	158,764	137,034	169,512	175,182
Percentage of activity	July 23	76	64	80	91
Unfilled orders (tons) at	July 23	274,741	282,174	241,787	360,981
OIL, PAINT AND DRUG REPORTER PRICE INDEX — 1926-36 AVERAGE=100	July 29	128.5	128.4	127.9	145.3
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)—	July 16	16,205	13,160	20,572	27,113
Number of orders	July 16	471,820	368,858	560,201	829,114
Number of shares	July 16	$17,508,389	$13,549,183	$19,165,927	$32,055,734
Dollar value					
Odd-lot purchases by dealers (customers' sales)—					
Number of orders—Customers' total sales	July 16	15,991	12,101	19,061	26,376
Customers' short sales	July 16	252	136	383	118
Customers' other sales	July 16	15,739	11,965	18,678	26,258
Number of shares—Customers' total sales	July 16	447,882	318,652	527,860	763,479
Customers' short sales	July 16	9,645	5,844	15,314	4,360
Customers' other sales	July 16	438,237	312,808	512,546	759,119
Dollar value	July 16	$14,148,078	$10,251,259	$16,938,143	$27,138,698
Round-lot sales by dealers—					
Number of shares—Total sales	July 16	158,020	100,700	165,510	234,630
Short sales	July 16	------	------	------	------
Other sales	July 16	158,020	100,700	165,510	234,630
Round-lot purchases by dealers—					
Number of shares	July 16	178,870	147,790	204,750	268,260
WHOLESALE PRICES NEW SERIES—U. S. DEPT. OF LABOR—1926=100:					
All commodities	July 26	152.8	154.3	152.9	169.1
Farm products	July 26	164.3	168.4	164.0	192.4
Foods	July 26	161.2	164.2	161.2	188.1
All commodities other than farm and foods	July 26	145.1	145.2	145.2	152.4
Textile products	July 26	139.1	139.0	138.2	149.6
Fuel and lighting materials	July 26	130.6	130.6	130.6	136.4
Metals and metal products	July 26	167.9	167.8	165.7	166.3
Building materials	July 26	190.4	190.4	192.3	201.2
All other	July 26	124.2	125.0	126.1	135.5
Special indexes—					
Grains	July 26	152.8	155.5	151.2	186.6
Livestock	July 26	207.8	213.9	208.2	269.4
Meats	July 26	225.2	231.1	225.1	281.4
Hides and skins	July 26	183.4	180.5	182.9	222.5

*Revised figure. ¶Includes 365,000 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 weighting for 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
BUILDING CONSTRUCTION PERMIT VALUATION IN URBAN AREAS OF THE U. S. — U. S. DEPT. OF LABOR — Month of May (000's omitted):			
All building construction	$661,199	*$635,111	$655,704
New residential	392,161	*352,481	354,667
New nonresidential	183,051	*199,181	207,147
Additions, alterations, etc.	85,987	*83,449	93,890
BUSINESS INCORPORATIONS, NEW IN THE UNITED STATES—DUN & BRADSTREET, INC.—Month of June	7,260	7,445	8,550
CASH DIVIDENDS — PUBLICLY REPORTED BY U. S. CORPORATIONS — U. S. DEPARTMENT OF COMMERCE — Month of May (000's omitted)	$193,300,000	$474,400,000	$170,400,000
CONSUMER PRICE INDEX FOR MODERATE INCOME FAMILIES IN LARGE CITIES 1935-1939 = 100 — As of June 15:			
All items	169.6	169.2	171.7
All foods	204.3	202.4	214.1
Cereals and bakery products	169.7	170.1	171.2
Meats	240.6	232.3	255.1
Dairy products	182.0	182.6	205.9
Eggs	198.0	190.9	194.2
Fruits and vegetables	217.9	220.7	214.9
Beverages	207.6	207.2	205.1
Fats and oils	142.9	144.4	200.5
Sugar and sweets	176.5	176.1	170.6
Clothing	190.3	191.3	196.9
Rent	120.6	120.4	117.0
Fuel, electricity and refrigerators	135.6	135.4	132.6
Gas and electricity	96.9	96.9	94.2
Other fuels	183.0	182.7	180.6
Ice	140.0	140.1	134.2
Housefurnishings	187.3	189.5	194.8
Miscellaneous	154.2	154.5	147.5
COTTON SEED AND COTTON SEED PRODUCTS—DEPT. OF COMMERCE—Month of May:			
Cotton Seed—			
Received at mills (tons)	19,319	30,297	13,641
Crushed (tons)	261,911	325,207	147,447
Stocks (tons) May 31	343,442	586,034	187,984
Crude Oil—			
Stocks (pounds) May 31	118,896,000	168,447,000	43,054,000
Produced (pounds)	87,873,000	107,085,000	47,743,000
Shipped (pounds)	125,727,000	130,808,000	51,271,000
Refined Oil—			
Stocks (pounds) May 31	227,587,000	236,197,000	126,912,000
Produced (pounds)	115,419,000	119,975,000	60,035,000
Consumption (pounds)	125,584,000	124,750,000	91,090,000
Cake and Meal—			
Stocks (tons) May 31	104,700	95,806	100,037
Produced (tons)	117,678	143,338	67,944
Shipped (tons)	103,784	143,439	59,987
Hulls—			
Stocks (tons) May 31	113,443	109,037	44,254
Produced (tons)	61,751	73,738	32,511
Shipped (tons)	57,345	72,897	30,341
Linters—running bales—			
Stocks May 31	201,612	211,760	132,728
Produced	79,908	98,545	46,609
Shipped	90,076	100,187	63,223
Hull Fiber (1,000-lb. bales)—			
Stocks May 31	1,918	2,020	477
Produced	1,019	1,324	802
Shipped	1,121	793	791
Motes, grabbots, etc. (1,000-lb. bales)—			
Stocks May 31	10,064	10,679	17,685
Produced	1,169	1,616	1,925
Shipped	1,794	2,820	2,755
COTTON SPINNING (DEPT. OF COMMERCE)			
Spinning spindles in place on June 30	23,648,000	23,782,000	23,779,000
Spinning spindles active on June 30	19,464,000	19,862,000	21,479,000
Active spindle hours (000's omitted) June	7,506,000	7,358,000	10,320,000
Active spindle hours per spindle in place, June	337	325	461
MONEY IN CIRCULATION—TREASURY DEPT. As of May 31 (000's omitted)	$27,506,730	$27,417,326	$27,812,102
NEW YORK STOCK EXCHANGE — As of June 30 (000's omitted):			
Member firms carrying margin accounts—			
Total of customers' net debit balances	$682,409	$659,748	$619,333
Credit extended to customers	80,192	67,012	68,349
Cash on hand and in banks in U. S.	281,072	283,274	336,347
Total of customers' free credit balances	531,661	534,758	579,203
Market value of listed shares	63,921,054	64,146,599	74,506,911
Market value of listed bonds	131,685,658	132,028,548	133,745,902
Stock price index, 12-31-24 = 100	67.0%	67.9%	82.3%
Member borrowings on U. S. Govt. issues	$164,763	$164,115	$139,777
Member borrowings on other collateral	531,322	330,809	257,486
PERSONAL INCOME IN THE UNITED STATES (DEPARTMENT OF COMMERCE)—Month of May (in billions):			
Total personal income	212.2	*212.5	209.3
Wage and salary receipts, total	134.2	*134.7	130.9
Total employer disbursements	136.4	*136.8	132.9
Commodity producing industries	58.1	*58.6	59.1
Distributive industries	40.5	*40.5	38.8
Service industries	17.2	*17.1	16.5
Government	20.6	*20.6	18.5
Less employee contributions for social insurance	2.2	2.1	2.0
Other labor income	2.1	2.1	2.0
Proprietors' and rental income	46.7	*46.3	49.3
Personal interest income and dividends	17.2	*17.2	15.9
Total transfer payments	12.0	12.2	11.2
Total nonagricultural income	191.5	*192.3	185.9
Total agricultural income	20.7	20.2	23.4
SELECTED INCOME ITEMS OF U. S. CLASS I RYS. (Interstate Commerce Commission)—Month of April:			
Net railway operating income	$64,763,030	$65,417,192	$53,104,074
Other income	15,932,521	17,365,365	16,381,775
Total income	80,695,551	82,782,557	69,485,849
Miscellaneous deductions from income	3,271,650	2,848,242	3,664,123
Income available for fixed charges	77,423,901	79,934,315	65,821,726
Income after fixed charges	42,960,853	44,594,355	30,476,855
Other deductions	2,971,984	3,100,845	3,211,368
Net income	39,988,869	41,493,510	27,265,487
Depreciation (way & structures & equip.)	33,137,131	33,110,997	30,773,529
Amortization of defense projects	1,374,616	1,357,573	1,366,669
Federal income taxes	25,478,684	24,356,270	20,205,989
Dividend appropriations:			
On common stock	2,968,177	23,214,687	2,956,177
On preferred stock	529,233	7,225,952	1,204,088
Ratio of income to fixed charges	2.25	2.26	1.86

*Revised figure.

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The State of Trade and Industry

(Continued from page 5)

obtain the large pension and insurance benefits for his Union than the wage demands but is making a play for all three.

STEEL OPERATIONS HOLD CLOSE TO PREVIOUS WEEK'S LEVEL

Steel is a little harder to get today than it was a month ago and purchasing agents with prewar experience are not so sure this week that steel is in for much deeper cuts in output, "The Iron Age," national metalworking weekly, states in its current review of the steel trade. Nor are they so optimistic about steel prices sliding as they did in 1937 and 1938 because of the following factors:

(1) The base for steel demand is much broader than it was in the late thirties; (2) public construction is still climbing; (3) long-range demand has not collapsed; and (4) there are new inflationary factors in the economic picture.

On the price angle, this trade authority adds, that purchasing men see rigid wage costs that may be forced up, plus steel raw material costs basically higher than they were before the war. On top of these is the higher cost of maintenance and new equipment of an expanded steel industry.

All this does not mean that steel is ready for an upswing that will wash out what has happened so far this year. But it does indicate the possibility of a slight upward trend in steel orders that will get a boost from the Fall seasonal factors now coming into the picture. The crux of it appears to be, "The Iron Age" concludes, that steel is acting more normally and that future swings in output will be decided by seasonal factors, by inflationary or deflationary tactics and by the bigger place in today's economy of consumer durable goods.

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 81.3% of capacity for the week beginning Aug. 1, 1949, as against 81.5% in the preceding week, or a decline of 0.2%.

This week's operating rate is equivalent to 1,498,800 tons of steel ingots and castings for the entire industry, compared to 1,502,500 tons a week ago, 1,128,200 tons, or 61.2% a month ago, and 1.697,900 tons, or 94.2% of the old capacity one year ago and 1,281,210 tons for the average week in 1940, highest prewar year.

CARLOADINGS ARE LOWER AGAIN FOR JULY 23 WEEK

Loadings of revenue freight for the week ended July 23, 1949, totaled 718,516 cars, according to the Association of American Railroads. It also represents a decrease of 163,613 cars, or 18.5% below the corresponding week in 1948, and a decrease of 201,412 cars, or 21.9% under the similar period in 1947.

ELECTRIC OUTPUT AGAIN POINTS UPWARD IN LATEST WEEK

The amount of electrical energy distributed by the electric light and power industry for the week ended July 30, was estimated at 5,518,485,000 kwh. accordincg to the Edison Electric Institute. This represented an increase of 56,820,000 kwh. over the preceding week, 166,046,000 kwh. or 3.1% higher than the figure reported for the week ended July 31, 1948, and 712,745,000 kwh. in excess of the output reported for the corresponding period two years ago.

AUTOMOBILE AND TRUCK OUTPUT LOWER FOR PAST WEEK

According to "Ward's Automotive Reports" for the past week motor vehicle production for the United States and Canada was estimated at 138,223 units, compared with a record high of 160,173 units in the previous period.

The total for the current week was made up of 113,452 cars and 21,921 trucks built in the U. S. and 1,633 cars and 1,217 trucks in Canada.

Output a year ago was 113,270 units and, in the like week of 1941, it was only 62,146 because of model changeovers.

Estimated output for the first seven months of the year is 2,868,818 cars and 723,722 trucks for the U. S. and 165,610 vehicles for Canada. In the like period of 1948, the figures were 2,146,147 cars and 831,944 trucks for the U. S. and 142,744 vehicles for Canada.

BUSINESS FAILURES DECLINE

Commercial and industrial failures dipped to 168 in the week ended July 28 from 182 in the preceding week, reported Dun & Bradstreet, Inc. Despite this decline, casualties were considerably more numerous than in the comparable weeks of 1948 and 1947 when 98 and 76 occurred respectively. They remained well below the prewar level; 291 failures were reported in the corresponding week of 1939.

Casualties involving liabilities of $5,000 or more increased slightly to 137 from 134 and exceeded the 87 of a year ago. Small failures having liabilities under $5,000 fell to 31 from 48, but were almost three times as numerous as last year.

Retailing failures declined to 76 from 87 and construction to 11 from 17, accounting for all of the week's decrease. Little change occurred in other industry and trade groups. Manufacturing casualties increased by 1 to 49, wholesaling by 2 to 29, while commercial service remained at 12, the same as in the previous week. More concerns failed than a year ago in all lines except commercial service.

WHOLESALE FOOD PRICE INDEX RISES FOR THIRD WEEK

For the third consecutive week the Dun & Bradstreet Wholesale Food Price Index rose an additional two cents to $5.73 for week ending July 27. It was 20.2% below the $7.18 of a year ago and it was fractionally above the $5.66 low of the current year reached in the week of Feb. 8 and again in the week of July 5.

The index represents the sum total of the price per pound of 31 foods in general use.

COMMODITY PRICE INDEX UNCHANGED IN LATEST WEEK

There were very small fluctuations in the Daily Wholesale Commodity Price Index, compiled by Dun & Bradstreet, Inc. On July 26 the index closed at 238.16 compared with 238.78 a week ago and 281.45 a year ago.

Some moderate advances in grain markets were reported during the week. Further mill buying and the expectation of reduced receipts in the coming weeks were accompanied by a slight rise in wheat prices. There was also a slight increase in the price of oats, while corn remained virtually unchanged and rye dipped moderately. The House action to extend 90% of parity loans to 1950 was followed by a further strengthening of the wheat market.

The July 1 carryover of grain stocks was the largest since the end of the war. Both corn and oat stocks were the largest on record exceeding those of any other July 1, while the carryover of barley was the largest since 1943.

Orders for a considerable volume of Spring wheat flour were booked in the past week with the demand centered largely upon the new crop. Requests for old crop wheat flour consisted mainly of small orders for nearby delivery. There was a rather sharp drop in the demand following the announcement of slight price increases by some mills at the beginning of the current week.

Trading in the Chicago livestock market generally was limited; prices of lambs, hogs and steers declined. In most markets the week-end clearances were slow and there was some decline in receipts.

While cotton spot prices dipped last week, there was a slight increase in futures. Spot prices generally were at the lowest level since early in February. Sales reported in the ten spot markets totaled 56,900 bales last week as compared with 61,500 bales in the preceding week and 55,700 a year ago. There continued to be an increase in mill buying in south Texas. Much of the buying was for immediate delivery.

For the seventh consecutive month mill stocks of cotton declined; on June 30 mill stocks were at the lowest level since the prewar year 1939. Many mills are limiting their cotton stocks and are carrying only enough to meet nearby requirements. There was a noticeable increase in the demand for carded cotton gray goods and prices were firm. The demand in the Boston wool market remained near the low level that has prevailed in past weeks.

The activity in the nonferrous metals markets which began in the previous week continued last week and on Monday of this week the prices of lead and zinc advanced again. Since the market started to rise two weeks ago the price of lead has increased two and one-quarter cents. During this same period zinc has risen one cent to 10 cents a pound East St. Louis.

RETAIL TRADE DECLINES, WHOLESALE TRADE RISES, MANUFACTURING STEADY IN LATEST WEEK

A mid-summer lull prevailed generally last week in retail trade as shoppers bought slightly less in the week ended July 27 than in the preceding week, states Dun & Bradstreet, Inc., in its latest trade summary. Total dollar volume continued to be very moderately below the high level of a year ago. Many consumers concentrated their purchases in the lower price ranges.

The response to promotional sales of Summer apparel slackened in the week.

Consumers bought less food than in the previous week; dollar volume was slightly below the high level of a year ago.

Despite numerous promotions of furniture and household goods, the consumer demand fell moderately. Department stores in many areas reported that the sales volume of basement departments was above that of a year ago.

Total retail volume in the week ended July 27 was estimated to be from 3 to 7% below a year ago.

Wholesale Demand Rises—As many buyers displayed an increased interest in Fall merchandise, the dollar volume of wholesale orders rose slightly in the period ended on Wednesday of last week; it continued to be moderately below the corresponding 1948 level. The number of buyers attending many wholesale markets dipped, but surpassed that of the comparable week last year. There were numerous re-orders of Summer goods.

Both initial orders and re-orders of Fall apparel increased. Many buyers who had delayed placing initial orders in recent weeks made sizable commitments the past week. Some retailers encountered difficulty in securing Summer apparel for immediate delivery.

Purchasing of food continued at a high level; it was slightly below that of the similar week in 1948. Many merchants ordered cautiously.

Trading activity in most cotton textile markets increased noticeably last week. Many buyers were not as reluctant to make long-range commitments as in recent weeks.

The ordering of furniture and housewares continued at a high level, but was somewhat below that of a year ago.

Manufacturing Steady—Total industrial production remained practically unchanged last week and continued to be moderately below the comparable 1948 level. Total claims for unemployment insurance rose almost 10% in the week ended July 16; in the same week initial claims increased 1%.

LEADING DEPARTMENT STORE SALES CONTINUE TO DROP

According to the Federal Reserve Board's index, department store sales in New York City for the weekly period to July 23, 1949, declined by 11% from the same period last year. In the preceding week a decrease of 11% was registered below the similar week of 1948. For the four weeks ended July 23, 1949, a decrease of 12% was reported under that of last year. For the year to date volume decreased by 7%.

Department store sales on a country-wide basis, as taken from the Federal Reserve Board's index for the week ended July 23, 1949, decreased by 11% from the like period of last year and compared with a decrease of 10% (revised) in the preceding week. For the four weeks ended July 23, 1949, sales registered a decrease of 10% from the corresponding period a year ago and for the year to date a decline of 5%.

With Capital Securities

(Special to THE FINANCIAL CHRONICLE)

OAKLAND, CALIF.—Sidney G. Bishell is with Capital Securities Co., 2038 Broadway.

With Murphey-Favre, Inc.

(Special to THE FINANCIAL CHRONICLE)

OAKLAND, CALIF.—Edith K. Peterson is now connected with Murphey-Favre, Inc. of Spokane, Wash.

Bruce T. Work Now With Pasadena Corporation

(Special to THE FINANCIAL CHRONICLE)

PASADENA, CALIF.—Bruce T. Work has become associated with Pasadena Corporation, 234 East Colorado Street. Mr. Work was formerly with Lester & Co. of Los Angeles and Merrill Lynch, Pierce, Fenner & Beane.

E. F. Hutton Co. Adds

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF. — Richard I. Buckwalter has been added to the staff of E. F. Hutton & Co., 160 Montgomery Street.

With Floyd A. Allen

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Morton J. Koval has been added to the staff of Floyd A. Allen & Co., Inc., 650 South Grand Avenue.

With W. E. Bell & Co.

(Special to THE FINANCIAL CHRONICLE)

LINCOLN, NEB.—John J. Gilliland is now connected with W. E. Bell & Company, Federal Securities Building.

Chiles, Huey Adds

(Special to THE FINANCIAL CHRONICLE)

OMAHA, NEB.—William T. Martin has been added to the staff of Chiles, Huey Co., Omaha National Bank Building.

Dayton Bond Corp. Adds

(Special to THE FINANCIAL CHRONICLE)

DAYTON, OHIO — Kenneth E. Leach has become affiliated with the Dayton Bond Corp., Third National Building.

With King Merritt & Co.

(Special to THE FINANCIAL CHRONICLE)

MINNEAPOLIS, MINN.—Hugh K. Robinson is with King Merritt & Co., Inc., Pence Building.

With Fairman & Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Philip M. Carl is now with Fairman & Co., 210 West Seventh Street, members of the Los Angeles Stock Exchange.

Keenan & Clarey, Inc. Adds

(Special to THE FINANCIAL CHRONICLE)

MINNEAPOLIS, MINN.—Daniel E. Woolsey has been added to the staff of Keenan & Clarey, Inc., National Building.

With Stranahan, Harris

(Special to THE FINANCIAL CHRONICLE)

TOLEDO, OHIO — George S. Wade is now connected with Stranahan, Harris & Co., Inc., Ohio Building.

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Stock Rights and the Income Tax

(Continued from first page)

time as the stock is quoted "ex-rights" will be used in making the necessary computations.

When rights are sold, the transaction must be regarded as the sale of "capital assets," and it is necessary, therefore, to classify the resulting gain or loss as "long term" or "short term." Inasmuch as the "cost" basis of rights is tied-in with the cost of the stock in respect of which they were issued (it is, in fact, a portion of such cost), the length of time that the stock has been held will govern in determining whether the gain or loss on sale of the rights is "long" or "short" term, regardless of the fact that the rights themselves may have been held for, perhaps, only a few days.

EXAMPLE

The following example is presented in order to illustrate the practical application of the foregoing: Stockholder purchased shares of the X Corporation, as follows:

January 15, 1946—1,000 at 20—Cost	$20,000
October 15, 1947— 500 at 24—Cost	12,000

He received 1,500 rights to subscribe to new stock at $20 per share. The rights were issued on March 31, 1948, and on that date the stock was quoted "ex-rights," prices for the stock and rights having a range for the day, as follows:

	High	Low	Average
Stock	25	23	24
Rights	2½	1½	2

He sold 500 rights on April 2, 1948, for $1,300. These were the rights issued in respect of the stock purchased on Oct. 15, 1947. He exercised the 1,000 rights to subscribe for 1,000 shares of new stock at $20 per share. These were the rights issued in respect of the stock purchased on Jan. 15, 1946.

APPORTIONMENT OF COST ($12,000) OF THE 500 SHARES ON WHICH THE RIGHTS WERE SOLD

Average market value—Stock	24	
Average market value—Rights	2	
	26	
Apportioned to old stock	24/26 of $12,000	$11,077
Apportioned to rights	2/26 of $12,000	923
		$12,000

COMPUTATION OF PROFIT ON SALE OF THE 500 RIGHTS

April 2, 1948, 500 rights sold for	$1,300
"Cost" of old stock apportioned to rights	923
Profit Realized on Sale of Rights	$377

The stock on which these rights were issued was purchased on Oct. 15, 1947, and the rights were sold on April 2, 1948. Therefore, the profit on sale of the rights is "short term" as the period from Oct. 15, 1947 to April 2, 1948, is *less* than six months.

ADJUSTED COST BASIS OF OLD STOCK

Cost—500 shares at 24	$12,000
Deduct—"Cost" of stock apportioned to rights	923
Adjusted Cost Basis of Old Stock	$11,077

($11,077 divided by 500 = $22.154 per share)

If 100 shares are subsequently sold for $3,000, the profit to be reported for income tax purposes is $784.60, as follows:

Sold—100 shares	$3,000.00
Cost—100 at 22.154 (adjusted cost basis)	2,215.40
Profit	$784.60

APPORTIONMENT OF COST ($20,000) OF THE 1,000 SHARES ON WHICH THE RIGHTS ARE EXERCISED

Computations are based on the same average market values for the stock and rights, viz: Stock—24: Rights—2.

Apportioned to old stock—24/26 of $20,000	$18,461.50
Apportioned to rights — 2/26 of 20,000	1,538.50
	$20,000.00

COST BASIS OF NEW STOCK

Cost of old stock apportioned to rights	$1,538.50
Subscription to new stock—1,000 shares at $20	20,000.00
Cost Basis for New Stock	$21,538.50

($21,538.50 divided by 1,000 = $21.5385 per share)

If 100 shares are subsequently sold for $3,000, the profit to be reported for income tax purposes is $846.15, as follows:

Sold—100 shares	$3,000.00
Cost—100 at 21.5385	2,153.85
Profit	$846.15

ADJUSTED COST BASIS OF OLD STOCK

Cost—1,000 shares at 20	$20,000.00
Deduct—Cost of old stock apportioned to rights	1,538.50
Adjusted Cost Basis of Old Stock	$18,431.50

($18,461.50 divided by 1,000 = $18.4615 per share)

If 100 shares are subsequently sold for $3,000, the profit to be reported for income tax purposes is $1,153.85, as follows:

Sold—100 shares	$3,000.00
Cost—100 shares at 18.4615 (adjusted cost basis)	1,846.15
Profit	$1,153.85

Observations

(Continued from page 5)

accomplished toward gaining the fundamental basis mentioned in paragraph No. 1 above. To gain stockholders' confidence, management must realize and keep constantly in mind that a stockholder's principal interest in any company is the money he has invested in that company. Every stockholder is concerned about the safety of that investment which may be a substantial part of his total worth. **Management must make it feasible and easy for stockholders to follow their investment in the one way which is worth while i.e., on a continuing basis.** When managements realize that this can be done and take the necessary steps to enable their stockholders to follow their investments in a practical manner, a relationship between stockholders and managements will be established which does not now exist. When stockholders feel that management is sincerely interested in them and the investment they have in a particular company stockholders will in turn have a much greater interest and more constructive attitude toward that management and what it has done and is doing.

The necessary first step is for management to take the initiative and send a letter to all registered stockholders. Such a communication might read along the following lines:

"There are developments occurring from time to time which may affect your investment in XYZ Company. The directors of XYZ Co. recognize their obligation to you as a part-owner of the company to furnish information on the progress of the company so that you can appraise your holding in the company on an investment basis whenever you feel that you should do so.

"A great many security holders consult someone in a bank, trust company, or investment organization about their investments. If you care to ask the person who advises you on your investments to communicate with us we will try to answer any proper question he may have about the operations of our company at this time.

"The directors of XYZ Co. belong in that expanding group of industrial executives which recognizes the importance and desirability of establishing better understanding and a more constructive attitude between management and investors in this country. In facing this problem realistically these industrialists realize that the most important consideration to you and stockholders of other corporations is to have your savings invested wisely and satisfactorily at all times. The XYZ Co. is sincerely desirous of helping you attain this objective by making it feasible for you and your investment adviser to follow your investment in our management closely, on a practical, continuing basis.

"In doing this, we directors of XYZ Co. believe we are making a definite contribution to the economic health of their stockholders, the company, and of investors generally."

This letter can be sent as an enclosure in dividend checks or other regular company mailing or as a separate mailing. It should be signed by an officer of the company handling stockholder relations who can follow it up effectively and thoroughly, or by a consultant on stockholder relations, if the company retains an independent organization to advise them on stockholder and investment relations. There are, of course, other follow-up steps that should be taken which vary materially with the size of the company, the number of stockholders, the number and types of products manufactured and other important details which may no. be of interest to your many readers.

I do not know whether or not you wish to use all or part of the above in your column but the subject of stockholder relations is so important at this time and so much has been written which may easily confuse your readers that I am glad to be helpful when I can.

HAROLD HODGSON.

New York City,
Aug. 1, 1949.

The Menacing Forces Of Monopoly

(Continued from page 9)

brief quotations from the written arguments recently filed in the Supreme Court by representatives of the American Federation of Labor. It should be added that the arguments in behalf of the CIO in the same case proceeded along the same line. Here is the argument of counsel for the A. F. of L.:

"Business thrives or can thrive under competition between businessmen; workers cannot thrive but can only die under competition between themselves. For workers throughout a trade or industry are, as a group, engaged in competition with businessmen for a fair share of the products of industry. Unless working men are free to combine and eliminate competition among themselves, they cannot effectively engage in competition with employers." (Brief for American Federation of Labor in American Federation of Labor et al. v. American Sash and Door Company et al. in the Supreme Court of the United States, October Term 1948.)

An extreme example of the license granted by Congress to labor unions to monopolize trade, despite the prohibition of the Sherman Act, was given by the majority opinion of the Supreme Court, written by Mr. Justice Black in Allen Bradley Co. et al. v. Local Union No. 3, International Brotherhood of Electrical Workers, et al., 325 U. S. 797, where it was stated by the Court that:

"It is true that many labor union activities do substantially interrupt the course of trade and that these activities, lifted out of the prohibitions of the Sherman Act, include substantially all, if not all, of the normal peaceful activities of labor unions. It is also true that the Sherman Act 'draws no distinction between the restraints effected by violence and those achieved by peaceful . . . means', *Apex Hosiery Co.* v. *Leader*, supra, 513, and that a union's exemption from the Sherman Act is not to be determined by a judicial 'judgment regarding the wisdom or unwisdom, the rightness or wrongness, the selfishness or unselfishness of the end of which the particular union activities are the means.' *United States* v. *Hutcheson*, supra, 232. Thus these congressionally permitted union activities may restrain trade in and of themselves. There is no denying the fact that many of them do so, both directly and indirectly" (pp. 810-811).

* * *

"Seldom, if ever, has it been claimed before, that by permitting labor unions to carry on their own activities, Congress intended completely to abdicate its constitutional power to regulate interstate commerce and to empower interested business groups to shift their society from a competitive to a monopolistic economy." (p. 810)

* * *

"This, it is argued, brings about a wholly undesirable result—one which leaves labor unions free to engage in conduct which restrains trade. But the desirability of such an exemption of labor unions is a question for the determination of Congress." (p. 810)

It should be noted that, although the Court held that labor unions could not combine with business organizations in monopolistic agreements, it was also pointed out that when a labor union forced a standardized agreement in restraint of trade upon one business manager after another and thereby eventually forced such an agreement upon an entire industry, such a method of accomplishing a complete monopolistic control would not be in violation of the law. In the dissenting opinion in the foregoing case by Mr. Justice Roberts the result of this ruling was stated as follows:

"The course of decision in this Court has now created a situation in which, by concerted action, unions may set up a wall around a municipality of millions of inhabitants against importation of any goods if the union is careful to make separate contracts with each employer, and if the union and employers are able to convince the Court that, while all employers have such agreements, each acted independently in making them,—this notwithstanding the avowed purpose to exclude goods not made in that city by the members of the union; notwithstanding the fact that the purpose and inevitable result is the stifling of competition in interstate trade and the creation of a monopoly."

My point in bringing these matters to the attention of this Committee is that it is entirely useless, indeed a mockery of lawmaking to attempt to revise the antitrust laws in such a way as to impose further restraints upon monopolistic practices of businessmen, if at the same time the law is to leave labor organizations entirely free to create and maintain monopolies by means of uniform trade union agreements imposed upon an industry in one locality or upon an entire national industry.

Principles That Must Be Followed

If this present inquiry is to be productive of recommendations for a revision of the antitrust laws to make them effective in the prevention and destruction of monopolies, there are certain principles which in my opinion must be followed:

First: Anti-monopoly legislation should have the objective of maintaining the essentials of free and fair competition among *all* persons engaged in the production and distribution of products and services involved in interstate commerce. No combination of persons or enterprises should be permitted to eliminate such competition except where those persons and enterprises are engaged in a business which because of its nature, and in the public interest, is regarded as a natural or desirable monopoly, and as such is subject to regulation by public authority as to prices and services rendered.

Second: The size of an interprise should not be regarded as conclusive evidence of monopolistic power. It should be recognized that in modern industry enter-

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prises of great size under one management are frequently capable of a service to the public which smaller enterprises could not render.

Third: Since, however, the size of an enterprise in relation to the size of an industry may give it such a dominating influence as to create in practical effect a monopoly control, the law might well provide an automatic check on undesirable business expansion by requiring that any business management capable of controlling the market because of the size of its operations would become subject to obligations similar to those imposed upon public utilities.

Thus it would lie within the wisdom of an aggressive business management itself to restrain its expansion of power within bounds wherein it could operate free from public regulation.

Fourth: Anti-monopoly legislation should define in understandable terms those combinations or agreements or concentrations of economic power which would unlawfully restrain competition, and then distinguish from them those trade codes or agreements which should not unduly restrain competition, but should improve the orderliness and integrity of business operations. There should be a complete prohibition of all *secret* arrangements or agreements which in any degree restrict competition in interstate commerce, with the requirement that all such arrangements or agreements must be made public, and, when involving large enterprises, must be filed by the makers with an appropriate Federal Authority This Authority should then be required, before initiating any prosecution, to notify the prospective defendants of its opinion that, their arrangement or agreement, either in itself of in its practical application violates the law.

No Immunity Should Be Granted

It is not my suggestion that any Federal Authority should be authorized to grant an immunity from prosecution. But it is my proposition that if agreements which are made in good faith and brought to the attention of a public Authority are officially regarded as violative of the law, it would be a much fairer, and more expeditious method of enforcing the law to call upon the parties themselves to abrogate such agreements, than to subject such persons to unnecessary and expensive prosecutions of dubious merit such as now burden alike the government and law-abiding businessmen.

In order to make this statement brief and pointed I may seem to have oversimplified my analysis of your problem and my suggestions as to a solution. For this reason I would like to explain that since 1907 I have been deeply concerned with anti-monopoly legislation. In 1913 I was the chief draftsman of three bills introduced by Representative Victor Murdock which provided for the creation of a Federal commission to deal with all the problems of unfair competition and monopolies affecting interstate commerce. In this work I had the counsel and approval of a distinguished committee headed by William Draper Lewis, former dean of the University of Pennsylvania Law School, and later director of the American Law Institute. On the committee were also such eminent lawyers as James R. Garfield, former Secretary of the Interior, George W. Kirchwey, dean of Columbia University Law School, and Herbert Knox Smith, former Commissioner of corporations; and, among other notable citizens, Charles E. Merriam, former head of the Department of Economics of the University of Chicago.

The principles which I have previously stated were all written into these bills—and some of them were incorporated in the law which was subsequently enacted creating the present Federal Trade Commission. Some 20 years later I was called upon to serve, first as General Counsel and then as head of the National Industrial Recovery Administration, which carried on an extensive and none too successful experiment in fostering fair competition in interstate commerce.

I have published two books, a review of the NRA entitled The Rainbow (in 1936) and another, Government and Business Tomorrow (in 1943), which discuss your current problem at some length, and also many articles to which I might refer such as (in the University of Pennsylvania Law Review) A Suggestion for the Revision of the Antitrust Laws and another entitled The Monopoly Issue. I can also offer for your consideration an article in The George Washington Law Review (June 1946) on Significant Developments in Labor Law, which deals in part with the growth of labor monopolies, and an address to the Academy of Political Science in 1940, on Legislative and Administrative Impediments to Production.

The purpose of this biographical review is not to establish myself as an authority in this field, where there are many authors and few authorities, but to make clear that my views are those of a student and not those of a partisan advocate. I do not speak for any client or for any class interest. But, as a lifelong student, I do pray that the day may come when Congress will write anti-monopoly legislation, not to protect or to favor big business or big labor, and not to make big government bigger and more paternalistic. I pray for legislation enacted for the single purpose of protecting a free economy from the foes of its own household, who, ambitious for personal power, seek to gain monopolistic controls of industry which inevitably prepare the way for the political controls and tyrannies of national socialism.

Devaluation and Our Stock Market

(Continued from first page)

where there was then a comparative surplus of goods, its internal exchange value was not affected. In 1933 our dollar was devalued. Its exchange value in terms of the pound sterling again became $4.86, but its internal exchange value remained practically stable, due to our own enormous surpluses of goods.

More Difficult Than in 1931

England is today, however, facing a far more difficult and complicated situation than she did in 1931. Today she has no surpluses. She desperately needs raw materials and food. To live, as always, she must export. But in terms of international exchange, her money has lost a large percentage of its value. A devaluation at this time, therefore, would mean a higher cost of living at home, due to a higher price—as expressed in pounds—for raw materials purchased abroad, provided, however, that an English valuation would not affect world commodity prices.

At this particular period that is a moot question and one that might have a very definite effect upon our own economy. When England devalued in 1931 all commodities broke very sharply. Our farm commodities declined approximately 40%, and our depression was prolonged a year as a direct result. But at that time the sterling bloc played a much more important role in the world than it does today. However, pound devaluation would definitely cause a decline in such items as rubber, tin, cocoa, etc., and psychologically, we believe, all commodities would be affected, if not to the extent that they were in 1931, still to a not inconsiderable figure.

Effects On Our Price Structure

This would probably materially affect our own price structure. It must be realized that pound devaluation would be followed by a readjustment of the currencies of most, if not all other European and South American countries. Today, in view of our enormous farm surpluses and our huge productive capacity, we need export business as we have never required it heretofore. It is difficult to prognosticate whether this would result in a general lowering of prices in the United States, or whether we should have two scales of prices—one for export and one for home consumption. This has happened before, particularly with manufactured goods. Many of us may remember, for example, when steel rails were sold to England at considerably lower prices than our own railroads were buying them.

If the pound be devalued it will result in England increasing her exports, with a resultant improvement in her dollar balances. If, further, a general devaluation of all European countries results in a decline in price—as expressed in dollars—of world commodities, there is a possibility that we may re-establish not only a revival of world trade, but also the stimulus for American businesses to invest in foreign plants.

But desirable as devaluation seems, the whole proposition is vastly complicated by England's labor-socialist government. It has performed so badly it fears that any monetary action it might take which would even temporarily increase living costs, would be disastrous.

It does seem a great pity that we in America should be heavily taxed to send dollars to England to support—either directly or indirectly—a government whose ideologies are so contrary to our ideas of free enterprise. It is an encouraging sign that some far-seeing Congressmen are objecting to loans or gifts being made to any country whose government is promoting the socialization of its industries. It is, of course, none of our business what kind of a government England has but it is our business — as it is that of any banker—what England does with our money.

Devaluation Will Occur

But socialist government or non-socialist government notwithstanding, there are so many inherent advantages in pound devaluation that we feel confident that it will occur, if not before—surely shortly after the turn of the year. True, as far as we are concerned, we shall have to meet more foreign competition both at home and abroad, but the advantages of the recrudescence of world trade will more than outweigh the disadvantages we may have to face.

In connection with the rumors of pound devaluation there has been some talk, both here and abroad, of dollar devaluation. This is sheer nonsense. Were dollar devaluation to follow pound or franc or lira devaluation we should merely re-establish the present status quo and negate all the advantages that could result from a realistic appraisal of world currencies.

Our Internal Problems

Meanwhile we still have our own internal problems with which to contend. President Truman's address on the economic state of the nation was replete with pulchritudinous platitudes and confusing contradictions. On the one hand, he spoke hopefully of the business situation, on the other, he was definitely opposed to reducing government personnel on the ground that it would cause more unemployment. He was impressed with our still huge national income, but was quite positive in his belief that deficit financing could not be avoided. To the question that every sane businessman is asking: "If we cannot live within our income during a period of prosperity, when can we?"—he has no answer, except that selfish interests are interfering with both economic and social progress.

Unfortunately, he did not specify who the so-called "selfish interests" were. Was he perhaps referring to the Morgans, the Rockefellers, the du Ponts, the Vanderbilts, the Hills, the Harrimans and their successors who have given this country a higher standard of living, that not only any country in the world has ever had, or that we ourselves dreamed possible 50 years ago; or was he perhaps referring to the John L. Lewises, the Murrays and the Greens who would deprive these men of the right to manage those enterprises that their foresight and courage made possible; or was he perhaps referring to that rather large group of political and bureaucratic incumbents who are willing to spend the money of these same leaders of industry so that they may maintain themselves in office indefinitely? The other day Winston Churchill, speaking of the labor-socialist government in England, said: "Never has so great havoc been wrought by such small men." We need not look afar for reasons to duplicate the statement.

However, judging by the action of the stock market, Wall Street did not regard the President's message unfavorably. Just why it should not have, we do not know, unless it saw—in what was almost a promise of deficit financing—further inflationary implications. If that were the cause, we again repeat that inflation has never, in this country, been bullish on the stock market. Or, possibly, the message had nothing to do with the market, but its improvement is rather due to the fact that some hiatus in the declining production index is looked for in the fall. But we are rather more impressed by actual statistics than we are by surmises.

Our Domestic Business Outlook

While it is of course important to note that the Federal Reserve Board production index for June had fallen to 169 (1935-1939=100) and that a lower figure is expected for July, it is still more important to examine the backlog of orders. The Cleveland Trust Co. bulletin of July 15 has charted these from figures furnished by the Department of Commerce. The chart shows the backlog lower than at any time in the last three years, having fallen approximately 25% since last November. While this is a very sharp drop, there is still no evidence of a reversal of the trend, in spite of the fact that this 25% is a combined figure for durable and nondurable goods.

It is still our opinion that the adjustment is only about half completed, and that before it is complete the production index will approach 150.

And should pound devaluation occur and cause a general decline in world commodity prices, further drastic inventory and price adjustments are not an impossibility.

Incidence On the Stock Market

I believe it to be highly doubtful that the market will maintain a sustained rally until the production index has flattened out at that lower level of 150.

If even a slight further drop in prices for both finished and raw materials accompany this decline in the production index, it is likely that the average dollar volume of sales for the coming 12 months will be at least a third less than it has been for the past 12 months. Such a shrinkage in dollar volume would result in a loss of from 70 to 80% of profits, and on that basis prices for most stocks are far too high, even though they be valued on their normal price-earnings ratio.

Our calculations are based on normal gross profit margins. Obviously, companies with heavy depreciation charges and high labor costs will suffer more than the average.

With First Cleveland Corp.

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, OHIO — Charles J. Shields has become associated with The First Cleveland Corp., National City East Sixth Building. Mr. Shields in the past was with E. H. Rollins & Sons, Inc. and A. E. Masten & Co. in Pittsburgh.

J. Bradley Scott, Jr. With F. L. Putnam & Co.

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS.—J. Bradley Scott, Jr. is with F. L. Putnam & Co., Inc., 77 Franklin Street, members of the Boston Stock Exchange. Mr. Scott was formerly Vice-President of the H. P. Carver Corp.

J. M. Dain & Co. Adds

(Special to THE FINANCIAL CHRONICLE)

MINNEAPOLIS, MINN.—Frank A. Warner has become associated with J. M. Dain & Co., 112 South Sixth Street, members of the Minneapolis-St. Paul Stock Exchange and the Chicago Stock Exchange. Mr. Warner was previously with Dayton & Gernon.

With Thomson & McKinnon

(Special to THE FINANCIAL CHRONICLE)

MIAMI, FLA. — Carlton N. Baumgardner, Jr. has become associated with Thomson & McKinnon, Shoreland Arcade Building. He was formerly with Oscar E. Dooly and Merrill Lynch, Pierce, Fenner & Beane.

New Buckley Branch

WILKES-BARRE, PA. — Buckley Brothers, members of New York, Philadelphia-Baltimore and Los Angeles Stock Exchanges, announce the opening of an office in Wilkes-Barre, Pa., under the management of Alfred Schroeder.

Joins Paul A. Davis Co.

(Special to THE FINANCIAL CHRONICLE)

MIAMI, FLA.—Grant S. Huey has become associated with Paul A. Davis & Co., Ingraham Building. Mr. Huey was formerly with Gordon Graves & Co.

With Hanan & Willcox

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF. — Lawrence R. Kiebler has become associated with Hanan & Willcox. Mr. Kiebler for many years was with Wulff-Hansen & Co.

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Alabama-Tennessee Natural Gas Co., Florence, Ala.
July 14 filed 90,000 shares ($1 par) common stock. **Price**—$9.60 a share. **Underwriter** — Scott, Horner & Mason, Inc., Lynchburg, Va. **Proceeds**—To be used for construction of a gas pipe line system.

● **Anaconda Lead & Silver Co., Denver, Colo.**
July 28 (letter of notification) 57,500 shares ($1 par) capital stock. To be traded for 57,500 capital shares of the Marfa (Texas) Corp. No underwriter. Office, 1509 Marion St., Denver, Colo.

● **Anchor Steel & Conveyor Co., Dearborn, Mich.**
July 21 (letter of notification) 10,000 shares ($1 par) common stock. To be sold by Francis I. LeVeque, Dearborn. **Underwriter**—Bradley Higbie & Co., Detroit.

● **Appalachian Life Insurance Co., Huntington, West Virginia**
July 21 (letter of notification) 5,000 shares of common stock. **Price**—$8.50 per share. For use in life insurance business. No underwriter. Office, 1007 Fifth Ave., Huntington, W. Va.

● **Automotive Parts Co., Columbus, Ohio**
July 25 (letter of notification) $300,000 4½% sinking fund debentures, due 1964. **Underwriter**—The Ohio Co., Columbus, Ohio. To pay notes, acquire additional fixed assets, working capital.

● **Bay Brook Oil & Gas Co., Inc., Tulsa, Okla.**
July 28 (letter of notification) 100,000 shares ($1 par) capital stock. **Price**—$1 each. For working capital. No underwriter. Office, Midco Bldg., Tulsa, Okla.

Bradshaw Mining Co., Tonopah, Nev.
Oct. 8 (letter of notification) 1,500,000 shares (5c par) common stock. **Price**—20 cents per share. **Underwriter**—Batkin & Co., New York. To repair and renovate mine of company and to exercise option to purchase processing mill and move and erect such mill on the company's property and for working capital.

Burd Piston Ring Co., Rockford, Ill.
July 18 (letter of notification) 2,500 shares common stock (par $1). **Price**—About $7 per share. **Underwriter**—Paul H. Davis & Co., Chicago.

● **Buzzards Bay Gas Co., Hyannis, Mass.**
July 26 (letter of notification) $220,000 3¾% Series A 25-year bonds, due 1971. **Underwriters**—To be offered under competitive bidding and sold for not less than par. For payment of outstanding notes.

● **California Oregon Power Co. (8/16)**
July 26 filed $7,000,000 first mortgage bonds due 1979. **Underwriters** — Competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Merrill Lynch, Pierce, Fenner & Beane and Kidder, Peabody & Co. (jointly); Lehman Brothers; Shields & Co. and E. H. Rollins & Sons (jointly); Blyth & Co., Inc. and The First Boston Corp. (jointly); Harriman Ripley & Co. **Proceeds**—Finance in part construction program. Bids expected Aug. 16.

● **California Oregon Power Co. (8/16-17)**
July 26 filed 250,000 shares ($20 par) common stock. **Underwriters**—Blyth & Co., Inc. and The First Boston Corp. **Proceeds**—Construction program.

● **Canners Finance Co., Springdale, Ark.**
July 28 (letter of notification) $72,150 in $100 par value shares to be exchanged for the same amount in preorganization certificates and $77,850 of like shares to be sold at $100 each. To provide working capital. No underwriter. Office, 112 Emma St., Springdale, Ark.

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.

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.

Conditioned-Aire Corp., Alexandria, Va. (8/8-12)
July 14 (letter of notification) 99,833 shares of 6% cumulative convertible preferred stock ($3 par) and 50,000 warrants to purchase 50,000 shares (par 10c) common stock at one cent per warrant. Price of preferred, par. **Underwriters**—The First Guardian Securities Corp., New York. **Proceeds**—To provide additional working capital for manufacturing and sales of air conditioning equipment.

Consolidated Caribou Silver Mines, Inc.
March 30 filed 376,250 shares (no par) common stock. **Price**—$2.50 per share. An additional 50,000 shares will be sold to the underwriter at $1 per share for investment. **Underwriter**—William L. Burton & Co., New York. **Proceeds**—To develop mining properties. Temporarily postponed.

● **Consolidated Engineering Corp., Pasadena, Cal.**
July 28 (letter of notification) 1,000 shares ($1 par) common stock, to be sold to Hugh F. Colvin, Sierra Madre, Calif., at $5 each. For working capital. No underwriter.

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., Carson City, Nevada**
July 27 (letter of notification) 1,500,000 shares (10c par) common stock. Price, par. For exploration and development on Utah property. No underwriter. Office, 511 N. Carson St., Carson City, Nev.

● **Diesel Power Co., Pittsburgh, Pa.**
July 28 (letter of notification) 25,000 shares of common stock (par $1). Price, $50 per unit of 50 shares each. **Underwriter**—Graham & Co., Pittsburgh.

● **Dividend Shares, Inc., New York**
July 29 filed $6,000,000 shares (25c par) capital stock. **Underwriter**—Calvin Bullock, manager. **Proceeds**—For investment purposes.

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.

● **Emery Industries, Inc., Cincinnati, Ohio**
July 25 (letter of notification) 10,000 shares (no par) common stock. **Price**—$18.75. For working capital. No underwriter. Office, 4300 Carew Tower, Cincinnati, O.

● **Engineered Products Corp., Washington, D. C.**
July 24 (letter of notification) 400 shares of capital stock (no par). **Price**—$100 each. For working capital. No underwriter. Office, 1000 Shoreham Bldg., Washington, D. C.

● **Engineers Gold Mines, Inc., Denver, Colo.**
July 28 (letter of notification) 300,000 shares of non-assessable common stock. Each accompanied by one stock purchase warrant at 20 cents each. **Underwriter**—E. W. Hoy, New York and Denver. For exploration and mine drilling. Office, 604 Empire Bldg., Denver, Colo.

● **Fall River Finance Co., Fall River, Mass.**
July 29 (letter of notification) 34,000 shares ($1 par) cumulative participating preferred stock. **Price**—$5 each. For additional working capital to expand loan business. No underwriter. Office, 130 S. Main St., Fall River, Mass.

● **Flagstaff Bonanza Mining Co., Park City, Utah**
July 25 (letter of notification) 500,000 shares (5c par) common stock. **Price**—10 cents each. For mining development and equipment. No underwriter. Office, 418 Main St., Pak City, Utah.

● **Food Machinery & Equipment Corp. (8/17)**
July 26 filed $8,000 000 20-year debentures, due 1969. **Underwriters** — Kidder, Peabody & Co. and Mitchum, Tully & Co. **Proceeds**—General corporate purposes, including completion of facilities being constructed for manufacture of elemental phosphorus.

● **Great Western Theatres, Inc., Los Angeles, California**
July 21 (letter of notification) 5,000 shares of 7% preferred stock. **Price**—$10 each. To finance erection of a drive-in-theatre. No underwriter. Office, 1522 W. 7th St., Los Angeles, Calif.

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.

Heidelberg Sports Enterprises, Inc., Pittsburgh, Pa.
June 25 filed 5,000 shares of class B common stock (par $100). **Price**—$100 per share. **Underwriter**—None. **Proceeds**—$600,000 to be used for spectator grandstand and balance for related purposes.

● **Hilltop Radio Corp., Washington, D. C.**
July 27 (letter of notification) 1,500 shares ($10 par) common stock, and 5,000 shares ($10 par) preferred stock. **Price**—$12 each class. No underwriter. To construct and equip wholesale and retail television and radio company. Office, 1326 U St., Washington, D. C.

Horwood Lake Gold Mines Corp.
Dec. 27 (letter of notification) 100,000 shares of capital stock. **Price**—$1 per share. **Underwriter**—Charles W. Warshoff & Co., Newark, N. J. For development of mining properties.

Idaho-Montana Pulp & Paper Co., Polson, Mont.
Nov. 23 (by amendment) 180,000 shares ($10 par) common stock to be offered at $10 per share and 20,020 shares to be issued in exchange for $170,200 first mortgage bonds. **Underwriter**—Tom G. Taylor & Co., Missoula, Mont. **Proceeds**—To erect and operate a bleached sulphate pulp mill with a 200-ton per day capacity.

Iowa Southern Utilities Co. of Del. (8/17)
July 26 filed 80,000 shares of cumulative preferred stock ($30 par), convertible on or before June 1, 1959. **Underwriter**—The First Boston Corp. **Proceeds**—For construction.

● **Johnson-Sayers Photo Supply Co., Fort Smith, Ark.**
July 27 (letter of notification) 250 shares ($100 par) 6% cumulative preferred stock. Price, par. To expand the wholesale business. No underwriter.

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.

MacFarlane's Candies, Oakland, Calif.
July 18 (letter of notification) 9,545 shares ($1 par) common stock. **Price**—$9 per share. **Underwriter**—Stephenson, Leydecker & Co., Oakland, Calif.

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.

Maumee Oil Corp., Toledo, Ohio
May 12 filed 8,000 shares (no par) common, of which only about 2,614 shares will be offered publicly at $100 per share. No underwriter. For general working capital. SEC held hearing June 6 to determine whether

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NEW ISSUE CALENDAR

August 9, 1949
Missouri Pacific RR._____Equip. Trust Ctfs.

August 10, 1949
Pennsylvania Power & Light Co._____Preferred
International-Great Northern RR.__Eqp. Trust Ctfs.
St. Louis Brownsville & Mexico Ry._Eqp. Trust Ctfs.

August 16, 1949
California Oregon Power Co._____Bonds
California Oregon Power Co._____Common

August 17, 1949
Food Machinery & Equipment Corp.___Debentures
Iowa Southern Utilities Co._____Preferred
Texas Gas Transmission Co._____Common

August 23, 1949
Northern States Power Co. (Minn.)_____Bonds

September 8, 1949
Indiana Harbor Belt RR._____Equip. Trust Ctfs.

September 21, 1949
New York Central RR._____Equip. Trust Ctfs.

a stop order should be issued suspending the effectiveness of the registration statement.

● **New Haven Pulp & Board Co., New Haven, Conn.**
July 29 (letter of notification) 4,949 shares ($25 par) common stock. **Price**—$40 each. For corporate purposes. No underwriter. Office, 259 East St., New Haven, Conn.

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 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 Indiana Public Service Co.**
Aug. 1 filed 311,654 shares (no par) common stock. **Underwriters**—Central Republic Co., Inc.; Blyth & Co., Inc.; Merrill Lynch, Pierce, Fenner & Beane. **Proceeds**—For construction.

Northern States Power Co. (Minn.) (8/23)
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. Expected Aug. 23.

Oil, Inc., Salt Lake City, Utah
May 19 (letter of notification) 172,690 common shares (par $1). Price, par. **Underwriter**—Waldron & Co., San Francisco, Calif. To drill and equip five wells, working capital, etc.

● **Oregon-Washington Telephone Co., Hood River, Oregon**
July 22 (letter of notification) 1,500 shares ($100 par) preferred stock and 5,000 shares (no par) common stock. **Price**—$98 per share for preferred and $21.50 for common. **Underwriter**—Conrad, Bruce & Co., Seattle. For extensions and betterments.

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.

Pennsylvania Power & Light Co. (8/10)
July 20 filed 75,000 shares of 4½% cumulative preferred stock (par $100). **Underwriters**—The First Boston Corp. and Drexel & Co. **Proceeds**—Money will be added to general funds and will be used in company's construction program.

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**—S. G. Cranwell & Co., New York. **Proceeds**—For administration expenses and drilling. Statement effective June 27.

● **Red Rock Bottlers, Inc., Atlanta, Ga.**
July 28 (letter of notification) 25,000 shares of common stock, and options to buy an additional 60,000 shares at prices ranging from $2.50 to $3.50 between Aug. 10, 1949 and Aug. 9, 1954. These securities will be issued to Red Rock Eastern Corp. in exchange for its principal assets. No underwriter. Office, 901 W. Peachtree St., N. E., Atlanta, Ga.

Renaissance Films Distribution, Inc., Montreal, Que.
Oct. 29 filed 40,000 shares (par $25) 5% cumulative convertible class B preferred stock and 10,000 shares of C stock (no par). **Underwriting**—None. **Offering**—Class B preferred will be offered at $25 per share with one share of class C given as a bonus with each 4 shares of class B purchased. **Proceeds**—To pay balance of current liabilities and working capital.

● **Resort Airlines, Inc., Southern Pines, N. C.**
July 27 (letter of notification) 54,000 shares ($1 par) common stock, of which 50,000 shares offered by company and 4,000 shares by George B. Wilkinson, Charlotte, N. C. **Underwriter**—Marx & Co., New York. **Price**—$5 per share. To be used for equipment and additional working capital in connection with the company's air cruise service.

● **Sears Roebuck & Co.**
July 29 the Savings and Profit Sharing Pension Fund of Sears, Roebuck & Co. Employees filed not more than 650,000 shares of capital stock, to be offered employees within the next year.

● **Silver Bell Mines Co., Denver, Colo.**
July 27 (letter of notification) 20,000 shares of capital stock to be offered by Edward G. O'Brien and 20,000 by Eugene J. Nord. **Price**—$1.10 each. **Underwriter**—E. W. & R. C. Miller & Co., Philadelphia.

● **Sturgis (Mich.) Foundry Corp.**
July 28 (letter of notification) 1,015 shares of common stock. **Price**—$100 a share. To replace present facilities and for more equipment. No underwriter.

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.

● **Sunlight Mining Co., Spokane, Wash.**
July 26 (letter of notification) 500,000 shares (10c par) common non-assessable capital stock. To discharge indebtedness of the Moonlight Mining Co., and to develop Moonlight Mine at Maxville, Mont. No underwriter. Office, 711 Hutton Bldg., Spokane, Wash.

● **Telluride Power Co., Richfield, Utah**
July 21 (letter of notification) 3,000 shares of 6% cumulative preferred stock ($100 par). Price, par To finance additions. No underwriter.

● **Texas Gas Transmission Co. (8/17)**
July 28 filed 211,225 shares ($5 par) common stock (part of a 250,750 block bought by 14 stockholders last July at $8 a share). **Underwriter**—Dillon, Read & Co., Inc.

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.

● **United Co., Westminster, Md.**
July 22 (letter of notification) 2,500 shares ($100 par) preferred stock, 5% cumulative. Price, par. For working capital in the manufacture of machines and products. No underwriter.

● **United Minerals Reserve Corp., Chicago**
July 27 (letter of notification) 270,000 shares of common stock. **Price**—$1 each. **Underwriter**—Edward W. Ackley & Co., Boston. For development of mining properties.

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 154,000 shares of common stock (par $9). **Underwriters**—SEC has been asked to exempt sale from competitive bidding. If shares are sold through negotiation an investment banking group managed by Kidder, Peabody & Co.; Merrill Lynch, Pierce, Fenner & Beane, and Paine, Webber, Jackson & Curtis, may be underwriters. **Proceeds**—Will go to selling stockholders. Consolidated Electric & Gas Co. and Middle West Corp. will sell 120,000 shares and 34,000 shares, respectively.

● **Utah Power & Light Co.**
July 28 filed 148,155 shares of common stock (no par). **Offering**—To be offered for subscription by stockholders of record Sept. 13 at rate of one new for each eight shares held. Unsubscribed shares will be sold at competitive bidding. Probable bidders: Harriman, Ripley & Co.; W. C. Langley & Co. and Glore, Forgan & Co. (jointly); Kidder, Peabody & Co. and Merrill Lynch, Pierce, Fenner & Beane (jointly); Blyth & Co., Inc. **Proceeds**—For construction purposes.

● **Utah Power & Light Co.**
July 28 filed $3,000,000 first mortgage bonds, due 1979. **Underwriters**—Competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Salomon Bros. & Hutzler; Lehman Brothers and Bear, Stearns & Co. (jointly); Kidder, Peabody & Co. **Proceeds**—For construction purposes.

● **Weaver Bros., Inc. of Maryland, Baltimore, Md.**
July 25 (letter of notification) 2,890 shares of 6% cumulative preferred stock ($100 par). For interim financing. No underwriter.

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.

● **Yancey-Harris Co., Inc., Dallas, Tex.**
July 27 (letter of notification) 298,500 shares (50c par) Class A stock, along with option warrants to buy an additional 149,250 shares. **Price**—$1 per share. **Underwriter**—Luckhurst & Co., Inc. New York. To pay off indebtedness to the Equitable Life Assurance Society and to supplement working capital.

Prospective Offerings

● **Alabama Power Co.**
July 28 reported company may sell $80,000,000 of bonds to refund its first mortgage 3½s, due 1972. Investment banking groups reported as preparing to compete for a possible new issue include: Blyth & Co., Inc.; The First Boston Corp.; Halsey, Stuart & Co. Inc.; Morgan Stanley & Co.

American Gas & Electric Co.
July 27 reported four investment banking groups are forming syndicates to submit competitive proposals for the underwriting of company's proposed offering of 500,000 additional common shares. The groups are: Union Securities Corp.; The First Boston Corp.; Dillon, Read & Co. Inc.; Blyth & Co., Inc. and Goldman, Sachs & Co. (jointly). The shares will first be offered, about Oct. 1, for subscription by company's stockholders, in the ratio of one new share for each nine held.

Appalachian Electric Power Co.
July 23 reported company expects to sell, probably after the turn of the year, $30,000,000 in new first mortgage bonds. Probable bidders include: Kuhn, Loeb & Co. and Union Securities Corp. (jointly); Harriman Ripley & Co. Inc.; The First Boston Corp.; Halsey Stuart & Co. Inc.

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.

Commonwealth Natural Gas Corp.
July 22 company advised the FPC that it proposed construction of 200-mile pipe line would be financed through sale of securities by Scott & Stringfellow, Richmond, Va.

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.

Gas Service Co.
July 23 reported company (subsidiary of Cities Service Co.) is preparing to file with the SEC a registration statement covering $18,000,000 25-year first mortgage bonds. It is expected that the issue will be ready for the market in September. Probable bidders: Halsey, Stuart & Co. Inc.; Union Securities Corp. and Harriman Ripley & Co. (jointly); Merrill Lynch, Pierce, Fenner & Beane and White, Weld & Co. (jointly); Blyth & Co., Inc., and Kidder, Peabody & Co. (jointly); Lehman Brothers and Stone & Webster Securities Corp. (jointly).

Indiana Harbor Belt RR. (9/8)
July 18 reported company expects to sell September 8 $2,970,000 10-15 year equipment trust certificates. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Harris, Hall & Co. (Inc.); Harriman Ripley & Co. and Lehman Brothers (jointly).

Indianapolis Power & Light Co.
July 23 reported company may be in market in September with a $32,000,000 bond issue, the proceeds to refund outstanding 3¼s. Probable bidders include: Halsey, Stuart & Co. Inc.; Lehman Brothers; Goldman, Sachs & Co. and The First Boston Corp. (jointly); Blyth & Co., Inc.; W. C. Langley & Co. and White, Weld & Co. (jointly).

International-Great Northern RR. (8/10)
Bids for the purchase of $1,710,000 equipment trust certificates will be opened Aug. 10. Probable bidders: Halsey, Stuart & Co. Inc.; Harris, Hall & Co. (Inc.); Salomon Bros. & Hutzler; Harriman Ripley & Co. and Lehman Brothers (jointly).

Iowa Power & Light Co.
May 12 reported company may be in the market this year with $7,500,000 first mortgage bonds and $3,000,000 common stock, the latter to be sold to United Light & Rys. Co. (parent). Bidders for bonds may include Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Kidder, Peabody & Co.; Lehman Brothers; Blyth & Co., Inc.; W. C. Langley & Co., and Union Securities Corp. (jointly); The First Boston Corp.; Glore, Forgan & Co., and A. G. Becker & Co. (jointly); Harriman Ripley & Co.

● **Missouri Pacific RR. (8/9)**
Bids for the purchase of $5,025,000 in equipment trust certificates will be received Aug. 9. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Harris, Hall & Co. (Inc.); Harriman Ripley & Co. and Lehman Brothers (jointly).

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.

New England Gas & Electric Association
Company proposes to offer to the holders of its outstand-

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(Continued from page 33)

ing 1,246,011 shares of common stock, 124,601 shares of additional common stock on the basis of one share of the additional common stock for each 10 shares of common stock held. The offer will be made through rights issued to the stockholders. Existing shareholders will also be given the privilege to subscribe for any number of additional shares not subscribed for through the exercise of the rights, subject to allotment on a pro rata basis. The proceeds will be used to retire $1,250,000 principal amount of short term bank notes of NEGEA and the balance will be set aside for the acquisition of additional common stock of subsidiaries. Probable underwriters: The First Boston Corp., Harriman Ripley & Co.

● New York Central RR. (9/21)

July 30 stated that company is expected to sell at competitive bidding about Sept. 21 an issue of $9,120,000 equipment trust certificates. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; The First Boston Corp.; Harriman Ripley & Co. and Lehman Brothers.

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.; Blyth & Co., Inc.; Kidder, Peabody & Co.; W. C. Langley & Co. and The First Boston Corp. (jointly); Union Securities Corp., Equitable Securities Corp. and Salomon Bros. & Hutzler (jointly).

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 stock now outstanding, GPU would cause Rochester to Gas stock. As owner of all 775,914 shares of Rochester 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. Company may offer through dealer-manager (probably The First Boston Corp.)

St. Louis Brownsville & Mexico Ry. (8/10)

Bids for the purchase of $1,020,000 equipment trust certificates will be opened Aug. 10. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Harris, Hall & Co. (Inc.); Harriman Ripley & Co. and Lehman Brothers (jointly).

Texas Power & Light Co.

May 11 reported company plans to sell $7,000,000 of bonds to the public in order to finance its construction and expansion program. In addition, it will sell $3,000,000 of common stock to its parent, American Power & Light Co. Probable bidders for bonds: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Blyth & Co., Inc.; Kidder, Peabody & Co. and Smith, Barney & Co. (jointly); W. C. Langley & Co. and Glore, Forgan & Co. (jointly); Carl M. Loeb, Rhoades & Co. and E. H. Rollins & Sons (jointly); Union Securities Corp.; Drexel & Co. and Hemphill, Noyes & Co. (jointly); Lehman Brothers; Salomon Bros. & Hutzler.

Virginia Natural Gas Co.

The company's proposed construction of natural gas pipe line, costing $5,377,972, would be financed through sale of securities either through a public offering, private sale, or combination of both. If public sale probable underwriter, Scott, Horner & Mason.

Western Maryland Railway

April 10 annual report stated company is giving consideration to the maturity on Oct. 1, 1952, of its 4% non-callable first mortgage bonds and is accumulating cash for the reduction of the debt. About $2,000,000 set aside for the debt reduction has been invested in government securities and $2,032,000 of the bonds have been purchased in the open market, reducing the amount outstanding in the hands of the public to $44,601,000. It is possible that prior to maturity the bondholders may be given the privilege of exchanging a portion of the outstanding bonds for new general first mortgage bonds. Kuhn, Loeb & Co. and Halsey, Stuart & Co. Inc. are possible bidders for the new issue.

Our Reporter's Report

Institutional buyers of securities are having their troubles at the moment and see little hope for relief through the balance of the summer. The veritable dearth of new issues making their appearance leaves this select group, whom some of the investment bankers have dubbed the "bureaucrats" with the unenviable task of trying to find profitable employment for a steady inflow of funds.

The mid-summer let-down in new issues is a normal development, but this year appears to promise leaner pickings than for some time passed.

This probably accounts for the gradually firming undertone which has characterized the listed market in recent weeks, not forgetting of course the complete turnabout in Federal monetary policy.

But dealers report steady inquiry around for high-quality corporate obligations, particularly those of the public utilities. Orders, for most part, however, are usually a bit off the market and the disinclination of potential buyers to "reach" for bonds, keeps much of this business from turning into actual transactions.

Nevertheless, the strong tone underlying the top-layer of available investment securities indicates that buyers, even though not anxious to do so, are forced to yield a little here and there to pick up material for empty spots in their portfolios.

Bigger Than It Looked

Secondary transactions and "standby" deals are helping to fill in the gaps for underwriting firms in these quiet days. And one that went through a few days ago suggests that even really high-priced issues can be placed without too much difficulty.

A group of bankers took over the task of placing a block of 2,000 shares of stock of Christiana Securities Corp., big du Pont family holding company.

Now 2,000 shares doesn't sound like much until you look at the price tag. While the actual offering price was not made public in this instance, the shares are quoted around $3,200 bid $3,250 asked, which makes it considerably better than a $6,000,000 piece of business.

Tug-o-War

Apparently bankers are out "beating the bushes" these days in search of possible new business. At any rate reports have it that groups are forming to go after new financing which they apparently expect Alabama Power Co. to do in the months ahead.

At least four syndicates are reported to have been set up even though it is reported that the company has disclaimed any intention of financing in the near-term.

The company has outstanding an $80,000,000 issue of 3½s. Presumably bankers would like to refund this on a lower cost basis. But at least one banker among those in the picture doubts the wisdom of such a move unless the market undergoes further substantial change.

Not Even Close

The group which took on Wheeling & Lake Erie Railroad's $6,870,000 of new general refunding bonds, series B, due 1974 several days ago, seemingly made sure that its bid was going to pinch the business.

It paid the company a price of 98.132 for 2¾% coupon. The nearest bid of five competitors, all of whom fixed a 2⅞% coupon, was 99.369.

Quick calculators around the market place figured that the winning group had cloaked itself with a "cover" of better than a full point. Reoffering was undertaken at 98⅞ to yield better than 2.81%.

Turning to Equities

Northern Indiana Public Service Co., which has done some bond financing in recent months, is now embarked on a program of raising additional funds via the equity route.

The company has filed 311,654 shares of additional common stock, no par, for offering to shareholders in the ratio of one new share for each seven held. Proceeds will be applied toward financing construction which is estimated will require $46 000,000 from now until the close of 1951.

The company has engaged a banking group to "stand by" on this deal and take up whatever balance of the issue may remain unsubscribed.

Business Activity Still Drifting Downward

(Continued from page 16)

started last month reached a new peak of over 100 000. Indications are that even that record may be surpassed although the total this year is expected to be somewhat lower than it was in 1948, when the number was the largest in 23 years. Total outlays for all types of construction have risen to $1,800,000,000 monthly, which is very close to the peak, and the trend is still upward.

Business spending for new plants and equipment has also surpassed expectations and is running but little below the very high levels of last year. These expenditures are being made at the annual rate of close to $19,000,000,000, and estimates made by the United States Department of Commerce and the Securities and Exchange Commission indicate that this type of spending is expected to amount to $4,600,000 000 this quarter. Declines in expansion programs in manufacturing, railroad equipment, mining, and commercial will be offset by increases by the electric utilities and transportation companies, other than the railroads. About 30% of the total expenditures is for construction, and 70% for new equipment. This type of spending is determined to a large extent by the viewpoints which businessmen have as to the future prospects for the profitable use of the equipment and relationship between costs and income. It might be greatly reduced if costs should rise higher at the same time that markets are no longer expanding as they have been in recent years.

Firmness in the prices of several basic commodities is another current trend which indicates that demand in some fields is still high and is increasing. Most striking among them is the renewed activity in the metal markets, where prices of lead, zinc, and copper turned upward last month. Prices of grains and livestock have been holding well in the face of prospects for very large crops this year. Although a substantial rise in the general price level is not expected soon, nor is it desired, the fact that several basic commodities are holding steady is encouraging. They will help offset the declines which are likely in other lines where supplies are becoming large in comparison with current demand.

Rising security prices throughout much of last month also reflected a widespread feeling of confidence that the business recession would not be serious nor too greatly prolonged. Prices of industrial securities rose close to 10% above the four year low which was reached in June. The rebound was one of the most vigorous in the postwar period, although the volume of trading was very low. It indicates the probability that even if the decline should be resumed this fall, due to lower profits among many corporations, the falling off would not be extensive, nor would it be continued long. Very little interest has been shown in securities for several years because of the many uncertainties in connection with governmental, labor, and business policies. If the current readjustment period results in more nearly normal relationships among costs, prices, and incomes, greater interest will be taken in the financial markets. Securities are now much below normal in comparison with corporate earnings, and when investors become convinced that stable conditions are being established, they will bid up prices to levels more in line with profits.

These promising trends do not guarantee that no further declines will take place in many segments of the economic structure. They do provide a strong support, however, and will help prevent a too prolonged or serious recession. Quite as significant in the current situation is the fact that the curtailment in production has been greater than the decline in the physical quantities of goods being purchased by consumers. The moderate falling off in retail sales has resulted in larger decreases in wholesaling and in manufacturing. Unless consumer psychology changes or the reduction in individual incomes due to unemployment and shorter working hours becomes greater than is now evident, more production will be needed before long in order to replace the goods that are being sold in such large quantities. Trends in these lines will be closely watched during the coming months.

How Far Declines Usually Go

General declines in business activity have varied considerably both in extent and duration but similarities in several instances have been close enough to be worth considering in appraising the current trends and the prospects for the future. The postwar readjustment after World War I continued for a little over one year. The decline in industrial production was over 30%. The recession of 1937 and 1938 also continued about a year and the decline was 30%. A mild recession in 1923 and 1924 amounted to a little over 15%. The decline during the long depression from 1929 through 1933 was 54%. Conditions now do not indicate that any such extensive or prolonged period is likely. More probable is a readjustment more nearly similar to the one in 1920 and 1921. As compared with the 30% decline then, the current drop has been a little over 15% and has lasted about eight months.

Price changes have shown even wider variations than have changes in industrial production. Comparisons with preceding periods are of limited value now, however, because of the many measures to support prices at around current levels and to finance the with-holding of commodities from the markets at times when demand is slack. The long-run effect of such measures may be uncertain, but the temporary effect is to stabilize the general price level and prevent such sharp declines as have previously taken place whenever business activity has slowed down. Price drops in recessions have ranged from 20 to 40%, as compared with the current decline of around 10%, in prices at wholesale. Declines in retail prices and in the cost of living have so far been much less. Wage rates, which represent a major item in the cost of production, have changed but little. In many lines they have been rising rather than declining as they usually do when business slackens. Productivity is increasing and helps to lower the labor cost per unit of product.

Historical comparisons are useful in appraising the current situation and the prospects for the future, but allowance should be made for the special conditions which prevail at the present time. Governmental policies are being adopted to reverse the trend but their effectiveness is yet to be demonstrated. Even greatly increased governmental expenditures, for example, would not fully offset a 10% decline in the volume of retail sales which last year amounted to over $130,000 000,000. When attempting to evaluate the effect of any policy, one should consider not only the direction in which the policy works, but also the importance of it in comparison with trends in the opposite direction. Even though these expenditures may be large, the major part of business activity is determined by what is done apart from direct governmental action.

Greatest economic advances in the past have been associated with flexibility throughout the business structure and the close adjustment of all kinds of prices to changing conditions of supply and demand. Rigid or artificially promoted and maintained conditions in any field are likely to simply defer the needed readjustments and make them even worse when they do come. Also important, are methods of reducing costs through increased productivity as well as allowing economic factors to bring about a more nearly satisfactory balance between costs, prices, and volume. Proper leadership by government, industry, and labor can do much to bring about that balance which will mean a higher standard of living for all. We need to keep in mind that the basic fundamental for a high standard of living is not the number of dollars each group can get for itself, often at the expense of other groups. Prosperity and national well-being depend upon the volume of goods and services that are being produced. Only as total production increases, can everyone have more. The primary objective of all those directing any phase of the economic system should be the largest production of those goods and services which consumers want and are able to pay for. Maintaining proper balance among those who must produce and exchange those goods and services is the fundamental requirement. Desire to reach that goal is important. Also significant

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is the proper understanding and wisdom to follow the right methods for reaching it.

Inventory Changes Are Constructive

Excessive inventories have usually been a striking characteristic of periods when business was slack and have delayed recovery until they could be reduced to more nearly normal relationship to sales. Close inventory control has been the policy in most businesses during the last few years, and as a result excess supplies have not yet been the disturbing influence that they have often been when activity began to slow down. Conditions in 1920 and also in 1937 were made worse by the burdensome inventories which had to be worked off before production could be resumed. At the present time inventories are low in comparison with sales and have already been reduced by over 10%. The reduction last month was the largest ever reported and accounts for a considerable part of the decline in industrial production. If the changes can continue to be made in an orderly manner, a high degree of stability is likely to be achieved in general business activity.

The sound inventory policies which have been followed in recent years are the result of two new developments. One is the fact that more information is now available currently as to the inventory situation in all types of business. Data collected by the Department of Commerce from large numbers of companies, although not yet fully satisfactory, are much better than businessmen have ever had before. The other development is the much better understanding as to the role which changing inventories play in the different phases of the business cycle. The policy of curtailing inventory increases as much as possible in boom times and building them up in slack times is a significant stabilizing influence in the economic system. It is one aspect of increased management skill and understanding that is encouraging for the future.

New Orders Declining

Volumes of new orders, especially those placed by manufacturers, are significant in evaluating current trends and in forecasting probable future changes. The index is the best available measure of incoming business and reflects quite accurately, not only supply and demand conditions in industry, but also the attitudes of businessmen as to future market demands in their lines. In the ten years during which the index has been published by the Department of Commerce, it has changed several times in advance of the change in industrial production.

At the present time it is one of the indicators which suggest caution, as it has been declining since the third quarter of last year. It started downward before production did, and has declined somewhat more than the 15% drop in factory output. As the index is expressed in dollars, some of the decline has been due to lower prices, but much of it due to lower demand. The shift among purchasing agents from extensive buying in advance to a more nearly normal hand-to-mouth buying policy is also responsible for part of the change. Quite as significant as the drop, however, is the fact that the index is still higher above prewar levels than is industrial production. Volume is large enough to maintain factory output indefinitely at not far below current levels.

This indicator is important enough to be closely watched for the first indication of a reversal in the downward trend in output. The record of its past performance is definite enough to make it a reliable signal for a later advance in industrial production. The effect of an increase in new orders at one point is cumulative and is passed on throughout many businesses, just as the effects of the decline have been cumulative in the opposite direction during recent months.

Readjustments Being Completed

Recessions in business need not result in a continued downward spiral but may be self-correcting. Experience in several industries during recent months indicate how these readjustments are being made and are putting individual lines in position to move ahead.

A typical example is the rise in lead and copper prices, especially in scrap materials. These rises have not been large and they may not hold permanently, but they indicate what normally takes place during a period of readjustment. The basic reason for the price increases was that less lead and copper was being processed and shipped, than was being used in products sold to the ultimate consumers. Battery manufacturers are the largest users of lead. For some time the shipments of batteries were much below what would be needed as a result of the record number of automobiles on the road, and the large number of batteries used in other places. The evidence has been clear that sooner of later the production of batteries would have to be increased to replace those being used up. That change took place last month when manufacturers increased their purchases of lead considerably above the previous reduced buying. Increases in purchases made by the government for stockpiling of essential defense materials have also been significant in adding to the demand.

Shipments of copper by producers and by fabricators in the early part of the year were the smallest in eleven years, and less than half those of the corresponding period in the preceding year. In the meantime, the use of copper is being maintained at close to peak levels and here again the result has been to reduce stocks of raw materials held by manufacturers. The basis is rapidly being laid for a substantial upturn in the buying of copper. Conclusive evidence of that changing situation is given by the firming of prices. The government is also buying substantial quantities for its stockpiles.

The textile industry is another place where price and inventory corrections have been going on for a long time and apparently are being completed. Prices of cotton goods reached their peak almost two years ago, and have declined over 35%. Consumption of cotton and the supplies of cotton goods is lower than during any previous years, except those of extreme depression. It is much below the buying power of today and far less than current sales to consumers. Somewhat similar conditions prevail in wool and to some extent in rayon. Consumption of raw wool has been about half that of the peak, while sales of apparel stores have declined less than 10% and much of that decline has been due to lower prices. Wool consumption is well in excess of production. Imports and stocks of wool are the lowest in six years. Here is another industry which is getting into a situation where increases will take place. The moderate improvement of both employment and pay rolls in wool manufacturing may turn out to be the beginning of an advance in that field.

These examples may not be typical of the general situation at the present time but they show that various industries are in different stages of recession. As yet many industries are not so far along in adjusting themselves to the new conditions which prevail when shortages are made up. The important point to consider is that there will be constructive upward movements at the same time that downward trends are prominent in some of the lines which have been advancing most, and where shortages are still an important factor in the demand.

In all business planning both the general trend of composite indexes, which include many individual items and the changes in particular lines of business, need to be considered. Variations are often as significant as are the broader averages, which tend to conceal them.

Bumper Crops Expected

Although weather conditions have been somewhat less favorable for agriculture in many parts of the country, prospects are still for farm output close to the highest ever reached. The total acreage planted to crops this season is the largest in 16 years, exceeding the wartime peak by a slight margin. Over 366,000,000 acres were planted for the 52 principal crops, as compared with the record of 375,500,000 in 1932. Current forecasts indicate that total production on this acreage will be 30% above the ten-year average and larger than any other crop except the record one last year.

The wheat crop is expected to total 1,100,000,000 bushels, which is close to 200,000 000 bushels below last year but over 100,000,000 above average. The carryover from the preceding crops is large and total supplies for the coming year will be over 1,400,000,000. Peak supplies were in 1942-43 season when they amounted to 1,600,000,000. Total domestic consumption for the year is estimated at 700,000,000 bushels, of which 480,000 000 are for food and the remainder for feed and seed. Although the amount to be shipped abroad cannot be determined accurately, it is currently estimated at about 450,000,000 bushels. The amount of wheat left on hand at the end of the year is likely to be larger than it has been for several years. Problems of crop surpluses are again becoming predominant and they may be intensified by policies of keeping prices high by artificial measures. The effect of high prices is to increase production and reduce consumption. Surpluses will be reduced by the opposite policy.

The corn crop is expected to be the second largest one ever raised although weather conditions during the crucial month of August may greatly modify output. The total is estimated at 3,500,000,000 bushels as compared with an average crop of 2,788,000,000. Most other feed grain and hay crops are also expected to be much above average, and the total supplies per animal unit will probably be the largest in many years if not at record levels. Large crops are supplemented by equally large carryovers. The surplus problem may become specially acute in corn. If present prospects are maintained, total supply for the coming year will be over 4,000,000,000 but consumption is not likely to be over 3,000,000,000.

The cotton crop is another of the major ones in which efforts to keep down acreage to the goals recommended by the government have not been successful.

Farmers planted 15% more acres in cotton than they did last year and about 18% more than the ten-year average. The acreage is the largest in 12 years. Greatest increases have been made in the western states—California, New Mexico, and Arizona. If average yields are raised on this acreage the crop will be more than 2,000,000 bales more than prospective domestic use and export during the coming year. Carryover is now close to 50% of an average crop and about as much as is being used currently in this country throughout an entire year. If yields should be as large as last year the surplus would be even greater.

The effect of large supplies and prospective increases has been to push prices of farm products lower, although the most recent trends have been upward. The average price of all farm products sold is around 15% lower than it was a year ago. The drop has been much greater in many individual commodities. The ratio of prices received to prices paid has declined 12% during the last 12 months and is now at about parity which is the same as the relationship which prevailed in the five years before World War I.

Farm income has been maintained somewhat better than have prices, because of the larger amounts of grains and livestock produced. It is considerably more than double the prewar figure and amounts to over $1,800,000,000 monthly. Income from livestock has increased more than has the income from crops. Uncertainties as to the long-range future trend of prices and income have helped to prevent widespread speculation in farm lands which proved to be so damaging after World War I. The financial position of farmers is thus strong.

Liquidation Notice

The Plainfield National Bank of Moosup, located at Moosup, in the State of Connecticut, is closing its affairs. All creditors of the association are therefore hereby notified to present claims for payment to the undersigned at said bank.

BENJAMIN F. DAWSON,
Liquidating Agent

Dated June 24, 1949

DIVIDEND NOTICES

CANCO AMERICAN CAN COMPANY

PREFERRED STOCK

On July 26, 1949 a quarterly dividend of one and three-quarters per cent was declared on the Preferred Stock of this Company, payable October 1, 1949 to Stockholders of record at the close of business September 15, 1949. Transfer books will remain open. Checks will be mailed.

EDMUND HOFFMAN, *Secretary.*

AMERICAN METER COMPANY

Incorporated

60 EAST 42ND STREET

AMERICAN METER CO EST. 1836

New York, July 28, 1949.

A dividend of One Dollar ($1.00) per share has been declared on the Capital Stock of the Company, payable September 15, 1949, to stockholders of record at the close of business August 18, 1949.

JOHN VAN NORDEN, *Secretary*

Atlas Corporation

Dividend on Common Stock

NOTICE IS HEREBY GIVEN that a regular quarterly dividend of 40¢ per share has been declared on the Common Stock of Atlas Corporation, payable September 20, 1949, to holders of such stock of record at the close of business August 26, 1949.

WALTER A. PETERSON, *Treasurer*

July 29, 1949.

AMERICAN GAS AND ELECTRIC COMPANY

Preferred Stock Dividend

THE regular quarterly dividend of One Dollar Eighteen and Three-quarter Cents ($1.18¾) per share for the quarter ending September 30, 1949, on the 4¾% cumulative Preferred capital stock of the Company, issued and outstanding in the hands of the public, has been declared out of the surplus net earnings of the Company, payable October 1, 1949, to holders of such stock of record on the books of the Company at the close of business September 2, 1949,

W. J. ROSE, Secretary

August 3, 1949.

DIVIDEND NOTICES

AMERICAN RADIATOR & Standard Sanitary CORPORATION

New York Pittsburgh

PREFERRED DIVIDEND
COMMON DIVIDEND

A quarterly dividend of $1.75 per share on the Preferred Stock has been declared payable September 1, 1949, to stockholders of record at the close of business on August 25, 1949.

A dividend of 25 cents per share on the Common Stock has been declared payable September 24, 1949, to stockholders of record at the close of business on September 2, 1949.

JOHN E. KING
Treasurer

BORDEN'S 1857

Borden's

DIVIDEND No. 158

An interim dividend of sixty cents (60¢) per share has been declared on the capital stock of *The Borden Company,* payable September 1, 1949, to stockholders of record at the close of business August 11, 1949.

E. L. NOETZEL
Treasurer

July 26, 1949

EATON MANUFACTURING COMPANY

Cleveland 10, Ohio

EATON

DIVIDEND NO. 101

The Board of Directors of Eaton Manufacturing Company has declared a dividend of Fifty Cents ($0.50) per share on the 1,792,520 $2.00 par value common shares of the Company issued and outstanding, payable August 25, 1949, to shareholders of record at the close of business, August 10, 1949.

Declared on July 29, 1949

H. C. STUESSY
Secretary

DIVIDEND NOTICES

HARBISON-WALKER REFRACTORIES COMPANY

Pittsburgh Pennsylvania

August 1, 1949

Board of Directors have declared for quarter ending September 30, 1949, DIVIDEND of ONE and ONE-HALF (1½%) PER CENT or $1.50 per share on PREFERRED STOCK, payable October 20, 1949 to stockholders of record October 6, 1949

Also declared a DIVIDEND of FIFTY CENTS per share on the NO PAR COMMON STOCK, payable September 1, 1949 to stockholders of record August 11, 1949.

G. F. Cronmiller, Jr. Secretary

NAUMKEAG

Steam Cotton Company

SALEM, MASSACHUSETTS

DIVIDEND No. 225

July 27, 1949

The board of Directors of Naumkeag Steam Cotton Company at a meeting held on July 27, 1949 declared a dividend of Fifty Cents (.50) a share, payable on August 26, 1949 to holders of record at the close of business August 17, 1949. Old Colony Trust Company, of Boston, will mail checks.

RUDOLPH C. DICK
President and Treasurer

PEQUOT SHEETS & PILLOW CASES pay daily dividends of luxurious and restful sleep.

The Nation Sleeps on PEQUOT SHEETS

THE FLINTKOTE COMPANY

30 ROCKEFELLER PLAZA NEW YORK 20, N. Y.

FLINTKOTE PROTECTION

A quarterly dividend of $1.00 per share has been declared on the **$4 Cumulative Preferred Stock** payable September 15, 1949 to stockholders of record at the close of business September 1, 1949.

A quarterly dividend of $.50 per share has been declared on the **Common Stock** payable September 10, 1949, to stockholders of record at the close of business August 26, 1949.

CLIFTON W. GREGG,
Vice President and Treasurer

August 3, 1949

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Washington . . . And You

Behind-the-Scene Interpretations from the Nation's Capital

WASHINGTON, D. C.—Secretary Snyder's recent visit to Treasury representatives and to the Foreign Ministers of Europe, probably will have entirely wholesome if unspectacular results, it is the opinion expressed here, although Treasury officials are unwilling to discuss the details of the Secretary's tour.

One thing which "threw" observers was the Treasury's insistence that Mr. Snyder's main object in going to Europe was to visit Treasury representatives abroad. This would ordinarily sound like a routine evasion.

Spelled out, it seems to make sense. Secretary Snyder is Chairman of the National Advisory Council. That is a statutory body created to coordinate all U. S. international policies. Thus, to use an entirely hypothetical example—if the State Department were to push for additional and expanded aid of any kind to relieve the latest "dollar crisis," State couldn't come forward with any such scheme without first clearing it with NAC, which means without clearing it with Mr. Snyder.

So in this key spot. The Secretary of the Treasury naturally would want to be sure of sources of information of the highest competence, both in evaluation and in getting around abroad and finding out what is what.

This check-up on Treasury representatives abroad was actually planned by the Secretary months before the latest British exchange crisis hatched into full newspaper view.

In view of the later development of exchange problems of the Laborite Government, it was even more useful to be sure that Treasury representatives abroad would be in a position in every way to keep the Secretary currently advised, in view of the forthcoming currency discussions next month as the Directors of the World Bank and Fund congregate here.

In the course of visiting the financial ministers, the Secretary obviously got a lot of relevant, first-hand information about European economic and currency problems, and European thinking about these problems.

On the other hand, the basic mission was said to be informational. The Secretary was not offered any proposals, bright or otherwise, for solution of Europe's exchange difficulties, and he did not have any proposals of his own to offer.

Those who have watched the Secretary operate since he took over the Treasury portfolio believe that Mr. Snyder would not be remiss in bringing to the attention, as an incidental part of his discussions with foreign government leaders, the already large existing burden American taxpayers bear for European economic rehabilitation and their probable reluctance to support any greater burden.

* * *

Some of the leading conservatives of Congress are pessimistic about prospects for adjournment of this session before well into September. With the session now going into August the very earliest adjournment could come, barring one possibility, is Labor Day, with most guessing the session will not close down before the middle of September.

The only outside possibility of an earlier adjournment is that Congress might get fed up with the "Fair Deal" and, after finally, if ever, completing appropriation bills, just adjourn and walk out on Harry Truman. People of responsibility have been inspiring such stories in recent weeks. They have been saying that, without their customary space and audience, the members of the House and Senate would not hang around long in their temporary meeting places while the Capitol's roofs were being repaired.

Actually there is little sign that the members are particularly irritated over their cramped meeting places, and about the only physical factor which could get them home would be if someone were to break up the air-conditioning gear.

* * *

Conservatives are worried over the lengthening of the session because the longer the Congress hangs arounds the more gets spent and the more progress, even if it isn't very spectacular progress, Harry Truman makes with his legislative program.

Thus, if Congress had scheduled a get-away by July 31, it is altogether probable that there would not have been time for the go-around on the Brannan plan in the House. The House soundly defeated the trial run of the Brannan plan on the farmers, but whatever "compromise" comes out of this intricate negotiation on the future of farm commodity supports is bound to be more expensive to both consumers and taxpayers than the Aiken Law which otherwise would have become effective next Jan. 1.

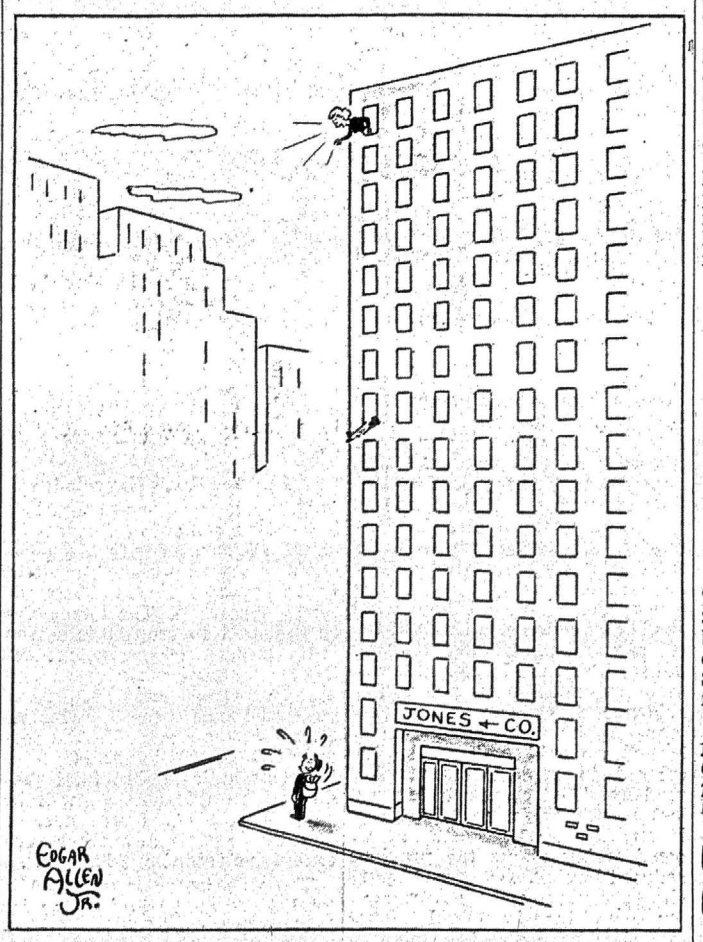
So it is with social security. Behind the scenes the Administration has been tugging furiously at the Democratic members of the Ways and Means Committee to report out a vast social security expansion along the lines he recommended. At least once each week the committee is reported to be on the verge of giving Mr. Truman about 75% of what he wants. Yet always the conservatives had managed to hold up the thing a while. Nevertheless, one of these days the Democrats are likely to vote a vastly broadened social security bill.

Even though there is not time for action in the Senate this year, if the bill comes out of committee soon, there will be time to pass it this year in the House, if Congress is around here until mid-September. Then the program is up to bat for action next year in the Senate.

* * *

Despite the noise the Senate is making about economy, there is little hope of any great result thus far. While the Senate committee has proposed that the Defense Department "save" $430 millions, it has not guaranteed this. Under the Senate committee amendment the Secretary of Defense could merely defer certain procurement without actually curtailing spending. The situation on the Wolworth economy proposal of the 62 Senators (directing the President to cut from 5 to 10% from appropriations) is still that if the 62 Senators actually wanted to vote such a proposition, they could force the Administration leaders in the Senate to let it be considered. The House is still set to kill this even if it should pass the Senate, either as a separate proposition or as a rider to one of the last appropriation bills.

BUSINESS BUZZ



"Oh, Mr. Postman! Mind dropping up here again? I addressed that letter incorrectly I just gave you to mail!"

One of the bright bits of news which has been unearthed by Congressmen trying to find out what lies behind the grand and expensive new "private" housing bill, is the extent to which the White House is behind direct Federal loans for cooperative rental housing. The bill provides $1 billion for this purpose.

According to a source friendly to the Administration, the White House in a letter to the House Banking Committee, advocated the idea that government direct loans for cooperative housing be at a variable interest rate. The rate would vary from 4% to zero, depending upon the weighted average income of the tenants of the particular cooperative housing apartment.

When pro-Administration Senators saw this letter they hit the ceiling, not because of any great quarrel with the principle, but because of the politics. The letter was written before the fight was over on the 810,000-unit public housing and slum clearance bill. The Administration Senators recognized that publication of a letter from the White House backing loans on such a give-away basis would be interpreted by opponents of public housing, as White House efforts to actually enlarge public housing through the back door of cooperative housing.

In a fright lest the letter get made public and tip over the delicate balance in the House on public housing (it won by only three votes), the Administration Senators got the White House to kill this letter. They succeeded. Now the Banking Committee of the House will report that it has no such letter and has not seen it.

The bill provides for 60-year loans at ½ of 1% above the going long-term Federal rate. On the basis of the present outlook, that would be a top rate for cooperative housing loans, of 3%.

* * *

One government agency which gives the seemingly paradoxical appearance of trying at one and the same time both to get government money out of, and into its business, is the Home Loan Bank Board, which supervises the Federally-chartered savings and loan associations, the Federal Savings and Loan Insurance Corp., and the Home Loan Banks.

Between 1935 and 1937 some $273 millions of Federal money was put into the stock of the State and Federal building and loans to give them working and lending capital and set them up in business. The Home Loan Bank has been persuading these member institutions to pay off their Federal capital.

And judging by appearances, the Board has succeeded, to a degree commercial bank supervisory agencies probably would envy, there still being a good chunk of RFC capital in the latter institutions. The outstanding Federal investment in the "homestead" associations is about ½ of 1% of the original sum.

Likewise the Home Loan Bank Board is sponsoring legislation currently before Congress to require the Home Loan Bank member institutions to kick in a greater ante into the stock of the discount-lending Home Loan Banks. These member institution purchases would be used to retire in a year or so the balance of the Federal capital of less than $100 million in the Home Loan Banks.

On the other hand, HLBB is asking with Truman's approval for authority to call upon the Treasury for $750 million at the call of the HLBB for the corporation which insures the savings and loan share accounts. This is intended to give the savings and loan system the same standby drawing power on the Treasury which the $3 billion standby lending power gives the Federal Deposit Insurance Corp., in case of an emergency.

Finally, the HLBB wants to "authorize" the Treasury to invest $1 billion in Home Loan Banks, but will give up this request if it can persuade the Federal Reserve System to buy HLBB debentures instead.

(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.)

George H. Grant Opens Offices in Piedmont

(Special to THE FINANCIAL CHRONICLE)

PIEDMONT, CALIF.—George H. Grant has opened offices at 33 Richardson Way to engage in a securities business. Mr. Grant was formerly president of First California Co. and prior thereto was proprietor of Geo. H. Grant & Co., of Oakland.

Joins Woodard Elwood Staff

(Special to THE FINANCIAL CHRONICLE)

MINNEAPOLIS, MINN.—Robert J. Tustison has become affiliated with Woodard, Elwood & Co., Rand Tower, members of the Minneapolis-St. Paul Stock Exchange and the Chicago Stock Exchange. Mr. Tustison was previously with the Northwestern National Bank of Minneapolis.

With Bache & Co.

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, OHIO—Gerald P. Dooley is with Bache & Co., National City East Sixth Building.

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