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Business Prospects in First Half of 1950

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

Dr. Slichter, summing up conditions relating to short-term business outlook, sees private investment in first half of 1950 falling slightly below level of 1949, government deficits aggregating $6 billion a year, and a drop in personal and corporate savings. Holds net result will produce little change in business volume in first quarter of 1950.

I

The short-run business outlook will depend primarily upon three conditions: (1) the rate of private investment; (2) the size of the deficit in the Government budget; and (3) the rate of saving by individuals and corporations. I believe that the rate of private investment during the first half of 1950 will be moderately below the levels of 1949, that the deficit in the cash budgets of the local, State and national governments will be about $6 billion a year, and that the rate of personal and corporate saving will drop. The net result of these changes will be little change in the volume of business during the first quarter of 1950 and a moderate rise to an annual rate

Prof. S. H. Slichter

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*Summary of talk by Dr. Slichter before the Toy Manufacturers of the United States, New York City, Dec. 5th, 1949.

EDITORIAL

As We See It

Disillusionment About Germany Is Growing

There is evidently a good deal of disillusionment in high places about Germany and the way in which to deal with that country—or at least we hope there is. If the events of the past two or three years, and the situation existing at the moment, have not disillusioned a good many of our policy makers, it is their case, not that of Germany, which borders on the hopeless. The present state of affairs is quite different from what had been planned or expected by the powers that be, and the outlook is beset with difficulties the solution of which is not easy to find or to apply.

Of course, our first mistake, or at least one of the first, was our notion of "unconditional surrender." The result was fighting until little but chaos existed anywhere in that populous land. Even had it not been for the fact that our "ally" to the East could scarcely have asked for anything more to her liking than such confusion, a great nation in the condition in which Germany was found when our troops poured across its acres is one which constitutes a problem at best. In the end this problem could well be much more difficult to deal with than the resurgence in the later 'Twenties and most of the 'Thirties which is supposed to have been made possible, if not inspired, by our failure in World

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See pages 23, 24, 25 and 26 for pictures taken at Security Traders Ass'n of New York Election Meeting and Dinner.

The Security I Like Best

Selections Revealed by Forum Participants Listed in Panel on This Page.

Constituting a continuous forum in which, each week, a different group of experts in the investment and advisory field from all sections of the country participate and give their reasons for favoring a particular security. Some selections may be suitable for individuals, some for trustees and others for institutions.

MAURICE S. BENJAMIN
Benjamin, Hill & Co., N. Y. City

In picking a favorite stock it seems to me the first requirement is to formulate an opinion concerning the nature of our economy for the next few years, then to take one of industries to benefit the most therefrom and then to pick a leading company in that field.

Maurice S. Benjamin

The governmental policy for our economy, as well as that of the whole world, is to maintain purchasing power through the medium of floors under wages and farm prices; old age, sick and unemployed benefits of all kinds; various other subsidies, including public works, foreign aid, easy credit and deficit spending.

The amusement industry should be a chief beneficiary of this type of economy. In addition, after four years of stinting to pay for

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The Security I Like Best

(Continued from first page)

much needed durable products, the public should be in a better position to spend more for amusements. Secretary of Commerce Sawyer, after a "grass-roots" tour of the nation, says that he will report to President Truman that men everywhere are clamoring for a reduction of wartime excise taxes.

In my opinion, Twentieth Century Fox offers the greatest value in the motion picture industry on the basis of earnings, dividends, assets, financial position and outlook. Incidentally, Twentieth Century is the only one of the big four that has not split its capitalization. Twentieth Century Fox sells at 22½, pays $2 to yield 9% and will earn about $4.15-$4.25 for the full year 1949. Earnings in the future should benefit from more economically-made pictures. Financial position is very strong and the dividend is safe. Book value is about $37 per share. The stock sold at 64 in 1946. In the past seven years the company reported net earnings of $37.85 and paid out $17.50. Therefore, the stock sells for the retained earnings after dividends of the last seven years.

The reason that motion picture securities have been backward marketwise is because of the fear of what television might do to the industry. We believe that television offers the greatest growth factor for motion picture companies since sound. The industry has the money, the talent, and the production know-how to furnish programs. The theatres will use huge television screens to show sports and other events as added attractions. There are many possibilities of which Hollywood is fully aware.

Anti-trust action will force the sale of some theatres. The proceeds will be used for extra dividends or other forms of return to stockholders.

Leading investment trusts have been accumulating Twentieth Century Fox.

In entering a somewhat similar peacetime era, it is interesting to show the prewar (1932-1939) comparison of earnings and dividends of Loew's, Atchison and U. S. Steel: for those eight years Loew's earned $14.08 and paid $8.73 in dividends and at the current price of 16 sells at nine times its prewar average earnings during which time the yield would have been 6.2%. Atchison earned $5.17 and paid out $10.50, so that at 97, the stock sells at 146 times its prewar average earnings with the yield 1.3%. U. S. Steel had a deficit of $5.80 for the period and paid total dividends of 33 cents for the eight years.

I have had an interest in Twentieth Century Fox during the past world-troubled seven years and have had an unusually splendid investment, as the record shows, while waiting for the more promising developments of the future.

ALLEN M. BERNSTEIN
President, Bernstein - Macaulay, Inc.
Investment Counsel, N. Y. City

Allen M. Bernstein

To select a most favored security among the two-thousand-odd public companies, is almost as difficult as to find the proverbial needle in the haystack. Furthermore, most of the things or people that we like best involve some emotional reaction, but when we select a security our attitude must be purely objective.

Hence, we must apply certain yardsticks of management, financial strength, earning power over a long term of years; dividend record; growth history and possibility of further expansion; reason for existence and place in the economic life of the country; probabilities of reflecting the benefits of prosperity and safeguards against depression; and finally competitive position.

Of course, a great many corporations can qualify, and that is what makes it so difficult to select one particular company, but the the one that we feel most satisfactorily fulfills all the requirements is the CIT Financal Corporation.

This company, in spite of its modest beginnings has had an incalcuable influence upon our national life, has done much to improve our standard of living and as a result has been a potent influence in the growth of many of our corporations both in the consumer and non-durable goods industries and to a lesser extent even in durables.

The company had its inception in 1908—capital $100,000. In 1924 it became a public company. As of Dec. 31, 1948, it had gross assets of slightly under $900,000,000, and as of today its common stock alone has a market value in excess of $200,000,000—surely a record of extraordinary growth.

The growth and continuing success of this business are due in large part to its highly efficient management. Some of the present board of directors were associated with Henry Ittleson when he founded the company, many were with the company when its shares were offered to the public, and most of the officers of the factoring companies that were absorbed by CIT are also members of the Board. The officers, in the main, grew up with the company. They are an integrated group that have had years of experience within the company. It is, by no manner of speaking, a synthetic group—men chosen from various fields that had to learn the intricacies of the many and varied fields in which the company operates.

For the company not only finances semi-durables, and acts as factor for many corporations large and small but also extends credit for the purchase of machinery, equipment and plant modernization; operates a casualty insurance company, a fire insurance company, a marine insurance company and, of course, insures semi-durables sold under its installment payment plan, and also many other types of insurance. In addition it owns and operates a manufacturing company, and also purchases and sells installment receivables from and to others.

The corporation has an unbroken record of earnings and dividends. It has, with the exception of the World War II years, invariably reflected prosperous lines. But what is more remarkable is that during the depression years of the 1930s it continued to show earnings and pay dividends, which was also true when its operations were curtailed by government regulations. In both instances, this had been due, to a considerable extent, to its conservative method of accounting, for its deferred income account—built up during prosperous years—has always enabled the company to record earnings and pay dividends during the lean periods.

For some years there has been talk that banks would compete very strenuously for the business of the finance companies. During the past few years many have attempted this, but few have been successful. The installment and factoring businesses are highly specialized ones, and take years of experience to operate profitably. But even though many more of them should succeed there is all the business available to CIT that it can soundly finance.

Another important factor is that CIT has no inventory risks. Its losses due to bankruptcies and repossessions have been so small as to be practically negligible. Its only inventory is money. Its long-term borrowings have been obtained at very favorable rates—its short-term requirements are merely subject to short-term variations in the money rates, and in view of the government's attitude towards interest rates, the situation for the present and foreseeable future is all in favor of the company.

And thus, by every conceivable yardstick, it would seem that the stock of the CIF Financial Corporation qualifies it to be the "most favored security."

GLENELG P. CATERER
Vice-President, Lionel D. Edie & Co., Inc., New York City
Former President, N. Y. Society of Security Analysts

The security I like best—as of now—is the common stock of Atlantic Refining Co. It is not a popular security, and particularly is not popular now, when stocks of oil refining companies are out of favor. Yet I believe that the refining and marketing ends of the business have had about as poor a year in 1949 as they are likely to have for some time—and Atlantic earned $6.49 per share in the first nine months.

G. P. Caterer

The company again is making noteworthy progress in building up its production division. Low profits from refining and marketing appear to be characteristic of

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Defense Preparations And Financial Outlook

By MELCHIOR PALYI

Contending there can be little doubt that U. S. is only at beginning of preparations for World War III, which if continued, certainly would bleed the nation and rest of world white, Dr. Palyi foresees in armament race continuation and even acceleration of increase in national debt. This, he holds, can end only in some form of debt repudiation. Holds Republican party's prospects of coming into power may be safely discounted.

It gradually dawns on American business and investors that the most important single factor affecting their economic future is the foreign policy of this country. Whether or not there will be war and when; how much war preparation will take place and at what rate; how the burden will be carried and what controls will be involved; what the psychological effects of war prospects and preparations will be at home and abroad, and how they will affect monetary policies, international trade and, in particular, the demand for construction and equipment — such questions deserve prime consideration from the point of view of an intelligent approach to our problems.

Dr. Melchior Palyi

Defense at Disadvantage

There are three kinds of war: aggressive, defensive and preventive. If war there must be, only the last kind makes sense—as long as we enjoy technical supremacy. Defense is always too risky and too expensive. But unfortunately, preventive wars presuppose a foreign policy of a kind that is out of the question in this country. In other words, the next war—with Russia—will be initiated by the other side. The enemy will have all the advantages of the offensive, such as the timing and especially the possibility of inflicting on us a Pearl Harbor, if not a series of Pearl Harbors.

The popular concept of the next war is built on the experience of the last two. It is conceived as another war of liberation. The Soviets would invade some little neighbor. We then would step in gallantly with an ultimatum which they would reject for reasons of prestige. All that, of course, is pure day-dreaming. There will be no Russian invasion anywhere that would bring about war with America unless they want to make war on America. It will be a straightforward slugging between the only two heavyweights left in the global arena with no buffers between them and no holds barred.

What Kind of War?

Preparation for a war of defense has tremendous implications. They are the more tremendous since — no one really knows against what and how to defend. The means of mass murder are in a continuous technological revolution, the outcome of which still is entirely unpredictable. About one thing there is general agreement: that once attacked, the defender's first task is to retaliate. But there, the confusion begins, as demonstrated in the Congressional Committee battle of experts about unification of the armed services and distribution of funds among them.

The Navy believes in the Navy and fights with customary gallantry for bigger and better Navies and Marines which it considers decisive in transporting of vast masses of men and munitions, bringing their own air arm close to the enemy, etc. The top brass, Army and Air Force combined, seems to regard the future function of the Navy as that of an auxiliary and gives preference to long-range bombing at thousands of miles distance from the objective.

But is not "strategic bombing," even disregarding its unethical implications, as antiquated as is the concept of a blitzkrieg altogether? An outstanding scientist like Dr. Vannevar Bush ("Modern Arms and Free Men," 1949) points out that it scarcely would be feasible, in view of jet-propelled interceptors, highly effective anti-aircraft rockets and other modern defense methods, "to carry many atomic bombs successfully to fully defended and alert targets." Precision bombing would be out of the question, given the velocity and the extraordinary height at which the bombers would have to fly. The cost of long-distance rockets is astronomical. All of which speaks for aircraft carriers, provided snorkel-equipped submarines do not offset that weapon.

The Navy lost the verbal skirmish—for the time being. In all likelihood, sooner or later, its point of view will have to be taken into account because, to repeat, no one really knows what the decisive weapons will be. Therefore, all weapons will have to be prepared to the fullest possible extent, and new ones have to be developed, cost what they may.

An additional source of confusion is the fact that one does not know enough about the enemy's preparations, offensive and defensive. The Soviet budget is too vague and camouflaged to give a picture even of the amount spent on armaments. Too much reliance on our part on superweapons, fissional and biological warfare, may turn out to be sheer waste: they may not be used at all, by tacit agreement, as was the case with gas warfare in the last

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The Art of Selling

By WALTER E. BRUNAUER*

Director of Sales Training, Lily Tulip Cup Company

Mr. Brunauer lays down and explains fundamentals of salesmanship as: (1) know what you sell; (2) know whom you sell; and (3) know how to sell. Supplies ideas to securities selling.

In the very brief time at my disposal, we must cover a subject which in a local university takes 450 hours over a period of five or six months. I am somewhat in the same position as the woman who had quadruplets. Trying to be modest in the face of congratulations from a host of well-wishing admirers, she remarked that, according to her doctor, it was an event that took place about once out of every one hundred thousand times. At this point one of the women said, "Say I certainly admire what you've done—but this business of 'once out of every hundred thousand times'—when do you ever find time to do the housework?"

Walter E. Brunauer

When I mentioned these causes of my concern to Mr. Sutton he suggested I had nothing to worry about—that all you really wanted to know was how do we at Lily go about getting business.

Here is one answer—and incidentally one of the most important ones—(holds up doorknob)—the willingness to work hard—to open as many doorknobs as possible—to see as many prospects as possible. The answer might be summed up in just three words—three words that I got back in the mails when as a boy I sent 10c in to find out "How to Get Rich"—"Work Like Hell" was the reply.

Sad to say, however, there are some who would have you believe that selling is merely a matter of formulas, definitions, hocus pocus and claptrap such as this advice which I came upon recently.

"Talk loud. This proves you are a person of force and character and you must be right. Now if it should happen that both you and another person start to talk at the same moment, the proper technique is to keep raising your voice aggressively until you have drowned him out."

"Talk fast. If you talk fast enough, the other person will be unable to detect flaws in your argument. As for interruptions, it is good practice to interrupt the other person at least once every other sentence—it breaks up his train of thought and puts him at a disadvantage. If you want to be a stickler for form, you might preface your interruption with the words, 'You don't mind if I interrupt you for a moment.' However, under no circumstances do you wait for an answer to this question. Just barge right ahead."

It goes without saying that you can't sell merchandise, securities, or what have you with techniques such as these. On the other hand neither is selling the complicated affair some would have you believe it is.

The Fundamentals

As a matter of fact, the art of selling boils down in the final analysis to fundamentals such as —Know *What* You Sell — *Who* You Sell—and *How* to Sell It.

Knowing *what* to sell—knowing your product—implies a knowledge of every phase of its make-up, every application, every benefit, how it compares with competition, etc. As Mr. Sutton undoubtedly pointed out to you, a knowledge of your proposition is absolutely essential to the self-confidence and enthusiasm you must have if you hope to convince anyone to your way of thinking. Without such knowledge there can be no real conviction. Without conviction, you are just going through the motions—saying mere words, words without impact, words lacking in sincerity (after all if you don't really *know* how can you claim a thing is so?).

I realize there's nothing radically new in this basic principle —it was not my intention to present it as such—but this I do want to point out. That in watching salesmen in action over a period of years, the difference between the fairly good men and the top-bracket men is rarely a wide one. It is generally some little thing, the doing or not doing of which, makes the difference.

Where "knowledge of product" is concerned, the one factor which seems to be common among the stars is their unusually thorough knowledge of all the *customer benefits* which their product or service affords. For example it's one thing to point out to a customer that a pair of shears (holds up shears) has inner facings of Babbitt metal, a ball bearing pressure spring, hand-shaped grips, tips made of electrically processed magnet steel. It's quite another to translate these fine features into benefits, into advantages, into what they will do for the buyer. Herewith is just such a translation.

Mrs. Prospect, here are a pair of shears you'll never have to have rehoned or reground as long as you have them. The blades, you see, overlap at such an angle they sharpen themselves. The more you use them, the sharper they get. And do you see this ball bearing pressure spring? Well, that keeps the blades tightly together so you can always be sure of a sharp, clean, cut—unlike ordinary shears where the blades become loose and as a result, give you a rough, raggedy cut. It's a real pleasure to use these shears because they're so easy to use. That's because of these inner facings of Babbit metal. They're self lubricating—require a minimum of effort. This lubricating feature, together with grips which were specially designed to fit the shape of the hand, makes those long cutting jobs a cinch. And do you know—those pins and needles —how irritating it can be to have to pick them up whether from the floor or the table? Don't have to put up with that any longer— Nosiree—with these tips of electrically processed magnet steel, you can now pick 'em up just like this (picks up needles with tips of shears).

Take the matter of fast turnover. It's obvious that the faster the turnover, the larger the volume of business. Therefore, anything that will increase speed without also increasing costs will be of direct benefit to the operator. How do Lily Cups help? By eliminating the bottleneck of dishwashing. By eliminating the need to scrape, wash, rinse, sterilize, dry, and stack glasses. By converting glass washing time, to customer serving time.

And so we go—an analysis of the problem—an analysis of just how we fit into that problem. In short, another step in the direction of acquiring a thorough acquaintanceship with the many ways in which our product can benefit the buyer.

How does your product benefit a prospective buyer? One way to find out is to make an analysis of some of the prospect's problems which the product you're selling helps to solve. For example, in the Soda Fountain Market, one of Lily's largest and fastest growing markets, (points to easel) the problems of a fast turn-over during peak periods of getting and holding competent help, of satisfying the rigid sanitary requirements of the public and the Health Inspectors who represent the public—loom large in the Soda Fountain sphere of operation. Can Lily Cups help to do anything about these problems? If they can, they belong. If they can't they don't.

Knowing Something About the Customer

But benefits, while important, are not quite enough. We are not all interested in the same benefits. One man buys a car because of its style, another because of

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*Stenographic report of lecture by Mr. Brunauer 11th in a series on Investment Salesmanship sponsored by Investment Association of New York, New York City, Dec. 1, 1949.

More on National Service Life Insurance

By ARTHUR P. BECKER

Chairman, Department of Economics, University of Wisconsin (Milw.)

As addenda to his article in "The Chronicle" of Sept. 22, Professor Becker makes comparison of premiums on ordinary life policies issued by private companies and National Service Life Insurance, and concludes private companies could well assume risks of National Service Life Insurance at the prescribed rates.

For several reasons it may be worthwhile for me to amplify my remarks made in my article of Sept. 22 in "The Chronicle" entitled, "Is National Life Insurance Justified?" Some readers of this article might have been curious as to the companies I had in mind when I compared their "average net premiums" with that of NSLI. While I do not think it to be politic to mention the names of those companies, either from their point of view or the point of view of the companies which would not be included, this information is available to anyone by simply consulting "The Spectator Life Agents Brief" for 1949.

Dr. Arthur P. Becker

A comprehensive comparison of the various policies at the various ages would be quite lengthy. Nevertheless, a significant comparison can be made with respect to the ordinary whole life policy at age 25 insofar as this policy and age level for the veteran is quite frequent. The NSLI policy for a veteran at this age carries an annual premium of $16.22. Checking in the above-mentioned manual I noted that 19 of the non-participating companies listed charge a premium less than that for the NSLI whole life policy at age 25. Next I checked the average net premium costs of participating companies for a similar policy. The average net premium cost is that which has been experienced on a policy issued in 1939, and was arrived at by deducting the average annual dividend from the premium on the 1939 policy. Among the participating companies, I found 34 whose average net premium costs were below $16.22.

While the above comparison for participating companies is of significance for policies issued before Jan. 1, 1948, policies issued after that date now generally bear higher premiums at age 25. Therefore, I compared the average net premium cost based upon the newer higher premiums and I found 11 participating companies whose average net premium costs below that of $16.22.

I should like to caution the readers that the above comparisons are *not* a basis for advising veterans to drop their NSLI in favor of a policy with one of the lower cost companies. There are a number of reasons for this advice, among which are the special benefits of the NSLI policies, particularly those pertaining to waiver of premiums and guaranteed values. Moreover, it is expected that liberal dividends will be paid annually, and after deducting these from the annual premiums, it is doubtful that the average net premium cost of NSLI could be equaled by any private company.

While the above comparison between the premiums and average net premium cost has no bearing upon counsel to policyholders, it does have tremendous significance with respect to government policy. For one thing, NSLI involves an unjustified discrimination of the government against those veterans who did not purchase NSLI or who purchased less than the maximum. Secondly, NSLI puts the United States in the life insurance business on a huge scale not justified by the very small percentage of NSLI holders who were rendered substandard risks because of their military service. Moreover, from the premium comparisons made above, it would seem that a number of private companies might well be willing to assume NSLI risks for standard and above standard risks at no increase in NSLI premiums, especially considering the lower mortality expectations of veterans (since they are a select group of risks) and the fact that no commissions need to be paid to agents for acquiring the business.

Sees Labor Force Stabilized in Relation To Population

One of the great elements of underlying strength in the American economy has been the fact that over the years the labor force has grown faster than has the population as a whole, the Institute of Life Insurance reports, based on an analysis of official government data.

It is this expansion in the labor force combined with its increased productivity, the Institute said, that have been basic factors in the nation's remarkable progress and in the steady rise in American living standards. Output per man hour has been increasing at an average rate of about 2% a year for several generations.

While the labor force will continue to grow, the Institute stated, its size has apparently stabilized in relation to the population as a whole. This introduces a new element in American life of significant economic implications, according to the Institute.

"The labor force includes all those gainfully employed, whether for themselves or working for others," the Institute said. "It is therefore the productive part of our society, and the source of the wherewithal to meet everyday living needs and all the other charges placed on the economy. These charges have been rising rapidly. They already represent a heavy burden now, and their cost will increase greatly in the years to come without a single new addition.

"With a stabilized labor force, the full responsibility of meeting our expanding obligations is automatically thrown upon increased productivity. People will have to work harder and more efficiently. For unless productivity continues to grow at least as much as it has in the past, the nation's future commitments will have to be met at the expense of curtailed individual consumption, which means reduced living standards."

On an overall basis, the labor force rose from a total of 22.2 millions in 1890 to an estimated 62.3 millions this year, a rise of 181%, the Institute said. In this period the total population increased from 62.9 millions to 149.2 millions as of July this year, a rise of 137%.

DEALER BRIEFS

Philadelphia, Pa.

There is a continuing demand for listed stock with good dividend records and attractive yields. The demand is improving for low priced speculative stocks, especially those having broad markets. Interest continues in shares of mutual funds, especially by small investors. Marketability has become an increasingly important factor in the judgment of security buyers.—*Carl F. R. Hassold, Bioren & Co.*

With the quarrel going on between the Federal Reserve Board and the Treasury Department over the government's monetary policy, now, more than ever, the investing public need expert financial advice. The ugly head of the spectre of inflation is again being raised. At the same time, there is a cry for more money from taxes. It is the feeling people should invest some of their funds in sound common stocks of companies where labor costs are low, as a hedge against inflation, and for those in the higher tax brackets, the purchase of sound tax-exempt securities is indicated.

Some good stocks are still available with yields from 7½ to 10%. However, a careful watch will have to be kept on general conditions, and the stocks purchased now cannot be put away and forgotten.—*Arthur S. Burgess, Biddle, Whelen & Co.*

Jacksonville, Fla.

We are finding steady and improved buying interest in Florida Municipal Bonds and notice that this interest is becoming more widespread, not only as to market location, but also with regard to the different classes and types of bonds becoming available. This last is of particular interest to us, as it is indicative of the recognition which is now being given increased growth and stability of Florida's cities, counties and school districts. We expect such improved recognition to continue and to narrow the gap between yields which may now be obtained in Florida Municipals and those available from bonds of similarly secured situations in other states.—*H. George Carrison, Clyde C. Pierce Corporation.*

R. Cashin & Co. Formed In Salt Lake City

SALT LAKE CITY, UTAH—Russell Cashin will shortly form R. Cashin & Co. with offices in the First Security Bank Building to engage in a securities business. He was formerly trader for H. A. Emery & Co.

With Bache & Co. Staff

(Special to THE FINANCIAL CHRONICLE)

KANSAS CITY, MO. — Porter W. Tumy has become associated with Bache & Co., 1000 Baltimore Avenue. He was formerly with Prugh, Combest & Land, Inc. and Prescott, Wright, Snider Co.

With Wright Wells & Co.

(Special to THE FINANCIAL CHRONICLE)

AUSTIN, MINN. — Arthur M. Malmer has become associated with Wright Wells & Company, First National Bank Building. He was formerly with Frank & Belden, Inc. of Minneapolis.

Observations . . . .

By A. WILFRED MAY

Implications of the Public's Appraisal of Investment Trusts—Here and Abroad

Most significant is the attitude continuingly displayed in various sectors of the investing company field—reflecting conclusions in the field of general merchandising as well as in the narrower sphere of investment

The *discount* (from asset value) contained in the market price of the closed-end companies—through its existence, its rises and falls, and its variation from trust to trust, highlights some of the chief foibles of the market-place.

A. Wilfred May

As an example of the latter, the behavior of the discount over the cyclical swings of the stock market, manifests the manic-depressive behavior of the investment community. Like the completely illogical behavior of the short-interest in being extended in low-price periods and reduced in times of high prices, the discount on the trusts has habitually widened as the market has fallen and narrowed in booms, ever since the fantastic 1920s, when the *premiums* on all types of holding companies rose along with the skyrocketing prices.

Irrational Attitude Reflected in Discount Changes

Illustrating the public's irrational behavior in its valuation of trust assets-and-management througtout market swings is the following table, giving the average market discount on 24 leading trusts with the Dow-Jones Industrial Average, both as of the end of 1936 and each year since 1941:*

YEAR-END	DOW-JONES AVER.	DISCOUNT
1936	180	26%
1941	111	39
1942	119	37
1943	136	33
1944	152	29
1945	193	24
1946	177	29
1947	181	30
1948	177	26
1949†	194	20

†As of Dec. 2.

Looking at the corresponding performance during the present market rise, following is the record of changes since the end of last June of 14 leading companies:

TRUST	DISCOUNT JUNE 30 (DOW-JONES—167)	DISCOUNT DEC. 2 (DOW-JONES—194)
Adams Express	29%	22%
Amer. Cit. P. L.	21	11
Am. Int'l	28	22
Blue Ridge	20	13
Cap. Adm.	46	43
Carr-Gen.	29	26
Equity Corp.	44	36
Nat'l Av.	21	18
Nat'l Shares	22	12
Newmont	34	24
Pennroad	33	11
Petroleum	24	20
Shawmut	43	41
United Corp.	23	17
Average	29.9%	22.5%

We see that while the stock market has advanced by 16%, discounts—instead of also rising as would be logical as the risk increased—actually declined by 25%.

Similarly the premium of 1% on Lehman Corporation increased to 3%, instead of declining, as the market became higher.

Multiple Discounting

This pattern demonstrates perfectly the investing community's habitual proclivity to engage in duplicate discounting in both directions. For example, at times of relative investor "wariness," such as the present when the shares comprising the closed-end portfolios are themselves already representing sizable discounts based on net-quick liquidating values or/and demonstrated earning-power of their parent companies, the market's additional markdown on the trusts' own shares represents a distinct double-discount. And the correlation of growth in the discount with declines in the market represents additional third-degree discounting—all of which is likewise true of the converse behavior in bullish periods.

Management Appraised a Liability

Even today's ruling discounts on the closed-end companies' shares—despite their reduction accompanying the general market's rally—reveal the investor's—or at least the professional analyst's and broker's—complete disdain for the advantages of expert management. **Viewing the actual management expenses in either of two ways—as a percentage of gross income or as a percentage of the assets—it shows that the community evaluates management as a net liability and a diminisher of gross income. For we see from the table below that the average premium attached to the cost price exceeds the ratio-of-expense-to-gross-income by 130% (the excess having been 100% at the end of 1948) and that by relating the average accruable pre-**

(Continued on page 46)

*From data supplied through the courtesy of Arthur Wiesenberger & Co.

The State of Trade and Industry

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

With the exception of notable advances in steel output and a rise in civil engineering construction, industrial output for the country showed a slight contraction the past week and was a trifle below the high level of the comparable week in 1948.

The increase in the operating rate of steel companies comprising 94% of the industry's steel making capacity showed a rise of close to 10 points last week. Steel output for the present week is scheduled for a further rise.

Scattered upward price adjustments on several products were effected during the week. These are considered straws in the wind, according to "Steel" magazine, but no sweeping revisions in price schedules appear imminent. A maker of silicon sheets raised prices $35 per ton. A wiremaker advanced the price on one grade of wire $5, while two producers of galvanized sheets effected increases of $5 and $6. Steelmaking scrap prices continued to ease with the mills limiting purchases to small lots, the trade paper added.

Civil engineering construction last week increased to approximately $220,000,000 and constituted the largest weekly gain of the year. Construction, however, was almost 40% below the level for the corresponding period a year ago.

* * *

Tension was somewhat lessened in the coal industry on Thursday of last week when John L. Lewis, United Mine Workers' Chief, ordered the striking miners back to the pits less than 11 hours after the strike became effective following the ending of the truce on Nov. 30, last. At the same time Lewis reinstated the three-day work week for the country's soft and hard coal miners, effective on Monday of this week.

The UMW President said contracts would be sought with individual companies to replace the agreement which expired last June 30 and that the five-day work week would be reinstated immediately for all companies signing separate agreements.

Mr. Lewis on Wednesday last, announced that contract settlements had been reached in Washington with several small soft coal operators, mostly in Kentucky. They represented the first such agreements effected this year. The companies involved produce about 2,500,000 tons of soft coal a year, being only a fractional amount when it is considered that total annual output for the United States approximates 550,000,000 tons.

The terms of the settlement for each company are the same and call for an increase to $15 a day from $14.05 in the miners' basic daily wage. An advance of 15 cents a ton to 35 cents in operator payments to the United Mine Workers' welfare fund was also included in the terms of the contract which becomes effective on Jan. 1, with the expiration period scheduled for Sept. 1, 1951.

Under the pact the work day will stand at eight hours and the work week at five days. The miners covered by the agreement will return to the five-day week immediately in the place of the present three-day-work-week ordered by Lewis for all hard and soft coal miners not covered by a contract.

The agreement Mr. Lewis stated is believed unlikely to break the resistance of large soft coal operators to union demands.

According to "Steel" magazine of Dec. 5, the apathy on the part

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The Federal Government's Financial Picture

By HON. JOHN W. SNYDER*
Secretary of the Treasury

Secretary Snyder outlines budget and national debt situation and blames current deficit on tax-reduction measure passed over President's veto. Calls attention to increase in short maturities in government debt and defends keeping down rate of interest on outstanding obligations and support of government bond market. Says foremost responsibility of Treasury is to maintain confidence in credit of U. S. and primary concern of its Secretary is to formulate debt management policies to promote sound economic conditions. Extols wide ownership of government debt and continued purchase of Savings Bonds.

I should like at this time to take a few minutes to talk about some of the current factors in the outlook for Treasury financing and debt-management policies in the light of the budget estimates that have been released since I sent my answers to your questionnaire to the Committee. In discussing some of the figures, I shall refer occasionally to a booklet of charts which we have prepared.

John W. Snyder

The budget position is a matter of first importance. The new budget estimates show a deficit of $5.5 billion for the present fiscal year. Expenditures are estimated at $43.5 billion and receipts at $38 billion. It seems to me, however, that in times as prosperous as these we should have a balanced budget. National income today is close to the highest level in our history; and, by every standard of sound government finance, the time to have a balanced budget is now.

This is the position I have taken consistently since I became Secretary of the Treasury in June 1946. In the statement which I made at that time, I said:

". . . It is the responsibility of the government to reduce its expenditures in every possible way, to maintain adequate tax rates during this transition period, and to achieve a balanced budget—or better—for 1947."

It was, therefore, a source of great satisfaction to me to be able —as Secretary of the Treasury— to announce at the end of the fiscal year 1947 that the Federal Government had operated with a budget surplus. In the following fiscal year, which ended on June 30, 1948, we again had a budget surplus—it amounted to $8.4 billion and was, in fact, the largest budget surplus in the history of the United States Government.

In the past three years, I have restated the urgent need for an excess of receipts over expenditures on many occasions—notably when the Congress was considering tax-reduction measures in 1947 and 1948.

Furthermore, President Truman has repeatedly urged the necessity of reducing the public debt under the circumstances which have existed since the end of the war. In his message to the Congress on April 2, 1948, in which he returned, without approval, the tax-reduction bill, H. R. 4790, he stated:

". . . I repeat what I have so often said before—if we do not reduce the public debt by substantial amounts during a prosperous period such as the present, there is little prospect that it will ever be materially reduced."

You will recall that it was this tax-reduction measure which the Congress passed over the President's veto, and which resulted in a loss of revenues to the Federal Government amounting to approximately $5 billion annually. It is largely as a result of the enactment of this legislation that we had a budget deficit of $1.8 billion in the fiscal year which ended last June 30, and that we have a prospective budget deficit of $5.5 billion in the current fiscal year.

About $3 billion of the deficit for the fiscal year 1950 has already occurred. It has been financed principally by increases in the weekly Treasury bill offerings and by increased sales of Treasury savings notes. The total amount of Treasury bills outstanding rose approximately $800 million between Aug. 4 and Sept. 8, as a result of six successive offerings in excess of the amounts maturing. The amount of Treasury savings notes outstanding has increased by over $2½ billion since the end of June.

The Treasury cash balance is currently running between $4 billion and $5 billion. Without any further new financing, the balance should remain near this level for the next four months. If everything works out exactly as calculated in present estimates, the balance would run down to approximately $3 billion by next April 30.

There are always, however, a number of variables which could have an important influence on the picture. There is the possibility that revenues might vary from the amount shown in the budget estimates. We knew, for example, at the time the revenue estimates were made, that it was very difficult to gauge the full effect of strikes on incomes and corporate profits. It still is not possible to do so. There is bound to be considerable range in expenditure estimates for such programs as farm price supports, RFC mortgage purchases, and various types of payments to veterans. These considerations are important in our estimate of cash balance levels.

The picture of how the various government operations affect the cash balance is one that I have before me daily as I consider debt-management decisions and policies. We revise our appraisals constantly as new information comes in. It looks at this time as though we will have to do some additonal new-money financing later in this fiscal year.

Sources of New Borrowing

There are three main sources which we might tap for new borrowing. These are non-bank institutional investors, such as insurance companies, mutual savings banks, and savings and loan associations; other private non-bank investors, including individuals and pension funds; and the commercial banks of the country. We keep close watch at all times on the position of the various investor classes which comprise the market for government securities.

In addition to the problem of new borrowing, the Treasury will find itself faced next year—as it has been in each of the postwar years—with a large refunding task. Approximately $1 billion of Treasury bills mature each week; there will be a number of issues of certificates of indebtedness and notes maturing, totaling about $33 billion; and there will be four Treasury bonds amounting to about $11 billion which mature or are callable next year. The budget deficit makes it clear that there will not be any reduction during the fiscal year 1950 on these maturities, except for tail-ends of maturing securities not turned in for refunding. There will not be any official budget estimates for the fiscal year 1951, of course, until the President's Budget Message is released in January. The total of maturing or callable marketable securities in the calendar year 1950 is approximately $56 billion; and, on net balance, it appears that nearly the entire amount will be refunded into securities maturing in the future.

Two-thirds of the securities which mature in 1950 are held by the commercial banking system.

A significant portion of the remainder is held by industrial, commercial, and mercantile corporations. The ownership of maturing issues, as well as the ownership of the remainder of the public debt, is, of course, one of the considerations which we must take into account in making our debt-management decisions.

The debt is broadly distributed, and we want to keep it that way. The present widespread ownership is, to a large extent, the result of the Treasury's policy of fitting its security offerings to the needs of various investor classes. This first became of special importance during the war period when one of the major objectives was to sell as great a portion as possible of the large wartime offerings to non-bank investors. It has had increasing importance in the postwar period, when we wished to maintain a large non-bank holding of government securities, especially among individuals, under varying circumstances of business reconversion and then expansion.

A central consideration in fitting government securities to the needs of different classes of investors has been setting the appropriate maturities for each class. Industrial, commercial, and mercantile corporations, for example, have been sold short-term securities primarily, since their purchases are generally made with reserves which they may want to have readily convertible. The same type of consideration was kept in mind in fitting government security offerings to the needs of other classes of investors. The net results of this policy can be observed by an analysis of the portfolios of the leading investor classes. Information on this account appears in [Treasury Chart 4] which shows changes in the estimated average number of years to maturity of the government security portfolios of three important investor groups — life insurance companies, mutual savings banks, and commercial banks.

Life insurance companies and mutual savings banks are, of course, generally longer-term investors. During the war, insurance companies acquired a large volume of governments; and it was the Treasury's policy to sell them longer-term securities. The results are evident. The average length of government securities held by life insurance companies increased from about 10 years in 1941 to about 16 years in 1945. Since then, there has been a gradual decline; and, at the present time, the figure is 14 years.

The picture with respect to mutual savings banks differs some-

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*A statement of Secretary Snyder before the Subcommittee on Monetary, Credit and Fiscal Policies of the Joint Committee on the Economic Report, Washington, D. C., Dec. 2, 1949.

Drifting From Simple Principles

By GEN. DWIGHT D. EISENHOWER*
President of Columbia University

Gen. Eisenhower, holding "we have lost some respect for mere thrift and independence," condemns program of security that leads to slothful indolence, ease and stagnation. Says this cannot be achieved unless, as slaves, someone directs us. Cites nation's vast resources to be exploited.

In response to the toast of "The Land in Which We Live," I am not going to attempt a long dissertation on our historical province and the impact of the industrial age and what it has meant, but I should venture to say this: As we face our problems today and consider their nature and their kind, I suggest that the severity of those problems we measure in the degree to which we have drifted away from the simple spirit and the simple principles of 'way back when we were one with the Scotsman that from time immemorial has battled his living out of a bleak countryside but a countryside which to him was dear and precious and for which he was ready to fight.

D. D. Eisenhower

Seemingly somewhere along the line we have lost some respect for mere thrift and independence. The Reverend Lindsay paid a tribute to our great Jefferson, a man we recognize as the great liberal of his time, a man who could say "The best government is the least government." Now we recognize the degree to which we have changed when we come to see that the definition of a liberal is a man who, in Washington, wants to play the Almighty with our money.

We seek an illusory thing called "security," and I wonder what Scotsman born any time in historical times, at least after the melting of the several races the previous speakers have told you finally made the Scotsman, has the word "security" in his adventures. Think of the wars they had with England, think of the record they have established in the later wars when wedded to England. They have in every one of them won a renown that has excited the admiration of soldiers throughout the world. Where is security in such a record?

From whence does that thought of security spring? Possibly the basic instinct of self-preservation, and if there is anyone that can show me how we can finally defeat the attack of the "Grim Reaper," then I will say possibly security is attainable. But until that can be shown, I do not believe that security, in the sense that we may live in slothful indolence and ease and stagnation, can ever be achieved, unless we do it, as slaves of someone who directs us, the one thing that the Scot has never accepted, and let's pray God he never will.

Possibly we have become too regardful of things that we call luxuries. Possibly we like to wear "fried" shirts too well—I don't know. Maybe we like caviar and champagne when we ought to be out working on beer and hot dogs. Whatever it is, the thing that has happened to us, is of the spirit.

Still Have Great Resources

This country still has broad acres, and, in spite of all the waste and all the exploitation, we have great forests, great mineral resources. We still have more land per capita, more fertile land per capita, than is discoverable almost any place else in the world. We have the greatest industrial fabric.

There is no reason in this country for despair. What we need to do is to take our hearts and minds and lead them back to the kind of thinking and the kind of emotion that has stirred the Scot and all over the world today still makes him, on this day meet together to pay a tribute to his native land.

Incidentally, I can't help remarking that when I heard our Secretary reading messages from various societies in the world, I listened carefully for the society where I first attended a St. Andrew's dinner, but I think it was missing. It was Manila, Philippine Islands.

I believe that I found in the dinner this evening just a bit of symbolic courage, let us say. We had haggis. I understand it is made from liver and lights and oats. Now, we have much in common with people who speak our language, and, although I admit that sometimes I might have some difficulty in understanding the Scotch, nevertheless, we are all of the same breed, we believe in the same things, and that whole group, wherever it appears in the world—in Manila, Shanghai, Glasgow or here—has a sense of value that places one thing above all else, the freedom of the individual, the dignity of the human, his mastery over the State and not his subservience to it. If, to preserve that, we have to eat nothing but liver and lights and oats, let's do it gladly.

I have seen around the world many, many white crosses under which lie people of all our races of the Western Allies and of our own beloved country. They are there because they believed there was something more than merely assuring ourselves that we weren't going to be hungry when we were sixty-seven. They are there because they had the concept of liberalism as Jefferson understood liberalism; because they believed that man is the master of his fate and should be given opportunity, economically and in every other way, to carve out his own future for himself and his family, and that that is the best way to live. That is why they are under those crosses!

To attempt to express my devotion toward, my obligation to, a country to which we all belong would be as difficult as it would be possibly out of taste. But I should like to say this, as I sit down and attempt to keep my promise that I will not hold you too long: If we can return to these songs, if we can believe these songs in this country, if we will live by them, there is no danger for America. The foundations laid by our forefathers, the framework, is sturdy. All we have to do is to remember that we, with the Scots, have inherited the earth because we have inherited freedom and never for one second accept anything that places a mortgage on that priceless heritage of ours. Thank you!

*From a stenographic report of address by Gen. Eisenhower at the Annual Meeting of the St. Andrew's Society, New York City, Nov. 30, 1949.

From Washington Ahead of the News

By CARLISLE BARGERON

It h. ong since become baffling to me as to just what we are trying to do in Europe but I am coming reluctantly to the conclusion that we must be trying to sell real estate and the promoters seemingly live in mortal dread that the rest of us will do something to embarrass them. Just now there is a great hue and cry on the part of "Liberal" columnists, commentators and editors that all of the good salesmanship we have accomplished with the Marshall Plan is being undone by our Senators and Congressmen who are visiting Europe. Maybe one of them makes an indiscreet statement that touches the highly sensitive souls of the Europeans; maybe another one gets his snoot wet. These visitors are looked upon as representatives of our government, we are being told, and when they misconduct themselves either by speech or deed, the Europeans are disillusioned about our government and our country. It is downright disheartening to our good-will promoters who give so freely of their time and our money to have the Europeans see us in our true noble light.

Carlisle Bargeron

It wasn't so many months ago that we were treated to a first rate scandal in the British House of Commons, where one member was caught taking bribes from newspapers to slip them accounts of secret meetings and we learned that while this member had been so unfortunate as to get caught, the practice in which he was engaged was not uncommon at all. And certainly we have long been accustomed to the corruption in high European councils.

But ever since this cold war racket set in it has been steadily drummed into our consciousness that we must watch what we do for fear it will be misunderstood in Europe; we must, in fact, shape our every day conduct, we must abandon deep-rooted mores for the effect it will have upon Europe. We are always being told that we can't do this or we must do that, else Stalin will be able to make capital against us in the great war of ideology. We can't just lead our normal lives, go our own primitive way, enjoy our prejudices, our hates, because we are in the bright glare of world opinion. We must live a life of pretense.

It isn't enough that we have poured out billions to the four corners of the world; we must reshape our way of living or the world will not continue to look to us for leadership.

Somehow, the picture of the Eastern European peasants, of those women in France plowing and pulling ox carts; of the millions of illiterates in India and China, pausing in the misery of their existences and thinking how terrible we are to have the poll tax in some states, or restrictive covenants in real estate, is something I can't grasp.

Just where is this world opinion, anyway, that we must cater to? Is it in the free forums of the Siberian expanse; is it among the mentally blacked out peoples of India or China; among, in fact, more than two-thirds of the world's population where the natives toil day in and day out without any knowledge of what is going on in the world? Possibly we are to be judged by that one-third of the French electorate which votes Communist.

It is this heavily laden Communist country, incidentally, that we are looking to as the keystone of our defense against the Communist horde. It is to France that the bulk of our military aid is to go. I suppose that nuttier things than this have been done by governments, but I can't recall one.

Just about the height of the global thinking which the "Liberal" intellectuals are giving us came to my attention a few days ago. A school teacher had told her class that we had to come more and more to European methods because we were getting so many Europeans over here and they were not accustomed to our ways.

They can't understand how we are so wealthy and yet deny our citizens socialized medicine, bigger and better subsidized housing and the like. We must go in for these things so they won't feel homesick, so they will be better able to adapt themselves to our society.

There must be a purpose in the attack on our touring Senators and Congressmen. With some it is a case of pure junketing, of course But others are very serious minded and even those who ask for blondes and get their snoots occasionally wet make observations as they go their way. However, one and all are in for a serious smearing if they come back critical of what is being done with our money and what is being accomplished. The campaign now, I am convinced, is to throw fear into them.

The editors, commentators and columnists who have been touring Europe this year will have had their minds richly improved, I am sure, and are the only ones to be listened to. Any member of our legislative body who raises a critical voice was drunk and blonde chasing the whole time he was over there.

Hirsch & Co. to Admit Max Model as Partner

Hirsch & Co., 25 Broad Street, New York City, members of the New York Stock Exchange, will admit Max Model to partnership on Jan. 2. Mr. Model in the past was connected with Hayden, Stone & Co.

McGinnis, Bampton to Admit W. T. Garden

Walter T. Garden will acquire the New York Stock Exchange membership of G. Edward Rollins on Dec. 15 and become a partner in the Stock Exchange firm of McGinnis, Bampton & Co., 61 Broadway, New York City.

No Justification for Dollar Devaluation

By J. H. RIDDLE

Vice-President, Bankers Trust Company, New York

New York banker, upholding sincerity of official denials of dollar devaluation, says change in gold value of dollar would nullify recent European devaluations and would merely benefit gold producers and large foreign holders of gold, including Russia. Says domestic effect would be inflationary and concludes gold content of dollar will remain unchanged for many years. Contends devaluation does not help out in depression.

There have been circulating recently many vague but persistent rumors to the effect that the official price for gold in this country is about to be increased; that is, that the U. S. dollar will be devalued. Such rumors are reported to be especially strong abroad, but they are also circulating with astonishing vigor and rapidity in this country.

J. H. Riddle

Rumors that the dollar would be devalued are not new; they have cropped up from time to time for many years. Gold producers everywhere, whose profits have been squeezed by rising commodity prices and rising costs, have been active in trying to get a higher price for their product. Foreign devaluations have given these rumors new life, and seem to have created for them a more receptive environment, at least for the time being.

These rumors have been unequivocally denied by the three highest officials of the United States Government responsible for monetary and credit policies, namely, the President, the Secretary of the Treasury, and the Chairman of the Board of Governors of the Federal Reserve System. Neither logic nor official denials, however, seem to have much effect.

Legal Obstacles to Devaluation

Underneath the current rumors of devaluation is the apparent misconception that the official gold price can be raised and the dollar devalued simply by Executive decree. Actually, however, the authority granted the President in 1933 to change the gold content of the dollar expired in 1943. A Treasury memorandum issued to the press on Oct. 5, 1949, states that:

"Only an Act of Congress can now alter the statutory gold content of the dollar.

"The gold content of the dollar, and hence the statutory monetary value of gold in terms of the United States dollar, was defined by the Presidential Proclamation of Jan. 31, 1934, issued under authority of Title III, Section 43, of the Act approved May 12, 1933, as amended. The weight of the gold dollar was fixed by this Proclamation at 15 5/21 grains of gold 9/10ths fine, that is 1/35 of a troy ounce of pure gold (technically referred to as gold 1,000 parts fine). The monetary or statutory value of gold in the United States is therefore $35 per fine troy ounce. After several extensions the authority of the President by Proclamation further to change the gold content of the dollar expired on June 30, 1943."

Furthermore, the authority which the Secretary of the Treasury had to determine the rates at which he may buy and sell gold has been superseded by later legislation and commitments. Under the Articles of Agreement of the International Monetary Fund, the United States is obligated not to purchase gold at more or sell gold at less than the par value of $35 an ounce, plus or minus the margin prescribed by the Fund, which is now ¼ of 1%. Moreover, the par value can be changed only by an Act of Congress. Here is what the Treasury memorandum of Oct. 5 says about the price of gold:

"The Secretary of the Treasury has authority under Sections 8 and 9 of the Gold Reserve Act of 1934, as amended, with the approval of the President, to purchase and sell gold at such rates and upon such terms and conditions as he may deem most advantageous to the public interest.

"The authority of the Secretary of the Treasury in this respect, however, is limited by a number of factors. First is the obligation undertaken by the United States as a member of the International Monetary Fund. Article IV, Section 2 of the Articles of Agreement of the International Monetary Fund provides: 'The Fund shall prescribe a margin above and below par value for transactions in gold by members, and no member shall buy gold at a price above par value plus the prescribed margin or sell gold at a price below par value minus the prescribed margin.'

"The Fund has prescribed a margin of ¼ of 1% above and below the par value for purchases and sales of gold. Accordingly, the United States has an obligation to the International Monetary Fund not to purchase gold at more or sell gold at less, than $35 plus or minus the prescribed margin so long as the par value of the dollar declared to the Fund remains unchanged. The par value of the dollar can be changed only pursuant to the provisions of the Articles of Agreement and the Bretton Woods Agreements Act, which requires the approval of Congress for any such change. Section 5 of that Act provides that neither the President nor any person or agency shall propose to the International Monetary Fund [or agree to] any change in the par value of the United States dollar or approve any general change in par values unless Congress by law authorizes such action."

The Treasury might also have pointed out that in the absence of Congressional action, there would be a practical difficulty in financing gold purchases at higher prices. Such gold could be included in our monetary reserves only at the official rate of $35 an ounce. Therefore, any amount paid for gold above that price would result in a loss to the Treasury, and it does not seem likely that Congress would be willing to make appropriations to cover such losses.

The Treasury memorandum, furthermore, goes beyond legal restraints and emphasizes important considerations of policy which cause the United States to maintain a stable dollar price for gold.

"Even without the legal obligation to the International Monetary Fund there are important considerations of policy which, in effect, circumscribe the discretion of the Secretary of the Treasury to change the price of gold. The gold policy of the United States has been directed primarily to maintaining a stable relation between gold and the dollar.

"Since 1934 the United States has firmly adhered to the requirements of an international gold bullion standard. We have done so by buying and selling gold freely at a fixed price, $35 an ounce, in transactions with foreign governments and central banks for all legitimate monetary purposes.

"The importance which the United States attributes to the maintenance of a stable dollar price for gold is demonstrated by other legislative provisions. The gold parity statutes contained in the Gold Standard Act of 1900 and the Act of May 12, 1933, provide that the gold dollar 'shall be the standard unit of value and all forms of money issued or coined by the United States shall be maintained at a parity with this standard and it shall be the duty of the Secretary of the Treasury to maintain such parity.'"

Dollar Devaluation and International Affairs

To devalue the dollar would undo any beneficial effects that might flow from the recent devaluation of foreign currencies,

(Continued on page 30)

Outlook for Housing—1950 and Beyond

By MILES L. COLEAN*

Consultant on Construction and Mortgage Finance, Washington, D. C.

Predicting in 1950 new private housing is likely t) be numerically as well as proportionately smaller than in previous two years, mortgage finance exper: contends future increase in new families cannot alone be counted on to maintain building at curren: high level. Says increased construction would require replacing old and obsolete houses, along wi.h more progress in construction technology, and concludes housing market will feel impact of government policy far into the future. Urges easing restrictions on mortgage loans and simplification of foreclosure and title practices.

Probably the most common attitude of postwar business in the United States has been an uneasy concern for the future. No one has taken the last four years of nearly continuous, and exceedingly widespread, prosperity in a relaxed and confident manner. Instead almost everyone has acted as if it lacked the substance of reality and the creative sinews of a living thing. We have had no faith in it.

Miles L. Colean

In such an atmosphere, there has been a phenomenal resort to that kind of fortune - telling called business forecasting. The economic soothsayers have never been so much sought after nor so profitably employed. I have been asked today to indulge in this modern black art in respect to the future of housing. I suspect that the reason for selecting this subject is that you are troubled about the future and, in your lack of confidence in it, hope that some one can lend a little reassurance.

At the outset, I want to confess that I share those same feelings. I, too, would like to find some cleareyed clairvoyant. I do not approach this job with any oracular certitude. I can foresee possibilities, but I am far from settled in my own mind as to the probabilities, for reasons that I shall explain later. Consequently, I deny any presumption to offer to you a well-labeled roadmap by which you may unhesitatingly find your way into the unseen. The most I can hope to do is to point out some of the factors that will influence the make-up of the equation, recognizing that, the farther we attempt to look ahead, the less able we shall be to judge the weight that any of them will carry.

We may for example look ahead one month with full assurance that the Bureau of Labor Statistics will report that a greater number of new, non-farm dwelling units will have been started in 1949 than in any previous year on record — something between 950,000 and 970,000. We may look forward a year with fair confidence that the tally for 1950 will not be greatly different from that of 1949 except for the likelihood that, within the total, there will be a decreased proportion of privately financed dwellings and an enlarged proportion of public housing units. This carries on a trend already evident in a comparison of 1949 with 1948. However, in 1950 the private housing segment is likely to be numerically as well as proportionately smaller than is the case this year or last.

Beyond 1950, the outlook is far less clear. At that point, we begin to deal with a wider range of probabilities. And these will yield an equally wide variety of prophecies, depending mainly upon how the forecaster equates the trend in family formation, the level of family incomes, the attitude of industry toward its market, and—at this stage perhaps more important than all—the political influences that impinge upon the result.

Of all these, the trend in family formation has greatest degree of probability. We shall, therefore, take a look at it first. Since the term family is used in a number of ways, it is necessary to state what I mean by the net annual family formation. First, as I am using it, I shall not include farm families (which incidentally will not increase but instead will decline in numbers). Mainly the figure is made up by subtracting from estimated new marriages, the number of marriages broken by death or divorce. To this figure is added an estimate of the change in the number of widowed or divorced persons who will continue to maintain separate households and of single persons likely to have separate dwellings. Finally it includes families moving from farm to city, and couples now doubled up who are likely to want dwellings of their own. The estimate thus is really one of the potential housing demand likely to result from the net increase in married couples as adjusted to cover the other situations mentioned.

I shall not attempt to go into the detail of the estimates that my office has recently made, although I shall be glad to discuss them with anyone who is interested. It has been widely recognized that the rate of family formation that characterized the first postwar years would not continue. Not only did the war cause the postponement of marriages which were rapidly made up when the war was over, but it caused also an excess of married couples living with other families. The end of the war moreover coincided with the maturing of the large crop of babies that came after the First World War, which augmented the number of marriages. Influenced also by the exceptional postwar prosperity, the result was breathtaking. Everyone, it seemed, wanted a house all at once. After 1947 a change began to occur. The marriage rate fell off. Not only did it become evident that the high post-war rate was in part due to what was in effect a borrowing of marriages that would ordinarily have been expected at a later date, but also that we were entering the period of the maturing of the sparse crop of babies of the depression years.

On the basis outlined, my estimate is that the net number of new non-farm families formed during 1949 will be around one million, as compared with the peak of around 1.4 million families in 1947. Significantly, 1949 is the first year since the war in which the estimated number of new dwellings about matched new families, and the second in which, including conversions, the total housing supply increased faster than net family formation. By 1953, we expect the net number of new families to drop to 540,000, and by 1955 to go to less than 400,000, and then to stay at about an annual figure of 350,000 until, sometime in the 1960's, the maturing of the current crop of war babies causes another spurt in the rate.

These estimates, of course, may be in error as to precise quantities, but they are certain as to trend—which is definitely downward for the next several years. This fact has important implications for house building and mortgage finance.

The first striking implication is that industry cannot count on the hope that the growth factor alone—as it has been able to do since the war as well as in almost all times in the past—will produce sufficient demand to maintain building at anything like its current level. Even after allowing for building up a desirable vacancy reserve, and the replacement of dwellings lost by fire and other disasters, it is hard to see how growth pressure can create a demand for more than around 725,000 dwellings a year during the first half of the next decade and somewhat less during the second half.

This estimate assumes a level and distribution of family income about as at present. A substantial drop, especially if prolonged over several years, could cut as much as 200,000 from the figures. I may say I do not expect this to happen. The estimate also assumes that the cost of building labor and materials will remain about the same as at present. A marked decline in these costs—unaccompanied by an economic depression—might somewhat increase the figure. But I do not expect that to happen either, at least during the next few years.

Now, 725,000 new dwelling units a year is no great achievement. It is approximately only that of the decade of the 1920's when both population and national income were well under what they are today — and it is a particularly weak achievement when it is realized that, by 1951, as many as 150,000 of this total could be financed under the Federal Government's subsidized housing program. The remainder is much less than needed to maintain a healthy, expanding building industry, to provide adequate private investment opportunities, or to assure reasonable progress toward improving the condition of the housing supply as a whole.

To escape from this unattractive eventuality, is it possible to increase the potential above the estimated 725,000 units? The answer should be a definite yes. The rate of family formation by no means need to set a limit to the possible volume of housebuilding. What, then, may the potential be? The answer lies in getting rid of the oldest, most decrepit, most obsolete houses in the existing supply and in keeping the future turnover moving at such a rate that such houses do not again accumulate.

Merely to replace dwelling units as they turn 75 years of age would increase our figure by 100,000 units annually for the next few years and 150 000 a year by 1955. To replace the units **already** past 75 years of age, could run the figure up another 150,000 a year for a decade. Thus, with an additional 250,000 to 300,000 units a year from this source a fairly conservative program of replacement could, in addition to the demand created by added families, maintain approximately the present rate of building until

(Continued on page 34)

*An address by Mr. Colean before the 4th Mid-Year Meeting of the National Association of Mutual Savings Banks, New York City, Dec. 5, 1949.

Dealer-Broker Investment Recommendations and Literature

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

Bargains in Low-Priced Stocks—Discussion in December issue of "Monthly Stock Digest"—G. A. Saxton & Co., Inc., 70 Pine Street, New York 5, N. Y.

Also available are brief memoranda on **Central Arizona Light & Power Co.** and **Tucson Gas, Electric Light & Power Co.**

Convertible Preferred Stocks—Analysis—Bache & Co., 36 Wall Street, New York 5, N. Y.

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

Railroad Bonds for High Income—Study—Smith, Barney & Co., 14 Wall Street, New York 5, N. Y.

Selected Industrial Common Stocks—Suggestions for purchase—Eastman, Dillon & Co., 15 Broad Street, New York 5, N. Y.

Starting Line-Up—Pre-opening "wire" list made up of trading market on a hundred or more selected unlisted issues—Trading Department, Merrill Lynch, Pierce, Fenner & Beane, 70 Pine Street, New York 5, N. Y.

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American Power & Light—Circular — Schoellkopf, Hutton & Pomeroy, Inc., 63 Wall Street, New York 5, N. Y.

California Electric Power Company—Illustrated brochure—William R. Staats Co., 640 South Spring Street, Los Angeles 14, Cal.

California Electric Power Co.—Circular—Pacific Co. of California, 623 South Hope Street, Los Angeles 14, Calif.

California Electric Power Co.—Circular — Walston, Hoffman & Goodwin, 550 South Spring Street, Los Angeles 13, Calif.

Central Public Utility Corporation—Progress report—F. S. Yantis & Co., 135 South La Salle Street, Chicago 3, Ill.

Central Soya Company Inc. — Special write-up—William A. Fuller & Co., 209 South La Salle Street, Chicago 4, Ill.

Chase National Bank—Analysis—Laird, Bissell & Meeds, 120 Broadway, New York 5, N. Y.

Continental Can Company, Inc.—Analysis—H. Hentz & Co., 60 Beaver Street, New York 4, N. Y.

Durez Plastics & Chemicals, Inc.—Analysis—Boenning & Co., 1606 Walnut Street, Philadelphia 3, Pa.

Florida Power & Light—Circular—Geyer & Co., Inc., 63 Wall Street, New York 5, N. Y.

Also available are circulars on **Minnesota Power & Light,** and **Montana Power & Light.**

Florida Power & Light Co. — Circular—Kebbon, McCormick & Co., 231 South La Salle Street, Chicago 4, Ill.

Getchell Mine, Inc. — Study — Jacques Coe & Co., 39 Broadway, New York 6, N. Y.

Golden Anchor Mine—Circular—Hunter & Co., 50 Broadway, New York 4, N. Y.

International Cellucotton Products Co.—Circular—Swift, Henke & Co., 135 South La Salle Street, Chicago 3, Ill.

Mexican Eagle Oil—Memorandum — Zippin & Company, 208 South La Salle Street, Chicago 4, Ill.

Minute Maid Corporation — Analysis—May & Gannon, Inc., 161 Devonshire Street, Boston 10, Mass.

Also available is a circular on **Lithomat Corp.**

National Chemical & Manufacturing Co.—Circular—Arthur Andersen & Co., 120 South La Salle Street, Chicago 3, Ill.

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

Northwest Airlines, Inc. — Detailed report by Alvin P. Adams and Associates—Auchincloss, Parker & Redpath, 52 Wall Street, New York 5, N. Y.

Also available is a circular on **Sperry Corp.**

Ohio Edison Co. — Circular — Josephthal & Co., 120 Broadway, New York 5, N. Y.

Portsmouth Steel Corp.—Circular—Chas. A. Day & Co., 199 Washington Street, Boston 8, Mass.

Remington Rand — Circular — Herzfeld & Stern, 30 Broad Street, New York 4, N. Y.

Reo Motors — Analysis — Bruns, Nordeman & Co., 60 Beaver Street, New York 4, N. Y.

Riverside Cement Co.—Analysis—Lerner & Co., 10 Post Office Square, Boston 9, Mass.

Stone & Webster — Circular — Francis I. du Pont & Co., 1 Wall Street, New York 5, N. Y.

Texas Utilities Co.—Memorandum—Goodbody & Co., 115 Broadway, New York 6, N. Y.

Time, Inc.—Circular—Loewi & Co., 225 East Mason Street, Milwaukee 2, Wis.

United Light & Railways Co.—Review—Vilas & Hickey, 49 Wall Street, New York 5, N. Y.

Also available is a study of **Railroad Income Mortgage Bonds.**

East Texas Investment Co. Formed in Tyler

TYLER, TEX. — Leland W. Richardson and Lewis J. Richardson have formed the East Texas Investment Co. with offices at 1410 Ridgeview. Leland W. Richardson was formerly manager of the Tyler office of R. K. Dunbar & Co. Lewis J. Richardson was an officer of the Columbian Securities Corp. of Texas.

Crane With David Noyes

(Special to THE FINANCIAL CHRONICLE)

RICHMOND, IND. — Myran J. Crane has become associated with David A. Noyes & Co. of Chicago. Mr. Crane was formerly Richmond, Ind. representative for F. S. Yantis & Co. and Brailsford & Co.

Raffensberger, Hughes Add

(Special to THE FINANCIAL CHRONICLE)

INDIANAPOLIS, IND.—Robert E. Tappan II has been added to the staff of Raffensberger, Hughes & Co., Incorporated, 20 North Meridian Street.

Opportunities for Small Businessmen

By ROGER W. BABSON

Picturing weakness of Central West as "too easy money" and too much government price supports, Mr. Babson sees its farmers ignorant of selling problems and many businessmen still in kindergarten stage. Urges more schools of business administration and more efficiency and hard work to meet large firm competition.

The Central West through which I have been traveling has many advantages. Its slogan: "Richest in time of peace and safest in time of war" is probably true. It has great natural resources, such as deep fertile soil, quantities of oil, coal and natural gas, remarkable highways, railroad and air transportation, and — most important of all — a churchgoing, law-abiding people.

Roger W. Babson

This section has two handicaps: (1) Money has come too easy to the present young generation. The days of the covered wagon, mud huts and the struggles of their ancestors have been forgotten. (2) They think that because they are now making good money from government-guaranteed farm products, from checks received from oil companies and from increasing land values, they are "big businessmen." They forget that their wealth has come largely from good luck — not necessarily from good brains.

Hence, the average businessman in these Central Western States does not know how to meet competition. He now is unable to cope with businessmen of New England and eastern cities who have learned to make money the hard way, without any natural resources or government subsidies. To help his sons to learn how to successfully compete is the purpose of Utopia College, which is located at Eureka, Kansas. It is a non-profit institution which I can heartily recommend.

Importance of Processing and Selling

Most farmers have had no experience in processing their products. They raise wheat at $2.20 per bushel and ship it East to breakfast food manufacturers, who get for it $50 per bushel. They raise alfalfa at $15 per ton and ship it East to vitamin manufacturers, who get for it $100 per ton; while their oil, which they crow so much about and are so happy to sell to Easterners at $3.00 per barrel is turned into perfumes, dyes, etc. by eastern chemical companies who get for it $500 per ton! These Easterners have the "know-how" which my Western friends have not yet learned.

Farmers know little about selling. They raise good crops and livestock; but they have nothing to say as to what price they get. Farmers are as much gamblers as those who buy and sell securities on the New York Stock Exchange. They know very little about creating markets through advertising, sales forces, etc. These are things which their sons should learn. These western states now need "county agents" who will train farmers not only to raise crops, but to process them and advertise them. More colleges of Business Administration are needed. Too many businessmen here are still in the kindergarten stage.

Helping Small Business

Small businessmen are now yelling for government aid. They think because Mr. Truman supports farm prices, he should also support wholesale and retail prices to help out inefficient and ignorant manufacturers and storekeepers. Hence, we read of bills to be submitted to Congress by Representative Emanuel Celler to limit the size of corporations, together with the so-called Fair Trade Laws to prevent big stores from underselling small shopkeepers. The truth is that these small manufacturers and merchants should go to school and learn to become successful businessmen through efficiency, advertising and hard work.

Nearly all big concerns were started in cellars or garrets. They won their success by giving the public better goods for less money. Whenever they fail at this, consumers will quit buying their products, causing them to go out of business. So I say to all my business friends: "Stop crying about competition. Send your sons to some school which will teach them how to overcome competition with character, brains and hard work. Then listen to these young men and give them a chance to make your business a big success." Although I am writing this column in the Central West, yet what I say above applies generally to all small businessmen—in the East, the South and the Pacific States as well.

Frank Investors Corp. Formed in New York

Announcement is made of the formation of the new investment firm of Frank Investors Corp. with offices at 40 Exchange Place, New York City. Officers of the firm will be Morris Morgenstern, President; Frank N. Morganstern, member of the New Bar, Vice-President, and Harry Frank, formerly partner of Weinberg, Frank Company, Secretary-Treasurer.

Silverson Explaining Stock Market Taxation

Harry Silverson, tax attorney, will speak on "The Investor and Year-end Tax Considerations" at the New School for Social Research, 66 West 12th Street, on Thursday, Dec. 8, at 5:20 p.m. Mr. Silverson is guest lecturer in the course, "The Investor Today," given by A. Wilfred May, Executive Editor of the "Commercial & Financial Chronicle."

Aubrey Lanston Co. Adds

Daniel J. Callahan has become associated with Aubrey G. Lanston & Co., Inc., 15 Broad Street, New York City.

Illinois Brevities

The new Midwest Stock Exchange—the result of a merger of the Chicago, Cleveland, Minneapolis-St. Paul and St. Louis Stock Exchanges—opened for business at Chicago on Dec. 1, with a burst of activity not seen on the floor of the old Chicago Stock Exchange quarters in many years. The new mart, the largest stock exchange outside New York, celebrated its first day of business, by trading 53,000 shares, or 39% more than the combined volume that the four merged stock exchanges had on Wednesday, Nov. 30. Trading on the four following days was as follows: 56,000 shares on Dec. 2; 30,000 shares on Dec. 3, which was a Saturday; 58,000 shares on Dec. 5 and 47,000 shares on Dec. 6. Branch offices of the new exchange have been set up in Cleveland and St. Louis, and they are linked to the trading floor in Chicago by Teletype. In Minneapolis there is no branch office, and members located there are linked directly to the trading floor by Teletype from their individual places of business. The new exchange has 357 members, and will list more than 400 issues for trading. Officers of Midwest are: Homer P. Hargrave, partner of Merrill Lynch, Pierce, Fenner & Beane, as Chairman; Clemens E. Gunn, partner of Gunn, Carey & Co., Cleveland, O., as Vice-Chairman; James E. Day, President; Carl E. Ogren, Vice-President and Secretary; Richard M. Day, Vice-President; Walter R. Hawes, Treasurer; and George J. Bergman, Assistant Secretary.

* * *

Halsey, Stuart & Co. Inc. headed a group of investment houses which on Dec. 1 publicly offered $41,000,000 of Louisville Gas & Electric Co. first mortgage 2¾% bonds, series due Nov. 1, 1949, at 102.375% and accrued interest. This group included, among others, the following Illinois bankers: Ames, Emerich & Co., Bacon, Whipple & Co., A. G. Becker & Co. Inc., H. M. Byllesby & Co. Inc., Dempsey & Co., Detmer & Co., The Illinois Co., Mason, Moran & Co., Mullaney, Wells & Co., Alfred O'Gara & Co., Patterson, Copeland & Kendall, Inc., Sills, Fairman & Harris, Inc., and F. S. Yantis & Co., Inc.

* * *

Halsey, Stuart & Co. Inc. (as sole underwriter) on Nov. 17 publicly offered $2,000,000 Missouri Power & Light Co. first mortgage bonds, 2¾% series due 1979, at 101 and accrued interest, and on Nov. 9 an issue of $5,000,000 Central Maine Power Co. first and general mortgage 2⅞% bonds, series S, due Nov. 1, 1979, at 101.515% and accrued interest.

* * *

The following Illinois bankers participated in the public offering on Nov. 16 of 50,000 shares of 4½% cumulative convertible preferred stock ($100 par value) of Clinton Foods Inc. (formerly Clinton Industries, Inc.) at $10.50 per share (flat): A. C. Allyn & Co., Inc.; A. G. Becker & Co., Inc.; Central Republic Co., Inc.; Kebbon, McCormick & Co.; Hickey & Co., Inc.; Blunt Ellis & Simmons and The Illinois Co.

* * *

Another banking syndicate headed by Halsey, Stuart & Co. Inc. on Nov. 16 publicly offered $9,000,000 Associated Telephone Co., Ltd. first mortgage 2⅞% bonds, series F, due Nov. 1, 1979, at 100¾ and accrued interest. Another group of underwriters, also headed by the same Chicago bankers on Nov. 17 offered publicly $4,080,000 St. Louis-San Francisco Ry. 2¼% equipment trust certificates at prices to yield 1.25% to 2.60%, according to maturity.

* * *

The offering of 33,730 shares of common stock (par $1) of Black Hills Power & Light Co. to its common stockholders at $15 per share was underwritten by a group of investment bankers which included, among others, A. C. Allyn & Co., Inc. and Central Republic Co., Inc. This issue was oversubscribed. Subscription warrants expired on Nov. 29.

* * *

The Kelling Nut Co., Chicago, which just recently placed privately with Prudential Insurance Co. of America a $1,000,000 10-year unsecured loan, reported for the year ended June 30, 1949 a net income after taxes of $312,883, equal to $1.40 per common share. This compared with $231,990, or $1 per common share, for the previous fiscal year. The book value per common share was $8.99, against $7.76 at June 30, 1948. The proceeds from the loan were used to reduce short-term bank borrowings and to increase working capital. The company also announced that it would continue "some seasonal short-term borrowing" from a group of banks headed by Harris Trust and Savings Bank, Chicago.

* * *

Included in the group which underwrote an issue of 725,567 shares of Central and South West Corp. common stock (par $5) at $12⅞ per share which were offered to the latter's common stockholders of record Nov. 2, 1949 were the following Illinois investment bankers: Paul H. Davis & Co.; Kebbon, McCormick & Co.; Mason, Moran & Co.; Cruttenden & Co.; Doyle, O'Connor & Co., Inc.; William Blair & Co.; Blunt Ellis & Simmons; Dixon, Bretscher Noonan, Inc.; and David A. Noyes & Co. Subscription warrants expired on Nov. 18, 1949.

* * *

Retail sales of Jewel Tea Co., Inc. for the four weeks ended Nov. 5, 1949 totaled $13,666,907, the highest volume of sales in any four week period in the company's history. This compared with $12,680,524 for the corresponding period of last year and $12,987,172 for the four weeks ended Oct. 8, 1949. Accumulated sales for the 44 weeks ended Nov. 5, 1949 were $140,469,795, a 10.2% increase over the $127,417,090 for the same period in 1948.

National Tea Co., which has declared an extra dividend of 60 cents per share on its $10 par common stock, payable Jan. 5 to holders of record Dec. 20, 1949, reported sales of $22,350,536 for the four weeks ended Nov. 5, 1949, which compares with sales of $21,866,863 for the corresponding period of last year and $20,990,894 for the four weeks ended Oct. 8, 1949. For the 44 weeks ended Nov. 5, 1949, sales were $229,196,829, as against $226,952,929 for the corresponding 44 weeks in 1948.

* * *

Included in the group of 99 purchasers that publicly offered on Dec. 1 an issue of 1,500,000 shares of common stock (par $5) of The Southern Company at $11.95 per share were the following Illinois investment bankers: Ames, Emerich & Co., Inc.; Bacon, Whipple & Co.; A. G. Becker & Co., Inc.; William Blair & Co.; Julien Collins & Co.; Cruttenden & Co.; Dempsey & Co.; Detmer & Co.; Dixon Bretscher Noonan, Inc.; Farwell, Chapman & Co.; Freehling, Meyerhoff & Co.; The Illinois Co.; Mullaney, Wells & Co.; Robert Showers; Sills, Fairman & Harris, Inc.; Straus & Blosser; and F. S. Yantis & Co., Inc. The net proceeds are to be used to purchase additional shares of common stock of one or more of its subsidiary operating companies in order to assist them in financing their present construction programs.

* * *

Elgin National Watch Co., Elgin, reports sales of $18,211,100 and net profit, after taxes, of $869,232, or $1.087 per share for the 40-week period ended Oct. 8, 1949, as against sales of $18,534,116 and net of $872,090, or $1.090 per share, for the corresponding period last year.

* * *

A banking syndicate headed by Harris, Hall & Co., Inc., and including among others, the following Illinois bankers, underwrote an issue of 34,400 shares of Sutherland Paper Co., Kalamazoo, Mich.; 4¼% cumulative preferred stock (par $100): Glore, Forgan & Co., A. G. Becker & Co., Inc. and Lee Higginson Corp. This issue was first offered to common stockholders of the Sutherland firm of record Nov. 21, 1949 at $100 per share (flat), rights expiring today (Dec. 8). Each preferred share is convertible into 2½ common shares, at the holder's option.

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Arthur Keating, President of Ekco Products Co., Chicago, re-

(Continued on page 47)

NSTA Notes

SECURITY TRADERS ASSOCIATION OF NEW YORK

John M. Mayer of Merrill Lynch, Pierce, Fenner & Beane was elected President of the Security Traders Association of New York, Inc., at the annual meeting. He succeeds James F. Fitzgerald of W. L. Canady & Co., Inc.

John M. Mayer

Other officers elected for the coming year are:

First Vice-President: Leslie Barbier, G. A. Saxton & Co., Inc.

Second Vice-President: Harry L. Arnold, Paine, Webber, Jackson & Curtis.

Secretary: John J. Meyers, Jr., Gordon Graves & Co.

Treasurer: George V. Hunt, Starkweather & Co.

Directors: Richard H. Goodman, Shields & Co.; T. Frank Mackessy, Abbott, Proctor & Paine; John D. Ohlandt, Jr., J. Arthur Warner & Co., Inc.; D. Raymond Kenney, D. Raymond Kenney & Co.

Gratuity Fund Trustees: Philip H. Ackert, Freeman & Co.; David R. Mitchell, Blair F. Claybaugh & Co.

National Committeemen: Stanley L. Roggenburg, Roggenburg & Co.; Henry Oetjen, McGinnis, Bampton & Co.; Gustave L. Levy, Goldman Sachs & Co.

Alternate Committeemen: Charles Zingraf, Laurence M. Marks & Co.; William H. Boland, Boland, Saffin & Co.; Irving P. Grace, W. C. Pitfield & Co.; Edwin J. Markham, Wertheim & Co.; and Harold B. Smith, Pershing & Co.

BOSTON SECURITIES TRADERS ASSOCIATION

At the annual meeting of the Boston Securities Traders Association, Hubert N. Bernard, Jr., Schirmer, Atherton & Co. was elected President to succeed John E. Sullivan, Jr., F. L. Putnam & Co., Inc.

H. N. Bernard, Jr. Gilbert M. Lothrop Burton F. Whitcomb Curtis S. Bates

Other officers elected were Gilbert M. Lothrop, W. E. Hutton & Co., Vice-President; Burton F. Whitcomb, Blyth & Co., Inc., Treasurer; Wilfred B. Perham, R. H. Johnson & Co., Corresponding Secretary; Curtis S. Bates, Draper, Sears & Co., Recording Secretary.

Named as Governors of the Association were Edward F. Power, Hodgdon & Co.; Leo F. Newman, J. Arthur Warner & Co., Inc.; and Timothy D. Murphy, Chace, Whiteside, Warren & Sears.

CINCINNATI STOCK AND BOND CLUB

The Cincinnati Stock and Bond Club will hold its annual election and winter dinner on Tuesday, Dec. 13, at the Hotel Gibson Ballroom. The polls will be open from 3:30 to 5:30 p.m. to be followed by a cocktail party (5:30 to 7:00 p.m.) and dinner at 7:00 p.m.

Tickets for members are $7.00; for non-members $10.00. Reservations may be made with Gilbert A. Davis, Harrison & Co.; Harry Hudepohl, Westheimer & Co., or Arch F. Montague, W. E. Hutton & Co. Out-of-town reservations may be made with Henry J. Arnold, H. B. Cohle & Co. or Lloyd W. Shepler, Merrill Lynch, Pierce, Fenner & Beane.

COMING EVENTS
In Investment Field

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

Dec. 13, 1949 (Cincinnati, Ohio)
Cincinnati Stock and Bond Club annual election and winter dinner at the Hotel Gibson Ballroom.

Dec. 14, 1949 (New York City)
Annual Meeting and Election of the Investment Association of New York.

June 5-8, 1950 (Canada)
Investment Dealers Association of Canada 34th Annual Meeting at the Seigniory Club, Montebello, Quebec.

Sept. 26-30, 1950 (Virginia Beach, Va.)
Annual Convention of the National Security Traders Association at the Cavalier Hotel.

New England Group Of IBA Elects

BOSTON, MASS.—The New England Group of the Investment Bankers Association of America has elected Charles M. Abbe, Blyth & Co., Inc., Chairman. Others elected were Horace W. Frost, Tucker, Anthony & Co., Vice-Chairman; James Jackson, Jr., Townsend, Dabney & Tyson, Treasurer.

Named to the executive committee were Thomas C. Eayrs, Jr., White, Weld & Co.; J. Irving McDowell, McDowell, Diamond & Co., Providence, R. I.; and Carrell K. Pierce, H. M. Payson & Co., Portland, Maine.

Britain and Price Trends in U. S.

By PAUL EINZIG

Noting recent declines in commodity prices in U. S., Dr. Einzig sees in situation an unfavorable development for Britain, which may nullify desired effects of sterling devaluation. Says British opinion is for increase in U. S. buying price of gold as remedy. Refutes idea higher gold price will benefit Russia.

LONDON, ENGLAND.—The declines registered in the prices of many commodities in the United States since the devaluation of sterling are causing much concern in London. It is now evident that Sir Stafford Cripps was much too optimistic when he assumed that, as a rule, exports to the Dollar Area would earn as many dollars as before devaluation for the same quantities of exports. Indeed it seems that the maintenance of the dollar prices of British and Sterling Area exports to the United States is the rare exception, while the general rule is that exporters have to ship much larger quantities in order to be able even to maintain their pre-devaluation earnings of dollars.

Dr. Paul Einzig

During October, the first complete month since the devaluation, the sterling value of British exports to the United States showed a noteworthy increase. On the other hand, their dollar value—which, after all, is what really matters from the all-important point of view of the dollar gap—showed a decline. It remains to be seen whether in subsequent months it will be possible for Britain to increase the sterling proceeds of her exports to the United States sufficiently—partly through the increase of quantities and partly through receiving higher sterling prices—to achieve an increase of their dollar proceeds. This depends, to a very large degree, on the trend of prices in the United States.

It is indeed most disheartening that, now that the British Government and British exporters are at last bracing themselves to a really supreme effort to increase sales to the Dollar Area, there are indications that a very large proportion of the fruits of this effort will vanish into thin air as a result of a fall in American prices. Such a fall tends to frustrate the British efforts to bridge the dollar gap, not only through a reduction of the dollar proceeds of the goods they are able to sell in the United States, but also through a reduction of the quantities they are able to sell in the United States. For, judging by the experience of the first half of 1949, there can be very little doubt that a downward trend of American prices would materially affect the absorbing capacity of American markets for British and Sterling Area goods. Even if the downward trend is largely confined, for the present, to prices of goods imported from countries which have devalued their currencies, it is feared that the trend will spread and will produce the usual depressing effect on demand by American producers and consumers alike.

A fall in American prices would utterly defeat the aim of the devaluation of sterling. It would also rule out future solution in the same direction, for it stands to reason that a second devaluation would only be followed by another decline in dollar prices. The problem of the dollar gap would remain, and it would either lead to a really drastic curtailment of purchases of American goods or the American taxpayer would have to continue to finance the abnormally large export surplus.

Since the devaluation was urged upon the British Government by the United States Government and American opinion, London is looking towards Washington for the adoption of some means by which to prevent a fall of American prices from defeating the ends of the devaluation. Had it been realised in London that the devaluation would be followed by such a degree of fall in American prices there would have been even stronger reluctance to follow American advice than there was until August 1949. Now that the act is accomplished it is hoped that the United States Government will devise some means to ensure that the beneficial effect of the devaluation is not wiped out through the fall of prices in the United States.

The remedy which would be considered here as the most effective in arresting and reversing the decline in American prices would be an increase in the American buying price of gold, preferably in conjunction with an all-around increase by all countries represented in the International Monetary Fund. The unpopularity of such a measure in the United States is widely realised over here. Nevertheless, it is hoped that, confronted with a deflationary depression as the alternative, American opinion might change.

One of the reasons why American opinion is opposed to a higher dollar price of gold is the belief that this would greatly benefit the Soviet Union, being the second largest producer of gold. On the face of it this may appear to be a matter of simple arithmetic, but in reality the belief is entirely mistaken. It is true, Soviet Russia would get more dollars for her gold exports. On the other hand, she would have to pay more for her imports of raw materials, not only for those imported from the Dollar Area but for all imports from beyond the Iron Curtain. As things are at present, Soviet Russia derives the full benefit of the fall of American prices, as a result of which the Soviet Government has to pay less for Malayan rubber, Australian wool, non-ferrous metals, etc. It would of course be difficult to estimate the Soviet gains and losses arising from the reversal of the trend of prices through an increase of the dollar price of gold. For one thing, no information is available about the volume of Russian production and export of gold. But the chances are that losses through higher prices of goods would largely offset, and possibly more than offset, gains through a higher price of gold.

A consideration which is incomparably more important than the possible extent of direct financial gains by Soviet Russia through a rise in the American price of gold is the probable extent of her political gains through the aggravation of the position in Europe in the absence of a rise in the American price of gold. The perpetuation of the dollar gap through a fall of prices in the United States would greatly increase the economic difficulties of Britain and Western Europe, and would assist in the peaceful penetration of Communism in that part of the world. There are of course many other considerations for and against raising the price of gold, but viewed from the angle of its effect on Russia's position the balance of arguments is decisively in favor of a higher price of gold.

Gold and the Monetary Problem in 1949

By FRANCIS H. BROWNELL

Former Chairman, American Smelting and Refining Company

Mr. Brownell, after reviewing monetary history of last century, attacks present International Gold Bullion Standard as ineffective in stabilizing currency, balancing budgets or promoting multilateral trade. Says price of gold should not be raised except with a simultaneous resumption of coinage and convertibility, and advocates taking steps to ascertain its proper price. Suggests $50 an ounce for gold, and asserts "great monetary error of last century was failure to use gold and silver jointly as standard."

For over one hundred years following the close of the Napoleonic wars, international trade grew and flourished as never before in all history. The monetary basis of that prosperity was the prevailing form or type of gold standard. In the year following Waterloo, England established that type. She made her unit coin consist of a specified number of grains of gold, and then fixed or pegged the price of gold by directing the Bank of England to purchase all gold on offer in unlimited quantities at £3 17s. 9d. per standard ounce, and to sell all gold on demand in unlimited quantities at £3 17s. 10½d. per standard ounce. The difference of 1½d. (about 3¢ in United States money, valuing the pound at $4.86) was called a "handling charge." But it also was a way of inducing others to buy gold in the market at prices between those of government buying and selling (a difference so slight that it did not affect outstanding coins or the efficiency of the standard) and thus relieve the government from the burden of handling such requirements.

Francis H. Brownell

Never before had the price been fixed effectively. The result is vividly described by Sir Charles Morgan-Webb in "The Rise and Fall of the Gold Standard" (p. 50):

"What made the currency revolution of 1816 unique was that, for the first time in the history of the world, there was a fixed and stable value of gold and of currency, which operated, not temporarily nor locally, but permanently and throughout the world. Britain had provided the world with a new currency factor, a fixed unit of value.

"As soon as the world grasped this fact it hastened to take advantage of it. The stability of currency established by making the pound sterling a fixed value of gold was not confined to Britain. It was extended to the whole world by means of the Sterling Bill of Exchange. Bills of exchange had been used to finance international commerce from time immemorial. But never before had bills of exchange, as good as gold, been available to every trader in the world. As good as gold! The Sterling Bill of Exchange was better than any gold of which the world had previously had any experience. The Sterling Bill of Exchange was encashable in a new kind of gold, a gold with a fixed stable value, instead of in the old unstable fluctuating gold, whose value was just as likely to go down as up while the bill was current.

"* * * The eighteenth century had witnessed a grim, prolonged struggle between Paris, London and Amsterdam as to which should be the financial centre of the world. With the sterling standard, Paris and Amsterdam faded out. London alone remained, indisputably, unquestionably the financial centre of the world, with the Bill of Exchange on London establishing its predominance as the most efficient international currency the world had ever known, available for every country and every commercial centre."

In 1931, England "went off gold," and when followed by the United States in 1933 the former type of gold standard came to an end and has never since been revived. The cause was the insufficiency of physical gold at the price pegged by England (equivalent to $20.67 per oz.) and in addition the maldistribution of what gold there was.

Today, four years after the surrender of Germany and Japan, the monetary chaos caused by the war shows little or no improvement. International trade is apparently becoming more difficult. The failure of steps so far taken emphasizes the desirability of a return of gold to the beneficent and successful function it performed in the nineteenth century.

There is a striking resemblance between the situation after Waterloo and that existing since the close of World War II. France under Napoleon, like Germany under Hitler, had for a time overrun Europe, but fell before the final alliance of other nations, including Russia. Monetary chaos prevailed in Europe then, much as now. England and Russia were the two leading nations and remained rivals for a century, even fighting the Crimean War. Today, the United States and Russia have a very similar relationship. England, like the United States today, having control of the seas, more advanced economically and more dependent on international trade, was preeminently more interested in restoration of conditions favorable to resumption of international dealings.

Today, as then, a monetary system, fostering multilaterial international trade and convertibility of exchange, is of paramount importance.

The United States now has become the leading creditor nation, possessing 70% of the physical monetary gold, and is more powerful economically than any other nation. It is more able than was England in 1816 to establish the same type of gold standard and so to foster international trade as in the days of its existence.

The requirements are—

(1) A determination of the price at which gold should be pegged; and then

(2) Resumption of coinage and convertibility of paper money into gold.

Before discussing these require-

(Continued on page 32)

Mutual Funds

By HENRY HUNT

Little Acorns and Mighty Oaks

The Wellington Fund has issued the following release pertaining to its origin and growth which should act as an inspiration to those in the investment business:

Back in 1928 a young Philadelphia accountant had the then unique idea that the investment accounts of his family and friends could be better managed collectively than individually, and he formed a small company to prove it. The company was given the name Wellington Fund, and the accountant, Walter L. Morgan, named President.

Today the 21-year old enterprise, still under the leadership of Morgan, and now the oldest and largest balanced mutual fund in the country sold through dealers, passed a significant milestone in its growth. It has become a $100,000,000 institution.

In attaining the $100,000,000 mark in resources on Dec. 3, the Fund climaxed a $36,000,000 increase in resources thus far this year to give it rank as one of the nation's largest mutual funds with more than 40,000 shareholders.

Although the once all-Philadelphia enterprise has expanded into a national institution, it still functions along its original lines. In 1929 when resources were less than $200,000, the handful of original stockholders included the families of the management and their friends. It is much the same today with the families of the management having an investment of more than $900,000 in the Fund.

Moreover Wellington's basic idea—that investors should combine their funds and place them under expert management for investment in a much wider list of stock and bonds than otherwise would be possible—is still its guiding principle. It finds reflection in the current Wellington portfolio which includes more than 200 securities in more than a score of industries.

The mutual fund executive attributes the rapid growth of Wellington Fund in recent years to two factors.

"First," he explains "it is due to the shift of national wealth to the middle income groups during recent years. This shift has created a vast number of new investors and many of them have been turning to mutual funds. We find, for example, that a number of our new shareholders have never owned stocks or bonds before.

"Moreover," he continues, "the increasing popularity of mutual funds among small investors is attested by the size of the average holding of Wellington Fund, which amounts to approximately $2,500 per stockholder. We also have a very large number of shareholders owning less than $1,000 worth of the fund."

The second factor in the recent growth of Wellington Fund is described by Morgan as the shifting of funds by large and experienced investors into mutual funds for the preservation of capital and generous income and also as a hedge against rising prices and shrinking dollar purchasing power. This trend, he points out, finds confirmation in the action of such institutions as Harvard University, Vassar College and other endowed groups turning over their funds for management to mutual fund managers.

Morgan expresses the conviction that the end of the road in the growth and development of Wellington Fund in particular, and mutual funds generally, is nowhere in sight. "I believe," he says, "that mutual funds, and balanced funds in particular, will become as indispensable to American life as life insurance and savings groups.

"In this growth that lies ahead," he says, "mutual funds are going to become the most important instrument for spreading ownership of our industries among the rank and file of our people."

England vs America

In England they have the soapboxes—in America we have the soap. A Bob Byfieldism.

An Industrial Giant Recommends Common Stocks

"What stocks should the man of relatively small income buy with the money he has available after he has taken care of the investments which offer absolute safety—the investments which provide a fixed dollar return? That, of course, cannot be answered specifically! In general terms, however, a fair answer is possible. He should select for his purchases, stock in industrial organizations that he has reason to believe are well managed and that are in lines that promise to continue to progress with America. The enterprises he will select will be well-established enterprises, with long evidences of dividend paying. He will shut his eyes to promises of vast returns on small investments. 'Venture capital' doesn't mean 'reckless capital.' He should buy stock outright and buy it to hold. Buying with intent to sell at the first rise is a luxury, like investing in 'get rich quick' enterprises, that the man of small income cannot afford!

"Whether a man or woman's financial position has reached the stage where it justifies the effort to 'better his lot' by investment in common stock is something that everyone has to answer for himself. Many portfolios of well-selected stocks have been built up by persons of small incomes who have had the will power enough to save part of what they have earned. Many people of larger incomes have put off the day when a serious program of investments could be put into effect simply because they have lacked the will power necessary to deny themselves this or that luxury.

"Here is what one economist has to say about the need that American industries have for 'venture capital':

"'. . . If the time ever comes when timidity and the "sure thing" attitude paralyze American initiative and the average citizen is afraid to take normal risks, our whole way of life will be threatened. While State Socialism can be financed by the habit of investing exclusively in government bonds, such practice is inconsistent with the flourishing of a private enterprise economy.'

"Before investing, the only safe rule is to investigate. Talk the matter over with an officer of your bank or your broker. If you deal directly with a broker, make certain that his firm is affiliated with a stock exchange or with the National Association of Security Dealers. Seek diversification. If your funds are small, you can get automatic diversification by buying outright the shares of a competently managed investment trust or investment company which, in turn, holds the shares of corporations in representative industries."—From October issue of **Socony-Vacuum's** "News."

"Affiliated" Assets Up Nearly 50%

Affiliated Fund, Inc., in its annual report for the year ended Oct. 31, 1949, shows net assets of $88,914,179, an increase of nearly 50% over the $60,884,211 reported a year earlier. The number of shares of capital stock outstanding increased to 22,906,232 from 14,869,721 while the number of stockholders was 49,451 as compared with 33,422 a year ago.

Commenting on the outlook, Harry I. Prankard, 2nd, President, stated: "As always, there are both favorable and unfavorable developments to consider. At this time, we believe that the favorable factors outweigh the unfavorable ones.

"On the unfavorable side, we have had a decline in business activity from the postwar peak in 1948. It was accompanied by lower commodity prices and rising unemployment. Inventory commitments have been curtailed and business expenditures for plant and equipment have been going down. Our net export balance has been declining, and, as a result of the recent devaluation of the pound by the British Government and similar devaluations by other governments, this decline will probably continue.

"Perhaps one of the most important causes of the decline in business activity has been the cautious attitude of management. Both manufacturers and distributors have allowed inventories to decline, with the result that production has been less than consumption. Our data indicate that this decline in inventory has about reached its end and will not be an important factor in the year ahead.

"On the favorable side, there is much to give us encouragement. There is still a large unfilled demand for housing; expenditures by state and local governments are increasing; the Federal Government, through its monetary policies, is trying to attain full employment; consumer debts are still low in relation to consumer income; and the cash and savings of individuals are at almost an all-time high. The strikes in our major industries seem about over, and we believe that, all in all, we can go forward with considerable confidence."

The Wisdom of Honest Abe

"You cannot bring about prosperity by discouraging thrift."

"You cannot strengthen the weak by weakening the strong."

"You cannot help strong men by tearing down big men."

"You cannot help the wage earner by pulling down the wage payer."

"You cannot further the brotherhood of man by encouraging class hatred."

"You cannot help the poor by destroying the rich."

"You cannot establish sound security on borrowed money."

"You cannot keep out of trouble by spending more than you earn."

"You cannot build character and courage by taking away man's initiative and independence."

"You cannot help men permanently by doing for them what they could and should do for themselves."—A. Lincoln.—From **"The Keystone Investor."**

More and More People

One of the most important and favorable factors at work today in the general economic situation is the astonishing growth in the U. S. population. By mid-1950 it seems certain that there will be at least 19,000,000 more consumers of U. S. goods and services than there were in 1940, when the last census was taken. This is a 14.4% increase, and there are no signs of reaching a peak in the foreseeable future, as was expected not very long ago.

It is impossible to calculate with any degree of accuracy just what this will mean in future dollar sales and earnings, either on an industrial or on a company basis; but it is possible to estimate the general effects of this rapid population growth on the over-all national economy. It implies a level of industrial and agricultural production and general business activity at a higher rate than in former "normal" times. While it must be given proper weight and consideration in the projection of future business trends, it is a strong justification for optimism.—From the **Broad Street** "Letter."

World Bank to Redeem $100 Million of 2¼% Bonds

The International Bank for Reconstruction and Development announced on Dec. 5 that early in January it plans to call for redemption its $100 million 10-year 2¼% bonds due July 15, 1957. The call price is 101. Payment will be made approximately 45 days after the formal call is made. Eugene R. Black, President of the bank made the announcement at the Hollywood Beach Hotel, Hollywood, Florida, where the Investment Bankers' Association of America is holding its annual convention. He also disclosed that early in the new year the International Bank intends to offer a refunding issue of serial bonds, in the same amount, at competitive bidding. Invitations to bid for the new serial bonds will probably be issued in January. Terms of the new bonds, other than that they will have serial maturities, could not be announced at this time, Mr. Black stated.

Eugene R. Black

The $100,000,000 10-year 2¼% bonds, due July 15, 1957, together with a $150,000,000 issue of 25-year 3% bonds, were sold at par on July 15, 1947, through approximately 1,700 security dealers. These are the only two issues ever offered publicly by the International Bank in the United States capital market. The bank, however, sold a small issue of 2½% Swiss franc serial bonds, amounting to the equivalent of $4,000,000, to the Bank for International Settlements, Basle, Switzerland, on June 1, 1948. The bank has guaranteed and sold to United States institutional investors $12,000,000 of notes received in connection with its Dutch shipping loans, and $16,000,000 of bonds received in connection with a loan to Belgium. These are the only issues or obligations, either direct or guaranteed, now outstanding.

Economist Sees Low Interest Rates Continuing

Dr. Ivan Wright, in memorandum prepared for Granbery, Marache & Co., members New York Stock Exchange, points to surplus of loanable funds and excess gold reserves as indicating interest rates may decline in 1950 and remain low until demand and supply of available credit balance.

In a memorandum prepared for and distributed by Granbery, Marache & Co., members of the New York Stock Exchange, Dr. Ivan Wright, well known economist, summarizes results of his studies of the outlook for interest rates in 1950. According to Dr. Wright:

Dr. Ivan Wright

"Interest rates in the short run are determined like all other prices by supply and demand. The present supply of loanable funds exceeds the demand and this condition promises to continue for an indefinite period. Since the end of the war the gold stock in this country has increased about $4.5 billion and the reserve bank credit outstanding has declined about $8 billion. Moreover the policy of the Federal Reserve Banks is to increase the supply of loanable funds and lower interest rates. Last June the Reserve Policy change announced was to make money rates lower. The purpose was to support the government bond market and perhaps the belief that a plentiful supply of money at low rates would stimulate business and reverse the trend toward a business recession. Then on Aug. 4, the Reserve Board reduced the reserve requirements of member banks which released $1.8 billion of reserve funds for loans or investments. This expansion of the money supply was followed by a refunding by the Treasury of $1.3 billion of 2% bonds due Sept. 15, with one year certificates of indebtedness at 1⅛%. Up to this time the rate on one-year certificates had been 1¼%.

"The money rates are definitely in the hands of the government and it is reasonable to believe that the government will seek to keep interest rates low. First low interest rates will help keep government bonds high in price. Second the government is now running its largest peacetime deficit and will want to finance this deficit at the lowest cost possible. Third the belief prevails in government circles that low interest rates will stimulate business in spite of all the evidence that it takes more than cheap money to stimulate business and make prosperity.

"Another reason for believing that interest rates will remain low and tend to decline during 1950 is the excess gold reserves providing an abundant supply of loanable funds and the demand is wholly inadequate to absorb these funds. It is true that bank loans have been increasing the last half of 1949 but the increase is small compared with the loanable funds available. While new capital financing may be rather large in 1950, it is generally believed that this new financing will fall short of the volume of new capital financing in either of the two previous years. While this outlook could change, it is difficult to see at this time where any such large volume of domestic new capital demands are coming from in the next year. Nevertheless state, city and public utility financing promise a very satisfactory volume of business for the capital markets in 1950.

"The foreign need for American capital is large but the volume of foreign investing abroad in 1950 by private investors will probably not be large. By and large the private investor in the bonds of foreign governments and/or the stocks and bonds of foreign corporations have not been successful except for a select few countries which have maintained stable governments and relatively sound money and fiscal policies. While it is within the province of most foreign countries to restore economic conditions and productive opportunities that would stimulate the speculative interest of American investors in both investment and risk capital which would bring out a large volume of investments where there are profitable opportunities, it is doubtful if these constructive changes will come so quickly in most countries. But if the world is to recover its pre-war production and trade, the demands for capital will be countless billions. The principal source of this capital for the next few years is the private investors of the United States. This large demand for foreign capital upon our markets, together with the continuing large demand by our home industries for capital, accompanied by a substantial movement of gold out of the United States back to foreign countries, could and ultimately will absorb the oversupply of loanable funds in this country. When the demand and supply of loanable funds are again in balance, interest rates will be determined by the cost or earnings potential basis, and not on the bargain counter where supply exceeds demand which is the situation at present and in the foreseeable future.

"But taking conditions as they are, the investor of 1950 will do well to key his program to continued low money rates."

Preferred Stock Issue Placed on Market

Blyth & Co., Inc., heads a banking syndicate which is underwriting the offering of 142,132 shares of 4.64% cumulative preferred stock (par $100) of the Public Service Co. of Indiana, Inc. The issue was awarded at competitive bidding Dec. 1. The stock is being offered for subscription by holders of common stock of record Nov. 25 at the rate of one preferred share for each 20 shares of common stock held at $116 per share. Rights expire Dec. 13. The 4.64% preferred stock is convertible through Dec. 31, 1952, into common stock, unless called for previous redemption, in which event the conversion right will expire on the date fixed for redemption. Proceeds will be used to finance company's construction program.

Maurice Mangan Joins Cruttenden & Co.

CHICAGO, ILL.—Maurice D. Mangan has become associated with Cruttenden & Co., 209 South La Salle Street, members of the New York Stock Exchange. He was formerly Vice-President of Webber-Simpson & Co.

Spencer Trask to Admit

Spencer Trask & Co., 25 Broad Street, New York City, members of the New York Stock Exchange, will admit Lucy Bulkley Erdman and Katharine Bulkley Kelly to limited partnership on Jan. 1.

Controlling Factors in Economic Development

By HAROLD G. MOULTON*
President, The Brookings Institution

After reviewing potentialities of our industrial and other resources, Dr. Moulton asserts nation still possesses essential foundation for vast further rise in living standards. Lays down as requirements for realization of our economic potentialities: (1) more attention to conservation; (2) sound fiscal situation; (3) stable monetary unit; (4) technological advancement; and (5) a business policy to promote broader distribution of purchasing power. Advocates price reductions and profit-sharing rather than wage increases, and attacks expanding scope of government control over private enterprise.

The Nation's Potentialities

In the last two decades grave doubts have been raised as to the economic future of the United States. Three essentially different lines of thought have contributed to the pervading pessimism of our time. The first is the conception that we have reached the age of economic maturity, and are thus approaching a stationary society; the second is that we have so wasted our national patrimony as to undermine the foundations of industrialism; and the third is that the growth of government power and controls are destroying the incentives to progress under private enterprise without providing feasible substitutes. My discussion will center on these three basic questions.

Harold G. Moulton

The mature economy theory is readily disproved. In the first place, those who a decade ago so confidently predicted a steadily declining rate of population growth leading to a stationary population by about 1980 have been confounded by the population trend of the forties. Not only during the war and the early postwar years did population increase at a very rapid rate, but there has been no abatement to the present moment. This vast upsurge in the birth rate will project its influence forward over a long period of years. In the second place, studies of family expenditures at different levels of income conclusively show that consumer desires are strong rather than weak—that aggregate consumptive demand is capable of indefinite expansion. While the percentage saved naturally increases as incomes rise and provide a savings margin, aggregate expenditures nevertheless increase in all the income brackets and especially in the lower levels. The unfulfilled desires of the masses of the population provide the essential foundation for an almost limitless economic expansion.

The issue as to the adequacy of our natural resources is more complicated, and hence requires more thorough consideration. It involves a comprehensive analysis of the nature of our future requirements, the state of our natural resources, and future possibilities in the realm of technology. Time does not here permit detailed discussion. It must suffice to say that my intensive studies lead to the conclusion that we do possess resources adequate to permit a doubling of the population over the next century and an eight-fold rise in living standards. I can here give only the briefest summary of our findings.

Agricultural Potentials

With respect to agriculture, the following conclusions were reached:

(1) Large, highly productive areas remain to be brought under cultivation. This involves the reclamation of swamp lands and the irrigation of dry areas.

(2) The age-old problem of soil erosion is now subject to control. The soil conservation program involving (a) expansion of grass and tree culture, (b) longer rotation periods, (c) contour and strip farming, is steadily gaining momentum, and the problem is now definitely on the way to solution.

(3) Scientific agriculture can enormously increase yields per acre. Only a small fraction of the farm population as yet makes any considerable use of the scientific knowledge now available. The best operated farms produce two or three times as much per acre as the representative farm; if present knowledge were universally applied yields could, in most cases, readily be doubled. Moreover, the application of science to agricultural production is still in its early stages. It is now definitely established that soils under cultivation may become more fertile than virgin soils for the simple reason that nature seldom provides a satisfactory balance with respect to food producing elements.

(4) The elimination of waste in the processing and marketing of foodstuffs presents great possibilities. Mention might be made of dehydration, quick freezing, improved preserving and cooking methods, the use of refrigerated cars, expedited transportation service, and improved storage facilities. New developments in electronics and ultrasonics suggest still greater improvements in the near future.

(5) Abundant new food resources may be provided by synthetic processes and radioactivity. Chemists are working on the production of artificial protein fibers. There has also been much research in the field of photosynthesis, or the direct action of sunlight in conjunction with air

(Continued on page 30)

*An address by Dr. Moulton before the American Management Association Production Conference, Chicago, Ill. Nov. 10, 1949.

Anthony Gaubis & Co. Starts Letter Service

Anthony Gaubis, whose views on the outlook for business and stock prices have been presented in a number of articles in the Chronicle during the past three years, has just announced inauguration of a weekly letter service. His most recent articles for the Chronicle appeared in the July 21 and October 27 issues.

Anthony Gaubis

The new service on "Business and Investment Timing" is an economic advisory service for businessmen and investors based on forecasting cyclical trends. Weekly analyses of economic developments affecting the outlook for business and security prices will be supplemented by Quarterly Reviews of the earnings, dividend and price prospects of stocks recommended for purchase or retention from either a cyclical or long-term point of view.

Irving Silverherz Joins Hay, Fales & Co.

Hay, Fales & Co., 71 Broadway, New York City, members New York Stock Exchange, announce that Irving J. Silverherz has become associated with the firm in its trading department.

Irving J. Silverherz

Mr. Silverherz was formerly with Seligman, Lubetkin & Co., Inc., in the corporate bond and stock department.

With First of Michigan

(Special to THE FINANCIAL CHRONICLE)

DETROIT, MICH. — Herbert H. Smith, Jr. has been added to the staff of First of Michigan Corporation, Buhl Building, members of the Detroit Stock Exchange.

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

The government market made up about all of its recent price decline when the Treasury announced the issues and rates that would be used in the refunding operation. . . . The 1⅜% note was in line with expectations since it had been looked for for some time. . . . On the other hand, the 1⅛% certificate for the January maturity, after the mild firming of short-term rates, occasioned some surprise. . . . This was immediately reflected in a sharp rise in prices of the longer-term higher income obligations. . . . The market seemed to have regained its equilibrium after the advance and was buoyant to firm because the testimony of Treasury Secretary Snyder before the joint Senate and House Economic Group was to the liking of the market. . . . But along came Mr. Eccles and Mr. Sproul to put another blast on the Treasury's low interest rate policy and prices gave up part of their recent gains. . . . Federal Reserve Board Chairman McCabe seemed to go along more with Treasury Secretary Snyder. . . .

It is expected the market will continue to reflect its likes or dislikes of what will come out of the Washington hearings by moving up or down in not too wide a range. . . . However, low money rates continue to be in style and if one needs income the lower terms must be bought in order to get it. . . . Whether quotations of the higher income issues remain firm at these levels or go on to new highs depends upon Federal. . . . Not a few in the money market believe the Central Banks will be sellers of the Vics above 103.20 and the longest bank 2½s above the 106 level. . . .

TREASURY REMAINS INTEREST COST CONSCIOUS

The Treasury in offering a 1⅜% note due in 4¼ years, and 1⅛% certificates for the December and January maturities, respectively, continued the low-cost debt refunding program which has been in effect for some time now. . . . Despite all that has been said about what might be done to handle maturities, the Treasury remains very conscious of the cost of carrying the public debt and there are no indications yet they are going to let anyone talk them out of the policy of refunding issues that come due with low-cost obligations. . . . Inflationary tendencies or trends for the time being at least do not seem to be as pressing in the eyes of the Treasury as the need for keeping the debt burden down. . . . There has been some idea in the money markets that the short-term rate might be lifted slightly when Federal allowed the rates on bills to harden, just before the refunding terms were announced. . . .

However, when the Treasury made known the rates that were to be available in the impending operation, the hopes for a hardening of short-term rates appear to have gone with it. . . .

MONETARY CHIEFS AT ODDS ON MONEY RATES

There has been considerable discussion in the financial district about the conflict among the monetary authorities, as to what should be done about money rates. . . . It is evident some of the powers that be believe them to be too low. . . . This difference of opinion over the level of interest rates came out in the open again last week, when Marriner S. Eccles of the Federal Reserve Board and Allan Sproul of the Federal Reserve Bank of New York criticized the low money policy of the Treasury. . . . With the outlook for "expanding economic activity," the former Chairman of the Board is concerned about continued cheap money which the Treasury wants in order to keep debt cost as low as possible. . . . Also Mr. Eccles states Federal Reserve policy cannot be effective as long as the Treasury wants to refund maturing obligations with low-cost issues in order to keep the debt burden down. . . .

The inflation potential seems to have Mr. Eccles on the anxious seat, and he would like to take action to stop or at least tone down the cheap money policy of the Treasury. . . . What will be the ultimate results of the conflict over money rates among the monetary authorities is a matter of some conjecture. . . . However, in the past the Treasury has always won out, and there are not a few who believe this will again be the case. . . .

TREASURY FACES KNOTTY PROBLEM

The task of the Treasury to finance the deficit and to meet sizable maturities in the coming year is not an easy one and it would not be helped, with uncertain money market conditions. . . . Debt service, as Secretary Snyder points out, could go up sharply with only a minor increase in the interest rate. . . . On the other hand, if the forces of inflation or, more important, the psychology of inflation, should continue to expand in the future, appropriate action should be taken by the monetary authorities to curb it. . . . A contraction of credit and higher interest rates have been effective in the past. . . . But with the Treasury committed to a low interest-rate policy on refundings so as to keep the debt burden down, how can former monetary controls be used to prevent excesses from getting out of hand, when, as and if they should develop? . . .

The opinion has been expressed in certain quarters (probably influenced by Federal Reserve Board Chairman McCabe's statement before the Douglas sub-committee) that short-term rates may be less vigorously protected by the authorities in the future. . . . The belief is held that despite the low-rate refunding policy of the Treasury bills and certificates may be allowed to fluctuate more freely than in the past. . . . This might have a tendency to take some, if not all, of the magic away from the yield curve, which is used in some instances as an infallible guide as to what will take place in the government market. . . .

MARKET MOVEMENTS

Although the market for Treasury issues moved in a wide range in the past two weeks, it seems as though New York City banks took advantage of the price decline to add to their holdings of the longer maturities. . . . Last week these institutions bought $36,000,000 of obligations due in more than five years. . . . It is reported the 2¼s due 1956/59 were in first place followed by the 2¾s due 1960/65 and the 2½s of 9/15/67-72.

NAM Views on Federal Debt Management

Wm. J. Grede, Chairman of Association's Federal Debt Committee, tells Joint Committee on Economic Report inability or unwillingness to balance Federal Budget and reduce national debt is inflationary and can lead only to private and public bankruptcy.

In a statement read before the Subcommittee on Credit, Fiscal and Monetary Policy of the Joint Committee on the Economic Report in Washington on Dec. 1, Wm. J. Grede, Chairman of the Federal Debt Management Committee of the National Association of Manufacturers, pleaded for an end of Federal budget deficits; a revamping of Federal debt maturities; an end of government bond price-pegging; also a general easing of national tax burdens. After asserting manufacturers are deeply concerned about the fiscal crisis that confronts the nation, Mr. Grede outlined the elements of the situation as follows:

William J. Grede

"(1) The inability, or unwillingness, to balance the budget under conditions of near record-breaking business activity.

"This situation has arisen from the failure to control Federal spending and the evidence pointing to this conclusion is the fact that in the fiscal year 1948 the government spent for all purposes $33,917 million, aside from tax refunds. We have submitted a budget projection for the fiscal year 1951 which indicates an adequate level of Federal support costing $33.6 billion, aside from certain contingencies in the Housing Act and the government corporations. We submit that there is no good case for a budget in 1951 in excess of this total.

"(2) The increase of public debt that deficits will involve, and the further deterioration of our monetary standard that a prolonged continuance of debt increase will surely produce.

"The gradual rise of the debt may not induce, at any given time, a violent inflationary response. We have produced evidence to show that moderate doses of inflation are not likely to produce such a result. But the steady, indefinite increase of debt will in time create an inflationary potential which could be touched off by any of a number of circumstances. And, further, it can lead eventually to a debt total so large that the only relief will be a further devaluation of the currency standard. The current declarations against devaluation are binding only on those who make them. They do not commit a future Congress, Secretary of the Treasury, or President. Nowhere in history is there convincing evidence of indefinite firmness on monetary standards in face of mounting debt.

"(3) The dificits and the rising debt are likely to lead to continued Treasury insistence upon debt management policies which we have criticized as unsound and dangerous in our main statement.

"We refer, in particular, to the further expansion of short-term and demand debt, and the arbitrary restriction of interest cost on such debt by the price-pegging of long-term issues. In a free market the direct cost of deficit financing would be promptly exposed for all to see in the budgeted charges for interest.

"(4) The defeatist attitude of high government officials, as revealed in their statements to this Committee, is particularly alarming. The implication of this attitude is that nothing can be done about it.

"We reject this doctrine. We hold that something can be done, which is to reduce the spending. We hold that it is the duty of the Joint Committee on the Economic Report to emphasize a reduction of Federal spending as the one essential step toward sound, controllable financial policy, and to spell out to the Congress and the nation in full detail the consequences of accepting a defeatist, do-nothing-about-it attitude.

"(5) We do not agree that an increase of taxation would be the proper step to take to achieve budget balance.

"Total government receipts (Federal, State and local) are now approximately one-quarter of net national product. A further increase of taxes in the magnitude to cover a deficit now estimated at some $5.5 billion for the present fiscal year would raise this proportion significantly. Such an increase would cut heavily into the ability of the people to consume, to save and add to the capital fund, and hence would tend to defeat its own purpose by diminishing the flow of income from which all taxes are derived.

"(6) Finally, we do not agree that the test of spending in excess of receipts can properly be said to be the 'welfare of the people.'

"This means that deficit spending promotes the public welfare. Since there will always be, next year and the year after down through time, some other project that is claimed to contribute to the public welfare, this doctrine means that there can never be an end of the deficits, once they are thoroughly established and justified on the basis of the general welfare.

"The outcome will not be more, but less welfare. If continuous deficits and debt increase were really the way to greater well-being, then the most heavily debt-ridden countries today should be the most prosperous. We know, on the contrary, that they are the most miserable, the most in need of our aid. If there is any lesson to be drawn from the financial history of nations, it is that a prolonged, inordinate exploitation of the public credit can lead only to the misery and despair of private and public bankruptcy. We can avoid this disaster, but only by putting our national finances on the sound and stable basis of paying as we go, and agreeing to pay only as much as we can afford without the imposition of a crushing tax burden."

William E. Dunn Opens Office as Consultant

WASHINGTON, D. C.—William E Dunn, formerly counselor for economic affairs for the Department of State is maintaining offices at 2617 O Street, N. W., and will be available as consultant on Latin American problems. Telephone is Adams 1126.

Goldman, Sachs & Co. To Admit Two Partners

Goldman, Sachs & Co., members of the New York Stock Exchange, will admit Robert E. Anderson, Jr., and Stanley R. Miller to partnership Jan. 1. Both have been with the firm for some time, Mr. Anderson as Manager of the Boston office, 75 Federal Street, Mr. Miller in the New York City office, 30 Pine Street.

Bank and Insurance Stocks

By H. E. JOHNSON

This Week—Bank Stocks

The annual meeting of the Bank of the Manhattan Company is always of interest to individuals interested in banking developments and followers of bank shares.

Occurring as it does during the first part of December, this meeting is considerably ahead of the usual dates in January and February set aside by most institutions. As a result it provides one of the first official indications by one of the major banks as to the operating results expected for the year.

This year the Bank of the Manhattan Company issued a report by the Chairman of the Board, Mr. J. Stewart Baker, in advance of the 151st annual meeting which was held Dec. 6, 1949. In addition to providing some interesting historical information on the growth of the bank over the past 150 years, certain developments of the past year are discussed in the report.

Of particular importance in this connection are the comments on the increase in capital funds through the sale of additional shares of stock. Last June the Bank offered rights to shareholders to purchase additional stock and 500,000 shares were sold. This sale added $10,458,000 to capital funds. According to the report it was desirable because of the rapid increase in deposits over the past 10 years. Although retained earnings enabled the Bank to increase capital funds by more than $19,000,000 during the period, the growth in deposits was at a greater rate.

The estimate of operating earnings is also of considerable interest. The projections given are based on actual figures for the first nine months of the current year and estimated figures for the final three months. A comparison with the operating earnings for 1948 is also shown.

	1949 (Est.)	1948
Earnings—		
Interest on Loans	$13,200,000	$11,753,000
Interest and Dividend on Securities	6,400,000	6,892,000
Commissions and Fees	3,500,000	3,493,000
Other Earnings	700,000	697,000
	$23,800,000	$22,835,000
Expenses—		
Salaries and Wages	$8,650,000	$8,310,000
Other expenses	5,200,000	4,817,000
Provision for Taxes and Assessments	4,700,000	4,413,000
Net Operating Earnings	$5,250,000	$5,295,000

The above figures do not include profits or losses on security transactions. These, however, are expected to be negligible.

On a per share basis the earnings for 1949 based upon the above estimate would be equal to $2.10 for each of the 2,500,000 now outstanding. On a comparable basis, earnings in 1948 were practically the same or $2.12 a share. Last year the Bank only had 2,000,000 outstanding and earnings were reported as equal to $2.65 a share for that period.

These earnings are in line with expectations as results for the year should be little changed from those of a year ago.

Along with the numerous industrial corporations which have increased or declared extra dividends in stock or cash, there have been quite a number of banks which have taken similar action.

For the most part such payments have been made by some of the smaller banks in the cities away from the principal money centers. However, several of the New York City banks have also participated in such action.

Bankers Trust yesterday raised its quarterly payment from 45¢ to 50¢. This brings the dividend back to the $2.00 level prevailing before the war. Irving Trust also enlarged its payment recently by declaring a 10¢ extra.

Public National Bank & Trust a week ago voted a 10% stock dividend. It is to be paid next February subject to approval of the stockholders at the annual meeting and the Comptroller of Currency.

National City paid an extra of 20¢ Nov. 1 to bring total payments for the year 1949 to $1.80. It also changed its method of payment from semi-annually to quarterly and will pay 45¢ per share per quarter for 1950 or at an annual rate of $1.80.

Euler & Hart Formed In Philadelphia

PHILADELPHIA, PA.—Charles J. Euler and Robert F. Hart announce the formation of a general partnership as securities dealers under the name of Euler & Hart. Offices will be in the Land Title Building. Both partners were formerly of Euler & Co.

With Merrill Lynch Co.

(Special to THE FINANCIAL CHRONICLE)

BEVERLY HILLS, CALIF.—Vernon C. Badham has become associated with Merrill Lynch, Pierce, Fenner & Beane, 454 North Camden Drive. Mr. Badham was previously with E. F. Hutton & Co. and Dempsey-Tegeler & Co.

With Watling, Lerchen Co.

(Special to THE FINANCIAL CHRONICLE)

ANN ARBOR, MICH. — Robert P. Shawaker has become connected with Watling, Lerchen & Co., Ann Arbor Trust Building.

With Merrill Lynch

(Special to THE FINANCIAL CHRONICLE)

OMAHA, NEB. — Williard A. Johnson has become connected with Merrill Lynch, Pierce, Fenner & Beane.

Alexander Reid Opens

NEWARK, N. J. — Alexander Reid & Co has been formed with offices at 827 Broad Street, to engage in the securities business.

Savings Banking Looks Ahead

By AUGUST IHLEFELD*
President, Savings Bank Trust Company

Describing last decade as Golden Age of Savings Banking, Mr. Ihlefeld reviews growth in number, size and strength of mutual savings banks. Lays spectacular growth in savings deposits to great expansion of people's aggregate savings and their preference for savings banks. Says future growth of savings will depend on continued rise or maintenance of national income along with population increase. Says social security and pensions has had no discouraging effect on savings, while competition of other types of saving institutions will not hamper mutual savings bank expansion. Foresees, however, more of nation's savings going into corporate securities.

The decade now drawing to a close will go down in history as the Golden Age of Savings Banking. It has been a Golden Age in terms of growth. The 530 mutual savings banks of the country have added approximately $9 billion to their deposits since 1939. This has been by far the largest dollar gain in deposits achieved during any decade in the long history of the mutual savings banks. Deposits have increased by over 80% within these 10 years.

August Ihlefeld

It has been a Golden Age equally in terms of financial strength. Today, the mutual savings banks hold $11,500,000,000 of government securities, which together with cash, represent 65% of deposits. Ten years ago, these assets constituted 37% of deposits. In terms of both quality and the liquidity of assets, savings banks are stronger now than in any past period.

This great growth in the size and strength of mutual savings banks has occurred during an extraordinary decade marked by a world war and a post-war inflationary boom. We hope that the world today can look forward to a period of peace and comparative economic stability. How will savings banks fare in such a relatively normal, orderly world? Will they continue to grow in size and in service to the public? Or, may they lose a part of the great gains achieved during the past decade under the new conditions to be encountered in the years ahead?

The answer to these key questions must be sought first in an analysis of the causes of the spectacular growth of deposits during the past decade. With such an analysis before us, we will be in better position to judge probable future trends.

Why Deposits Have Increased

The $9 billion increase in mutual savings bank deposits since 1939 was made possible by a great expansion in the aggregate savings of the American people. There was no such increase in banking offices as would account for this increase in deposits. Savings bank managements did not stress promotion and advertising of their own facilities and services during this period. Indeed, an important feature of their thrift promotion programs was the sale of United States savings bonds, a competitive form of savings. As to their own institutions, savings bankers concentrated their efforts on improving the quality of assets and increasing efficiency of operations.

Let us summarize the measure of expansion in aggregate savings which took place during this period. For our purposes, savings can best be measured by the annual increment in individual holdings of currency and bank deposits, in insurance company and treasury trust funds, in savings and loan association resources, and in individuals' holdings of government and corporate securities. Liquid savings, as thus measured, increased by $5.7 billion in 1939, a typical pre-war year. They have increased by more than $20 billion yearly on the average in the ensuing 10 years.

The second explanation for the great growth in mutual savings bank deposits has been the preference shown by many savers for savings bank accounts, especially during the past few years. In 1939, the increase in mutual savings bank deposits was equal to 4% of the total liquid savings for that year. During the early war years, savings banks received a much smaller percentage of liquid savings, owing to deposit withdrawals by persons joining the armed forces or moving to defense centers in which savings banks are not located. Also, there were purchases of war bonds with money taken out of savings banks. However, the increase in savings bank deposits has equalled 6% of all liquid savings accumulated during the past five years.

In brief, in the last half of the decade savings banks received a larger proportion of a greatly increased volume of liquid savings.

The Trend of National Savings

Looking ahead, it is obvious that the future trend of savings bank deposits will depend, first, upon the total volume of liquid savings; and, secondly, upon the proportion of these savings that can be attracted to depositors' accounts in mutual savings banks.

The nation's liquid savings this year, 1949, will approximate $12 billion, available statistics indicate. This is a little more than twice as much as in 1939. But the national income in 1949 is three times as great as in the prewar year.

The government is committed to a policy of maintaining the national income at a high level. We know that the long-term trend of national income has been upward since the birth of the nation. It can be expected therefore, that even without the intervention of inflationary government policies, the national income should continue to rise. Growth of population and the expansion of production can be expected to produce this continued rise over the years.

If the national income remains at a high level, there is every reason to believe that the volume of savings also will be sustained. If anything, the proportion of income now being saved may be low, as it is affected by heavy purchases of new homes, cars and other durable goods which were

(Continued on page 36)

*An address by Mr. Ihlefeld at the Mid-year Meeting of The National Association of Mutual Savings Banks, New York City, Dec. 5, 1949.

Business Prospects in First Half of 1950

(Continued from first page)

of gross output of roughly $265 billion by the second quarter of 1950. What is the basis for these three specific conclusions and for this general conclusion?

II

The volume of gross private investment was running at the annual rate of $35.0 billion in the third quarter of 1949. It reached a postwar peak in the fourth quarter of 1949 when the annual rate was $48.0 billion. It has been falling ever since, though there was very little drop between the second and third quarters of 1949. The prospects for gross private investment may be conveniently discussed under the four headings of (1) industrial equipment; (2) industrial construction; (3) residential construction; and (4) changes in inventories.

(1) Industrial equipment. Purchases of producers' durable equipment have been very large and were well sustained through the third quarter of 1949. In that quarter the annual rate of purchase was almost as high as in the two peak quarters namely, the last quarter of 1948 and the first quarter of 1949. In the two peak quarters the annual rate was $21.2 billion; in the third quarter of 1949, it was $20.1 billion, a drop of only 5%.

The rate at which producers' durable equipment has been purchased has been abnormally high and since it has been continuing for some time, an early drop must be expected. In the third quarter of 1949, purchases of producers' durable equipment were 7.8% of the gross national product; in 1929, they were 6.2%. The rate of purchase in 1929 may be regarded as fairly close to normal for high levels of employment—it did not represent catching up on accumulated demand or large anticipation of future needs. If expenditures on producers' durable equipment had been the same proportion of expenditures for all goods in the third quarter of 1949 as during 1929, the outlay for producers' durable goods would have been about one-fifth less—at the annual rate of $15.9 billion instead of $20.1 billion. In view of the large amount of over-age equipment still in place, the expenditures on producers' durable equipment are not likely to drop immediately to a normal amount, but a decline of roughly 15% to an annual rate of $17 billion would not be surprising.

(2) Private non-residential construction. The volume of private non-residential construction has been fairly low ever since the end of the war. In 1948 this construction represented only 3.3% of the gross national product, and it is about the same proportion of the gross national product in 1949. In 1946 and 1947 it was an even smaller proportion of the gross national product. Back in 1929 private non-residential construction was 4.4% of the gross national product; in 1939 it was 1.5%. The strongest part of non-residential private construction has been utility construction which, in terms of dollar expenditure, has been about double 1929. Other non-residential and non-farm construction in 1948 was only about 25% greater, in terms of dollars, than in 1929, when the cost of building was only about half as high as in 1948.

There has been a recent tendency for private non-residential contract awards to rise. In the second quarter of 1949, non-residential contract awards were 11.4% below the second quarter of 1948, but in the third quarter they were almost as large as during the third quarter of 1948. In September, 1949, private non-residential construction contract awards were 23.3% above September, 1948, and in October, 12.9% above October, 1948. I do not believe, however, that private non-residential construction during the first half of 1950 will do better than equal approximately the levels of the first half of 1949, and there is a good chance that it will run 10% or 15% below the levels of 1949. The peak of public utility construction was probably reached in 1949, but the drop from the peak will be moderate. A small drop in most other kinds of private non-residential construction is likely. In view of the fact that the present rate of private non-residential construction is low, the drop is not likely to be large. Some construction has undoubtedly been held back in expectation of more favorable building conditions. No accurate information exists, however, concerning the probable size of the deferred construction. One may roughly estimate that private non-residential construction, which has been running at an annual rate of over $8 billion a year, will drop to about $7 billion.

(3) Private residential construction. Private residential construction got off to a somewhat slow start during the first half of the year. During the period new housing starts were 28,600 below 1948—449,000 in comparison with 477 600 in the first six months of 1948. During the latter half of the year, however, the strong demand for housing has been one of the most conspicuous economic trends. In the four months, July to October inclusive, new housing starts were 56,900 higher than in the same period last year. The number of new housing starts in October was the largest on record. There seems little doubt that the number of new housing starts will exceed the number in 1948 and also the number in 1925, the peak year of all time up to now. Although new residential contract awards in the first quarter of this year were 19% below the first quarter of 1943, by the third quarter of 1949, they were 30.3% above the third quarter of 1948. The increase in residential contract awards over last year was particularly impressive in September and October. In September they were 83.9% above last year and in October, 68.7% above.

Can the present high rate of expenditures on private housing be maintained much longer? Is it not paving the way for a substantial drop in these expenditures next year?

Some small contraction in residential construction would not be surprising, but a large drop would be surprising. It is true that the increase in the number of dwelling units between 1940 and 1948 exceeded somewhat the increase in the number of families. Dwelling units increased by about 7.6 millions and families by about 6.9 millions. Nevertheless, about 1.7 million of the dwelling units were created by subdividing existing units. The quality of many of the dwelling units provided in this way is undoubtedly quite poor. The increase in the number of families exceeded by about a million the increase in the number of dwelling units provided by new construction. The demand for new housing is sustained by the high birthrate which creates the need for more space. Births are running about 50% above prewar and were as numerous during the first nine months of 1949 as during the same period in 1948. During the first half of 1950 the number of new dwelling units constructed will probably be at least as large as in the first half of 1949 and possibly somewhat larger. Expenditures on housing are likely to be at the annual rate of $7 billion or more a year. In the second half of the year some drop in the outlay on housing below the levels of 1949 is likely.

(4) Changes in inventories. During the second and third quarters of 1949 private investment was reduced by a drop in the size of inventories—by an annual rate of $1.4 billion in the second quarter and $2.4 billion in the third quarter. In 1948 and the first quarter of 1949 the total volume of investment was increased by a rise in the size of inventories. At no time since the end of the war have inventories been large or burdensome. Hence the drop in inventories is not likely to continue much longer. On the other hand inventories in the immediate future are not likely to be built up, as they were in 1946 or 1948. The growing ability of industry to fill orders on short notice discourages the increase in invetories.

(5) The total volume of gross private investment expressed as annual rates may be expected to run roughly about $31 billion, distributed as follows:

	Billions
Producers' durable equipment	$17
Private non-residential construction	7
Private residential construction	7

This would be a moderate drop from the annual rate during the third quarter of 1949 which was $35 billion or for the year 1948 which was $45 billion.

III

The demand for investment-seeking funds is being enlarged by the fact that there are deficits in the cash budgets of the Federal, local, and state governments. In the 12 months ending in June 1949 there was a small cash surplus. The most recent estimates of Federal cash expenditures and receipts indicate a deficit during the fiscal year 1949-50 of about $5 billion. More than half of this deficit is caused by a non-recurring expense, namely, the disbursement of about $2.8 billion as an insurance dividend to veterans early in 1950. The deficit in the cash budgets of local and state governments will be at least $1 billion and perhaps will be considerably more. All in all, the total deficit in the cash budget of the state, local, and Federal governments during the 12 months ending June 30 will be $6 billion or more.

IV

The gross national product which accompanies a given rate of private investment plus deficits in the government budget depends in part upon the rate of saving. Two kinds of saving have to be considered—personal saving and corporate saving. Personal saving in turn falls into two classes—liquid (the purchase of insurance and securities, or the increase in cash, or the repayment of debts), and non-liquid (the purchase of houses and plant and equipment). It is only liquid saving that creates a problem of investment.

The rate of personal saving reached a peak in the first quarter of 1949 when consumers were waiting for prices to fall. The figures on personal saving are not very satisfactory but the indicated rate for the first quarter of 1949 was 8.4% of personal incomes after taxes. By the third quarter of 1949 the rate had dropped to 6.9% of personal incomes after taxes. This is a high rate by prewar standards. In 1929, personal savings were 4.5% of personal incomes after taxes; in 1940, they were 4.9%. In 1947 the huge accumulated demand for consumer goods reduced the rate of personal saving to only 2.9% of personal incomes after taxes.

It is still too early to tell what is a "normal" rate of saving for the postwar period. Real per capita incomes are considerably larger than in 1929—in the second quarter of 1949 about 38% larger than in 1929 and nearly 31% larger than in 1940. The rise in real per capita incomes tends to increase the rate of saving. The rise of real incomes, however, has been greatest in the classes which do the least saving, and least in the classes which do the most saving. This tends to diminish the amount of saving. It is quite possible, however, that war experiences, particularly the purchase of war savings bonds, have spread the habit of thrift. The rate of net personal saving is greatly affected by the rate at which unincorporated businesses incur or repay debts and the rate at which individuals incur or pay debts. Personal saving was low in the year 1947 partly because unincorporated enterprises and individuals were borrowing at a high rate. In the first half of 1949 personal saving was raised by the repayment of debts by unincorporated enterprises. Finally, the rate of saving has been high because there has been a strong demand for housing and other types of goods bought with savings. For example, of gross personal savings of $18 billion in 1948, $7.1 billion went into the purchase of non-farm residences and $9.4 billion into the purchases of plant and equipment for unincorporated enterprises, including farms. Personal savings represented by the purchase of securities or private insurance were much less—$7.9 billion.

All of these conditions make it exceedingly difficult to judge what the normal postwar rate of saving will turn out to be. It also makes it difficult to judge the form which postwar savings will take—whether they will be mainly the *result* of decisions to buy houses or plant and equipment for business enterprises or whether they will go into securities and insurance and seek outlet in corporate industry. I suspect that the normal saving rate will be somewhat above prewar and somewhat below present rates of savings—perhaps in the neighborhood of 6% of personal incomes after taxes. This is well below the rate of personal saving during the third quarter of 1949. Part of the drop in saving, however, is likely to take the form of a drop in investment in unincorporated business enterprises. This is not the kind of drop that helps to sustain business. No significant drop in liquid saving, however, seems likely. The volume of liquid saving does not seem to be high by prewar standards. Furthermore, the rate of this saving will be kept up by the repayment of debts.

Although no significant drop in personal liquid savings is likely, some drop in corporate savings is to be expected. During the last year and a half corporate savings have been about as large as personal savings—part of the time considerably larger. Corporate savings should be computed after profits have been adjusted for the change in the cost of replacing inventories. Only after this adjustment has been made does it become clear how much corporations have available for distribution as dividends or for investment in the business. Even after the inventory valuation adjustment has been made, undistributed profits in 1948 and 1949 were larger than dividends. This is an abnormally high rate of corporate savings. It was produced partly by the fact that corporations had a large accumulated demand for private equipment and partly by the desire of managements to avoid putting dividend rates up to a level which could not be maintained. Dividends are running slightly above 1948. There has been little change, however, thus far, in the proportion of profits after inventory adjustment, distributed in the form of dividends. A rise in this proportion, however, is to be expected, particularly as corporations catch up in replacing plant and equipment.

V

The drop in the rate of corporate savings ought to increase by a small amount the amount of gross national product which accompanies a given volume of gross private investment and government deficits. In the third quarter of 1949 there were seven dollars of gross national product produced for every dollar of gross private investment plus the deficit in government budgets. In the year 1948, there were 7.2 dollars of gross national product produced for every dollar of gross private investment less the surplus in government budgets. It is reasonable to expect the ratio between gross private investment plus government deficits or less government surpluses to be as high as it was in 1948, and possibly a little higher.

If the ratio were the same as in the third quarter of 1949, and if gross private investment plus the budget deficit were about $37 billion, the gross national product would be running at the rate of about $259 billion, or slightly above the rate of the third quarter in 1949 when the gross national product was about $256.3 billion. If the ratio between gross private investment plus government deficits and gross national product were the same as in 1948, gross national product would be around $266.4 billion. If the ratio were as high as 7.5 dollars of gross national product for every dollar of gross private investment less government budget surpluses or plus government deficits, the gross national product would be around $277.5 billion. I do not expect the ratio to become as high as 7.5 dollars, but a ratio of 7.2 dollars of gross national product for every dollar of gross private investment plus government deficits seems highly probable. This would indicate a gross national product of around $265 billion, or slightly above the current rate.

With Shearson, Hammill

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Thomas S. V. Waitt has become associated with Shearson, Hammill & Co., 618 South Spring Street. He was previously with Merrill Lynch, Pierce, Fenner & Beane and J. A. Hogle & Co.

Dean Witter Adds

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF.—Joseph C. Davenport has become affiliated with Dean Witter & Co., 45 Montgomery Street, members of the New York Stock Exchange. He was previously with Stephenson, Leydecker & Co.

Geo. C. Lane Adds

(Special to THE FINANCIAL CHRONICLE)

NEW HAVEN, CONN.—Lorenzo C. Rastelli has been added to the staff of George C. Lane & Co., Inc., 70 College Street.

With Chas. W. Scranton Co.

(Special to THE FINANCIAL CHRONICLE)

NEW HAVEN, CONN.—Arthur J. Van Haaften has joined the staff of Charles W. Scranton & Co., 209 Church Street, members of the New York Stock Exchange.

Two With Olson, Donnerberg

(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, MO. — Walter Beinke and Kenneth O. Olson are now associated with Olson, Donnerberg & Co., Inc., 418 Olive Street.

With Merrill Lynch Firm

(Special to THE FINANCIAL CHRONICLE)

PORTLAND, OREG. — Chester E. Ryder is now with Merrill Lynch, Pierce, Fenner & Beane, Wilcox Building.

Financing Our National Trusteeships

By W. RANDOLPH BURGESS*

Chairman, City Bank Farmers Trust Company, New York City

Pointing out U. S. heritage of trusteeships growing out of war and resulting from world leadership in keeping peace is major cause of high taxes and unbalanced Federal Budget, Mr. Burgess calls attention to responsibility of nation to safeguard people from totalitarianism and at same time to maintain stability of the currency. Sees opposing forces in these aims, but holds there are signs government will reduce spending and thus avoid danger of currency inflation.

The war has left the United States a heritage of trusteeships as real and as pressing as any created by legal documents. We have a responsibility for keeping world peace; our strength in relation to the weakness of many others has placed on us a unique burden for protecting Western Civilization. Even our own preservation rests on our continuing military strength.

W. R. Burgess

Through the Marshall Plan, we have recognized a related responsibility for European recovery as a means of building Europe's resistance to the forces of Communism both within and without. The American people are united behind this effort, and thus far it is succeeding in its great objective.

Our men who fought in World War II are another trust. They have earned the gratitude of their country, and their country will not fail them.

Those three trusteeships have one common characteric. They are expensive and they are a major cause today of an unbalanced Federal budget, and for tax rates which are hard to bear.

These trusteeships are not the only ones which we as a nation are called upon to administer. Three hundred years of striving and suffering and achieving have developed on this continent a way of life which is the envy of the whole world. We call it democracy, but it escapes definition. It is also opportunity, and the right to compete, and a new high standard of living with freedom and justice. This way of life which we have inherited it is our duty to preserve and pass on to our children and our children's children unimpaired and untarnished.

There are looming threats to this way of life. One of them is the totalitarianism which under the names of Facism, or Communism, or Socialism have robbed the individual of freedom in country after country. The other twin threat is inflation—the dilution of the value of the dollar so that the man who saves money loses the value of his saving. During and after the war, we sold to some 85 million people Government Savings Bonds. We sold them as the best security in the world, which would retain its value. That value has been diminished through inflation so that the bonds that we sold have lost more than one-third of their buying power—and the value today is further threatened. We have a trusteeship for the wellbeing of these savers, for the right of the individual to enjoy with his family the fruits of his labor is one of the most precious human rights. It is our basic way of life.

Contradiction Among Trusteeships

We face a curious contradiction among our trusteeships. The first three—keeping the peace, aiding European recovery, and taking care of our veterans—call for us as a nation to spend a great deal of money. The trusteeship for the preservation of our national way of life requires that we shall live within our means; that we shall lighten the yoke of taxes which now burdens our people; and that we may preserve for them the freedom that is the essence of Democracy. The preservation of the value of our people's savings calls for monetary sanity and for honest money, and that means balanced budgets.

This is our difficulty. How can we spend what we must spend for our armed forces, for European recovery, and for our veterans without, at the same time, failing in our trusteeship for the American way of life? This is the dilemma which we face. The bookkeeping of this dilemma is to be found in the budget of the national government. Today, the bookkeeping is drenched in red ink. It reflects something inherently wrong about our administration of our trusteeships; and what we need to do as a nation is to sit down soberly and carefully, and review our accounts, and see how we can bring them into balance. We are a family which spends more than it receives.

There is no easy way out of this dilemma. No sane man would cut the military budget in two, nor would any one who has traveled through Europe and has seen the results of the Marshall Plan advocate its immediate discontinuance. No good American would cut off all appropriations for our veterans. But we must find some way to balance the accounts, for we cannot be true to all our trusts and continue to leave our accounts unbalanced.

In the face of this situation, I find many people are discouraged. They say that the American people have lost their ancient virtues of thrift and patriotism, and are willing to sell their votes for a mess of pottage; that they will continue to cast their votes, not for the long term good of the country, but for their own immediate selfish advantage. There seem to me ample reasons to believe that this is not true, and that if we will all go to work at it intelligently the books can be balanced and we can fulfill the responsibilities imposed by our various national trusts.

Reasons for Hope

Here are a few of the reasons for hope:

On November 18, Louis Johnson, Secretary of Defense, speaking in Boston, said that the Department of Defense hoped to slash $2,000,000,000 off its budget and still leave the country "adequately prepared to face any military crisis."

On November 8, 1949, Paul Hoffman was reported in the press as saying that he would seek considerably lower dollar aid for Western Europe next fiscal year; and Senator Connally, the Democratic Chairman of the Senate Foreign Relations Committee, states that E.C.A. aid should be reduced by $1,000,000,000 from this year's level.

Within the past few months, Allan Kline, president of the American Farm Bureau; and Albert Goss, president of the National Grange, have come out in favor of flexible price supports for agriculture, and in opposition to both the rigid 90% of parity supports and the Brannan Plan. These extravagant plans for agriculture are therefore not supported by the principal farm leaders.

On October 29, President Truman announced that he would hold in reserve the Congressional appropriation for increasing the combat groups in the Air Force from 48 to 58.

Within the past two weeks, the junior Democratic Senator from Illinois announced his opposition to the unbalanced budget and urged a budget balance through reducing expenditures.

The Secretary of the Treasury and, subsequently, the President of the United States have announced in unmistakable terms that it is the policy of the United States to maintain the present gold value of the dollar.

A widely respected former Secretary of State, James Byrnes, a Democrat, has spoken out fearlessly and vigorously against excessive spending and too big government.

At least three responsible commissions and committees have reviewed the Federal Budget, and all have reported that it can be brought into balance without sacrificing any essential objective.

All of these are signs in the sky that the American people are gradually awakening to an understanding of the problems we face. They reveal the presence of leaders with courage and conscience. The coming months will be a testing time to see what kind of leadership will prevail, the unscrupulous appeal to blind self-interest, or the appeal to reason in the long term national interest.

Which way the pendulum swings will depend on the willingness of men of good will and understanding to give time to explaining the issues to the people; and will depend also on the keenness of conscience with which responsible groups within our country, like this group of bankers, are willing to put the national interest ahead of their own immediate interest.

*Summary of address by Mr. Burgess at 18th Mid-Continent Trust Conference, of the American Bankers Association, Chicago, Ill., Dec. 2, 1949.

Midwest Exchange Membership

CHICAGO, ILL.—Due to many inquiries from securities dealers in the Middle West for seats on the new Midwest Stock Exchange, the Board of Governors, at its first meeting Dec. 1, decided to make 17 additional memberships available at the original price of $2,500.

The last sale of a membership on the Chicago Stock Exchange Nov. 30 was at $4,200. Each holder of a Chicago Stock Exchange membership, however, on Nov. 30, 1949, receives approximately $1,700 on his membership, which makes the price of the membership now being made available comparable.

James E. Day, President of the Midwest Stock Exchange, announced that so far seven of these memberships had been bought—six of them by Cincinnati brokers and one in Kansas City. He said he had inquiries for information about seats from many points in the Midwest area—one from Florida and two from Canada.

FIC Banks Place Debs.

A successful offering of an issue of debentures of the Federal Intermediate Credit Banks was made Nov. 17 by M. G. Newcomb, New York fiscal agent for the banks. The financing consisted of $52,195,000 1.30% consolidated debentures dated Dec. 1, 1949, due Sept. 1, 1950. The issue was placed at par. The proceeds, together with $28,865,000 cash in treasury, were used to retire $91,060,000 debentures maturing Dec. 1. As of the close of business Dec. 1, 1949, the total amount of debentures outstanding, after retiring $1,000,000 from cash on hand before Dec. 1, was $489,925,000.

Orvis Bros. & Co. Add Woods & Estabrook

Orvis Brothers & Co., 14 Wall Street, New York City, members of the New York Stock Exchange and other leading security and commodity exchanges, announce that Robert J. Woods is now associated with the firm's commodity department. As a member of the Orvis organization, Mr. Woods will specialize in cotton. He has been identified with the commodity trade for many years.

John W. Estabrook, Jr., is also now associated with the firm as a registered representative in the securities division.

Canadian Securities

By WILLIAM J. McKAY

With the appearance on the immediate horizon of warning signals of a stormier period ahead for Canadian foreign trade the role of gold in the Dominion economic scheme is likely to be increasingly important. It is now difficult even to maintain current export outlets of other commodities and expansion under present conditions is almost entirely out of the question. Gold on the other hand commands an unlimited market at a fixed price and there is always the possibility of an eventual appreciation of value. Looking back to the last notable Canadian economic crisis during the depression years of the early 1930's it will be recalled that gold on this occasion proved to be a timely savior.

It is interesting therefore to note that whereas official reports indicate that Canada's net exports of non-monetary gold totalled $98 millions in the first nine months of 1949, in reality these "exports" are purely nominal. It would appear that the Dominion gold production of this year has not been actually shipped but retained in the official exchange reserve account. Consequently the official gold holdings which stood at $371 millions on Sept. 30, 1948 had risen to $450 millions as of the same date this year.

This new policy of retention of gold in the exchange reserve can be variously interpreted. Ostensibly this bolstering of the official reserve can be reasonably explained as a normal precautionary measure in the face of anticipated unfavorable developments in the field of foreign trade. In view, however, of the prevailing rumors concerning a possible rise in the price of gold there is little doubt that this step will be construed in some quarters as confirmation that the authorities in Ottawa are strengthening their position with due regard for such an eventuality. Whatever might be the underlying motive there is little doubt that increasing official consideration is being given to the question of the importance of gold within the scope of the Canadian economy.

Fostered by the operation of the Emergency Gold-Mining Assistance Act and the recent currency devaluation, Canadian gold production is now commencing to forge ahead following a period of serious decline. From the high point of over $200 millions in 1941 the total had fallen in 1945 to a low level of just over $100 millions. This year the total is expected to reach $150 millions and there are confident predictions that the 1950 figure will not fall far short of the previous record of $200 millions. This estimate is based on the supposition that the official price of $38.50 and the extent of government assistance will remain unchanged.

Although the Canadian gold-mining industry has recently staged a notable recovery the marginal and new properties are still handicapped by high costs of labor and supplies. In the absence of a decline in mining costs many marginal mines, despite the operation of the modified EGMAA payments, are unable to function on a profitable basis. Similarly many promising prospective mines will not be exploited without the incentive of a return commensurate with the amount of risk capital involved.

For this reason and in view of Canadian potentialities for an enormously expanded volume of gold production, it will not be surprising if serious consideration is given to means whereby this dormant source of additional exchange reserves can be more effectively exploited. An immediate stimulus would be provided, for example, in the event of a further devaluation of the Canadian dollar. Such a step also might be advisable in order to place the Dominion on a more favorable competitive basis for foreign trade purposes vis-a-vis the countries of the sterling area, Europe, and South America where currency cuts have been more drastic.

The building-up of the official gold-holdings would be a logical preliminary move in connection with any contemplated action of this kind. In the Canadian case moreover devaluation would cause a beneficial spiral; on the one hand the value of the existing exchange reserves would be automatically enhanced, on the other the stimulus given to the domestic production would increase the actual volume of the gold holdings. Furthermore the boosting of the Canadian exchange reserves at this time would serve to tide the Dominion over the difficult period immediately ahead at least until the many longer-range enterprises such as the full development of oil and iron resources bring about a healthy stability in the Canadian balance of payments.

During the week the most interesting feature of the external section of the bond market was the unusually active trading in Canadian Nationals as a result of general demand. The internals on the other hand showed a tendency to ease but the offerings were fairly readily absorbed. Free funds were virtually unchanged in the neighborhood of 11% but there were still indications of a weaker undertone. The corporate-arbitrage rate was steady at 13¾%-13%. Stocks were dull and easier in the earlier sessions but finally rallied strongly on good volume led by the paper and base-metal groups.

Chilson, Newbery Add

KINGSTON, N. Y. — Chilson, Newbery & Co., Inc., 48 Main Street, announce that Theodore Jahn, formerly with Eisele, King & Co., is now associated with them in charge of their Cashier's department.

Walter Bohmer has joined the sales department in Delaware County.

Action for World Trade

By E. E. SCHNELLBACHER*

Director, Intelligence and Services Division U. S. Department of Commerce

Commerce Department expert, citing our great excess of exports over imports, advocates action to increase imports by reducing rehandling costs and complexities of pricing through cooperative effort among both American and foreign private business as well as governments. Holds our tariff and customs regulations handicap imports, and recommends whole foreign trade policy should be reviewed by committees composed of all sectors of economy. Urges American private investment abroad.

Foreign trade is a two-way and not a one-way street. Imports, as well as exports, are important to this city and this State. Imports provide supplies of things which you need here and which are not economically available from domestic sources. Many of your industries, such as steel, rubber, nonferrous metals and metal products, leather and leather products, paint and woolen textiles, depend heavily upon raw materials.

E. E. Schnellbacher

The United States has virtually no nickel or chromite and relies on foreign supplies for large amounts of manganese and tungsten for Ohio steel factories. With hardly any domestic sources for tin ore, your nonferrous metal industry is also dependent upon foreign supplies of bauxite, copper, lead and zinc. Your leather manufacturing industry draws a substantial fraction of its raw materials from other countries.

But imports are equally important as an indispensable support of our export trade. The products of your farms and factories cannot continue to be sold abroad unless foreign nations have the dollars with which to pay for them. But since the War, our foreign customers have not been able to earn the dollars they need to pay for their purchases from us because we have been exporting much more abroad than we have been importing. Much of this excess of exports over imports has been financed by means of Federal grants and credits. From July 1, 1945, to June 30, 1949, for example, our total grants and credits to the nations of the world amounted to the staggering sum of $22.1 billion.

Our Foreign Trade

According to the most recent estimates, it would appear that our total exports in 1949 will amount to slightly more than $12 billion and our imports for the same year will total $6.5 billion. This would leave an export surplus for 1949 of $5.5 billion.

The United States continues in 1949 to be the world's largest supplier of goods, while the United Kingdom is still the second largest. In imports, the United Kingdom still retains its first place. During the period January-August, 1936-1938, the United States imported 46% less than Britain did. During these same months, in 1948, our imports were 15% less than those of the United Kingdom, while in 1949 they will probably be approximately 29% less.

I shall not attempt a forecast of our foreign trade in 1950, because there are so many factors in the situation. Our present foreign trade picture is extremely fluid. But of this I am sure—the soundness, and to a considerable extent the volume, of our international trade in 1950 and thereafter will depend largely upon the extent to which our customers abroad succeed in becoming fully participating producers in the world economy.

*An address by Mr. Schnellbacher before the World Trade Club of the Cincinnati Chamber of Commerce, Cincinnati, O., Nov. 30, 1949.

I have recently returned from Europe where I was a member of the joint ECA-Commerce Mission to investigate the possibilities of increasing Europe's dollar earnings. This trip was an interesting and revealing experience. Doubtless many of you have seen the report of our Mission—the Taylor Mission — and are familiar with the recommendations which we have made.

The Cost of Imports

While our Mission was abroad, the French wine industry submitted to us a breakdown of the exporting costs of an average bottle of champagne from the winery in France to the retailers' shelves in New York This breakdown tells an interesting story.

The f.o.b. price of the champagne was $20 a case. Its cost to the New York retail customer was $71.43. How did the cost of this case of champagne increase by $51.43? Why did a bottle of champagne, worth $1.67 at the winery, come to be priced at $5.90 at the retail store?

Well, the transportation amounted to $2.25 a case. The United States import duty added another $3.71. The port dues amounted to $0.90. Since there are excise taxes upon wines and spirits, the levy of the Bureau of Internal Revenue raised the price by $7.20 and that of the New York State tax authorities increased it by $0.98.

Next came the several dealers' mark-ups. The importer's charge amounted to $7.00; the wholesaler's $6.68; and the retailer's $23.01. These figures are those submitted by the French wine industry and are based upon its predevaluation experience.

There is a moral to this story. The cost of chamgane, laid down on the retailers' shelves, is simply too high to sustain volume sales. The high price is not due to any one cost element, it is brought about by a wide variety of circumstances.

The breakdown also illustrates the fact that high level United States imports will involve action on both the foreign and American sides. A cooperative effort among American and foreign private business and governments is needed and no single line of action is likely to solve the problem.

Well, why should we worry about the high cost of champagne or the high prices of any imports or exports for that matter? One group of reasons has already been given in the report of the Taylor Mission and has been repeated a number of times recently in the press, the magazines, and in speeches. These high prices serve to maintain imports at a low level and, therefore, to widen the dollar gap.

But there is another compelling reason why the high prices of imported goods deserve the attention of our foreign traders. In the champagne illustration, the $20 case cost the American retail consumer $71. That means that American champagne purchasers must lay out $71 in cash in order to provide the French with $20 in United States purchasing power.

While the Taylor Mission was abroad, the foreign governments visited submitted to it a number of similar cases. Certain types of silverware cost, f.o.b. a Dutch port, $70. The American consumer paid $216 for this silverware. In this case, it took $216 of our American consumers' money to provide the Dutch manufacturer with $70 in United States purchasing power. Dental burs cost $5.66 c.i.f New York per gross. The price of these to the dentist amounted to $15.28. A camera manufactured in Europe at an export cost of $100 was priced at $275 to the American camera enthusiast.

Foreign Trade Advantages

These examples illustrate the complexities of import pricing. The striking fact they high-light is that the American consumer must spend several dollars here to make one dollar of exchange available to a foreign exporting country. That dollar of exchange is of great importance to the foreign country. But it may also be of great significance to Cincinnati and the State of Ohio.

Let us take the $20 which the French winery receives for its case of champagne. These $20 are turned over to the French foreign Exchange Control Office. When a French importer desires to purchase goods or equipment in the United States, application is made to that Office and the dollar exchange is allotted. These $20 might be spent for a very wide variety of American-made materials. It is quite conceivable that the French industrialist might use them to purchase machinery produced in the State of Ohio and sold through a Cincinnati concern.

The $20, or that part of the $20 finally received by the American manufacturer, will be divided among purchases of raw materials, pay rolls, investment, interest and dividends.

However, the sum spent for all of these objects by the manufacturer does not stop at this point. The dollars he spends on pay rolls provide his workers with consumer purchasing power for other industrial and agricultural products, in turn contributing to other pay rolls, investment, raw material purchases, interest and dividends. And so on down the line.

Dollars, as they move in trade, have a stimulating power substantially beyond their face amount. The economist call it the "multiplier effect." The dollars we earn by our exports, for example, stimulate our economy in an amount out of all proportion to their statistically reported totals.

It is perhaps because of the growing recognition of this fact and the realization that we cannot continue to sell if we do not buy that the public is becoming increasingly concerned with the balancing of our international accounts.

There has been a great deal of misunderstanding on this question. In a technical sense, the international accounts of every nation are always in balance. They could not possibly be out of balance. The exports and imports of goods and services, the flow of private international investment, loans and grants, liquidation and purchases of short-term and gold assets, remittances and other

(Continued on page 41)

Public Utility Securities

By OWEN ELY

Portland General Electric

Portland General Electric is one of several Pacific coast utilities which return an exceptionally high yield on their common stocks—about 7.7% in this case—apparently due largely to investor apprehension over government ownership in this area. So far as residential rates are concerned, Portland should rate "tops"—its residential rate of 1.28¢ in 1948 compares with the national average of well over twice this figure, and the annual usage of 4,553 KWH is nearly three times the national average. In fact rates are so low that the company is one of the few to experiment with central house-heating by electricity (not to be confused with the heat-pump, panel heating, etc.).

The low rates are, of course, largely due to the use of hydro power, over half of which is purchased from Bonneville, the big Federal project; some comes from the Northwest Power Pool and the balance from the company's own eight hydro plants. But last year's rugged weather conditions—the worst on record for some western states—forced the companies in the pool to make heavy use of their steam plants. There has been a shortage of industrial power in the northwest over the past year or so, and last winter's emergency was met only by making most efficient use of the pool's facilities (estimated to have saved $100 million in capital investment) and by dropping electric frequency (once as low as 59 cycles). The overall hydro situation in the northwest was improved somewhat this year by the addition of new generating units at Grand Coulee and elsewhere, but as of Nov. 1 stream flow again reflected poor rainfall.

Five private companies—PGE, Mountain States Power, Puget Sound Power & Light, Washington Water Power and Pacific Power & Light—maintain an inter-company agreement to pool excess energy and utilize the most efficient steam available. But Portland continues heavily dependent on Bonneville, with which it has been unable to obtain a satisfactory long-term contract. Relations continue on a year to year basis, and the new contract signed in mid-October reduced the allotment for firm capacity 12%, making the company more than ever dependent upon dump energy, which in turn is largely dependent on weather conditions.

Portland General Electric is perhaps not as yet very well known to the investing public. Up to February 1948, the stock was owned by Portland Electric Power, dissolution of which was eventually effected after many years of litigation. The stock has remained in a range around 20-25 and is currently quoted around 23¼, yielding a 7¾% return from the $1.80 dividend. The present price—relatively unfavorable compared with the highs of 25 in both 1948 and 1949—seems due not only to the political uncertainties in the northwest, but also to the unfavorable effects of last winter's difficulties, as well as the heavy dilution of equity earnings in June. At that time the company increased the number of common shares about 25%, an unusually heavy addition for a somewhat unseasoned stock; the offering was successfully marketed by Blyth at 22. As a result of the bad winter, net income for the 12 months ended Sept. 30 was off 25% from the previous period, and if earnings had been divided by shares actually outstanding at the end of each period, share earnings would have been only $1.78 vs. $2.70. This was ameliorated by using the device of "average shares," on which basis the earnings were reported as $2.10 vs. $2.70.

The company received a 6% rate increase effective about the end of May, and putting the September earnings on a pro forma basis to include a full year's higher rates, earnings would be increased about 50¢ to $2.28. This figure would be high enough to support the $1.80 dividend rate, and of course more normal weather conditions and the benefits of the newly invested funds should produce further gains. Earnings for the third quarter showed a good gain over last year, so that 41¢ was earned on increased shares vs. 39¢ on actual shares outstanding a year ago.

Turning again to the political factor, there are continued uncertianties in the relations between the five leading private utilities in the northwest on the one hand, and the Federal authorities on which they are now heavily dependent for power. The new Columbia Valley Administration Bill in Congress (regional hearings on which may start in January) is arousing a great deal of controversy. The President of Portland General Electric stated recently: "Basically the CVA idea is simply a substitution of rule by three appointive Federal officials, for home rule by states and their people. The details of the legislation concerned with power, irrigation, navigation and other promised development are in reality not much else but sugar coating to make the radical CVA political idea palatable." Whether the CVA, if created by Congress, could use Federal funds freely to take over the private utilities, whether it would pay a fair price for them and whether their bargaining rights would be fully maintained, are interesting questions which need clarification.

Portland General Electric has a good balance sheet and the book value of the common stock is close to the market price. This is a favorable factor in the event of a possible sell-out, although the depreciation reserve is perhaps on the low side. In any event, if reproduction cost is accorded due weight in any sale price, stockholders might be well rewarded for their equity interest.

Ass'n of Exch. Firms In Chicago Elect

CHICAGO, ILL. — At the Annual Meeting of the Chicago Association of Stock Exchange Firms and the meeting of the Board of Governors of the Association held today, the following officers and Governors were elected:

Chairman: Harold E. Blumenthal, Swift, Henke & Co.

Vice-Chairman: Harry A. Baum, Wayne Hummer & Co.

Treasurer: William C. Karlson, Lamson Bros. & Co.

Secretary: Carl E. Ogren, Midwest Stock Exchange.

Governors to serve three years: Vincent F. Coleman, Farwell, Chapman & Co.; Joseph E. Dempsey & Co.; Richard L. Kennedy, Jr., Harris, Upham Co.; Myron F. Ratcliffe, Bache & Co.

Nominating Committee, to serve one year: Howard E. Buhse, Hornblower & Weeks; Emmet G. Barker, Jas. E. Bennett & Co.; David J. Harris, Sills, Fairman & Harris, Inc.; Kellogg Logsdon, Farwell, Chapman & Co.; Samuel J. Smith, Hulburd, Warren & Chandler.

The retiring Chairman is Farwell Winston of Shearson, Hammill & Co.

Government's Role in Labor Disputes

By CYRUS S. CHING, LL.D.*

Director, U. S. Mediation and Conciliation Service

Director Ching, asserting our national labor policy is expressed in terms of collective bargaining, holds our conception of government's role in labor relations is that the less government there is in labor relations, the better labor relations will be. Contends there is absolute impartiality in Federal Conciliation Service and urges both labor and management understand each other's business. Says pension plans are "all right," but broader social security is better, because it does not have the hazards and vicissitudes of employee staying with employer over long period.

I would like to roll the clock back a little to see if we are making any progress. I know this fair City of Detroit. I have many, many friends here. I remember some of the things that have happened over a period of the last 15 years in this and many other industrial cities. I think we have made a lot of progress since the early "Thirties" in this matter of industrial relations. Consider the industrial relations climate that existed at the time Congress put a law on the statute books which gave any person the right to go out and organize a labor union: We had inexperienced personnel in many of the unions organizing a lot of people who never had been subjected to any kind of discipline in a labor union and didn't know anything about trade unionism or its history; we had management and personnel staffs that were dedicated to fighting any organization in the plants; they were entirely inexperienced in dealing with unions and conducting collective bargaining. With these explosive ingredients it is a wonder we didn't blow up our whole industrial system. We did very well to get by as well as we did.

Cyrus S. Ching

There is another thing that I want to say, whether you like it or not. The law of the land today, and our national labor policy is expressed in the term "collective bargaining." That policy is contained in the Wagner Act, and in the Labor-Management Relations Act of 1947—sometimes referred to as the Taft-Hartley Law. I, as representative of the government, have the responsibility to try to make collective bargaining work. Some of you may think that collective bargaining is not a good thing; that we would get along a darned sight better without it. Be that as it may, and whatever your private opinions may be, I look on our system of free collective bargaining and the responsibilities that go with it in this country as the foundation stones of our democratic system of industrial self-government.

We cannot have our freedoms without accepting our responsibilities. You have heard that many times before, I suspect. It's just as true of industrial relations as it is of other aspects of our political and economic society. I am afraid that free peoples, who thrive under a free system such as ours, have a tendency to think that their freedom is something inherited—that they have an inalienable right to it, and that it never can be taken away from them. That is not true. Any generation in this or any other free country that fails to earn and to pay its own instalment on the price of freedom, may find that its freedom and free enterprise system may become insolvent. We can't forever be declaring dividends and drawing checks on a free system without putting something back in. If we mean to enjoy our freedoms, we must develop restraint and responsibility. If we fail to do this, particularly in the field of industrial relations, I fear that our freedoms will wither away.

Criticism is not inconsistent with an assumption of responsibility, but I haven't too much patience with people who are constantly criticising their government: municipal, state and Federal. The only people, in my judgment, whose criticism of their government is justified are those who are willing to do something about the evils and errors that they complain about.

I remember the time when the Wage and Price Stabilization policy was put into effect during the war. I was called in by President Franklin D. Roosevelt. He said, "You know a lot of people. You get around quite a bit. What is the general reaction among the people in industry and people in labor about this wage stabilization and price policy of ours?" I said, "Without exception everybody believes in it 100%—without exception for everybody except themselves." That is such a typical reaction to government action, I fear. So many of us put up a clamor for government to do this to help us, or to refrain from doing that to help us—and when we demand that government act or refrain from acting to our personal benefit, we not only forget the general effect on others, but that our demands on government are frequently inconsistent with our political philosophy.

Government's Relation to Labor Disputes

I find myself very happy in my job as Director of the Federal Mediation and Conciliation Service because its function squares so neatly with my own ideas of the ideal relationship of government and labor disputes. My agency does not represent government in its majestic sovereign aspect. Our job doesn't contemplate wielding a big stick. Our job is to help employers and unions to help themselves. Our conception of the role of government in labor relations is that the less government you have in labor relationships, the better the labor relationships will be.

However, the government can carry out this role of non-intervention only if union and management representatives bear in mind that their activities have an effect on the public interest and they bear a responsibility for protecting that interest. If they fail to do so, the government must protect the public.

There comes a time, sometimes, unfortunately, when the public interest is so overwhelming, when it is so much greater than the interests of the parties, that government must step in and use a heavy hand. Those situations are deplorable. They don't add anything to the sum total of better relationships in this country. They are the cases that get the headlines.

Recently, I assume, some of you have seen my homely mug on television, and other places—the newspapers, and so forth—and the impression was given out that I was just a "helluva fellow" and that I had an awfully hard job. Don't let anybody kid you on that I'm not a "helluva fellow" and I can't work any miracles, and the job is not very hard, if you take it in your stride and try to get some fun out of it. But that does not represent what the government does, or what our Service does. The work of our Service, and the way you get your return for the money you pay in taxes for our Service is from the work of 205 or 206 men that we have out in the field who never make the headlines, whose names do not appear. Most of the labor disputes they assist the parties in settling are not of sufficient importance to make the news headlines. Those are the men that make this Service worthwhile, and those are the men who are making the big contribution. Someone would find some way of settling the big national disputes like a steel strike or a coal strike even if there wasn't any Mediation Service. But all these cases out in the field—the smaller companies—that is where I think the big contribution is being made.

There are two commandments in our Service. One is absolute impartiality in the disputes between management and labor. The other is never to violate a confidence. We want both labor and industry to feel free to tell us what their story is, what their slant is, in a situation, and in that way sometimes we are able to help the parties work out the difficulty. It is not the business of the Mediation Service to settle labor disputes. It can only help the parties to arrive at a settlement. Sometimes the parties get a little bit "up on their ear," and they take positions; sometimes they say, "Well, that's a matter of principle with me, and I'm going to stick there until Hell freezes over." Very frequently I've heard that expression, and I'm always reminded of what Past President Hadley of Yale said one time. He said, "A lot of people talk about principles, but many times when you analyze them, they are just merely a rearrangement of prejudices."

Can't Settle Labor Disputes in Divorce Court

There are a few points that I would like to give to some of the gentlemen here who may be interested in this matter of labor relations and how to handle them. I am a member of the Bar. I have two Honorary Law Degrees. They're no good to me in my present job. The background of legal education helps some, but too many times lawyers who are lawyers first and primarily, and only incidentally industrial relations experts, can do a lot of harm to collective bargaining. I recognize the fact that some of the most constructive people in labor relations today are members of the Legal Profession; their success, however, is not attributable to the fact that they are lawyers, but rather to their experience in the field and just the kind of people they are. Too many lawyers enter labor situations with the objective of winning a case for a client. Sometimes it is not the lawyer's fault, but the client's and the insecure feeling the lawyer has that if he doesn't come out with a victory he loses the client.

(Continued on page 36)

*Stenographic report of an address by Director Ching before the Economic Club of Detroit, Mich., Nov. 28, 1949.

Securities Salesman's Corner

By JOHN DUTTON

Idea for an Ad

Way out in Butte, Mont., the New York Stock Exchange firm of Smith, Barney & Co. have an office. Now out in Butte, people are interested in obtaining income on their investments and in buying stocks the same as they are in your home town and mine. But the people in Butte are not different than the people in New York—except that perhaps they don't have pages and pages of financial news that they can wade through every evening in their home town paper the way the average strap hanger in New York City, Chicago, or Los Angeles does it. They are just plain every day folks that possibly have saved some money and who now may have more of it in the savings banks and in government bonds than is necessary. They may no know too much about stocks and bonds and maybe they don't care very much about such things.

But they do care about paying their ELECTRIC BILL. That is something with which they are very familiar. They have to dig down every month and send a check to the electric company or else the lights go off. And it is no fun to be without lights, even in Butte, Mont. Maybe by this time you are beginning to get the point? Possibly it will give you an idea that you can use in your home town—in your local paper? Somebody in the advertising department of Smith Barney is on the right track. At least that is the way we see it. This is what we call talking to people ABOUT STOCKS IN A WAY THAT THEY CAN UNDERSTAND.

The original of the above advertisement is quite large, approximately 12 inches double column. You could reproduce (something similar) in much smaller space, if rates in your paper are too high. It seems to me however, that this is the right approach to security merchandising. This is telling people what good stocks can do for them. It is bringing a local industry before the people—something with which they are familiar. They pay their electric company for service—they know their electric company—they hear from it every month. WHY NOT MAKE THEIR OWN ELECTRIC COMPANY PAY THEM?

You could do a whole series of such ads if you so desired. You buy clothes for the family, shirts for Dad, and shoes for the kids. Why not let some of the great companies that make and sell these products help pay the bills? You eat Bond bread, you drink Hershey's cocoa, you smoke Luckies and you buy Swift's and Armour's meats. You drive a Buick, or a Chrysler, and you buy Shell or Texas Gas. You see Loew's Movies and you use American Telephone's service every day. Let RCA pay for your radio and let International Harvester help buy your new plow. There are companies right in your own state about which every school boy knows. Your own Power & Light Company—your local Telephone Company—your local water company—all are part and parcel of the daily life of your community. When you tell people that they can make their money EARN MORE in local investments (or great national institutions such as the foregoing) they are going to be interested in talking with you.

I don't know what kind of response Smith, Barney got from their ad in Butte—but the way it looks to me it IS a beaut! Good will—confidence, and business should result from this kind of advertising. Isn't it a lot better than just saying:

STOCKS & BONDS
Smith, Barney, & Co.
Butte, Mont.

What do you think?

This week's happy thought: Don't envy anybody. Every person has something that no other human being has. Develop that one thing and make it outstanding.

Dittrich Re-Elected

Joseph A. Dittrich, Lehman Bros., New York City, has been re-elected Chairman of the Finance Committee of Thompson-Starrett Co., Inc.

McCabe Defends Credit and Fiscal Policies

Chief of Reserve Board tells Congressional Committee national monetary and credit policies adopted in postwar period played important role in reestablishing sound economy.

Thomas B. McCabe, Chairman of the Board of Governors of the Federal Reserve System, in an elaborate statement, submitted to the Subcommittee on Monetary Credit and Fiscal Policies of the Joint Committee on the Economic Report on Dec. 3, upheld the cheap money policy and the credit program adopted during the post-war period, and also defended the price pegging program in the government bond market. Concerning these matters, Chairman McCabe stated:

Thomas B. McCabe

"During all the period of strong inflationary pressures, there were related and highly controversial questions in regard to raising the cost of credit in the money markets. These involved, on the positive side, increases in discount rates made in 1946 and in 1948 by the Federal Reserve, the decisions by the Treasury in 1947 and 1948 to raise its rates on new issues of certificates, and the accompanying restrictive actions in the open market by the Federal Reserve authorities to increase the rates at which Treasury bills and certificates were traded in the market. They involved, on the negative side, supporting actions in the open market by the Federal Reserve authorities to maintain the 2½% rate on the long-term Treasury bonds, after permitting prices of these bonds to decline from high premiums they had reached.

"I would like the committee, in judging this controversial subject, to be in possession of the facts. It has been said that the Open Market Committee of the Federal Reserve System, which is charged by Congress with responsibility in these matters, did not wish to continue to support the 2½% level on long-term Treasury bonds but was induced to continue this policy by pressure from the Treasury. This is not true. There were widely varying shades of judgment, not only throughout the country and in the Congress but within the Federal Reserve System on the wisest course of action to pursue. It was my view, stated at the time, that the System was obligated to maintain a market for government securities and to assure orderly conditions in that market, not primarily because of an implied commitment to wartime investors that their savings would be protected, nor to aid the Treasury in refunding maturing debt, but because of the widespread repercussions that would ensue throughout the economy if the vast holdings of the public debt were felt to be of unstable value.

"In any case the decision taken and executed was the decision of the Open Market Committee. It represented their combined best judgment and I was convinced then as I am now, in retrospect, that they were right. They were concerned with the huge size of the Federal debt and with its pervasive influence throughout the financial structure. In view of the pervasive holdings of these securities, of the continued unsettlement that prevailed in the immediate circumstances of the post-war inflation, and of the fact that it had not yet been demonstrated that the great bulk of these securities were solidly held and that the floating supply had been absorbed, the adoption of a support level below par was a risk which the Committee was not prepared to underwrite.

Controversy Over Reserve Requirements

"Our most controversial action during this period was to raise the reserve requirements of member banks. This decision was related to, but by no means conditioned solely on, the reluctance of the Treasury to increase short-term rates on bills and certificates as early as was recommended by the Open Market Committee. I propose, therefore, to discuss these two situations together. I have stated above that rightly or wrongly it was the decision of the Open Market Committee on its own responsibility not to risk a lowering of the support level on long-term Treasury bonds.

"This decision, in itself, meant, of course, that funds paid out by the Reserve Banks in support of the long-term bond market added to the bank reserves available for credit expansion. It meant that the System must depend mainly, for whatever restraining influence could be exerted, either on increasing short-term rates or on increasing reserve requirements, or both. Either or both of these actions, restraining in themselves, were bound to be partly negatived to the extent that support of the long-term market resulted in furnishing reserves to the banks.

"I think it is true that the reluctance of the Treasury to move as rapidly as the Open Market Committee recommended re-inforced the disposition of the Board of Governors to make use of the power to raise reserve requirements. I doubt, however, whether the Board, under the circumstances then prevailing, would have refrained from the use of the power to raise reserve requirements even if the Treasury had agreed earlier to an increase in rates on short-term bills and certificates. It is difficult to be categorical about this point because it involves an interpretation of what official reactions would have been in a hypothetical situation.

"There are some who felt that neither of these restraining moves would be effective because they would tend to be offset by the funds that would necessarily be put out in support of the long-term bond market. There are others, particularly among the member banks, who felt that the increase in short-term rates on bills and certificates would be effective but that the increase in reserve requirements would be completely offset by support purchases of bonds. We can now look back and give definite answers to some of these considerations that were highly conjectural at the time. It is a matter of record that the combination of these moves did actually exert a net restraint, that short-term money rates did firm, that loan expansion did stop, and that this situation prevailed until the Federal Reserve reversed its policies when the inflation abated.

"I do not personally subscribe to the view held by some that this actual result reflected solely the increase in rates on short-term bills and certificates supported by the voluntary campaign of the American Bankers Association to restrict credit advances to essential productive credits. Personally I believe it also reflected the increase in reserve requirement, for one reason because this increase diminished the liquidity of the member banks. In retrospect, however, I would also say that my reluctance to resort to changes in reserve requirements as a method of dealing with an inflationary situation has been increased, not diminished, by the experience.

Came Through Better Than Expected

"As everyone knows, that particular episode in our economic history, the hangover of postwar inflation, had come to an end by early 1949. We can now look back on the postwar period as a whole, consequently, with some perspective and some of the advantages of hindsight. It is my personal evaluation that this country, all things considered, came through that period of trial amazingly well, better than any other major country and with less social and economic distortion. The amount of inflation that actually occurred was less than there was reason to fear. By this I do not mean in any sense that no mistakes were made, or that the inflation and distortions we have suffered were unavoidable. Some inflation was inevitable, probably a considerable inflation, but it could undoubtedly have been held within narrower limits. Nevertheless, taking all the complexities and perplexities of the problem into consideration and also the necessary coordination of millions of individual wills I feel that it will be the verdict of history that our combination of democracy and free enterprise which we enjoy in this country gave a good account of itself during this period."

du Pont, Homsey & Co. Open New Br. Offices

BOSTON, MASS.—du Pont, Homsey & Co., 31 Milk Street, members of the New York and Boston Stock Exchanges, announce the opening of a branch office at 340 Main Street, Worcester, Mass., under the management of Gordon Miles Copp; and at 520 Main Street, Fitchburg, Mass., under the management of Robert H. Bingham. Edward Terrence O'Malley will be associated with the Worcester office and Samuel H. Albro with the Fitchburg office. Joseph P. Keller and Frank L. Young II have joined the firm's staff in the Boston office.

Messrs. Copp, O'Malley, Bingham and Albro were all formerly with Cannell, French & Copp.

Fordon, Aldinger Co. Form New NYSE Firm

DETROIT, MICH. — Fordon, Aldinger & Co. will be formed as of Dec. 15. The new firm will have offices in the Penobscot Building and will be members of the New York Stock Exchange, Ralph Fordon acquiring the Exchange membership of Leonard A. Goldstone. Other partners will be Albert H. Aldinger and Cyrus B. Aldinger. All were formerly officers of Ralph Fordon & Co.

Railroad Securities

There was a decided increase in speculative and investment interest in rail securities last week. As the week closed this group was far outperforming the industrial and utility lists. While the advance broadened out considerably on Friday the market, generally speaking, has continued quite selective. A number of new highs for the year were established by such stocks as Chicago, Rock Island & Pacific; Illinois Central; Denver & Rio Grande Western; Kansas City Southern, etc. On the other hand, Chesapeake & Ohio, influenced by dividend news, hit a new low for the past 10 years at mid-week. Later, stimulated by the general trend, it recovered modestly.

Chesapeake & Ohio common is not by any means the only railroad stock that has proven laggard in the face of changing sentiment toward rails as a group. A number of others, including the major eastern carriers, New York Central and Pennsylvania, and Chicago & North Western in the western group have shown relatively little in the way of price recovery at the time of this writing. The public has been paying greater attention than is usual in a bull market to the earnings and dividend prospects of the individual road. Railroad analysts are hoping that this trend will continue and that speculatvie excesses such as characterized the 1946 market boom can be avoided.

Unquestionably there are valid reasons for the change for the better in sentiment toward securities of at least the fundamentally sound railroads. The abject pessimism of recent years had stemmed largely from the widespread feeling that on even a minor business recession the earnings of the entire industry, and each individual unit therein, would collapse. This feeling was aggravated by pessimistic statements by management in seeking rate and fare increases and in countering labor's demands for ever higher wages. The possible influence on railroad earnings of the 40-hour week for non-operating employees was another factor causing concern.

The 40-hour week went into effect on Sept. 1, 1949. Earnings reports since then have gone far toward allaying concern on this score. Generally speaking, management has apparently done an outstanding job in offsetting the increased costs implicit in shortening the work week of a large segment of the labor force without reducing weekly pay. Naturally earnings in recent months have been adversely affected by labor troubles in the coal industry and by the steel strike. The consequent sharp drop in traffic has obscured management progress in readjusting operations to the changed conditions in some cases.

The impact of the steel and coal strikes was naturally particularly severe on eastern and some of the southern carriers. The Pocahontas roads were very hard hit. Earnings of such roads in October were off substantially from a year earlier or disappeared entirely. On the other hand, earnings of roads in other sections of the country held up well, and in many instances rose above year earlier results, even though traffic volume was lower all along the line. An interesting case in point is Illinois Central. Although it is a large carrier of coal its net income in October was just about the same as in October 1948.

It is probable that publication of these many highly satisfactory October earnings was largely responsible for the sudden change in sentiment toward railroad securities. Most analysts feel that this resurging confidence can well carry considerably further even though it continues selective. Prices are low in relation to current and prospective earnings. Dividend returns are almost ridiculously high. Finally, the outlook for many months ahead points to impressive earnings comparisons for many roads. This is particularly true of western carriers unless we have a repetition of the unprecedented severe winter that closed a number of lines completely early in 1949.

A Square Deal for the Railroads

By ARTHUR K. ATKINSON*

President, Wabash Railroad Company

Asserting it is high time entire transportation problem be reviewed and present policy of favoring competitors of the railroads be abandoned, Mr. Atkinson points out railroads are no longer monopolies and current regulatory laws are obsolete. Hits high Federal taxation and warns if railroads are to continue under private operation they must have square deal. Condemns Federal subsidies to rail competitors.

Federal regulation of the railroads began in 1887 and has been amended from time to time to take in other transportation agencies. The primary purpose of government regulation is to insure just and reasonable rates and to prevent discriminatory practices.

Arthur K. Atkinson

The policy of the Federal Government in the regulation of transportation has been stated and restated in the various transportation acts, but the laws have not operated to give effect to those ideals. The underlying concept in the regulatory law is that the railroads are a monopoly and must therefore be controlled in the public convenience and necessity. It should be abundantly clear by now that the railroads are not monopolies free from competition either from other railroads or from different transportation agencies. In the treatment of other public utilities, such as the electric, gas and telephone companies, the customary minimum rate of return has been considered to be 6% on the net investment after depreciation. The record shows that the railroads have had an average return of only 3.62% for the past 27 years. This record is not consistent with the policies expressed in the National Transportation Acts.

In fairness to the Interstate Commerce Commission, we cannot place the full blame on them for the poor rate of return on invested capital shown by the railroads in the past. The ICC must use the tools made available to it by our Congress. On the other hand, Congress cannot be saddled with the responsibility of providing financial stability for the railroads, as their mission is controlled by public opinion—the democratic processes by which we are governed. This is not the time, however, to look backward and say that management or labor, the inflationary cycle, or government is responsible for the present situation in railroad transportation.

The world has just recently been through six years of war and our country is presently engaged in a "cold war" while arming herself and other friendly nations for the war of the future. America's future, whether in war or peace, will be decided by its own economic strength, the keystone of which is our transportation system.

I think we all agree that it is high time that the entire transporation problem be reviewed and that a policy for regulating competition be adopted in place of the present unsatisfactory method which, in effect, leaves not only the railroads but other transportation agencies constantly on poverty's doorstep. President Truman recently directed Secretary of Commerce Sawyer to make a survey for the purpose of establishing a unified and coordinated Federal program for transportation. The President pointed out that the Federal Government is now spending approximately $1.5 billion annually for regulating and promoting certain branches of the transportation industry, specifically mentioning the Federal aid for roads, airports, river and harbor improvements, and for navigation. I would like to emphasize that no part of this huge expenditure goes for promoting the railroad industry.

The Federal budget for the current fiscal period calls for approximately $42 billion, of which about $33 billion will be spent for past war debts and defense preparation, which includes foreign relief and military aid. The remaining $9 billion goes for the operating expenses of government, farm support, flood control, and the many other commitments including the aid to certain branches of the transportation industry.

In view of the deficit of $5.5 billion or more which is being predicted for the current fiscal year, we undoubtedly will witness strong demands upon Congress by the Administration for increased tax levies in spite of the fact that business and the majority in Congress want tax relief. The repeal or reduction of wartime-enacted excise taxes and the general revision of many inequitable sections of the Internal Revenue Code have been promised to the American taxpayer for four years or more, but the possibility of any net tax relief now seems more remote than ever.

Railroads Under Private Operation Must Have Square Deal

If the railroads are to continue under private ownership they must have a square deal. We have been warned by the experience of Britain in observing her journey down the road to socialism that nationalization does not stop with the railroads, but continues to engulf all branches of public transportation and many other key industries such as the communications, the coal, the steel, and the power companies.

America's drift toward the rocks of nationalization is due primarily to the individual's desire for security and a higher standard of living, which he mistakenly believes can come to him from the Federal Government by soaking the rich, and through no additional effort on his own part. He has eaten too much of the political poison which holds that an economy controlled by legislation and deficit spending can produce prosperity. The best antidote for this type of poisoning is to look around at the other countries of the world where government ownership prevails and the standard of living is far below our own.

In this connection, I would like to quote the Hon. Clarence J. Brown, Representative from the State of Ohio, whose remarks appear in the "Congressional Record" of last Oct. 19:

"Mr. Speaker, under leave to extend my remarks in the "Record," I include the following poem by a prominent Democrat of the State of Georgia:

Democratic Dialog

"Father, must I go to work?
No, my lucky son.
We're living now on Easy Street
On dough from Washington.

"We've left it up to Uncle Sam.
So don't get exercised.
Nobody has to give a damn—
We've all been subsidized.

But if Sam treats us all so well
And feeds us milk and honey
Please, daddy, tell me what the hell
He's going to use for money.

"Don't worry, bub, there's not a hitch
In this here noble plan—
He simply soaks the filthy rich
And helps the common man.

"But, rather, won't there come a time
When they run out of cash
And we have left them not a dime
When things will go to smash?

"My faith in you is shrinking, son,
You nosey little brat,
You do too damn much thinking, son,
To be a Democrat."

We, who are directly engaged in the business of transportation, must do all we can to bring the true facts out in the open, for it is through an informed public that a switch to the right track can be accomplished.

As I stated before, this is the time to prepare for the future, and I believe that the nation's well-being is dependent on an economically sound and coordinated transportation system, with the railroad industry as its backbone. The transportation problems which have been discussed in the press and on the radio are the same issues which Secretary Sawyer will find in his transportation survey and which have been put before the Congressional Interstate Commerce committees.

In 1948, the railroads handled more than 64% of all freight traffic, while pipelines, water carriers and trucks handled 11.7%, 14.9% and 9%, respectively. In spite of handling this large majority of the freight business we are unable to realize a fair and reasonable return on our investment. This results in receivership for some carriers, doubtful interest payments for our bondholders, and small, if any, dividends for our stockholders. Without an adequate return, we must depend on depreciation reserves and earnings for most of our replacements and can resort to equipment trust financing for the purchase of new rolling stock providing we are able to make a substantial downpayment in cash. Equity financing and other types of borrowing through mortgage bond issues are rarely possible.

Improving Railroad Service

Railroad management realizes that modern equipment and labor savings technology can do much to improve service and reduce expenses. That is the reason the railroads spent over $1.25 billion last year for improvements and are continuing to spend every dollar available to increase the efficiency of our operations. The amount spent for improvements in 1948 was the greatest for any year on record and when 1949 is closed a new record will probably be established. These expenditures are producing results. In 1948, we carried 16% more freight 43% further with 27% fewer locomotives, 23% fewer freight cars and 20% few employees than we had in 1929. If the railroads are given a square deal we will be

(Continued on page 35)

*An address by Mr. Atkinson before the Traffic Club of Detroit, Detroit, Mich., Nov. 10, 1949.

Eccles Holds Treasury Policies Inflationary

In letter to Sen. Douglas of Joint Committee on Economic Report also asserts debt-management decisions of Treasury determine discount rate and open market operations of Federal Reserve Board.

In a letter, dated Dec. 1, addressed to Senator Paul Douglas, who is Chairman of the Subcommittee on Monetary Credit and Fiscal Policies of the Joint Committee on the Economic Report, Marriner S. Eccles, a member of the Federal Reserve Board, and, until within the last year, its Chairman over a long period, contended the present Treasury financing policies are basically inflationary, and that these policies control the monetary and credit regulation actions of the Federal Reserve System.

Marriner S. Eccles

The complete text of Mr. Eccles letter follows:

"Dear Senator Douglas:

"In connection with my testimony presented on Nov. 22 before your Committee, I indicated that I had not attempted to include in my statement some important matters which may be helpful to the Committee. You granted me the privilege of filing a supplementary statement should that appear desirable.

"In the course of my testimony you asked if it would serve a useful purpose if Congress were to instruct the Treasury further as to the policies to be followed in debt management where they are dependent upon the monetary policies of the Federal Reserve System. You also stated that you would appreciate it if you could get some suggested standards of an instruction that might be given to the Treasury by Congress with reference to Treasury relations with the Federal Reserve.

"Since presenting my testimony I have given a great deal of thought to this subject. In reading over the record of my remarks, it was apparent to me that I had not responded as fully as I could have to some of your questions. Therefore, I should like to take advantage of the privilege of making a supplementary statement.

"A very fundamental dilemma confronts the Federal Reserve System in the discharge of the responsibilities placed on it by Congress. The System has by statute the task of influencing the supply, availability, and cost of money and credit. In peacetime, the objective is to do this in such a way that monetary and credit policy will make the maximum possible contribution to sustained progress toward goals of high employment and rising standards of living. Federal Reserve System powers for carrying out this responsibility are at present basically adequate. But the System has not, in fact, been free to use its powers under circumstances when a restrictive monetary policy was highly essential in the public interest. It has been precluded from doing so in the earlier postwar period in part because of the large volume of government securities held by banks, insurance companies and others who did not view them as permanent investments. Reasons for supporting the market under these conditions I have already presented before your Committee.

"This policy of rigid support of government securities should not be continued indefinitely. The circumstances that made it necessary are no longer compelling. But the Federal Reserve would not be able to change these policies as long as it felt bound to support debt-management decisions made by the Treasury, unless these were in conformity with the same objectives that guide the Federal Reserve. The Treasury, however, is not responsible to Congress for monetary and credit policy and has had for a long time general easy-money bias under almost any and all circumstances. As long as the Federal Reserve policy must be based upon this criterion, it could not pursue a restrictive money policy to combat inflationary pressures.

"Decisions regarding management of the public debt set the framework within which monetary and credit action can be taken. As the size of the debt grew through the period of deficit finance in the thirties and particularly over the war period, Treasury needs came to overshadow and finally to dominate completely Federal Reserve monetary and credit policy. When the Treasury announces the issue of securities at a very low rate pattern during a period of credit expansion, as it did last Wednesday, the Federal Reserve is forced to defend these terms unless the System is prepared to let the financing fail, which it could not very well do. To maintain a very low rate pattern when there is a strong demand for credit, the System cannot avoid supplying Federal Reserve credit at the will of the market.

"Under these conditions it can hardly be said that the Federal Reserve System retains any effective influence in its own right over the supply of money in the country or over the availability and cost of credit, although these are the major duties for which the System has statutory responsibility. Nor can it be said that the discount rate and open market operations of the System are determined by Federal Reserve authorities, except in form. They are predetermined by debt-management decisions made by the Treasury. This will be true as long as the System is not in a position to pursue an independent policy but must support in the market any program of financing adopted by the Treasury even though the program may be inconsistent with the monetary and credit policies the System considers appropriate in the public interest.

"The Federal Reserve System was established by Congress primarily for the purpose of determining and carrying out credit and monetary policy in the interest of economic stability and is responsible to Congress for that task. There is a seven-man Board of Governors, appointed for 14-year terms with approval of the Senate. The Board is assisted by an experienced and highly qualified staff of experts. There are 12 presidents of the Federal Reserve Banks, each with a staff of specialists, and each Federal Reserve Bank has a Board of Directors composed of leading citizens in its district drawn from professional, business, farming, banking, and other activities. There is also the Federal Advisory Council, composed of a leading banker from each of the twelve districts, established by Congress to advise the Board. All of these supply information and advice and many participate in formulation of monetary policies appropriate to the needs of the economy.

"Under present circumstances the talents and efforts of these men are largely wasted. Views of the Federal Reserve Board and Open Market Committee regarding debt-management policies are seldom sought by the Treasury before decisions are reached. The System, however, has made suggestions on its own initiative to the Treasury in connection with each financing, but very often these have not been accepted. Decisions are apparently made by the Treasury largely on the basis of its general desire to get money as cheaply as possible.

"In a war period or a depression, there is reason for financing a deficit through commercial bank credit—that is, by creating new money. The Federal Reserve System has supported such financing at very low rates by purchasing government securities in the market at such rates, thus pumping the needed reserves into the banking system. In the early postwar period some support was desirable, especially for the 2½% long-term bonds, but it should not have been as inflexible as it was for short-term rates.

"The outlook at the present time is for an expanding economic activity with high employment. We also now anticipate a government cash deficit of over $6 billion in the calendar year 1950. It would be inexcusable to finance this deficit at very low rates of interest by creating new money should inflationary pressures resurge. But if the Treasury, under these conditions, insists on continuation of the present very low rates, the Federal Reserve will have to pump new money out into the economy even though it may be in the interest of economic stability to take the opposite action. In making a cheap money market for the Treasury, we cannot avoid making it for everybody. All monetary and credit restraints are gone under such conditions; the Federal Reserve becomes simply an engine of inflation.

"With respect to the problem of how future monetary and credit policies are to be established, it seems to me Congress must choose from the following three general alternatives if the present dilemma confronting the Federal Reserve System is to be resolved:

"(1) Congress can permit the present arrangement to continue. The Treasury would control in effect the open market and other credit policy as it does now by establishing such rates and terms on its securities as it pleases, with the requirement that the Federal Reserve support them. It should be recognized that under this course, limitations over the volume of bank credit available both to private and public borrowers, and accordingly limitation over the total volume of money in the country, would be largely given up. Such credit and monetary restraint as might be required from time to time to promote economic stability would be entirely dependent upon the willingness of the Treasury to finance at higher interest rates, and in the past the Treasury has been resistant to doing this. If this alternative is followed, which is the present arrangement, Congress should recognize that the responsibilities for monetary and credit policies are with the Treasury and not with the Federal Reserve System and that the principal purpose of the Federal Reserve System is then to supply additional bank reserves on the demand of any holder of government securities at rates of interest in effect established by the Treasury.

"(2) The Congress could provide the Federal Reserve System with a partial substitute for the open market and discount powers which debt management decisions of the Treasury have rendered and can continue to render largely useless for purposes of credit restraint. Some measure of control over the availability of credit under inflationary circumstances could be regained if the System were given substantial additional authority over basic reserve requirements of the entire commercial banking system. With such authority, the System could, if necessary, immobilize new bank reserves arising from a return of currency from circulation, gold inflows, and System purchases of securities from nonbank investors and thereby prevent the multiple expansion of the money supply. In addition, the System would need authority to require banks to hold a special reserve in government bills and certificates. This would be necessary in case banks entered upon an inflationary credit expansion through the sale of government securities to the Federal Reserve or in the event it was necessary to assist the government to finance large deficits without creating additional bank reserves which serve as a basis for multiple credit expansion.

"(3) Congress, if it wishes credit and monetary policy to be made by the Federal Reserve System in accordance with the objectives of the Federal Reserve Act and the Employment Act of 1946 could direct the Treasury to consult with the System in the formulation of its debt-management decisions in order that these decisions may be compatible with the general framework of credit and monetary policy being followed by the System in the interest of general economic stability. It is obvious, of course, that government financing needs must be met and the responsibility of the Federal Reserve to insure successful Treasury financing must continue to be fully recognized. But Treasury financing can be carried out successfully within the framework of a restrictive credit policy, provided the terms of the securities offered are in accordance with that policy.

"To sum up briefly my views, I believe that Congress should fix clearly the responsibility for national monetary and credit policy. Although the Federal Reserve System was established as an agency of Congress for determination of monetary and credit policy, as it must function now it is responsible both to Congress and to the Treasury for that policy. These two responsibilities are often conflicting, and both cannot be satisfactorily discharged. The responsibilities and authority of the System need clarification and for that purpose one of three alternative actions might be taken by Congress:

"(1) Recognize in the statute that responsibility for monetary and credit policy is with the Treasury and recognize the Federal Reserve for what it is today—an agent for advising the Treasury and carrying out monetary and credit policy determined by the Treasury;

"(2) Give the Federal Reserve System such additional authority over bank reserve requirements as would adequately serve as a partial substitute for discount and open market powers;

"(3) Give the System a mandate to determine monetary and credit policies on the basis of guide posts stated in terms of the language of the Full Employment Act of 1946, with the Treasury required to advise and consult with the Federal Reserve and take into account the mandate of Congress in connection with its debt-management decisions.

"I recognize that monetary or credit policy by itself cannot assure economic stability. It should be accompanied by a fiscal policy, as well as a bank supervisory policy, in harmony with it.

"I appreciate very much having the opportunity to express my views on this matter.

"Sincerely yours,

"(Signed) M. S. ECCLES."

Sees Renewal of Slow Inflation

Merryle S. Rukeyser tells Customers' Brokers pent up consumers demand has been expended.

The economic outlook for 1950 is complicated by the fact that the corrective readjustment in 1949 was interrupted before it had run its course. This conclusion was expressed by Merryle Stanley Rukeyser, Economic Commentator for International News Service, in an address in the Board of Governors' Room of the New York Curb Association under the auspices of the Association of Customers' Brokers.

Merryle S. Rukeyser

"With slow inflation again at work," Mr. Rukeyser said, "the overall pattern of the nation's business is likely to be similar to that of 1949. Although below the 1948 peak, the volume of employment and of trade will be large in comparison with prewar yardsticks.

"But most of the boom ammunition, resulting from pent up demand, has already been expended, and the blue ribbons in 1950 will go to those who respond to the customer's mandate for better values. Hence the accent should be on cost-reducing techniques.

"The foreign economic policies of the United States and of Western Europe are more likely next year to depress than to expand business profits. The Administration, in its monetary and tariff policies, has in effect invited foreign nations to export their economic troubles to us."

Lever Brothers Adds to Advertising Staff

Four appointments to the advertising department of Lever Brothers Company, and the creation of the new post of television manager, were announced Dec. 5 by James A. Barnett, Vice-President of the company in charge of advertising.

Howard R. Bloomquist, advertising manager of the Toni Company, Chicago, Illinois, will join Lever Brothers as advertising manager for a group of Lever brands. Mr. Bloomquist was formerly assistant advertising manager for Pillsbury Mills, Minneapolis, Minnesota.

Appointed as advertising manager for another group of Lever brands is George B. Smith, formerly of Foote, Cone & Belding, New York.

Assistant advertising manager will be Paul Laidley, Jr., now with the Fred Gardner Advertising Agency, New York.

George T. Duram, now media director, New York office, of Dancer - Fitzgerald - Sample, Inc., has been appointed media director for Lever Brothers.

Mr. Barnett also announced the appointment of John R. Allen to fill the newly created Lever post of television manager.

NYSE Closed Dec. 24, To Be Open Dec. 31

The Board of Governors of the New York Stock Exchange has determined that the Exchange will be closed on Saturday, Dec. 24, but will be open Saturday, Dec. 31.

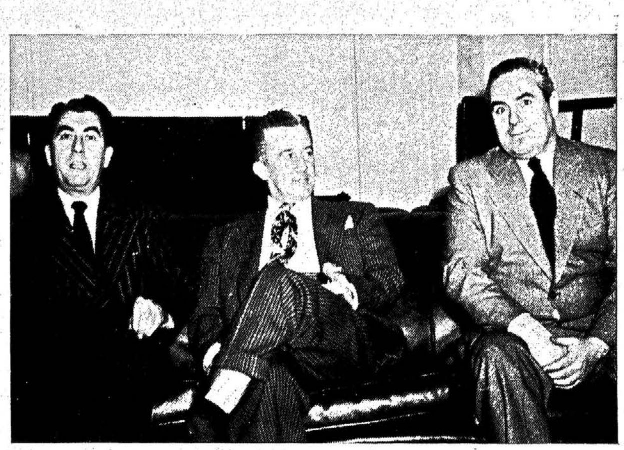
Security Traders Association of New York

Harry L. Arnold *Paine, Webber, Jackson & Curtis* (Vice-President-elect of STANY); John M. Mayer, *Merrill Lynch, Pierce, Fenner & Beane* (President-elect); James F. FitzGerald, *Wm. L. Canady & Co.* (President of STANY); John F. McLaughlin, *McLaughlin, Reuss & Co.*

Robert A. Torpie, *Merrill Lynch, Pierce, Fenner & Beane;* Henry Oetjen, *McGinnis, Bampton & Co.;* David R. Mitchell, *Blair F. Claybaugh & Co.;* Harry D. Casper, *John J. O'Kane, Jr. & Co.;* Edward R. O'Kane, *John J. O'Kane, Jr. & Co.*

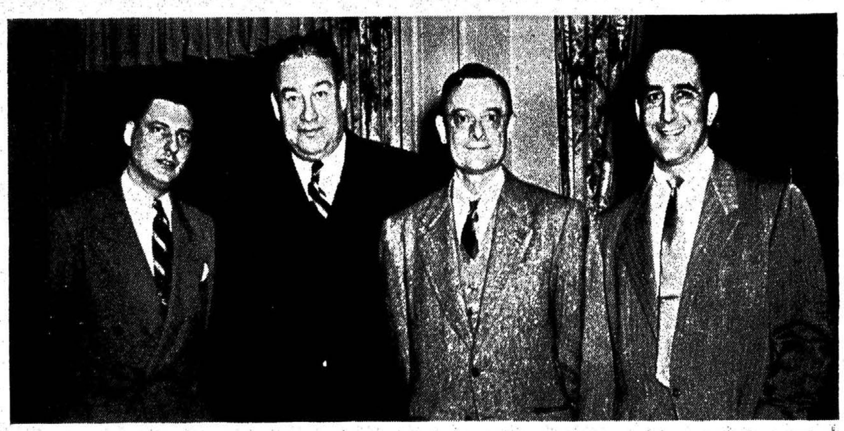
Stanley Waldron, *Wertheim & Co.;* Edwin J. Markham, *Wertheim & Co.;* Reg. Knapp, *Wertheim & Co.*

Harold B. Smith, *Pershing & Co.*



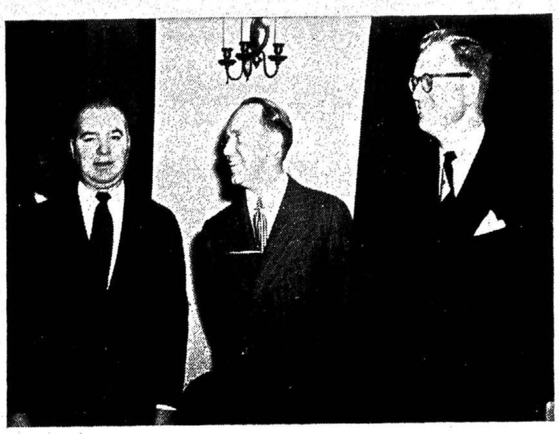
Murray Barysh, *Ernst & Co.;* George F. Higgins *Clark, Dodge & Co.;* Joseph F. Moore, *Clark, Dodge & Co.*

Henry Byrne, *Shearson, Hammill & Co.;* John S. MacLean. *Shearson, Hammill & Co.;* Irv Maxfield, *Cohu & Co.;* Almon L. Hutchinson, *Cohu & Co.*



Henry G. Kuipers, *Louis H. Whitehead Co.;* O. D. Griffin, *Louis H. Whitehead Co.;* Irving J. Silverherz, *Hay, Fales & Co.;* Sidney Siegel, *Siegel & Co.*

Daniel G. Mullin, *Tucker, Anthony & Co.;* Charles O'Brien Murphy, III, *Merrill Lynch, Pierce, Fenner & Beane*



Jim Kelly, *Kidder, Peabody & Co.;* Joseph McManus, *Joseph McManus & Co.;* Graham Walker, *National Quotation Bureau, Inc.*

Ray Kenney, *Raymond D. Kenney & Co.;* Arthur Bertsch, *G. A. Saxton & Co.;* Edward A. Fischer, *Robert S. Byfield*

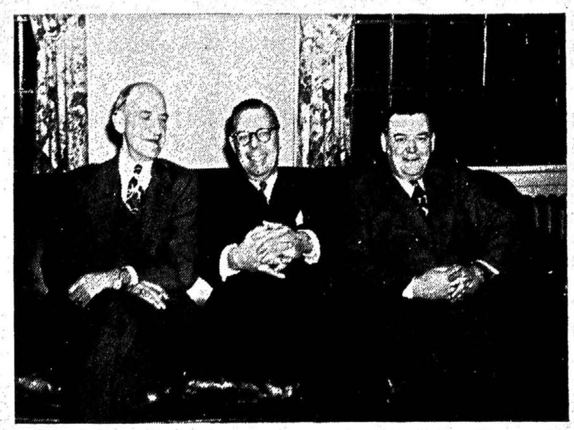
Annual Election Meeting and Dinner

John Witkowski, *John Witkowski & Co.;* John S. McLaughlin, *White, Weld & Co.,* Chet de Willers, *C. E. de Willers & Co.;* Jim Brinkerhoff, *J. C. Bradford & Co.*

Joe Corby, *Allen & Co.;* Larry Wren, *Allen & Co.;* Harry Michels, *Allen & Co.;* Nip Strothmann, *A. M. Kidder & Co.*

John O'Mara, *Goodbody & Co.;* Sid Fischer, *Werstern Development Corporation;* Tom Trager, *Merrill Lynch, Pierce, Fenner & Beane*

Ben Van Keegan, *Frank C. Masterson & Co.;* Pete Brochu, *Allen & Co.;* Walter Saunders, *Dominion Securities Corporation*



Charles Kaiser, *Grady, Berwald & Co.;* Elmer Meyers, *Geo. B. Wallace & Co.;* Walter Bradley, *B. W. Pizzini & Co.*

Frank McCall; Edward J. O'Connell, *D. W. Rich & Co.;* Tom Mullins, *White, Weld & Co.;* Samuel F. Colwell, *W. E. Hutton & Co.*

Walter Mewing, *D'Assern & Co.;* Gerard Burchard, *Chas. King & Co.;* Ed. Gutberlet, *Paine, Webber, Jackson & Curtis;* Charles King, *Charles King & Co.*

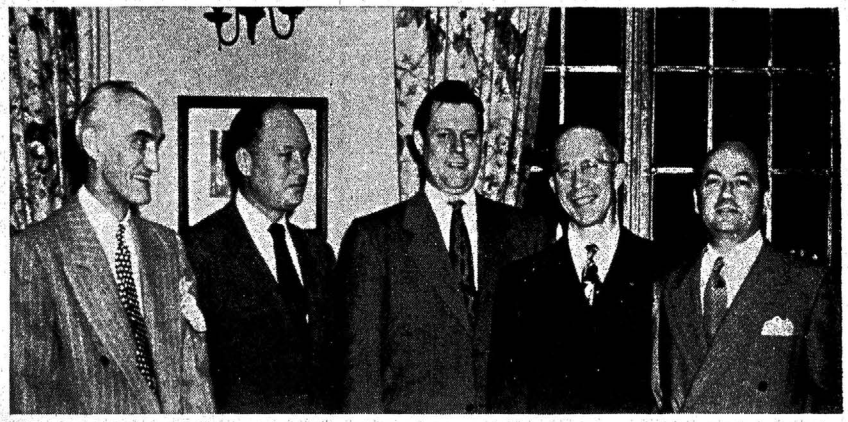
George W. Kirtland, *E. H. Rollins & Sons, Inc.;* Charles H. Jann, *Estabrook & Co.*

Mel Wien, *M. S. Wien & Co.;* Joseph J. Craig, *Goodbody & Co.;* Frank J. Orlando, *Goodbody & Co.*

Dick Walsh, *Wm. L. Burton & Co.;* John B. Crowley, *Greene and Company*

Held December 2nd, 1949

John G. Preller, *McGinnis, Bampton & Co.;* Bill Frankel, *Shaskan & Co.;* Joe Krasowich, *Bonner & Gregory;* Robert Kelly. *Bonner & Gregory;* Robbie W. Robson, *A. E. Ames & Co.*



"Duke" Hunter, *Hunter & Co.;* George Dedrick, *Blair F. Claybaugh & Co.;* Walter Filkins *Troster, Currie & Summers;* George Searight, *Aetna Securities Corp.;* Charles E. Stolz, *C. E. Stolz & Co.*

Arthur Hamill, *Lee Higginson Corp.;* Harry A. Cheplin, *Cheplin & Co.;* Baldwin, L. I., N. Y.; Frank A. Pavis, *Chas. E. Quincey & Co.*

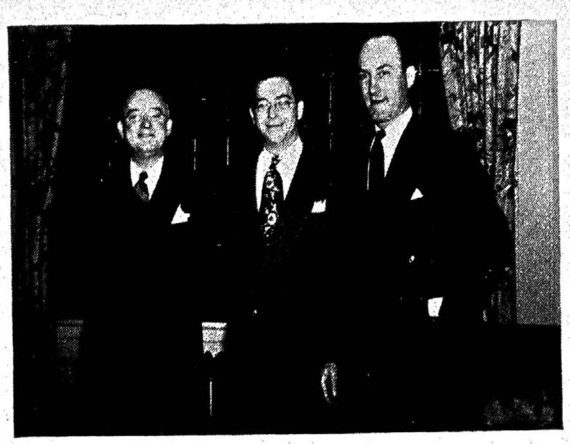
Ted Plumridge *J. Arthur Warner & Co.* (seated); John Hines, *Dean Witter & Co.;* Everett Rubien, *Dean Witter & Co.;* William Schmidt, *Laird, Bissell & Meeds;* Joe Eagan, *Frank C. Masterson & Co.*

John F. Egan, *First California Co.,* San Francisco; John C. Hecht, *Dempsey-Tegeler & Co.,* Los Angeles; George E. Nelson, *Bonner & Gregory*

Peter Barken; John Heck, *Greenhall, Heck & Co.;* Stanley L. Roggenburg, *Roggenburg & Co.;* Charles M. Zingraf, *Laurence M. Marks & Co.;* Hugh Kilmer, *Hardy & Co.*

Sidney Jacobs, *Sidney Jacobs & Co.;* Stanley Pelz, *Stanley Pelz & Co.;* Philip C. Kullman, Jr., *John J. O'Kane, Jr. & Co.;* Arthur Vare, *Hourwich & Co.*

E. N. Robb, *Paine, Webber, Jackson & Curtis;* Frank C. Masterson, *Frank C. Masterson & Co.*

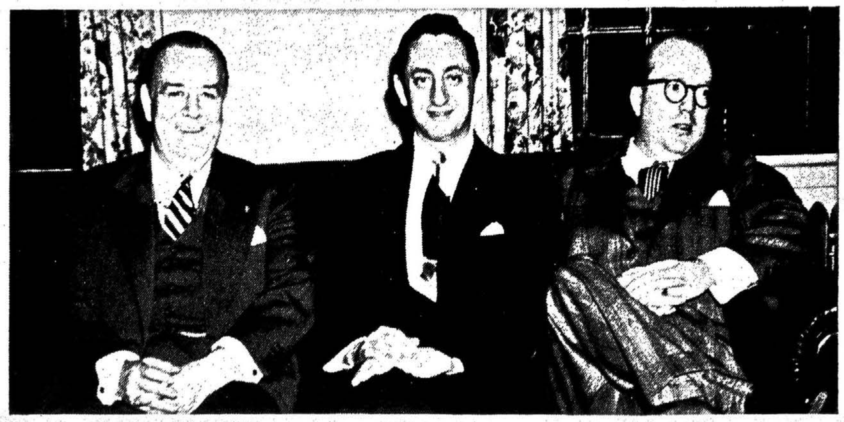


T. Geoffrey Horsfield; Arnold J. Wechsler, *Ogden, Wechsler & Co.;* Dick Abbe, *Richard F. Abbe & Co.*

Edward Russell, *Edelmann & Capper;* Irving Ittleman, *Frank Ginberg & Co.*

At Produce Exchange Luncheon Club

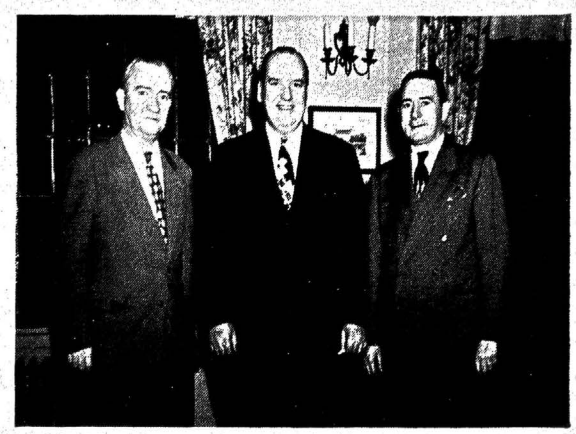
Bernard Weissman, *Siegel & Co.;* John Stein, *Frank Ginberg & Co.;* Julius D. Brown, *Hirsch & Co.;* Jeff Mendel, *Peter P. McDermott & Co.*



John J. O'Kane, Jr., *John J. O'Kane, Jr. & Co.;* Barney Nieman, *Carl Marks & Co.;* John Burke, *Merrill Lynch, Pierce, Fenner & Beane*

A. C. Huff, *Georgeson & Co.;* Howard Brown, *Tweedy, Brown & Reilly;* Edwin L. Tatro, *Edwin L. Tatro Co.*

Alfred L. Powell, *Alfred L. Powell Company;* Edmund A. Whiting, *Carl M. Loeb, Rhoades & Co.*

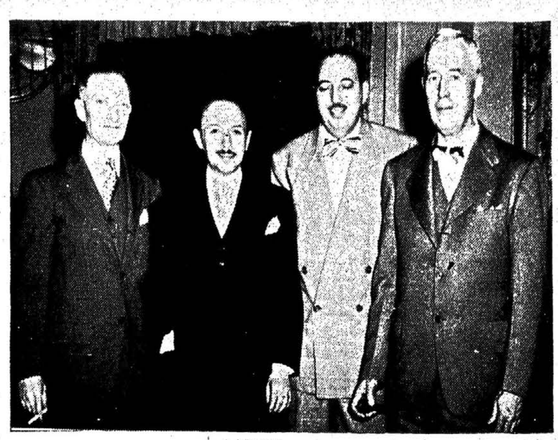


Bill Doherty, *A. M. Kidder & Co.;* Jim McGivney, *Hornblower & Weeks;* Frank Kane, *Ernst & Co.*

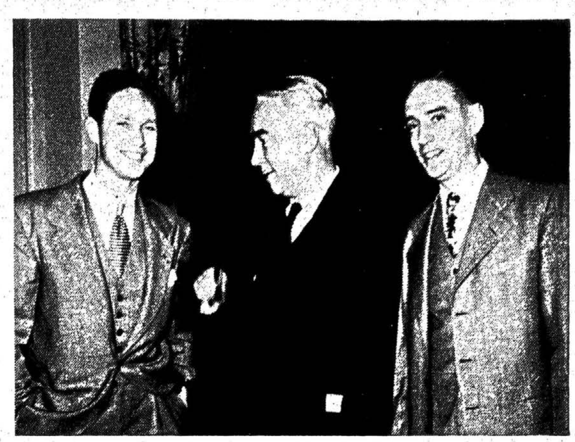
Charles Ogden, *Ogden, Wechsler & Co.;* Samuel I. Gold *Lilley & Co.;* Hank Serlen, *Josephthal & Co.;* Carl Swenson, *G. H. Walker & Co.*

Sydney Holtzman, *Marx & Co.;* Gerald F. X. Kane, *Frank C. Moore & Co.;* J. William Kumm, *Dunne & Co.;* Archibald von K. Rose, *Chase National Bank of New York*

Hoy Meyer, *Stern & Co.;* Gerard F. Hulsebosch, *G. F. Hulsebosch & Co.*



Bob Beswick, *Laird, Bissell & Meeds;* Maurice Hart, *New York Hanseatic Corporation;* Nat Krumholz, *Siegel & Co.;* Allen Broomhall, *New York Hanseatic Corporation*



Bill Carey, *Murphy & Durieu;* Wilbur R. Wittich, *Grimm & Co.;* Bob Frank, *Reinholdt & Gardner*

Urges IBA Ask Congress to Reform SEC

Cyrus Eaton, Cleveland industrialist and banker, contends Securities and Exchange Commission has acted as strait-jacket on capital markets.

In a letter to Hal H. Dewar, President of the Investment Bankers Association of America, Cyrus Eaton, Cleveland industrialist and banker, called upon the Association to "consider, at the annual meeting, what constructive steps its members can take to resuscitate the expiring capital markets." The IBA convention is being held at Hollywood, Florida.

Cyrus S. Eaton

Mr. Eaton urged that IBA members tell their senators and congressmen how the Federal securities acts "can be amended to save the traditional American economy from extinction."

"As matters now stand," the Eaton letter asserted, "The stocks of most of our corporations are selling for a fraction of their intrinsic values and, in many cases, for even less than net quick assets. Medium-size and small corporations are finding it almost impossible to raise the funds they need by the time-honored method of selling their securities to the investing public. More than any other factor, that bureaucratic blight, the SEC, is to blame.

"Every member of the IBA owes it to himself to sit down and review that eight acts that give the SEC, and its NASD puppet, life and control over corporate finance," Mr. Eaton continued.

"Influential senators and congressmen have recently expressed to me their amazement and dismay that the eight pieces of legislation which over an eight year period, were successively urged on Congress under the pretense of protecting the investor, have instead acted as a strait jacket on the capital markets.

"The taxpayers put up $7,500,000,000 a year to pay the operating costs of the group of so-called independent governmental agencies to which the SEC belongs. Agriculture, business and industry have to spend at least another $7,500,000,000 a year in the hire of vast numbers of lawyers, bookkeepers, engineers and statisticians to prepare reports, to attend hearings and otherwise to comply with bureaucratic requirements.

"The time has come to show Congress how this intolerable burden can be lifted from our faltering economy."

The Art of Selling

(Continued from page 4)

its comfort, another because of the prestige ownership provides. And so it is that we need to know something about the man to whom we are going to sell. What about him? What's he like? What are his chief aims and ambitions? What are some of his most pressing problems?

As applied to the Soda Fountain Market, we try to get some of these answers through a little pre-approach. For example, here are a few items which ought to be checked before the salesman talks to his prospect.

Traffic—Light? Heavy? Average?

Neighborhood — Well-to-do? Medium? Poor?

Fountain Appearance — Tidy? Unwashed Glasses? Generally Untidy?

Size of Staff—More than three Family—One man

Knowing something of the nature of the particular problems involved, the salesman is equipped now with a basis for strategy, and with good attention-getting ammunition. I don't know any place more difficult to get and hold attention than in a retail store. Your opening remarks must blot out whatever the prospect may happen to be thinking about, they must get his complete and favorable attention. There are many ways to do this — a compliment, the offer of a free service, a demonstration. We have found the best approach is the one that suggests a solution to one of the many problems he has.

If he is in a high traffic location, a remark to the effect you have a plan that can speed his service, cut down on the number of walk-outs, improve service to customers, is almost certain to capture his interest. Not so if the store is in a neighborhood area where the pace is leisurely, no crowds, just two's and three's, no rush. Under those circumstances, an appeal based on faster service would fall on disinterested ears. Better to spot some phase of the business which presents some kind of problem. Perhaps, it's a one-man operation. That means, he's the buyer, the salesman, the bookkeeper, the display arranger, the cleaner, the soda-jerk, the closer-upper, etc. He has a million and one chores to do. The answer? Anything that will make his job easier, cut down on the dozens of chores he must do daily. Lily Cups do just that and it is that appeal which is incorporated in a comment like the following which is designed to get favorable attention:

"Wouldn't it be wonderful if you could do away with glass washing, drying, stacking, bussing, and use that time for more profitable activities — such as serving customers?"

I am going to assume we've gotten his attention and developed interest. Now comes the time when we must provide something more concrete than words — a demonstration—proof that our claims are not just claims, but actual possibilities.

Here again is another one of those areas where the difference between the mediocre and the successful is minute—minute but nevertheless there—the mediocre remonstrate, the good men demonstrate. The stars demonstrate—but with a touch of showmanship.

Not so long ago Servel came out with their gas refrigerator. Its chief appeal was silence. Fair enough results were obtained in the usual canvas, but when one salesman introduced this technique sales shot up. All he did was to light a match, hold it up and say, "Listen, this is how much noise our refrigerator makes. . . ."

Automatic coal stokers were meeting the usual resistance to new methods, the usual lack of understanding of new terms, such as "retort," "worm," "underfeed," etc. It was hard to understand why underfeed was so undesirable—until one man hit on the idea of lighting a candle. "See how beautifully that burns, notice how the flame is being fed from *underneath*. No waste. Now look," and at this point he turned the candle upsidedown and the flame began to sputter—finally went out—and all the time the wax was dripping down in large globs. "Notice the waste," he would point out.

In our own business, a new cup was recently designed, a beautiful, round-bottom cup. It was designed to do a better job of blending syrup and carbonation so fountain drinks would taste better—tough to explain—difficult to believe—until we came up with a type of demonstration which permitted the prospect to see for himself in this transparent plastic replica of the cup. Now I'd like to show you a film which illustrates the application of these same principles we were talking about—but in another market, the Water Cup Market.

Pensions and Social Security

Before we close up shop I'd like to make just one more comment. It's about pensions and social security. You're hearing and reading a lot about them, and perhaps some of you may feel a little left out of the picture. My point is simply this, that if you have the ability to sell, you don't have to worry about Social Security—you have the best form of social security available. If you can take a product or service and know that wherever you go, you have the ability to get orders for it, you're a real salesman. And I can think of no greater compliment to any man than to be able to say of him, "There goes a Salesman."

Voice: I know you are not going to answer this, probably, and it may be a damn fool question, but I think all of us have been wondering just how we can apply some of these brilliant demonstrations—and I mean that—to selling an intangible like stocks and bonds.

Mr. Brunauer: Your question is far from foolish, it's a very good one. First, I must confess I don't know a thing about securities or how to sell them. Incidentally, I represent a large chunk of that potential but ignorant-about-stocks market you fellows are going after.

Your question seems to imply that demonstrations are effective only where the sale of tangibles is concerned. I admit it's probably most adaptable to that type of product, but I want to point out that, more frequently than not, an intangible must be sold first. In selling Lily Cups, we must first sell the idea, the advantage of single service, the specific benefits we were talking about before—faster service, cleaner service, etc. Only after the Big Idea has been sold can we introduce the tangible, the means by which the prospect can reap the benefits of that idea. By the way, what can I gain from buying securities?

Voice: Protection against inflation.

Mr. Brunauer: O. K.—But to me they are just words. Maybe they should be more significant than they are. But I am not conscious of any real danger.

Let's see—if inflation mounts—in a few years the same amount of money will buy less and less. Right? Fine—now how can we get that over to the prospect so it means something to him. How about talking in terms of how much less he's going to be able to give his family in the way of food, clothing, shelter, education, etc.?

How about photos and illustrations showing various amounts of a variety of items which could be bought five years ago, compared with today—and if inflation continues at the same pace compared with a projection into the future — three-five-ten years from now. Some illustrations of what went on in countries plagued with inflation—with this heading "It Can Happen Here" or "This Can Happen to You" might be in line.

Voice: There's one idea that you might sell, there. You might sell a mental idea, and not a physical, actual commodity, but you could sell them this idea, you could say, "Do you know that it's possible if you had purchased 200 shares of General Motors in 1919, at $8 a share, that would be a complete investment of $1,600, and if you would stay with that continually, you would be worth over a million dollars today"? That is selling a mental picture.

Mr. Brunauer: That's right. You don't need to use photographs, necessarily, but I mentioned photographs because anything that you can get in, to add to those sentences, something you can see, hear, taste and touch, will help make a sale.

Verbal pictures certainly help a lot. If you can create a beautiful setting for him, where he can see himself enjoying that extra money, as a result of following out your recommendation, doing the things he likes to do, you will be hitting some hot buttons, I can assure you. But it takes more than just a verbal explanation; it takes a combination of all the techniques at your disposal.

I believe, sincerely, you can apply the basic principles (we've been talking about) to securities or anything in the world.

Voice: That salesman in the film you have just shown us, if he had walked into that concern and they had one of those foot pedal water spigots—I don't know what you call them—the bubble fountains—would there then be any definite advantage in using the Lily cups?

Mr. Brunauer: Yes. Had we shown the picture a little longer, you would have seen another man handle that problem. And had we gone on a little farther still you would have seen another man selling a third problem, a competitive cup.

But, getting back to the bubble fountains. One of the reasons for purchasing a bubble fountain is because it gives employees a source of cool, refreshing water. We have to do something to get Mr. Prospect's attention—get him away from that complacent attitude. So we say, "Mr. Jones, I stopped in to show you how you could make that bubble fountain available to all your employees."

"What do you mean?" he replies, "It is now available to all my employees."

Well, I don't care what happens after that, we now have his attention. That was our objective, to gain his attention, just to get him to listen. Then, we go on to explain that it really isn't available to all his employees, many of them wouldn't want to drink from a bubbler and some of them refuse to do so. Some people can see that drinking from a bubbler is not a very sanitary way of getting a drink of water. There isn't anything wrong with the bubbler, it's the way the people use it. They put their mouths directly on the jet, wash their hands in it, etc.

We also point out that there are many people who can't take advantage of the fountain, because it is so awkward. We stand up and walk around in a natural position, like this (indicates), and what is the point of having to stoop over like four-legged animals when we want a drink?

Another point we make, which has been boomeranging, slightly is that many women don't want to drink from a bubbler today, what with those low-cut dresses they wear, the guy never thought of that—so he keeps the bubbler.

If the man is economy-minded, we point out—and we have a very factual basis—United States Department of Commerce figures reveal that for every five gallons of water used, three go down the drain. As you turn the jet and drink, much of the water goes back down the drain. As a result Mr. Prospect pays for the cooling of water that is not used. The machine is subjected to unnecessary wear and tear, twice what it would be, ordinarily. He also pays for more electricity than necessary—repair bills mount up. And the machine has to be replaced sooner than necessary. There are many reasons, and we point them out—one by one.

Voice: How do you handle your competitors' products? How do you try and sell to a man already using another kind of cup?

Mr. Brunauer: That's a good question. It depends upon the kind of cup. There are several kinds, as you know. The pointed cup, the flat-bottomed cup, both pleated and two-piece.

Where a two-piece cup is concerned, we sometimes cut a pie in the cup to show an interlocking bottom (side wall of the bottom interlocks) this gives complete protection against leakage, as compared to cups with bottoms not so constructed.

It doesn't make too much difference where water is concerned, but where liquor is concerned—many offices have liquor for the entertainment of buyers and customers, and that is important in their business. If construction, appearance, etc., are not too important to the prospect and economy looks like a good bet we might say: "Well, this is a very nice cup, of course, but you can save yourself an awful lot of money by using a cup like this (and he will show them this pleated-one), or a cone-shaped cup, and simply point out that they all look alike in the basket, once they have served their purpose.

Hicks & Price to Admit Schenck & Donaldson

CHICAGO, ILL. — Hicks & Price, 231 South La Salle Street, members of the New York Stock Exchange, will admit August H. Schenck and Theodore Donaldson to partnership on Dec. 15. Mr. Schenck, who has been Manager of the firm's New York office, 1 Wall Street, for some time will acquire the New York Stock Exchange membership of John C. Stewart. Mr. Donaldson has also been with the firm for some time in Chicago.

New York Stock Exchange Weekly Firm Changes

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

Interest of the late Marlen Matthews in Kay, Richards & Co., ceased Nov. 12.

Eleanor Porter Long retired as a limited partner in John C. Legg & Co. on Nov. 30 and John C. Legg, Jr., was admitted as a limited partner, as trustee under deed of trust dated Oct. 24, on Dec. 1.

Russell J. Olderman retired from partnership in McDonald & Co. Nov. 30.

The name of Katherine P. Wear, partner in W. R. K. Taylor & Co., has been changed to Katherine P. Johnson, as of Nov. 17.

Interest of the late Walter C. T. Allen in T. L. Watson & Co. ceased Dec. 1.

Minneapolis Assoc. Adds

(Special to THE FINANCIAL CHRONICLE)

MINNEAPOLIS, MINN. — Minneapolis Associates, Inc., Rand Tower, have added to their staff James W. Anderson, formerly with R. J. Steichen & Co.; Armin O. J. Baumann; Leon M. Burrill; Hugh R. Engstrom; George E. Gjertsen, John E. MacGibbin; Robert L. Saunders; William M. Seabron; and Harold S. Wonson, Jr.

NEWS ABOUT BANKS AND BANKERS

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED CAPITALIZATIONS

Dividends aggregating $2,790,000 or 45 cents per share were declared on Dec. 6 at the regular meeting of the directors of **The National City Bank of New York.** The dividend is payable Feb. 1, to shareholders of record at the close of business Jan. 13. Of this amount $2,480,000 (40 cents per share) will be paid by the bank and the remainder by **City Bank Farmers Trust Company.** This payment will be the first under the previously announced policy of paying dividends quarterly, instead of semi-annually as heretofore.

At the regular weekly meeting of the directors of The National City Bank on Dec. 6, William H. Hoover of Butte, Mont., President of the Anaconda Copper Mining Company, was elected a director of the bank. Until his election as President of Anaconda to succeed the late James R. Hobbins, who was also a director of National City, Mr. Hoover served as Vice-President and General Counsel of Anaconda since 1943 and director since 1947. He is also a director of The American Brass Co., Anaconda Wire & Cable Co., Chile Exploration Co., Andes Copper Mining Co., Greene Cananea Copper Co., International Smelting & Refining Co. and other subsidiaries and affiliates of Anaconda Copper Mining Co., and The First National Bank of Great Falls.

* * *

At the regular meeting of the board of trustees of the **Central Hanover Bank & Trust Company of New York,** held on Dec. 6 the following appointments to Assistant Secretary were approved: William H. Cole; William McGorry, Jr.; Arthur J. Meuche; Hermann C. Schwab; Thomas A. McP. Sullivan (42nd Street Office); J. S. Roome; D. C. Wheaton, Jr.; and C. E. Woodruff.

Improved accommodations for customers of its 34th Street Office are provided by the Central Hanover Bank & Trust Co. in new quarters opened on Dec. 5 on the southwest corner of 34th Street and Madison Avenue, diagonally opposite the former location. The banking floor has 12 tellers' positions with the popular style of open counters. The main floor also includes a larger officers' platform and a conference room, which is informally furnished for the convenience of visitors to the bank. The lower floor includes complete safe deposit facilities with coupon booths for customers and a conference room. There is also a spacious board room which is available for corporate meetings, trade organizations and other groups. Air-conditioned throughout, the new 34th Street office of the bank has nearly 15,000 square feet of floor space compared with 7,000 in the former office. The move has been made necessary by the growth in business of the office since it was established in the 34th Street area in 1930. Officers at this branch are: F. B. Whitlock and J. A. Thirsk, Vice-Presidents; J. P. Sullivan, Assistant Vice-President; Harry G. Carey and F. J. Henkel, Assistant Treasurers; Randall Rubenstein, Assistant Secretary.

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Following the meeting of the board of trustees of the **New York Trust Company** at 100 Broadway, New York held Dec. 6, Charles J. Stewart, President, announced the following promotions: In the Banking Division: Edward S. Peterson, Treasurer, was promoted to Vice-President and Treasurer. Edward L. Palmer, Assistant Treasurer was promoted to Assistant Vice-President and Harry H. Bock, Manager of the Credit and Investment Research Department, was appointed Assistant Treasurer. In the Investment Division: Charles B. Eddy, Jr., Assistant Secretary, was promoted to Assistant Vice-President.

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Arthur W. Mischanko has been elected a Vice-President and Treasurer of the **Pan American Trust Company, of New York,** it was announced on Dec. 7 by John B. Glenn, President. Mr. Mischanko comes to Pan American from The National Bronx Bank, where he was a Vice-President, Cashier, and a director, having joined that institution March 15, 1948. Prior to that he had been a principal New York State bank examiner for many years. He had also been assigned to reorganize the old Mt. Vernon Trust Company in 1933, and was a Special Deputy Superintendent of Banks for two years. Mr. Mischanko started his banking career as a messenger in the Century Bank of New York in 1911.

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The election of Frederick K. Trask, Jr., as a member of the board of trustees of the **United States Trust Co. of New York** was announced on Dec. 1 by Benjamin Strong, President. Mr. Trask is a partner of the firm of Payson & Trask. He is a director of the Great Northern Paper Co., Ohio Rubber Co., C. J. Patterson Co., Minute Maid Corp., Refined Syrups and Sugars, Inc., and the American Heart Association. Mr. Trask also is a member of the Finance Committee of the New York Hospital.

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Announcement is made by James G. Blaine, President of **The Marine Midland Trust Co. of New York** that the directors on Dec. 6 have authorized the transfer of $2,500,000 from undivided profits to surplus, bringing the surplus to $15,000,000. Capital remains at $5,000,000. Undivided profits after the transfer will be approximately $2,800,000. The directors also declared the usual quarterly dividend of 30 cents a share and an extra dividend of 40 cents a share payable Dec. 19 to stockholders of record Dec. 12. This amounts to total dividend declarations of $800,000 for the year 1949 compared with $750,000 in 1948.

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Charles H. Kreeb, Assistant Vice-President of the **Central Savings Bank of New York,** who is retiring at the year-end after 46 years' service, was honored at a dinner at the University Club on Dec. 7.

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Walter Jeffreys Carlin, President of **Lafayette National Bank of Brooklyn, N. Y.,** announces the election of Matthew C. Jones as a Vice-President. Mr. Jones was formerly Vice-President of the Lawyers Trust Co. and has been in banking for 20 years. He began his banking career in the banking department of the Title Guarantee and Trust Co of which he was formerly Manager, leaving there to joint the Lawyers Trust Co. in 1943.

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Ray C. Shepherd, Assistant Vice-President of **The Dime Savings Bank of Brooklyn, N. Y.,** retired on Dec. 1, after 29 years of service in the savings bank Field. Mr. Shepherd was an officer in the U. S. Navy for many years prior to and during World War I and was one of the founders and first President of the **Navy Savings Bank** which was organized in 1920 and located on Sand Street, Brooklyn. In 1930, when the Navy Savings Bank was merged with The Dime Savings Bank of Brooklyn, Mr. Shepherd became associated with "The Dime" as Assistant Secretary and was elected Assistant Vice-President in 1946.

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Approval by the stockholders of both banks of plans for the merger of the **Lockport Exchange Trust Co. of Lockport, N. Y.,** with the **Manufacturers & Traders Trust Co. of Buffalo, N. Y.,** was announced on Nov. 25. The Lockport Exchange Trust opened on Dec. 1 as the Lockport Exchange Office of the Manufacturers & Traders, it was noted in the Buffalo "Evening News" of Nov. 25, which said:

"The directors of the Lockport Company will serve as an Advisory Board for the Lockport office, with Samuel M. Johnson, President of the Lockport Exchange Trust, as Chairman. Officers and personnel of the merged bank will be unchanged."

Details of the merger were noted in our issue of Nov. 3, page 1770.

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Louis G. Adzit, President of the **Jefferson County Savings Bank of Watertown, N. Y.,** died on Nov. 20. He was 68 years of age. Mr. Adzit entered the employ of the bank in 1907 as a clerk and became President in January, 1948.

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The Hartford-Connecticut Trust Co. of Hartford, Conn., reported as one of the 10 largest nonmember banks in the nation and the largest non-member in New England, joined the Federal Reserve System on Dec. 2. Officially welcomed into the System by Joseph A. Erickson, President of the Federal Reserve Bank of Boston, the Hartford bank, Connecticut's oldest and largest trust company, with deposits of approximately $130 million, brings to 332 the number of member banks in the First Federal Reserve District. John B. Byrnes is President of the Hartford institution. Organized 82 years ago, The Hartford-Connecticut Trust Co., which occupies a 16-story building in Hartford, operates 11 branches in Connecticut, is said to have the largest trust department in the State, with trust funds of more than $260 million.

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The directors of **Tradesmens National Bank & Trust Co. of Philadelphia,** at their regular meeting on Dec. 2, recommended to the shareholders that they authorize at their annual meeting on Jan. 10 an increase in the capital stock by the declaration and issuance of a stock dividend in the ratio of two shares for every 33 shares of capital stock presently outstanding. If approved by the shareholders, and subsequently by the Comptroller of the Currency, the capital stock will be increased to $4,489,100. The bank on June 30 reported a capital of $4,232,580.

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Richard H. Wells, Vice-President of the **Farmers Deposit National Bank of Pittsburgh, Pa.,** has been elected Executive Vice-President of the **Peoples City Bank of McKeesport, Pa.,** according to the Pittsburgh "Post-Gazette" of Nov. 23. He will assume his new post on Dec. 31.

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Robert B. Rall, President of O'Neill & Co., has been elected a director of the **Metropolitan Savings Bank of Baltimore, Md.,** it was announced on Nov. 14 by Alfred E. Cross, President of the bank, according to the Baltimore "Sun."

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Appointment of Paul Wright, Jr., of North Carolina as Vice-President in charge of **The Bank of Virginia's** new office at Fourth and Grace Streets, Richmond, Va., was announced on Nov. 23 by Thomas C. Boushall, the bank's President. Mr. Wright joined the staff of The Bank of Virginia on Dec. 1. The Fourth and Grace Street office building is expected to be opened about mid-January. Mr. Wright has had 17 years' banking experience in North Carolina and comes to Virginia from **Wachovia Bank & Trust Co. of Winston-Salem, N. C.,** where he was a Vice-President. From 1932 to 1941 Mr. Wright was with the North Carolina State Banking Department as a liquidating accountant and State bank examiner. He joined the staff of Wachoiva Bank & Trust Co. at Winston-Salem in 1941. Following World War II, during which he served as an officer on the light cruiser **Richmond,** Mr. Wright returned to the Wachovia Bank & Trust Co. where he was advanced to Assistant Vice-President in 1946. He has been a Vice-President of the bank and at the Salisbury, N. C., branch since 1948.

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Joseph A. Jettinghoff President of the **Commercial Bank of Delphos, Ohio,** since 1894, recently died at the age of 95 years. He came to this country from Germany in 1871, according to Delphos advices Nov. 18 to the Cleveland "Plain Dealer," and after conducting a tailoring business engaged in banking. He was a Director of the Citizens' Federal Savings & Loan Association and the New Delphos Manufacturing Co.

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La Salle National Bank, of Chicago, located in the Field Building at 135 South La Salle Street, has completed arrangements for the acquisition of the trust business of the **Metropolitan Trust Company,** 11 South La Salle Street, Chicago. Joint announcement of this plan, effective immediately, was made on Dec. 1 by Laurence Armour, Chairman of the Board and John C. Wright, President of the La Salle Bank, and Barnet L. Rosset, Metropolitan President. Mr. Rosset stated that the La Salle bank was selected because it has been operating a complete trust department for many years and is conveniently located for the patrons of Metropolitan Trust Co. It is announced by Mr. Wright that certain Metropolitan officers and employees will be added to La Salle's trust department staff. Joseph G. Porter, is Vice-President in charge of the department. In a letter soon to be sent to beneficiaries of its trust accounts, the Metropolitan Trust Co. will outline the steps whereby transfer of the trusts can be made to the La Salle National. The La Salle bank had resources on Nov. 1 exceeding $78,500,000. The trust business of the Metropolitan Trust Co. it is said has shown substantial increase since the purchase of control of the corporation in 1932 by Mr. Rosset. Along with its wholly owned subsidiary, Metropolitan Investment Co., the trust company has net capital, surplus and undivided profits in excess of $1,650,000 as shown by its statement of Dec. 1, 1949. Mr. Rosset stated that he contemplates merging the Metropolitan Trust Co. with the Metropolitan Investment Co., and that eventually its future business activities will be confined to investment banking.

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The capital of the **Upper Avenue National Bank of Chicago, Ill.,** was increased Nov. 23 from $500,000 to $600,000 through a stock dividend of $100,000, the Office of the Comptroller reports.

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The election of George J. Graebner as Chairman of the board of the **American State Bank of Milwaukee, Wis.,** to succeed the late William George Bruce, was recently announced following a directors' meeting, it is learned from the Milwaukee "Journal" of Nov. 17, which further stated:

"Mr. Graebner, an attorney and Circuit Court Commissioner, has been a director of the bank about 10 years and also has been a Vice-President, although not active in the banking operations. William C. Bruce was elected a director to succeed his father, it was reported by E. A. Riddeman, President of the bank. The son is President of Bruce Publishing Co."

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Robert Forgan Mactavish retired on Dec. 1 as Vice-President and Secretary of the **Northwest Bancorporation of Minneapolis, Minn.** On the date he retired, Mr. Mactavish completed 44 years and 7 months of service with the Bancorporation and the **North Western National Bank of Minneapolis,** it was stated in the Minneapolis "Star" of Nov. 22. Richard L. Federman, Comptroller of Bancorporation since July 1, 1948, has been elected to succeed Mr. Mactavish as Secretary of the board of directors, says the Minneapolis "Star," Mr. Federman thus becoming Comptroller and Secretary. Mr. Mactavish, who was born in Morebattle, Scotland, in 1884, worked in the Bank of Scotland, in Edinburgh, from 1901 to 1905, coming to Minneapolis at the age of 21. Starting as a clerk in the the North Western National Bank, says the "Star," he was elected Comptroller in 1923, and Assistant Cashier in 1927. The "Star" also stated:

"When Northwest Bancorporation was formed in 1929, Mr. Mactavish became Assistant Treasurer and has successively held more important offices. He has been Vice-President and Secretary since 1947. Mr. Federman came to Banco in 1948 from Peat, Marwick, Mitchell & Co. He was Manager of the Minneapolis office and had been in charge of the Northwest Bancorporation audit since 1929."

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The Citizens National Bank of Lubbock, Texas, increased its capital as of Nov. 16 from $500,000 to $1,000,000; the increase was effected through a stock dividend of $250,000, and the sale of new stock to the amount of $250,000.

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Opening of a branch at Bangkok, Thailand (Siam) by the **Bank of America, National Trust & Savings Association, San Francisco,** is announced by L. M. Giannini, President of the bank. The new banking office is located at 1169 Chareen Krung Road, in the financial section of Thailand's capital city, and the opening date of Dec. 1, was set by officials of Government in accordance with national customs. Walter K. LeCount, a veteran Far Eastern bank official, has been named manager of the branch. Until recently he was chief of the Finance Division of the Economic and Scientific Section of the General Headquarters of the Supreme Commander of the Allied Powers in Tokyo. He resigned that post to accept the Bank of America position. The Bangkok branch, Mr. Giannini said, further extends the California organization's foreign service facilities. The bank already has branches in London, Tokyo, Manila, Kobe, Shanghai and Yokohama. Mr. LeCount is a native of New Rochelle, N. Y. He began his banking career with the International Banking Corporation of the National City Bank of New York as a foreign service trainee and later became an officer of that corporation. Later he became Vice-President of the Export-Import Bank, leaving that position to assume directorship of the Siam Commercial Bank, Ltd., of Bangkok.

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Action approving plans to increase the capital of the **Seattle-First National Bank of Seattle, Wash.,** from $10,000,000 to $12,000,000 has been taken by the directors, and the stockholders are to vote on the plans on Jan. 17. The increase would be brought about by the sale of new stock to the present shareholders at $40 a share, to be followed by a stock dividend at the rate of one new share for each 11 shares held.

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J. E. Coyne was appointed Deputy Governor of the **Bank of Canada (head office Ottawa, Ont.)** on Nov. 28 succeeding Donald Gordon, who becomes President of the Canadian National Railways, effective Jan. 1. Mr. Coyne had been the bank's Securities Advisor since 1946, it was noted in Ottawa advices (Canadian Press) Nov. 28 in the Montreal "Gazette," which said that Mr. Coyne's career has been closely linked with that of Mr. Gordon during and after the war.

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At a meeting of the directors of **Barclays Bank (Dominion, Colonial and Overseas)** held Nov. 21, it was decided to recommend the following dividends for the year ended Sept. 30: a final dividend of 4% actual on the "A" stock and on the amount paid up on the "B" shares, making 8% for the year, less income tax at the standard rate of 9/ in the £. Net profits for the year were £666,879; last year £649,873.18.4.

The Federal Government's Financial Picture

(Continued from page 6)

what from that of the life insurance companies. The average length of the government security holdings of these banks increased during the war finance period from nine years to 14 years; and has declined subsequently to 12 years. Savings banks also were sold longer-term securities, but their investment needs resulted in the acquisition of more medium-term securities than were acquired by life insurance companies.

Shortening of Debt Maturities

Because there have been no new offerings of long-term marketable securities since the end of 1945, the average length of the outstanding marketable Federal debt has been automatically shortened during this period. Investors who are primarily bondholders have this reflected in their investment portfolios to a greater degree, of course, than do investors who hold primarily short-term debt. The average length of the holdings of life insurance companies and of mutual savings banks would have declined more sharply since 1945, therefore, if these institutions had not bought long-term issues in the market and sold shorter-term issues. They offset thereby, to some extent, the automatic shortening of their portfolios.

Commercial banks have been offered principally short-term securities throughout the war finance period and as a part of our postwar program. This has been a major factor in keeping their portfolios short on the average. The average length to first call or maturity date of the government security holdings of commercial banks has declined from seven years in June 1941 to about three years at the present time.

There is considerable variation among banks throughout the country in the maturities of the governments which they hold. Estimates of the average number of years to maturity of governments held by commercial banks, by Federal Reserve Districts, are shown in Chart 5. Longer term securities are generally held in the eastern areas—with the exception of New York City—than in the western areas. There are three districts in which the average length of governments held is less than 2½ years; and, as you can see from the chart, these areas are in the western part of the country. The shortest average length, two years, is found in the Kansas City Federal Reserve District; while the longest average length, 4¾ years, is in the New York District, excluding New York City. In this connection, it is interesting to note that as we go farther west, commercial banks also have more loans in proportion to their capital.

I have gone into these matters at some length to indicate how the present maturity distribution of the public debt developed. Our objective has been a smoothly functioning economy, and securities have been issued to the various investor classes to suit their needs and the requirements of the economy.

Interest Cost a Consideration

In handling the new money and refunding operations that are in prospect for next year, the interest cost of the debt to taxpayers must also be one of the considerations in our debt-management program. The interest cost of the debt comprises over 13% of the Federal budget for the fiscal year 1950. The total annual cost is likely to grow, even without any increase in the debt, because the rate of interest on savings bonds increases as they approach maturity, and because an increasingly large proportion of the debt represents the accumulation of trust funds invested at an average interest rate which is higher than the present average rate on the total debt.

Even a relatively small increase in the average interest rate on the debt would add a substantial amount to the total annual interest cost. It is estimated that the interest on the debt will amount to $5.7 billion in the calendar year 1949. About $1¼ billion would be added to this amount, if the average interest rate were ½ of 1% higher. The annual interest cost would be more than $5 billion larger, if the average interest rate were equal to the average borrowing cost of World War I—which was approximately 4¼%. The annual saving in the taxpayers' money as a result of the present level of interest rates is an important factor in the budget picture of the Federal Government.

The distribution throughout the economy of the interest on the public debt is, of course, determined by the ownership of the debt.

It seems to me that the outstanding fact in this connection is the increase during this period in the interest on the Federal debt going to individuals. Their share during the current calendar year is one-third of the estimated $5.7 billion total. It rose from $1.4 billion in 1946 to an estimated $1.9 billion in the current year.

The share received by government investment accounts also rose during this period, while interest payments to other non-bank investors declined slightly. The share received by commercial banks also declined. This was largely due to the Treasury's policy of concentrating debt reduction in the holdings of commercial banks.

Another way of looking at the interest cost of the debt is to consider the burden which it represents when compared with the gross national product of the country, from which it must be paid. The public debt is nearly 10 times as large as it was at the World War I peak in August 1919. But, because we were able to finance the Second World War at a borrowing cost about one-half as great as the average borrowing cost of World War I, the interest cost of the public debt today is only five times, rather than 10 times, as large as it was in 1919. This does not, however, mean an interest burden five times as great. For, in the meantime, our gross national product has risen from less than $80 billion in 1919 to an estimated annual rate above $250 billion at the present time. We have a tremendously increased product out of which to pay the interest on the debt, and the present interest cost is only 2.3% of gross national product. This compares with 1.4% in 1919.

One of the important refunding matters which will come before the Treasury in 1950—and in greater volume in 1951, 1952, and subsequent years—will involve the government security holdings of individuals. These holdings amounted to $69½ billion on Oct. 31, 1949, up from $65 billion on Dec. 31, 1945, and from $10½ billion before the war.

Advantages of Wide Ownership of Government Securities

Ownership of government securities by millions of individuals is good for the country as well as for those individuals. It gives the people of the country an increased interest in the affairs of their government and causes them to participate more actively in those affairs. We have continued to promote the sale of savings bonds in order to encourage thrift. Thrift has played a vital part in the building of our Nation and, today, it is as important to our well-being as it has ever been in the past. At the end of October, $48½ billion of savings bonds of all series were held by individuals. Savings bonds comprised 70% of their total holdings of government securites. Holdings of E bonds alone—the bond which is designed to meet the needs of small investors—amounted to $33½ billion.

The savings bonds held by individuals at the present time are distributed broadly throughout the country. The United States is divided into geographical areas to show that the $48½ billion of savings bonds outstanding in the hands of individuals are distributed approximately as follows: $16½ billion held in the northeastern area of the country; $10 billion held in the States of Michigan, Illinois, Indiana, and Ohio; $6 billion held in the southern part of the United States; $6 billion held in the seven states which are the farthest west; and $10 billion held in the large block of central states which is bounded roughly by the Mississippi on the east, the Rocky Mountains on the west, and stretches from Canada to Mexico. These savings bonds comprise a tremendous amount of assets in the hands of individuals. The $48½ billion total seems particularly significant, if we recall that at the bottom of the depression—in 1933—national income in the country was only $39½ billion. Across the nation, people now have a cushion of reserves to fall back upon that is greater than the total income in the nation in that year.

You may remember that during the latter years of the war there was considerable speculation as to the probable redemption experience with Series E bonds as soon as the war had ended. The opinion was freely expressed that the large quantities of bonds which were being sold under the pressure of patriotism and intensive wartime selling methods would be redeemed speedily as soon as the war was ended. Instead, as I have noted, we have continued to sell savings bonds and to increase the total amount outstanding. Redemption experience with Series E bonds is, in fact, more favorable than the postwar rate of turnover in other forms of savings. The rate of redemption of Series E bonds has been substantially lower than the rate of withdrawals from savings accounts. Furthermore, since the end of the war, savings bond redemptions as a percentage of the amount outstanding have followed a downward trend, while the rate of turnover of other forms of savings has followed an upward trend.

We have not, however, encouraged the sale of savings bonds at the expense of other types of savings. From Dec. 31, 1945, through Oct. 31, 1949, the increases in practically all other forms of individuals' savings were substantially greater relatively than the increase in savings bond holdings.

Foremost Responsibility of Treasury

I have been talking about some of the technical matters that will have to be considered in connection with Treasury borrowing and refunding. Uppermost in our minds in making all of our policy decisions is the fact that the foremost responsibility of the Secretary of the Treasury is to maintain confidence in the credit of the United States. One hundred and fifty years ago, the main financial problem of our newly born nation was to establish that credit. Confidence in our government's financial soundness was successfully established; and it has been the responsibility of Secretaries of the Treasury for a century and a half to maintain it.

But never before has this responsibility been so great as since the end of World War II. The public debt increased more than fivefold during the war. It represents more than half of all of the debt of the country, public and private. It comprises a substantial proportion of the assets of the leading investor classes; and the decisions which are made with respect to it are of immediate and vital significance to each and every one of us.

The primary concern of the Secretary of the Treasury in formulating debt-management policies is to promote sound economic conditions in the country. Because the debt is so great, because it is such a large proportion of the total debt of the country, and because it is interwoven in the financial structure of the country, the policies and decisions made in the Treasury Department are of tremendous importance and significance to the economic and financial welfare of the nation.

At the end of 1939, the debt of the Federal Government amounted to $47½ billion and accounted for 23% of the total debt of the entire country. At the present time, the public debt amounts to $257 billion and comprises 51% of all debt.

Non-bank investors held $172 billion of government securities—two-thirds of the $257 billion of Federal debt outstanding on Oct. 31, 1949. It is particularly significant that the holdings of individuals are so large. They totaled $69½ billion, as I mentioned earlier. Insurance companies held $20½ billion of government securities. Mutual savings bank holdings totaled $11½ billion. Government investment accounts, principally government trust funds which are required by law to be invested in government securities, held $39½ billion of the public debt. The holdings of "other" non-bank investors—which include state and local governments, corporations, pension funds, and charitable institutions—were $31 billion.

One-third of the debt—$85 billion—was held by the commercial banking system. Commercial banks held $67½ billion; and the remainder, $17½ billion, was held by the 12 Federal Reserve banks.

These figures are large, in dollar terms; and they are also a substantial proportion of the assets of the various investor classes. In the case of commercial banks, for example, holdings of governments are equal to 56% of earning assets — a large percentage, but a sharp decline from February 28, 1946, when government securities comprised over 70% of the earning assets of these institutions.

Non-bank investors — both financial and non-financial — also have a large share of their assets invested in government securities. On Oct. 31, mutual savings bank holdings of governments represented 54% of their total assets; life insurance companies had 27% of total assets invested in government securities; and other insurance companies—fire, marine, and casualty—had 47%. Non-financial corporations had 13% of their current assets in this form. And, when we turn to individuals, we find that government securities accounted for 34% of their liquid assets—that is, their combined holdings of government securities, savings and checking accounts, and currency — which approximated $200 billion on Oct. 31.

These figures are unmistakable evidence that the decisions which are made with respect to the public debt affect every segment of our economy. They indicate the compelling necessity for considering not only the effect of our decisions upon the financial structure of the government itself, but their effect on the financial and economic structure of the whole country.

It is for this reason that Treasury and Federal Rserve authorities have cooperated to keep the market for government securities stable during the postwar period. Under the circumstances which existed, stability in the government bond market has been of tremendous importance to the country. It contributed to the underlying strength of the country's financial system and eased reconversion, not only for the government, but also for industrial and business enterprises.

This is in marked contrast to the situation after World War I, when prices of government securities were permitted to decline sharply—with disastrous results. Investors suffered serious financial losses. And the decline contributed importantly to the business collapse that occurred in the early post-World War I period. These things happened at a time when the public debt was a much less powerful element in the economy than it is at the present time. It seemed obvious to us that widely fluctuating government bond prices would have even more serious repercussions after World War II.

In the short-term area of the government security market, we also had to consider the possible effect of our actions on the financial markets. When interest rates on short-term government securities were raised, beginning in mid-1947, they were raised gradually in order not to disrupt these markets. When they were reduced, the change was small for the same reason.

In the four years since V-J Day, the United States has achieved a record level of prosperity. There can be no doubt that world-wide confidence in the financial soundness of the government of the United States played a prominent role in achieving this prosperity.

I have gone into some of the current matters of public debt management with you in some detail in order to round out the entire picture for your Committee. Many of the answers to the questions submitted by your Committee to me and to other government officials and agencies touched on some of the points that I have mentioned; but I felt that it would make for better understanding of the problems and considerations involved, if I summarized the current situation as it looks from my position as Secretary of the Treasury.

No Justification for Dollar Devaluation

(Continued from page 7)

and would indicate a complete lack of integrity on the part of the United States in its international monetary dealings. Together with the International Monetary Fund we encouraged foreign countries to correct the overvaluation of their currencies in terms of the United States dollar. For the United States to devalue the dollar now would revive the old maladjustments in exchange relationships and intensify monetary difficulties. We would be making it more difficult for our debtors and customers to earn dollars and would be increasing the need for further foreign aid contributions.

Unlike the situation in the early 1930's, the recent adjustment of foreign exchange rates was a realistic and concerted effort that met with universal approval. The International Monetary Fund diagnosed the situation and approved general devaluation of the soft currencies; the United States dollar was the fixed point around which these adjustments were made. They have not been a series of individual and isolated devaluations in quest of temporary competitive advantage in foreign trade. In the 1930's, the United States was fighting deep depression and deflation. Today the dollar is far stronger in relation to other currencies and the American economy plays a much more dominant role in the world. Furthermore, we have learned that devaluation is not a very satisfactory method of fighting depression.

To devalue the dollar now would serve notice to the world that we will not cooperate in the efforts of foreign countries to establish more realistic exchange rates, that the dollar cannot function as a reliable international currency, and that we are unwilling to accept the responsibilities of our international position. The results would probably be an intensification of trade barriers and exchange controls, the formation of closed trade areas, and increased instability of exchange rates generally. It might start a competitive race in devaluations which could only add to international monetary chaos. To devalue the dollar today would be an act of complete irresponsibility.

As Secretary Synder recently said, "No purpose would be served by devaluing the soundest currency in the world." In fact, a major responsibility rests upon the United States to maintain a strong and stable dollar around which general stabilization efforts can center. In a world of shifting gold and currency relationships it is imperative to maintain the fixed price of $35 an ounce for gold if further serious maladjustments are to be avoided and international monetary order restored.

The contention that dollar devaluation would be a constructive measure of foreign aid is untenable. Such action would clearly provide the greatest benefits to the countries with the largest gold reserves and the largest gold production. Allan Sproul, President of the Federal Reserve Bank of New York, in an address before the annual convention of the American Bankers Association on Nov. 2, 1949, made the following pertinent comment regarding this proposal:

"If we raised the price of gold, every country which holds gold would automatically receive an increase in the number of dollars available to it. The largest increases would go to the largest holders which are the Soviet Union, Switzerland and the United Kingdom. Every country which produces gold would automatically receive an annual increase in its dollar supply and its gold mining industry would be stimulated to greater productive effort. The largest increases would go to the largest producers which are South Africa, Canada, and probably the Soviet Union. That would be an indiscriminate way to extend our aid to foreign countries, both as to direction and as to timing."

Another fallacy in this plan is that, far from strengthening the international economy, a higher domestic gold price would serve to attract still more of the world's gold and drain off still further the already depleted reserves of other countries. It would aggravate rather than ease the maldistribution of gold.

Nor is there any substance to the claim that the high prices paid for gold in certain markets abroad are a better measure of value than the Treasury's official price. In most countries, private gold dealings are illicit. The markets are isolated from each other; demand and supply for gold as well as for dollar currency is affected by the complexities of exchange controls and by the extent to which smuggling or other evasive operations can be conducted. Arbitrage operations, if they are possible at all, are of necessity expensive and cumbersome. The fears, suspicions and hazards that influence these markets are well illustrated by the fact that United States gold coins and British sovereigns command a premium over other coins of equal weight and fineness, and by the fact that gold coins in general, because of their size and convenience, are at a considerable premium above the corresponding weight in bullion. Prices reached in such markets are obviously neither a good measure of the value of gold nor any help in the determination of the official price in the United States.

Much more revealing is our monetary experience of the past few years. At a time when gold was being quoted at spectacular price levels (ranging up to $70 an ounce or higher) in foreign black or grey markets, a continuous stream of the metal was flowing into the United States to be sold to the Treasury at the official price. Despite some outflow in recent weeks, partly in response to the devaluation rumors, net gold imports since the end of 1945 have aggregated well above $4 billion. It appears that the total gold output during that period and some of the reserves accumulated prior to that time have been sold to this country. It is difficult to reconcile this development with the contention that the United States gold price is artificially low. The price paid for gold by the United States Treasury has been and will continue to be the world price. There are no other markets important enough to absorb much of the world's current output at a higher price.

Another suggestion is that all countries, or at least all members of the International Monetary Fund, should devalue simultaneously and by the same percentage. In other words, the price of gold would be increased by the same percentage in terms of all currencies, thereby leaving exchange rates undisturbed. The provisions of the Monetary Fund permit this action if the nations can agree upon it. Concerted action of this kind would not create the same exchange and trade difficulties as unilateral devaluation by the United States, but the other objections against devaluation would apply just as fully.

Devaluation of the British pound has boosted the price of gold throughout virtually all the sterling area by 44%; elsewhere, the gold price has also been raised in varying proportions. This increase should be adequate to cover higher mining costs and to bring marginal mines into production. To the extent that this eventually reduces some of the strains upon the monetary reserves of the sterling area and others, the results may be accepted as beneficial.

Excessive stimulation of gold production by further devaluation, however, would not be a constructive development. International exchange difficulties are not caused by a shortage of gold; rather, the low foreign reserves reflect the maldistribution of existing gold stocks, which in turn reflects the inroads of war, obsolescence of productive facilities, and other factors upon many nations of the world. The urgent task is not to increase the output of gold, but to produce more capital and consumer goods cheaply and efficiently.

Domestic Implications of a Higher Gold Price

The domestic results of a higher gold price would be even more objectionable. The main result would be to increase bank reserves on which multiple credit expansion could be based. Unless offset by Federal Reserve action, this could lead to excessive expansion of the money supply and strong inflationary forces. At best it would greatly complicate our money market problems and make it more difficult to maintain a stable dollar.

This country already has ample gold reserves and is not suffering from any shortage of money. Our present monetary gold stocks aggregated $24½ billion, which is nearly two-thirds of the world's estimated gold reserves. As of the end of October 1949, the gold certificate reserve coverage of Federal Reserve notes in circulation and Reserve deposit liabilities was 57%, or more than twice the 25% statutory minimum ratio. Consequently, present gold reserves are sufficient to support an additional expansion of Federal Reserve bank credit of more than $52 billion, and member bank credit of several times that amount.

Devaluation would result in a book profit on existing gold stocks amounting to about $700 million for every dollar by which the price of an ounce of gold is raised. If the new price should be fixed at $45 an ounce this "profit" would be approximately $7 billion, and at $50 an ounce the "profit" would amount to more than $10 billion. As this "profit" is spent, for whatever purpose, gold certificates would be deposited in the Federal Reserve banks, thereby increasing monetary reserves and making the credit structure even more susceptible to inflationary expansion. This would be even worse than the issuance of fiat currency which would not increase the dollar amount of gold reserves.

It has been suggested that these gold "profits" might be used to reduce the government debt or to provide further aid to foreign countries. These suggestions apparently are based upon the age-old illusion that in some mysterious fashion goods and services, or the national well-being, can be increased simply by writing up the paper value of gold.

To debase the currency and expand the credit base would be a tremendous price to pay for a relatively small reduction in the debt, say $7 billion or even $10 billion out of a Federal debt exceeding $256 billion. It would be an effort to relieve the debt burden through monetary trickery.

It is equally fallacious to think devaluation profits can be used to aid European countries without being an economic burden on our economy. The disbursed funds, whether in the form of gold or credits, would eventually be translated into claims for goods and services. The results would be far more inflationary than financing an additional $7 billion or $10 billion foreign aid program through bank credit, because the latter method would not increase gold reserves which could be used for multiple credit expansion.

Another argument sometimes heard in favor of devaluation is that the price of everything else has gone up. Therefore, why not increase the price of gold? Allan Sproul, in the address previously mentioned, answered that question as follows:

"It is the economics of perpetual inflation to argue that a rise in the commodity price level should be followed by an arbitrary increase in the price of gold and hence in the reserve base, thus permitting and, perhaps, promoting additional deposit expansion and a further upward movement of prices. Even on the basis of statistics, which are not always reliable or comparable, it is interesting to note that the increase in the price of gold in the United States, in 1934, raised the price of gold by 69%, whereas wholesale prices in the United States are now only 60% above the 1927-29 level. We have been plagued, if anything, with an oversupply of money in recent years, and the United States gold stock, at the present price, is large enough to support whatever further growth in the money supply may be needed for years ahead."

Depression and Devaluation

The question has been raised whether a vigorous economic recovery abroad accompanied by a flow of capital from the United States and an accelerated flow of goods into the United States might not eventually lead to a reversal of economic roles and make devaluation desirable or at least plausible. However, it seems highly premature to think in terms of a flourishing European economy draining the United States of capital funds and flooding our markets with its goods. Neither internal political conditions in the European countries nor the international political situation show any promise of clearing up rapidly enough to insure the early removal of impediments against the free flow of capital funds.

The dominant question today and for some time to come is whether Western Europe will be able to stand on its own feet without continuous aid from the United States. Our greatest concern is not that Europe may recover too rapidly but too slowly. Furthermore, even if recovery abroad should be unexpectedly vigorous, the resulting opportunities for foreign investment will very likely lead to greater rather than less stability in international exchange rates.

On the other hand, the American economy is not immune to depressions, and the belief exists in some quarters that in case of another severe depression the government under a variety of pressures might again resort to devaluation as a possible remedy. No one, of course, can predict what the future will bring or how the government might react under deflationary conditions which seem to defy the usual remedies. However, it seems quite doubtful even under conditions of depression whether the government would again undertake lightly the devaluation of the dollar. It would not offer a sound or effective stimulant to business activity, especially as our exports absorb only a small share (less than 5% in 1948) of our gross national product. In its fiscal and credit policies the government has much more effective instruments for initiating or stimulating spending or investment. The crude and cumbersome instrument of devaluation no longer has the glamour that it once had, especially in view of the poor results derived from the 1933-34 experiment.

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and moisture, on the green coloring matter in plants. The release of atomic energy is also leading to extensive experimentation in the field of plant nutrition and growth.

This vast expansion in food production would not involve diminishing returns—that is, rising costs per unit of product. The methods of increasing agricultural yields all imply increasing returns rather than the reverse. Moreover, it is highly probable that continuing technological progress in agriculture during the course of the next century would permit a tripling of food production without any appreciable increase in the numbers of people engaged in agriculture.

Metal and Mineral Resources

The greatest question pertains to the adequacy of metal and mineral resources. There are several means by which present deficiencies may be overcome.

First, *systematic exploration* will still undoubtedly disclose important new sources of supply within this country. Second, imports from adjacent countries may meet our needs. Canada is one of the world's richest ore-producing regions and is even now the greatest metal-exporting country in the world. The far north of the continent, including Labrador and Alaska, as well as northern Canada, are rich in promise. Third, *technology* in laboratories and pilot plants is constantly developing methods for producing manganese, chromium, titanium and other metals from low-grade domestic ores. Fourth, *chemical* discoveries make possible the substitution of synthetic materials for natural mineral substances.

The crucial issue is the adequacy of iron and steel resources. Even here, however, the outlook is reassuring. First, the combined reserves of measured and indicated ore—containing as much as 50 per cent iron—are estimated as sufficient to last for 40 years at wartime rates of production. Second, considerable quantities of good ore, containing from 25 to 35 per cent iron, are available. Third, there are stupendous deposits of low-grade ores, called taconite, which require a different processing from high-grade ore. Recent developments indicate that such ores may soon be used on an economical basis. Fourth, iron ore recently discovered in the Labrador region is believed to rival that of the Lake Superior area.

Finally, other materials may be extensively used as substitutes for iron and steel. Cement, glass, and other earth materials are widely employed in the construction industry. Synthetic materials may be substituted for steel, especially in household equipment. Other metals, when combined with iron, produce alloys which greatly economize the use of the heavier metal—such alloys having a tensile strength much greater than that of ordinary structural steel. Another new factor is the development of electronic testing devices which make it possible to meet strength requirements using but a fraction of the structural steel formerly thought necessary.

Aluminum and magnesium have become very important substitutes for iron and steel in a wide range of uses. The supply of magnesium, which is virtually unlimited for many purposes, can be used as a substitute for aluminum. Thanks to new processes, aluminum production is no longer dependent upon high-grade bauxite; it is now possible to obtain aluminum from bauxitic and high-alumina clays, and this country possesses enormous quantities of such aluminiferous materials.

Titanium is now regarded as of great potential significance. Though the chemical element has long been known, it is only recently that methods have been developed for extracting the metal from sands and rock in usable amounts. It is said to combine in an extraordinary way the qualities of strength, lightness, and resistance to rust and heat. Titanium is found in widely scattered areas and the potential supply is enormous.

Fuel and Energy Resources

Another primary requirement for an industrial civilization is an abundance of fuel and energy resources, including water, coal, oil, gas, and the special elements used in the creation of atomic energy. The sources of electric power are superabundant. Reserves of coal once deemed inadequate are now found to be adequate for all probable requirements. The abundance of coal is of paramount significance because of the varying services which this mineral may perform. We think of it first and foremost as a raw, heat-producing fuel used in stoves and furnaces. But it is also employed in the production of other forms of fuel, notably gas, oil, and electricity. Moreover, it is one of the primary bases of synthetic chemistry.

Oil has two primary industrial uses, as a lubricant, and as fuel. The supply of oil for the future will depend upon three factors; (1) the extent of the oil resources; (2) the efficiency with which oil is extracted and used; and (3) the development of synthetic substitutes.

The supply of oil is being constantly increased, in effect, by technological developments in extracting, refining and utilization. New methods of extraction make possible great extensions of existing fields, both horizontally and vertically. Some of the greatest pools have been opened at a depth of four miles. Improved refining processes and conservation practices serve to increase the quantity and improve the quality of gasoline and other high-grade fuels. Improvements in engine design make a given amount of fuel go further.

Oil and gasoline are now also being made by synthetic processes from such materials as natural gas, coal, oil shales, and tar sands. Only a month ago it was announced that the experiments being conducted in Colorado by the U. S. Bureau of Mines has solved the problem of extracting oil from shale. It was stated that a single mass of marlestone shale covering 1,000 square miles in western Colorado contained 22 times more recoverable oil than the proved reserves of the entire United States. While it may well be some years before this can be extracted on a competitive basis technicians now regard this as a vast resource for the future.

When all these developments are taken into account, abundant supplies of oil and gasoline seem assured for many generations to come. The situation has been summed up by an eminent oil geologist, as follows:

"It may be argued that this process of multiplication must have limits and cannot proceed indefinitely, yet it is hazardous to set bounds to a force so dynamic, so rich in past accomplishment, and whose potency has been so enormously stimulated by the emphasis of the war upon technological progress. Conservation procedures, in turn, make possible the fuller application of the fruits of technology, guarding the benefits against the inroads of waste and intemperate development . . . . While the sources of oil are restricted by nature, the availability of oil is subject to almost indefinite extension under the impact of dynamic techniques."

Natural gas has also come to be a very important supplementary fuel, the significance of which is not yet fully appreciated. It is used as a substitute for oil and coal, both in households and in industrial activities, especially where intense heat is required. Since 1920 very large natural gas deposits have been discovered in conjunction with oil drilling operations. It should be noted that the deeper the level at which gas is discovered the greater is the quantity per cubic foot of space. Recent improvements in pipe lines have made it possible to transmit gas on an economical basis from the Southwest to either coast.

The United States thus still possesses the essential foundations for a vast further rise in living standards. Rich natural resources and continuing advances in the realm of science, technology, and business organization, could make the century ahead even richer than the extraordinary century which lies behind us. We have not as yet undermined the foundations of industrial progress. We have not reached an age of maturity, at which attrition and senility inevitably impend. On the contrary, this is still a blessed land—both in terms of physical resources and scientific and organizing genius.

Underlying Requirements

What are the requirements for the realization of our vast economic potentialities? That is, what policies are essential? The lessons of history and economic analysis suggest the following basic requirements.

First, we must give unceasing attention to the conservation of our natural endowments. The constructive efforts already being made in this direction must be strengthened in every possible way—by private as well as public policies.

Second, we must maintain a sound fiscal situation. Continuous government deficits will in due course inevitably sap the very vitals of the private enterprise system, destroying the essential stimuli or incentives to progress. On the supply side, the mounting tax load will progressively reduce the volume of equity money available for capital expansion. On the demand side, the incentive to risk capital in pioneering ventures will be undermined. And *when* expansion of private enterprise no longer suffices to furnish adequate employment the government feels impelled to take up the slack by expanding public enterprises. Since public enterprises are seldom self-supporting the fiscal situation is still further undermined.

Third, we must maintain a stable monetary unit. Time does not permit any elaboration of this point. It must suffice to say that history proves conclusively that without a sound currency system it is impossible for long to maintain a stable economic system or a stable fiscal situation. The monetary system and the fiscal system are closely interrelated and thus are interacting in their effects.

Fourth, increasing productivity constitutes the foundation for higher standards of living. That is, it is technological advancement which provides the increasing per capita supply of goods and services. Maximum increase in productivity necessitates: (1) a constant expansion of scientific research and engineering experimentation; (2) an ever broadening mechanization of every type of economic activity; (3) the rapid replacement of obsolete plant and equipment; (4) the further improvement of internal organization and management policies; and (5) the cooperation of labor.

I place especial stress upon labor performance because in recent years it has seriously limited the possibilities of higher standards of living. The fact appears to be that the efficiency gains from technological improvements have been offset in substantial measure by a persistent decrease in individual labor efficiency. If technological progress were matched by a corresponding improvement in labor performance, the rate of progress would be very greatly increased. To illustrate: a general increase of 20 per cent in output through better labor performance would mean something like a 40 billion dollar increase in American national income. Such an increase in output would make possible a simultaneous increase in wage rates, higher dividends, and lower prices to the consuming public. In turn, such an increase in real national income would gradually alleviate the very difficult fiscal problems with which we are confronted.

Fifth, business policy must promote a constantly broadening distribution of national purchasing power. That is, if markets are to be found for the products of an expanding industry the people whose needs are greatest must be able to buy the goods they desire. In short, the buying power of the consuming masses must move forward step by step with the producing power of our mass production industries. This requires a constant passing along of the benefits of technological progress to the consuming public. I emphasize this broadening distribution of income because it is the heart of the problem of business management. Unless the buying power of the masses, whose wants create markets, is progressively expanded business management will have to be content with a virtually static situation. There is scant future in trying to sell more goods to the shrinking rich and middle classes; and foreign outlets (net) will shrink as export subsidies decline and imports increase.

The problem thus stated is, however, not easy of solution—for it is complicated by the class, or group, conflicts of society, and therefore by political strategy and government policy.

Before the advent of labor organization wages were determined by demand and supply, and prices, with a few exceptions, were governed by competition; hence the free enterprise system was supposed automatically to reduce prices in line with costs and thus to broaden the buying power of the masses. Today labor power, with the support of government, is strong enough to garner *all* or more than all—of the benefits of technological progress through the medium of higher money wages. Thus the possibility of reducing prices is limited, and often destroyed.

What difference does it make whether the method of enhancing mass buying power is higher money wages or lower commodity prices? The difference, in fact, is vital, because the money wage increase method does not correspondingly generate increased demands and sustain employment.

It must be noted, first, that increases in productivity do not occur simultaneously throughout the economy. They occur in individual producing establishments at varying times and in differing degrees. The fact that productivity may be said to be increasing at a rate of 2 or 3 per cent a year does not mean that the increase is universal. It may be 5 or 6 per cent in some lines, negligible in others, and even declining in some sectors of the economy. Moreover, in any given industry it may be occurring in some plants and not in others. The analysis of the problem must, therefore, begin with the individual plant where an increase in efficiency occurs.

Let us assume that in a given manufacturing establishment productivity has increased by 10 per cent, and that in consequence the same volume of output can henceforth be produced with 1,000 fewer workers. The discharge of 1,000 workers no longer needed would mean a pay-roll saving of say, $1,000,000 a year. By hypothesis this sum is added to the wages of those remaining in employment. Would this process generate a general increase in purchasing power?

The arithmetic is that a plus one million in purchasing power (in the hands of the employed laborers) is exactly offset by a minus million of purchasing power (in the hands of the discharged laborers). The increasing productivity thus furnishes no net addition to the national purchasing power. It will be noted also that the money costs of production are not lowered, since the economies resulting from the decrease in labor are completely absorbed in raising the wages of those who continue to be employed. Since total purchasing power is not increased, no new employment either in this industry or in other industries has been generated as a result of the increase in productive efficiency.

In summary, this process results as follows: (1) Total wage disbursements remain unchanged; (2) prices remain unchanged; (3) the volume of output remains stationary; (4) the national income remains unchanged; and (5) the volume of employment decreases. All that has happened is that employed labor has gained at the expense of those displaced. No direct stimulus to employment either in this or other industries would thus be given.

Wage Increases vs. Price Reductions

Where wage agreements are consummated on an industrywide basis and horizontal increases are called for, the process is further complicated. There are wide variations in the efficiency status of individual plants, and the more efficient may be able to pay the added wages, while the less efficient cannot. When this is the case, prices are of necessity raised to protect the profit margins of the higher-cost producers.

The complications are of course still greater when the wage increases in industry A become the more or less enforced pattern for general increases throughout all industry. The inevitable result is a general rise in prices which, in turn, leads to demands for compensating wage increases. Moreover, under the farm parity principle the rise in industrial prices must be matched by a corresponding increase in the prices of agricultural products. The ultimate result of this distortion is to weaken the income position of unorganized workers, of salaried professional classes, and of those living on fixed incomes. These groups, who comprise many millions of people, suffer a positive reduction in real income.

In contrast, the price reduction method generates a general expansion of demand. Starting with the same assumptions as above with respect to the increase in efficiency and the saving of labor power, the million dollars of savings would permit a reduction in the price of the commodity being produced. Thus *inducement* is offered to consumers to buy more of this company's product, the lowering of the price being a *positive* measure calculated to bring an immediate stimulus to demand — thereby tending to sustain employment.

It is possible that the demand for the product of the particular industry in which the increased productivity had occurred might not be sufficiently stimulated by the price decline to call forth an additional increase in output sufficient to maintain employment in that industry. It will be noted, however, that if all the increased purchasing power were not spent for the products of this industry it would be available for purchasing other commodities, stimulating employment elsewhere. Thus in either case the total demand would *tend* to be maintained, thereby preventing displacement of labor.

To guard against misunderstanding, it should be emphasized that in a complex industrial society the process which we have been describing cannot be expected to work with automatic precision. A reduction in price may not always bring an immediate stimulus to demand either in the particular industry or elsewhere. Adverse factors in the general business situation may complicate the problem. There can be no doubt, however, that the *positive inducement* which the price reduction method offers to consumers generally is a direct and immediate stimulus to increased output.

The price reduction method of passing along the benefits of technological progress serves to disseminate the gains to society as a whole. Through the play of market demand, it helps to maintain a flexible economy, responsive to the wants of the masses. It promotes a balanced society, and reduces class and group conflict. The social benefits can, of course, be fully realized only when the practice is followed in all sectors of the economy — in agriculture, transportation, and trade, as well as in manufacturing, mining, and public utilities.

Granted that the foregoing analysis is sound as a matter of logic, it may still be contended that some place must be given to money-wage increases. Since the worker in any given establishment may consume little or none of its product, a price reduction appears of no value to him. What he desires is more dollars with which to buy more of whatever goods or services he may desire. In view of this readily understandable psychology, if wage rates were never increased, there would be a dulling of labor incentive, and some of the potential reductions in costs would not be realized. For these reasons both methods have a place. A compromise has to be worked out by each individual business enterprise through discussions and negotiations with its own workers.

Sharing company profits offers another means of increasing labor income. A share in profits resembles wages in that it is received in the form of money income. Since it is contingent upon earnings, it cannot be counted on for sure and can only be paid periodically. It has an advantage over wage increases in that the supplementary payments do not become a part of the cost and price structure.

Profit-sharing schemes of various kinds have long been employed by numerous companies, and on the whole with satisfactory results. The idea has been, however strongly opposed by labor leaders and also by prominent industrialists. The opposition of labor leaders appears to be based, first, on the fact that the role and prestige of the labor leader is greatest when he can claim credit for obtaining increases in the weekly pay check, and, second, on the knowledge that profit-sharing plans tend to draw employers and employees closer together and to emphasize the mutuality of interests. Another ob-

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jection is that a share in profits is uncertain at best and may be made an excuse for never granting wage increases. On the other hand, a wage-rate increase becomes a definite contractual obligation which can be counted on.

The opposition of employers is based on a simple principle. It is contended that exceptional profits are due to exceptional management; and since the contribution of labor is no greater in the exceptional plant than in the ordinary or marginal plant, labor is not entitled to a share. All companies should pay the market rate of wages, but should not be expected to give to labor a share in the gains that are directly attributable to management. In the writer's view this conception fails to take account of one significant phase of the problem. Experience suggests that the incentives which profit sharing provides for the workers may make possible the procurement of superior workmen, a reduction in rate of turnover, and an improvement in industrial relations generally.

Government and Business Enterprise

We come now to the third source of concern with respect to our economic future, namely, the ever expanding scope of government control over private enterprise. Since World War I, and especially since 1930, both in the United States and other countries, the scope and range of government intervention in economic life has enormously expanded. This development is in large part directed toward the prevention of business depressions, but it also embodies, very definitely, the conception that the government can plan and promote long-term economic development and achieve our national goals far better than can a system of private enterprise.

The control measures of the Roosevelt administration did not strike directly at the basic principles of private enterprise. The advantages of competition were emphasized. Consumer choices in free markets and the price and profit mechanism were in the main relied upon to guide the allocation of productive energies. The goals were the curbing of monopolistic and other alleged abuses of large-scale business, the supplementation of private by public enterprise in neglected fields, the promotion of permanent prosperity by raising the incomes of the masses and lowering the incomes of the classes, and the control of the business cycle by means of fiscal and monetary policies.

In numerous ways, however, this government program did come into conflict with the private enterprise system. The mechanism hitherto relied upon for allocating productive activity was profoundly affected in some sectors of the economy by government price regulation. In transportation and electric utilities, maximum prices had long been subject to control with a view to protecting *consumers*. But in the thirties *minimum* price floors were established for the protection of producers in agriculture and the bituminous coal industries. Prices for most important farm products were not allowed to fall below certain levels; and hence oversupply could no longer be corrected by declining prices. The sick bituminous coal industry—subject to increasing competition from other fuels—was propped up by minimum prices, adjusted upward as wages advanced. The competitive position of coal in relation to other forms of fuel was further weakened by this process.

More far-reaching in its effects upon the economy as a whole was the policy pursued by the government with respect to labor. In its desire to raise wage rates, the government sought to strengthen the bargaining position of labor, in what had too often been a one-sided contest, by encouraging the organization of labor on an industry-wide basis. The outcome in numerous industries was the creation of virtual labor monopolies. With labor in a position to shut down whole industries producing essential commodities or services, the quick settlement of wage controversies was imperative in the public interest. Wage negotiations were thus transferred from individual companies—first to the industry as a whole and thence to the realm of national politics.

The Truman administration inherited a vast control mechanism that had been developed to meet the requirements of war. Many of these were retained for a year or more after the war—until public opinion and difficulties of enforcement combined to force their abandonment. Repeatedly, however, the Administration has asked for the power to restore them in order to prevent both inflation and deflation and to preserve economic stability. Finally, in 1949 the conception of the government's responsibility was extended to include, when deemed necessary by the President, direct participation in industrial enterprise through building plants and engaging in production.

This conception found expression in the Spence bill, strongly backed by the Administration and by two members of the President's Council of Economic Advisers. In the words of John D. Clark, in interpreting the President's conception to the joint Committee of Congress:

"Encouragement of productive capacity is so essential to continued maximum employment and production that neither the concealed dangers in any given plan nor the required scope of government intervention should prevent action which will be effective. The President has shown how earnestly he seeks effective action by declaring that if it comes to the point where the people cannot be furnished goods which they need in any other way, and it is possible for them to secure them by having the government itself become a producer, he is not afraid to take that final step."

The bill would vest in the President of the United States the power to formulate national production requirements in line with his conceptions as to what is necessary for the people's welfare. The President shall "determine approximately the quantity goals to which it is necessary and feasible to increase the supply within a specified reasonable period of time." He may contract with private industry, research laboratories, and scientific or educational institutions for research or development related to the improved utilization of designated materials or facilities, on such terms and conditions as the President deems necessary. He may make loans to private industry (particularly small or independent enterprises) or to state and local governments for the expansion of capacity and production—on such terms and conditions as the President deems necessary. And whenever the President finds that a person who has received financial assistance is unable because of unfavorable nation-wide economic conditions to pay current interest on, or repay the principal of, the loan such payments may be reduced or deferred in whole or in part. Finally, the President may also contract with private companies to construct new plants or expand or rehabilitate existing plant facilities and enter into contracts with private individuals for the operation of such plants. To this end the President is authorized to acquire real and other property, as he deems necessary.

While the Act does not expressly authorize the government to construct and operate the plants itself, it may reasonably be assumed that if private enterprise proved reluctant (recalcitrant would presumably be the word) the President, according to Adviser John D. Clark, "is not afraid to take the final step" and become a producer.

This program, I repeat, is designed not merely to prevent periodic business recessions. It is based on the conception that unless the state proceeds along the lines indicated we shall have continuous industrial stagnation.

This program in its conception goes far beyond anything heretofore suggested. It is potentially more far-reaching in the scope of its influence than the mere socialization of selected key industries. It is essentially totalitarian, since it embodies a master plan in which the state determines the allocation of productive resources, in line with what the government conceives to be required. It would inevitably result in the elimination of the guidance of economic activity afforded by consumer demands as expressed in the market places and substitute therefor the judgments of government officials as to what the people need and can have.

I lay emphasis upon the totalitarian character of this program for two reasons: First, because once embarked upon a plan under which the government decides what kinds of products the people want, and then underwrites or directly carries out the production thereof, the end of private enterprise system will be at hand. Second, because those who advance this measure contend that they are committed to the principle of private enterprise and opposed to both socialism and communism. Whether this official attitude is disingenuous or merely naive is immaterial. The result will be the same.

Gold and Monetary Problem in 1949

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ments, let us first review the present status of gold as money.

The principal factors in the present gold situation are found in the attitudes of England, the International Monetary Fund, and the United States.

England's Gold Policy

After England was forced off gold in 1931, any immediate return seemed practically impossible. True, the British Empire then produced over 60% of all new gold mined, but it came from South Africa, Canada, Australia and the Colonies. Great Britain herself had to buy such gold just as much as if it originated in any other nation. The influential and famous English economist, the late Lord Keynes, was frank in expressing his own belief that gold had become obsolete and no longer necessary as money. But complete abandonment of gold was not politically feasible because of the Empire production and because the English people, like mankind at large, have supreme confidence in the value and ultimate desirability of a return to the former type of gold standard.

London had long been the financial center of the world, which was accustomed to look to English management of money as the acme of financial wisdom. Also, the world had very great confidence in fundamental English financial honesty, as well as financial "knowhow." Englis thought entertained the hope that this reputation might lead to the continuation of the pound sterling as the leading world currency, with only a slight and alternative use of gold, until later the old type of gold standard might again become possible or gold be entirely abandoned, as Lord Keynes suggested.

Essentially, the plan was to continue and still further to strengthen Empire Preference and in addition to make bilateral trade agreements with other nations, governing exchange rates but using the pound sterling as the key currency. Gold was not actually required, but would be accepted as the equivalent of the pound at the going price paid by the United States—$35 an ounce.

This English policy, perhaps from necessity as much as from choice, remains in effect today. The New York "Times" of Sept. 10, 1949, reports Sir Stafford Cripps, Chancellor of the Exchequer, to have described the situation as follows:

"Tracing the historic development of the sterling bloc of nations who found it to their mutual advantage to base their currencies on sterling and hold their reserves in the same currency, Sir Stafford said it had grown today to the largest multilateral trading area in the world, embracing a quarter of the world's population."

International Monetary Fund Gold Policy

The Bretton Woods conference was held before World War II ended. Lord Keynes headed the British delegation. While the final result was greatly influenced by the views of the United States, the Bretton Woods plan did embrace much of the English attitude in regard to gold. Rates of international money exchange are supervised by the International Monetary Fund. Gold is required only to a very slight extent. The United States dollar, or its equivalent in gold at $35 an ounce, is the principal money unit. Each country suggested, in the first instance, its own rate of exchange. Other details need not here be described. Open market exchange rates have varied almost always from the Fund's official rates and the latter have in many instances served to complicate rather than to aid international trade and financial transactions.

When the International Monetary Fund began to operate, there was a free market for gold except in the United States, where ownership of gold, except in fabricated form such as jewelry, and so-called "natural gold," which is very small in amount, has been prohibited by law since 1933. But gold content of ores and concentrates brought into the United States from foreign countries for smelting and/or refining could be resold abroad. In the free market, gold was commanding a premium very substantially above the $35 level. About the middle of 1947, the International Monetary Fund concluded that an outside price above the $35 level was inimical to its own operation and requested all member countries to restrict and prevent sales of gold at more than the $35 level. Accordingly, the United States Treasury Department and the Federal Reserve requested all banks, American individuals and business enterprises to refrain from encouraging and facilitating traffic in premium price gold and in particular to refrain from extending the use of their facilities and funds for the carrying out of such transactions. Later, in November, 1947, the United States further conformed to this request by exercising Treasury control over exports under wartime laws and prohibited further re-export of gold brought into the United States after Nov. 24, 1947, by refusing to grant export licenses if an individual or a corporation in the United States participated in the sale of gold. Other nations, members of the Fund, also complied with the Fund's request.

As a result, the gold previously sold elsewhere came to the United States as practically the sole remaining governmental buyer. For several years, United States holdings of gold had remained substantially constant in the $20 billion bracket, as shown by the following table.

U. S. Gold Holdings

As of	Ounces	Dollars
Jan. 1, 1945	589,106,766.0	$20,618,736,710.04
Jan. 1, 1946	573,281,235.4	20,064,843,237.30
Jan. 1, 1947	586,538,499.1	20,528,847,466.97
Jan. 1, 1948	650,107,101.4	22,753,748,547.47

But after compliance with the Fund's request, the amount rapidly increased.

On Nov. 16, 1949, the United States gold holding was	700,861,002.4 oz.	$24,530,135,083
On Jan. 1, 1947, it was	586,538,499.1 "	20,528,847,467
Increase	114,322,503.3 oz.	$4,001,287,616

This gain, in slightly less than three years, of over $4 billion since compliance with the Fund's request (1) is more than five years' total amount of new mine production, which was less than $800 million in each year; (2) is over 10% of total monetary gold of $35 billion; and (3) would, if continued at that rate, result, in about 10 years' time, in the United States owning all the monetary gold in the world. Its present policy is obviously steadily making the United States more and more the only nation that can determine the future of gold as money.

Present Gold Policy of the United States

This is succinctly and clearly expressed in the letter dated May 4, 1949, of the Acting Secretary of the Treasury to the Senate Banking and Currency Committee, set forth in Exhibit "A", pp. 28-32.

The following quotations give the general principles:

"We believe that the United States should continue to follow the principle that the most important use of gold is for the domestic and international monetary functions of the government and that gold should not be held by private individuals as a store of wealth. . . .

"Since the gold dollar contains one thirty-fifth of an ounce of gold, this means that the Treasury should maintain the price of gold at $35 an ounce in legal gold markets in the United States. Therefore, the Treasury would hardly have any alternative if the proposed bills were enacted other than to sell gold to the extent necessary to maintain the market price at $35 an ounce. . . .

"The Treasury believes it to be of the highest monetary importance to the United States that it continue to sell gold to foreign governments and central banks at $35 an ounce whenever the balance of international payments turns in their favor and they ask for settlement in gold. To refuse to make such sales at $35 would be equivalent to a devaluation of the dollar and an abandonment of our adherence to a gold standard. . . ."

The type of gold standard outlined by the Treasury is often called the International Gold Bullion Standard. It was first suggested as a means of overcoming the shortage of physical gold. It also weakens the brake (later discussed) on deficit spending exercised by the former convertible type of gold standard.

Objections to the International Gold Bullion Standard

The International Gold Bullion Standard utterly fails to provide that protection for the individual citizen which is the ultimate basis for mankind's belief and confidence in gold.

Since gold coinage began, the Roman Empire rose and fell. Many other nations, once powerful and prosperous no longer exist. This century has seen the paper moneys of Czarist Russia, the Germany of the Kaisers, the old Austrian Empire, and China become utterly worthless.

But the gold content of the coins of all nations, whether the nations now exist or not, still retains its value.

France for centuries has been a great and leading nation economically, culturally and intellectually. In 1914, the franc was worth 19.3 cents in gold or U. S. money. 107.1 francs would buy an ounce of gold at $20.67. Today, after devaluation, the franc is officially equal to $.0028. If 107.1 francs were invested in gold in 1914, it today would be worth $35, and the gold if sold, as it could be. for dollars at that price, would buy 12.500 present francs. But 107.1 paper francs kept since 1914 and then worth $20.67 in U. S. money, today are worth only 30 cents.

The experience of over 2,000 years has, as it were, burned into mankind a universal belief that gold money preserves its value, and so protects the individual owner, through wars, conquests, revolutions, insolvency because of governmental overexpenditure—in short, all the misfortunes that can happen to governments.

Why destroy this age-old protection to the individual citizen?

Why not preserve and retain it since it is possible to do so?

One wonders whether mankind will preserve its present opinion of gold if gold coinage is abandoned and the individual loses gold protection against the vicissitudes of government.

Gold is attractive ornamentally but its appearance can be readily copied. For utility purposes, unlike silver, it has very little value. Its monetary use, protecting the individual, is the real basis of the value and existing confidence in gold. If nations alone possess it and use it solely to settle international trade balances, individual men, slowly perhaps over two or three generations, may lose their high opinion of its value and so weaken, perhaps destroy, its further usefulness, even for the type of gold standard described by the Treasury. The United States then would lose the value of its gold holdings.

Most important of all objections is the fact that abandonment of coinage removes the greatest protion against excessive deficit financing of expenditures. The individual can no longer start to convert paper money into gold when such financing begins and the future purchasing power of his nation's paper currency is threatened, thus flashing a red light warning to stop. The present type of gold standard gives little or no stimulus to the balancing of budgets.

The restraining influence on overexpenditures exercised by a coinage and convertibility type of gold standard is shown in the history of the last seventy years. In democratic governments the party in power is always confronted by the demands of pressure groups, each calling for government expenditure for its benefit. When such demands can only be met by increased taxation, the party in power must either raise taxes or deny the expenditure.

But when deficit financing can be resorted to without great opposition, it becomes possible to grant the demands of pressure groups without raising taxes. The political temptation to do so becomes too strong to resist. Pressure groups are granted expenditures to be paid for by increasing bond issues or other borrowings. Many, perhaps a majority, of the voters do not realize the ultimate effects of excessive deficit financing and those that do are powerless to act concretely and can only talk and write about it—a process that has but little actual effect.

From 1879, when the United States resumed specie payments, down to the ending of gold coinage and convertibility of paper money into gold in 1933, the United States budget was seldom out of balance and then only for short periods and in relatively small amounts. Also, the debt of the Civil War was paid off.

But since 1934 to date the budget has rarely been in balance. Deficit financing has been the usual rule. If the period of the war is eliminated (as it should be), we still have the eight years before the war and two of the four years since Japan surrendered, in which deficit financing has been prevalent and is today more ominous than ever.

Nor is this the experience of the United States alone. The same general story is true of England, France, Italy and the democratic nations of the Western Hemisphere.

Coinage and convertibility of paper into gold have been shown by the actual experience of democratic nations to be the only force that seems to be able to restrain unbalanced budgets and excessive deficit financing.

Without such support, no party in any democratic country seems able long to resist the temptation to please pressure groups by granting their demands.

But with coinage and convertibility, those conscious of the dangers of excessive deficit financing quickly manifest their disapproval by converting paper money into gold. Such action speedily attracts the attention of many others who begin to do likewise. Conversion soon becomes so general as to cause great national alarm, felt by most voters, and so forces whatever party is in power to stop excessive deficit financing.

The above does not mean that deficit financing should never occur. Obviously it must in times of war. Even in peace times it is occasionally unavoidable.

But it does mean that the costs of new undertakings and increases in old lines of expenditures should be met by increased taxation or should not be adopted. Deficit financing should only be used for temporary emergencies. Coinage and convertibility are shown by experience to have the effect of restraining deficit financing within proper limits.

Let us now turn to the problems involved in following the English precedent of the nineteenth century.

Amount of Physical Gold in Ounces

A fundamentally important fact in considering any type of gold standard is the actual amount of physical gold available for monetary purposes.

The exact amount is not known, but the best information is that in round numbers (sufficiently accurate for present discussion), the total amount of gold in the world is about 1½ billion ounces. Of this, about one-third is in a fabricated form whose artistic, religious or historic value exceeds that of the gold content. There is left about one billion ounces usable for monetary purposes. At $35 an ounce, this billion ounces is worth $35 billion. Of this amount, the United States owns about 70%, or about 24½ billion in terms of dollars, and 700,000,000 in terms of ounces.

The actual physical quantity of gold in existence, in terms of ounces, cannot be increased by any act of government. The only way that amount can be increased for monetary purposes is by increasing the price. The quantity of gold at $10 an ounce for money purposes becomes automatically doubled by increasing the price to $20. An increase in price also tends to increase new mine production.

Changing the Price of Gold

It is absurd to think that any specific price can last forever unchanged under all future world conditions that may exist. Any price is not a physical standard of measurement, like the yard or quart. These are abstract measurements of a quantity regardless of its price. But gold is concrete. It represents the cost of labor and supplies in its production. Such costs frequently change. It is probable that no new gold would be mined today at the former $20.67 price except such as is a by-product in the mining of other metals. World conditions will inevitably affect the price of gold in the future as in the past. The best that can be done in making a pegged price is to select one that will meet present conditions and will last in the future as far as mere man can foresee.

To resume at $35, only in a short time to find the quantity of physical gold insufficient at that level, would be most unfortunate, since it would simply repeat the experience of 1931-1933 and again throw monetary systems into chaos more than ever. Also, present United States holdings would have become greatly depleted and scattered. Any future rise would not inure so exclusively to the government but to the then holders of gold now owned by the United States.

If any increase in price is to become necessary, it should be made when, and only when, coinage and convertibility are again resumed and should be large enough to insure a continuance of the same price level for a long time to come. To resume specie payments at a price which leads to the early exhaustion of our vast gold stocks will only serve to discredit gold as the monetary standard and strengthen the hands of those who wish to perpetuate a fiat paper money standard.

Amount of Money to Be Backed by Gold

The total supply of money to be backed by gold is an important element in determining price. It must not be greater than can be supported by the value of available gold at the fixed price.

No one contemplates the use of gold and silver alone for currency. Paper money and bank deposits are more convenient—in fact, necessary — and can be used in proper amounts if adequately backed by gold.

If one feels certain he can get gold in exchange for paper money or bank deposits if he wants it, he seldom asks for it, for gold is heavy and bulky to carry in the pocket, and in sizable amounts must be kept in a safe or safety deposit box.

This faith in money applies only when the total supply is limited and the individual is sure that he can always get gold on demand. History proves beyond all question that confidence in the currency depends on the willingness of the government to pay gold on demand.

A bank depositor similarly rarely calls for much cash as long as he feels he can get it if he wants to do so.

The United States has outstanding in 1949 over four times the paper currency outstanding in 1938. Almost all other nations have increased outstanding paper issues, some to an even greater extent. The amount of gold necessary for its backing is correspondingly increased.

The holding by all other nations of only 30% of total monetary gold requires that in order for them to return to a gold standard of the nineteenth century type, the United States must take action that will make its own holding serve to assist other nations in their return to gold. This does not mean that the United States must give or loan its gold to other nations. Resumption of coinage and convertibility would cause United States gold to flow to other nations. Large amounts of American paper money are held in other countries. Resumption of coinage and convertibility by the United States would bring much of this money home to be redeemed for gold. This would reduce the outstanding quantity of paper currency and redistribute some of our huge stock of gold. It would greatly strengthen the American dollar.

Per Cent of Gold Backing Necessary

The United States now requires a gold backing equal in value to not less than 25% of the outstanding paper money it supports. Until a few years ago, 40% was required. Fixing the per cent is difficult and involves some forecast of future developments. Conversion demand, and so the amount necessary to make the legal price effective, may vary greatly from time to time.

If the national budget is in balance, the 25% now required in the United States is adequate. But at other times, doubt as to a nation's money may cause a flight to gold in excess of the 25% backing.

The situation is similar to the problem of commercial banks as to the amount of actual cash they should carry to meet demands of depositors. In normal times it need be only a relatively small percentage. But in times of financial panic, or of doubt of a bank's solvency, a "run" may start and very much greater amounts of cash become necessary.

Does the $35 Price Afford Sufficient Physical Gold for a Convertible Gold Standard?

The Economists' National Committee on Monetary Policy and the Gold Standard League evidently answer this question affirmatively since they urge immediate resumption by the United States of coinage and convertibility without a change of price. They base their reasoning on the fact that the ratio of gold reserves to paper dollars, bank deposits and Federal debt is higher today than before the United States stopped further convertibility and prohibited gold ownership by its citizens, except in fabricated form.

But in those years there was no such fear of the future buying power of the United States dollar as exists today, not to mention as great or greater fear in many other countries of the future buying power of their respective currencies.

Also, there is a widespread belief, especially in European countries, that a rise in the price of gold will ultimately occur.

If gold coinage and convertibility are resumed at the $35 price level, there would be two strong incentives (neither of which was present in former days) to convert money into gold:

(1) The owner would then have just as many United States dollars and in addition the stable value of their gold content. Conversion into gold would be a hedge against future depreciation of the purchasing power of the paper dollar.

It would be unwise to ignore the presence of formidable forces—absent on other occasions—which today would induce a widespread conversion of paper money, bank deposits and government bonds into gold.

(2) The speculative chance of a future rise above the $35 price would induce extensive conversion. The speculator can't lose and might win. If the price does not rise, he still would have his money intact in number of dollars, and the benefit mentioned in (1) above. This speculative factor would be weakened by a rise in the price before coinage and convertibility are resumed. The important fact to bear in mind here is that gold should have an official fixed value in terms of dollars which will make possible an early resumption of gold coinage without jeopardizing unduly our gold stocks.

Two such powerful inducements to convert money into gold will quite certainly lead to extensive conversion.

The Acting Secretary of the Treasury said, in his letter of May 4, 1949:

"Even our $24 billion of gold holdings would be completely inadequate to meet a serious run on gold from the $27 billion of United States currency in circulation, over $140 billion of bank deposits, and scores of billions of dollars of government securities, not to mention other relatively liquid assets. Conversion of around 5% or 6% of these government and bank obligations would be enough to bring the Federal Reserve banks below their legal minimum gold reserve."

This is a considered opinion of the Treasury officially communicated to a United States Senate Committee.

But an increase of the price of gold could be made which quite certainly would prove adequate to meet conversion demand. **The real problem is to determine what that adequate price should be.**

When the United States raised the price of gold from $20.67 to $35, it raised the total value of all world monetary gold from a scant $20 billion to $35 billion.

Also, the rise in price greatly increased mine production since it made ore, unprofitable at $20.67 for gold, profitable at $35. Mine production in 1932 was 24 million ounces, worth at $20 an ounce, $480 million. The higher price gradually increased production until it reached its maximum of over 40 million ounces in 1940, worth at the $35 price over $1.4 billion.

These two additions to the gold supply have been offset by three recent developments: (1) the tremendous increase in paper money outstanding, bank credit subject to draft, and a huge total of government debt which in many areas, as in this country, can be monetized; (2) the increase in the general price level; (3) the decrease in new mine production. Costs of labor and supplies have so greatly increased as to make the mining of much ore no longer possible. Production fell from 40 million ounces, worth at $35 an ounce over $1.4 billion, in 1940 to a production in 1948 of about 22 million ounces, worth about $770 million.

At the present rate, world population is estimated to be increasing at about 1% per year, which would be over 50% in 50 years. A corresponding increase of world trade should follow. An increased volume of money will automatically be necessary. We should adopt a price that can be held for generations to come and at the same time insure adequate annual increments to our monetary gold stocks from mine production.

The Gold Delegation of the Financial Committee of the League

(Continued on page 34)

Gold and Monetary Problem in 1949

(Continued from page 33)

of Nations issued an Interim Report in 1930, in which it said:

"The demand for currency is naturally dependent upon the volume of production and trade and on the monetary transactions to which such trade gives rise. The demand for gold which forms the basis of currency in all gold-using countries will, in the absence of any important changes in currency systems, be determined by the same factors. We may reasonably expect, therefore, that the future requirements of gold . . . will tend to increase as production and trade expand. No direct measurement of the rate at which production and trade in gold-using countries of the world is increasing . . . can be made. But certain estimates exist which suggest that the normal rate of growth in the latter half of the 19th century and the early years of the 20th was about 3% per annum. . . . **The supply of new gold available for monetary purposes will be inadequate by 1934 unless measures to alleviate the situation are adopted in time. . . ." (Bold face added)**

How quickly the Gold Delegation's fears of the insuffiicency of gold were realized was evidenced by the events which took place in 1931.

Silver as Aid to Gold

Bimetallism was an attempt to use a dual standard. It established a legal fixed ratio for both gold and silver. The free market for the two metals rarely agreed with the official ratio. The result was that the metal which was overpriced at the mint (in comparison with its market price) was brought in for coinage, while the other metal, under Gresham's law, found the melting pot and was sold in the open market for a price greater than its monetary value. The Coinage Act of 1792 established the ratio between the two metals at 15 to 1, which at that time was the approximate market ratio. It soon changed, with the market ratio approaching 15½ to 1 before the end of the century. Gold coins disappeared from circulation. The act of 1834 established an approximate ratio of 16 to 1, which undervalued silver at the mint, with the result that silver coins disappeared from circulation. Later, the reverse took place and silver became overvalued.

It was this alteration in the standard, plus the powerful example of Great Britain on a single gold standard, which finally induced the major portion of the world to adopt the single monetary base of gold. Inherently, silver is just as capable of serving as a monetary medium as gold. Where it has been used as such a standard, it has turned in a monetary record infinitely better than that of fiat paper money. The great monetary error of the last century was the failure to use gold and silver jointly as the standard. This could have been accomplished by fixing the price of silver in the same way the price of gold was fixed.

Silver meets better the needs of Asiatic and other nations whose wage level is low, where banks are few, and saving is in too small amount to be handled satisfactorily by gold. They demand coins equivalent in value to from 10¢ to $1.

The volume of silver available for monetary purposes is less than eight billion ounces. If its price were fixed at $1, it would be equivalent to adding a scant $8 billion to the gold supply which would be available in place of that much gold. The United States has about one-half the monetary silver, including all classes — free silver, subsidiary coinage, that held to redeem silver certificates and that due it on lend-lease.

Rise in Price of Gold Not Inflationary

Much has been said and written to the effect that a rise in the price of gold means a devaluation of the United States dollar, with the resultant effect that prices of all commodities and of labor would correspondingly rise.

This could only occur if the United States used the so-called "profit" arising from the increased price in meeting deficits between expenditures and tax receipts.

Such a procedure is highly undesirable, much less necessary. It was not followed in 1934. The so-called "profit" was carefully protected. The rise in the price of gold to $35 an ounce was a distinct disappointment at the time, so far as raising commodity prices was concerned. The great rise in labor costs and commodity prices occurred when the European war broke out. It was comparable to rises during other great wars and would have occurred if the gold price had not been increased to $35. Such rises are the result largely of the enormous amount of money placed in circulation in carrying on a war.

If the price of gold is again raised, the so-called "profit" should be held intact to provide certainly a sufficient fund to bear the possible demand for gold following convertibility.

It should not be used to support the International Monetary Fund or any other device designed to support the exchangeability of any other currency.

The price should not be raised except with a simultaneous resumption of coinage and convertibility.

Coinage and convertibility will probably cause the United States to lose gold, since paper dollars now hoarded abroad will be converted. But at times gold may come to the United States in quantities, having the effect of greatly increasing the reserves of commercial banks. This could be offset by sale of government bonds from portfolios of Federal Reserve banks, as it has been in the past. It also could be avoided by a provision that the Federal authorities now controlling reserves should also have the power to declare, in their discretion, that at times such gold sold by banks to the Federal Reserve should be a mere credit, but not a reserve credit.

No ill results followed the rise from $20.67 to $35. It did abbrogate contracts specifying payment of obligations in dollars of the former standard of weight and fineness, but a similar problem would not occur if there were to be a rise in the price of gold at the the present time. Otherwise, no disturbance of business or other evil results followed.

There was no inflation, for the United States did not place more money in circulation because of the increased value of its holdings of gold. Nor need it to do so on a further rise in price.

Such a rise is only a means of increasing the physical gold supply to the amount necessary for modern conditions.

It is not dollar devaluation in terms of real buying power.

It is gold revaluation, to provide the increase of physical gold necessary to permit of resumption of coinage and convertibility. It performs the same function in protecting our gold stocks as rises in the discount rate under classical central bank policy.

The present $35 price of gold has borne no relation to the purchasing power of the dollar. That price has been in effect since 1934. But the purchasing power of the dollar has in the meantime fallen about a half of former purchasing power.

The alternative is for the United States, as the only nation that can do so, to return to the nineteenth century type of gold standard of both coinage and convertibility of paper money into gold.

If it decides on the latter type, the only remaining question is—What should be the future fixed legal price of gold?

The question should be nonpartisan politically and is one that should be treated solely from a disinterested, patriotic standpoint of what is best, not only for the United States but for the world at large.

If Congress feels certain there is sufficient gold at the present $35 level, it should at once resume, at that price, coinage and convertibility by United States citizens, as well as all others.

If Congress agrees (as does this writer) with the Treasury on the insufficiency of gold at the $35 level, then it should consider some higher price of gold at which to resume coinage and convertibility by United States citizens, as well as all others. The gold content of the dollar would be also appropriately changed. In view of the former rise from $20.67 to $35, a $50 level naturally suggests itself. The following facts merit special attention:

(1) Such a price would increase United States holdings by about $10,500,000,000, or from $24½ billion, in terms of dollars, to $35 billion. This would seem to be quite certainly a sufficent reserve to resume coinage and convertibility, since there are many students of this subject who argue that already the United States has sufficient gold at the $35 level.

(2) The general level of commodity prices has risen over 100% since 1934, while the price of gold has remained stationary. $50 for gold today, as compared to $35 in 1934, is an increase of less than 50%, which would be $52.50.

(3) Percentagewise, a rise from $35 to $50 would be substantially less than a rise from $20.67 to $35.

(4) A rise to $50 would enable new mine production in the United States and elsewhere to rebound to the levels of 1940, and so assure sufficient gold for future increases of population and consequent increased trade.

(5) An increase of $15 an ounce would increase the value of the gold holdings of other nations by 43%, or about $4 billion, and so would strengthen their currencies.

Such an increase would add 43% to the value of yearly mine production and would probably mean a return to the production rate of 1940, the maximum of all time. On that basis, the gold production of the world, excluding Russia and satellites, would be about 1¾ billion per year, divided about as follows:

Australia	$107,000,000
Canada	266,000,000
British Africa	802,500,000
Total British	1,175,500,000
Mexico	41,600,000
Cent. and S. America	108,000,000
United States	300,000,000
	1,625,100,000
Rest of world outside Russia	150,000,000
	$1,775,100,000

Obviously, the dollar shortage of many countries would be greatly diminished. Shares of British African mines are largely held in England. England can get South African gold for merchandise or sterling and sell it for dollars. These factors would greatly reduce England's dollar shortage. The relief of dollar shortage to Australia and Canada would be great and Latin America would have its dollar problem substantially relieved, especially Mexico, Colombia, Nicaragua, Brazil, Chile and Peru.

All told, the relief of dollar shortage would be well over $1 billion per annum.

(6) Fears have been expressed that an increase in the price of gold would nullify the recent currency devaluations by some 30 nations of about 30%. All these nations own gold, which at $50 an ounce would be increased in value 43%. This would be a substantial offset.

Many foreign currencies' parities are expressed in the first instance in terms of the United States dollar and only in the second instance in terms of gold. In these cases, the increase in the official price of gold in the United States would automatically bring about an increase in other countries. Under such conditions the rates of exchange between the United States dollar and the currencies of the other principal countries of the world would be unchanged by a rise in the price of gold.

Those countries whose currencies are defined in gold, can readily adopt the United States revaluation of the gold price and thus retain the present rate of exchange.

The feared nullification of devaluations would be doubtful of occurring at all, and if any does occur, should be limited to but few countries.

(7) A $50 price would settle at once all doubt as to future price changes and so would enable the world at large to adjust exchanges to such price without further uncertainty and delay.

If, however, Congress feels doubt as to what the price should be, then it should take steps to ascertain the proper price which would supply an adequate amount of gold and resume coinage and convertibility at that level.

Conclusion

To continue the present so-called International Gold Bullion Standard means disregarding the experience of the past and refusing to return to that type which for over one hundred years proved its worth in balancing budgets, stabilizing moneys and promoting international multilateral trade more successfully than any system ever tried before or since.

The present United States gold standard is, in effect, a new experiment. So far, it gives no promise of success. All restraint on excessive deficit financing is lost. A real key currency convertible into gold, like the English pound in pre-World War days, is lacking. Exchange rates of currencies are determined, not by actual transactions in a free and open market, but by governmental action in sudden and drastic "devaluations," in which national political considerations have more influence than the realities of actual trade.

Is it not better and wiser to return to a tried formula which proved so successful in the past?

Outlook for Housing—1950 and Beyond

(Continued from page 8)

the time at which the marriage rate again will begin to climb. Actually by that time the replacements, at the rate mentioned will be running from 300,000 to 500,000 a year. Consequently, if such a movement can get under way the recession in family formation need give very little concern.

By a program of replacement, I mean a program of selling or renting people better houses than they now occupy, all down the line until no one will take what is left at the bottom. Obviously a lot of effort is required to bring this about—a great deal more effort than has been necessary to market houses at any time since the war. Families, in increasing numbers, will have to be given something novel, something more convenient, comfortable and attractive than they currently have. They will have to be convinced that the new house is a good buy for use or investment and they will have to be given a convenient means for financing the purchase.

What are the chances that this will be done? Certainly it is a new kind of job for the construction industry, one that it never has—and has never had to—do before. Whether or not it can be done, will depend a great deal upon the attitudes of builders and financiers. If they push for technological changes that will both improve quality and permit more efficient production, for the development of new sales appeals and more aggressive selling, and for the creation of more flexible and adaptable financing devices, a large measure of accomplishment should be possible.

A number of moves now under way illustrate the dynamism essential to the job of building an expanding market. I shall mention only a few. There is the development and promotion by the architects, producers and materials dealers of "modular design" —a method of coordinating the dimensions of the myriad materials that go into the house—which carries a tremendous potential in efficient operation, better quality, and lower cost. There is the "economy house" program, launched about a year ago by the homebuilders, which has been a significant contributor to this year's high volume of homebuilding. There is the new consciousness of the relation between climate and design being inculcated by a leading home magazine, which should prove an effective means of breeding discontent and of providing a sales lever for builders smart enough to use it. There are the explorations instigated by another important magazine of more adaptable financing devices, and the trial of more flexible amortization plans by a number of lending institutions.

All this seems to indicate that there is in industry the imagination and ingenuity that is required to meet new problems and reach for new markets. The perplexing question about the outlook is whether industry and finance will have the impetus to go as far along such lines as they will need to go to assure results. This question grows out of the part that government will play in the housing drama and the effect that that may have no private decisions.

The government's part is already large. This year we hail the starting of the largest number of new houses on record. But we cannot blink the fact that so-called private housing—against a 100% increase in public housing from 17,000 to 35,000 units—is no more, and may be slightly less, than last year. Moreover an increasing proportion of this so-called private market — from about 35% in 1943 to at least 40% in 1949—is dependent upon mortgage insurance, guarantees, and purchases of mortgages. Next year public housing will go close to 80,000 family units; and, with FHA activity continuing at high steam and FNMA providing a forced draft for loans to veterans, the dependence of the market upon government aids will be greater than it has been during this year. Conservatively, 50%

of the total will be under direct government influence.

At the same time, private equity investment as a force in the mortgage market has all but disappeared. In the years since the war, rental housing has come under government influence to a greater extent than even sales housing. FHA activities are accounting for 70% to 75% of the apartment units started during 1949; and I doubt that anyone here will argue that equity investment was an important factor in a mortgage insured under Section 608. Despite the current restriction of this activity and the possibility—perhaps real—that it will not be continued after next March, there are still enough applications under examination or committed on to assure almost a duplication of 1949 performance. Moreover, if Section 608 is allowed to lapse, we are likely to get a resurrected and liberalized Section 207 backed by FNMA, or perhaps, the addition of direct loans to cooperatives. Under these conditions the judgment of the lending institutions is not likely to prove any more potent an influence than that of the equity holder. The institution will follow the official policy or find its function supplanted by FNMA or more direct methods. In fact, to no small degree it has already been supplanted.

Thus, more than any year in the past, the outlook for housing in 1950 will be overshadowed by questions of government policy; and the shadow falls far into the future. For a considerable period ahead, the housing market will feel the impact of political forces as much as — and perhaps even more than—it will feel the impact of economic forces. This situation gives the market a peculiarly artificial and unpredictable quality and in large part, no doubt, accounts for the uncertain feeling that people have toward the future. A market subject to a great deal of unpredictable central planning, as this has become, is one in which it is very difficult for the individual to do his own planning.

For instance, who can be sure that Section 608 will or will not be extended beyond March or what new kind of economic benzedrine will be administered in its place, or whether the dose will come in time to affect Spring building? What interest rate will be allowed on GI loans? How much competition will be offered by FNMA? When will rent control be terminated and what will be the effect on the rental market when it comes? How fast will the public housing program unfold? What influence — if any — on values, on investment, on city organization, is to be expected from the government essay at urban redevelopment?

All such questions have a profound bearing on your business. You cannot plan definitely until you know the answers. Yet the answers are not economic answers but political answers. They are made in legislative halls or administrative offices, not in the market place. At worst they reflect decisions as to what is politically expedient or politically feasible. At best, they reflect the judgments of politicians and their economic advisors as to what the people ought to have. But they are not the kind of direct decisions as to what individual borrowers want and what the lending institutions think is sound, upon which credit transactions have historically been carried on. The basic decision now may be made before the negotiation is begun.

Because of all this, your role in the future—if you are to have one—must in no small degree be a political role, or at least a politically conscious one. You must keep informed as to what is happening to you amid the confusions of Washington, and try to regain some influence over your destiny. You should study the political issues and motives, evaluate the pressures, and become politically articulate. You should particularly spare no effort to tell your depositors and borrowers about the manner in which the credit system operates and the importance of maintaining a free credit system.

More than this, it is time that something was done to remove the impediments in state regulatory legislation that tend to retard private action and to increase dependence upon the Federal Government. It seems amazing to me, for instance, that after 15 years of experience with FHA's Title I, the states have not been pressed to permit this kind of lending without the FHA prop, or to ease the restrictions on loan-to-value for amortized loans, or to simplify foreclosure and title practices. Some action along these lines is vital, not only to prevent further resorts to Federal "aids" but to give the market machinery the lubrication it must have to function fully and freely.

If I have departed from forecasting to indulge in exhortation, I hope you will forgive me, for the two are not as separate as they may seem. I can foresee the possibility of a long continued high level of demand for private housing and for the mortgage funds needed to finance it. But I am convinced that that possibility will be achieved only if conditions are such as to encourage the exercise of initiative by private industry and private finance. I am convinced that government cannot provide a substitute and that, in the long run, government's supports and aids will blight and destroy initiative and diminish activity. The fullness of the future, the validation of the prospect, therefore, depend upon the attitude that you take toward present trends and the vigor with which you can give yourselves to their guidance.

A Square Deal for the Railroads

(Continued from page 21)

able to show a still better record of improved efficiency.

In spite of the fact that our freight rates today have increased only 57% over what they were in 1939 while the prices of goods generally have gone up 100% and wages to railroad employees are up 109%, we now find ourselves on the verge of pricing our product too high so that some of our customers are going over to our competitors. Much of this business which has shifted from the railroads to other carriers is the heavy bulk type which we are especially equipped to handle and which is usually most profitable. While we are available as true common carriers, ready and able to transport anything, anywhere, and at anytime, this choice business is going to other carriers, who, unlike the railroad, are able to choose their customers, making certain the traffic handled is profitable.

There is only one of our competitors — the pipeline carrier — which is not receiving substantial subsidies from government. These subsidies enable our competitors to set rates far below the real cost of operation. While the railroads and the pipelines own and maintain their own highways and terminals, paying substantial maintenance costs and real estate taxes, the trucks, water carriers and airlines are sponging off the American taxpayer to the tune of billions of dollars every year by paying little or nothing for the use of the expensive facilities furnished to them.

The Federal Government has spent approximately $15 billion on the Merchant Marine and $3 billion making inland waterways navigable, yet no tolls are charged for the use of the harbor development, river channels, or the locks and canals. Not only does the Federal Government furnish this tax-free waterway for the ships and barges, it has gone even farther by setting up the Inland Waterways Corporation with an original investment of $15 million and is now considering an additional authorization of $7 million so that this publicly owned water carrier can compete with the rails and other private enterprise. Municipal aid is also offered the water carriers. Plans are now pending for the city of St. Louis to construct a modern barge terminal on the Mississippi for use of the river lines.

The railroads are now in the Federal Court resisting an ICC order requiring that joint rail-barge routes be maintained with rates approximately 20% under the all-rail rate. In spite of the fact that the railroads have proved to the ICC that the cost of rail-barge service is higher than the cost of all-rail service, the ruling was nevertheless against the railroads as allegedly being in the public interest and as an aid to small business. In a majority of cases where competing transportation is used to take advantage of cheaper freight rates, the selling price of the product is still established on the basis of the rail tariff and the saving is thereby not passed on to the consumer.

More than three-fourths of the total tonnage on the Mississippi River moves in vessels operated by shippers with such a large and regular volume of traffic as to justify providing their own vessels to move it. These private shippers are not subject to ICC regulation and are obviously not in the category of "small business."

Only one of the Mississippi barge lines holds itself out as a common carrier, but the quantity of package and less-than-barge-loads of traffic handled is insignificant. The railroads must still maintain sufficient capacity to take over the business of the river shippers when the ice, the floods or the droughts come to stall the river traffic.

Efficient Operation Requires Capacity Traffic

Experience proves that the most efficient and economical railway plant is the one which is operating near capacity. The loss of substantial tonnage to the water carriers tends to increase rail unit costs to the detriment of the general public who depend on railroad transportation.

Except for the airmail, the airlines have only recently made a bid as carriers of freight. The time has not yet come when airborne freight is competitive. It is a special transportation service of real value when speed counts, but the cost is prohibitive for general commodities as we have seen in the Berlin airlift.

We have noticed a substantial reduction in passenger traffic, a portion of which is due to the growth in air travel. We realize that a majority of the loss in passenger traffic is undoubtedly due to the return of the private automobile to the highways since the end of tire and gasoline rationing and because of the tremendous boom in automobile sales.

It is said that the subsidies given to the commercial airlines in the form of mail pay, navigational aids and expensive airport facilities are necessary as a contribution to national defense. This is, I believe, a rather ridiculous explanation when the Federal Government is already spending billions for the development of the U. S. Air Force, and the air arms of the Navy and Marines. The trained airline personnel number only 3% of the Air Force requirements in the last war, and it is obvious that in the event of another war this small group, even if they could all qualify for service, would not materially affect the military situation.

I have noticed that the American Trucking Industry and other truck associations have been sponsoring large advertisements in the newspapers entitled:

"A PUBLIC STATEMENT ABOUT TRUCKS: Propagandists are attacking the trucking industry — but their real target is YOU!"

The ad goes on to emphasize that while the railroad industry employs only 1,327,000 people there are *7,000,000 trucks* using the country's roads and highways with over *5,000,000 employees*, which qualifies the trucking industry as the nation's second largest employer — second only to agriculture. I am not quite sure whether they have included the population of the city of Detroit in their figures or not.

Now the railroad industry has no argument against the farmer's truck, the local delivery truck, or the thousands of other truckers with whom we are constantly engaged as a team to give the American public the transportation service it desires. Our direct customers are not only the large factory on a railroad spur, but also the shippers and trucking agencies who use our freight stations and depots scattered throughout the country. In fact, everyone depends on the railroads for hundreds of items in his day-to-day living.

There are only about 370,000, or 5%, of the 7,000,000 trucks which are in direct competition with the railroad industry. These 370,000 box cars on rubber have attempted in the advertisement I have just quoted to hide behind the skirts of their small, useful and inoffensive sisters.

For many years the truck and automobile associations have been insisting that all license and gasoline tax revenues collected from the highway user must be earmarked for road-building purposes. Following this line of reasoning, the States and Federal governments should use the liquor excise tax collections only for building taverns and breweries.

Railroads Largest Taxpayers

It is about time we realize that the modern taxing concept is to obtain the greatest revenue with the least collection effort. For a great many years the railroads have been among the largest contributors of taxes to the public treasury supporting schools and local governments in every community served by them. None of this tax money has been handed back by the municipal governments to aid in building or maintaining our roadway.

The question whether heavy vehicles damage our city streets or country roads and highways does not require the abilities of a civil engineer to be answered in the affirmative. The highway commissions of all the States, as well as the United States Public Roads Administration, are deeply concerned about the breaking up of our highway network. Estimates of the cost for the work that needs to be done range from $20 to $60 billion in spite of annual expenditures for maintenance and new construction of from $2 to $3 billion.

Highway construction designed to carry the largest vehicle is, of course, much more expensive than that required for lighter trucks and passenger vehicles. The time has come for the public to decide if they wish to continue to subsidize the heavy truckers or if they want to conserve the highways they now have and can afford to maintain by fixing and enforcing weight and size limitations for the highway users.

The railroads need a square deal to protect their business from the raids of subsidized competition which offer their services at rates below the true cost. The public needs a square deal to protect their purse from the drains of politically favored and uneconomical transportation agencies.

Gentlemen, I have tried to give you my impressions of a few of the problems the railroads face today. The solution is largely political. The American economy under private enterprise has enjoyed a tremendous growth in the past 70 years. Your city of Detroit has been riding on the crest of the wave.

I believe the railroad problems are your problems. The decisions which you and the people in other great industrial centers make now will largely determine the future of the transportation industry and of America. Will it be a system of private enterprise, unified in purpose, and regulated so that the competitive agencies can each perform the job for which they are best qualified to serve the public? Or will it be a system operated by government; the inevitable consequence of profitless regulation and subsidized competition?

It is not too late if the American people will realize that a square deal for the railroads is a square deal for themselves.

Asiel & Co. to Admit

Asiel & Co., 11 Wall Street, New York City, will admit Norman D. Erlanger to partnership on Dec. 31. On the same date Robert H. White, a general partner, will become a limited partner.

Dixon & Co. to Admit

PHILADELPHIA, PA.—Albert T. McAllister will be admitted to partnership in Dixon & Co., 1411 Chestnut Street, members of the New York Stock Exchange. He has been with the firm for some time.

Glendinning to Admit Two

PHILADELPHIA, PA.—Robert Glendinning & Co., 123 South Broad Street, members of the New York and Philadelphia Stock Exchanges, will admit Ralph W. Welsh and David B. Fox to partnership on Jan. 1.

Business Man's Bookshelf

Credit Manual of Commercial Laws 1950 — National Association of Credit Men, 1 Park Avenue, New York 16, N. Y.—cloth—$10.00.

Indian Economics and Pakistani Economics—B. B. Ghosh—A. Mukherjee, 2 College Square, Calcutta, India—board cover—10 rupees per copy.

1949 Security Transactions — When to sell securities for Income Tax Saving—Tax Guide for Investors—Capital Gains & Losses —Income Tax Computation—Commerce Clearing House, Inc., 6 N. Michigan Avenue, Chicago 2, Ill.—paper—$1.00.

Theory of Fluctuations in Contemporary Economic Thought — Sidney D. Merlin—Columbia University Press, 2960 Broadway, New York 27, N. Y.—cloth—$2.75.

Government's Role in Labor Disputes

(Continued from page 19)

That is the wrong approach. If you were looking for a divorce, it might be all right, but when you are dealing with labor relations you are not in a divorce court. You can't have a divorce between employer and employees. That relationship is going on and on and on, and everytime that negotiations are carried on they should make some contribution to bettering the relationship for the future—and sometimes the short-term settlement is not always conducive to the best relations for the future. Many, many times we take a corporation lawyer and throw him into these labor situations, and he does more harm than good; but many, many lawyers make a substantial contribution. So I would advise you that if you are putting a lawyer in, to get a lawyer who is first a labor relations man, and not first a lawyer who is going in to win a case.

There is another thing that I would like to call attention to. That is that unions today, going into negotiations, are frequently much better prepared than management. We think in terms of a meeting between labor and management, whether it be the United Mine Workers and the Coal Operators, or the heads of the Steel Corporations and Mr. Murray, and so forth—and a lot of people think, "Well, if I had my ear to the keyhole there what a wonderful time I would have. They must be calling each other all kinds of names and spitting in each other's eys." All of us know better than that, because many times these sessions are much like a Board of Directors meeting. A little more interesting.

It is not uncommon today for unions to come in many, many times with statistics and more information in regard to the economics of the industries and companies than the company representatives have. Therefore, the company representatives frequently—I'm speaking from bitter experience—proceed to get mad when confronted with statistics which they have nothing in their briefcase to combat. Then you're due for trouble. Then you're due for some kind of a blow-up. I think it is terribly important that companies and unions both, when they go into these negotiations, go in on the basis of facts. Don't be afraid to lay your facts on the table—and this goes for both—even if they are sometimes against you, because you can't always have all of the facts on your side. A little candor and frankness in bargaining would not only be refreshing, but is also likely to pay dividends in future dealings.

There was an interesting case not long ago of a company—many miles away from Detroit—that over a period of four years came to the bargaining table and took the position that it could not grant any wage increase at all. "No wage increase. We can't afford it. The company is just in a position where we can't give a wage increase." But each time, after going through the pain of having a strike, they granted a wage increase. Now, what kind of a background, or what kind of a situation was that to face this year when they were really broke? The union regarded the company as the boy in the tale who cried "Wolf! Wolf!" There was no reason in the world why the union should believe them. They were telling them exactly the same story, in the same language, and using the same words that they had for four years, and each time they came up with something. And the union insists that they get a wage increase again this year. There were the facts, or so-called facts, that were presented before. The company was doing pretty well. They were making quite a bit of money. They probably could have granted a wage increase without too much pain. And had they done so, they would have established a confidence; by facing facts as they were they would have established a confidence that would have made it much easier for them this year. This year they're up against it, and up against it plenty hard.

Understanding Each Other's Business

There's one other point in connection with these labor negotiations that I think is important for us. We hear many complaints, "Why in the name of Heaven don't these union fellows understand something about the economics of our business?" That's perfectly valid criticism. And the union fellow says. "Why in the name of God don't some of these management representatives understand something of the economics of our business?", because running a labor organization is a business. I think if industry wants union leaders to understand their business, they have have got to understand a little something of what some of the basic things are in a union organization, and how things go in a union organization; then we will be in a much better position to know what is motivating people. The idea of just sitting down and saying, "It's all one-sided," is wrong: it isn't. You come in; you have a labor union, a large one or a small one, and they come in to sit down and do business with you. I think that the more we put it on a business basis—facts and figures, telling the truth, and establishing confidence—I think we will make progress.

Labor disputes are news, but it is only the sick ones that make the headlines. The prominence and the publicity given to some of these cases makes many people pessimistic about the future of collective bargaining. But when you stop to consider that there are 150,000 or 200,000 contracts between unions and management all over this country being negotiated every year, and you never hear about them—you don't know anything about them—and six or eight or ten make the headlines, then we're not in such a bad way. I think we have made one whale of a lot of progress, and I think it is something to be proud of. I think it has come about as a result of accepting responsibility on the part of both management and labor.

Another thing that we find in many of these dispute situations that come up: It is not so much what the President of the Company, or the General Manager, does or thinks that makes bad relationships, it's much farther down the line; the relationships between the Shop Steward, and the Foreman, or the Assistant Foreman—the lack of understanding on their part.

I think it is highly advantageous when you're dealing with a union, to deal with it on the basis that it is an integral part of the organization. See what you can do to make your relationship with it work, instead of bucking it all the time and throwing obstacles in the way of the union, because every time you put out your foot to try to trip up the union's representative, he's going to put out his own leg sometime when you may be on slippery ground, and down you will go. I think that it is highly important that everybody, up and down the line in an organization, understand the contract. I think it is terribly important to have the Foreman, Assistant Foreman, Supervisor, Shop Steward, everybody, know just what that agreement means, and you can avoid a lot of grief on that one.

The Steel and Coal Disputes

You expect me to say something about steel and coal. Steel seems to be in a fair way to getting settled. I applied last year, when I made out my budget to the Budget Bureau, for an appropriation for a crystal ball. They said that all the crystal balls around Washington were already spoken for and that they couldn't buy any new ones, so I didn't get mine. So, I can't tell you what is going to happen in coal. I am rather hopeful. I do know this, however, and you can go out and take bets on this one: We're one day nearer a settlement in coal than we were yesterday. It's going to be settled sometime. It's going to be settled sometime, somehow. What that settlement will be I do not know.

The steel situation, which possibly was somewhat related to the coal situation, introduced a new factor in relationships; that is the matter of pensions and retirement plans and welfare plans. I suppose many people wonder why that should be injected into this bargaining relationship. I was born on a farm and when I landed in the United States I got myself a job. But right up to this minute I have always had a certain feeling of independence because I have always had the feeling that I could go back to the farm. Maybe I couldn't, but it was there; it was probably more psychological than material, but I have had that feeling. You can multiply that by millions of people in this country. People who came in from rural communities to Detroit, and Akron, and Cleveland, and Chicago, and the other industrial centers. People came from Europe and still felt they had roots somewhere; roots in the soil, or roots in Europe. You have the second and third generation of those people today in your industrial centers, and those people are exposed to all the hazards and vicissitudes of our urban city life and industrial factory system.

There is no point in complaining that the conditions under which we live and the steps we take to deal with them are not "the good old American Way." I think the American Way is to be adaptable, and to change whenever change seems to be required. Change our thinking and deal with the problems as they come up, and not brush them aside and find that our production lines have broken down, or something of that sort. If the things and freedoms we believe in are to survive, we must have the same flexible pragmatic approach to economic, social and political problems as we have to engineering and production problems. I think we cannot afford to ignore, and we cannot ignore, the demands of insecure people for some form of security—those people who have no roots except in our industrial system.

An attempt was made by the government to provide for that, in a way, through Social Security. It was started in a very conservative way, I would say. The payments are meager, in terms of the inflated dollar. Retirement payments today which average some $28 a month are not adequate to give any kind of security to the individual. Of course, some companies have had private pension plans for some time, but these private pensions plans were not designed to give security. Most of them were designed and put into operation for the purpose of promoting better relationships between an employer and his employees. They were designed to provide a means whereby a man who had spent his life in the service of a company retired and received something to show that his service was recognized and appreciated. The man had to stay with a given company for a long period of years. These plans were designed to encourage long-term loyalty, not to provide individual security. And it was a sound idea—that if you had a pension plan your employees would stay with you throughout their lives. So the company pension plan had an entirely different aim than the Social Security Act. The Social Security Act was to provide some sort of economic security. The company private pension plan is only as stable and as sound as the tenure of employment of the employee with an individual employer. And, also, as sound as the financial stability of that company is.

Private Pensions Plans "All Right"—But Social Security Is Better

I think that private pension plans are all right, but when we are talking about security, and security for these people who don't have any roots anywhere, then I think there is only one way to do it, and that is through the increase in our Social Security benefits. I think that more and more people are coming to recognize that. And then if you have to supplement government benefits or if a company and its employees want to supplement that by some other form of pension, that is fine. But don't let us sell employees on the idea that a company private pension plan is good sound security, because it isn't, no matter how it is done.

You might have a plant in Detroit, or Gary, Indiana, or somewhere else, where you have five, ten, or fifteen, or fifty thousand employees, and because of changes that might take place, either in the supply of raw material, or for some other reason, you might want to locate that plant in Portland, Maine, or down in Texas. Those employees of that company are not all going to move to Portland, Maine, or Texas, so they lose what they have been led to believe they had, by just the ordinary movements that take place within industry.

I think on this whole pension thing the thing to do is for both industry and labor to go out and talk about security through some kind of government social security; increasing the payments in government security; increasing the taxes on both. Unions have been supporting increased social security taxes for years, in order to obtain larger benefits. Most employers have objected to liberalizing the Social Security Act. We are paying for that attitude now because the vacuum in adequate security had to be filled—and it is being filled at the bargaining table. I believe that after all, when we get all through with it, we'll come out with a more satisfactory system through governmental action than we will through the private pension plans because today the strong union and the strong company can have liberal pension plans, and the weak union, or the weak company, may find themselves bankrupt as a result of it. I think it is one of the things that a lot of thought has got to be given to; but I can't see any other answer, and I say this as the result of a lot of study and experience over a period of 30 years studying pension plans. I do not believe that you can have a sound security plan with a private pension plan because of the hazards and the vicissitudes and the necessity for an employee staying with one employer for a long period.

Savings Banking Looks Ahead

(Continued from page 15)

scarce during the war period but are now generally available.

Impact of Social Security and Pensions

Many people are wondering, however, whether the prospective great expansion of social security and industrial pension plans will discourage individual thrift upon which savings banks depend. Anticipated legislation to liberalize old-age pension benefits under the Social Security Act and the settlements in the steel labor disputes make this query quite timely.

A glance at what has happened to savings since the Social Security Act was passed in 1935 gives a decisive answer to this question. Social security and pensions do not discourage individual savings through other channels. The opposite has been the fact. People who already enjoy a measure of financial protection are most eager to save more, because they find the feeling of security for themselves and their dependents so pleasant and wholesome. They probably think seldom of the premium deduction from their current pay and even less of the old-age pension they will receive eventually. And when they do think of pensions, they are usually impelled to supplement their rights with additional sums saved from income over a period of years.

Thrift breeds more thrift. Saving is a habit, and like all habits it is hard to break, once it is firmly established. People who have developed the habit of living from one pay day to the next, putting aside nothing for the "rainy day" of sickness, unemployment, or loss through death of the one who provides family support or for anticipated purchases such as a new home or an automobile, are the poorest prospects for savings institutions. On the other hand, people who have pension rights, life insurance and a savings account are most likely to save more in the years to come, for they are already "security conscious." And since there are more savers in the United States today than ever before, there is good reason to feel confident that savings will continue to accumulate at a substantial rate even while social security and industrial pension benefits are being stepped up.

The Board of Governors of the Federal Reserve System has completed a survey which shows how widespread the saving habit has become in the United States, despite the existence of social security since 1935. There are approximately 50,000,000 spending units in the United States, a spending unit being defined as a family group living in one household and pooling their incomes to meet major expenses. As of early 1949, it was found that 77 spending units out of 100 own life insurance and 44 have savings accounts. The thrift habit has spread impressively despite the existence of social security.

It is reasonable to expect, therefore, that liquid savings will be maintained at least at the relatively moderate rate of 1949. Over the next decade, that would mean that liquid savings could average some $12 billion a year, or twice the 1939 amount if national income remains unchanged. Should national income increase, a corresponding rise is to be expected in the volume of savings.

Competitive Position of Savings Banks

Mutual savings banks this year will show an increase of almost $800 million in deposits. They thus will account for more than 6% of the total liquid savings of the nation. Can they expect to maintain this ratio, which compares with the 4% of liquid savings they received in the pre-war year 1939?

Additional light upon why so many people prefer savings bank accounts to other types of saving is given by the Survey of Consumer Finances made early this year by the Board of Governors of the Federal Reserve System. Almost 40% of the persons favoring savings accounts ascribed this preference to their liquidity. By this, they doubtless mean that they can add to and draw from their savings at will, which is not a characteristic of life insurance or pensions. Another 35% stressed safety. About 15% mentioned the rate of return, and 10% the convenience.

This survey proves anew that the public appreciates above all else the liquidity and safety provided by an account in the mutual savings bank. But we must expect greatly increased competition for savings in the period ahead. During the past decade, savings were so plentiful that a good deal of a "sellers' market" existed for thrift service. Funds flowed into all savings channels in greatly increased volume.

Now the volume of savings is far below the wartime peak, and a "buyers' market" for thrift service has returned. It is timely, therefore, to reappraise the competition that mutual savings banks face, and to develop the promotional policies that are required in a competitive buyers' market. The Decennial Census next year may provide valuable information about population and income changes to guide the formulation of effective promotion measures.

Commercial banks, operating in every state in the union and greatly outnumbering mutual savings banks, enjoyed a much greater gain in time deposits during the decade. But this year, savings banks, operating in only 17 states, had a much larger gain than did commercial banks in their time deposits. Paying about twice as high a rate of return, on the average, mutual savings banks are in better position to attract deposits because, as some observers believe, an appreciable and increasing number of savers are becoming yield conscious.

Savings and loan associations, which pay a higher average rate of dividend to their shareholders than do mutual savings banks to their depositors, have had a larger percentage gain in resources since the end of the war. But only a small fraction of the assets of savings and loan associations consists of cash and governments. Surplus constitutes a much smaller percentage of the liability to their members than in the case of mutual savings banks' liabilities to depositors. Depositors in mutual savings banks thus enjoy a much greater degree of strength and liquidity than do shareholders in savings and loan associations, and wider knowledge of these facts is bound to strengthen the competitive position of savings banks.

Savings Bond Maturities

Sales of United States savings bonds have exceeded redemptions and maturities by approximately a billion dollars thus far this year despite a reversal of trend during September and October. This is a sum larger than the deposit gain of mutual savings banks. Paying a higher rate of interest when held to maturity than do savings deposits, it is evident that these bonds have established a place for themselves as a major savings medium for the American people.

A question arises, however, with regard to the heavy maturities of savings bonds that will occur beginning in 1952, when bonds sold during the war in very large amounts come due. Maturities reach $4 billion for 1952, over $6 billion for 1953, and rise to a peak of more than $8 billion for 1954. Will holders reinvest the money they receive then in new savings bonds, will they shift the proceeds into other investments, will they purchase homes and cars with the proceeds, or will they reduce existing indebtedness?

I believe much of this money will be reinvested in savings bonds. Ownership of these bonds has now become firmly established as a basic savings habit for those who prefer a higher return on the long-term investment of their savings than is obtained where savings can be deposited conveniently and remain available for withdrawal on demand. However, a certain number of holders may be expected to take cash for matured bonds and deposit the money in savings accounts in order to have available cash in the bank when needed. It may be significant that almost half the people who told the Federal Reserve Consumer Finance Survey investigators they did not favor savings bonds for their surplus funds mentioned the liquidity factor as an objection.

Looking ahead, therefore, we can see that mutual savings banks will hold a strong position in the competition to provide thrift service. They pay a substantially higher rate of return than do commercial banks. They enjoy much greater strength and liquidity than do savings and loan associations. Large maturities of savings bonds sold during the war, beginning in 1952, may affect the rate of increase in the amount outstanding.

The Growing Interest in Corporate Stocks

Growing competition for savings has appeared, however, from corporate securities. The heavy losses suffered by investors in such securities during the 1930's for a time discouraged purchases by individuals, and there was net liquidation of corporate security holdings during the early part of the past decade. For 1946, however, the Securities and Exchange Commission estimated net purchases of corporate securities by individuals of $600 million. Such net purchases rose to $1 billion in 1947, and to $1.7 billion in 1948. They have been considerably larger this year, to judge from available indications.

There are three reasons for the increase in the percentage of the nation's savings going into corporate securities.

The first is yield. The average yield from listed dividend paying common stocks is above 6% today. In this connection, it is significant that most of those questioned in the Federal Reserve survey who did not favor savings accounts for their surplus funds mentioned low rate of return as the reason.

In the second place, the memories of the great declines in stocks during the 1930's recede into the distance. A new generation of investors who did not share those unhappy experiences in the stock market is coming to the fore, and these inexperienced people are less fearful of loss.

Third, there is a powerful selling effort under way to induce wider stock ownership, with high yield offered as the main attraction. The open-end investment funds sold approximately $200 million of their shares net, after redemptions, in the first nine months of this year. This is a record, and is several times the sales total of a few years ago. There has also been a ready market for numerous issues of public utility stocks sold by groups of security dealers this year, largely among small investors who are attracted by the relatively high yields offered.

Only 4,000,000 spending units, 8% of the total, own securities of publicly-held corporations, according to the Survey of Consumer Finance of the Federal Reserve Governors. This shows the great increase in stock investment that is possible if a change in public attitude should occur. Describing its findings, the Federal Reserve Survey reported:

"The chief reasons given against investing in common stocks were lack of familiarity and desire for safety. A high return on one's investment was the most frequent reason given for investment in stock.

"As in past surveys, high income consumer units ($5,000 or more) stressed the element of risk in common stock investment, while units at lower levels of income cited lack of familiarity with stocks as the chief deterrent to investment."

Should stock prices continue to hold within a relatively narrow range over a period of time, more persons may be willing to assume the risks necessarily inherent in stock investment. Selling efforts of security dealers and brokers, open-end investment funds and the stock exchanges familiarize investors with stocks and the relatively high yields obtainable therefrom. If investment in corporate securities takes a growing proportion of savings over the next few years, this would tend to reduce the share of savings going into mutual savings banks and other financial institutions. It is possible that the chief competition mutual savings banks will encounter in the coming decade will be the stock market.

The decision as to how savings shall be placed is up to the saver in our free society. We would not want it otherwise. Resistance on the part of employees to contributory pension plans reflects the desire of people to retain control over their own savings practices. We do owe a duty to our depositors, however, to keep them informed of the basic facts governing their savings, just as security dealers and brokers are aggressively seeking to spread information about the securities they sell, stressing the high yields available. Savings bankers can help the thrifty to make more intelligent decisions about the placement of their savings by spreading information about the safety, the liquidity, the return and the convenience of mutual savings bank accounts as compared with other media for the investment of savings. They have an educational function to perform, teaching the principles of personal savings programs to a generation more conscious of the value of personal security than any of its predecessors.

Strengthening the Savings Banks' Competitive Position

Having attained preeminent financial strength through the high quality of their assets, good earning power on investments and control over expenses, there remain three things savings banks can do to maintain their position in the face of keener competition for savings that looms ahead.

First, they can take steps to safeguard their ability to maintain the 2% interest-dividend rate most banks pay on deposits, despite any tendency for interest rates generally to decline further. This can be done by gradually increasing their holding of sound amortizing mortgage loans, which give a considerably higher yield than other types of suitable investments now available. A further reduction in the ratio of expenses to deposits will also help saving banks to maintain current dividend rates on deposits. This ratio can be brought down through an expansion of the deposit total to spread expenses over a larger volume of funds, further cost-reducing mechanization and systemization of operations, and a reduction or elimination of the deposit insurance assessment for banks that belong to the Federal Deposit Insurance Corp.

Secondly, savings banks can safeguard their relative position through broadening further the services they render depositors. Major progress has been made in this regard by banks that are selling life insurance, providing safe deposit facilities, handling savings bond sales and redemptions, evolving plans for systematic saving such as packaged savings, and payroll deduction plans, and in other ways are providing all-round financial service to families of moderate means.

In the third place, savings banks have an obligation to educate the public in the principles of the conservation of current savings in building up the personal "nest egg," just as life insurance companies stress the need for maintaining adequate insurance coverage to protect dependents. People who invested their savings in stocks during the 1920s, and lost part or all of their savings in consequence during the 1930s, frequently did not understand the risks they were assuming.

It is desirable for our economy that investment in equities be fostered. But stocks should be bought by those who understand the risks involved, and feel they are in a financial position where they can properly assume such risks. Families that possess only a small amount of liquid savings available for emergencies require the safety and liquidity of a savings deposit, and should not in their own interest subject these savings to substantial risk. But they will not understand this unless the facts are clearly pointed out to them.

The Coming Decade

The coming decade should be one of further healthy growth and progress for mutual savings banking.

I believe that mutual savings banks can properly lay claim today to being the strongest major group of financial institutions in the nation, and to providing the most convenient and advantageous service with a substantial return to the thrifty.

With 65% of deposits in cash and government securities, only commercial banks hold investment portfolios of comparable strength. But the mutual savings banking system has a surplus equal in the aggregate to 11% of aggregate deposits, whereas the ratio of capital funds to deposits of all commercial banks is nearly 8%.

Mutual savings banks offer their depositors absolute safety and immediate availablity for their funds. They have ample surplus and reserves to guard against all contingencies. They pay a relatively attractive rate of return, considering the safety and liquidity provided. The prevailing dividend rate is much higher than the average paid by commercial banks on time deposits. Considering the availability of funds deposited with mutual savings banks, the far higher quality and diversification of assets and the much greater cushion of surplus protection, the rate of return must be regarded as quite attractive compared with that paid by savings and loan associations. And mutual savings banks in furtherance of the public convenience provide many supplementary services to depositors for which no or only nominal charges are made.

Mutual savings banks hold a strong competitive position in what is a keenly competitive market for thrift service. With the volume of savings substantially lower than in the war years, we cannot expect the increase in deposits to continue at the fast pace of the decade now coming to a close. I am sure some of us would prefer a more gradual, steady rate of growth that will avoid the necessity for buying large amounts of new investments at high prices within a short period of time. But the $800 million gain of 1949, equal to 6% of total liquid savings of the nation, could well prove typical of the coming decade, and I am confident that savings bank managements will find investment outlets that will permit the placement of these funds in suitable bonds and mortgages with an over-all return sufficient to maintain competitive dividend rates and to make some additions to surplus.

The decade 1939-49 was the Golden Age of Savings Banking. By carrying on the policies that have proved so sound and successful in the past ten years, adapting them where necessary to fit the economic conditions, savings bankers can extend this Golden Age over the coming decade and longer.

True, competition to serve the thrifty is going to be keener, and savings bank managements will have to give more thought to promotional advertising and educational efforts than was necessary in the decade now coming to a close. But the service we offer to the public is of unusual quality, and a competitor with an excellent product has nothing to fear in a fair, open competitive race.

Halsey, Stuart Group Offers Iowa Pwr. Bonds

Halsey, Stuart & Co. Inc. and associated underwriters are offering $7,500,000 Iowa Power & Light Co. first mortgage bonds, 2¾% series due 1979 at 102.50% and accrued interest. The group was awarded the bonds on its bid of 102.019%.

The company intends to apply the proceeds from the sale of the bonds to pay in part for the acquisition and construction of additional property and to pay promissory notes incurred for the same purposes.

Iowa Power & Light Co. furnishes electricity and gas in Des Moines, and either or both services in other municipalities, communities and rural territory in 24 counties in the State of Iowa having an estimated population in 1940 of 420,000. During the 12 months ended Aug. 31, 1949, approximately 75% of its gross operating revenue was derived from its electric business, approximately 24% from its natural gas business and the remainder from its heat and ice business. During that 12 months' period total operating revenues were reported to be $17,598,213, and after depreciation and all taxes the balance available for interest was $3,785,543. Maximum annual interest charges on all first mortgage bonds to be outstanding after this financing will require $938,750.

Hollywood Beach Branch

HOLLYWOOD BEACH, FLA.—Francis I. du Pont & Co., members of the New York Stock Exchange, are opening a branch office in the Hollywood Beach Hotel under the management of Joseph W. Howell.

English With Detmer Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—Frank J. English has become associated with Detmer & Co., 105 South La Salle Street. Mr. English was previously with Mitchell Hutchins & Co.

Joins Moseley Staff

(Special to THE FINANCIAL CHRONICLE)

INDIANAPOLIS, IND. — Allen W. Clowes is now with F. S. Moseley & Co., Circle Tower. He was formerly with Brown Brothers Harriman & Co. in New York City.

New Whitehouse Partner

Samuel D. Brown will be admitted to partnership in Whitehouse & Co., 115 Broadway, New York City, members of the New York Stock Exchange, on Jan. 1.

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

Rail strength, though confirming Dow bull market theory, seen as signal for downturn.

Last week the rails finally pushed through their old highs and the cheers could be heard in every board room. The long awaited confirmation that would make the Dow Theory a living thing, had at long last been seen! There was only one thing to do; hold on to your hats.

* * *

Maybe these aren't the exact words I heard, but the intent was there. The long awaited bull market that "everybody knew" was here, was finally confirmed.

* * *

Despite the almost universal optimism I can't help but continue to view the market with distaste. I see too many things that seem to be pointing in the direction that has the least popular following. A few weeks ago I wrote here that I thought the rails would go through to a new high, but instead of confirming any new bull market, such a development might well signal the beginning of the end of the current upswing.

* * *

Nothing has happened since to make me change my mind.

* * *

While all the forecasts are bullish, I continue to see tops being made in more and more stocks daily. I also see what to me seems like major distribution. In fact the whole picture seems to spell, if not danger, then certainly caution.

* * *

Almost daily we read articles about inflation, budget balancing demands and other equally controversial subjects. I have no desire to get into any argument about economic trends, though there are some commentators who don't seem to know what they're talking about. My subject is the stock market, so I'll stick to it.

* * *

In following up my lack of optimism we'll now have to do something about the two stocks we hold. The position now is long of American Smelters and Denver, Rio Grande. The first came in at 46, with a stop at 47. Smelters is currently selling around 52, which makes it a six-point gross profit. I think it's about time that you started to plan to sell it. I therefor suggest getting out between 53 and 54, meanwhile raising the stop to 49. Denver, Rio Grande came in at 23, is now about 29 (incidentally both stocks have gone ex-dividend since buying and both have made them up—the two rare stocks that did). The rail has a stop at 27, which was touched at least once, but never broken. I suggest changing the stop to 26¾ because the even figure is too perfect. On the up-side take your profits between 31 and 32.

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.]

The State of Trade and Industry

(Continued from page 5)

of interests which usually react violently to the actions of Mr. Lewis is due chiefly to two factors. First, most industries that are largely dependent on coal have fairly comfortable supplies.

Secondly, operators of captive mines who have broken the deadlocks in several previous strikes, this time left it to the commercial operators to make the first move. The latter have maintained a solid front.

* * *

Total employment in the U. S. during November "recovered the losses arising from the disputes in steel and coal," the Commerce Department reported. It said employment rose to 59,518,000 in the week ended Nov. 12. This was 517,000 above the total for the corresponding week in October.

Unemployment in November was placed at 3,409,000. This was a drop of only 167,000 from October. Officials said the relatively small decline in unemployment was "evidence of an increase in the number of seasonal workers looking for jobs."

* * *

STEEL OUTPUT REBOUNDS TO 91.7%, A SIX MONTHS' RECORD LEVEL

Higher steel prices moved a few steps nearer to reality this week. Several big steel companies are studying revisions of their "extra" charges, according to "The Iron Age," national metalworking weekly, in its current summary of the steel trade. The studies are part of plans by some steel companies to price their products more realistically in 1950.

There will be important steel price increases within the next several months. Some may come as base price boosts, others as increases in extra prices (charges for specified chemical or physical characteristics). Two types of extra charge revisions are possible: (1) Boosts on sheet and strip to replace cuts made when steel markets turned soft earlier this year; and (2) major changes in the method of arriving at such charges.

Many steel users now expect a price increase, the magazine states. Estimates in the buying fraternity—unconfirmed by steel companies—run from $4 to $6 a ton. These would be conservative guesses if most mills reinstated the sheet and strip extras which, with few exceptions, were in effect earlier this year. Buyers expect extra schedules to be the first things changed when prices are raised.

Steel price increases are now certain for these reasons: (1) Steelmaking raw material and transportation costs have risen a lot since the last general steel price increase in July, 1948; (2) labor costs will shoot up next year; (3) the bulk of steel-making machinery and equipment replacement costs must still be met out of profits; and (4) the steel market is strong.

In the past five months the tone of the steel market has reversed itself. Before mid-July steel deliveries were normal, customers were looking forward to lower prices and durable goods manufacturers were in fair inventory shape except for some pessimistic manufacturers and retailers who had cut back too far on inventories.

Today the steel buyer is generally more concerned over delivery. Instead of pressing for lower prices he is afraid of higher costs. The pipelines of supply range from empty to fair—few are normal. Detroit is planning the biggest single month's production in history next March. Appliance parts manufacturers say they expect 1950 to be better than 1949. Though backlogs have been cut sharply, linepipe demand remains strong.

A low point in manufacturing volume will come late this month, "The Iron Age" concludes. Most companies lived off inventories through October and November and are now caught with the lowest stocks in years. Shipments are just coming through from the mills and full steel inventories will not be common until late February or March.

The American Iron and Steel Institute announced this week that the operating rate of steel companies having 94% of the steel-making capacity for the entire industry will be 91.7% of capacity for the week beginning Dec. 5, 1949, an increase of 4 points from the preceding week.

The present rate is the highest since the week of May 30 when it was pegged at 91.8%.

This week's operating rate is equivalent to 1,690,500 tons of steel ingots and castings compared to 1,616,800 tons one week ago. A month ago the rate was 21% and production amounted to 387,000 tons; a year ago it stood at 100% and 1,802,500 tons, and for the average week in 1940, highest prewar year, at 1,281,210 tons.

ELECTRIC OUTPUT ADVANCES 1.7% ABOVE LIKE WEEK OF 1948

The amount of electrical energy distributed by the electric light and power industry for the week ended Dec. 3 was estimated at 5,742,915,000 kwh., according to the Edison Electric Institute. This represents an increase of 205,793,000 kwh. above the preceding week.

It was 97,229,000 kwh. higher than the figure reported for the week ended Dec. 4, 1948, and 524,965,000 kwh. in excess of the output reported for the corresponding period two years ago.

CARLOADINGS DROP DUE TO THANKSGIVING DAY HOLIDAY

Loadings of revenue freight for the week ended Nov. 26, 1949, which included the Thanksgiving Day holiday, totaled 664,555 cars, according to the Association of American Railroads. This was a decrease of 94,417 cars, or 12.4% below the preceding week, due to the holiday.

It represented a decrease of 58,381 cars, or 8.1%, below the corresponding week in 1948, and a decrease of 127,776 cars, or 16.1%, under the similar period in 1947.

AUTO OUTPUT AT LOWEST POINT SINCE FIRST WEEK OF 1948

According to "Ward's Automotive Reports" for the past week motor vehicle production in the United States and Canada dropped to an estimated 71,921 units, the lowest weekly total since the first week of 1948, from a revised figure of 76,026 units in the previous period.

Further plant closings because of steel shortages and model changeovers were responsible for the decline, Ward's said. But it declared the outlook for December production is improving as a result of the quick recovery of the steel industry from the effects of the recent strike.

The total output for the current week was made up of 66,559 units built in the United States and 5,362 units in Canada.

The week's total compares with 119,037 cars built in the U. S. a year ago.

BUSINESS FAILURES ADVANCE SHARPLY

Commercial and industrail failures rose sharply to 221 in the week ended Dec. 1 from 148 in the preceding week, according to Dun & Bradstreet, Inc. Failures were noticeably above the 126 of the comparable week in 1948 and three times as numerous as the 72 in the similar 1947 week. However, casualties remained below the prewar total of 264 which occurred in the similar week of 1939.

Failures involving liabilities of $5,000 or more increased to 166 from 112 in the previous week and exceeded the 107 of this size reported a year ago. A rise also occurred among small casualties, those with liabilities under $5,000, which advanced to 55 from 36 and compared with 19 a year ago.

Manufacturing failures rose sharply to 65 from 25 a week ago, reaching the highest level since 1941. In retailing and wholesaling the week's increase was relatively mild. All industry and trade groups had more casualties than in 1948.

WHOLESALE FOOD PRICE INDEX ADVERSELY AFFECTED BY LOWER TEA PRICES

Although advances in individual commodities outnumbered declines by a wide margin, the Dun & Bradstreet wholesale food price index moved lower this week, due largely to a sharp downward adjustment in tea prices as a result of the devaluation of the pound. The index for Nov. 29 fell to $5.69, from $5.74 a week earlier, and compared with $6.36 on the corresponding date of last year, or a drop of 10.5%.

In addition to tea, declines were recorded for cocoa, eggs, potatoes, and lambs. Moving upward in the week were wheat, corn, rye, oats, barley, hams, bellies, butter, steers, and hogs.

The index represents the sum total of the price per pound of 31 foods in general use.

WHOLESALE COMMODITY PRICE INDEX INFLUENCED BY SHARP ADVANCES IN CORN PRICES

Continuing the mildly upward movement of the previous week, the Dun & Bradstreet wholesale commodity price index rose to 248.13 on Nov. 29, from 246.11 recorded a week earlier. The current index represents a drop of 8.9% from the comparable 1948 figure of 272.31.

Trading in leading grain markets last week continued active with prices registering further improvement.

Sharp advances in corn prices again featured the market. Marketings of corn were fairly large with offerings quickly absorbed, reflecting good demand from feeders and feed manufacturers and from Eastern buyers.

Supplies of corn in the country are said to be the largest on record. Wheat also turned higher under limited offerings. Buying of wheat was stimulated by more favorable export prospects and moderate improvement in demand for flour. Government buying of cash wheat remained very small. Offerings of oats were also light and prices rose moderately in sympathy with corn. Domestic and export bookings of flour were relatively small last week following the moderate activity of a week ago. Shipping directions against old flour contracts were in fairly good volume.

Coffee remained in good demand with prices generally holding steady.

Some irregularity developed in the cocoa market; actual prices closed unchanged from a week ago. Cottonseed oil prices displayed a firmer tone. There was a fair demand for lard and prices held firm despite a rapid increase in production due to heavy hog marketings.

Supported by active buying by packers, hog prices developed a somewhat firmer tone. With demand exceeding supplies, cattle prices rose about 50 cents per hundredweight, aided by continued strength in wholesale beef prices.

The domestic cotton market displayed an improved tone the past week; spot prices at New York closed about 20 points higher than in the preceding week. The moderate upturn was influenced by continued good mill buying and sustained activity in textile markets. Inquiries and offerings showed an increase in volume and most farmers continued to sell freely.

This was the largest for the period since records became available, and compared with 11,679,000 bales ginned to the same date last year.

Ginnings through mid-November were equivalent to 77% of the indicated crop, against 80% a year earlier.

Reported loan entries into the 1949 loan stock during the week ended Nov. 17 increased to 163,500 bales, from 154,300 the previous week. Total entries for the season to date were 1,028,400 bales, compared with 2,662,300 to the same date last year.

RETAIL AND WHOLESALE TRADE STEADY FOR WEEK WITH DOLLAR SALES SLIGHTLY BELOW 1948

Retail buying rose slightly in the period ended on Wednesday of last week, as seasonal weather prevailed in many sections of the country. The level of dollar sales remained slightly below that of the comparable period in 1948, according to Dun & Bradstreet, Inc., in its current survey of trade.

A general preference for lower-priced merchandise in many lines was noticeable.

The unit volume of women's apparel increased somewhat last week, following scattered sales; the aggregate dollar volume was below last year's level; some stores effected mark-downs in their coats, suits and dresses. The demand for furs increased somewhat from the level of previous weeks. Demand for men's suits and coats remained close to that of the preceding week. Specialty items for men were in large demand and increased purchasing of sweaters and neckwear was especially noticeable.

The retail demand for food dipped slightly during the immediate post-Thanksgiving period with the over-all level of buying close to that of the week before.

The number of requests for canned foods remained slightly limited, while the purchasing of fresh fruits, vegetables and the low-priced cuts of meat continued steady.

Dollar volume was slightly below that for last year; some independent grocers introduced general price cuts.

Varied and sustained promotions in many lines of furniture and major appliances were reflected by increased consumer buying last week. The demand for house-furnishings exceeded the level for the corresponding week a year ago. The interest in dinnerware increased moderately last week, while the high level of television sales was generally sustained.

Total retail volume in the period ended on Wednesday of last week was estimated to be from 2 to 6% below that of a year ago. Regional estimates varied from the levels of a year ago by the following percentages:

Midwest, Northwest and Pacific Coast —1 to —5; New England 0 to +4; East —4 to —8; South —2 to —4 and Southwest —8 to —12.

The over-all dollar volume of wholesaling in the week remained close to the preceding week's figure; it was down slightly as compared with the similar week in 1948. The number of buyers present at many wholesale centers rose moderately.

Department store sales on a country-wide basis, as taken from the Federal Reserve Board's index for the week ended Nov. 26, 1949, decreased by 5% from the like period of last year. In the preceding week a decrease of 8% was registered below the like week of 1948. For the four weeks ended Nov. 26, 1949, sales registered a decrease of 6% from the corresponding period a year ago and for the year to date a decline of 6%.

Purchases for Christmas perked up the past week here in New York with department store sales estimated at about 5% under the like week of 1948.

According to the Federal Reserve Board's index, department store sales in New York City for the weekly period to Nov. 26, 1949, decreased by 2% from the same period last year. In the preceding week a decrease of 7% was registered below the similar week of 1948. For the four weeks ended Nov. 26, 1949, a decrease of 4% was reported under that of last year. For the year to date volume decreased by 8%.

NOTE—On another page of this issue the reader will find the most comprehensive coverage of business and industrial statistics showing the latest week, previous week, latest month, previous year, etc., comparisons for determining the week-to-week trends of conditions, by referring to "Indications of Current Business Activity."

Defense Praparations And Financial Outlook

(Continued from page 3)

war. Already, we are told that more or less old-fashioned methods will prevail, including mass armies with tanks and artillery. That might give the Administration an excellent excuse to restart the propaganda for universal military training — for more spending.

Enemy's Preparations

The enemy's preparations are difficult to gauge, as indicated by the current discussion about Russia's industrial potential. Until Sept. 22, the Western (other than pro-Soviet) literature was virtually unanimous in the self-assurance that Russia is some 10 to 20 years behind us in industrial know-how, that her labor force and management are inefficient, that she lacks mechanical equipment, etc. Practically the next morning after the announcement of the Russian atomic explosion, the publicity machine turned on its heels. Ever since, we hear about the progress of Soviet industry, about the use it makes of German technicians, etc. The truth of the matter is, probably, that both theories are correct: many Russian industries may be backward and inefficient while others, especially those producing war equipment, may be equal to ours. A recent series of articles by an unknown correspondent (presumably a neutral military attache) in the leading Swiss newspaper "Neue Zurcher Zeitung" indicates that, in aircraft and tank production, the Russians may be lagging as much as a few months—or one or two models—behind American developments, but that this lag is far from being vital from the point of view of military efficacy. And whatever model they bring out, it is being produced on a mass scale.

Preparing Against Surprise

If we are doubtful about successfully counterattacking Russia, her problem in attacking us should not be easier than ours. If she can defend her territory against blitzkrieg, we can do as well. But there are three hitches in this self-consolation. As the Germans secretly developed superweapons before we did, so could the Russians. Their defense, in addition, is made easier than ours by the more widespread geographic distribution of their industries. Above all, having the initiative, they may be able to surprise us in a deadly fashion.

Therefore, we will have to top our retaliatory preparations by advance protection against surprise attack. Already, the Atomic Commission has indicated that the important offices in Washington should be moved out of town and placed at a distance of at least two miles from one another. That alone means a multi-billion construction project. Moreover, every major city should be provided with underground shelters in which millions of people can live for days or weeks. It would be futile to estimate the fantastic cost of such projects.

Meaning of the Atlantic Pact

But all that is not the whole story of what war preparations will cost if they last years or decades. Our commitments and plans to arm our allies are another massive item. France would need 50 divisions of American size and equipment to play her part in holding the Russian army, presently estimated at 3.8 million men, until Anglo-American aid could be put in on an effective scale. However, a single division of that type costs about $80 million to equip, not counting the cost of operation for longer than one day. Even if the French could carry a good slice of that expense, our share still would be sufficiently large to unbalance the national budget "for good."

But the French are only one among potential Allies. And the nine Atlantic Pact nations soon should be joined by others. If the war clouds keep gathering, we could not possibly leave out India, Australia, Korea, and even Germany and Japan. The latter two would have to be provided at least with some militarized police force if only to offset the similar forces put up by their opposite numbers among the "reliable" Satellites.

That raises the question about the meaning and value of the Atlantic Pact. What do we get in exchange for the expenses involved? True, Europe will be in a better position to defend itself than at present—when it is in no position to do so. But in the first place, our military aid presupposes that they themselves contribute more substantially than they do now when their budgets are cracking under the burden of military outlays (on top of those for social purposes and for carrying the cost of the last war). Briefly, by helping to re-arm the Europeans, we may be helping to bankrupt them, too, and to weaken their economic and social texture.

But will they fight when it comes to the showdown? By the letter of the Atlantic Pact, they are not even obliged to do so, leaving aside the question of what a treaty is worth when it comes to such a vital issue as participation in a world war.

As a matter of fact, all over Western Europe, this writer has been assured by prominent men in public life that they do not believe in their respective countries' willingness to become the battleground of the two giants. There is no honor or advantage in being a solid aircraft carrier for the Americans, a British cabinet member told me. The more arms we put in European hands, the better their position to keep out of the fight. Well-equipped, they can offer the Russians a good bargain: to be permitted to stay neutral.

Neutrality, for one thing, is good business. It would save Europe from destruction and occupation. For decades it might reverse the balance of payments situation. Even the center of industrial might could revert back to Western Europe, together with the highest level of living standards. Nor can it lose much. If we win, nothing can happen to our "allies." Should we be on the losing side, or should the war be stretched out too long, they can always enter it on our side and take credit for the final victory. That is exactly what the Americans did to us twice before, they say with scarcely concealed sarcasm.

The Alternatives

Summing up, there can be little doubt about two things: that we are only at the beginning of preparations for World War III; and that continued for years or decades, such preparations certainly would bleed this nation white, together with the rest of the civilized world. Is there no other solution but to go along on that road to economic suicide—at the end of which we ourselves might have become bolshevized from within—the Soviets winning the cold war automatically? Of course there are four other possibilities, all four widely supported by wishful thinkers.

One group argues that Russia would break under the pressure of cold war sooner than we, or would lose face and somehow would have to give up the race. This is an excellent idea for keeping its believers in a fool's paradise. A power controlling the vast population and physical resources of Russia, one that is erupting by leaps and bounds into the Orient's teeming masses of age-old suppression and discontent, the one run by the most ruthless men known in history—can carry on for another thirty years as it has for the past thirty-two. The sharper the cold war, the more it justifies the internal tyranny and the more the Soviets can count on the submissiveness if not the voluntary cooperation and patriotism of their subjects. They can keep up their war preparations and even gradually raise the living standards of the masses which accept the slightest improvement as a bonanza and which know less and less about conditions elsewhere.

Nor is Moscow inhibited by prestige considerations. Any one who knows Soviet history is aware of the fact that while the Kremlin is very anxious to enhance its prestige, it is ready to sacrifice it when circumstances so dictate. The Soviets have taken more "on the chin" than has any other system in the last three decades, and they always have found an excuse in Marxian ideology. If they could ally themselves with Hitler without losing their self-respect or the loyalty of their fellow-travelers, they can make another about-face and take back to their broad bosom our "friend" Tito. When in 1923 they lost the cold war against Poland, they offered her more territory than she asked for in spoils. In the end, they got the whole of Poland. They were kicked out of China in 1926, and today they are more firmly ensconced there than ever before.

A second school of thought—of full and semi-fellow-travelers—still hopes that somehow a peaceful *modus vivendi* might evolve that would permit scrapping or reducing war preparations. This "liberal" line of approach has been responsible in the past for the vast increase of Soviet power, including the absorption of Central Europe, of Northern Korea and of China, also for the weakening of colonial footholds in Southeast Asia. It is supported occasionally by Stalinite peace-offensives, and especially by American appeasement policies, beginning with the out-and-out aid to Russia during the war, through the unprecedented betrayal at Teheran and Yalta, down to all the measures which condone Russian treaty-breaking so as to avoid conflicts. But by this time, the country is sufficiently alerted, thanks to Mr. Stalin, against further and potentially fatal illusions about the ultimate intentions which motivate the commissars.

Relief from Europe?

A third approach wants us to believe that we will be relieved, partially at least, by Western Europe's own recovery. The British and French empires and their minor allies will soon be back on their feet. They then will match Russian power. Indeed, in terms of manpower, industrial capacity and even of natural resources, they should be able to do so. The trouble is that they do not seem to be in a hurry to get back "on their feet." As a matter of fact, they may grow weaker as their "democratic socialisms" eat deeper into the material and moral fiber of their systems. At any rate, there is little hope that they could grow so strong within a decade or two that our participation in the Atlantic alliance could be reduced to financially bearable proportions. For years to come, we will either continue bolstering them, enhancing the pressure on our economy, or we shall let them "go." In the latter case, they will have to pass through domestic crises which may paralyze them for years.

There are only two nations which could soon recover in a military sense, and which may be used as really effective dams against the Russian tide. But who would seriously consider permitting Germany and Japan to rearm?

How to End the Arms Race?

That leaves open a fourth alternative to an endless armament race: acting at once, if piecemeal only, to end the race. Such action would have to consist in continuous or intermittent pressures on the Soviet bloc, using its obvious treaty violations as reason (or pretext). Step by step, Moscow would have to be pushed back, the Satellite countries forced to accept legal regimes, etc. Moscow would have to be forced either to submit to an effective international armament control (to which we submit, too) or to suffer one loss after another.

However, that might mean "risking war." The Berlin airlift, the Atlantic Pact (in violation of previous Allied treaties) and other incidents should have taught us that Russia is far from ready for war. But as long as we shy away from that (very questionable) risk, we may avoid war —until the Soviets are ready to start it.

National Debt Inflation

In the meantime, all indications are that preparednes on a colossal scale is what we have to face. The costs will be colossal, too, well comparable to those of World War II, but protracted over an indefinite period, with no end in sight.

It would take a special study to assess, even vaguely, the potential implications and consequences. It stands to reason that the "progress" of armaments will be accompanied by a more or less continuous, if not rapidly accelerating national debt. That, in turn, can "end" only by some form of debt-repudiation: outright repudiation of part or the whole of its capital (and interest); or reduction of its burden by price and income inflation, followed in turn by devaluation of the currency.

Of course, these are long-term observations. They may have little or no bearing on the prospects of the next months or even of the next couple of years —unless the market place discounts them well in advance by sky-rocketing capital valuations and similar adjustments.

For another thing, as long as the growing national debt permits supporting the current prosperity and even "improving" on it, without the inflationary consequences becoming serious, the Republican Party's prospects of coming into power may be safely discounted.

With Beardslee-Talbot

(Special to THE FINANCIAL CHRONICLE)

MINNEAPOLIS, MINN. — Harvey S. Mack has been added to the staff of Beardsley-Talbot, 607 Marquette Avenue.

With King Merritt Co.

(Special to THE FINANCIAL CHRONICLE)

ST. CLOUD, MINN. — Rede A. Larson has joined the staff of King Merritt & Co., 1211 First Street, North.

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)	Dec. 11	91.7	87.7	21.0	100.0
Equivalent to—					
Steel ingots and castings (net tons)	Dec. 11	1,690,500	1,616,800	387,000	1,802,500
AMERICAN PETROLEUM INSTITUTE:					
Crude oil and condensate output—daily average (bbls. of 42 gallons each)	Nov. 26	5,191,850	5,211,050	5,075,150	5,666,450
Crude runs to stills—daily average (bbls.)	Nov. 26	†5,331,000	5,292,000	5,509,000	5,778,000
Gasoline output (bbls.)	Nov. 26	18,204,000	18,157,000	19,002,000	17,317,000
Kerosene output (bbls.)	Nov. 26	2,033,000	2,227,000	2,209,000	2,630,000
Gas, oil, and distillate fuel oil output (bbls.)	Nov. 26	6,971,000	7,117,000	7,016,000	7,402,000
Residual fuel oil output (bbls.)	Nov. 26	8,104,000	8,214,000	7,754,000	9,582,000
Stocks at refineries, at bulk terminals, in transit and in pipe lines—					
Finished and unfinished gasoline (bbls.) at	Nov. 26	104,917,000	103,380,000	103,915,000	93,802,000
Kerosene (bbls.) at	Nov. 26	26,069,000	27,526,000	28,225,000	26,454,000
Gas, oil, and distillate fuel oil (bbls.) at	Nov. 26	91,795,000	92,652,000	90,258,000	80,375,000
Residual fuel oil (bbls.) at	Nov. 26	67,087,000	68,620,000	69,459,000	63,969,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	Nov. 26	§664,555	§758,972	§591,317	722,936
Revenue freight received from connections (number of cars)	Nov. 26	§613,494	§595,026	§515,883	663,369
CIVIL ENGINEERING CONSTRUCTION — ENGINEERING NEWS-RECORD:					
Total U. S. construction	Dec. 1	$219,647,000	$90,244,000	$169,933,000	$362,329,000
Private construction	Dec. 1	115,496,000	44,949,000	102,827,000	287,841,000
Public construction	Dec. 1	104,151,000	45,295,000	67,106,000	74,488,000
State and municipal	Dec. 1	53,684,000	35,177,000	57,644,000	63,023,000
Federal	Dec. 1	50,467,000	10,118,000	9,462,000	11,465,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	Nov. 26	12,650,000	*14,150,000	2,770,000	10,488,000
Pennsylvania anthracite (tons)	Nov. 26	780,000	1,133,000	1,180,000	1,041,000
Beehive coke (tons)	Nov. 26	9,400	*5,900	1,800	149,000
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100	Nov. 26	330	342	298	347
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	Dec. 3	5,742,915	5,537,122	5,434,924	5,645,686
FAILURES (COMMERCIAL AND INDUSTRIAL)—DUN & BRADSTREET, INC.	Dec. 1	221	148	196	126
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	Nov. 29	‡3.705c	3.705c	3.705c	3.720c
Pig iron (per gross ton)	Nov. 29	$45.88	$45.88	$45.88	$46.91
Scrap steel (per gross ton)	Nov. 29	$23.92	$20.92	$27.58	$43.00
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	Nov. 30	18.200c	18.200c	17.325c	23.200c
Export refinery at	Nov. 30	18.425c	18.425c	17.550c	23.425c
Straits tin (New York) at	Nov. 30	85.000c	85.000c	95.000c	103.000c
Lead (New York) at	Nov. 30	12.000c	12.000c	13.000c	21.500c
Lead (St. Louis) at	Nov. 30	11.800c	11.800c	12.800c	21.300c
Zinc (East St. Louis) at	Nov. 30	9.750c	9.750c	9.500c	17.500c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Government Bonds	Dec. 6	104.24	104.00	104.15	100.86
Average corporate	Dec. 6	115.43	115.24	115.04	111.07
Aaa	Dec. 6	121.25	121.04	120.84	117.00
Aa	Dec. 6	119.61	119.61	119.20	115.24
A	Dec. 6	114.85	114.46	114.46	109.79
Baa	Dec. 6	106.92	106.56	106.56	103.30
Railroad Group	Dec. 6	109.79	109.24	109.42	106.39
Public Utilities Group	Dec. 6	117.00	117.00	116.61	111.62
Industrials Group	Dec. 6	119.82	119.61	119.61	115.82
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Government Bonds	Dec. 6	2.19	2.21	2.20	2.44
Average corporate	Dec. 6	2.88	2.89	2.90	3.11
Aaa	Dec. 6	2.59	2.60	2.61	2.80
Aa	Dec. 6	2.67	2.67	2.69	2.89
A	Dec. 6	2.91	2.93	2.93	3.18
Baa	Dec. 6	3.34	3.36	3.36	3.55
Railroad Group	Dec. 6	3.18	3.21	3.20	3.37
Public Utilities Group	Dec. 6	2.80	2.80	2.82	3.08
Industrials Group	Dec. 6	2.66	2.67	2.67	2.86
MOODY'S COMMODITY INDEX	Dec. 6	344.7	347.6	344.1	400.4
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	Nov. 26	164,709	179,741	193,527	150,890
Production (tons)	Nov. 26	199,368	205,526	203,786	183,311
Percentage of activity	Nov. 26	90	94	94	89
Unfilled orders (tons) at	Nov. 26	374,086	416,000	400,589	338,720
OIL, PAINT AND DRUG REPORTER PRICE INDEX — 1926-36 AVERAGE=100	Dec. 2	124.5	125.8	125.8	144.6
STOCK TRANSACTIONS FOR THE ODD-LOT ACCOUNT OF ODD-LOT DEALERS AND SPECIALISTS ON THE N. Y. STOCK EXCHANGE—SECURITIES EXCHANGE COMMISSION:					
Odd-lot sales by dealers (customers' purchases)—					
Number of orders	Nov. 19	25,417	18,427	21,612	25,149
Number of shares	Nov. 19	755,910	538,982	642,879	712,968
Dollar value	Nov. 19	$30,614,497	$22,562,168	$25,170,205	$27,320,266
Odd-lot purchases by dealers (customers' sales).					
Number of orders—Customers' total sales	Nov. 19	28,507	19,717	24,822	18,546
Customers' short sales	Nov. 19	269	123	207	173
Customers' other sales	Nov. 19	28,238	19,594	24,615	18,368
Number of shares—Customers' total sales	Nov. 19	782,893	520,452	685,558	500,881
Customers' short sales	Nov. 19	9,615	4,184	7,374	6,583
Customers' other sales	Nov. 19	773,278	516,268	678,184	494,298
Dollar value	Nov. 19	$28,598,905	$18,831,219	$23,325,868	$17,174,804
Round-lot sales by dealers—					
Number of shares—Total sales	Nov. 19	278,910	172,750	243,080	114,370
Short sales	Nov. 19	------	------	------	------
Other sales	Nov. 19	278,910	172,750	243,080	114,370
Round-lot purchases by dealers—					
Number of shares	Nov. 19	284,410	173,620	209,030	347,930
WHOLESALE PRICES NEW SERIES—U. S. DEPT. OF LABOR—1926=100:					
All commodities	Nov. 29	151.4	151.5	151.4	163.9
Farm products	Nov. 29	155.3	156.8	156.3	180.8
Foods	Nov. 29	157.9	159.5	158.7	173.6
All commodities other than farm and foods	Nov. 29	145.1	145.0	144.6	153.5
Textile products	Nov. 29	137.6	137.4	136.6	147.1
Fuel and lighting materials	Nov. 29	130.4	130.5	130.6	137.5
Metals and metal products	Nov. 29	169.2	169.2	168.8	173.7
Building materials	Nov. 29	189.2	189.4	188.4	203.1
All other	Nov. 29	116.5	116.2	115.7	133.6
Special indexes—					
Grains	Nov. 29	162.3	158.3	153.4	171.8
Livestock	Nov. 29	187.8	185.9	193.8	233.1
Meats	Nov. 29	211.2	211.1	216.9	237.3
Hides and skins	Nov. 29	202.9	201.9	204.0	207.3

*Revised figure. †Includes 471,000 barrels of foreign crude runs. ‡The weighted finished steel composite was revised for the years 1941 to date. The weights used are based on the average product shipments for the 7 years 1937 to 1940 inclusive and 1946 to 1948 inclusive. §Reflects effect of five-day week effective Sept. 1, 1949.

	Latest Month	Previous Month	Year Ago
BUILDING CONSTRUCTION PERMIT VALUATION IN URBAN AREAS OF THE U. S. — U. S. DEPT. OF LABOR — Month of September (000's omitted):			
All building construction	$718,302	*$683,898	$591,514
New residential	421,210	*384,096	287,856
New nonresidential	213,616	*207,335	218,027
Additions, alterations, etc.	83,476	*92,467	85,631
BUILDING CONSTRUCTION—U. S. DEPT. OF LABOR—Month of Nov. (in millions):			
Total new construction	$1,744	*$1,889	$1,646
Private construction	1,278	*1,353	1,256
Residential building (nonfarm)	700	*725	615
Nonresidential building (nonfarm)	264	*261	325
Industrial	68	*68	116
Commercial	86	82	106
Warehouses, office and loft buildings	24	22	32
Stores, restaurants and garages	62	60	74
Other nonresidential buildings	110	111	103
Religious	31	31	28
Educational	23	23	25
Hospital and Institutional	22	*22	10
Social and recreational	20	*21	23
Remaining types	14	14	17
Farm construction	25	50	22
Public utilities	289	317	294
Railroad	34	35	36
Telephone and Telegraph	43	45	60
Other public utilities	212	237	198
Public construction	466	*536	390
Residential building	26	*27	7
Nonresidential building (other than military or naval facilities)	157	*158	116
Educational	82	*80	62
Hospital and institutional	46	*47	27
All other nonresidential	29	*31	27
Military and naval facilities	12	*14	11
Highways	130	185	131
Sewer and water	50	51	45
Miscellaneous public service enterprises	9	9	7
Conservation and development	65	*74	58
All other public	17	18	15
BUILDING PERMIT VALUATION — DUN & BRADSTREET, INC.—215 CITIES—Month of October:			
New England	$19,170,505	$24,926,950	$15,838,786
Middle Atlantic	98,797,195	89,269,025	58,617,709
South Atlantic	36,216,765	36,106,700	31,486,494
East Central	75,216,843	80,250,986	63,589,863
South Central	60,834,591	57,414,721	39,162,019
West Central	22,228,696	33,356,720	27,889,827
Mountain	8,730,864	11,482,028	8,337,781
Pacific	58,789,593	58,024,178	59,260,969
Total United States	$379,985,052	$390,831,308	$304,183,448
New York City	54,703,602	48,294,981	35,674,139
Outside of New York City	325,281,450	342,536,327	268,509,309
BUSINESS INCORPORATIONS, NEW IN THE UNITED STATES—DUN & BRADSTREET, INC.—Month of October	6,877	6,867	6,686
BUSINESS INVENTORIES, DEPT. OF COMMERCE NEW SERIES—Month of Sept. (millions of $):			
Manufacturing	$31,200	*$31,600	$33,400
Wholesale	9,200	*9,000	9,600
Retail	14,400	*13,900	14,900
Total	$54,800	*$54,500	$57,900
CONSUMER PRICE INDEX FOR MODERATE INCOME FAMILIES IN LARGE CITIES 1935-1939=100—As of Oct. 15:			
All items	168.5	169.6	173.6
All foods	200.6	204.2	211.5
Cereals and bakery products	169.1	169.7	170.0
Meats	235.1	243.6	256.1
Dairy products	186.7	185.3	203.0
Eggs	227.8	232.6	239.0
Fruits and vegetables	194.5	199.8	193.5
Beverages	213.8	211.0	205.9
Fats and oils	144.5	148.3	193.0
Sugar and sweets	177.5	176.8	173.1
Clothing	186.8	187.2	201.6
Rent	121.5	121.2	118.7
Fuel, electricity and refrigerators	138.4	137.0	137.8
Gas and electricity	97.0	97.1	95.4
Other fuels	188.3	185.9	191.4
Ice	145.6	141.6	137.9
Housefurnishings	185.2	185.6	198.8
Miscellaneous	155.2	155.2	153.7
MANUFACTURERS' INVENTORIES & SALES (DEPT. OF COMMERCE) NEW SERIES—Month of September (millions of dollars):			
Inventories:			
Durable	$14,300	*$14,700	$15,500
Nondurable	16,900	*16,900	17,900
Total	$31,200	*$31,600	$33,400
Sales	18,900	*18,900	19,900
NON-FARM REAL ESTATE FORECLOSURES—FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION—			
Month of September	1,594	1,604	1,189
PERSONAL INCOME IN THE UNITED STATES (DEPARTMENT OF COMMERCE)—Month of September (in billions):			
Total personal income	$210.8	*$211.4	$216.3
Wage and salary receipts, total	134.7	*134.4	137.7
Total employer disbursements	136.9	*136.6	139.9
Commodity producing industries	58.5	*58.2	62.8
Distributive industries	40.6	*40.5	40.4
Service industries	17.0	*17.1	16.7
Government	20.8	*20.8	20.0
Less employee contributions for social insurance	2.2	2.2	2.2
Other labor income	2.2	*2.2	2.2
Proprietors' and rental income	44.1	*45.2	49.4
Personal interest income and dividends	17.5	*17.3	16.5
Total transfer payments	12.3	*12.3	10.7
Total nonagricultural income	193.2	*192.2	193.3
SOFTWOOD PLYWOOD (DEPT. OF COMMERCE)—Month of September:			
Production (M sq. ft. $\frac{3}{8}$-in. equivalent)	168,747	*169,274	178,963
Shipments and consumption (M sq. feet, $\frac{3}{8}$-in equivalent)	169,832	*172,478	172,958
Stocks (M sq. ft. $\frac{3}{8}$-in. equivalent) at end of month	58,881	*59,756	53,356
Consumption of logs (M ft. log scale)	76,824	*75,401	78,823
Stocks (M ft. log scale) at end of month	244,744	*245,705	319,086

*Revised figures.

As We See It

(Continued from first page)

War I to impose more humiliating terms and conditions on the military organization of that country.

Unconditional Surrender

But this foolish and costly idea of "unconditional surrender" was but a part of a whole set of strange notions which the Roosevelt Administration developed about Germany and the way to deal with that troubled and troublesome land. Another fallacy which was evolved in Washington, and to which many of us still tenaciously cling, is the supposition that want of what we call "democracy" in Germany was at the bottom of her misdeeds, and that to establish "democracy" there would cure most of what was wrong with her people.

This theory has many infirmities, but only one need concern us here. That is the fact that Germans have little or no conception of what we think of as democracy, and less interest in it or in establishing it in their country. Of course, the cold fact is—with deep regret be it said—that we have lost much of our faith in it despite all the lip service we still pay to it. But the Germans have always preferred "Ordnung" to any sort of theory of social organization or to any part of what we think of as popular rule. Our efforts to convince them of the value of such political concepts and practices as we ourselves have traditionally valued have apparently come to almost exactly naught. We are evidently finding that the people of that country tend eternally to long for a return of some sort of ruler who will bring order out of the chaos existing now, and who will do the thinking for the masses. It is likely always to be so.

Denazification Folly

Another queer notion, about which it is even now not altogether diplomatic to tell the cold truth, is the one which held that the people and the nation could be denazified in some such way as soldiers were deloused at intervals during the first World War. It just simply is not working out that way. Just why we should ever have thought it would is a mystery. The "leadership" principle which Nazism embodied —let us for the moment forget the horrible, morbid, inhuman aspects of the thing, since many, perhaps most, Germans do not believe them in any event — is one which is deeply imbedded in the German mind. Before the war was over, virtually every one had become Nazified in the sense either that he had been carried away with patriotic emotions or had to lend a hand in support of the regime in power if he wished to live. It soon proved quite impossible to set up any sort of efficient governmental or industrial organization in Germany with personnel never active either in the Nazi party or in its support during the war years.

Still another absurd notion was that commonly attributed in its more extreme form to the then Secretary of the Treasury Morgenthau. It held that the only safety for the world from the warlike and aggressive German people was to make an agricultural folk of them. This, inevitably, would have meant demolition in large part of the immense and highly efficient industrial mechanism which the German people had built up during the past half or three-quarters of a century. It would have meant also that someone somewhere would be obliged to support a people which in the circumstances then imposed could not possibly earn a living for themselves. We were hardly prepared to see thousands, even millions of people starving to death.

Western Europe Ex-Germany

But it meant more than that. It would have meant that the economy of all the remainder of Western Europe must suffer severe consequences from the amputation of this vital part of the industrial system which had grown up through the centuries. We never did go to the extremes to which the Morgenthau idea would have taken us, but it has taken us a long, long time to bring ourselves to the idea of permitting a real revival of German industry, and even now we hesitate. What is more, we are finding that rehabilitation of this industry can naturally be accomplished most readily and most efficiently by the men who made the wheels go round so well before we entered the picture. Inevitably these same men were "working with" the Nazis—whether or not they were members of the party. What most of them really thought of Hitler and his cohorts probably will never be known—but who else is there to do the job in hand?

The entire situation has been immensely complicated by the behavior of Russia in the east. The Kremlin, whatever else we may think of it, is composed of realists, who doubtless have all along understood the weakness and the nonsense of Allied thinking and much of Allied behavior as respects Germany. They are making the most of it. Just what they are doing behind the iron curtain is unknown, or at all events unknown to us, but they can be counted upon to be free from any doctrinaire notions about Nazism. They will doubtless do all they can to prevent the rise and development of a western German state, powerful and anti-Soviet, and to make sure that any united Germany is not an ally of Britain and the United States.

Can we not be as realistic?

Action for World Trade

(Continued from page 18)

items must always balance out. A glance at the international accounts of any country, at any time, will reveal that this is true.

The important question is, of course, the manner in which the accounts are balanced. At the present time, our international accounts with Western Europe are in balance chiefly because we have been making loans and grants to the countries participating in the Marshall Plan. A more desirable way of attaining these results would be to increase American private investment and to increase our imports of goods and services to a combined dollar volume sufficient to equal to our export sales and other dollar receipts.

Reliance upon loans and grants as is our present practice is expensive to the American taxpayer. It is not a "natural" means of attaining balance. The dollars thus made available do not flow from the ordinary processes of buying and selling. They are not a part of a normal channel of business.

The widening public discussion of possible means of stimulating American foreign investment is an encouraging indication that progress will be made in this direction. Simultaneous action to increase our imports is equally essential if we are to establish our international trade relationships at high and sound levels.

Government Trading Objectionable

This will not and should not be done in this country by government intervention. Government control or government trading cannot attain this objective. The problem of increasing our imports is the problem of private business, both in this country and abroad.

Government interference in international trade generally results in a reduced volume of foreign trade. This intervention, as it is now practiced in many foreign countries, is restrictive. It makes it difficult to transact foreign business. I am sure that all of you here today are quite familiar with these difficulties.

A foreign financial publication recently published a very interesting article entitled, "The Government Urges Export, but Here Are the 20 Steps." The article acknowledged the recognition by the foreign government involved that exports were necessary for national prosperity, and then went on to list 20 difficult steps which exporters had to take in order to effectuate a shipment abroad. I will not bore you today with the dreary recital of all of these 20 steps. Suffice it to say that the currency controls, multiple and unrealistic exchange rates, import controls, material allocation schemes, transaction taxes, export taxes, and other impediments which were listed create a mountain of paper work which adds to the cost of doing business and which discourages all but the most hardy from selling abroad.

And we in the United States are not entirely blameless. In spite of the substantial reductions in the United States tariffs which resulted from our Reciprocal Trade Agreements programs, our tariff today still remains high. The duty on certain rubber manufactures is still over 104%. The duty on artificial flowers made of yarn is 71%. Knit or crocheted wool gloves and mittens of certain types continue to pay an ad valorem duty of over 63%. Certain machine-made laces can enter the country only after a duty of 60% is paid. The duty on cigar and cigarette lighters valued at over $5 is 55%. Certain scissors and shears must pay a duty of 70%.

Many of these commodities are not competitive with United States products. Many specialties manufactured exclusively abroad are handicapped by a high rate of duty. The continuation today of these rates represents a prolongation of our debtor-nation psychology into our creditor-nation period. We ceased to be a debtor nation in 1914 but our debtor thinking continues today when our export trade is not far from double our import trade.

Our Proceedures Prevent Imports

This debtor-nation psychology goes far. Our procedures and regulations often appear to be devised to prevent imports rather than to facilitate foreign trade. You are all familiar with the problems of valuation, the conversion of foreign multiple currencies, the absence of binding rulings on commodity classifications, the provisions of the anti-dumping act and our countervailing duty laws. You may have heard of the experience of the Belgian rug manufacturers who, upon exporting their fringed rugs to the United States, found that they were not classified as rugs at all but as fringes, and paid almost double the regular rug duty.

Our Buy American Act also hinders our imports as do the public purchasing laws of many States, counties and municipalities. All of these render it difficult to employ raw materials of foreign origin in public contracts. It has been estimated that our public bodies, Federal, State and local, spend $10 to $11 billion a year but little of this can be used to pay for imported merchandise. We have a long way to go in our own import policy, if we are to attempt to maximize our export trade.

Taylor Mission Recommendations

The report of the Taylor Mission mentioned earlier has listed those things which need to be done to promote a substantial increase in our two-way foreign trade. The recommended action falls into three general categories.

In the first category, there is the action which should be taken by the European Governments. This action is of two types. The first is negative and consists in suggestions for the reduction or the abolition of foreign trade controls. The second is positive. The report urges European Governments to develop a more aggressive attitude toward exporting to the United States; to encourage increased production; to assist in the development of the travel plant; and to promote more adequate export credit facilities.

In the second group are listed the things which European business and labor can do. In this category, there are a number of important recommendations for European businessmen. They should sell more aggressively; meet more frequently with more American buyers and businessmen; study our markets and methods; cultivate the full potential of our tourist trade; establish trade promotion staffs in the United States; and, above all, lower the prices of their merchandise.

A third category deals with what United States business and labor can do in the fields of sales promotion, information, finance, and overseas development.

The steps which could be taken by the United States Government were not included in the published Taylor Mission report. These recommendations which deal, among other things, with customs duties, regulations and procedures, are being studied with a view toward initiating appropriate action.

There is one recommendation which this report does not make but which I should like to suggest for your consideration.

Foreign trade and our foreign trade policy are the business of the American people as a whole. Our foreign trade policy should be tailored to fit the needs and the interests of all the American people.

A Review of Policies Desired

This raises an important question. Does our present foreign trade policy meet these requirements? To obtain an answer to this question, perhaps our whole foreign trade policy should be reviewed by public committees composed of business, labor, agriculture, professional and educational leaders. These committees should include the most public-spirited citizens and the most outstanding people we can find.

These committees should review all aspects of our foreign commercial policy and present reports for the consideration of the Congress and the President of the United States.

Certainly, they should consider the possibilities of increased American private investment abroad, the factors, both favorable and unfavorable, which affect the flow of such funds in various parts of the world, and the legislative and other steps which should be taken to encourage attainment of maximum volume.

Among other things, they might also review the Tariff Act of 1930, the Buy American Act, fiscal laws and regulations as they apply to foreign trade, the operation of the Pure Food and Drug Act as it affects imports, and other laws, regulations, and practices which determine which goods can be imported and exported and under what conditions and terms this trade may take place.

Already the procedures of our customs administration are under active study by the Treasury Department and legislation promulgating reforms is likely to be presented to the Congress in the near future.

A thorough-going review, however, of the whole problem is needed. Much of the existing legislation which serves as a barrier to our import-export trade was enacted before 1914 when we were still a debtor nation. The Tariff Act of 1930 was the product of the dark, depression days, at a time when we were seeking all means of protecting our economy.

These conditions are changed today. We are the world's largest creditor nations and we must play our role with enlightened courage.

The economic stability of the world, and our own national prosperous security depend upon our ability to face up to the challenge of our position, and upon our effectiveness and good will in taking action, in cooperation with the governments and businessmen of the other trading nations, for expanded World trade.

The Security I Like Best

(Continued from page 2)

Atlantic, but I think the trend will improve rather than recede further. Heavy capital expenditures and the difficulty of equity financing have given the company a burdensome financial structure and have forced a conservative common dividend policy. It is possible to foresee improvement in both finances and dividends in the year ahead.

After making an excellent comparative record in the prewar years and the war years in expanding crude oil production, Atlantic fell behind the industry in the 1945-1948 years. Nevertheless efforts to find oil were continued at a high level, and were successful, particularly in West Texas and in Venezuela. In 1948 these efforts were rewarded by a 13.7% increase in net production, and in addition, toward the latter part of the year, regular shipments of high-quality crude began from the Eastern Venezuela properties. A decline of 5% in domestic production in the first nine months of this year reflects the production curtailment ordered by regulatory commissions. Currently, Atlantic's owned production in the United States and in Venezuela probably equals about 55% of refinery runs, the proportion should become larger during the next few years.

It is difficult to tell just why refining and marketing operations of Atlantic appear to fall below the competition in profitability. The physical organization of the company suggests an efficient operation, with a good balance in refinery and pipeline location and capacity, an adequate tanker fleet, and perhaps half of its retail marketing concentrated in Pennsylvania. At least there is no reason to assume that there is a serious fundamental handicap which the management is powerless to overcome. As a matter of fact, although the company does not furnish a divisional breakdown of earnings—few oil companies do—there are hints in this year's earnings record of some progress in the raising of the base earning power of the refining and marketing departments.

Earnings for the full year should exceed $8.50 per share, unless there are extraordinary year-end adjustments. This would compare with $12.68 in 1948, and would indicate an entirely satisfactory control of expenses in view of the drastic decline in the refiners' margin. Nearly half of the decline in earnings before income tax in the first nine months was due to increases in reserves and to decreases in special items of non-operating income.

The probability is that Atlantic Refining, simply as a producing company, could support its present capitalization and provide a promising equity. Earnings from the other divisions have been scraping bottom. Finances should improve gradually from this point, and higher dividend payments are probable. The common stock is selling at about 4½ times this year's earnings, and yields 5¼% on the current dividend. It may be entering a period of major improvement in investment stature.

JOHN J D'ARCY
Assistant Treasurer
F. L. Putnam & Co., Inc., Boston

When the common stock of the New England Gas & Electric Association was first publicly offered in 1947, it was, in my estimation, a good investment, and I still consider it an excellent stock for the future. The Association owns all the capital stock of eleven subsidiaries in Massachusetts, with the exception of New Bedford Gas & Edison Light Co., of which it owns 97.37%. It also owns all of the capital stock of a subsidiary in New Hampshire and one in Maine. It plans to sell the latter companies when feasible.

John J. D'Arcy

The company and the industry can look toward continued growth due to the increase in population in the United States since 1940—about 15 million. In a recent survey of the New England area by the Federal Power Commission, it was found that the population increase was comparable with the national average. There has been an increase in average consumption of gas and electricity due to the invention of new appliances and labor-saving devices. Over 80% of the electric customers and over 90% of the gas customers served by the Association are residential accounts so it is easy to visualize the effect of this increased profitable load factor due to the advent of these new appliances and labor-saving devices. The Association has shown an increase of 22% in electric customers and 8% in gas customers in the past five years. It is very probable that a sharp increase will result in the latter category with the introduction of natural gas into Massachusetts in late 1950 or early 1951.

Electric service is furnished to approximately 142,000 customers in a total of 76 communities and surrounding territory, having a total population of about 394,000. Gas is served to approximately 167,000 customers in 39 communities, having a total population of about 767,000. The territory served is highly diversified with a wide variety of industries being supplied by the various subsidiaries. Important recreational territories in southern Massachusetts and Cape Cod are also served, as well as the area around Portsmouth, New Hampshire.

The management, under the able leadership of Floyd L. Campbell, President of the Association, and H. Coleman Moore, Jr., Treasurer, has shown an ability to plan adequately for the future. For example, the plant of the Cambridge Gas Light Co. has been converted over to manufacture oil gas through the use of heavy, low cost bunker oil or pulverized coal, which ever is cheaper to buy. This produces gas of a 951 B.T.U. content, so that when natural gas enters the area with approximately 1100 B.T.U. content gas, there will be no large expenditures required to change over the plant or adjust customers' appliances to this high heat content gas. It is expected in time to have the remaining gas plants so converted that they too can use coal, oil, or natural gas, whichever is competitively the cheapest fuel. Installations of liquefied petroleum equipment in the existing gas plants has added an aggregate capacity of 18 million cubic feet which will adequately care for increased loads resulting from housing developments and other additional requirements.

The net additions to property, plant and equipment of the electric subsidiaries for the past five years totalled about $18 million so that existing facilities, plus those additions planned through 1952, will be adequate to serve the present loads and no more than normal expenditures will be required to meet growing loads.

The common stock of the Association is owned by trustees, educational institutions and investment trusts, in addition to individual ownership, which shows the regard with which this stock is held as an investment quality security. The current dividend of 90 cents per share annually yields about 6¼% at current prices. As this dividend is only about 60% of consolidated earnings, and as the latter are increasing monthly due to mounting revenues, increased efficiency from property improvements and additions and lower fuel costs, it is possible that a still further increase in dividend payments could take place within a reasonable length of time.

I consider the common stock of the Association, which is unlisted and traded actively over-the-counter, a suitable investment for conservative investors, charitable and educational institutions, and investment trusts.

BERTRAM M. GOLDSMITH
Partner, Ira Haupt & Co.
New York City

In view of the prospects of higher taxes within the next year or two, the security that I like best must have a tax-exempt feature. In view of the continued government deficits and the possibilities that such deficits might be reflected in further inflation, the security that I like best must be in a position to show appreciation and a higher dollar return in the event of such inflation. If the choice is limited to only one security, that security should at the same time offer the investor diversification in some form or other.

B. M. Goldsmith

It seems an almost impossible task to find these three requirements in one issue, and yet these qualifications are all present in the common stock of the Pennroad Corporation.

First of all, Pennroad, because it once acquired securities that now show tremendous losses, can take such losses each year, counteracting any income it receives or profits it may make, and so pay out a dividend to its stockholders that is considered a return of capital, and therefore not taxable, although **the investor must mark down the cost of his stock by the amount of each such dividend.**

This certainly is as near complete tax exemption as anyone could ask for in the form of a common stock. Pennroad can pay to its stockholders not only capital gains, but actual income received from its investments in the form of a dividend that is tax free until the holder sells his Pennroad. At such time, if tax laws are no different than they are today, the dividend would indirectly be taxable at a 25% maximum. Furthermore, if the stock is held by the investor until death, no tax will ever have to be paid on the dividends, as it will merely be taken into his estate at current market prices.

Pennroad is an Investment Trust, rapidly diversifying its holdings. While at the moment of writing it still has a substantial interest in railroad securities, it already has made a contract to sell these securities and is only waiting ICC approval. In my opinion, the management is rapidly proving itself capable of handling the investing of what will eventually be more than $50 million worth of funds. The fact that they have in the past few years placed most of the liquid funds at their disposal in natural gas and oil, utility and chemical securities, seems to forecast sound investment procedure. Furthermore, the stock can still be purchased at a slight discount. It seems reasonable to believe that with almost $2 billion worth of Mutual Funds already sold in this country at substantial premiums, Pennroad also will sell at a premium once its railroad sales are completed, and it becomes a really diversified trust, particularly since it has an advantage over the Mutual Fund as represented by its tax free dividend.

Pennroad has just paid a 50c dividend and has declared another 50c dividend payable in June, 1950. It has announced that it will pay dividends on a semi-annual basis and it seems reasonable to anticipate a satisfactory return that cannot be found in any other tax free investment.

I, therefore, know of no other security as attractive for the conservative investor in the higher tax brackets who wishes equity investment.

G. M. LOEB
E. F. Hutton & Co., N. Y. City

Webster's definition of "best" suggests that few of us could or, in fact, should publicly write about the one security we like best. The particular one we pick would be expected to have so many superlative and excellent qualities in so many different ways that strangers reading the story would leave it with misapprehensions that the writer never intended. The fact is that no security is good enough to be rated as to future developments. "The Security I Like Best" might easily be taken to mean the one I'd buy the most of, or the one I thought would have the biggest percentage advance, or the one I thought was good enough to be bought and forgotten. Actually, no one security possesses all these qualifications simultaneously and what is best for one purpose is not best for another. Likewise, what is best for one investor is not best for another. Hence, this story is about only one of the securities I like best.

G. M. Loeb

It is Chrysler Corporation stock, currently traded on the New York Stock Exchange at $61¼. I think it is one of the most desirable investments for any individual, trustee or institution, eligible to place funds in equities. At today's price and assuming at least the continuation of the current dividend rate, the income yield in the foreseeable future should be above 10%. In addition, the current outlook for the stock market in general and Chrysler in particular should give the investors a very excellent prospect of a long-term capital gain.

Chrysler Corporation seems to be in the most strategic position of the most strategically situated industry. American life, as we know it today, and the success of American arms in world warfare rest more on our mass production methods than any other single factor. Chrysler efficiently and profitably designs, manufactures and merchandises the mass produced article most desired by the American consumer in peacetime. For more than 25 years, pessimists on the state of the nation and others whose understanding of human psychology could be improved have been learning that to their sorrow. People need, basically, food, clothing and shelter, but these are necessities that are more often than not held to the minimum to find the means to get a new model automobile. The automobile industry in this country is unique in the persistency of this demand and in its ability to get owners to trade year after year perfectly good cars for newer and better and more stylish ones. Motor cars, of course, are also necessities, considered in the nature of modern type of shoes. But, it is the human desire for cars, added to their utility value, that creates and sustains the total demand.

In wartime, the engineering and production genius of Chrysler has been proven to be one of the mainstays of the country's defense. Chrysler's war production was conducted profitably and permitted the payment of wartime dividends consistent with national policy in wartime.

Thus, here we have a real war baby that is a solid peacetime citizen as well—ideal twins, so to speak.

We are running over our 500-word limit so we will close with a few more general facts and no space at all for a documentation of all the various factors that make us rank Chrysler as one of the securities we like best. One major factor is size. As between being too big or too small, I would unhesitatingly pick the big company. Chrysler, however, is big enough to insure its competitive position and insure its survival. Yet it is run on a qualitative basis, instead of a quantitative one. Quality of product fostering security of trade position and leading to net profits for the equity owners has been the guiding management principle. Without dilution of common stock, Chrysler has paid off debt, increased plant facilities, increased working capital and generally lifted itself soundly by its own bootstraps. Chrysler accounting is simple and believable. Continuity of management imbued with Chrysler, Keller, Zeder and Hutchinson principles is being fostered. In my opinion, its profits, dividends, sales, its financial strength, its book value, all of which have been increasing, will continue to increase and investor valuation should rise even more rapidly.

WILLIAM H. MOORE
Manager, Investment Dept.,
J. & W. Seligman & Co., N. Y. City

The security I like best for the future must be one that will not only afford me some protection against adverse developments of the future but will also provide participation in the growth and economic well-being of the nation. Only a balancing of risks is likely to produce such results. Such balance is established by relatively stable investments on the one hand and common stocks on the other. The stabilizer or backlog would consist of bonds and preferred stocks with a proportionately larger amount invested in the highest

William H. Moore

credit risks and a lesser amount in higher income producing bonds or preferred stocks which, because of wider price fluctuations, should be avoided entirely if income requirements permit. The overall size of this backlog would depend upon individual requirements or objectives but the average would be about one-half of the fund in backlog with the dollar amount varying as the overall size of the fund increases or decreases. If one were forced to a single choice, it would be U. S. Government bonds or a State obligation of highest quality and relatively short maturity if the tax exemption feature were controlling.

The investment of one-half or even an entire fund in government bonds may be done with equanimity if an investor's objectives and income tax status lend logic to the matter. It would not, however, make good sense to invest the entire amount or any large proportion of the amount allotted to common stocks in the common stock of one company. By hindsight, it is obvious that a single investment years ago in General Motors would have been an unbeatable solution of a problem. However, the selection could have been the Locomobile Co. of America, which expired some years ago. Similarly, at the turn of the century railroad and traction companies' common stocks, such as the old New York, New Haven & Hartford Railroad Co., and Metropolitan Street Railway Company (New York City), seemed to possess attractive possibilities and gilt-edge qualities. Success on any single choice basis has been unusually fortuitous rather than anything else.

The conclusion is inescapable that common stock investments must be diversified among strong companies in order to insure a sound program. An investor who does otherwise violates a cardinal principle and courts trouble. The obviously proper way to insure a degree of success related to the trends of our national well-being is to purchase a cross-section of thriving American industries with emphasis on those with good records with respect to past and prospective growth, the adequacy and trend of profit ratios and the financial ability of management, which a balance sheet and capital structure will indicate. All these factors may be determined by careful analysis of publicly available information. The uninitiated will require some professional help in doing this and, if the size of the fund permits, investment advice should be sought and paid for, as would be so for any worthwhile service. Individual and personal service is usually out of the reach of smaller investors but they may avail themselves of similar services by, in effect, pooling their resources with those of others in the same circumstances. In essence, that is the service performed by the investment companies. In choosing one, an investor should inquire as to the management record and the nature of the fund. For those who wish to pusue the "balance of risks" formula, there are such funds. Whitehall Fund, Inc., which is managed by some of my associates, enjoys careful and experienced guidance and the policies pursued coincide with those I believe so important for successful long-term investment.

E. J. PINGREE
F. S. Moseley & Co., Boston, Mass.

The security I like best is in the unique position of being in an industry that apparently is going to be good, no matter what general business does. Its growth may be slowed down or perhaps temporarily arrested in a period of deflation. However, over the next decade the natural gas industry is obviously going to be a big business.

Edwin J. Pingree

Rather than enumerate the various advantages of natural gas (which have been capably reviewed in your Nov. 17 forum) I should like to bring to your attention an individual company, namely, Transcontinental Gas Pipe Line. This company is building an 1840-mile pipe line from Hidalgo County, Texas, to New York City. This is said to be the world's longest pipe line and it will serve the world's largest market — metropolitan New York. Contracts have been signed with such fine companies as Consolidated Edison of New York, Brcoklyn Union Gas, Public Service Electric & Gas, and Philadelphia Electric.

It is expected that deliveries will begin in the fall of 1950, and the capacity of the line will be approximately 340 million cubic feet per day. However, in September of this year Transcontinental filed application with the Federal Power Commission to increase the capacity to approximately 505 million cubic feet per day. If this increase is granted estimated earnings could be $2.75 per share of common stock, in which event the price of the common stock would not be likely to remain in the 17-18 range.

One of the interesting possibilities of this company is its entry into the New England area. Transcontinental recently made application to extend this pipe line from New York City 26 miles through Westchester County to the Connecticut state line. If this application is granted by the Federal Power Commission it will permit Transcontinental to deliver gas to the Northeastern Gas Transmission Co. for delivery in New England.

It should be understood that Transcontinental Gas Pipe Line is a construction proposition at the present time and therefore has no operating income. Nor are dividends likely to be paid for at least two or three years. However, if the risk which is inherent in a constructinon job can be taken, Transcontinental probably will reward its patient stockholders with substantial appreciation.

Realizing that there are now more miles of gas transmission lines than there are miles of railroad in the United States, we readily can see that these transmission companies are a big business in themselves. Transcontinental will in all probability grow to be a leader in this field and I believe the common stock will reflect this growth.

The common stock of Transcontinental Gas Pipe Line is unlisted. I consider it suitable for speculatively-minded individuals.

THEODORE PRINCE
Investment Counsel, N. Y. City

The New York, Chicago & St. Louis Railroad Co., known as the "Nickel Plate," is in effect an interconnecting main line road of 1,687 miles between Buffalo, Chicago and St. Louis. It is shortly to acquire by lease for 99 years the Wheeling & Lake Erie Railroad of 505 miles with the main connection at Cleveland, Ohio. The "Nickel Plate" serves a highly industralized district and 77% of traffic is received from connecting carriers. For this reason, the earnings of this railroad are likely to be more stable than other roads as the actual handling of freight is thus minimized and labor saved. In other words, the increase of freight rates is not swallowed up by an increase of wages. Also, it may be emphasized that the passenger traffic is only 1% of gross.

Theodore Prince

The "Nickle Plate" has 360,578 shares of preferred and 337,435 shares of common. It has decreased its fixed charges in the last ten years by over 50% and increased its net earnings from around $4 per share of the common in 1940 to $39 in 1948 and over $15 a share every year since 1940, except 1946 when it earned only $10 a share. From 1939 to date with the Wheeling & Lake Erie, the "Nickel Plate" would have earned per share of common stock each year about $19 and a high of $59 in 1948; in 1949 it is estimated to earn $25 a share and with the Wheeling & Lake Erie, $39 a share.

The 6% preferred stock (redeemable at 110) of the "Nickel Plate" has unpaid cumulative dividends which now amount to $73.50. The "Nickel Plate" has $3.4 million net working capital. Wheeling & Lake Erie has $5.8 million in net working capital.

The preferred is selling around $136 and the common around $87; no dividends, of course, can be paid on the common until the $73.50 is paid off or cleared on the preferred — this is the present problem. Evidently cash should not be used but earnings seem ample to effect a satisfactory disposition by the issuance of preferred stock without increasing the comparatively small issue of common stock. A 4% or 4½% Junior Issue of preferred stock at par for the $73.50 would only mean a decrease of $3.15 and $3.60 of earnings per annum on the common stock respectively. It is obvious that the purchase of one share of preferred and one of common for $223 would give the owner approximately $73 of additional value or $173.50 plus $87, which amounts to $260.50, with a resulting profit of around $37.50 per share, which, deducted from the common at $87 would reduce the cost of the common to about $49.50, earning as aforesaid $59 in 1948 and estimated $39 in 1949.

Of course, the risk of present prices from the low of even this year is present, but this risk applies equally to all present stock purchases. Has the current price discounted the present analysis and appraisal? The writer believes not—for earnings on the common stock are substantial in this comparatively poor railroad year and future dividends (when the preferred accumulations are liquidated) should make a cost price of around $59.50 per share of common as computed, seem attractive in comparison with other securities, which is the real test.

GAYLORD WOOD
Investment adviser and publisher of "The Dow Theory Barometer," Fort Lauderdale, Fla.

The security I like best for the future is General Motors. For many reasons I consider this stock to be the premier investment stock, and one that shows substantial appreciation possibilities, provided it is purchased at one of the depressed buying spots that offers itself during each decade.

Gaylord Wood

Although there is nothing about the capital structure of General Motors that resembles an investment trust, nevertheless the diversity of its manufacturing divisions places the corporation in effect as of so diversified a nature that investors need not hold a total of more than three or four stocks, one being General Motors.

This corporation is the largest in the world. For two decades the company has been at the top of the American automotive industry—it makes Buick, Oldsmobile, Cadillac, Chevrolet and Pontiac. Thus the coverage ranges from the lowest-price to the highest-price lines. General Motors also makes Chevrolet and GMC trucks, and GM motor coaches, as well as bodies and motor parts for its own output and for others. General Motors makes diesel engines, diesel locomotives, electric refrigerators, ball and roller bearings, airplane motors, air conditioning machinery, and is engaged in several other branches of manufacturing. It also owns half of the Ethyl Corporation. In short, General Motors is one of the country's leading and most successful industries.

There are around 44 million shares of General Motors common stock outstanding. Thus in point of the dollars involved, the investing public has almost three billion dollars invested in the common stock alone — probably a record among American corporations.

When General Motors stock is purchased at or near the low points that seem to recur in every decade, the capital appreciation ca n be spectacular. In 1924 General Motors was available at around 6 (adjusted for splits). In 1929 the stock sold at 91¾, a gain of 1,429%. It sold for 7⅝ in 1932, and rose to 77 in 1936, a gain of 910% in four years! From the 1941 low of 28⅜, the rise to 80⅜ in 1946 amounted to a gain of 181%.

Currently the stock in the 60-70 range appears too near the three peaks of 91¾, 77 and 80⅜ to be an attractive purchase. It is my opinion that sometime within the next couple of years General Motors will again be available at a figure low enough to show several hundred per cent gain on purchases. The coming severe business panic will turn investors' thoughts away from such investment stocks as General Motors. It is in periods of severe pessimism such as 1932 (and the early 1950s?) that the clever investor, ignoring advices **not** to buy such prime investments as General Motors, steps in boldly and purchases to the limit.

General Motors has an excellent dividend record. Considering the past quarter century, a dividend was paid in each and every year. The lowest amount paid was $1.25 per year in 1932 and again in 1933. The largest annual dividend was the $8 paid in 1949—an amount, incidentally, that was equal to the price you could have bought the stock for in 1932. Averaging the 25 years, General Motors has paid $2.97 per year.

In summary, I think that General Motors is the premier investment stock, suitable for the smallest or the largest portfolios. It is a stock with substantial appreciation possibilities if purchased at the right time. Thus General Motors offers the investor safety of principal, a rather steady income, and an ownership share in America at its best.

I consider the stock, which is listed on the New York Stock Exchange, suitable for individuals (conservative) as well as for trustees when common stocks are permitted.

First Boston Group Offers Ohio Ed. Com. Priced at $31.875 Shr.

A nationwide group of 154 underwriters, jointly headed by The First Boston Corp., Lazard Freres & Co., Union Securities Corp. and Wertheim & Co., offered Dec. 5 an aggregate of 1,136,537 shares of common stock, $8 par value, of Ohio Edison Co. An additional 5,558 shares which are not being underwritten are being offered by the company, giving the company's stockholders the right to subscribe for 1,141,995 shares at a price of $31.875 per share on the basis of one additional share for each two common shares held of record Dec. 1. Transferable subscription warrants will expire at 3 p.m. (EST) on Dec. 19, 1949.

Proceeds of the 1,136,537 shares being offered by the underwriters will go to the underwriters who will pay $35,000,000 to Cities Service Co. against the delivery to Ohio Edison of 2,000,000 shares of common stock of The Ohio Public Service Co. Ohio Edison will make a subsequent exchange offer of its common stock to public holders of the remaining 1,000,000 shares of Ohio Public Service common. At the conclusion of these steps and subject to approval by the stockholders and regulatory authorities, Ohio Public Service will be merged into Ohio Edison Co.

Both companies are engaged in the production and sale of electricity within the State of Ohio. Their service territories adjoin for over 200 miles with three interconnections of transmission lines. It is believed that the integration of the two will result in substantial operating economies. Both companies are engaged in construction programs which are estimated to aggregate approximately $48,700,000 in 1950-1951.

Ohio Edison Co. has paid dividends on its common stock in each year since its organization in 1930. Since June, 1946, to date, dividends of 50 cents per share have been paid in each quarter. Ohio Public Service has paid common dividends in each year since 1922. During the first three quarters of 1949 dividends of 28 cents per share were paid quarterly, with 31 cents per share already declared payable Dec. 22.

Giving effect to the entire financing and consolidated to reflect the proposed acquisition, Ohio Edison Co. will have outstanding approximately $140,544,000 of funded debt; 377,349 shares of preferred stock and approximately 3,427,990 shares of common stock.

Similarly, total revenues of the merged companies on a pro forma basis for the 12 months ended Aug. 31, 1949, amounted to $78,660,061 and net income amounted to $11,322,866.

With Waddell & Reed

(Special to THE FINANCIAL CHRONICLE)

BEVERLY HILLS, CALIF.—Daniel Schnabel has been added to the staff of Waddell & Reed, Inc., 8943 Wilshire Boulevard.

Securities Now in Registration

● **INDICATES ADDITIONS SINCE PREVIOUS ISSUE**

● **Acme Aluminum Alloys, Inc., Dayton, O.**
Dec. 2 (letter of notification) 3,000 shares of common stock to be sold at $2.50 each by William A. McKnight, Aurora, Ill. **Underwriter**—Reynolds & Co., New York.

American-Marietta Co., Chicago
Nov. 21 (letter of notification) 10,000 shares ($2 par) common stock. Price, market (about 10⅜). **Underwriter**—H. M. Byllesby & Co., Chicago. To reimburse corporate treasury for expenses in connection with purchase of additional property.

Ampal-American Palestine Trading Corp., New York
Nov. 3 filed $3,250,000 10-year 3% sinking fund debentures due 1958 and 200,000 shares ($10 par) class A stock. **Underwriter**—None, but securities are to be sold through efforts of directors and employees. Debentures are to be offered at par and the stock at $11 per share. **Proceeds**—To be used for economic development of Israel.

● **Armrey Co., Winston-Salem, N. C.**
Nov. 30 filed $5,000,000 Investment Objectives of the Armfield-Plan Investors' Plans, (Investors Objectives ranging from $1,200 to $60,000). These objectives are for the accumulation of shares of new class B common stock of R. J. Reynolds Tobacco Co.

Barclay Oil Co., Inc., Mt. Carmel, Ill.
Oct. 13 (letter of notification) 2,000 shares of non-convertible ($100 par) value preferred stock and 6,000 shares ($1 par) common stock (of which 2,000 shares will be purchased by underwriter at par). To be offered in units of one share of preferred and two of common stock at $102 a unit. **Underwriter**—Sterling, Grace & Co., New York. To acquire oil leases and drill wells.

Broadway Angels, Inc., New York City (12/20)
Nov. 14 filed 2,000,000 shares (1c par) common stock and 500,000 management shares of 0.1 of a cent par value, to be sold at 50 cents and 12.5 cents respectively. **Underwriter**—Hugh J. Devlin, New York. **Proceeds**—For working capital. **Business**—To back theatrical productions, distribute tickets and act as an agent for talent.

Canam Mining Corp., Ltd., Vancouver, B. C.
Aug. 29 filed 1,000,000 shares of no par value common stock. **Price**—800,000 shares to be offered publicly at 80 cents per share; the remainder are registered as "bonus shares." **Underwriter**—Israel and Co., New York, N. Y. **Proceeds**—To develop mineral resources.

Central Illinois Light Co. (12/14)
Nov. 18 filed $12,500,000 first mortgage bonds, due 1979. **Underwriter** — Competitive bidding. Probable bidders: Halsey, Stuart & Co.; Morgan Stanley & Co.; Equitable Securities Corp.; The First Boston Corp.; Union Securities Corp.; Merrill Lynch, Pierce, Fenner & Beane and Stone & Webster Securities Corp. (jointly); Blyth & Co., Inc.; Lehman Brothers. **Proceeds**—To redeem outstanding 3½% first and consolidated mortgage bonds and repay short-term bank notes. Bids expected Dec. 14.

● **Central Petroleum, Inc., Salt Lake City, Utah**
Dec. 2 (letter of notification) $50,000 of unsecured 5% promissory notes and a stock bonus of 50,000 shares of non-assessable common stock. With one share of stock to accompany each $1 principal value of notes. No underwriter. To drill wells and pay for leases.

Citizens Telephone Co., Decatur, Ind.
Oct. 21 (letter of notification) $250,000 of 4½% preferred stock. Price $100 each. To be offered initially to common stockholders. No underwriter. For plant and property additions to convert to automatic dial operation. Office: 240 W. Monroe Street, Decatur, Ind.

Clarostat Manufacturing Co., Dover, N. H.
Nov. 23 (letter of notification) 7,380 shares ($1 par) common stock, to be sold for Frank Mucher, 1102 E. 31st Street, Brooklyn, N. Y., at market (about $2.50 each). **Underwriter**—C. B. Richard & Co., New York.

Colorado Oil & Gas Co., Alamosa, Colo.
Aug. 30 (letter of notification) 250,000 shares ($1 par) common stock, of which 200,000 will be sold for company and 50,000 shares for N. O. Yeakley, a controlling stockholder, at $1 each. **Underwriter**—W. C. Hitchman Co., New York. To lease properties, drill wells, and for working capital.

Consolidated Caribou Silver Mines, Inc.
Nov. 17 (by amendment) 800,000 shares (no par) common stock. **Price**—$1.25 per share. **Underwriter**—William L. Burton & Co., New York. **Proceeds**—To develop mining properties. Expected early in December.

Consumers Cooperative Association, Kansas City, Mo.
Nov. 29 filed $2,000,000 3½% five-year certificates of indebtedness and $3,000,000 of 4½% 10-year certificates of indebtedness, to be sold to members. **Underwriter**—None. **Proceeds**—For corporate purposes, including financing inventories and paying operating expenses. Business: Farmers Purchasing Cooperative.

● **Deep Well Oil Corp., Fort Worth, Texas**
Nov. 25 (letter of notification) 275,000 shares of common stock, of which 137,500 will be sold at $1 each and the remaining 137,500 will be distributed as bonus shares, one for each share sold. No underwriter. To complete oil and gas test wells in Texas and Oklahoma. Office: 501 Moore Building, Fort Worth, Texas.

Dobbs Houses, Inc., Memphis, Tenn.
Nov. 9 (letter of notification) 10,500 shares ($1 par) common stock. To be sold by James K. Dobbs, President, and eight other stockholders. **Price**—$8 each. **Underwriter**—B. F. Ward & Co., Memphis.

Dow Chemical Co.
Nov. 4 filed 175,000 shares of common stock (par $15). **Offering**—To be offered to stockholders of record Dec. 20 and employees of the company, its subsidiaries and associated companies at $44.50 per share. Rights expire Feb. 1, 1950. **Proceeds**—To be added to treasury funds and used for corporate purposes. **Underwriter**—None.

Eastern Harness Racing Club, Inc. (12/12)
Oct. 27 filed 1,000,000 shares (5c par) common stock. Price, $1 each. **Underwriter**—Tellier & Co., New York. **Proceeds**—To purchase, improve and operate the Fort Steuben Raceway. Expected week of Dec. 12.

Florida Power Corp., St. Petersburg, Fla.
Nov. 2 filed 242,000 shares ($7.50 par) common stock. **Offering**—Offered stockholders of record Dec. 1 at the rate of one new share for each five held at $16.85 per share. Rights expire Dec. 21. **Underwriter**—Issue not underwritten but at expiration date company will enter into agreement with Kidder, Peabody & Co. and Merrill Lynch, Pierce, Fenner & Beane, under which the firms will undertake to sell shares not subscribed for. **Proceeds**—For construction.

Florida Telephone Corp.
Oct. 31 (letter of notification) 28,500 shares (par $10) common stock. **Underwriters**—None, other than company's officers, directors, employees or agents. Price to present stockholders will be $10 per share until Dec. 2, 1949, at which time the balance of shares unsubscribed will be offered to general public at $10 per share. **Proceeds**—To be used for further expansion of telephone facilities.

● **Food Fair Stores, Inc.**
Dec. 6 filed $8,000,000 15-year sinking fund debentures, due Jan. 1, 1965. **Underwriter**—Eastman Dillon & Co. **Proceeds**—Proceeds will be used to redeem $2,645,000 15-year 3½% debentures due Feb. 1, 1959, and $2,000,000 of notes. Balance will be used to acquire or construct additional supermarkets, warehouses, parking lots and other facilities, and to equip these facilities.

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.

Handmacher-Vogel, Inc., New York
Nov. 28 filed 150,000 shares ($1 par) common stock, of which 50,000 are to be offered by company and 100,000 by three stockholders. **Underwriter** — None named. Price by amendment. **Proceeds**—Company plans to use $315,000 to redeem 3,000 shares 5% cumulative preferred stock ($100 par), and the remaining $100,000 to improve lease-hold property and furnish new offices. **Business**—Manufacture of women's suits.

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. Indefinite.

● **Hingham (Mass.) Industrial Center, Inc.**
Dec. 2 (letter of notification) 25,000 shares of class A ($10 par) common stock. Price, par. **Underwriter**—Perkins & Co., Boston. For operating a plant to be leased from the Navy Department.

● **Hudson Fund, Inc., New York**
Dec. 1 filed 500,000 shares of capital stock. **Underwriter**—Hudson Distributors, Inc., Chicago and New York. **Business**—Investment fund.

● **Illinois Bell Telephone Co.**
Nov. 30 filed 389,982 shares of capital stock (par $100). **Offering**—To be offered to stockholders pro rata at $100 a share. American Telephone & Telegraph Co. will be given the right to buy 387,295 of these shares and the remainder will be offered public stockholders. **Underwriter**—None. **Proceeds**—To pay advances from A. T. & T.

Industria Electrica de Mexico, S. A., Mexico City
Nov. 29 filed 250,000 shares of 6% cumulative convertible preferred stock, 100 pesos par value ($11.5607). **Offering**—This stock is to be offered at par to holders of common and special stock at rate of five shares for each 12 shares held, either of common or special, or a combination of both. **Underwriter**—Banco Nacional de Mexico, S. A. **Proceeds**—To reduce outstanding short-term indebtedness.

● **Island Lake Park Development Co., Poulsbo, Wash.**
Nov. 29 (letter of notification) 7,000 shares (no par) common stock. **Price**—$10 each. To retire mortgage, build sea wall, cabins, dining room and improve existing buildings. Office, Route 3, Box 215, Paulsboro, Wash.

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** — To purchase additional plant facilities, tools, dies, jigs, etc.; the balance for working capital. Statement effective Oct. 3 and amendment to registration statement effective Oct. 31.

Kentucky Water Service Co., Inc., Louisville
Nov. 21 (letter of notification) 1,000 shares ($25 par) 6% cumulative preferred stock. Price, $27.50. **Underwriters**—Bankers Bond Co. and Smart & Wagner, Louisville, Ky. To extend water system at Middlesboro, Ky.

● **Lawrence (Mass.) Gas & Electric Co.**
Dec. 1 filed $2,750,000 of series A first mortgage bonds, due 1979. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Carl M. Loeb, Rhoades & Co.; Otis & Co.; Coffin & Burr. **Proceeds**—To redeem $1,500,000 3⅛% series A first mortgage bonds, due 1968, at 102¼% and to repay notes held by banks.

Limpia Royalties, Inc., Midland, Texas
Nov. 25 filed 516,228 shares ($1 par) capital stock. **Offering**—To be offered share-for-share in exchange for outstanding shares in Limpia Royalties, a trust estate. A value of $3.80 per share is placed on the new stock, and any shares not needed for the exchange will be sold to Trush shareholders on a ratable basis at this amount. **Underwriter**—None. To effect an exchange. **Business**—Mineral and royalty rights in Texas, New Mexico, Oklahoma and Arkansas.

Livesay Industries, Inc., Miami Beach, Fla.
Nov. 23 (letter of notification) 500 shares of capital stock. Price, $100 each. **Underwriter**—Paul A. Davis & Co., Miami. To buy manufacturing facilities, and for operating capital.

● **Lorain (Ohio) County Radio Corp.**
Dec. 1 (letter of notification) 508 shares (no par) common stock. **Price**—$50 each. No underwriter. To reimburse company's Treasury for net additions to property.

● **Lorain (Ohio) Telephone Co.**
Nov. 29 (letter of notification) 3,489 shares (no par) common stock. Price, $20 each. No underwriter. To partially reimburse the company's treasury for additions to property made in 1948. Office: 203 Ninth Street, Lorain, Ohio.

Lucky Stores, Inc., Oakland, Calif.
June 27 filed 400,000 shares of common stock (par $1.25), of which 100,000 shares are being sold on behalf of company and 300,000 shares by Blair Holdings Corp. **Underwriters**—Blair & Co., Inc., and E. H. Rollins & Sons, Inc. **Proceeds**—Company's part for working capital.

● **Magnavox Co., Fort Wayne, Ind.**
Dec. 2 filed 100,000 shares of class A $1 cumulative convertible preference stock ($15 par). **Underwriter**—Maynard H. Murch & Co., Cleveland. Price by amendment. **Proceeds**—To retire bank loans and furnish working capital.

Montana-Wyoming Gas Pipe Line Co.
Nov. 30 filed 150,000 shares ($5 par) common stock. **Offering**—To be offered to common stockholders of Montana-Dakota Utilities Co. at rate of one share for each seven held. **Underwriters**—Blyth & Co., Inc. and Merrill Lynch, Pierce, Fenner & Beane. Price by amendment.

NEW ISSUE CALENDAR

December 12, 1949

Eastern Harness Racing Club, Inc.________Common
Pennsylvania Electric Co.
Noon (EST)________________Bonds, Preferred
United Telephone Co. of Pa.______________Preferred

December 14, 1949

Central Illinois Light Co.____________________Bonds

December 20, 1949

Broadway Angels, Inc.____________________Common

December 21, 1949

Chesapeake & Ohio Ry.
Noon (EST)________________Equip. Trust Ctfs.

January 24, 1950

United Gas Corp._______________________Bonds

Proceeds—To build a gas transmission line from Worland, Wyo., to Baker, Mont.

● **Navajo Petroleum Co., Glenwood Springs, Colo.**
Nov. 25 (letter of notification) 17,650 shares of common stock. Price, $1.50 each. No underwriter. For further exploration of oil and gas leasehold interests and construction of a refinery in San Juan county, Utah.

● **Nevada Gold King Mining Co., Tonopah, Nevada**
Dec. 1 (letter of notification) 100,000 shares of stock. **Price**—15 cents each. No underwriter. To develop a group of mining claims in Esmeralda County, Nevada.

● **Neville Corp., New York**
Nov. 30 (letter of notification) 100,000 shares of common stock (par $1). **Underwriter**—Dunne & Co., New York. **Price**—$1.25 per share. The underwriter also will receive warrants to purchase 20,000 common shares at $1.25 per share, exercisable on or before Nov. 15, 1952, at rate of one warrant for every five shares sold. General corporate purposes.

New England Manufacturing & Supply Corp., New Haven, Conn.
Nov. 10 (letter of notification) 9,400 shares of 6% cumulative convertible preferred stock ($5 par) and 19,580 shares of class A ($1 par) stock and 7,180 rights to buy class A shares. The preferred stock will be sold at $5 each and the class A at $3 each. **Underwriter**—E. F. Bigoney & Co., New York. To finance inventory commitments, carry out sales program, and for general corporate purposes.

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.

● **Northern Indiana Public Service Co.**
Dec. 7 filed 211,380 shares ($100 par) cumulative preferred stock. **Offering**—To be offered on a share-for-share basis in exchange for a like number of shares of outstanding 5% preferred stock. **Underwriters:** Central Republic Co. (Inc.), Chicago; Blyth & Co., Inc. and Merrill Lynch, Pierce, Fenner & Beane, New York. **Proceeds**—To retire 5% preferred not surrendered in the exchange. Each share of stock exchanged will be accompanied by a cash payment to make up the difference between the offering price of the new stock and $106.61, the redemption price plus a 61-cent accrued dividend. Business utility.

● **Pacific Coast Paper Mills of Washington, Inc., Bellingham, Wash.**
Nov. 26 (letter of notification) 150,000 shares ($2 par) common stock. Price, par. No underwriter. To buy an additional paper mill.

● **Palmetex Corp., Pinellas Park, Fla.**
Nov. 28 (letter of notification) 71,640 shares ($1 par) common stock. Stockholders will be offered the opportunity to guarantee, in units of $1,000, a total of $60,000 of a loan from the RFC. For each $1,000 of debt guaranteed, the stockholder will receive 1,194 shares of common stock. No underwriter. These guarantees will enable Palmetex to qualify for a $250,000 RFC loan.

Pennsylvania Electric Co. (12/12)
Oct. 6 filed $11,000,000 first mortgage bonds, due 1979, and 70,000 shares of series D cumulative preferred stock ($100 par). **Underwriters**—Competitive bidding. Probable bidders for preferred: Kuhn, Loeb & Co.; Kidder, Peabody & Co.; Smith, Barney & Co.; W. C. Langley & Co., and Glore Forgan & Co. (jointly); Harriman Ripley & Co. For bonds: Halsey, Stuart & Co. Inc.; Harriman Ripley & Co.; The First Boston Corp.; Equitable Securities Corp.; Kidder, Peabody & Co.; Kuhn, Loeb & Co., Lehman Brothers and Drexel & Co. (jointly). **Bids**—Bids for purchase of securities will be received up to noon (EST) Dec. 12 at Room 2401, 61 Broadway, New York.

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.

Reed Prentice Corp., Worcester, Mass.
Nov. 18 (letter of notification) 10,000 shares ($2.50 par) common stock. Price, $7.50 each. To be sold by Charles S. Payson, New York. **Underwriter**—J. P. Marto & Co., Boston.

● **Rio Del Monte Mines, Inc., Salome, Ariz.**
Nov. 29 (letter of notification) 45,000 shares ($1 par) common stock. **Price**—$2 each. No underwriter. For machinery, working capital, and development work.

Sayre & Fisher Brick Co., Sayreville, N. J.
Nov. 18 (letter of notification) 106,584 shares of common stock (par $1). Price, $2 per share. Offered for subscription by stockholders of record Nov. 23 on a one-for-three basis. Rights expire Dec. 28. Breswick & Co., New York has agreed to purchase for investment and not for resale any unsubscribed shares. Rehabilitate enlarge, modernize and equip dryers, etc.

Smith, Inc., Fargo, N. D.
Oct. 12 (letter of notification) 2,000 shares of 6% cumulative preferred stock ($25 par) and 15,500 shares ($5 par) common stock. **Price**—Preferred to be sold at $25 and common at $7.75. **Underwriter**—W. R. Olson Co., Fergus Falls, Minn. To retire bank loans.

South Carolina Electric & Gas Co., Columbia, South Carolina
Nov. 22 filed $22,200,000 first and refunding mortgage bonds. Due 1979. **Underwriter**—Names by amendment. **Proceeds**—To redeem a like amount of outstanding bonds. Due 1979. **Underwriter**—Names by amendment (probably Halsey, Stuart & Co. Inc.; Kidder, Peabody & Co.; The First Boston Corp.; Union Securities Corp.).

● **Southwest Airways Co., San Francisco**
Nov. 28 (letter of notification). One option to purchase 32,500 shares of common stock with the price per unit $100 and the price per share $1.50. No underwriter. (The sale is to be made to one unidentified person.) For working capital.

Southwestern Investment Co., Amarillo, Texas
Nov. 16 filed 62,500 shares of 5% ($20 par) cumulative convertible sinking fund preferred stock. **Offering**—To be offered, together with cash, in exchange for three outstanding series of preferred stocks. **Underwriters**—First Trust Co. of Lincoln, Neb.; G. H. Walker & Co., St. Louis; Schneider, Bernet & Hickman, Dallas, and Dewar, Robertson & Pancoast, San Antonio. **Proceeds**—To buy outstanding preferred stocks and for working capital.

● **Spokane (Wash.) Portland Cement Co.**
Nov. 30 (letter of notification) 47,880 shares ($2 par) common stock. **Price**—$4.75 each. **Underwriter**—Harold H. Huston & Co., Seattle. To replace working capital expended on plant improvements.

State Street Investment Corp., Boston, Mass.
Nov. 28 filed 150,418 shares (no par) common stock, with subscription warrants. **Underwriter**—None.

● **Sterling Oil of Oklahoma, Inc., Tulsa, Okla.**
Dec. 2 (letter of notification) 30,000 shares (10¢ par) stock, to be sold at 12½ cents each by Greenfield, Lax & Co., Inc., New York City, who will serve as its own 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.

Teco, Inc., Chicago
Nov. 21 filed 100,000 shares ($10 par) common stock. **Offering**—These shares are to be offered to holders of common stock in Zenith Radio Corp. at rate of one share for each five held. Underwriter—None. **Proceeds**—For working capital and the promotion of Zenith's "Phonevision" device, whereby television users could pay a special fee for costly television programs by calling the telephone company and asking to be plugged in.

● **Texas Union Oil Co., Houston, Texas**
Nov. 25 (letter of notification) 188,412 shares (10c par) common stock, to be sold on behalf of stockholders. Price, 50 cents each. **Underwriter**—Stewart J. Lee & Co., New York.

Union Oil Co. (Calif.)
Oct. 17 filed 600,000 shares ($25 par) common stock. **Proceeds**—The shares are to be issued in partial payment for all of the 35,000 outstanding shares of capital stock of the Los Neitos Co., an oil producing company.

United Telephone Co. of Pennsylvania (12/12)
Nov. 22 filed 10,133 shares of series A 4½% cumulative preferred stock ($100 par). To be offered at par. **Underwriter**—Kidder, Peabody & Co. **Proceeds**—Plant expansion.

Upper Peninsula Power Co.
Sept. 28 filed 154,000 shares of common stock (par $9). **Underwriters**—SEC has granted exemption from competitive bidding. 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.

Walgreen Co.
Nov. 23 filed an unspecified number of shares of common stock to be offered to holders of common stock of Thrifty Drug Stores Co., Inc. in exchange for their holdings. **Underwriter**—None. [It was announced Nov. 29 that plans for purchase of Thrifty Drug stock had been abandoned.]

● **Westerly (R. I.) Automatic Telephone Co.**
Dec. 2 (letter of notification) 6,000 shares of common stock (par $25). To be offered pro rata to stockholders of record Dec. 10 at par. Of the total, 3,800 shares will be sold to New England Telephone & Telegraph Co., holder of 9,500 of the outstanding 15,000 shares. No underwriter. To repay advances from the parent company.

● **Wood Electro-Kiln Co., Inc., Cambridge, Mass.**
Nov. 29 (letter of notification) 50,000 shares ($1 par) common stock. Price, par. No underwriter. For working capital.

Younker Brothers, Inc., Des Moines, Ia.
Nov. 4 (letter of notification) 1,000 shares (no par) stock, to be sold at $27.50 each. **Underwriter**—T. C. Henderson & Co., Des Moines. **Proceeds**—To selling stockholder.

Prospective Offerings

● **Baltimore & Ohio RR.**
Dec. 3 reported company plans the sale early in January of $11,865,000 equipment trust certificates. Probable bidders: Halsey, Stuart & Co. Inc.; Harriman Ripley & Co. Inc. and Lehman Brothers (jointly); Salomon Bros. & Hutzler; Harris, Hall & Co. (Inc.).

● **Chesapeake & Ohio Ry. (12/21)**
The company has issued invitations for bids to be received by noon (EST) Dec. 21 at company's office, Terminal Tower, Cleveland, for the purchase of $6,750,000 equipment trust certificates. The certificates are to be dated Jan. 1, 1950, and will mature semi-annually from July 1, 1950 to Jan. 1, 1965. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Harriman Ripley & Co. Inc. and Lehman Brothers (jointly); Harris, Hall & Co. (Inc.).

Chicago Rock Island & Pacific Ry.
Dec. 22 stockholders will be asked to approve execution of a new consolidated mortgage. Approval will enable the management to proceed with its plan to ask for competitive bidding on a flotation of roughly $55,000,000 of new consolidated mortgage bonds the proceeds of which, with some $4,500,000 in cash, will be used to call on April 1, $33,740,000 of 4½% convertible income bonds, due Jan. 1, 2019, and to refund also an issue of new series B five-year first mortgage 3¼% bonds now pledged as collateral for a short-term bank note. The proceeds of the bank loan are to be used to redeem, on Jan. 1, $25,760,000 of first mortgage series A 4s, due Jan. 1, 1994. Probable bidders: Halsey, Stuart & Co. Inc.; Kuhn, Loeb & Co.; Lehman Brothers and Bear, Stearns & Co. (jointly).

● **Commercial Credit Co.**
Nov. 20 another major piece of corporate financing appearing on the horizon but as yet not definitely scheduled is the reported $25,000,000 new capital transaction to be undertaken by this company. The pending offering, it is stated, will involve additional senior equity. Traditional underwriters: Kidder, Peabody & Co.; The First Boston Corp.

● **Commonwealth Edison Co.**
Nov. 30 company plans another issue of $50,000,000 long-term debentures as the next step in the financing of its construction program. Interest rate will be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Glore, Forgan & Co.

● **Consumers Power Co.**
Dec. 1 company in an application filed with the Michigan P. S. Commission, disclosed plans for selling an additional 454,457 shares of common stock. The new shares would be used to finance company's construction program. Initially the shares will be offered to common stockholders for subscription on a 1-for-10 ratio, with employees also receiving purchase rights. Between now and the end of 1950, construction costs are expected to approximate $44,000,000. The last common stock financing by company was effected in November, 1946, when a 500,000-share block was marketed competitively and sold to a syndicate headed by Morgan Stanley & Co. The sale of this issue may be negotiated.

● **Harvey Hubbell, Inc.**
Dec. 6 Adams Express Co. asked the SEC for an order enabling it to sell to a group of underwriters a block of 32,800 shares of ($5 par) common stock of Harvey

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Hubbell, Inc. This block represents 10.25% of the outstanding capital stock of Hubbell and all of Adams Express holdings. The shares will be sold to a number of "participating purchasers" at prices set according to the price for Hubbell stock on the New York Curb Exchange. Dec. 14 has been set by the SEC as the deadline for requests for a hearing.

• International Bank for Reconstruction & Development

The bank will call in its $100,000,000 issue of 2¼% bonds early in January and will replace them with an issue of like amount that will mature serially in three to twelve years at the rate of $10,000,000 annually. The new issue is to be sold at competitive bidding. Three banking syndicates are expected to bid for the new issue of serials. One group is to be headed by Chase National Bank, The First Boston Corp., Salomon Bros. & Hutzler and C. J. Devine & Co., Inc. A second group will be headed by National City Bank, Kuhn, Loeb & Co. and J. P. Morgan & Co. Incorporated. The third will be headed by Bankers Trust Co. and Morgan, Stanley & Co.

Iowa Public Service Co.

Oct. 26 announced that corporation plans to issue and sell early in 1950 $5,000,000 of preferred stock, the net proceeds to pay for construction costs, etc. Probable bidders: A. C. Allyn & Co.; Harriman Ripley & Co. and Merrill Lynch, Pierce, Fenner & Beane (jointly); Kidder, Peabody & Co. and Blyth & Co. (jointly); Equitable Securities Corp.

Metropolitan Edison Co.

Nov. 30 reported company plans to sell additional bonds and preferred stock, probably in February, to help finance its 1950 construction program. The company expects to offer $7,000,000 in bonds and $3,000,000 in preferred stock. The bond and preferred stock offerings are to be sold at competitive bidding. Probable bidders: Drexel & Co.; Harriman Ripley & Co. and Union Securities Corp. (jointly); Carl M. Loeb, Rhoades & Co.; Halsey, Stuart & Co. Inc. (bonds); Kidder, Peabody & Co. (bonds); White, Weld & Co. (bonds); Smith, Barney & Co. and Goldman, Sachs & Co. (jointly on pfd.); Glore, Forgan & Co. and W. C. Langley & Co. (jointly on pfd.).

• Mississippi Valley Public Service Co.

Dec. 5 company proposes to sell about $1,800,000 additional first mortgage bonds, the proceeds to be used for capital expenditures. Company also proposes to sell additional common later to provide approximately $700,000.

Niagara Mohawk Power Corp.

Nov. 25 filed an application with New York P. S. Commission for permission to invite bids for sale of $40,000,000 of mortgage bonds. Corporation is expected to be formally organized on Jan. 5, 1950. Proceeds are to be used to retire short-term bank loans of the consolidating companies which are to be assumed by Niagara Mohawk Power Corp. upon its formation and to provide funds for construction purposes. Probable bidders: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co.; Kuhn, Loeb & Co.; The First Boston Corp.

Northern Indiana Public Service Co.

Dec. 15 stockholders will vote on authorizing a new class of 500,000 shares of cumulative preferred stock and on increasing the authorized common stock from 3,000,000 to 3,500,000 shares. Company plans to refinance the 211,380 shares of 5% preferred by offering new preferred (dividend not to exceed 4½%) in exchange on a share for share basis. Unexchanged new preferred will be underwritten by Central Republic Co.; Blyth & Co., Inc.; Merrill Lynch, Pierce, Fenner & Beane.

Northern Natural Gas Co.

Nov. 28 reported company contemplates sale of between $30,000,000 and $35,000,000 new debentures early in the new year. Probable bidders: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc.; The First Boston Corp.; Kidder, Peabody & Co.

Sharp & Dohme

Nov. 4 directors gave tentative approval to the proposed offering next year of a new non-convertible preferred stock in exchange for company's outstanding series A preferred. It is expected that the terms of the transaction, still to be determined, will encourage present preference holders to exchange their shares. Any unexchanged shares, it is believed, will be redeemed at $75 a share, up to a certain amount, through the sale to an underwriting group of additional shares of the new issue. Underwriters may include Alex. Brown & Sons and Drexel & Co.

• Southwestern Public Service Co.

Dec. 5 company announced that it expects to offer additional common shares to common stockholders during 1950. It also plans to sell first mortgage bonds and debentures or preferred stock or both. No definite plans have yet been worked out. Traditional underwriter, Dillon, Read & Co. Inc.

• (E. R.) Squibb & Sons

Nov. 30 stockholders approved a plan to offer not more than 100,000 shares of common stock to employees for purchase on an instalment basis. Shares will be from the corporation's authorized but unissued stock. A stock purchase plan committee composed of members of the board of directors, none of whom will be eligible to purchase stock under the plan, will be appointed. The offering price may not be lower than the average of the high and low quotations at which the common stock sold on the New York Stock Exchange on the last day preceding the offering. No offering may be made to any one who is not an employee and there will be no underwriters.

Texas Electric Service Co.

Nov. 28 reported company plans sale of $8,000,000 of bonds early in 1950, the proceeds to be used to finance the company's construction program. Additional financing also is anticipated in the first half of 1950 by other subsidiaries of Texas Utilities Co. Probable bidders: 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.

Texas Power & Light Co.

Oct. 28 Texas Utilities Co. in SEC application covering bank loans to be advanced to subsidiaries to finance their construction program, it was revealed that Texas Power & Light plans permanent financing probably to extent of $7,000,000 of bonds before August, 1950. 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.

• Trunkline Gas Supply Co.

Nov. 29 the FPC extended to June 1, 1950, the deadline for company to submit a "definite and firm plan of financing" for a natural gas pipeline project, estimated to cost $85,000,000.

• United Gas Corp. (1/24/50)

Nov. 30 reported company plans to sell at competitive bidding $25,000,000 of first mortgage collateral trust bonds, due 1970. The company expects to file a registration statement with the SEC Dec. 1. Bids, it is expected, will be operated at 1:30 a.m. (EST) on Jan. 24 at 2 Rector Street, New York. Probable bidders: Halsey, Stuart & Co. Inc.; Dillon, Read & Co. Inc.; The First Boston Corp.; Harriman Ripley & Co.; Equitable Securities Corp.

• United States Fidelity & Guaranty Co.

Alexander Brown & Sons, Baker, Watts & Co., John C. Legg & Co. and Stein Brothers & Boyce, all of Baltimore, are expected to act as joint managers of a banking group that will underwrite the proposed offering of 300,000 shares of capital stock which company will offer for subscription by stockholders of record Jan. 13 on a 3-for-10 basis.

Our Reporter's Report

Sometimes, it is difficult to see the "woods for the trees," to paraphrase the old saying. That appears to be the case with a great many of those who are seeking out "reasons" for the current dearth of venture capital.

The long and the short of it seems to be, according to those in a position to observe the trends of the times, that capital is willing to take risk only if it is assured of a fair share of the fruits should the venture prove to be successful.

Now Sen. Joseph C. O'Mahoney, (D. Wyo.) a dyed-in-the-wool New Dealer, proposes a new investigation to ascertain why investors, large and small, prefer security to the chance for substantial return for assuming a certain amount of risk.

Unfair taxation of capital gains and dividends appears to be the keystone of the arch of investor resistance. But there are many other factors, such as the "cold war," sometimes "hot," by way of government censure, or legal action, which the Federal authorities have pursued against business.

Rising costs, touched off by inflationary leanings of the Administration, despite its hue and cry, and unions' never-ending demands for higher pay, encouraged from Washington, make it virtually impossible to attract equity or "ownership" capital.

There is no great hope for an increase in availability of stock capital, until there is a definite change in thinking on such matters at the top. Until then it appears likely that debt capital will afford the only means of getting savings into business.

Thinking at IBA Meeting

The trend to security is emphasized by discussion of the market outlook among those attending the Investment Bankers Association current meeting in Hollywood, Fla.

Those whose business takes them into the field of corporate underwriting see things looking better than in recent years, but they are restrained in their optimism.

Not so, however, with bankers whose strong forte is state and municipal loans. The latter are reported as jubilant over their prospects. There'll be plenty of such business as long as investors are willing to absorb new bonds, since there is a tremendous backlog of public work accumulated in the war years and barely touched in the interval.

Holding the Line

The Treasury's offering of four-year and three-months notes carrying a 1⅜% rate appeared to set at rest for some time ahead, the belief that the Administration was getting ready to permit some hardening in basic money rates as a means of curbing new inflation.

For a week prior to the announcement the Treasury market had been soft, sufficiently so as to have encouraged a good deal of discussion about a possible stiffening of interest rates. Nothing severe but more in the nature of a warning.

Now, however, the conviction is just as strong that no early change is indicated and that the Treasury, which as Mr. Eccles says, wants low rates to hold down the cost of its deficit borrowing, is still running the show.

Small Issue Moves

Iowa Power & Light Co.'s $7,500,000 issue of new first mortgage 30-year bonds, carrying a 2¾% coupon, were reported in good demand at the reoffering price of 102½.

The successful banking group paid the company a price of 102.019 for the issue, outbidding a number of competitors.

A second smaller loan, $5,000,000 of Central Power & Light Co.'s 25-year sinking fund bonds, for which a syndicate paid the issuer 99.27 for a 2⅞% coupon, were reported a trifle slow on inquiry at the price of 99⅝ fixed for reoffering to yield about 2.90 to maturity.

Preferred Issue Due

Bankers underwriting 120,000 shares of $25 par cumulative preferred stock of Hudson Pulp & Paper Corp., series B, were reported about ready to bring that issue to market.

In fact, among dealers, the expectation was that it might reach the offering stage today.

Observations

(Continued from page 5)

mium-on-cost to the ratio-of-expense-to-assets item, the expert management is hireable completely "for free" for the next 48 years.

Discounts and Expense Ratios of 10 Non-Leverage Trusts

TRUSTS	DISCOUNT	PREMIUM ON COST	RATIO OF EXPENSES TO GROSS INV. INC.	RATIO OF EXPENSES TO NET ASSETS
Adams	22%	30%	14%	0.66%
Am. Int'l	22	30	19	.92
Cons. Inv.	13	15	5	.40
Nat'l Av'tn	18	23	23	1.23
Nat'l Shs.	12	14	11	.54
Niagara Sh.	34	50	20	.90
Pennroad	11	12	10	.61
Petroleum	20	25	8	.53
Security Co.	25	33	13	.62
Shawmut	41	70	10	.50
Aver. of 10	23%	30%	13%	0.69%

Merchandising Implications

Wholly irrespective of whether this multiple-discounting of assets and management is justified, and irrespective of the usual absence of correlation between management performance and the discount's size, the contrast between the closed-end company discounts of 22% and the open-end fund loads (premiums) of 8 or 9% is unjustifiable on investment or any other logical grounds. With the quality of management and methods of operation practically the same, the sole advantage of cashability is surely not worth a 40% differential—a differential representing the difference between "writing-off" management as a liability on the one hand, and using from two to three years' of income to pay for it on the other.

This price differential between the closed-end and open-end funds ruling in a period when the high-priced article is expanding by 30% or more and the low-priced one contracting, is in large manner due to the sales psychology of modern times. The higher-priced open-ends are being **actively sold**—to the tune of sales argument ranging from the Fuller Brush, to the "escapist," to the high-brow statistical techniques. They are thus accepted by the consumer as the "Mr. Big of Wall Street"; while the relatively value-laden closed-ends, the orders for which are executed for the most part at the modest stock-exchange commissions, are supinely lying around waiting to be picked up.

This is in line with the continuing success of secondary distributions, even when stock exchange volume has been in the doldrums.

The Similar British Situation

None of this is endemic to the United States. Not even is the "Fuller-Brush" technique a good American custom; both in England and Switzerland the open-end structure is by far the more popular for distribution purposes. While the British "open-end" Unit Trusts (non-fixed) are being sold with "loads" of 7-10%, the "closed-end" Investment Trusts are quoted at the following discounts:

Discount From Breakup Value in Market Prices of British Trusts' Shares

Trust—	Discount	Trust—	Discount
Alliance	16%	Second Edinburgh	43%
British Assets	40	Second Industrial	34
British Trust	21	Second Scottish	60
British Steamship	28	Southern Stockholders	36
Edinburgh Trust	27	Sphere	43
Industrial and General	29	Trust Union	42
Investment Trust Corp.	26	Trustees Corporation	30
Mercantile and General	25	U. S. Debenture	43
Scottish American A	48		
Scottish Mtge. & Trust	39	Average	34%
Second Alliance	8		

Switzerland

Similarly, in Switzerland the old-time closed-end type of trusts, listed on the Geneva and Zurich Exchanges, are quoted at from 5 to 20% of their break-up value, in contrast to their premiums of the 1920s. In contrast, the open-end type started five years ago are occupying most of the public's interest at cost premiums of 1-2%.

Assuredly, investment trust psychology is not localized.

Illinois Brevities

(Continued from page 10)

ported that consolidated net income in the third quarter of 1949 totaled $499,128, equal to 54 cents per common share, which compares with $507,880, or 56 cents per share, in the like 1948 quarter. Net income for the first nine months of 1949 was $1,287,581, or $1.36 per common share, compared with $1,696,821, or $1.88 per share, for the same period last year. Consolidated sales for the third quarter of 1949 were $7,574,012, against $7,215,716 for that period in 1948, while for the nine months they were $20,981,414, compared with $22,160,510 in 1948's comparable period. It was pointed out that "domestic sales of $2,530,030 for the month of September exceeded the figure of $2,492,249 for the 1948 month and at present are continuing to exceed last year's figures."

* * *

The offering by New England Electric System of 669,508 shares of its common stock (par $1) to its common stockholders of record Nov. 17, 1949, at $10.50 per share, was underwritten by a nation-wide group of underwriters, including, among others: Bacon, Whipple & Co.; William Blair & Co.; Julien Collins & Co.; Farwell, Chapman & Co.; The Illinois Co.; Martin, Burns & Corbett, Inc.; Mason, Moran & Co.; and Mullaney, Wells & Co. The subscription warrants expired on Dec. 5.

* * *

After giving effect to losses from market declines in metal inventory and loss on sale or retirement of obsolete equipment, Illinois Zinc Co. reported for the year ended Sept. 30, 1949 a loss of $79,006. The consolidated net earnings for the previous fiscal year amounted to $203,-403, equivalent to $1 per share. At Sept. 30, 1949, current assets totaled $1,339,111 and current liabilities amounted to $223,243.

* * *

The offering of 1,584,238 shares of common stock, without par value, of Northern States Power Co. (Minn.) to its common stockholders and employees at $10.25 per share was underwritten by a group of investment houses, which included, among others, the following Illinois bankers: Ames, Emerich & Co., Inc.; Dempsey & Co.; Dixon Bretscher Noonan, Inc.; Farwell, Chapman & Co.; First Securities Co. of Chicago; Mason, Moran & Co.; James J. McNulty & Co.; Mullaney, Wells & Co.; Robert Showers; and F. S. Yantis & Co., Inc. Subscription warrants expired on Dec. 6. The net proceeds will be added to the general funds of the utility firm and $15,000,000 of such general funds used for the payment of presently outstanding bank loans.

* * *

Walgreen Co., Chicago, for the fiscal year just closed, Sept. 30, 1949, reported that earnings were $3.20 per common share, compared with $3.03 last year. The 1949 figure includes a very sizable profit on the sale of an investment. "However," said Charles R. Walgreen, Jr., President, the costs of launching new, remodeled, and enlarged stores were by far the largest in the company's history, and were entirely absorbed in the general costs of the year. Such expenditures will be very materially less for the new fiscal year which commenced Oct. 1." Net sales and other store income for the year ended Sept. 30, 1949 amounted to $163,365,019, against $163,260,827 for the preceding fiscal year. Negotiations to acquire control of Thrifty Drug Stores Co. Inc. were reported to have been dropped, at least for the time being.

* * *

Harris, Hall & Co. (Inc.), Chicago, together with the Milwaukee Co., Milwaukee, Wis., were the sole underwriters of an issue of $3,000,000 Madison Gas & Electric Co. 2⅝% first mortgage bonds, 1979 series, which were publicly offered on Nov. 17 at 100.875 and accrued interest.

* * *

For the fiscal year ended Sept. 30, 1949, the Liquid Carbonic Corp., reported a consolidated net income of $1,224,062, equivalent to $1.09 per share on 888,505 shares of common stock outstanding. This compares with net of $2,747,906, or $3.01 per share on 828,100 shares of common stock, for the preceding fiscal year. Net sales for the 1949 fiscal year totaled $38,454,899, compared with $51,515,224 for the year ended Sept. 30, 1948. Income for the year ended Sept. 30, 1949 was reduced by abnormal losses totaling approximately $1,-290,000, resulting from the liquidation of the ice cream cabinet and refrigerator business at Morrison, Ill., and writedown of inventories, according to P. F. Lavedan, President of the company. Working capital as of the close of the year amounted to $20,724,737, an increase from Sept. 30, 1948 of $4,-432,783.

Two With Waddell & Reed

KEARNEY, NEB.—Raymond L. Reiter and E. G. Tunks became affiliated with Waddell & Reed, Inc., 55 Liberty Street, New York City.

REDEMPTION NOTICE

TRADE SEGALOCK MARK

NOTICE OF REDEMPTION
To the Holders of
SEGAL LOCK & HARDWARE COMPANY, INC.
Fifteen Year 6% Convertible Sinking Fund Debentures due May 1, 1963

NOTICE IS HEREBY GIVEN, that pursuant to the provisions of ARTICLE THREE of the Indenture dated as of May 1, 1948, between Segal Lock & Hardware Company, Inc., and The Continental Bank & Trust Company of New York, as Trustee, the undersigned, Segal Lock & Hardware Company, Inc., has exercised its option to redeem, and hereby calls for redemption on January 4, 1950 (herein sometimes referred to as the "Redemption Date"), all of its Fifteen Year 6% Convertible Sinking Fund Debentures due May 1, 1963, issued and outstanding under said Indenture, at the redemption price of One Hundred and Four Per Cent (104%) of the principal amount thereof, together with interest to accrue thereon to said Redemption Date.

Segal Lock & Hardware Company, Inc., will redeem and pay said Debentures, together with premium and interest, upon the presentation and surrender thereof, together with all coupons thereto appertaining and maturing on and after May 1, 1950, at the principal office of the Trustee. The Continental Bank & Trust Company of New York, at 30 Broad Street, in the Borough of Manhattan, City and State of New York.

On and after January 4, 1950, all the Debentures hereby called for redemption shall cease to bear interest or to be entitled to the benefits of said Indenture, and any coupons appertaining to said Debentures maturing subsequent to November 1, 1949 shall be void and of no effect.

Debentures registered as to principal must be accompanied by proper instruments of assignment in blank where payment to anyone other than the registered holder is desired.

The Debentures may be converted up to and including December 30, 1949, being the fifth day prior to the Redemption Date, into Common Stock of the Company, upon and subject to the terms and conditions provided in ARTICLE FOUR of the Indenture.

SEGAL LOCK & HARDWARE COMPANY, INC.
By: LOUIS SEGAL, *President.*
Dated: November 25, 1949.

Privilege of Immediate Payment

Funds sufficient to effect the redemption of the Debentures have been deposited with the Trustee. Holders of Debentures may at any time on and after the date hereof receive the full redemption moneys, including interest, set forth in the above Notice.

REDEMPTION NOTICE

Suburban Propane Gas Corporation

NOTICE OF REDEMPTION

To the Holders of Suburban Propane Gas Corporation 4¼% Sinking Fund Debentures, Series A (formerly called Ten Year 4¼% Sinking Fund Debentures), Due December 1, 1957 and 4¼% Sinking Fund Debentures, Series B, Due December 1, 1957.

NOTICE IS HEREBY GIVEN that, pursuant to the Indenture, dated as of February 1, 1948, as supplemented and amended by the Supplemental Indenture, dated as of April 1, 1949, between Suburban Propane Gas Corporation and Guaranty Trust Company of New York, as Trustee, Suburban Propane Gas Corporation has elected to redeem and will redeem and pay on December 29, 1949 all of the above described Debentures, issued and outstanding under said Indenture and Supplemental Indenture, at 103¾% of the principal amount thereof together with accrued interest to the redemption date.

Said redemption price will become due and payable on said Debentures on December 29, 1949, at the principal office of the Trustee, Guaranty Trust Company of New York, Corporate Trust Division, 140 Broadway, New York 15, N. Y. On or after said date such Debentures are required to be presented and surrendered, together, in the case of coupon Debentures, with all appurtenant coupons maturing after said date, for redemption and payment as aforesaid at said office. Registered Debentures should be accompanied by proper instruments of assignment duly executed in blank in cases where payment is to be made to anyone other than the registered holder.

Said Debentures shall cease to bear interest from and after December 29, 1949 and shall cease to be entitled to the benefits of the above mentioned Indenture and Supplemental Indenture except to receive payment of the redemption price.

SUBURBAN PROPANE GAS CORPORATION
By MARK ANTON
President

Dated: Whippany, N. J., November 29, 1949.

NOTICE OF IMMEDIATE PAYMENT

Holders of the above described Debentures may at any time on or after November 29, 1949 obtain payment of the full redemption price upon surrender of their Debentures as aforesaid.

DIVIDEND NOTICES

THE ATCHISON, TOPEKA AND SANTA FE RAILWAY COMPANY
New York, N. Y., November 29, 1949.

The Board of Directors has this day declared a dividend of Two Dollars and Fifty Cents ($2.50) per share, being Dividend No. 102, on the Preferred Capital Stock of this Company, payable February 1, 1950, out of undivided net profits for the year ended June 30, 1949, to holders of said Preferred Capital Stock registered on the books of the Company at the close of business December 30, 1949.

The Board also declared on this day a dividend of One Dollar and Fifty Cents ($1.50) per share, being Dividend No. 148 on the Common Capital Stock of this Company, payable March 1, 1950, to holders of said Common Capital Stock registered on the books of the Company at the close of business January 27, 1950.

Dividend checks will be mailed to holders of Preferred and Common Capital Stock who have filed suitable orders therefor at this office.

D. C. WILSON, Assistant Treasurer.
120 Broadway, New York 5, N. Y.

CANCO AMERICAN CAN COMPANY
COMMON STOCK

On November 29, 1949 a special dividend of one dollar ($1.00) per share was declared on the Common Stock of this Company, payable December 29, 1949 to Stockholders of record at the close of business December 9, 1949. Transfer books will remain open. Checks will be mailed.

EDMUND HOFFMAN, Secretary.

CANCO AMERICAN CAN COMPANY
PREFERRED STOCK

On November 29, 1949 a quarterly dividend of one and three-quarters per cent was declared on the Preferred Stock of this Company, payable January 3, 1950 to Stockholders of record at the close of business December 15, 1949. Transfer books will remain open. Checks will be mailed.

EDMUND HOFFMAN, *Secretary.*

J. I. Case Company

(Incorporated)
Racine, Wis., December 1, 1949.

Regular quarterly dividend of $1.75 per share on Preferred Stock payable January 1, 1950 to holders of record December 12, 1949 and regular quarterly dividend of $1.75 per share on Preferred Stock payable April 1, 1950 to holders of record March 11, 1950 declared November 21, 1949. Also year end dividend of $2.80 per share on $25.00 par value Common Stock payable January 1, 1950 to holders of record December 12, 1949 and quarterly dividend of 75c per share on $25.00 par value Common Stock payable April 1, 1950 to holders of record March 11, 1950 declared November 21, 1949.

WM. B. PETERS, Secretary.

The Colorado Fuel & Iron Corporation

DIVIDEND ON COMMON STOCK

At a meeting of the Board of Directors of The Colorado Fuel & Iron Corporation held on December 5, 1949, the regular dividend in the amount of 25c per share was declared on its common stock, payable December 31, 1949, to stockholders of record at close of business on December 14, 1949.

D. C. McGREW, Secretary

DIVIDEND NOTICES

THE BYRNDUN CORPORATION

The Directors of The Byrndun Corporation at its meeting held on December 6th, 1949, declared a dividend of $1.50 per share on the Participating Preferred Stock, a dividend of $2.50 per share on the Class "A" Participating Stock, and a dividend of $3.50 per share on the Second Preferred Stock; also a dividend of fifty cents (50c) per share on Class "A" Participating Stock, Class "A" Common Stock and Common Stock; no dividend on fractional shares, all payable on December 27, 1949 to stockholders of record at 3:00 P. M., December 15, 1949.

H. G. FAHLBUSCH, President
December 6, 1949.

GEORGE A. FULLER COMPANY

The Board of Directors declared a quarterly dividend of fifteen cents per share and an extra dividend of forty cents per share on the Common Stock (par value $5 per share) payable December 23, 1949, to stockholders of record at the close of business December 12, 1949.

H. S. LOCKWOOD, Secretary
December 5, 1949

GUARANTY TRUST COMPANY OF NEW YORK

New York, December 7, 1949.

The Board of Directors has this day declared a quarterly dividend of Three Dollars ($3.) per share on the Capital Stock of this Company for the quarter ending December 31, 1949, and an extra dividend of Two Dollars ($2.) per share, both payable on January 3, 1950 to stockholders of record at the close of business December 14, 1949.

MATTHEW T. MURRAY, Secretary.

Exide BATTERIES

THE ELECTRIC STORAGE BATTERY COMPANY

197th Consecutive Quarterly Dividend

The Directors have declared from the Accumulated Surplus of the Company a final dividend for the year 1949 of fifty cents ($.50) per share on the Common Stock, payable December 31, 1949, to stockholders of record at the close of business on December 12, 1949. Checks will be mailed.

H. C. ALLAN,
Secretary and Treasurer
Philadelphia 32, December 2, 1949.

CANADA DRY

DIVIDEND NOTICE

The Board of Directors of Canada Dry Ginger Ale, Incorporated, at a meeting thereof held on Nov. 22, 1949 declared the regular quarterly dividend of $1.0625 per share on the $4.25 Cumulative Preferred Stock and a dividend of $0.15 per share on the Common Stock; both payable January 1, 1950 to stockholders of record at the close of business on December 7, 1949. Transfer books will not be closed. Checks will be mailed.

WM. J. WILLIAMS,
V. Pres. & Secretary

DIVIDEND NOTICES

YALE

THE YALE & TOWNE MFG. CO.

243rd Consecutive Dividend

On November 30, 1949, a dividend No. 243 of twenty-five cents (25c) per share was declared by the Board of Directors out of past earnings, payable January 3, 1950, to stockholders of record at the close of business December 12, 1949.

F. DUNNING
Executive Vice-President and Secretary

MIDDLE SOUTH UTILITIES, Inc.

DIVIDEND

The Board of Directors has this day declared a dividend of 27½¢ per share on the Common Stock, payable January 3, 1950, to stockholders of record at the close of business December 13, 1949.

H. F. SANDERS, *Treasurer*
New York 6, N. Y.
December 2, 1949

REYNOLDS METALS

REYNOLDS METALS COMPANY

Reynolds Metals Building
Richmond 19, Virginia

PREFERRED DIVIDEND
COMMON DIVIDEND

The regular dividend of one dollar thirty-seven and one-half cents ($1.375) a share on the outstanding 5½% cumulative convertible preferred stock has been declared for the quarter ending December 31, 1949, payable January 1, 1950, to holders of record at the close of business December 21, 1949.

A dividend of thirty-five cents (35¢) a share on the outstanding common stock has been declared payable December 28, 1949, to holders of record at the close of business December 21, 1949.

The transfer books will not be closed. Checks will be mailed by Bank of the Manhattan Company.

ALLYN DILLARD, *Secretary*
Dated, December 1, 1949

CHEMICALS
TEXTILES
PLASTICS

CELANESE

CORPORATION OF AMERICA
180 Madison Avenue, New York 16, N. Y.

THE Board of Directors has this day declared the following dividends:

FIRST PREFERRED STOCK
$4.75 SERIES

The regular quarterly dividend for the current quarter of $1.18¾ per share, payable January 1, 1950 to holders of record at the close of business December 16, 1949.

7% SECOND PREFERRED STOCK

The regular quarterly dividend for the current quarter of $1.75 per share, payable January 1, 1950 to holders of record at the close of business December 16, 1949.

COMMON STOCK

60 cents per share, payable December 29, 1949 to holders of record at the close of business December 16, 1949.

R. O. GILBERT
Secretary
December 6, 1949

Washington... And You

Behind-the-Scene Interpretations from the Nation's Capital

WASHINGTON, D. C.—Despite the seemingly conflicting statements in high places about what the Truman Administration plans to do about the Federal budget in fiscal '51, its fundamental plans have remained unchanged.

Those plans are to let the budget continue well out of balance next year as well as this year. Necessarily, it will be the natural and understandable objective of the Administration, politics being what they are, to attempt to deflect the blame for the unbalanced budgets upon Congress, and particularly upon the Republican 80th Congress because it reduced taxes in 1948.

All that the "off again, on again" statements by Treasury Secretary Snyder and Budget Director Pace have served to disclose, is that the Administration is now keenly aware that an unbalanced budget is still political poison and that it is something not to be embraced openly as an objective in itself.

Until the latest statement by Mr. Snyder, that given before the Monetary subcommittee of the Joint Economic Committee, there was doubt that the Truman Administration had comprehended the storm of public protest that would break over the previous Snyder-Pace statements that gave the unmistakable impression that the Administration believed in balancing the budget only if this could come about by fortuitous circumstances, particularly without separating any beneficiaries from their government checks.

Too much importance may have been attached to the Snyder-Pace statements to the Monetary subcommittee.

These were responses to a questionnaire framed by the subcommittee's staff. In a sense they were theoretical statements about budget-balancing generally. Mr. Snyder merely said that "the general economic welfare of the country should be the guiding principle in determining for any given period, whether the Federal budget should be balanced, show a surplus, or should show a defict, and in determining the size of any surplus or deficit."

And Secretary Snyder DID repeat his oft-repeated statement that he believed in a budgetary surplus for debt retirement in good times, a qualification not too often quoted in connection with the above statement.

Mr. Pace, on the other hand, so spelled out the many specific objectives of government expenditure and extolled their priority as to give a clear expression of sentiment that these objects of expenditure were superior to the objective of a balanced budget.

It isn't that Messrs. Snyder and Pace did not reveal what they thought at the time or were not responsible for their statements. Actually, the two statements framed in more detail the policy of balancing the budget only when convenient, enunciated by Mr. Truman himself in his 1949 midyear "Economic Report" to the Congress.

However, as the season for making firm political commitments nears, and an official is speaking very definitely for page one headlines, a different set of circumstances frame the statement. Since the Treasury Secretary and the Budget Director gave their answers of several weeks ago to the Monetary Committee, two things have happened. One is that the country became alarmed about these indications of apathy toward the accumulation of deficits. The other was that the President himself, sensing this, has at various times spoken of the need for additional taxes to balance the budget.

So it should occasion no surprise that Mr. Snyder a few days ago should have, with considerable verbal emphasis, declared that "by every standard of sound government finance, the time to have a balanced budget is now."

Nevertheless, the expectation still remains that the President will propose about as large a volume of expenditures as for the current year and will fight attempts to reduce them. The President undoubtedly will formally ask for taxes to balance the budget, and he might again name specific objects for additional taxes.

The White House knows that Congress will not raise additional taxes, and if anything, is more likely to lower them by partly reducing the wartime rates on certain "luxury" excises. The President is said even to have been advised to try to put the entire burden, if he can, upon Congress for "balancing the budget if you want to," or perhaps in four-syllable words to the same effect.

Taxes cannot be raised unless the President throws all his political influence and pressure into bringing about a tax increase bill, and perhaps not even then. It is seriously doubted that the President is likely to make a real, strong effort to get higher taxes.

The talk about a "phony budget" also probably can be discounted. There are plans which may mature, to set up some additional budgetary tables tending to give the impression that power developments and the like are "capital investments" which mitigate the force of a budgetary deficit. But the total of expenditures and revenues will be set up in the conventional way, it is reported, with no "double entry" system.

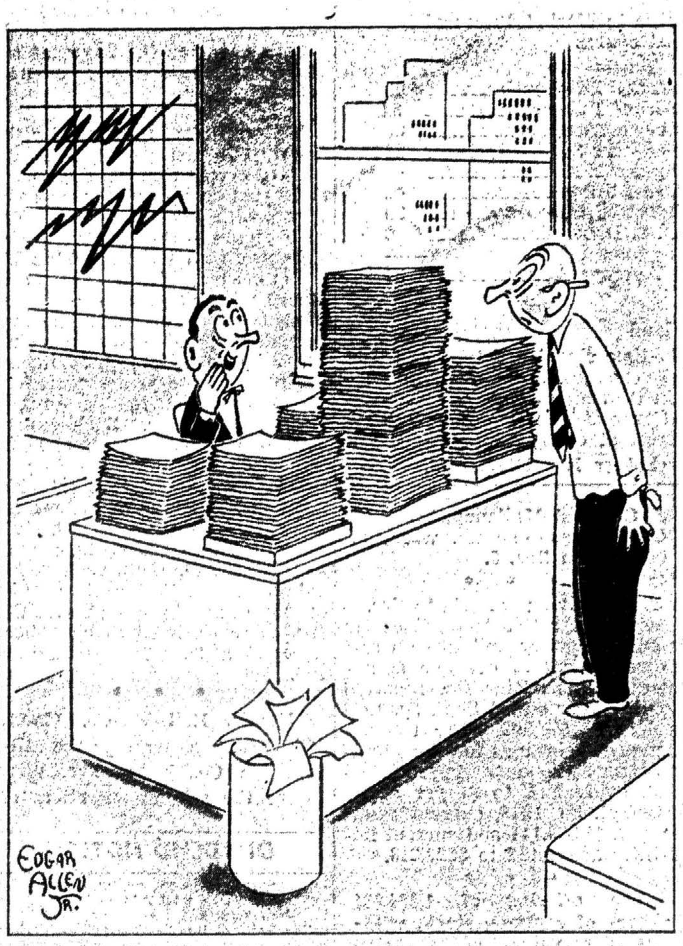
* * *

Television has almost become the dog which wags the conventional radio tail of the radio and television industry. Of the production of the industry, 65% now comes out in TV, and only 35% in conventional radio receivers.

Television receiver production in 1948 amounted to 975,000 sets, and in 1949 will hit 2,600,000 sets, it is now reported. Several months ago the industry thought it was pretty good to look forward to a production of 2,000,000 sets for this year, a performance to be reached and exceeded "by at least" 600,000 units.

Furthermore, men in the industry anticipate that TV output in 1950 will run somewhere between 3,500,000 sets and 4,000,000. In connection with this performance, there are only 100 TV broadcasting stations, practically all in metropolitan areas. The Federal Communications Commission maintains a "freeze" on new stations until it decides what to do about the whole future of expansion of TV, including color transmission. It is not expected the FCC will thaw out this freeze before midyear, and the estimated output for 1950 takes this into account—comparatively few more stations likely to go into operation next year.

BUSINESS BUZZ



"Confidentially, they're just blank sheets of paper — it keeps the Boss from giving me any work!"

There will be about 4,000,000 TV receivers in operation at the end of this year.

* * *

Although the 3-day coal mining week permitted by United Mine Workers boss John L. Lewis will force most operators to take a loss, the actual production of coal, it is revealed, will run to a much higher proportion than three days per week would indicate. Actually, it was explained, most of the underground miners get a kind of piecework rate of pay. Wanting to live a little better, they are working like fury to bring out as much coal as they can. And in areas like Virginia, where the union strong-arm squads can't interfere, the boys are ready to slip in some extra hours and an occasional extra day.

* * *

There is a belief in this capital that 1950 will be another good year for the motor industry. Output this year is expected to reach 5,400,000 cars and trucks versus 5,300,000 in 1928, the previous peak year, but 500,000 less vehicles than would have been turned out but for the steel strike.

Such a forecast, in informed circles, assumes a certain amount of labor difficulties and shutdowns, not expected to be more serious next year than in '49. Steel is tight now, but will ease up, it is expected, by March.

There is a belief that demand from prior years has not yet been completely met. In 1950 the industry will have to exert, of course, a great deal more sales effort than this year, and trade-ins will command a higher price and slice some of the fruits of the business.

The replacement parts business is facing an outlook parallel to that of the new car business, but in a somewhat reverse way. With cars reaching an average age of 8.8 years, the replacement parts business in '48 totaled, at manufacturers' prices, $2.5 billion. It will probably wind up with a decline of 20% in volume for '49, and a further 10% cut in '50, in dollar volume. The average age of passenger cars on the road next year is expected to be 7.9 years, compared with 5.1 years, prewar.

* * *

In a study made before the recent big airline accidents at Washington, D. C., and Dallas, it was found, according to Kendell K. Hoyt's "Letter to Airmen," published by "Aero Digest's" weekly, that less than one-tenth of the deaths in aviation normally occur on scheduled air carriers.

"While domestic airline fatalities are usually held within 100 per year, civilian non-carriers are killing off about 100 per month," according to Mr. Hoyt. Supervised flight training, accounting for more than half the flying in this country, accounts for less than one-fourth the fatal accidents. Planes "for personal use" account for about one-third of flying and about two-thirds of the fatal accidents, he said.

(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.)

Estimates State's Tax On Business at $600 Million

National Industrial Conference Board reports these levies increased 326% since 1940 and they provided in 1948 as much as 19.1% of state tax receipts.

Taxes on business now account for a "vastly enlarged part" of the total of state tax collections, according to an analysis of state taxes on business which has just been completed by the National Industrial Conference Board.

These business taxes amounted to 18.1% of total state tax collections (excluding unemployment compensation) in 1948 and 19.1% in 1949, according to the analysis. In 1941, these taxes accounted for "approximately 14.5%" of state collections.

The states now secure more revenue from the corporation income tax than from the individual income tax, the Board finds. The corporation income tax provided the states utilizing this source "with more than $600 million in the fiscal year 1949—326% more than in 1940."

The states collected $115 million from corporate income taxes in 1931, it is noted. These receipts declined to $49 million in 1934. By 1940 they climbed to $155 million and have risen each year since excepting 1946."

Business Taxes and Total Receipts

Business taxes supplied "as much as 35.3%" of the 1948 tax receipts (excluding unemployment compensation) in Texas while in some states they account for less than 3% of total collections. "In Texas severance taxes are especially important. On a regional basis, the Middle Atlantic States (New York, New Jersey and Pennsylvania) had the highest business tax collections in 1948. Both New York and Pennsylvania obtained almost one-third of their tax revenues (excluding unemployment compensation) from these sources in 1948."