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EDITORIAL

As We See It

What Do You Mean, "Free Enterprise"?

Possibly one of the most effective political tricks of the New Deal leaders, and now of the Fair Deal promoters, was and is to insist that their machinations are intended to "save" free enterprise, and would in fact sustain and preserve free enterprise. To the thoughtful student it is evident enough that whatever may be said of them, and whatever may be supposed by their creators and sponsors, most of these so-called welfare state measures could not possibly fail to damage, and in the end destroy the American system we have so long insisted upon having.

There are many, however, who appear to lack conviction on the point, and there may be a good many who fail to realize how far along the road to something quite the opposite of the American system of free enterprise we have already traveled. Thoughts of this kind must have been stimulated in the minds of the more thoughtful during the past few weeks, and particularly during the past week, by developments in the field of labor relations and labor unionism.

Nowhere more strikingly exemplified is all this than in the recent behavior of John L. Lewis. To the matriculate, it need hardly be suggested that only drastic provisions of special statute could possibly save producers from jail had they arbitrarily chosen to limit the production of coal as have the miners through their tyrant, Mr. Lewis. Let it be carefully observed that what Mr. Lewis has been doing of late months and

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Business Prospects for 1950

By FRANK D. NEWBURY*
Retired Vice-President,
Westinghouse Electric Corporation

Mr. Newbury, after reviewing and interpreting developments in 1949, forecasts for 1950 a downward trend in new private construction and in heavy manufacturing industries, combined with short upward trend in soft goods. Holds offsetting factors will mean continuation of present business level in early 1950, but looks for downward trend toward end of year. Expects aggregate decline in business to reach 10%.


F. D. Newbury

I wish to approach the assigned subject of business prospects of the coming year by reviewing some of the significant features of the current year.

In some ways 1949 has been a peculiar year. Someone characterized it as the "most prosperous depression we have ever had." Early in December, at Senator Paul Douglas' subcommittee on Fiscal Policy, the Senator and Secretary John Snyder argued whether the behavior of this year's business should be called a recession or an adjustment.

Of course, both of these names can be justified if we look at the appropriate figures. If we look at the most inclusive figures bearing on the state of business—the Gross National Product—I think Secretary Snyder is justified. Gross National Product in 1948 was $262 billion; the average annual rate for the first three-quarters of 1949 was $260 billion. This is only a minor fluctuation—not even an adjustment.

Continued on page 32

*An address by Mr. Newbury before a meeting of the American Statistical Association, New York City, Dec. 28, 1949.

By DONALD B. WOODWARD*
Second Vice-President,
Mutual Life Insurance Company of New York

Life insurance economist contends business conditions in coming year will be dominated by: (1) slightly lower demand for business capital; (2) smaller demand for agricultural products; (3) lower exports and larger imports; (4) some decline in automobile sales; and (5) reduced government spending. Concludes national income and output in 1950 will aggregate slightly less than in 1949. Criticizes policy of maintaining *status quo* in the economy.


Donald B. Woodward

I

The Necessity for Forecasting

During recent years, business forecasting has become steadily less hazardous, until this year it entails virtually no risk at all. This diminution in the occupational peril results from the fact that, practically speaking, everyone has become a forecaster. My tabulation through 6:15 o'clock last night showed that the number of forecasts for 1950 issued to that time slightly exceeded the number of persons above the age of 18 in the American population. This excess arises from the fact that some business executives make one forecast for their sales departments and another for their accounting departments and from the usual phenomenon that a number of professional economists have two or even three, different opinions. This virtually universal participation in prediction means that every forecaster can escape the

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*An address by Mr. Woodward at meeting of the American Statistical Association, New York City, Dec. 28, 1949.

WHAT'S AHEAD FOR BUSINESS IN 1950?—The "CHRONICLE" of Jan. 19, its "Annual Review and Outlook Issue," will include the reviews of over 200 of America's foremost banking and industrial executives on the business outlook for 1950.

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The Security I Like Best

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. Selections may be suitable for individuals, for trustees and for institutions.

Forum Participants and Their Selections

Sugar Stocks — Jacques Coe, Jacques Coe & Co., N. Y. City.

Associates Investment Co.—Albert McGann, Albert McGann Securities Co., Inc., South Bend, Ind.

Frontier Refining — Gerald P. Peters, Peters, Writer & Christensen, Denver, Colo.

Ohio Municipals — J. A. White, J. A. White & Co., Cincinnati, O.

General Motors—William Witherspoon, Newhard, Cook & Co., St. Louis, Mo.

ALBERT McGANN
President, Albert McGann Securities Co., Inc., South Bend, Indiana

It's easy for me to meet this challenge for my long experience with the common stock of the Associates Investment Co. convinces me that this security has every meritorious feature which an investor able to own equities should demand. Rarely does one see a company such as this, starting from rather humble beginnings in 1918, climb to national business prominence and maintain a tradition of advancing earnings and dividends that does not show signs of abating. For support to my argument, let's turn to the record.


Albert McGann

Founded in 1918 by Mr. E. M. Morris, who is still its current leader, this company today, with its young yet seasoned executives, has reached third place among the independent finance companies in the industry which has seen considerable growth in its importance to our economy and which promises to be still more vital to high-level business activity. Compared to a net worth of slightly more than $100,000 in 1918, this company should report a net worth at the end of this year of close to $41,500,000, at the same time displaying the largest volume of business, earnings, dividends and resources in its history. That record reflects the favorable forces working in this industry and company helping to forge an investment which I consider top-notch.

Engaging primarily in specialized forms of financing, with the emphasis upon automobile instalment sales, the operations of Associates Investment Co. are well diversified and include the service organizations for the instalment financing of autos (namely the insurance subsidiary which is quite profitable), plus a sound manufacturer of a leading metal furniture line. This manufacturing subsidiary was acquired in 1942 to help offset the decline in volume of receivables which the war years made inevitable. The supplying of these finance services has become vital to the healthy flow of consumer goods to market, and recent published figures point to a continuance of the prime importance of instalment sales financing in our business system.

Recent statistics published by the Board of Governors of the Federal Reserve System show that the normal relationship of instalment financing to national income is still below the pre-World War II levels, supporting my contention that this industry has a continued sound future, and that Associates Investment Company will have a comfortable niche in that industry. A rise to only a normal pattern of consumer financing could mean at least 40% more business for this particular enterprise, despite other business factors which may or may not be favorable.

The investor finds many strong points of protection in this security. The current market price of 48 does not seem to reflect adequately the estimated 1949 earnings around $8.50 per share. These earnings support a recent increase in dividend rate to $0.90 quarterly for an annual estimated minimum dividend of $3.60 to yield 7.5% at the current market. I consider this yield too high in relation to any risk involved, and predict an eventual realignment of the market price to take greater cognizance of the underlying fundamentals. The intangible of management is one of the stronger points about this company. As a result of the progressive and far-sighted policies which have been followed, this company has developed to its present 107 branches emanating from the head office in South Bend, Ind., into the best market areas of our nation. Much progress has been made in building up a long-term dealer clientele and management feels that its overall policies will continue to emulate the record which has produced continued cash dividends yearly since 1918 in addition to several stock splits and stock dividends to increase capitalization.

Further, this company profits from a stabilizing accounting method which takes discounts into its income account only when earned, currently having deferred income slightly in excess of $12 per share to be liquidated within an average time of 18 months. There is no inventory problem, and the commodity it sells finds a market appetite which has yet to be whetted. A true growth stock, it rates institutional appeal and a legal rating in the state of Indiana.

JACQUES COE
Senior Partner, Jacques Coe & Co., New York City

In writing about the security I like best at this time, I must preface by explaining that basically I am an explorer, and prefer to dig into situations which have been unpopular; where there has been a certain amount of trouble; and where the securities have been depressed. Then, when the situation appears to be on the threshold of clearing up, I risk recommending the purchase. It is for this reason that I go far afield from the beaten path and select the securities of the **Cuban Sugar Companies.** They have had very few friends—principally for the reason that the future of the price of sugar and the sugar industry at all times has been burdened with that deadly of all words, "uncertainty."


Jacques Coe

In consequence, most people have not had any firm belief in the continuity of dividend payments.

For the past four years, sugar shares as a group have been in a down-trend. During the past few months they appear to have stabilized, and the past weeks have suggested indications of what may be the beginning of a substantial up-trend.

Both investment minded and semi-speculative interests are inclined to have a poor opinion of the sugar industry and shares—largely based upon past experience and particularly with respect to the behavior of sugar securities during both post world war periods.

It should be remembered that immediately after the first world war, sugar prices first soared sky high—and subsequently when prices collapsed, most of the sugar companies went bankrupt and had to be reorganized. It is elementary that 25 years later, the same kind of general thinking should prevail with respect to post World War II period.

The important point we wish to make is that this time the **basic facts** are so **fundamentally different** that results are bound to be different as well, and Cuban sugar securities selling at levels which yield from 10% to 15% consequently are underpriced.

During World War II sugar prices advanced only moderately and never had reason to repeat the debacle of 25 years ago.

After World War I most of the sugar companies were burdened with substantial bond issues as well as preferred stocks and were involved with heavy bank loans. Their working capital positions were stringent and uncomfortable.

This time the reverse is true in almost every instance. Among the leading Cuban sugar companies there are practically no bonds or preferreds outstanding—bank loans are incurred only during the harvesting season and promptly liquidated when the sugar is sold. Most of the companies are able to finance their "dead" season with existing working capital.

The extraordinary high prices after World War I induced the rapid increase in cane production all over the world. This tremendous expansion resulted in world overproduction and served as a blanket on prices for many years. It has taken all this time for the world consumption to catch up with the supply.

After World War I Indonesia also was a potent factor in bringing about an over-supply of sugar. During World War II, the sugar producing capacity of Indonesia was virtually wiped out. Out of about 3,200,000 tons of potential capacity, more than 90% was destroyed. Today Indonesia is producing approximately 220,000 tons a year. While it is estimated that over a period of time Indonesia should regain most of its former sugar producing capacity, it will take many years. In the meanwhile, world population keeps increasing and practically most, if not all of Indonesia's crop, would stay in Asia rather than come either to the U. S. A. or the European market.

Indications for the present are that world production of cane sugar for 1950 will be slightly higher than 1949—practically all of it in British India. Increase in beet sugar estimates also are slightly higher—practically all of

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Railroad Securities Outlook

By WALTER F. HAHN*

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

Ascribing depression in railroad securities as psychological effect of pleadings by management for higher rail rates, Mr. Hahn contends that there are now strong reasons for expecting an improved investment attitude in railroad securities. Says carriers have benefited from improvements in capital structures and are now less vulnerable to depression. Looks for higher railroad earnings in 1950 and substantial increase in railroad mail pay. Lists best buys in railroad securities.

Class I Railroad net income in 1949 will be close to $400 million. Fixed charges will be earned about two and one-half times. Most people think of 1949 as a dismal year in railroad history, but as a matter of fact there were only eight in the last 31 years in which railroads earned fixed charges more than two times. All in all, it has been a good year although you would not think so from the current attitude. That about $400 million net income is to be earned this year is being accomplished despite heavy snows in January and February which ate into the western roads' earnings, and in the face of bad business for the textile industry in the first half, adversely affecting railroads in the Southeast and New England. A three-day coal week during the summer, the complete cessation of coal mining in October and part of November and the steel strike all took a big bite out of earnings. Without these setbacks, the railroads would probably have had a net income for this year of at least $550 million.

Walter F. Hahn

However, these adverse developments have their bright side. We are now faced with pushing into 1950 a large part of the coal traffic that did not move this year and a large part of earnings, too, because from the standpoint of net income there is probably nothing so profitable as coal. From each dollar of revenue represented by coal the net income is probably larger than that derived from the movement of any other commodity. This is certainly true of trainloads of coal.

In 1945 and 1946, when railroad stock and bond prices were much higher than now, people were stressing the debt reduction of the railroads through reorganization and purchase and the refunding operations, which had reduced fixed charges from about $700 million to close to $400 million a year. They were stressing the growth of gross ton miles and revenues, which were way ahead of previous peaks, such as 1929—about $9 billion in the last years of the war, compared with $6 billion in 1929. Many other factors of strength were emphasized, including the great improvement in working capital. Bond prices were way up and so were stock prices. Income bonds were in the 90's. Milwaukee common was 38, New York Central 35, Pennsylvania 45.

Changes in Capital Structure

But in the last four years the attitude has changed and these factors are no longer greatly stressed. In a study I prepared about six months ago, I showed in ratio fashion some of the vitally important changes that have taken place since 1929 and 1936. These changes were produced by traffic growth, reorganization, debt refunding and purchase, retention of a large part of earnings and particularly the postwar inflation of wages and rates. Every item in the balance sheet and the income account is larger than it used to be—that is every item except debt, stock and fixed charges.

These great changes have received little recognition. Back in 1929 fixed charges were 11% of gross; in 1936, 16%; last year they were 4% of gross. In 1929 fixed charges were 33% of maintenance charges; in 1936, 53%; last year fixed charges were 14% of maintenance charges. This is a ratio which is not used very much and I have been trying to popularize it—I can't yet say with any great success. In 1929 the railroads were faced with contraction of traffic and revenues and had to cut maintenance drastically. In order to save an amount equal to fixed charges, they had to cut maintenance charges a third. Now (on the basis of 1948), in order to save an amount equal to fixed charges, the roads would have to reduce maintenance only one-seventh, which is a big difference. Fixed charges in 1929 were one and one-third times working capital; last year they were one-quarter. In other words, in 1929 fixed charges exceeded working capital and last year working capital was four times fixed charges.

I have here a preliminary study on bonds which you might be interested in seeing before it is put out in "white." I draw your attention particularly to a comparison of Pacific Gas and Electric and Southern Pacific. I call special attention to it because, if you study these selected income account and balance sheet items, you will see for yourself why it does look as if there is a pretty big spread in the prices of the bonds of Pacific Gas and Southern Pacific. I am not trying to bear Pacific Gas but trying to bull Southern Pacific. When you con-

*Address by Mr. Hahn before the Smith, Barney & Co. organization, New York City, Nov. 18, 1949.

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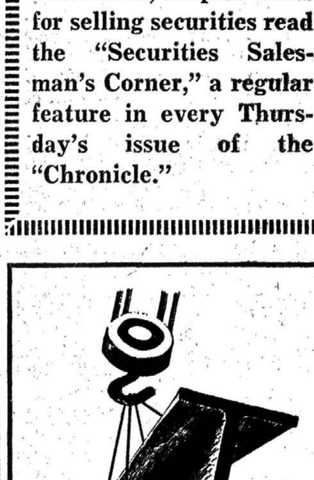

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The Blind Spot in Corporation Advertising

By JOSEPH R. DONALDSON
Joseph R. Donaldson Associates

Writer advocates integrity advertising to establish a corporation as an entity and its individual importance in the national economy. Believes so-called institutional advertising misses most important segment of public. Suggests correlation of more practical mediums to bring about better understanding of security values and relation of market prices to real worth as well as increased activity, creating protection for large stockholders and advantages in arranging new financing. Emphasizes importance of cultivating investors in remote places not reached by usual methods

Most corporations that recognize the value of advertising concentrate their advertising efforts and expenditures on the promotion of their products, the widening of their markets and the increasing of their sales. Some few more forward-looking corporations add to this something that is generally called institutional advertising. The theory of institutional advertising is that it "sells the company" and to a limited extent the usual institutional campaign, unless it is either too exalted or too folksy, does that. The trouble with institutional advertising is that it "sells the company" only to certain segments of the public; and one of the most important segments, the security owning and dealing public, is not among those that are effectively reached.

Joseph R. Donaldson

Everyone who has ever listened to an advocate of advertising is well informed as to the evils which descend upon a corporation that does not advertise its products or itself as an institution. The effects of this neglect of public opinion are well known. But it is surprising how few people, including corporation officials, realize the evil effects of failing to advertise to the financial community.

The people who risk their money on their judgment by purchasing securities for long or short-term investment or speculation do not judge a company's status by its advertising. They judge it by its profit and loss statement. They do not judge the caliber of the management by institutional advertisements couched in generalities but by the specific information they are able to gather or that is submitted to them relating to the company's conduct of its affairs. Every advertising manager and sales director knows that in order to sell the company's products, he must speak the language of the man who buys them. But not every corporation official is convinced that in order to reach, interest and convince the investor, the company must first find the man, approach him through the channels by which he is accustomed to receive his financial information and then talk to him in his own language.

This lack of interest in the investing public on the part of some managements is undoubtedly based on a lack of understanding of the importance of the securities seller and the securities buyer to the company. Of course management realizes that a company must sell its securities initially in order to raise the capital to get started. But far too many adhere to the 1870 conviction that once they have a man's money they need not bother further with him. As long as they can sufficiently sustain the confidence of the larger interests to muster a majority of proxies at the annual meeting, they do not concern themselves with their other stockholders, either existing or potential.

This, of course, overlooks several most important facts. One is that the whole trend of taxation makes the progressive breaking up of large stockholdings wellnigh inevitable and it is a wise stockholder in this category who makes provision for the future by arranging his affairs so that his estate does not have to make a sacrifice sale in a narrow market in order to meet the tax bill. Another important fact is that the history of corporations reveals how frequently new capital must be sought. It may be that the company is offered the chance to acquire another company or business at a bargain price; it may be that the business has increased so rapidly that its working capital is completely absorbed and must be augmented; or it may be that new capital must be raised to replace that dissipated in unprofitable years or to meet competition by adopting expensive technological advances.

When new financing is contemplated it is important that market prices reflect actual values and not incompetent guesses based on inaccurate, incomplete or obsolete information. Market prices can no longer be manipulated and never were over any appreciable period of time. They are determined by the investing public and by no one else. They are directly related to the extent and accuracy of public information. If the investor is currently and accurately informed, which is seldom the case today, he can and does rather precisely appraise the value of a security and his appraisal is reflected in market prices.

A well informed public has other advantages. There is likely to be more active trading in the company's securities, a great protection to stockholders because of greater liquidity. This leads to more interest on the part of more investors and produces a larger number of stockholders and greater geographical distribution of stockholders. More and more people in more and more places begin to think and talk about the company. Trading activity itself produces a valuable by-product, a type of costless advertising that goes directly to the mark. Every time a listed security is bought or sold, the transaction is visually recorded in every office and in practically every branch of every member firm and the company's name is printed in every newspaper and financial periodical that carries a list of transactions on the exchanges. There are literally hundreds of branch offices and smaller newspapers outside of the metropolitan centers and they are scattered all over the United States.

These are but a few of the reasons why a corporation needs a favorable financial climate to live in as well as sunny skies in the sales field and that of public opinion in the mass.

The means of developing such a favorable opinion among the financial public are quite simple. It depends basically upon the standing of the company as to its integrity. It is, therefore, it's integrity that a company should advertise. To put it in a few words, it is "integrity advertising" that is the blind spot in the average corporation advertising policy.

At first thought, it may sound as difficult for a company to advertise its integrity as for a lady to advertise her virtue. That is not so. The standing that a company enjoys as to its integrity is based primarily upon just one thing and that is the amount of information about it that is available. Obviously, if that information is bad, the reputation will decline rather than advance, but even then, candor, with regard to what the company is doing besides losing money, will provide a cushion. But we are talking now about the very great majority of well-operated, successful, progressive and growing American corporations which, if they but realize it, have nothing to hide and everything to gain from frank and substantial disclosure of their affairs.

The means of conveying information about the company to the securities selling and buying public are various and all take cognizance of one thing. The investing public, the buyers and sellers of securities, the stockholders and all those with money to put to work in American industry are a numerous group. **But they are a relatively small part of the American population and they are scattered through every part of the United States.** The 1949 edition of Securities Dealers of North America lists 1,021 pages of member and non-member firms and their branches in 794 towns and cities in 48 states and the District of Columbia. Of these, 260 pages are required for New York City, Chicago occupies 70 pages, Philadelphia 41, Boston 38, Los Angeles 30, San Francisco 25 and Saint Louis 21, a total of 485 pages, indicating that well over 50% of those professionally engaged in the distribution of securities and in guiding the investing public in the accumulation and preservation of its wealth are operating outside of the larger financial centers. (A substantial number of those firms listed in New York City are floor brokers, unlisted traders and others doing no public business.) In many communities there is but one broker or dealer but each of these is important and the so-called out-of-town dealer, in the mass, is of at least as much consequence as the total of those in the larger cities. Many are hungry for information because of the handicap of distance and facilities for communication. They originate an imposing portion of the investment business of the country.

One may be inclined to doubt a recently published statement that 8,000,000 families in this country are security owners. But even if that is an accurate figure, it still represents only something less than 20% of the total population. A moment's consideration of these facts will indicate the unwisdom of using an expensive general approach in order to reach the one man out of five or ten who can possibly be interested in a financial message.

And yet there are efficient and positive means of reaching these scattered members of the financial public. The most obvious is the specialized financial publication. Circulation figures on such publications look small beside the huge totals of general publications but they are all meat and no waste. A man may buy a five cent newspaper or a 15 cent magazine in order to look at the car-

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Prospects of Industrial Use of Atomic Energy

By LT.-GEN. LESLIE R. GROVES*
Vice-President, Remington Rand, Inc.
Former Director, "Manhattan Project"

Leader in development of atomic energy gives little hope for early use of atomic power by industry. Says cost is prohibitive, and stock piles of atomic material could not be made available. Points out, however, valuable use of isotropes may be made in industrial research and medicine. Sees serious threat from Russia's knowledge of atomic power, and advocates decentralization of factories and industrial plants.

I think the most recent developments on atomic energy are what your read today, headlines of all varieties and headlines discussing not so much recent developments as what happened years ago and why did this happen and who was responsible, and lots of other questions that are still going on, unanswered.

Leslie R. Groves

The developments as they affect industry, I believe, are twofold, or, rather, can be divided into two classes: (1) those developments in this country which have given us a greater knowledge of atomic energy, and particularly knowledge applicable to industrial use. The other part of the question is, what is the effect on American industry as a result of the development that has been reported in Russia?

To discuss the first part first, we should review what has happened since V-J Day, the progress that has been made. Whether that progress has been as rapid as was anticipated, or as rapid as it should be, is beside the point. The question that should concern us today is what that progress has been.

Now, the industrial application of atomic energy properly falls, I think, into two major classes: first, the use of atomic energy for industrial power. Its possibilities, I feel, have been greatly exaggerated. Certainly, I have not kept quiet about my feeling on that from the day that the American people first learned of the atomic bomb.

The industrial power is limited to peculiar situations at present. Its development for general use is certainly a number of years away. I have not changed the opinion I expressed in 1946 before the NAM that it would be at least ten years, and that assumed that we would have the same drive toward success in that as we have had toward success during the war. It would take ten years before we would have a reasonable chance of having the economic use of atomic energy for industrial power within our grasp.

Cost, a Factor

The reason for that is simply one of dollars and cents. At the present time there is no anticipated way in which those costs can be made lower than the cost of the generation of power by the means now at our disposal, and that assumes, of course, that the price of coal will continue to go up under the leadership of Mr. Lewis. But despite that, the inherent difficulties of costs in the generation of power through atomic energy are so great that it will be years before all of the details can be worked out. Even then, after ten years' time—and that is dated from 1945—I think I would be perfectly safe to tell you ten years from now, certainly those who disagreed with me in 1945 and 1946 on the ground that I was unduly pessimistic, are now talking about 25 years instead of the ten that seemed too long to them then.

The reasons are rather simple. It is a terrible thing to build a pile and to build it cheaply. I thought it was awfully expensive during the war, when we were building them under wartime conditions, and we didn't know from one day to the next what design would be required and we had to change and change and change. But the ones built since the war have been a great deal more expensive. Why, I don't know. I wasn't in charge and I don't know the reasons for the increased cost, but it was very, very much greater.

Now, then, the pile as it was built at Hanford did not produce steam. There was no way that steam could be produced, according to what we commonly think of as the reasonable way to produce it. It did heat the water, the cooling water, to a certain temperature, but it was short of that steam point which is so essential in any reasonable method of generating electric power. Of course, it would be possible to take a small degree of heat and, by using certain elements in your boiler plant, produce steam—not water steam but a chemical steam—and through that means, to produce power. But at the present time, it would be very expensive.

You would also have to have a large staff of very expensive men to run your plant. It is true that usually they would have very little to do. But when you needed them, you would need them badly, and they would be men who demanded wages that would be far above any demanded by any union of today.

Now, what would be the capacity of such a plant? To make it economical at all, it would have to be of enormous capacity. It would have to be something not for use in an isolated area where there isn't much demand, but to tie in to a system like that serving New York City, to tie in with something like the Columbia River system. It would not be something that would be a normal, out-of-the-way use. It is true that if you had a tremendous demand for power in an isolated section, it might pay you, but it is very difficult for me to set up the requirements, or the conditions, you might say, that would make it a feasible thing to think about.

Navy May Be Atomic Powered

I would therefore like to dismiss from your minds the idea that there is any change in that situation. It is true that vessels will be powered by atomic energy; that naval vessels, particularly, will be so powered. There will be some possibility, if we continue to have a navy, of that being

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*Stenographic transcript of an address by Gen. Groves before the 54th Annual Congress of American Industry, sponsored by the National Association of Manufacturers, New York City, Dec. 9, 1949.

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The State of Trade and Industry

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

A rise in manufacturing lifted total industrial production for the country slightly above the level prevailing in the preceding week, but notwithstanding the increase, over-all output continued to hold slightly under the level for the similar week in 1948. A moderate increase in unemployment was noted the past week in some communities.

Electric power production the past week again pushed through its high point to establish another all-time peak. Not to be outdone, steel output made further progress the past week, rising to 94.5% of capacity.

In the automotive field last week was the first time since the week ended Nov. 19 that total output has exceeded 100,000 units The estimated figure by Ward's Automotive Reports, both for the United States and Canada, was placed at 115,495 units.

With regard to the advance in steel prices, it is understood that the greater number of the large steel producers have followed the leadership of United States Steel subsidiaries within a week. Smaller companies are reported to be following suit with present indications pointing to the completion of the industry-wide price adjustment by the turn of the year.

* * *

November employment in industrial, wholesale and retail lines amounted to 42,700,000, the United States Labor Department announced. This was a slight gain over October. But it was 750,000 below the total prior to the coal and steel strikes. Seasonal layoffs and idleness caused by steel shortages just about offset the return of striking steel and coal workers to their jobs. Unemployment in November dipped to 3,400,000, off about 200,000 from October.

The recovery of business in December from the setback suffered from the recent steel and coal strikes was more rapid than had been expected, according to the National Association of Purchasing Agents. An air of "general optimism" was reflected in reports to this organization as the year approached its close with predictions of "good business" for the first quarter of the new year.

* * *

Viewing the prospects for the year ahead, the magazine "Steel," in its issue of Dec. 26 states as follows:

"As the year-end approaches, the economic forecasters are saying that we can expect fairly good business weather during the first quarter. These predictions are made at a time when some of the major industries are driving at full speed to make up for past losses occasioned by strikes.

"Steel ingot operations are holding at around 95% of capacity. The automobile industry is going strong and is preparing for a record-breaking spurt on new models in January, with some overtime operations scheduled. Electric power output, which annually touches its seasonal high point in December, has established new all-time records of output in two consecutive weeks.

"Most noticeable exceptions to these optimistic signs are found in fuel and transportation. Revenue railroad freight car loadings are down substantially from levels of a year ago. Bituminous coal output is roughly 25% below production in corresponding weeks of 1948 due to the current three-day week. Production of petroleum also is lower, but by a much lesser margin than coal.

"Economists see two factors which will help to buoy purchasing in early 1950. One is the $3,000,000,000 to be distributed to veterans in insurance refunds. The other is an estimated $1,000,000,000 in Series D savings bonds which were sold in 1940 and will mature in 1950. Bond redemptions will be an important factor throughout the next decade."

* * *

Marshall plan aid extended to Western Europe during 1949, the Economic Co-operation Administration currently reports, amounted to the sizable sum of $3,867,000,000 with Great Britain receiving the largest portion, followed by France, Western Germany and Italy in that order.

The year-end review, covering aid through Dec. 20, showed an allotment of $1,810,072,000 for industrial goods and $1,767,233,000 for food and farm products. Another $278,000,000 went to pay shipping costs to carry the goods across the acean, while $10,980,000 was spent for technical services such as bringing foreign production teams here to learn American methods.

ECA said there was a "distinct drop" in dollars set aside for the Marshall plan nations. This, it said, reflects "a basic principle of the Marshall plan—that the European countries should require a decreasing amount of ECA dollars as their economic recovery progresses."

STEEL OPERATIONS RECEDE SLIGHTLY DUE TO CHRISTMAS DAY, HOLIDAY

This week the steel industry will wind up the year with total steel production very close to 77,500,000 net tons of ingots and steel for castings. Finished steel shipments for the year will exceed 57,000,000 net tons, according to "The Iron Age," national metalworking weekly, in its current review of the steel trade. It was not a record year because of the partial satisfaction of demand pent up during the war, the spring recession and the steel strike. But it topped any pre-war year by millions of tons. It was 14,000,000 tons better than the boom year of 1929, the magazine adds.

High-level operations, between 85 and 95% of capacity, will continue at least through March of this year. This prediction is made despite squeamishness in some quarters and is based in part on the fact that automobile manufacturers are optimistic about the immediate future, see good business ahead for at least six months.

For this reason, this trade authority states, flat rolled steel will continue in strong demand for the first quarter of 1950, for it is

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Sterling Devaluations: 1931 Contrasted With 1949

By M. J. BONN

Dr. Bonn reviews British devaluation of Sterling in 1931 and notes contrasts with more recent devaluation. Says 1931 crisis was caused by over-production, whereas 1949 devaluation was result of under-production. Foresees little increase in British exports and points out diversion of large percentage of British production for export would seriously contract home consumption. Points out British worker, in fear of unemployment in regime of plenty, holds down output and accepts austerity. Concludes, because 1949 devaluation was fixed at artificial level, end is not yet in sight.

History, we are often told repeats itself, though as a matter of fact, it is merely copied; in the hands of inferior craftsmen, the copy rarely resembles the original. A comparison between the devaluation of 1931 and 1949 bears this out.

Moritz J. Bonn

The 1931 devaluation happened—very much against the will of nearly all those concerned; the 1949 devaluation was planned—planlessly it is true—for it took the planners fully two months after they had first made up their minds before they even thought of making plans for meeting the outcome. If ever proof was needed, that planners cannot plan, because they have neither enough insight to understand issues nor adequate foresight to anticipate nor sufficient courage to meet their consequences squarely when they stare them in the face, here it is. The one excuse the British Government can claim is the prodding of some American friends, who indulged in the noble sport of backseat driving, being unaware of the difficulties of the road and of the limited skill of the driver. The plea, that devaluation was inevitable, does not exonerate a planning government; planning is senseless, if it does not enable one to avoid situations where undesired decisions are inevitable.

The 1931 crisis was a crisis of over-production in the sense, that a number of commodities could not find purchasers at remunerative prices. It started with an over-production of agricultural commodities, resulting in a fall of prices which hit over-indebted farmers very hard. Their purchasing power in domestic markets shrunk. The great agarian oversea countries, who depended on agricultural exports tried to solve their problems by defaulting on their foreign debts, and used their exports for paying for their imports. Even so their ability to buy manufactured goods had greatly declined, and with it their imports from Europe and the United States. Their defaults hurt British investors pretty badly and reduced their purchasing power. Great Britain's income from foreign investments fell from £250 million (1929) to £165 million (1930).

The rise of American wages accompanied by a fall of cost of production had bred the myth of permanent prosperity, as industry profited for a time at the expense of agriculture. The price fall had been caused by physical causes, not by credit restrictions or high rates of interest; neither bumper crops nor bad harvest, are occasioned by money manipulations, though efforts at mitigating their consequences can be made through them. In the late 20s, redundancy was combated by credit expansion in agriculture nearly everywhere, which naturally stimulated additional production.

Credit Expansion of the '20s

Permanent prosperity was the goal; it was to be secured by credit expansion all round. By pumping money into Germany, nationalizing both her industry and her agriculture, the United States prolonged the life of the reparation scheme. Increased production was to provide Germany's creditors with sufficient cash to pay off the 10 odd billions they owed to the United States, and to keep something over for their own use. Cheap credit made the stock exchange boom in New York get out of hand. Instead of controlling it, the New York bank rate was lowered to 3.5% in August 1927 partly with the object of keeping the English bank rate stable at a low level. It was raised too late to 4½% (June 1928) and to 5% (July), for when security prices are jumping by 30 points in three months, one cannot stop the boom by adding half a percent to the bank rate.

The British rate had to be kept below 5%, otherwise the Treasury could not convert the 5% war loan and relieve the budget by about £30 million a year; it was moreover frightened that credit restriction would cause increasing unemployment. When the crash came in the United States (August-September, 1929), it was not fought in New York by raising bank rates but by lowering them. In June, 1930, they were down to 2.5%, and in the early days of the British crisis (1931), New York rates fell to 1.5%.

Gold Standard not Responsible for Crisis

Popular opinion holds the gold standard responsible for the crisis. The gold reserve of the Bank of England it argues is determined almost automatically by the volume of notes and credits available at a given moment. An outflow of gold reduced them automatically. To prevent this loss, the bank rate had to be raised or securities had to be sold and credit was contracted by making it more expensive and its use less remunerative. This led to dismissals and increased unemployment.

The facts do not bear out this explanation of the 1931 crisis. The bank rate was lowered nearly all the time. It declined from 5.5% (February, 1929), at the height of the American boom—to 3% in 1930, and to 2.5% for May, June and most of July, 1931. During the American crisis October, 1929, it had gone to 6.5% and 6%. Unemployment fluctuated around 10% from March to October, 1929: in March, 1930, when the bank rate had gone down to 3.5%, it had risen to 13.7%. The bank rate remained stable at 3% from May, 1930, to April, 1931, but unemployment rose from 15% to 20.8%. In July it reached 22% though the rate had been lowered in May to 2.5%. Through October and November, 1931, it fell a little to 20.9% in December, though in September the bank rate had gone up to 6% and remained on that level through January, 1932. In that month unemployment climbed again to over 22%, reaching 22.9% in July, 1932. In the meantime, however, the bank rate had gone down to 5% in February and to 2.5% in May, where it remained for the rest of the year.

It is quite impossible to point to automatic connection between movements of the bank rate and the figures of unemployment. The depression was not brought about by deflationary measures of the bank. Quite possibly a timely rise of the bank rate might have eased it by expanding credit. For the crisis of Sterling was a confidence crisis, due in no small degree to the obtuseness of the Labor Party, who opposed the policies of its own Chancellor. The opposition naturally exploited its vacillations, by telling the world that England was going to the dogs. The result was a flight of capital and a heavy loss of gold.

Great Britain at that time had become a banker who had lost a considerable part of his own capital, but was unwilling to contract his operations. She worked on a very large scale with borrowed money, and that money was bound to be withdrawn when confidence was undermined. The attitude of Labor did not make for a return of confidence. Nor did Mr. McDonald's desertion from his party restore it. His heading a national government did not impress foreigners sufficiently; they saw very clearly, that a government which was opposed by the bulk of the second largest party

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BARROW, WADE, GUTHRIE & CO.

take pleasure in announcing that the following Certified Public Accountants have been admitted as General Partners in the Firm as of November 1, 1949:

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Stocks Dislike War Threats

By BRUCE ELLSWORTH
E. Barret Griffith & Co., Inc.
Investment Counsellors, Colorado Springs

After reviewing effects of international tensions on stock prices, Mr. Ellsworth contends we should expect continuation of inconclusive market trend until end of cold war or a successful war with Russia, when market could become dynamically bullish.

Since the stock market break of 1946 confusion and bewilderment have reigned among followers of equities. In the face of unprecedented prosperity from 1947 to 1949, stock prices have fluctuated in an almost meaningless pattern, and at levels far below what normally would be justified. Although international developments have received attention in discussions of stock prices, it does not appear that the "cold war" has been accorded its due weight in the years since 1946.


Bruce Ellsworth

There have been periods of international tension before in our history, and an examination of stock prices during those periods reveals a striking similarity to the present. During such times the threat of war became the dominant influence on securities, and not until the pressure of fear was lifted did prices respond to any prevailing good news. Charts of stock prices during three important and comparable periods in which fear of war existed are shown here and will be discussed in detail.

Pre-Civil War Period

The depression of 1857 brought about a sharp decline in security prices, which was followed by more than four years of indecision in the market. During this period tension over the slavery and states rights issues mounted steadily. The situation was brought to a head in late 1860, with the election of Lincoln in November and the secession of South Carolina in December, despite many efforts at compromise. The events of late 1860 brought a break in the stock market which completely wiped out the promising gains that had been made earlier in the year. The firing on Fort Sumter in April, 1861, forced prices even lower. The battle of Bull Run was fought in July, 1861, and although the result was unsatisfactory for the Union, the more intensive conduct of the war with its resultant inflation and expectation of victory touched off a bull market which did not end until 1864.

Pre-World War I Period

Although the beginning of the First World War may have seemed remote and unimportant to many Americans, the stock market reacted to it in the same manner as has been noted in other periods of war crisis. Stock prices declined sharply in 1910, following the war scare in 1909. The market failed to make any sustained advance during 1911 and 1912 while tension was mounting in Europe. The preparedenss craze of 1913 coincided with another sharp drop in stock prices, and July, 1914, when war appeared to be unavoidable, brought another wave of liquidation. The New York Stock Exchange was closed from Aug. 1 (when hostilities began) until Dec. 12, 1914. Meanwhile, the German advance into France was halted at the Marne, and the war settled into a stalemate. In March, 1915, stock prices began an advance which lasted for almost two years.

Pre-World War II Period

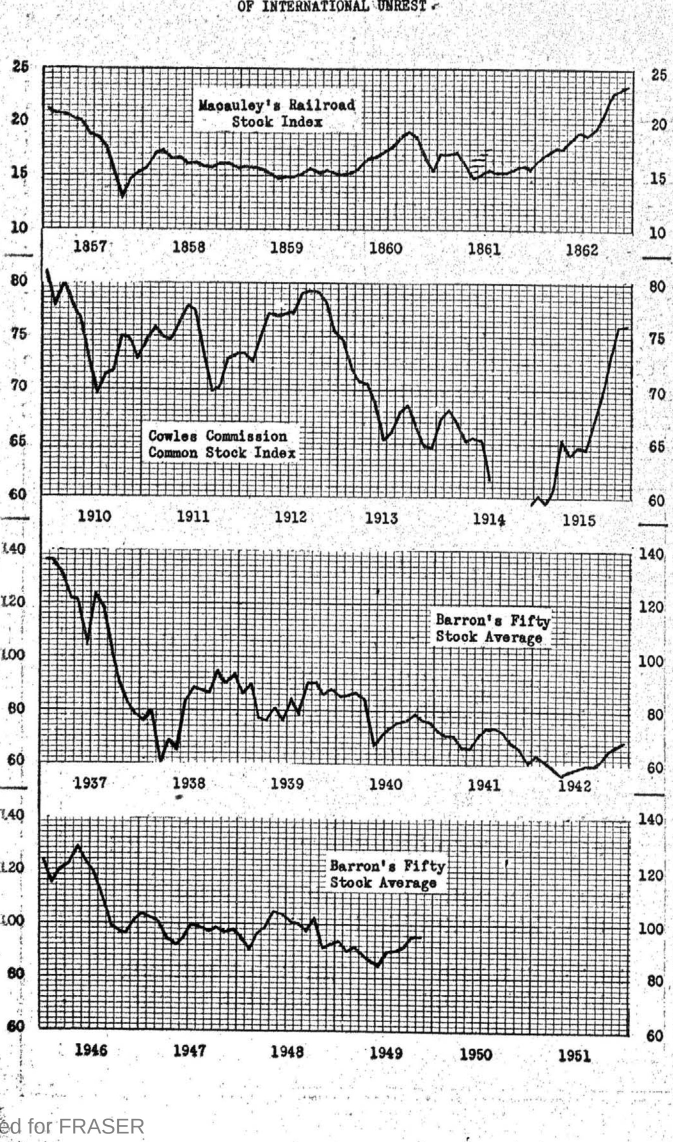
The same pattern in the stock market prevailed from 1937 until 1942. The business depression in 1937 was accompanied by a break in the market. A sharp rally followed in 1938, but the pressure of German aggression, in spite of the settlement at Munich, cut it short. The actual outbreak of war in September, 1939, was greeted by a brief upswing in security prices, but the progress of the war soon discouraged the advance. The fall of France in the spring of 1940 carried the market considerably lower, and the downward trend persisted until the spring of 1942. The entry of the United States into the war, and the gradual turn in the fortunes of war soon instilled new confidence in the hearts of investors, and a four-year bull market began that year.

The Cold War

The stock market break of 1946 appears to have resulted from fear of a postwar depression. However, the state of the nation's economy during the last three years hardly justifies the trend of stock prices since then. A more reasonable explanation of the dispirited action of stock prices would seem to lie in the international sphere. The threat of another war has been strong. The seizure of the eastern European nations by Russia, which was concluded with the fall of Czechoslovakia in February, 1948; the Berlin blockade; the collapse of the Nationalist armies in China; and above all, the ever-present threat of the Russian atomic bomb have taken their toll of investor psychology. In the face of war fears as strong as in 1857-61, 1909-14, and 1937-41, it is not surprising that stock prices have not responded to news of higher earnings, higher dividends, and unparalleled prosperity in the United States.

In the face of past experience we should expect a continuation of the inconclusive trend which has been in existence since 1946 for as long as international tension exists. Either actual outbreak of war with Russia, provided that it appeared likely that we would win, or a turn in the tide of the cold war could produce a new bull market. Also the peaceful conclusion of the cold war would be most satisfactory and could be dynamically bullish. However, as long as fear remains and the Russians persist in jarring our peace of mind from time to time, there appears to be little ground for unrestrained optimism regarding equity prices.

STOCK PRICES DURING PERIODS OF INTERNATIONAL UNREST



New Partners In Accounting Firm

Barrow, Wade, Guthrie & Co., 120 Broadway, New York City, announce that the following certified public accountants have been admitted as general partners in the firm: Edwin C. Nelson and Arnold R. Ternquist, San Francisco office; William B. Wood, Houston office; Stanley E. Shirk, New York; Jay M. Squire, Newark; and Philo R. Zimmerman, Seattle.

The Equity Capital Problem

By EDWARD HOPKINSON JR.*
Partner, Drexel & Co., Philadelphia
Former President, Investment Bankers Association

Prominent investment banker, commenting on decline in use of equity capital by business corporations, points out it is not due to drying up of potential source of such funds, but arises from current high corporate and individual taxes together with belief that these levies will continue. Lays blame also on high margin requirements and heavy capital gains tax as well as trouble and expense in complying with SEC regulations. Says SEC prospectuses do not help ordinary investors.

Your Committee is rightly concerned with the problem of raising the capital funds which are the life blood of industry to improve productivity, and it is only by improving productivity that our standard of living can be raised over any extended period of time. For the excess cash required for capital expenditures, a corporation has the alternative of going to the public for new funds, or retaining earnings after taxes. In the years 1946 through 1948, about 40% of earnings were paid as dividends, compared to 66% in 1929 and about 75% in 1939. I believe this change in corporate policy is largely due to the difficulty and expense of obtaining new funds, particularly equity funds, from the public. These equity funds are variously referred to as risk capital, venture capital, or equity capital, and are usually represented by common stocks, except in the case of smaller businesses where there may still be direct ownership by one or more individuals. Common stocks in substance represent a share in the ownership of a business enterprise.


E. Hopkinson, Jr.

Certain profound changes have taken place in our economy. New money is being obtained more and more by going into debt. In 1946, over 68% of all new corporate financing was by the use of debt securities. In 1947, it was over 76%, and in 1948 over 84%. Most of these debt securities were purchased by insurance companies, and other institutional buyers. In 1946, common stocks represented about 12% of new corporate financing, in 1947 about 10½%, and in 1948 only a little over 8%. Most of the common stocks went to individuals either directly, or indirectly through investment trusts, in which they purchased participations. The balance was represented by preferred stocks.

When the need for equity capital is so real, why have corporations so largely been forced into debt to get their needed lifeblood?

Potential Equity Capital Plentiful

The reason is not because there is not plenty of potential equity money available. According to recent U. S. Treasury figures, individuals now hold liquid assets (not including life insurance), in the amount of about $200 billion compared with a figure of about $57 billion in 1939. These liquid assets are represented by the following:

	Billion
Government Securities	$68
Saving Accounts	67
Checking Accounts	43
Currency	22

*A statement by Mr. Hopkinson before the Subcommittee on Investment of the Joint Committee on the Economic Report, Washington, D. C., Dec. 16, 1949.

By way of contrast, all stocks listed on the New York Stock Exchange had a market value in 1939 of $46.5 billion; now, in spite of many new additional listings, only about $73.2 billion. Last year less than 15% of all the shares so listed changed hands, which means that over 85% (some certificates changed hands more than once) of the stocks at the end of the year were owned by exactly the same people who held them at the beginning.

I will try briefly to touch upon some of the reasons for this dangerous trend and some of the possible remedial steps.

World unrest has been a factor with the accompanying policy of costly relief for Europe and huge expenditures for armament, which together postpone the probabilities of substantial tax reduction, even though no war result.

High corporate and individual taxes are undoubtedly a factor. Coupled with this is the double taxation of corporate income, first to the corporation on all its net earnings and then again to the stockholder on the portion paid out in dividends. Some credit to the individual stockholder against his dividend income for at least a portion of the tax paid by the corporation would to that degree make common stocks more attractive.

The combined effect of high individual income taxes and inheritance taxes (including provision for paying them at death) have tended to dry up purchases of common stocks by the upper and middle income groups, which used to furnish the principal yield for risk-taking finance.

A vast portion of our national income after taxes has accumulated in the hands of little people. More wealth in the hands of little people is fine. It means more people can have electricity, electrical appliances, telephones, automobiles; but individuals and corporations who pay the taxes must be enabled to carry the burden. It is natural that these people should seek safety first with their first savings. However, it is unfortunate that circumstances have coaxed such vast sums into so-called safety first, with such little willingness of the owners to risk even 10 or 20% of their savings to own and finance American industry, the very industry that produced these savings. Such policies have caused a rapid flow of vast sums into our insurance companies and savings institutions. They in turn must place these funds in safety first channels. Can they continue to find safety first for such vast and increasing funds? Surely, if such trend continues, there will be no such thing as safety first, for the simple reason there will not be sufficient risk capital down below to provide the safety.

There is another large group of safety first people. The proportion of national income distributed as pensions and other forms of relief has increased from 1½% in 1929 to 5% at present. Such distributions now run at some $11 billion per year, nearly 1½ times all dividends paid by all American corporations in 1948. Such

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From Washington Ahead of the News

By CARLISLE BARGERON

A couple of weeks ago, Walter Reuther was given quite a testimonial dinner in New York. Speaker after speaker lauded his contribution to the human race, and if I am not mistaken, he was given a scroll to this effect. A few days later Mrs. Roosevelt devoted her "My Day" to him, basting him with fulsome praise and saying she hoped he went on to bigger and better things in order that more people could enjoy his unselfish devotion to his fellow men.

Carlisle Bargeron

I try to read the Lady's column regularly in order to keep abreast of what she is cooking up. It is by no means as naive as it reads. It is, instead, fraught through with cunning. A mention of the pretty roses she saw in some acquaintance's yard has a purpose of some kind, you may rest assured. Naturally I was interested in just what is behind this unusual build-up of Reuther.

There was quite a sprinkling of conservatives at the dinner, a surprising number of very respectable names. I asked one of these what caused him to attend. He said, well, he had since wondered about it himself. But at the time he thought Reuther had rendered a signal service to the country in preventing a strike of the Ford workers.

You may recall that a year ago the Ford workers voted down a pension offer in favor of a raise in pay. This year, a few months ago, there was an awful hullabaloo about pensions with threats of a strike rending the air over a period of several weeks. We read of the Ford management and union negotiators working far into the night in order to meet a deadline. The deadline was met, a pension plan was announced and the day was saved.

Now, my conservative friend thinks Reuther displayed some rare statesmanship for which he deserved the affection of the American people. The rare statesmanship, I take it, lies in Reuther's having talked the workers into taking pensions instead of demanding a fourth round wage increase. I am told by experts on the subject that there is, indeed, a lot that doesn't meet the eye in this pension plan, that it could not have been more favorable to management if management had drafted it, that it doesn't mark any great advance of the common man, as it was hailed at the time, in the slightest.

What it did accomplish, however was to put Phil Murray and the Steel industry in an awful spot from which we are to get increased steel costs. Murray, himself, has been credited in many respectable quarters with having shown enlightened leadership in this instance for heading off a fourth round wage increase.

The theme behind this attitude towards the Reuthers and Murrays is that we don't realize how fortunate we are to have such good men in these places of power. They are restraining influences, we are told. What they are up against is a continuous surge of unrest on the part of the masses under them. If they were less statesmanlike, if others of smaller statue were in their places, the country would, indeed, be in an awful mess.

I am convinced it is the sheerest bunk. In Reuther's organization there are unquestionably seekers after his scalp. Reuther, on the other hand, is a seeker after Murray's scalp. Murray's berth in his own organization, the Steelworkers, is secure, and I doubt Reuther's is in any real jeopardy.

And one thing is very certain: if there is the continuous stir among the clients of Messrs. Reuther and Murray as to necessitate their constant calling of strikes and threats of strikes, nobody is more responsible than Messrs. Reuther and Murray, themselves.

The CIO's literary and educational activities are pitched to keep the workers in a perpetual state of hatred for the employer. You can understand that there would be bitterness and recriminations during the period of a strike. But in the old and relatively sane AFL days of labor-management relationship the bitterness and recriminations went out immediately the strike was settled. With the CIO, particularly in the motor and steel industries, the agitation keeps up day in and day out. There is never anything good about the management; a wage increase was wrested from his ill gotten gains, and in due time, another wage rise will be wrested from him. So if there is a constant fire under Messrs. Reuther and Murray, a constant pressing for them to show activity, it is of their own doing.

Frankly there is not that fire. The workers in motors and steel are pretty thoroughly regimented. Their unions do not lend themselves to individual initiative. You have only to realize the recent predicament of the steel workers to appreciate this. They were either entitled to and the companies were in a position to grant an increase in wages, or this was not the case. But this was not the determining factor at all. Three men got together in New York at the direction of the President and ruled that a raise would hurt the country's economy. How would you like the boss to tell you he couldn't give you a raise because it would hurt the counrty's economy? Then to add to the steelworkers' lowly captivity, they have to go on strike so their leader can be put in the light of having accomplished "something" for them.

Kauder & Co. Opens

(Special to THE FINANCIAL CHRONICLE)

JERSEY CITY, N. J.—Murray N. Kauder is engaging in a securities business from offices at 75 Montgomery Street under the firm name of Kauder & Co.

Knoller in Newark

NEWARK, N. J.—David N. Knoller is engaging in a securities business from offices at 786 Broad Street.

Public Attitudes Toward Owning Securities

By RENSIS LIKERT*

Director, Institute of Social Research, University of Michigan

Dr. Likert gives results of survey conducted for the Board of Governors of the Federal Reserve System covering ownership of common stocks by spending-units comprising various income groups. Places unfamiliarity with stock, together with feeling stocks are not safe, as leading cause for not acquiring them. Sees adequate financial resources in hands of public to substantially increase common stock ownership, and recommends continuous research by investment bankers to improve public's attitude toward ownership of securities.

At the beginning of 1949, about 8% of all spending units, or somewhat more than four million spending units in the United States held marketable common stock. (A spending unit is defined as all persons living in the same dwelling and belonging to the same family who pool their incomes to meet their major expenses.) The total number of individuals who own some common stock is estimated to be over six million, since in a substantial number of spending units more than one individual owns common stock.

Rensis Likert

These results are based on the 1949 Survey of Consumer Finances conducted by the Survey Research Center of the University of Michigan for the Board of Governors of the Federal Reserve System. Four consecutive nation-wide surveys made by the Survey Research Center during 1947, 1948 and 1949 have yielded similar information as to the ownership of common stock. The bulk of these results has been reported in the Federal Reserve Bulletin—for example, in the October, 1949, issue.

Of all spending units owning common stock, about one-third own stock valued by them at less than $500; about one-fourth own stock valued by them at over $5,000. Almost one-half of all spending units who own common stock own stock in one corporation only.

But how accurate are these results? The methods used in these surveys have been described in the Federal Reserve Bulletin. They differ from those used by the polls since they use long intensive interviews with respondents selected by means of probability sampling. Numerous checks are made on the accuracy of these surveys. For example, in the 1949 Survey of Consumer Finance we interviewed 3,500 spending units, each of whom were asked the amount of their 1948 income. When these figures were expanded to a national estimate, the figure obtained was 10% less than the Department of Commerce estimate derived from aggregate amounts of income paid out. Similar results for the 1947 income were obtained in 1948.

Chart I shows the relation between income and the ownership of common stock. As will be observed, there is a very marked tendency for appreciably more people in the higher income groups to own common stock than in the lower income groups. The proportion of different income groups who own common stock varies from 3% for those with less than $2,000 money income in 1948 to 16% for those with incomes of from $5,000 to $7,500 and on to 46% for those with incomes over $10,000. It is striking, nevertheless, that only 46% of those spending units with over $10,000 in money income own common stock.

Chart II shows the relation between the ownership of common stock and the ownership of liquid assets. Only one percent of those spending units who hold no liquid assets (government bonds and bank deposits) own common stock. The proportion of spending units who own common stock increases on the average as the holdings of liquid assets increase. Ten percent of those spending units holding between $500 and $2,000 of liquid assets own common stock; 13% of those holding between $2,000 and $5,000 and 34% of those holding $5,000 or more of liquid assets own common stock. It is significant that many more spending units tend to hold more funds in the form of liquid assets than are invested in common stock. Even units who own common stock tend to have more resources in liquid assets than in stock.

Chart III shows the relation of the age of the head of the spending unit to ownership of corporate stock. The proportion of spending units owning common stock increases with age from 2% up to 11% for the group from 45 to 54 years of age. Although the proportion of spending units in the age groups over 54 which own common stock does not increase with age (it remains about 10%), those spending units in the older age groups have more funds invested in stock as their age increases.

The relation of the occupation of the head of the spending unit to stock ownership is shown in Chart IV. The business and professional groups have the largest proportion of spending units owning common stock—15% for each group. Nine percent of the spending units whose occupation falls in the "other white collar" group, such as sales and clerical work, own common stock, but only 4% of the skilled and unskilled group own common stock. The influence of contacts, exposure to information about stocks and probably sales solicitation is reflected in the difference between 9% and 4% since the two occupational groups do not differ appreciably in income.

The relation of ownership to size of community is shown in Chart V. Among spending units

Continued on page 22

*A talk by Dr. Likert at the Public Education Forum of the Investment Bankers Association of America, Hollywood, Fla., Dec. 3, 1949.

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

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1949 High Level of Economic Activity to Continue

By HON. CHARLES SAWYER
Secretary of Commerce

In year-end review of business situation, Mr. Sawyer estimates gross national product in 1949 at $259 billion, only 2% below peak year of 1948. Sees 1950 starting off at high rate that prevailed in second half of 1949.

The year 1949 was one of high level economic activity. The gross national product which measures the total market value of goods and services, amounted to an estimated total of $259 billion, less than 2% below the all-time high of 1948. The pace of economic activity was not uniform throughout 1949. During the first half of the year the trend was moderately downward, but subsequently there was a general firming in activity with industrial production and construction recovering.

Charles Sawyer

The major change in the components of the gross national product was in business inventories. In 1948, inventories were rising to meet postwar requirements, but by the end of that year the need for further accumulation of stocks had subsided. In the year just ended there was a moderate decline.

Excluding these changes in business inventories, total demand for the nation's output was higher in 1949 than in 1948, in both a dollar and a real sense.

Purchases of more automobiles, personal services, houses, and government goods and services more than offset reduced demand for clothing, producers' plant and equipment, and privately financed net exports of goods and services. The decline in business inventories in contrast with the rise in 1948, however, resulted in a moderately lower volume of industrial production and employment.

Significant in relation to the economy's well-being in 1949 was the maintenance of personal income at the 1948 level of $212 billion. With lower personal tax rates in effect in 1949, plus refunds in 1948 tax payments, disposable personal income was actually higher than in 1948. As a consequence, consumers were able to save somewhat more than they did in the previous year and at the same time were enabled to maintain the volume of their expenditures on goods and services at virtually the same level as in 1948.

Figures now available for the year 1949 are necessarily preliminary. They may be cited, however, in summarizing the major patterns of business activity during the year.

The national income, as distinguished from gross product, declined from $226 billion in 1948 to an estimated $222 billion in 1949—or a drop of less than 2%. It is interesting to note that this small reduction is accounted for by price declines during the year. Price reductions reflected the increase in supply made possible by the expanded capacity to produce, the increasing competition in most markets, the diminished urgency of requirements for many types of goods including the demand from abroad, and the cessation of inventory building characteristic of 1948.

Total wages and salaries were higher in 1949 than in 1948, both in dollar and in purchasing power, as higher wage rates more than offset the small reduction in the total number employed. Earnings of corporations and of farm proprietors, however, were lower than in the record year 1948. In the case of farmers, declining prices were responsible for the drop in their incomes. Lower prices as well as a smaller volume of industrial output affected the incomes of corporations.

Total employment in 1949 averaged 58.5 million, 2% below 1948. This, along with the rise in the work force during the year, resulted in unemployment averaging about 3½ million in 1949, compared with the minimum level of 2 million in the previous year.

The weakest sector of the economy—and the center of the moderate unemployment during the year—was industrial production. This was the sector most directly affected by the reduced needs for inventory rebuilding. Production was moderately below 1948 in almost all major segments. Most nondurable goods industries showed moderately declining production trends during the year. In some durable goods industries—such as nonferrous metals, railroad freight cars, and certain electrical appliances—the decline was substantial. The automobile industry, on the other hand, established a new record output of more than 6 million cars and trucks.

In contrast with industrial production was the strong showing of construction activity. The total value of construction put in place, both private and public, exceeded $19 billion, and topped the 1948 record by 3%. A rise in publicly financed building activity in 1949 more than offset a decline in private commercial and industrial construction. Nonfarm residential building maintained last year's high volume of somewhat more than $7 billion. The number of nonfarm dwelling units started during the year, however, reached the 1 million mark, exceeding the previous high established in 1925.

Farm production was also large in 1949, and this heavy output, following the bumper crops of 1948, accounted in large part for the decline in farm prices from the postwar peak. An additional factor was the less urgent requirements in foreign countries. The downward drift of farm prices would have been much sharper were it not for the large volume of agricultural commodities removed from the market through government loans and price support purchases.

While business opportunities continued favorable during the year, the sharp postwar growth in the number of business establishments was arrested. In 1949, business discontinuances exceeded business births, by a small amount, for the first time since the end of the war. At the end of the year the total number of firms in operation was close to 3.9 million about 15% above the prewar level.

An important demand factor throughout the year was the substantial rise in expenditures of government—including Federal as well as state and local. Principal increases were in military expenditures and the foreign aid programs. Public works expenditures for schools, hospitals, roadways, bridges and other structures continued to increase.

At the end of the year business activity was moderately below the postwar high reached at the close of 1948. Consumer demands continued at the high rates prevailing throughout the year. Residential construction, which had rebounded from the lows in the early part of the year, was at peak rates. Government expenditures were rising with the insurance dividend payment to the GIs in the offing. Business demand for plant and equipment and foreign demand for our goods, on the other hand, were declining. Thus, the new year will start with a volume of business activity not materially different from the high rate which prevailed in the second half of 1949.

DEALER BRIEFS

Grand Rapids, Mich.

Grand Rapids, one of the first "Utility Minded" cities, is still investing in good utility equities such as the Consumers Power Co. common stock. We consider it one of the best situations in the country and are anxious to contact owners desirous of disposing of their holdings.—*I. C. Bradbury, Bradbury-Ames Co.*

Meriden, Conn.

There appears to be plenty of investment money seeking better than bank interest. The advancing stock market could make these liberal yields disappear so once again the early investor may get his reward.—*William H. Rybeck, Wm. H. Rybeck & Co., Meriden, Conn.*

Pittsburgh, Pa.

Business in the Pittsburgh district has been greatly increased since the settlement of the steel strike. There continues to be quite a demand for good investment stocks in the security business. We as members of the Pittsburgh Stock Exchange continue to see an uptrend in the coming year.—*W. J. Carothers, W. J. Carothers & Co.*

COMING EVENTS

In Investment Field

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.

Business Man's Bookshelf

Dictionary of Labor Law Terms—Commerce Clearing House, Inc., New York 1, N. Y.—Paper—$1.

Speculative Merits of Common Stock Warrants—Sidney Fried—R. H. M. Associates, 220 Fifth Avenue, New York 1, N. Y.—Paper—$2.

Who Is Really Socialistic?

By MAX J. WASSERMAN

Dr. Wasserman narrates conversation on a railroad journey from Paris to Dijon, in France, in which an opponent and a supporter of socialism take part, and points out, if socialism is considered in terms of goals and not of ideas, the country which comes closest to it is the U. S.

One Sunday morning last Spring, I boarded the 8:10 a.m. express train in Paris, bound for Dijon. In my third class compartment were two other voyagers dressed in the manner of middle class Frenchmen on a trip. Shortly out of Paris, a conductor with two stars on his cap, came through to check our tickets. He looked at me quizzically and departed. Presently he returned with another conductor. This second conductor, with three stars on his cap looked first at my ticket, then at me. Then, in a cool, official tone, he addressed me.

Max Wasserman

"Sir," he said, "you have no business on this train with a ticket for Dijon. This train only takes passengers who are going to Lyons or further. Unless you are willing to buy a ticket to Lyons, I'll have to put you off at the next stop."

"But the train tops at Dijon and I have a ticket for Dijon," I remonstrated. "That makes no difference," he replied, "the rule is clear. You must have a ticket to Lyons to board this train."

I asked him to show me the rule and the three-starred conductor produced a fat time table. In the middle of the book, there was a page of very fine print. Paragraph 51 of this fine print stated in legalistic French that this train only took passengers for Lyons or further. I was licked, and I knew it.

"Will you buy a ticket to Lyons or shall I put you off at the next stop?" the conductor queried. "How much?" I asked. "Nine hundred francs," he answered. This amounted to about $2.75 at the time. "The nine hundred francs includes," he went on, "six hundred francs for the ticket, plus 50% supplement, or 300 francs, for failing to buy the ticket before boarding the train." Anticipating my question, he again opened his time-table and showed me more fine print, the official basis for the price. I paid the 900 francs.

Next the three-starred conductor turned to one of my French compartment companions. "Sir," he said, "your ticket is also irregular. You need three rubber stamps on it to get the 30% reduction called for by your special ticket and you only have two. I'll

Continued on page 34

Dealer-Broker Investment Recommendations and Literature

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

Effect of Coach Fares on Airline Industry—Review—John H. Lewis & Co., 63 Wall Street, New York 5, N. Y.

Industrial Growth Prospects for the Dominion of Canada—Milner, Ross & Co., 330 Bay Street, Toronto 1, Ont., Canada.

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.

Speculative Merits of Common Stock Warrants—Sidney Fried—R. H. M. Associates, 220 Fifth Avenue, New York 1, N. Y.—$2.00 per copy.

* * *

Associated Transport, Inc.—Circular—Wm. J. Mericka & Co., Inc., 150 Broadway, New York 7, N. Y.

Baltimore & Ohio—Circular—Salomon Bros. & Hutzler, 60 Wall Street, New York 5, N. Y.

Berkshire Fine Spinning Associates—Circular—Ames, Emerich & Co., 105 South La Salle Street, Chicago 3, Ill.

Central States Electric Corp.—Analysis—Dreyfus & Co., 50 Broadway, New York 4, N. Y.

Chicago & Eastern Illinois—Comment—H. Hentz & Co., 60 Beaver Street, New York 4, N. Y. Also available are brief data on **Western Pacific, North American Rayon** and **Standard Power & Light.**

Chicago Transit Authority—Circular—Blyth & Co., 14 Wall Street, New York 5, N. Y.

Consolidated Edison Co. of New York—Study—Spiegelberg, Feuer & Co., 30 Broad Street, New York 4, N. Y.

Florida Power & Light—Brief comment—Geyer & Co., Inc., 63 Wall Street, New York 5, N. Y. Also available are brief analyses of **Montana Power Co.** and **Portland General Electric Co.**

Lindsay Light & Chemical Co.—Analysis—Fahnestock & Co., 65 Broadway, New York 6, N. Y.

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

Missouri Pacific—Circular—Ira Haupt & Co., 111 Broadway, New York 6, N. Y. Also available are circulars on **Paramount Pictures** and **Pullman, Inc.**

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

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

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

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

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A Four-Pronged Attack Upon Equity Capital Problem

By CLARENCE W. FACKLER*

Assistant Dean, Graduate School of Business, N. Y. University
Member, Research Committee, Investors' League

Dean Fackler, forecasting more serious shortage of equity capital, recommends: (1) timely action be taken to increase public knowledge of security investment; (2) a broadening of field of institutional investments; (3) resort to greater volume of share capital by corporations and institution by them of regular and higher dividends; and (4) revision of tax laws for relief of common stock owners.

By and large, an equity capital shortage has so far been a potential, rather than a current problem for large and established business enterprises. The Department of Commerce reports that all business corporations required $55 billion of new funds in the years 1947 and 1948 alone. About 40% of this huge sum came from retained earnings, which is equity capital in its most desirable form. These retained earnings constitute, in effect, an additional investment in business enterprise made by the stockholders, without even a dilution of existing stock issues resulting.

But we would be deceiving ourselves and the public to deduce from these figures that the equity capital problem has been solved. First, retained earnings are of no help to newer enterprises and less profitable enterprises that have no considerable amount of earnings to retain. Secondly, business profits are declining as the post-war inflationary boom comes to an end, while dividend payments are increasing. Retained earnings this year, preliminary data show, will be a third less than last year. Secretary of Commerce Sawyer predicts another decline in profits in 1950. Tax penalties imposed by Section 102 of the Revenue Act, as well as other factors, put pressure upon managements to step up dividend payments even while profits shrink.

Smaller and newer businesses have been able to raise equity capital with unusual facility because of the very favorable conditions under which they have operated since the war. We have had a sellers' market in which almost anything could be sold at a profit, because of numerous prevailing shortages. Friends and relatives have been willing to invest money in many new small businesses to supplement Veterans' Administration guarantees, because the risks seemed slight. The number of business concerns in the country has increased by almost a million to a new high record of almost 4,000,000 since 1944. But the end of postwar shortages and the return of a normal buyers' market with keen competition bring the risk element back into business, as should be the case under our system. Newer concerns are bound to find it far more difficult to finance promotion and expansion than in the recent past.

Much can be done, and done now, to alleviate this threatened shortage of equity capital. It is vital, I believe, that timely action be taken now, instead of waiting until the shortage has really become acute and serious damage is done to the presently strong financial structure of American business.

First, let me summarize the steps that investment bankers—the securities business—can take to solve this problem.

There has been a great shift in the distribution of incomes, and therefore of savings, in this country. A much larger proportion of the nation's savings belongs to the middle and lower income groups of the population. Knowledge about security investment is often lacking among these low income groups. The Survey of Consumer Finances conducted under the auspices of the Board of Governors of the Federal Reserve System showed that most people who would not buy stocks with surplus income are influenced by lack of familiarity with stocks, rather than by lack of confidence in them as investments.

It can be said, in fact, that the investors who know about stocks—the high income groups—do not generally have the money to buy them, and those who have the money—the great lower income groups—do not know about stocks. This is a situation that the people in the securities business can do much to correct. An educational and selling job has to be done. It is encouraging to note that the convention of the Investment Bankers Association of America held last week at Hollywood Beach gave a good deal of time and attention to this problem.

One thing that the securities business has done to attract savings of lower income groups into the securities market has been to develop open-end investment companies that provide low income investors a convenient medium for investing in a diversified group of equities. Net sales of open-end investment company shares in the first nine months of this year aggregated $200 million. This is several times as much money as they raised yearly a few years ago.

Another helpful device is the development of the common trust funds by our trust companies. These provide a more economical and efficient method of investing many small trust funds in diversified equity as well as fixed income securities.

SEC statistics show that the securities business is making real headway also in developing a wider market for direct investment in corporate securities by individual investors. In the first half of this decade, individual investors as a group actually sold corporate securities on balance. In 1946, they bought $600 million; in 1947, a billion; and in 1948, $1.6 billion. This year, it is probable that more than $2 billion of corporate securities were absorbed on balance by individual investors. This is a very promising trend.

The new Chairman of the SEC has promised to undertake what he can to help the investment banking business to do a more effective job of distribution of securities. This is bound to contribute to a solution of the equity capital problem.

I am convinced that the wide ownership of the shares of American business by the rank and file of investors is good for the investors and good for the country.

Many people hesitate to advocate wide ownership of common stocks because of the heavy losses incurred by those who held them in the early '30's. This same reasoning would apply to the ownership of homes, farms and other property that depreciated severely in the Great Depression.

The fact of the matter is that common stocks are priced rela-

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*Statement of Dean Fackler before the Joint Congressional Committee on the Economic Report, Washington, D. C., Dec. 15, 1949.

Domestic Effects of Capital Export Under Point IV

By WALTER S. SALANT*

Member, Council of Economic Advisers

Government economist asserts foreign investment can enable Europe to earn dollars outside the United States and thereby finance continuing deficits with the U. S. Maintains recognition of opportunities for productive investment abroad would greatly expand the field for investment as a whole.

Walter S. Salant

The export of U. S. capital for development purposes may be expected to stimulate U. S. production and employment as much, per dollar, as domestic consumption or investment expenditure, except to the extent that foreign countries make deliberate efforts to replenish their reserves. If made in forms that provide the underdeveloped areas with dollars that they are free to spend where they please, it can have an important effect in sustaining U. S. exports to Western Europe. Without substantial foreign investment by the United States, Western Europe will probably not be able to finance a satisfactory level of trade with the United States after ERP ends. Foreign investment can enable Europe to earn dollars outside the United States and thereby to finance a continuing direct deficit with the United States. Cotton, tobacco and wheat would be among the chief beneficiaries; one-fifth to one-quarter of our production of these crops goes to Western Europe. Thus a substantial export of U. S. capital to the underdeveloped areas, by contributing to a constructive solution of the European dollar problem, could permit Europe to buy from us and could also make unnecessary a painfully rapid readjustment of some of our resources.

If it is to do this, however, capital export cannot be confined to tied loans, direct equity investment, or "needed currencies" and probably cannot be confined in amount to the dollar cost of development projects.

If capital assistance to the underdeveloped countries in raising their standards of living eventually reduces world political instability and international tensions, our domestic military and foreign grant expenditures may in time be reduced by more than our foreign investment increases. In that case, foreign investment would accentuate rather than reduce any difficulties that may exist in maintaining given levels of employment and production. But even if this is the case, it would increase the present or future useful product available to the United States civilian economy.

Without substantial, continuing foreign investment by the United States we are likely to fail in our efforts to restore multilateral nondiscriminatory world trading and convertibility of currencies for current transactions.

Continuing foreign investment does not require the eventual development of an import surplus of goods and services if the annual percentage rate of increase in gross investment abroad exceeds the average rate of return on foreign assets. Two numerical examples illustrate (a) the possibility of avoiding an import surplus indefinitely without raising net foreign investment to a large proportion of growing gross national product and (b) the possibility that the limit reached by a necessary import surplus would be a small proportion of a growing gross national product.

The problems that arise in connection with the servicing of foreign investment are present also in connection with the servicing of domestic investment. Recognition of the opportunities for productive investment abroad would greatly expand the field for investment as a whole and provide a longer time in which to make any adjustments that may be necessary to expand the relation of consumption to income.

The ease of developing an import surplus depends in large part upon the relative movement of money incomes and prices in the United States and abroad. The transfer of interest and amortization without inflation would be facilitated if the United States enjoys the secular increase in its productivity in the form of rising money incomes and stable prices rather than stable money incomes and declining prices. Probably the best, perhaps the only way to achieve this result is to raise the general level of money wage rates in proportion to increases of average productivity year in and year out, making exceptions only when there are unusual conditions, not merely normal cyclical changes. With moderately expansionist domestic policies and no secular inflation abroad, the gradual development of an import surplus need not cause difficulties for a growing American economy. The employment effects of a gradual increase in imports are no more to be feared than those of secular increases in productivity.

*Abstract of paper by Mr. Salant read before American Economic Association, New York City, Dec. 28, 1949.

To Be Special Partner

Orvis Brothers & Co., 14 Wall Street, New York City, members of the New York Stock Exchange, announce that, effective Jan. 1 Floyd Y. Keeler will become a special partner. Mr. Keeler has been a general partner in the firm for 25 years.

Norman Barnes & Co.

CHICAGO, ILL. — Norman Barnes & Co., Inc., is engaging in a securities business from offices at 111 West Monroe Street. Officers are Norman Barnes, President; William D. Pease, Vice-President; and Florence Barnes, Secretary and Treasurer.

This is not an offering of these Shares for sale, or an offer to buy, or a solicitation of an offer to buy, any of such Shares. The offering is made only by the Prospectus.

150,000 Shares

Montana-Wyoming Gas Pipe Line Co.

Common Stock

Par Value $5 Per Share

Rights, evidenced by Subscription Warrants, to subscribe for these shares have been issued by the Company to holders of the Common Stock of Montana-Dakota Utilities Co., which rights expire January 4, 1950, as more fully set forth in the Prospectus.

Subscription Price to Warrant Holders
$13.25 per share

Copies of the Prospectus may be obtained from the undersigned only by persons to whom the undersigned may legally offer these securities under applicable securities laws.

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December 28, 1949.

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Bank and Insurance Stocks

By H. E. JOHNSON

This Week—Insurance Stocks

From the standpoint of earnings, dividends and equity prices, the year just ending has been an excellent one for investors in fire insurance shares.

Although it will be a number of weeks yet before the annual reports of the various companies are available, current indications are that 1949 will be the most profitable period in the history of the insurance industry.

The substantial gain in earnings this year will result primarily from improvement in underwriting operations. It was not until the middle of 1948 that the adjustments in rates and the leveling off in prices enabled underwriting to become profitable for the first time in several years. This year fire insurance companies have enjoyed a full year of favorable conditions in the underwriting end of the business. The decline in prices and fire losses have been of considerable importance in the excellent results now expected. Whereas in 1948 the underwriting profit margin for a representative group of companies was equal to approximately 10%, this year it may exceed 17%.

As to investment income, gains of 8%-10% are indicated for 1949 over the favorable showing of last year. With premium volume showing further moderate gains, a larger volume of funds has been available for investments. As the pressure on capital funds has eased considerably within the last 18 months, a larger proportion of available resources could be invested in equities or other high yielding securities. As a result many insurance companies have increased their holdings of quality common stocks which provide attractive yields. This combined with the larger volume of funds has boosted investment income to record levels.

Of course, part of this large gain in underwriting earnings and investment income will be absorbed by higher taxes. During the period when statutory underwriting losses were being experienced tax bills were nominal. Now that operations are extremely profitable the gain in taxes will show an almost proportionate increase.

Nevertheless, operating earnings after taxes for 1949 will show substantial improvement over those reported for last year. Results will vary with the policies and experiences of particular companies. On the average, however, gains of around 25%-30% are indicated with individual concerns showing an improvement of between 10% and 50%.

These favorable conditions in the operating end of the insurance business have been reflected in a liberalization of dividend policies. Many of the leading organizations have declared or announced their intention to pay stock dividends. Other companies have increased their cash distributions. In spite of these larger dividends, present payments are still conservative in relation to earnings and over the next year further increases seem likely.

Thus these strong underlying factors have contributed to a favorable market for the shares of the various fire insurance companies. Many of the stocks have advanced to the highest levels reached in over 20 years. They are now considerably higher than at the end of last year and have proven to be one of the best acting groups within the general equity market.

Some of these considerations are summarized in the following comparison of market prices over the past two years. In cases where stock dividends have been paid, Boston, Great American and Hartford, the share prices have been adjusted.

	Price Range 1949 High	1949 Low	1948 High	1948 Low	Current Price 12-28-49	Price 12-31-48	Points Change
Aetna Fire	62¼	48½	49½	41	61½	49	+12½
Agricultural Insur.	72	58	67	51	71½	61	+10½
Amer. Ins. (Newark)	22	15½	18½	14⅞	21⅝	17¾	+ 3⅞
Boston Insurance	65⅜	53⅜	64	46¼	63	58¼	+ 4¾
Continental Insur.	76¾	56¾	64	48½	76¾	63⅞	+12⅞
Federal Insurance	67	54	59½	48	67	59½	+ 7½
Fidelity-Phenix	81¼	63½	69½	53	80½	68½	+12
Fire Association	77¼	56	61	44½	75½	60	+15½
Fireman's Fund	95	76½	108½	65¼	91½	82½	+ 9
Fireman's Insurance (Newark)	20	14⅞	15⅜	11¼	19⅞	15¼	+ 4⅝
Glens Falls	54½	47¼	48¾	40¼	52	48½	+ 3½
Great American	31½	24¼	26¼	20¾	31	25¼	+ 5¾
Hanover Fire	36	30	32	23¾	34	31¾	+ 2¼
Hartford Fire	124	88⅛	91½	75	115	90¾	+24¼
Home Insurance	36	27	30	23	34¾	29	+ 5¾
Ins. Co. of N. Amer.	132	97½	108	92	132	106	+26
National Fire	61	48	49½	41	60¼	49	+11¼
National Union	40¼	30¾	37¾	30¼	37¾	36½	+ 1¼
Phoenix Insurance	104½	79	90	73½	100	87	+13
Prov.-Washington	36½	30¾	35	30½	35¼	33½	+ 1¾
St. Paul Fire & Mar.	103	75½	81	66	103	76	+27
Security Insurance	37½	31¼	31½	23	37	31½	+ 5½
Springfield F. & M.	50	41	46¾	40	47¼	44	+ 3¼
United States Fire	67	56½	60½	45½	66½	60½	+ 6

BANK and INSURANCE STOCKS

Laird, Bissell & Meeds
Members New York Stock Exchange
120 BROADWAY, NEW YORK 5, N. Y.
Telephone: BArclay 7-3500
Bell Teletype—NY 1-1248-49
(L. A. Gibbs, Manager Trading Dept.)

NATIONAL BANK of INDIA, LIMITED
Bankers to the Government in Kenya Colony and Uganda
Head Office: 26, Bishopsgate, London, E. C.
Branches in India, Burma, Ceylon, Kenya Colony, Kericho, Kenya, and Aden and Zanzibar
Subscribed Capital.....£4,000,000
Paid-up Capital.....£2,000,000
Reserve Fund.....£2,500,000
The Bank conducts every description of banking and exchange business
Trusteeships and Executorships also undertaken

A Tax Increase May Mean Economic Tailspin

By HON. JOSEPH W. MARTIN, JR.
Republican Leader, House of Representatives

Minority House Leader, commenting on rumors Administration proposes multi-billion dollar increase in income taxes as substitute for wartime excises, contends tax increase at this time might have such depressive effect as to precipitate an economic tailspin that would cost millions of workers their jobs.

The recent deluge of statements from Administration spokesmen to the effect that perhaps excise taxes will be repealed after all, is welcome if late. My bill to return the excise taxes to their prewar levels was introduced on Feb. 2, 1949, and has been bottled up in the House Ways and Means Committee by Administration leaders ever since. There was no reason whatsoever for failure to take prompt action in the last session of Congress. The law of diminishing returns had already set in, business was suffering from these unjust levies, and people in the affected industries were losing their jobs. This distress pattern still holds true and will continue until these taxes are repealed.

Hon. J. W. Martin, Jr.

The statements by Administration spokesmen that they are now considering repeal would carry far more encouragement if the record were not already so bad. Since April of this year leaders of the Truman Administration, both in the executive and congressional branches, have published some 15 announcements that they were either favoring or considering repeal of some or all of the excise taxes. The Secretary of Commerce, Mr. Sawyer, on July 27, on Aug. 26, on Dec. 12 and on other occasions has stated directly or indirectly that these taxes should be repealed. Ranking Democratic members of the House Ways and Means Committee and of the Senate Finance Committee have made similar statements. Now President Truman has announced that the question of what to do about excise taxes is under study by the White House.

This sounds promising but mere sound is frequently deceptive. According to the best information now obtainable it appears that Mr. Truman is about to fly a $600,000,000 kite with a multi-billion dollar tail on it. Elimination of $600,000,000 in excise taxes will be coupled with a multi-billion dollar tax program to be added to the back-breaking load the American people now carry so that the Administration can proceed with its extravagant and illiberal plan to socialize America. A tax increase at this time would have a depressive effect on economic conditions generally and might precipitate the country into a tailspin which would cost millions of workers their jobs.

A petition which I introduced on June 30 still lies on the Speaker's desk signed by 136 Republican Members of the House calling for the House Ways and Means Committee to be discharged of the excise tax repeal bill so that it can be brought to a vote in the House. The signatures of 218 members are required.

I hereby invite Democratic Members of the House, who sincerely believe as I do that these taxes should be repealed, to add their signatures to the petition when they return in January, in an effort to pass this legislation in the first month of the coming session.

The American people and, I think, a majority of the Congress are in no mood to increase taxes at this time. Any "package" deal sent to Congress by the White House has next to no chance of enactment. What the American people want is less spending in Washington, not more taxes. The excise tax repeal measure should be considered by itself on its merits.

Tomorrow's Cargo Aircraft

By W. W. DAVIES*
Manager of Aircraft Engineering, United Air Lines, Inc.

Aircraft expert, pointing out air cargo facilities are still in early stage, stresses as future requirements in aircraft specification, (1) speed; (2) schedule reliability; and (3) simplicity in design and operation.

Air transportation is now big business. It has been primarily developed upon the passenger, mail and express markets. The air cargo, air freight portion of this business is now in its infancy. It would be a serious error to underestimate the problems involved in the air freight market of the future, but a reasonable approach and an intelligent analysis will assure a sound and steady growth. Conversion to air of a small fraction of any surface traffic, together with the development of new markets and realization by the shippers of the indirect savings available will guarantee a highly expanded market for the air freight industry of the future.

W. W. Davies

Inasmuch as speed is the primary asset of air transportation, the cargo airplane of the future will be a high speed transport. It should and will be capable of doing speeds in excess of 300 miles per hour. There probably will be at least two basic sizes of such transports, one probably carrying 15,000 to 20,000 pounds and the other carrying 25,000 to 35,000 pounds in payload.

The prime importance in the air freight operation of the future is the ability to maintain high schedule reliability and on-time performance. This is and will continue to be as important to the cargo aircraft operation as it is to present passenger aircraft operation. The airplane will be capable of negotiating all weather conditions, which requires the latest in communications and navigational equipment plus adequate anti-icing and air conditioning equipment.

Undoubtedly the next five to ten years in the air freight operation will still be a development period, and while the airplane must be basically designed for cargo carrying and not specified for other types of operation, it must be broad in its usage for carrying cargo. In other words, the airplane cannot be designed specifically for refrigerated cargo work or carrying of fluids such as is done with a railroad tank car, or carrying ores as is done by a gondola car. It must be designed simply for the immediate market that can be exploited in the air cargo field. This necessitates a wide open cabin in the interior where all types and sorts of freight can be properly handled with sufficient doors of adequate size to permit the rapid loading and unloading of such freight. The airplane must be designed so that it can utilize standard packaging now available and standard materials handling equipment. It must also be designed so that additional loading facilities will not be required at the terminal but the material can be loaded directly from the truck in which it was carried to the terminal for shipping.

An effort will have to be made in the cargo airplane in the future to design and work toward presently accepted means of shipping and handling rather than the development of special and costly equipment which offers questionable gain in the long run. There will undoubtedly be a much more expanding use in the immediate future of pre-loaded containers and pallets whereby cargo can be handled quickly and efficiently in and out of the airplane.

Simplicity of equipment and simplicity of design to permit maximum efficiency will be a strong point in the design and operation of the future cargo airplane. There is still a long step to be taken in reducing the costs of air transportation such that lower rates are obtained which will permit a material increase in the air freight market. A large step in this reduction will be taken by simplicity and the avoidance of special costly equipment and procedures.

*Digest of a paper presented before 70th Annual Meeting of the American Society of Mechanical Engineers, New York City, Nov. 28, 1949.

FIC Banks Place Debs.

A successful offering of an issue of debentures of the Federal Intermediate Credit Banks was made Dec. 20 by M. G. Newcomb, New York fiscal agent for the banks. The financing consisted of $55,835,000 1.30% consolidated debentures dated Jan. 3, 1950, due Oct. 2, 1950. The issue was placed at par. The proceeds, together with $30,370,000 cash in treasury, were used to retire $86,205,000 debentures maturing Jan. 3. As of the close of business Jan. 3, 1950, the total amount of debentures outstanding will amount to $459,555,000.

With Hemphill Noyes Firm

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS. — John G. Harder has been added to the staff of Hemphill, Noyes, Graham, Parsons & Co., 10 Post Office Square.

Shields & Co. Adds

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS. — Lincoln Davis, Jr., has been added to the staff of Shields & Co., 24 Federal Street. In the past he was with Hunnewell & Co.

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Salesmen Wanted

By CAPTAIN EDDIE RICKENBACKER*

President and General Manager, Eastern Air Lines, Inc.

Declaring crying need today is for salesmanship, Captain Rickenbacker points out nation has reached turning point from fool's paradise of super-duper prosperity to lower plateau of realism which goes with peacetime activities. Holds business must now operate with greatest economy at high efficiency and near maximum capacity to make profit. Stresses need for more and better salesmen.

Seventy-eight years ago, in a speech in California, Ralph Waldo Emerson — one of the world's greatest thinkers and philosophers —spoke these immortal lines:

Capt. E. Rickenbacker

"If a man can write a better book, preach a better sermon, or make a better mousetrap than his neighbor, though he builds his house in the woods, the world will make a beaten path to his door."

Since then, millions of people in scores of languages, have found inspiration and guidance in this rather sweeping statement.

But, today, this no longer holds true. All around us, in worldly, as well as in spiritual affairs, we find proof that, no matter how splendid your product, no matter how superior your services, no one will search you out.

In order to sell, and in order to "stay sold," you must take your wares to market and labor by the sweat of your brow to retain your business—to labor at a profit—to keep your job.

With all due respect to Mr. Emerson, the sooner we of the mid-twentieth century forget about his super-mousetrap of the mid-nineteenth century the better it will be for all of us.

If Mr. Emerson were among us today, and if he had to earn his bread and butter by selling hotel facilities as you do, or selling air line accommodations as we do, he would soon realize that the truth of his statement to the effect that the world comes to those who wait, has gone with the whale-oil and the free-lunch, with the one-horse shay and tax-free travel.

We may have the best mousetrap, but unless we also have an organization of manpower and womanpower that takes our super-duper mousetrap to the people who have the desire, as well as the money to buy it, our mousetrap becomes a museum piece.

Must Go After Customers

It is aimless to wait for consumers to come to our door. They will beat no path through the woods. First, they do not have the time to do it, and secondly, some energetic competitor will intercept them on the way.

So let us get a little more of that Hoof and Mouth Disease, which I consider an essential part of any salesman's qualifications in the art of salesmanship—"hoof it" to get to the people, and "mouth it" to tell them about his product.

The more potential clients a salesman calls on and talks to, the more actual customers he will secure. It is all a matter of percentage.

*An address by Captain Rickenbacker at Luncheon of the Hotel Sales Managers' Association, New York City, Dec. 17, 1949.

No salesman can call on only one man a day and expect to keep his job very long. Nor can organizations who employ such salesmen expect to stay in business very long.

It makes no difference whether your mousetrap is a mid-town commercial hotel; a DC-3 or DC-4 airplane; a seashore, desert or mountain resort, or a fleet of our New-Type Eastern Air Lines Constellations — the problem is the same.

Unless we function with the greatest economy at the highest efficiency near maximum capacity, we cannot stay in business and make a profit. And if you people fail to sell enough rooms, day after day, the same as if we air line operators fail to sell every seat on every flight, day after day, none of us will remain in business.

Your invitation to meet with so many of you gentlemen who are responsible for the management and the operational stability of some of the most important hotels in the country, I feel has given me one of the greatest opportunities I have had this year, because our activities have so much in common.

The hotel business and the air line business, I believe you will agree, have one basic thing in common. We are in business to serve the traveling public.

Now service is a very intangible thing. You cannot put your hand on it. You cannot wear it. You pick it up like a radio receiver picks up a broadcast message on a given wave length.

It is an attitude coupled with a set of actions that please, and in some instances displease, the public — your guests, and our passengers.

Technologically, our problems are somewhat different. Your original problems are of design, layout and location of a fixed entity. We move in a fluid called air — our problems, therefore, deal with travel, distance, time, motion.

However, we both deal with accommodation of people away from home. We both handle baggage, serve food, dispense courtesy or do not, and provide comfort for the traveling public.

We make reservations as you do, and sometimes we find we have oversold the number of seats in our airplanes, as you sometimes find that, by some miscalculation, you have confirmed a few reservations too many.

This, as you know, is not good salesmanship, nor good service, and requires reselling the inconvenienced or disgruntled passengers or guests which, automatically, means added effort and cost.

Particularly, what you men do is SELL — generate business — build new contacts and contracts where none have existed before. That is our job too. Create demand for our products. SELL! SELL! SELL! And one of our most important fields of activity is your business, the hotel business.

In New York City, Chicago, Detroit, Miami, Boston, New Orleans, St. Louis, and in dozens of other cities we serve, Eastern Air Lines has men whose main jobs are to contact the hotel transportation desks. And I am

Continued on page 29

Cooperation in Securities Industry

By CLEMENT A. EVANS*

Chairman, National Association of Securities Dealers, Inc.

Speaking at IBA panel discussion, NASD Chairman, though admitting conflicting viewpoints of various segments is great sore spot in securities business, belittles differences between IBA and NASD. Says his organization represents all groups in securities business, and advocates setting up a permanent joint committee, under Chairmanship of Hal H. Dewar, to explore whole matter of cooperation.

When I was briefed on the purposes and objectives of this round table it was emphasized that there should be no platitudes. I think this is the best start that could be made toward achieving cooperation between the diverse interests that comprise the investment business. And to show my sincerity I want to say at the outset that I don't know how we can achieve this highly to be desired objective; I have no plan to suggest and no particularly impressive ideas to advance, but I am perfectly willing, in fact anxious, to explore the thought and to examine the various ideas that may be advanced either now or in the future.

Clement A. Evans

I think that as a beginning we should examine into the phrase: "Cooperation with the Securities Industry;" What, exactly, do we mean by that? Are we talking about cooperation between the dealer in unlisted securities and the New York Stock Exchange broker; if so, how do we want these honest and sincere competitors to cooperate? Do we want them to eliminate certain fundamental selling practices and arguments? If so we must establish a starting point and prepare for a long and laborious journey, emboldened and bulwarked by the thought that the goal can be attained but not right away. Or do we just want the associations like IBA and NASD to cooperate? Again, how? Do we want to work out a system for a solid front when we get before the Securities and Exchange Commission or a Congressional committee, or do we mean we just want to tell the same story? Certainly the viewpoints of the two groups are not always parallel, although there are occasions when they see eye-to-eye.

There can be no question that this matter of conflicting public viewpoints is the great sore spot in the business. I suspect that this is the starting point of cooperation, because it is the point on which criticism most often is heard or referred to; that it is true cannot be gainsaid. Quite frequently this industry has presented opposing viewpoints before official governmental bodies, and the finger of scorn has been pointed at us as discordant groups which don't know their minds or refuse to agree on programs.

Frankly, I am one of those not always in agreement on this score; I don't think that it is necessarily a bad thing for the industry. We would not be open to suspicion if we came into court with a pat story, or if we were mouthing platitudes or presenting a seemingly opportunist position merely to gain a personal objective. We would ultimately be found out and the reaction might be far more disastrous than if we appeared forthrightly and bespoke our honest minds, even though they might not always be wholly in concert. I might point to the fact that there is an American Federation of Labor and a Congress of Industrial Organizations and they are not always in agreement on what is best for labor. And there is often a split within these individual combinations. There is a United Mine Workers among them and the Progressive Miners, and they don't move in concert by a long shot. So why is it a crime for the securities business to represent varying shades of opinion or belief? Our various groups represent different activities, so why shouldn't there be a variation in viewpoints? I was to remind you that the NASD is representative in some degree of all these divisions or segments of the business. There are members of the New York Stock Exchange and the Association of Stock Exchange Firms who are members of the NASD; and there are many members of the IBA, in fact a majority, who are likewise members of the NASD. Each of these organized groups has a purpose and a place and each is championing a viewpoint and assuming an understandable position. And who is to say that they should not?

I raise these questions, gentlemen, because I think that they should be raised to indicate how far we must go before we can begin to approach an understanding of the subject of cooperation within the securities industry. I don't do it in order to cast doubt upon the feasibility of the project or to raise mental barriers. But I don't want to over-simplify the subject either. We can't sit down and willy-nilly find an answer. We don't have before us just one problem which can be isolated for solution. There is involved a whole series of problems. Sir Oliver Franks said here yesterday that the world is making progress in its march toward peace and in its patient effort to achieve economic equilibrium. If the world can make progress in bringing together conflicting ideologies and ambitions, if the conflicting and seriously complicated economic problems can be sorted out into an understandable pattern, our own little business can't be hopelessly formidable.

Perhaps we can get somewhere, but let us start out by defining objectives and establishing definitions and then let us not waiver in our desires. Perhaps what we need to do about this matter of presenting a united front to Congress, to the SEC, or to any other governmental body, is to establish and emphasize integrity. If we have honesty of purpose and unquestioned sincerity perhaps it will not be considered a sin to have varying interests; perhaps even these can be resolved if it is realized that we are not working solely for our own selfish needs and an immediate dollar profit. There is an investor interest at stake, too.

I hold firmly to the belief that this entire subject of cooperation should be explored and we should not be content to permit this discussion to die here. It may be that we should have an exploratory committee, one that sits constantly and meet frequently to see if we can get down to a common meeting ground. In event there develops support for this idea I'd like to now propose as chairman of such a representative group a man who has every qualification for such a great task, namely Hal Dewar who is soon to retire as President of this great institution. Hal Dewar has the distinction of having been Chairman of the NASD and President of the IBA. He understands both organizations thoroughly, knows their points of agreement and of conflict. He has a broad knowledge and understanding of all phases of the securities business. And he demonstrates his courage by daring to bring this controversial matter of non-cooperation right out in the open.

In conclusion, gentlemen, I reiterate my thought which is that we have a logical start toward a goal merely by discussing this matter of cooperation. Where do we go from here? I frankly say I don't know the answers, but I'm perfectly willing, in fact anxious, to join a responsible search party looking for them.

*Statement by Mr. Evans at a panel discussion on "Cooperation in the Securities Industry," held at the 38th Convention of the Investment Bankers Association of America, Hollywood, Fla., Dec. 6, 1949.

This is not an Offer

TO THE HOLDERS OF

Republic of El Salvador

Customs First Lien 8% Sinking Fund Gold Bonds, Series A,
Dated July 1, 1923, Due July 1, 1948;

7% Sinking Fund Gold Bonds, Series C,
Dated July 1, 1923, Due July 1, 1957; and

Certificates of Deferred Interest (Scrip Certificates) issued with respect to Bonds of Series C,

and

Convertible Certificates for 3% External Sinking Fund Dollar Bonds, Due January 1, 1976.

NOTICE OF EXTENSION

The time within which the Offer, dated April 26, 1946, to exchange the above Bonds and the appurtenant coupons for Republic of El Salvador 4%, 3½% and 3% External Sinking Fund Dollar Bonds, due January 1, 1976, and to pay Certificates of Deferred Interest (Scrip Certificates) in cash at 15% of their face amount, may be accepted, is hereby extended from January 1, 1950 to January 1, 1951.

The period for exchange of Convertible Certificates for 3% External Sinking Fund Dollar Bonds of the Republic, due January 1, 1976, in multiples of $100 principal amount, has also been extended from July 1, 1951 to July 1, 1952.

Copies of the Offer may be obtained upon application to The National City Bank of New York, Corporate Agency Department, 20 Exchange Place, New York 15, New York, the New York Agent of the Fiscal Agent, Banco Central de Reserva de El Salvador, San Salvador, El Salvador, C.A.

REPUBLIC OF EL SALVADOR
By MANUEL ENRIQUE HINDS
Minister of Finance and Public Credit

December 29, 1949

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Keystone Custodian Funds
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INVESTMENT FUNDS
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IN
BONDS
(Series B1-B2-B3-B4)
PREFERRED STOCKS
(Series K1-K2)
COMMON STOCKS
(Series S1-S2-S3-S4)
Prospectus may be obtained from
The Keystone Company of Boston
50 Congress Street
Boston 9, Massachusetts

Mutual Funds

By HENRY HUNT

Common Stocks Parallel Rise in Living Costs

During the past century, living costs in the United States have risen 344%, or approximately 3½% a year on the average. While published common stock price averages do not go back a century, during the past 50 years the Dow-Jones stock indices have also shown an average growth of about 3½% a year, in addition to dividends paid.

This growth in value of 3½% a year is the result of compounding earnings plowed back into the business in conjunction with the secular growth of the nation.

There is every reason to believe that this long-term growth will continue, subject of course, to inevitable setbacks from time to time.

Thus, assuming no change in present dividend rates (and their long-term trend has also been upward) the purchaser of sound common stocks today yielding 5% can expect a return, including growth in value, of 8½% a year over the long-term. Need one say more?

New Fund Formed Based on Timing Formula

Investment Research Corporation announces the formation of The Formula Fund of Boston, an open-end investment trust which will operate on the principle that proper timing of purchases and sales of securities is the key to successful investing. The Fund will have an approved list consisting of both "defensive" and "aggressive" sections, the proportions to be invested in each depending on specific predetermined individual price levels for equities in the "aggressive" portion of the portfolio.

Edson B. Smith, financial editor of the Boston "Herald," is Chairman of the Fund's board of trustees, which also includes Robert M. Tappan, Vice-President of the Warren Institution for Savings, Boston; Joseph W. Lund, Vice-President R. M. Bradley & Co., Inc.; Stewart C. Woodworth, partner in the law firm of Lyne, Woodworth & Evarts; and Thomas S. Keegan, President of Investment Research Corp.

The advisory board includes James V. Toner, President, General Manager and Director of the Boston Edison Company; Robert E. Noble, President of the Greylock National Bank of Adams, Mass.; Prescott Jennings, private trustee and a Director of the B. M. C. Durfee Trust Co., Fall River, Mass.; and Raymond M. O'Connell, Vice-President and Director of the Gloucester National Bank.

Investment Research Corporation, with headquarters in Boston, is designated as the principal underwriter. Mr. Keegan is President and Treasurer of the corporation, Ralph S. Battles and Mr. Smith are Vice-Presidents, Charles L. Ryan is clerk and Arthur R. Magee is Assistant Treasurer.

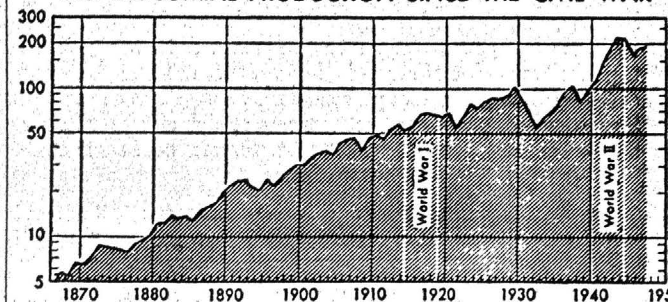
William R. Walsh, a former Vice-President of Investment Research Corporation, has been elected Executive Secretary of the Fund.

For a Long Time

"One of the principal difficulties faced by the average person who is trying to manage an investment account is the ever-present problem of keeping his views objective. It is often easy to become so lost in a maze of current statistics and business trends that the longer-range outlook becomes cloudy, if not completely obscured.

"To give an example of what we mean by this, we present the following chart which depicts the trend of industrial production in the United States since the Civil War.

U.S. INDUSTRIAL PRODUCTION SINCE THE CIVIL WAR



"To our way of thinking the chart is illustrative of two points. In the first place, it shows that regardless of any intermediate swings in business activity, the productive capacity of the United States has had a long and steady growth upward. Secondly, when one looks at the over-all trend line, the intermediate ups and downs assume relatively minor importance in relation to the whole picture.

"Judging solely on the basis of past experience, it can be said with some degree of certainty that if the country is to continue with its present economic system, there is every reason to believe that there will be a continuing upward trend of industrial production. The nub of the matter is that increased industrial production inevitably, over the long run, translates itself into increased value for the owners of industry, and those who share in the ownership of American industry today (through common stocks) are those who will profit by such ownership in the future."—From **Vance, Sanders' "Brevits."**

The Container or the Contents?

"Your bank takes elaborate precautions to protect whatever valuables are locked in your safe deposit box. If securities are included, who is keeping watch over their value? Which is more valuable, the container or the contents? There is little point in guarding printed certificates unless someone is taking care to see that they remain valuable.

"Many people suppose that the common stocks of sound companies will show an increase in value over any long-term period during which the general economy has advanced. This is true only if great care is taken over the original selection of securities purchased and if they are then subject to constant and professional supervision.

"The following is a graphic presentation of what can happen to securities that are not supervised in this way—and also the results that are possible if they are supervised.

ORIGINAL PORTFOLIO OF INCORPORATED INVESTORS
December 31, 1925

Shares	
100	American Car & Foundry
100	American Smelting & Refining
50	American Telephone & Telegraph
100	Atchison, Topeka & Santa Fe
100	Eastman Kodak
100	Electric Storage Battery
40	General Electric
100	Gillette
100	Illinois Central
100	New York Central
50	Norfolk & Western Railroad
100	Standard Oil (Indiana)
100	Standard Oil (N. J.)
100	Texas Company
100	U. S. Steel
100	Vacuum Oil (Socony-Vacuum)

Value Then: $164,000. Value Now: (11/12/49) $147,000.

"None of the above companies has been through bankruptcy. All are showing profits at the moment. All have expanded, improved and modernized their plant and equipment since 1925. And yet, even after allowing for all stock dividends, splits, rights and so forth, the investor who made no changes in this list would have a loss today.

"Almost a quarter of a century has passed since that portfolio was first purchased. Since that time the management of **Incorporated Investors** has, of course, made many changes in its holdings. By so doing, shares of **Incorporated Investors**, allowing for capital gain distributions, have shown an increase in value of 50% for the same period during which the original portfolio shows a loss.

Decrease in unmanaged portfolio___ —10%
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Outlook for Automotive Industry

The following is an excerpt from **Calvin Bullock's** December "Perspective," which discusses the automotive industry:

"A source of strength directly supporting the demand for new cars lies in the large number of very old cars still owned by families with incomes high enough to buy a new car. In 1949, 47% of all the cars owned by the upper fifth of urban families (receiving the highest incomes) were over seven years old. In 1941 only 7% of the cars owned by the upper fifth were that old. This element of strength can also be viewed on a slightly different statistical basis. About one-third of all prewar cars in existence are owned by spending

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units with incomes before taxes of $4,000 or better and with liquid assets of $1,000 or more.

"Such factors of strength lead one to view with less alarm the fact that 56% of all families now own a car, a ratio of car ownership very near to the peak of 58% in 1941. The only factors today that seem to be possibly more adverse to car ownership than in 1941 are congestion on the highways and inadequacy of parking facilities in urban areas. These may possibly explain why a smaller proportion of higher income urban families own cars today than in 1941. Dividing the number of urban families into fifths arranged according to the level of income received it can be shown that only 77% of those families with the highest incomes own cars, compared to 84% in 1941. In the quintile just below only 68% own cars, compared to 72% in 1941, and in the next lower quintile only 50%, compared to 59% in the prewar year. Factors other than congestion on highways and streets may explain this situation. Some families may have been forced to dispose of a worn out old car which they have not yet replaced with a new one. It is even possible that some of the families in the higher income levels may have risen from much lower levels and may never have owned a car.

"It seems reasonable to expect a return of old-fashioned selling efforts next year. It also may be rational to expect some decline in sales. But the heavier burden of proof is on those who predict a collapse. A survey of consumer intentions to buy cars over the ensuing 12 months revealed as strong a demand in July, 1949, as at the beginning of the year. The potential demand for trucks cannot be analyzed in the same manner as the demand for cars. But truck sales have already declined to levels that could possibly be lows. In September sales of new trucks were about 19% of new car sales. This is about the average relationship for the years 1935-1939, disregarding the growth trend which is evident."

The Dow Jones Averages Should Be Revised

By JOHN BUNAM

Writer maintains stocks used to compute Dow Jones Averages now fail to give true picture of market's action and are out of date.

The method of figuring the Dow-Jones Averages has been little, if any, changed since they were first adopted many, many years ago. The present averages, in this writer's opinion, fail to give a true picture of the actions of the market, as for example: one day, recently, the first hour averages showed that the industrial level had declined $1.42. This decline seemed to amaze many people in the board rooms, for the market, in general, showed but small fractional changes during that particular hour. A few moments later, however, the news ticker printed an explanation of how these figures were arrived at by stating that $1.09 of the $1.42 was contributed by a decline of some five points in the stock of Allied Chemical (a stock selling for over $200 per share) and one or two other high priced stocks which had smaller declines. The Dow-Jones Averages consist of 30 industrial stocks, therefore the decline in about 90% of the industrial list during that first hour amounted to only 33 cents. This surely could not be construed as showing an accurate picture of the market's action during that particular hour. If such an explanation had not been made it would have been assumed that the industrial list was off the full amount of $1.42 which would, of course, have been misleading. It is quite evident, therefore, that the list of stocks used in the averages are not well balanced and need to be revised.

One New York newspaper, for instance, uses 100 stocks in their averages, dividing them as follows:

15 Manufacturing
10 Oils
8 Utilities
6 Steels
7 Coppers
4 RR. Equipments
5 Stores
10 Motors
5 Foods
20 Grade A Rails
10 Grade B Rails

The Dow-Jones Averages consist of:

30 Industrials
15 Utilities
20 Rails

This writer believes that more stocks should be added to the present list of 65, thereby giving it a better balance. It certainly seems unfair that because a few of the highest price stocks in the industrial list decline, that 90% of the rest of the list should also suffer when they have made only fractional changes.

It has been stated that if one had used the signals of the present set-up in the Dow-Jones Averages during the two-year decline in the stock market he would have consistently lost money. If this was true it certainly proves that the list is not equally balanced and needs to be revised in order to bring it up to date.

Richard Abbe Will Join Wertheim & Co.

After the first of the year, Richard F. Abbe will become associated with Wertheim & Co., 120 Broadway, New York City, members of the New York Stock Exchange. Mr. Abbe has been conducting his own investment business in New York under the firm name of Richard F. Abbe Co. Prior thereto he was a principal of Van Tuyl & Abbe and Burnett & Van Tuyl.

Richard F. Abbe

With B. C. Ziegler & Co.

(Special to THE FINANCIAL CHRONICLE)

MILWAUKEE, WIS. — T. H. Twitchell, Jr. is now affiliated with B. C. Ziegler & Co., 215 North Main Street, West Bend, Wis.

Glenn S. Martin Opens

ANDERSON, S. C.—Glenn S. Martin is engaging in a securities business from offices at 120 West Earle Street.

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

The government market is showing the effects of the demand for income from institutional investors which means it will close the year at or near its best levels. . . . To be sure, the low interest rate policy of the monetary authorities and the absence of higher-income obligations in refunding operations and in financing the deficit have not been insignificant forces in the trend of quotations of government securities. . . . Federal again sold long-term issues to stabilize the market, and this will have to be done at intervals (because of the strong demand) unless lower yields are to be witnessed. . . .

The belief that early 1950 will bring with it considerable buying of Treasury obligations has resulted in sizable year-end purchases of most issues. . . . The restricted bonds continue to be the market leaders with the longest maturity the pace setter. . . . In the bank group the 2½% due 9/15/67-72 seems to be the front runner, although the 1⅜% note and the 1952/54 2s are not far behind. . . . The partially-exempts have also been active, especially the 2¾% obligations. . . .

VICTORY BONDS POPULAR

Year-end operations continue to dominate the government market, although there have not been as many changes made by certain institutions as has been the case in the past. . . . Shifting and switching seems to be largely confined to savings institutions now, because they are still letting out decreasing amounts of eligible issues. . . . The swapping of securities to improve income, by these institutions, goes on as it has for several weeks but the bulk of the reinvestable funds is now going into the Victory bonds, as compared with the intermediate tap issues, which were being taken on in sizable amounts previously. . . .

The recent advance in prices of the three longest taxable eligibles did not, however, bring as many of these bonds into the market for sale as had been expected, but nonetheless it was reported some of the most sizable switches of the year from these securities in the longest taps have just been consummated. . . .

FIRE INSURANCE COMPANIES ACTIVE

Despite the attraction, which the nearer eligible restricted obligations have for many non-bank buyers, it is the June and December 1967/72s which have been getting much of the recent attention from these institutions. . . . Savings institutions have been the largest buyers and they have even parted with some of the 2¼s of 1959/62, along with eligible bonds, in order to get funds to reinvest in the most distant tap bonds. . . . Fire insurance companies have also been buyers of the tap issues on balance, but in some cases they have let out more Treasuries than have been repurchased, because it is indicated a good part of these funds have been going into the equity market. . . . These same institutions have been among the most active buyers of the partially-exempts and have also been doing quite a bit of switching within the group for the purpose of extending maturities. . . .

This has meant the 2¾s due 1960/65 have been the main issue of attraction for these companies, with a large-sized trade being reported recently which resulted in three of the leading fire companies being able to get hold of desirable amounts of the longest partially-exempt bond. . . .

LARGE LIFE COMPANIES INACTIVE

Although the big five life insurance companies have not been doing much in the market, it is evident that a strong market could have an influence on these concerns, because it is reported a few of the short and intermediate-term taps were let out by certain of these institutions. . . . It is said the proceeds were used to take care of private placements as well as to acquire the 1⅜% notes. . . .

The not-so-large life companies continue to be fairly active in the government market, since they have been competing with savings institutions, fire companies and pension funds in the purchase of the longest restricted issues. . . . A not insignificant amount of the 2¾s due 1960/65 were also supplied the market recently by some of these life companies. . . .

COMMERCIAL BANKS MARK TIME

Commercial banks have about completed year-end changes, with the largest institutions taking on some of the higher-income eligibles along with sizable amounts of the 1⅜s and certificates. . . . Out-of-town deposit banks have again been good-sized year-end buyers of the 2½s due 9/15/67-72, despite the high level at which the issue is selling. . . . This has been a combination package in many instances because the purchase of the longest eligible issue has been tied in with commitments in the 1⅜s and certificates. . . . Also the 2½s of 1956/58 are being sold by quite a few of the smaller commercial banks in order to take on the September 1967/72s. . . .

There have been some of the 2⅞s coming into the market, and although eventually disposed of, they have not had as many takers as the 2¾s. . . . Proceeds from the sale of the 1955/60s, which have been let out mainly by non-taxable institutions, have been put in the Victory bonds. . . . The 1952/54s continue to be very well bought and trading in these issues is active and sizable, which means a broad market with stability. . . . The 1⅜s of 1954 appear to be one of the bread and butter issues of the market, with many near-term maturities being shifted in the new note. . . .

HAPPY NEW YEAR!

Frank Carr Mgr. of John Nuveen Dept.

CHICAGO, ILL. — Frank C. Carr has been appointed Manager of the underwriting department of John Nuveen & Co., 135 South La Salle St., one of the largest municipal bond houses in the country, the firm announced today. Mr. Carr was previously with the First National Bank in Palm Beach, Florida, and in April, 1936, joined John Nuveen & Co. John Nuveen & Co.'s underwriting department is responsible for all of the firm's activities in new issues, including the syndication of and the bidding and negotiation for new issues of state and municipal bonds. John Nuveen & Co.'s interest in the financing of public agencies extends over the entire nation.

Frank C. Carr

Mr. Carr lives in Arlington Heights and is a member of the Union League and Bond Clubs of Chicago.

With Charles E. Bailey

(Special to THE FINANCIAL CHRONICLE)

DETROIT, MICH.—Steve Lindardes has joined the staff of Charles E. Bailey & Co., Penobscot Building, members of the Detroit Stock Exchange.

Bradley Higbie Adds

(Special to THE FINANCIAL CHRONICLE)

DETROIT, MICH. — Lloyd L. Nelson has become connected with Bradley Higbie & Co., Guardian Building, members of the Detroit Stock Exchange.

With McDonald-Moore

(Special to THE FINANCIAL CHRONICLE)

DETROIT, MICH.—Richard C. Spaulding is with McDonald-Moore & Co., Penobscot Building, members of the Detroit Stock Exchange.

John Blair Opens

John E. Blair is engaging in a securities business from offices at 232 East 50th Street, New York City.

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Canadian Securities

By WILLIAM J. McKAY

The Canadian foreign trade outlook continues to darken. In contrast with the easy highly favorable conditions of the war and immediate postwar years the present circumstances appear all the more ominous. Whereas previously there was an almost unlimited market for Canadian surpluses, the proceeds of which were convertible into U. S. dollars, it is now apparent that Canada has a major problem in finding outlets for her essential exports, in addition to which the Dominion will doubtlessly be obliged to accept a growing proportion of inconvertible exchange.

Grounds for any complacency concerning the retention of the indispensable United Kingdom and British Commonwealth markets are almost daily undermined. Not only are the British authorities entirely frank with regard to their intentions to buy as little as possible in hard-currency areas but they are also encountering little difficulty in finding ready suppliers of commodities previously furnished by Canada. The British-Scandinavian trade and financial negotiations now in course are likely to produce results highly detrimental to Canadian interests. The closer economic relationship which Britain now seeks with the Scandinavian countries will certainly lead to increased British imports from this area of pulp, paper, timber, and farm products, which items have since the war been largely supplied by Canada. Also in furtherance of the drive to obtain essential imports from other than hard-currency areas the British Government has announced the signing of a $616 million trade pact with Yugoslavia. Once more unfortunately for Canada, the Yugoslavian side of the bargain provides for supplies to Britain of timber, grain, and nonferrous metals which will again encroach on previous Canadian preserves.

A further recent unfavorable development as far as Canadian export prospects are concerned is the gradual British movement towards the reestablishment of the system of free enterprise in the various commodity markets. It is reported from London that the marketing of lumber is about to be returned to private hands and there is the confident anticipation that the open markets in grain will shortly be restored. Under the wartime procedure of governmental bulk purchases Canada was the principal beneficiary of British long-term purchases at fixed prices. With the initiative in private hands, however, the Dominion will be doubly handicapped as far as competition for British markets is concerned. In the first place there will be the British necessity to buy as far as possible in non-dollar areas. Secondly as a consequence of the Dominion's reluctance to follow the drastic currency devaluation example set by the various sterling area and South American countries, Canada's competitive position in the world's export markets is adversely affected.

It is not surprising therefore to note increasing discussion north of the border on the advisability of lifting all exchange restrictions and permitting the Canadian dollar to find its own level in one free market. Such a step would be highly welcomed on this side as it would enable banks in this country to participate in dealings in commercial dollars, a field now monopolized by the Canadian banks. However, as it would tend to broaden the general interest in the Canadian dollar the banks north of the border would receive compensation in the form of a predominant share in a largely expanded market. In the event of the adoption of this course of action, as an alternative to further devaluation, it is probable that the dollar would suffer an initial decline. Some liquidation of financial dollars would probably take place as an immediate reaction as a result of the removal of the official peg and also in view of the Canadian deficit in its U. S. commercial account. Such a decline would ultimately bring about its own correction by the attraction of a greater volume of U. S. investment dollars, which would tend to offset the weakness of the commercial dollar.

During the week activity in both the external and internal sections of the bond market continued on an extremely restricted scale. The corporate - arbitrage rate was slightly easier but free funds rallied following their recent weakness, largely as a result of covering in connection with the Christmas remittance demand. Stocks likewise staged a year-end rally following their recent decline. The upward movement was led by the industrial group closely followed by the Western oils, among which Federated Petroleum and Royalite were prominent performers. C.P. R. was also notably strong as a result of the Supreme Court ruling in connection with the Board of Transport's September judgment which gave the railroad only an 8% rate increase. Although some investor interest was shown in the golds and base-metals these groups lagged far behind the industrials and oils.

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Henry L. Dersch, Jr., With H. M. Byllesby & Co.

(Special to THE FINANCIAL CHRONICLE)

PEORIA, ILL. — Henry L. Dersch, Jr., has become associated with H. M. Byllesby & Co. of Chicago. Mr. Dersch has been doing business as an individual dealer in Peoria.

Joins Moreland Staff

(Special to THE FINANCIAL CHRONICLE)

BAY CITY, MICH.—Kathleen R. McMorris has joined the staff of Moreland & Co., Bay City Bank Building, members of the Detroit Stock Exchange.

Labor-Management Showdown In the Decade Ahead

By EDWARD T. CHEYFITZ*

Assistant to President, Motion Picture Association of America

Mr. Cheyfitz, calling attention to power struggle in labor-management relations, says next decade will determine future of managerial function in America. Says we are on threshold of a showdown and problem is how power struggle can be resolved. Points out principles on which struggle can be resolved and holds task is not as difficult as it appears.

Labor-management relations in America are continuing in the pattern of a power struggle. That is the outstanding fact characterizing industrial relations today. In part this power struggle is old — dating from the passage of the Wagner Act. In part, it is new — dating from the establishment of CIO's PAC and AFL's Labor League for Political Action.

Edward T. Cheyfitz

That part of the power struggle which is old revolves around the issue of managerial function. With the establishment of collective bargaining as a national policy, it was inevitable that this struggle should take place. The entrance of the union brings a new force into industry—a force that challenges every aspect of management and its practices.

In the 1920's managerial power was entrenched with little challenge. In the 1930's labor begins to organize. The Wagner Act is passed. By the 1940's the union becomes entrenched. Ordinarily the 1940's would have been the Showdown Decade. But war postponed that. Government dictated, to a large extent, the industrial relations pattern. Industrial expansion made it easy for industry to acquiesce. The showdown was postponed.

We are now on the threshold of that showdown. The 1950's will determine the future of the managerial function in America. The power struggle will be intensified not only because factory relations must be clarified, but also because we are entering a cost-conscious period. In such a period decisive action by management becomes imperative. It must make decisions on work measurement, on methods, on personnel, and the many other things which make for efficiency. Everyone of those decisions run smack into union power and union challenge. Recent examples are the "speed-of-work" strikes at Bendix, Ford, and Singer.

The power struggle over managerial function is not confined to the workshop. It has its political aspects. Labor and management have extended the fight to Capitol Hill. The Taft-Hartley Act is the recent example of this power struggle on the political front.

The struggle over the managerial function is really an unnecessary war. It is confused by labor with "rights." Now rights come and go. They are changed as the industrial environment changes. The right to lay off has been sharply modified by the seniority list. But managerial function needs to remain intact. Every economy must have sound managerial function. It goes with the industrial society. It matters not who owns the plant—stockholders, workers, government. Unless management is allowed to direct the flow of materials, machines, men, and methods, society does not get goods and services. Destroy the managerial function and you destroy the modern economy.

Struggle Over Managerial Function

As if the power struggle over the managerial function was not enough to keep industrial relations steaming we have another element in the battle—the struggle over the kind of economy we are to have. Given the ingredients of catastrophic depression (1929 style) and the growth of the unions, it was inevitable that security would become a key word in the minds of millions. Security looms large in labor demands upon the economy.

Contrasted to the older phase of the power struggle which takes place primarily through collective bargaining, the power struggle around the "kind of economy" takes place in the political arena but reverberates in the workship. It expresses itself in labor's political action.

Labor's political action is not new. But today we are getting a new kind of labor political action.

Labor's Non-Partisan League, which was organized in 1936, completed the break from Labor's *laissez faire* policy of 130 years. Now labor wanted government protection and help in organizing. The Wagner Act reflected the new policy. The switch was completed in 1943 with the organization of PAC. PAC's philosophy embodied a plea for basic changes in the economy. Phil Murray in calling for an Industry Council plan said: "Disaster comes by accident, but prosperity today comes only by planning."

The American Federation of Labor was paralleling this new trend in labor politics. In 1930 Bill Green had called unemployment insurance communistic. In 1948 the AFL had pretty much endorsed the same program as has CIO. The power struggle over the kind of economy we are to have is in full swing.

Management and labor have a stake in this power struggle. But the people have a greater one. For upon its resolution depends a standard of living, national security, democracy. I use the word resolution and not outcome for the power struggle must be resolved amicably, intelligently. If it is not we shall follow other industrial nations to falling living standards, internal disunity, disintegration.

The question of the next decade then is this: Can the power struggle be resolved? One way or another we shall have the answer by 1960.

Is it possible to resolve the power struggle? The extreme Left and the extreme Right are in agreement that it is not. One says liquidate management. The other, liquidate the union. Both are as unrealistic as they are candid.

Struggle Can Be Resolved

The power struggle can be resolved. It depends upon the leaders of business and labor and somewhat upon government. The question management must answer is whether it can accept change. If it can it has a threefold job.

One—Must start with the individual in the factory. Develop techniques of participation. Build egos as well as autos.

Two—Solve the problem of participation by developing new techniques of managerial leadership which fold the union into its practices.

Three—This is a business economy. Business must accept the goal of security and develop techniques (insurance) to give at least limited security to the individual.

As for labor. It will also have to accept some changes.

One—It must cease being a combative institution and become a collaborative one.

Two—It will have to accept the principles of the profit economy generally and work specifically for the success of the enterprise in which it earns its living.

Three—It will have to give some thought to freedom as well as to security. (Steel case is an example of bringing government into collective bargaining.)

The job of getting labor and management to resolve the power struggle may not be as difficult as it first appears. For one thing, the British experience may help. The British worker thought that by changing the kind of economy he had he would get participation.

The latest report of the British Trade Union Congress states "The National Union of Mine Workers has complained to the TUC of a growing sense of frustration and cynicism." The Railwaymen, after nationalization. (Statesman and Nation) The "Statesman and Nation" concludes: "Consultation has failed to work because nobody has taken the matter seriously enough to devise means of consultation at all levels, continuously." British workers found that nationalization does not guarantee participation—the big issue in the modern industrial economy.

If the United States can resolve the power struggle in industry; if it can harmonize productivity and participation it will have done what no other modern industrial society has achieved. There is no more urgent domestic problem. At any rate, the 1950's shall be an interesting decade. Very interesting, indeed.

*An address by Mr. Cheyfitz at the Labor Forum of the 54th Annual Congress of American Industry, New York City, Dec. 9, 1949.

Bendix, Luitweiler to Admit F. L. Scheffey

Bendix, Luitweiler & Co., 52 Wall Street, New York City, members of the New York Stock Exchange, will admit Frank L. Scheffey to partnership on Jan. 2. Mr. Scheffey has recently been associated with George R. Cooley & Co. as Vice-President.

Frank L. Scheffey

State Bond & Mtg. Adds

(Special to THE FINANCIAL CHRONICLE)

NEW ULM, MINN.—Glenn A. Monti is with State Bond and Mortgage Co., 26½ North Minnesota Street.

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How Far in Social Legislation?

By ROBERT A. TAFT
U. S. Senator from Ohio

Senator Taft, asserting it is one thing to improve on present system of social security and radically different proposal to give medical care, housing and free food to those who can afford it, advocates Federal financial assistance to States unable to afford proper educational, medical and housing facilities.

How far should government go in promoting better education, better medical care, better housing and better subsistence? Our American system has been based primarily on merit, on every man working according to his ability and willingness. But we have always recognized that under a competitive system of this kind there are many who fall behind and are unable to provide a minimum living for themselves or their families.

Robert A. Taft

The English poorhouse was a method—but a completely inadequate method—of dealing with the problem. In this country, our local governments have long provided free housing, medical care and subsistence for orphans, for the chronic sick and for the aged. We have provided free medical care for all those unable to pay for it in general hospitals. We have provided food and clothing relief in homes for the unemployed. In education, we have gone much farther and provided free primary and secondary education, and to some extent college education.

* * *

Our religious faiths have taught us our obligation to those who fall behind in the race for a decent living. Our Constitution also has taught us that every child is entitled to the equality of opportunity he can have only if he is brought up in a reasonably decent home. Most of our local communities have not assumed a definite obligation for housing, except in institutions. While we have assumed these obligations, it is quite true that in many parts of the country they are not systematically carried out, largely, I believe through lack of funds.

It is one thing to improve our present system; it is a radically different proposal to give free medical care, subsidized housing or free food to those who are able to pay for it. The New Dealers, labor politicians, and Socialists have tried to take advantage of the natural American instinct of charity, to forward their plans to socialize the furnishing of the necessities of life to all. If the government gives free medical care to everybody, why not free food, clothing and housing?

If this is a local obligation, how does the Federal Government come into it? Principally because many States are constitutionally limited in their power to tax or are below the average in wealth and unable to do a complete or satisfactory job in providing a minimum decent subsistence for the lowest income groups.

Under the Constitution, the Federal Government has only a secondary interest in education, health and welfare, but it clearly has the right to spend money and to aid States through financial assistance. I think it has an obligation to do so in cases of need.

* * *

Apart from primary and secondary education, however, I think assistance should only be given when the need is clear.

Second, it should be given only if complete control of administration and a broad latitude in the selection of methods is left to the States and local communities. The Truman medical plan not only socializes medical care, but nationalizes it.

In the third place, the assistance given, while it should be consistent and universal, should not provide too high a standard, certainly not as high as that of the man who pays his own way. The only method by which people can be supported is out of the effort of those who are earning their own way. We must not create a deterrent to hard work.

Under the foregoing principles, I believe that the Federal Government should aid education in those States below the average national income, should aid States to give free medical care to all those unable to pay for it, should assist local communities in eliminating slums and providing minimum decent housing, and should in a crisis undertake to assist States to provide food.

In my opinion, the American people feel that we have a sufficiently high income so that perhaps for the first time in history we can eliminate extreme hardship and poverty and give equality of opportunity to all. I agree with them.

How Banks Are Faring In Consumer Credit

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

Asserting banks have done a good job in consumer credit, Dr. Phelps indicates commercial banks have increased consumer instalment loans outstanding from 1941 to middle of 1949 by more than $1 billion or 134%. Foresees more competition among banks for this business, with little effect on finance company volume, because banks and finance companies serve different classes of people.

During the war a great many articles were published on consumer credit as a postwar opportunity for commercial banks. Perhaps it is not too soon to take a look at how banks have been making out in the consumer instalment loan field and to consider their future prospects.

Dr. C. Wm. Phelps

The Progress Made

That banks have done a good job in consumer credit is apparent from the record. It was not until after the depression of the early Thirties that banks began to enter the consumer instalment loan business in appreciable numbers. At the end of 1941, as the United States became involved in World War II, the total amount of consumer instalment loans outstanding was $1,858 million. Of this amount the banks held $784 million, or 42%.

After sagging during the war to a low point in 1943, total consumer instalment loans outstanding rose to $3,529 million by mid-1949. The banks' share had risen to $1,837 million, or 52%. The remainder was divided among the other lending institutions as follows: consumer finance companies, $827 million; credit unions, $347 million; industrial banks, $219 million; industrial loan companies, $167 million; miscellaneous lenders, $132 million.

From the end of 1941 to the middle of 1949, consumer instalment loan outstandings of commercial banks increased by more than a billion dollars (by $1,053, to be specific) or by 134%, while the total for all institutions combined grew by $1,671 million, or 90%. It is clear that the banks have risen to a commanding position in the consumer instalment loan field.

The Future Prospects

What of the banks' position in the future? What have the banks to hope or fear from "competition?" The real competition which banks face, and will continue to confront, is competition from other banks—not from consumer finance companies and the other nonbank types of consumer lending agencies. The increased consumer loan business that a bank may hope to gain will come, as it does now, fundamentally from the bank's own customers and those who have been customers of other banks, and from the growing prosperity of that class of people who can meet bank requirements. The notable growth in the consumer credit business of the banks has been accompanied, not by a reduction, but by a striking increase in the business of each of the other types of consumer lending institutions.

The *theory* of consumer lending may appear to be that every lender is competing with every other lender in town for the same business. The *fact* is that the different types of lending agencies are serving different classes of people which do not significantly overlap. It is because of this situation that banks have nothing to fear from the operations of consumer finance companies, credit unions, and other nonbank types of lending agencies.

This point regarding the nature of the "competition" in consumer loans merits some discussion. A clear understanding of it will make banks more satisfied with the jobs that their personal loan departments are doing, and may serve to protect managers of such departments from unjustified criticism by bank officials.

Take, for example, the case of the business done by the consumer finance companies, which is next in size to that of the banks in the consumer instalment loan field. An official may want to know why his bank has apparently fallen down on the job of taking this business away from the companies.

The manager of the bank's personal loan department can correctly answer that what the banks haven't taken already they wouldn't really want. The business of the consumer finance companies indeed runs into large figures, but after all what is it composed of? A considerable portion of it represents small loans of from 20 to 150 dollars which would be a source of loss to a bank, and the whole portfolio generally presents more risk than a bank, lending depositors' money, could profitably assume.

In short, the banks and the companies serve different classes of people, and the overlapping of these classes—the only zone of real competition—is very small, probably around 5 to 10% of the number of borrowers involved.

But what of the trend in State legislation to permit consumer finance companies to make loans in excess of $300, the old legal maximum established for small loan companies back in 1916? Will not this development cut into the consumer instalment loan business of the banks?

It is impossible to see serious competition for the banks from this development for the simple reason that the rates charged by the companies on large as well as small loans are of necessity higher than the charges made by banks. One may fear a price cutter, but he does not fear competitors who have to price their services higher than his. Most of the loans above $300 that the consumer finance companies can get are those which banks consider too risky to accept, and therefore do not constitute business lost to competition by the banks.

As to the other types of lending institutions in the consumer instalment loan field, the story with regard to competition is much the same. The industrial banks and industrial loan companies have never attained much importance in numbers or in volume of business even though the movement started way back in 1911, and there has been a tendency for many of these institutions during the past decade to transform themselves into regular commercial banks. The miscellaneous lenders serve very different classes of borrowers than those who are qualified to borrow from the personal loan departments of banks, and the business of credit unions is limited by the nature of the method of operation involved in cooperative organizations.

Conclusion

Banks will continue to dominate the consumer instalment loan field. There is, and will be, competition, but this competition will be fundamentally bank against bank rather than banks against other types of consumer lenders. In this inter-bank competition each bank will need to know the true costs of its consumer instalment loan operations so that its business may be conducted at a profit.

NSTA Notes

SEATTLE SECURITY TRADERS ASSOCIATION

The annual Christmas dinner of the Seattle Security Traders Association was held at the Olympic Hotel on Dec. 9. Pictures taken at the dinner, which was a huge success, appear elsewhere in today's issue.

With Russell-Long Firm

(Special to THE FINANCIAL CHRONICLE)

LEXINGTON, KY.—Irvin N. Lee has become associated with Russell, Long & Burkholder, 257 West Short Street.

Randolph L. Eddy in Boston

BOSTON, MASS.—Randolph L. Eddy has opened offices at 45 Milk Street to engage in the securities business.

Lehman Bros. to Admit Three New Partners

Francis A. Callery

Herman H. Kahn

Morris Natelson

Lehman Brothers, One William Street, New York City, investment bankers, announce that three new partners will be admitted to the firm after Jan. 1, 1950. The new partners are Francis A. Callery, Herman H. Kahn and Morris Natelson.

Mr. Callery has been associated with Lehman Brothers for some years, having served as Financial Vice-President of Consolidated Vultee Aircraft Corp. during the war years. He attended Princeton University and served in the First World War in the Flying Corps. Since his resignation from Consolidated Vultee, he has been actively engaged in independent oil development as a member of the firm of Callery & Hurt of Fort Worth and Houston, Texas.

Mr. Kahn has been with the firm for 22 years and started as a runner when he was 18 years old. He has served in various capacities as a security analyst and in recent years as a member of the industrial department.

Mr. Natelson has been associated with the firm of Lehman Brothers for 22 years and has been prominent in the firm's retail store activities. In addition, he has been head of the firm's industrial department, which department is charged with research and new business activities. He is a director and member of the Executive Committee of General Realty & Utilities Corp. He is also a director of United Piece Dye Works as well as being a director of several other companies.

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Public Relations in Investment Banking

By E. WILLIAM NOLAND
Research Professor, Institute for Research in Business, The State University of Iowa

Pointing out investment banker must possess and use foresight, energy and human understanding for careful handling of people, Dr. Noland outlines components of public relations program as: (1) publicity for the company itself; (2) promotion of satisfactory community relations; (3) preservation of cooperative relations among themselves and with dealers; and (4) maintenance of complete information services to stockholders and customers. Says main job is educating public.

Top executives of our nation's businesses and industries have already gone a long way in the direction of becoming public relations conscious. They still have far to go but appear to be determined to get there. Smaller enterprises are beginning to take their cue from the big ones and have begun to realize the great extent to which their success — in many instances, sheer survival—rests upon their ability to create public good will at every turn.

E. William Noland

The term "public relations" actually means more than the name implies, unless one defines "public" in such a way as to encompass everyone, including a company's own workers. In many firms, industrial relations is the over-all term used to describe the work of that department whose job it is to handle the multitudinous problems in human relations. It includes, of course, the personnel department and the public relations department, which, if one subscribes to a justifiably broad definition of the function of the latter, supplement one another and actually overlap. In these days of growing labor unionism, industrial management has at times neglected its buying public, its investors, and, in fact, its competitors, in order to concentrate on the proper treatment of its employees. But successful management has seen the wisdom—sometimes, necessity — of keeping its good will pipe lines open, of paying a great deal of attention not only to its employees but to the other segments of its public as well.

One of the most conservative of American institutions, the commercial bank, is recognizing the merits of a carefully planned and effectively executed public relations program. There come to my desk every day splendid examples of how various banks are spreading good will by "telling their own story." There are newspaper and journal advertisements depicting by pictures as well as words the functions of the commercial bank in our economy, its role as a public servant, its belief in and practice of basic human principles in the treatment of its employees, its expression of willingness to serve its customers "beyond the call of duty," and its deference to the wishes of its stockholders. The largest banks employ full-time directors of public relations to formulate and execute their programs.

N. Y. Stock Exchange Program

The New York Stock Exchange, its members and member firms, have at long last recognized the need for a broad public relations plan and are busy carrying out a three-fold program. The present high quality advertising program of the Exchange is the most universally read of all financial advertising; the motion picture, "Money at Work," has enjoyed an enthusiastic reception; and speakers' bureaus scattered throughout the country are providing the means by which local groups can learn of the work of the Exchange through its individual members.

In our economy the primary function of the investment banker is what Dr. Jules I. Bogen of New York University has aptly called the "formation of capital." It is the job of serving as middleman between the buyers of stocks and bonds on the one hand and businesses, industries, governments and other public bodies that issue those securities on the other hand. It is that transaction wherein the investment bankers gather together capital from millions of investors, and the financial institutions with which they deal, and make it available to enterprises and government for the maintenance and expansion of the facilities and services. The investment banker, therefore, buys and sells, so the success of his work depends upon the quality of the human relations job he does with his customers and clients. Actually, like the commercial banker, he sells service — personal service — which is one of the most difficult of all things to sell. The one thing nearest a man's heart, next to his wife and family, is his pocketbook. Since it is the investment bankers' job to handle or advise in the handling of that pocketbook, he cannot afford to make mistakes. Consequently, the investment banker must possess and use that foresight, energy and human understanding that make for the most careful handling of people, the highest sensitivity to their feelings and needs, and the greatest awareness that their welfare rests upon his honesty and integrity.

A Program Outline

The public relations program of an investment banking firm has broad ramifications. It ranges all the way from the promotion of harmonious relationships among the officers and employees of the company itself to assisting in the handling of publicity for those companies in whose stock the investment firm has an active trading interest. It should include at least all of the following:

(1) Publicity for the company itself (e. g., its growth record, its underwriting participation, stories about its officers and employees, coordination of the work of the home office and branch offices with that of field representatives);

(2) Promotion of satisfactory community relations (e. g., speeches at schools and to civic and professional clubs on current topics and on investment banking, active participation in fund-raising and promotional campaigns for charity and community improvement);

(3) Establishment and preservation of friendly and cooperative relations among investment bankers and between them and dealers. This can be done through frequent get-togethers at a mountain retreat or seaside resort and, even better, by using every business day as the time for keeping each other well informed about matters of mutual interest;

(4) Maintenance of a complete information service to stockholders and customers. For example, the job a manufacturing company does by way of keeping its stockholders informed of its progress can be supplemented by statements from the investment banker who has participated in that company's financing. This information can cover such subjects as the growth and probable future of the industry, the company's position in the industry, and a multitude of things having to do with financial matters about which the investment banker is freer and more able to talk than the company itself.

Job of Educating Public

One of the biggest jobs of the public relations officer of an investment banking firm is that of educating both the actual and potential investing public. The misconceptions the average person has concerning the nature and legitimacy of the work of the investment banker is amazing; general knowledge of the importance of the role of the investment banker in our type of economy is meager; very few people recognize the part the investment banker has played in the realization of our complex and diversified industrial facilities, our expansive communications and transportation network, and our far-reaching public utilities system. There are still too many people who believe that the investment banker is a shyster, a swivel-chair profiteer who preys upon unsuspecting investors, the kind of person with whom one can afford to deal only if he wants to gamble. They do not know, because they have never been properly told, that they can buy from their investment banker the same high quality securities as their commercial banks, insurance companies and fraternal organizations buy.

The public relations officer finds that a very substantial part of his job of educating the public in investment banking involves speaking to all types of clubs—professional, civic, and business—and even in schools and forums when the appropriate time arises or can be created. There is never an occasion when he needs to be the least apologetic about his mission; anywhere any aspect of our individual enterprise system is being discussed or defended, the investment banker deserves a spokesman.

The public we currently need to educate is the broadest one our profession has ever had. Our potential customers today are found in all walks of life. No longer can we afford to confine our efforts to bank presidents, wealthy manufacturers and their kind. We must consider the farmer, the skilled and unskilled worker, the small manufacturer and the storekeeper. There are those who will argue, of course, that the sales representative's time is worth too much to "waste" on such small buyers. Obviously much of the selling will have to be done by telephone and letter, combined with an occasional personal call. But these small customers are extremely important to us for at least three good reasons: (1) they will make money for us if we design selling techniques that will minimize expenses; (2) they will be among our most loyal customers and boosters if we treat them right (this is the important part of the public relations angle!); and (3) they will be made stronger believers in the individual enterprise system, less given to the debilitating "isms" that threaten our American way of life.

The type of speech the public relations officer gives varies, obviously, with his audience. The same is true of the advertising in which his firm indulges. If we are going to sell the small customer also, we shall have to talk his language—and it may well be the language of the big investor too. It is entirely possible that we ascribe to men of wealth a sophistication in dealing with investment terms that often actually is not present. We must phrase our speeches and advertising copy in language that is understandable to the least informed potential customer and, at the same time, sufficiently subtle not to insult those who are more "intellectually advanced" in matters financial. If we are going to insist on using such terms as "capital structure," "equity value," and "monetary strength," so simple to us, we shall have to explain what they mean. The use of adequate substitutes, couched in layman terms, has obvious merit.

Some of the many items the speech of the public relations officer and his advertising copy could well include are these:

(1) The ways in which the individual investor today is protected against hostile, unscrupulous dealings on the part of his investment banker—the work of the Securities and Exchange Commission and the National Association of Securities Dealers;

(2) The need for public recognition of the importance of the underwriting function in investment banking—that the work of the trader, who buys stocks and bonds from one investor and sells them to another, is deservingly important yet often a relatively small part of the revenue-producing activity of a sizable investment banking firm;

(3) An explanation of the meaning of "spread"—how it is the means by which the investment banker is compensated for the work he does and the risk he takes;

(4) Destruction of the notion that the investment banker is interested solely in wealthy people—development of the theme that America was built by a lot of little people pulling together, that most present large portfolios had simple beginnings, that the rate of return or appreciation per share is the same on 10 shares of a given stock as on 100 shares of it;

(5) Propagation of the truism that in order for money to make money it must be invested — it cannot lie idle in safe deposit boxes.

Encouragement of New Enterprise

Another function of the investment banker that should be emphasized, although it is an indirect one, is the role he plays in encouraging people to start new businesses. To start a new business, one needs to have men with the urge to start a business, men with the "know how" with respect to establishing and operating it, and capital. Of these three essential elements the last, money, is often the scarcest. While it is usually true that the investment banker cannot afford to underwrite the initial investment in a business because the risk involved is too great, he serves an important function in encouraging the inauguration of new undertakings through proper counseling and what amounts to indirect financing. The investment banker can advise the man who aspires to start a new business regarding sources of outside private loans and the most appropriate type of capital structure to justify the loan sorties he will have to make.

The sales representative of an investment banking house is the public relations director's "right hand man." By the very nature of his work he is his company's prime ambassador of good will and promoter of sound public relations. This can be true, however, only if he is willing to behave in such a way as to do justice to his professional mission. In the strictest sense he has a moral obligation to suggest to his clients only those investment transaction which, on the basis of analyses made by the research and analytical department of his firm, offer those clients the best combination of security, income, and appreciation possibilities. The capable physician makes a thorough physical diagnosis of his patient before he prescribes for him; the securities sales representative, if he is to be a credit to the fraternity he represents, must learn the details relative to his client's financial status—his income, tax bracket, distribution of assets, age, marital status, and a multitude of factors determining his investment decision. There is no other basis on which the sales representative of an investment banking firm can build a strong clientele; his job is that of selling "service," not "stocks and bonds."

The Sales Representative

The importance of this emphasis upon the "personal touch" and "human relations" aspect of a sales representative's job assumes even greater proportions during periods of a declining or ill-defined stock market. It is here that the intelligent sales representative realizes that, although the securities business has always been one of feast and famine, he can, with sufficient patience and foresight, handle the "bad" times in such a way as to make the "good" times even better. The sales representative who said, "If you sell an investor a stock and it drops, you should return to see him as soon as you can to discuss what happened," was voicing one of the sagest tenets of selling psychology. Willingness to return "to face the music" is absolutely essential to success for a securities sales representative.

In recent months many sales representatives have seen the wisdom of spending a substantial—often a major—part of their time reassuring those investors whose confidence in the stock market has been shaken. These men who have been meeting considerable buyer resistance born of more than two years of declining or oscillatory markets are making of the present a period for rebuilding customer confidence. Our job is not that of idly lamenting present stock market "ills" or of predicting cataclysmic political and economic changes; instead, we, like many other groups, have a mission which transcends the short-term, personal type of financial gain of which many of us have been guilty in the past. Upon our ability to give "service," to maintain — even expand — good will and confidence among all groups rests our future, so intimately tied in with the survival of our individual enterprise system.

Report Bear, Stearns Buys 25% of Distributors Group

According to Leslie Gould's column in the New York "Journal American" last night, Bear, Stearns & Co. has acquired a 25% interest in Distributors Group, Inc. The price paid, it was said, was around $150,000. The article goes on to say that Bear, Stearns & Co. bought out the interest of Frank L. Valenta. Mr. Valenta recently resigned as a Vice-President of Distributors Group to head his own firm, Frank L. Valenta & Co., and become President of a new open-end trust known as Natural Resources Fund, Inc.

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Seattle Security Traders Annual Christmas Party

Officers of the Seattle Security Traders Association: Robert A. Nathane, *Merrill Lynch, Pierce, Fenner & Beane,* President; Arnold Taylor, *Wm. P. Harper & Son & Co.,* Vice-President; Homer Bateman, *Pacific Northwest Company,* Secretary; Waldemar L. Stein, *Bramhall & Stein,* Treasurer

Joe Phillips, *Pacific Northwest Company;* Jack E. Jones, *Hartley Rogers & Co.;* Taylor Patton, *Blyth & Co.;* Ed. Easter, *Dean Witter & Co.*

Don Meyer, *Foster & Marshall;* Andrew Jordan, *Jordan & Co.;* Harold H. Huston, *Harold H. Huston & Co.;* Barney Lee, *Hughbanks Incorporated*

Al Pritchard, *Pritchard & Co.,* Vancouver, B. C.; Charles Dale, Vancouver, B. C.; Robert A. Nathane, *Merrill Lynch, Pierce, Fenner & Beane,* Seattle; Harold W. Lefever, *A. E. Jukes & Co.,* Vancouver, B. C.; W. Hudson, *Pemberton & Son,* Vancouver, B. C.

Ken Easter, *Dean Witter & Co.;* John R. Lewis, *John R. Lewis & Co.;* Albert O. Foster, *Foster & Marshall;* Chuck Easter, *Blyth & Co., Inc.*

LETTER TO THE EDITOR:

Blames Britain's Plight on Outmoded Manufacturing

J. Walter Bell sees basis of England's economic difficulties in failure to devise and use labor saving machinery to increase unit production of her manpower.

Editor, The Commercial and Financial Chronicle:

Most economists in writing of England's troubles of today seem to date her troubles from World War I with World War II putting in the crippling blow. There is no question that these two wars have been devastating to England's economy, but the question might be properly asked: Do her troubles all stem from these wars?

There is a bit of almost forgotten history that might have had more than an incidental effect on England's industrial progress, or her decline, whichever way you want to put it. About 1779 a half wit by the name of Ned Ludd got it into his head that the new textile machinery that was being installed at that period was the cause of many workers being thrown out of jobs. He started out on a one man campaign to break up the new stocking frames that were being used, believing that such prograss was inimical to the best interests of the workers.

Apparently very little more was done along these lines at that time, but in 1811 the movement became quite serious. Bands of masked men, operating mostly at night, began a general attack on new machinery, mostly textile and lace making. These men called themselves Luddites and were supposed to be led by a man known as "General" Ludd. At first it was confined to Nottingham but soon spread to Yorkshire, Lancashire and other surrounding counties and assumed the proportions of riots. At first no personal attacks were made and there was no bloodshed. However, with the expansion of the movement which soon embraced all of industrial England the rioting became so serious that soldiers were called upon.

In an attack on a plant owned by a manufacturer named Horsfall the soldiers fired upon these workers who were attempting to damage the plant and a number of workers were killed. Shortly after this incident Mr. Horsfall was murdered and this caused the government to pass a number of repressive acts which finally terminated with some hangings and many deportations. This movement continued until 1816 when it suddenly died out supposedly by the death or eclipse of "General" Ludd.

It is curious that chronicles of those times state that the general public was sympathetic toward these rioters. It is this phase of the case that gives importance to the actions of the Luddites. Were the majority of the British people against mechanical advancement? If so that may account for the consistent opposition with which new methods have met within British industry since that period.

The British worker stands as the proponent of what was good enough for his father was good enough for him; also the tradition of labor in following the footsteps of the father had something to do with it. As new machinery cut down the number of workers such men became idle. Many felt they had to do the work they were trained to do or not work at all. To find another type of work was against tradition.

It is unfortunate that this feeling should have existed in England. Being a country that has depended on other countries for a great part of her food and raw products she should have been the country to lead the world in "Yankee ingenuity," a term spoken derisively by some Britishers.

During the 18th Century and part of the 19th England was self-supporting in foodstuffs and on balance was at one time an exporter of grain. However, she had to import cotton, silk and dyes as well as timber, bar iron, hemp, sugar, tea and tobacco. The metals and textiles were fabricated and shipped to continental Europe. Her trade with the Orient and Africa was negligible compared to that with the continent. Her position as a manufacturing nation was made supreme because of her many harbors and short hauls for export. She maintained this supremacy for most of the 18th and 19th Centuries. During the latter of these two periods she increased her population and had to depend more and more on the outside world for raw materials and later for foodstuffs. She was noted for her wool products and for a long time her domestic supply of wool was sufficient to maintain that industry, but that position was lost to Australia.

England should have been the first country to devise and use labor saving machinery so as to increase her unit of production per man power, thereby making her able to continue to outsell her competitors in foreign markets. With such sales she would have had a sufficient balance of trade to pay for her food and raw products and maybe a little left over.

Before these two world wars England's banking, foreign investments, merchant marine supremacy and her tied-in colonial trade enabled her to keep on an even keel. With her foreign investments dissipated and the center of banking moving to the United States these sources of "invisible" income have been drastically reduced.

It is clear to everyone that England's economy is very much out of balance and much against her. She has allowed the U. S. to forge ahead with mass production methods until she has become a minor competitor. The United States, a well rounded out and almost self-sufficient country, had much less need to attain this industrial leadership than was England's need.

The one bright spot in England's industry is quality manufacturing. She excels in many lines but quality goods cost more and the mass purchases today the world over are made by working people who are satisfied with lower grade products. If England cannot enter the world market on a mass producing basis, if she persists in outmoded manufacturing processes which give a small amount of products per worker unit, she has little hope to survive in the world contest for trade. Perhaps the spirit of the Luddites has had more to do with England's troubles of today than was caused by both World Wars.

J. WALTER BELL.

128 W. 11th St., New York 11, N. Y.
December 28, 1949.

Edward A. Kole Forms Kole and Kole

Edward A. Kole announces the formation of a partnership for the general practice of law, consisting of his son, Shephard, and himself, effective Jan. 1, 1950, under the firm name of Kole and Kole. Offices will be maintained at 39 Broadway.

Edward A. Kole

Edward Kole for many years has specialized in the legal end of the securities field and has been advisor to many dealers, brokers and underwriters. His son Shephard was formerly connected with the New York City Police Department and was decorated with the Sherman Day Medal for valor.

Gruntal & Co. Will Admit Four Partners

On Jan. 2, Gruntal & Co., 30 Broad Street, New York City, members of the New York Stock Exchange, will admit Frederick M. Stern, Mark Sandler, Howard J. Buxbaum and Milton Goldberg to partnership. Messrs. Stern, Sandler and Buxbaum were formerly partners in Stern & Co.

Harry F. Kattenhorn will withdraw from partnership in the firm on Dec. 31.

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Public Utility Securities

By OWEN ELY

General Public Utilities

President "Al" Tegen, in an address before the New York Society of Security Analysts Dec. 21, described the outlook for General Public Utilities. The company is now in the last stages of becoming an integrated holding company, controlling only five major subsidiaries in Pennsylvania and New Jersey, and one in the Philippines. This contrasts with the 300 companies in half the states of the Union which once comprised the predecessor Associated Gas & Electric System, dominated by Howard C. Hopson, who died recently. During 1949, GPU sold New York State Electric & Gas and Rochester Gas & Electric to its own stockholders, realizing net proceeds of about $58 million. This and other funds were used to retire $60,588,000 holding company debts including Associated Electric Company debentures. It is expected that the equity interest in Staten Island Edison (from which the parent company has already realized some funds through the sale of new bonds and preferred stock) will be sold in the next three months. Proceeds will be used to retire a $4 million bank loan of Associated Electric due Nov. 3, 1950, with the balance to be invested in Metropolitan Edison Company and New Jersey Power & Light Company.

Current 12 month's earnings include income from the New York subsidiaries for part or all of the period, hence it is necessary to make various adjustments to reduce the figures to a pro forma basis. For the 12 months ended Oct. 31, such pro forma earnings were $1.88 of which about $1.43 was earned by the Pennsylvania and New Jersey subsidiaries and 45 cents by Manila Electric. Monthly earnings are continuing to gain over last year due to rate increases, etc., and results for the calendar year may approximate $1.50 for domestic subsidiaries and 50 cents for Manila, it is estimated. Continuance of this upward trend is expected for 1950, with the possibility that domestic subsidiaries might earn about $1.65. Corporate net income of GPU is expected to be $1.06 per share in 1949 and it is hoped that $1.20 may be earned in 1950, not including any income from Manila.

The outlook for Manila Electric is a little harder to forecast because of current changes in the Philippines, but earnings of that subsidiary have been increasing rapidly over the past two years. The United States is now trying to taper off its heavy postwar subsidies to the island economy. Moreover, there has been heavy buying of luxury items from the United States and to check this trend the Philippine Central Bank recently imposed licensing requirements on dollar payments. Mr. Tegen believes that the regulations will not interfere with the business of Manila Electric—a substantial payment for goods having already been approved under the new regulations. But it is uncertain whether any income will be drawn from Manila, not so much because of dollar licenses, but because of the cash requirements for new construction and the recapitalization problems. It is possible that Manila may sell some $7.5 million senior securities in 1950. Presumably this would be used for new construction, unless some funds are remitted to GPU to reduce the $10 million open account.

Manila Electric has been practically rebuilt since the war ($16 million has been added since 1946, in which year the assets were valued at $27 million excluding intangibles). The property was damaged during the war, and some additional amounts may be recovered in war claims from the U. S. Government, although new legislation will be necessary to obtain this.

Regarding the domestic subsidiaries, Mr. Tegen is hopeful of retaining all remaining properties under the Holding Company Act. The two New Jersey properties—Jersey Central Power & Light and New Jersey Power & Light — have been linked with Metropoltian Edison, and high tension transmission lines are now being constructed to inter-connect Metropolitan Edison with its neighbor Pennsylvania Electric Company—the largest system company. Northern Pennsylvania Power is not inter-connected, and retention as a separate "system" under the Act may be requested. This program remains to be worked out with the SEC, but the management feels very strongly that remaining properties are retainable, with the possible exception of gas properties in New Jersey.

GPU increased its dividend from an 80 cent to a $1 rate recently. President Tegen feels that dividend policy should be geared to the income received from domestic subsidiaries. On that basis the possibility of a higher dividend rate is indicated when the expected increase in corporate income is realized, possibly during the second half of 1950, though no definite forecast was made.

Giving effect to recent transactions, consolidated capital structure at the end of October was as follows:

Subsidiaries	Amount	Percent
Long Term Debt	$156,172,500	42.6
Notes and Bank Loans	19,710,000	5.4
Preferred Stock	49,525,942	13.5
Total Subsidiaries	$225,408,442	61.5
Parent (Including AELEC):		
Bank Loans	$7,950,000	2.2
Capital and Surplus	132,840,101	36.3*
Total—Parent	$140,790,101	38.5
Total — Consolidated	$366,198,543	100.0

*Includes intangibles.

Of the subsidiary notes and bank loans, $10,530,000 are due in one year. Of this amount, $8,700,000 were probably repaid later in November from proceeds of the sale of bonds and preferred stock by a subsidiary. The balance of the loans are to be paid as they mature from available funds.

Of the parent company bank loans, $4,000,000 represents a loan made by Associated Electric Co. and is due Nov. 3, 1950. The GPU bank loans amounting to $3,950,000 are due serially in five years, beginning in 1951.

Yes, But . . . . !

"By generous sharing of our material goods in the past few years, we have restored to many peoples, faith in themselves, faith in their freedom, faith in the certain triumph of confidence over fear. Just as long as we continue to face our world responsibilities with the courage and realism we have already shown, we shall deserve the right to hope—and work—for lasting peace.

President Truman

"Meanwhile, our efforts in search of peace and security have not spared us problems at home. Not only do the security needs of our nation seem at times to be in competition with social progress, but the attention we must give to weapons of defense may obscure the fact that the real basis of our strength is a strong and active faith in freedom.

"As long as freedom remains a force for human welfare, men will cherish it in their hearts and defend it with their lives. In this present-day world where man's personal independence is cramped by the complexities of his economic existence, it is the duty of government to see that each citizen does not lose faith in his ability to provide freely by his efforts for his own welfare.

"We have revived the belief of free peoples in themselves in many foreign countries; and we must continue to safeguard at home the belief in ourselves and belief in freedom as the greatest force for human welfare."—President Harry S. Truman.

To much of this, indeed to most of it, we should not wish to take exception.

Yet we must take note of the fact that freedom, at least for Americans, is as much, if not more, endangered by our own domestic policies and programs as by any threat from abroad.

And candor compels us to add that the President and his Fair Deal are the head and front of that offending.

National Banks' Assets Exceeded $88 Billion On November 1

Comptroller of Currency Delano also reveals increase in U. S. bond holdings, which now constitute 43.34% of total assets.

The total assets of national banks on Nov. 1, 1949, amounted to more than $88,000,000,000, it has been announced by Comptroller of the Currency Preston Delano. The returns covered the 4,988 active national banks in the United States and possessions. The assets were $3,350,000,000 over the amount reported by the 4,993 national banks as of June 30, 1949, the date of the previous call, and $300,000,000 more than reported by the 4,997 active banks as of Dec. 31, 1948.

Preston Delano

The deposits of the banks on Nov. 1 were more than $81,000,000,000, an increase of nearly $3,000,000,000 since June, but a decrease of $265,000,000 since December last. Included in the recent deposit figures are demand deposits of individuals, partnerships, and corporations of $46,416,000,000, which increased nearly $2,000,000,000 since June, and time deposits of individuals, partnerships, and corporations of $18,936,000,000, a decrease of $73,000,000. Deposits of the U. S. Government of $2,022,000,000 were $574,000,000 more than in June; deposits of States and political subdivisions of $5,183,000,000 showed a decrease of $216,000,000; and deposits of banks of $7,717,000,000 were $771,000,000 more than in June. Postal savings deposits were nearly $4,000,000, and certified and cashiers' checks were $1,105,000,000.

Net loans and discounts on Nov. 1, 1949, were $23,439,000,000, which was $861,000,000, or nearly 4% more than the amount reported for June 30 but $380,000,000 less than at the end of 1948. The percentage of loans and discounts to total assets in November was 26.50, in comparison with about the same ratio in June, and 27.03 in December, 1948.

The banks held obligations of the U. S. Government, direct and guaranteed, of $38,332,000,000, which is an increase of $2,735,000,000, or more than 7½% since June this year, and an increase of $3,352,000,000, or nearly 10%, since last December. These investments were 43.34% of total assets in November, compared to 41.83% in June and 39.69% in December last year. Obligations of States and political subdivisions held in November amounted to $3,719,000,000, an increase of $308,000,000 since June, and other securities held were $2,193,000,000, an increase of $71,000,000.

Cash of $1,069,000,000, reserves with Federal Reserve banks of $10,609,000,000 and balances with other banks of $7,999,000,000, a total of $19,677,000,000, decreased nearly $700,000,000 since June.

Bills payable, rediscounts, and other liabilities for borrowed money were $170,000,000, compared to $14,000,000 in June and $41,000,000 last December.

The unimpaired capital stock of the banks on Nov. 1, 1949, was $1,914,000,000, including nearly $21,000,000 of preferred stock. Surplus was $2,521,000,000, undivided profits $1,214,000,000 and reserves $335,000,000. Total capital accounts of $5,984,000,000, which were 7.35% of total deposits, were $156,000,000 more than in June when they were 7.43% of total deposits.

N. Y. Curb Clerks Elect New Officers

August Fischer, order clerk for Tucker, Anthony & Co., on the floor of the New York Curb Exchange, has been elected President of the New York Curb Exchange Floor Clerks Association. Fischer, formerly Treasurer of the organization, succeeds Daniel Hannafin of Joseph McManus & Co., who has been named honorary Chairman of the Association's Board of Governors.

William Mirabella of Francis I. duPont & Co., Howard Schaal of Clark, Dodge & Co., and William Menagh of Laidlaw & Co., were elected Vice-President, Treasurer and Financial Secretary, respectively, of the organization. Elected Corresponding Secretary, Recording Secretary, Sergeant-at-Arms and Assistant Sergeant-at-Arms of the organization were: Wally Weil of Andrews, Posner & Rothschild, Nelson Goetz of Reich & Co., James Clare of Goodbody & Co., and George Lang of Shearson, Hammill & Co.

Al Marks of Brickman, Landsberg & Co., William Mullenbach of Vanderhoef & Robinson, and Jack Negri of William I. Rosenfeld, Jr. & Co., were elected two-year governors of the Association. Elected one-year governors of the group were Alexander Mulligan of Brady, Baird & Garvin, Paul Sheridan of Goodbody & Co., and Hugo Florio of Milton E. Reiner & Co.

An installation of officers is planned at the Association's third annual dinner on Jan. 19, 1949, at the George Washington Hotel in this city.

District No. 13 of NASD Elects

The following have been elected members of the Board of Governors and District Committee of District No. 13 of the National Association of Securities Dealers, Inc.:

Board of Governors—Charles P. Cooley, Jr., Cooley & Co., Hartford, Conn.; W. Fenton Johnston, Smith, Barney & Co., New York.

District Committee—George L. Austin, G. L. Austin & Co., Hartford, Conn.; Harry R. Amott, Amott, Baker & Co., New York; H. Warren Wilson, Union Securities Corp., New York; William L. Canady, W. L. Canady & Co., Inc., New York.

Estabrook to Admit Scott and Leach

George N. Scott and Orin T. Leach will be admitted to partnership in Estabrook & Co., members of the New York Stock Exchange, on Jan. 1. Both have been with the firm's New York office at 40 Wall Street for some time, Mr. Scott as Sales Manager.

Roger H. Williams will retire from the firm on Jan. 1.

Shanley Dead

F. Sheppard Shanley, partner in Manning, Shanley & Co., Newark, N. J., died of a heart ailment at the age of 38.

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Sees Another Good Year for Builders

Myron L. Matthews of Dow Service, Inc., holding 1949 readjustment has been healthy, says decks are now clear for good year, with prices from 10% to 15% below postwar peak.

Myron L. Matthews, Vice-President of the Dow Service, Inc., publishers of the Dow Service Daily Building Reports, foresees clear sailing and a good year ahead for builders. "With the post-war reorientation year 1949 behind them, builders who have completed their 'readjustment' are looking ahead to clear sailing for at least two years," he writes "To understand this it is only necessary to recall that the building industry, like every other, rode high, wide and handsome, from the end of the war, and more particularly after the end of construction industry controls, with more business at its doorstep, regardless of prices, than it could handle. At the outset of the year now closing it was evident that while a good year was in store, the industry would have to deflate its balloon somewhat and convince its customers that its prices were justified. This has been done. Prices are now down from 10% to 15% (in some cases more) from where they were a year ago, depending entirely upon the type of building and how carefully the design and layout for it has been handled, as well as the writing of the specifications governing the kind, quality and quantity of materials and equipment going into it.

Myron L. Matthews

"While this has been going on apace there has also been a dewatering of warborn conceptions of overhead and profits from the level of the builder on down through the subcontracting trades, material suppliers and manufacturers. For a while, during the first half of 1949, an ominously black questionmark hovered over the building industry as to whether its volume of activity and prices would react along with other industries, some of which suffered severe setbacks, and if so, when and how much. For those whose memories are short, it should be recalled that in the opening months of this year prices dropped measurably for food, clothing, automobiles, radios and televisions, etc. Prices dropped for building construction, too. But nowhere to the same extent as for other items. The savings in building prices have come about largely through better management on the part of builders, improved techniques, the disappearance of shortages for various construction materials and equipment, a more realistic approach in tempo with the times for overhead and profit margins, a willingness on the part of builders to "take less" in order to keep their organizations together and going, an improvement in labor production at the site of construction, a substantial drop in the price of construction grades of lumber, and miscellaneous small adjustments in the contractors' delivered prices for a few of the items of building materials and equipment which in the aggregate loom large in the builder's budget.

"The 1949 readjustment has been healthy though perhaps painful to the members of the industry. It is probably now more alert and acutely aware of its position in the general economy of the country than at any time since the early 30s, when this great industry first felt the pangs of the economic collapse of the late 20s. Alternately experiencing periods of extreme depression and from modest to spectacular recoveries over a period of nearly 20 years, it is adequate testimony to the industry's soundness that it has not suffered more disjointments than it has. This is an industry which, outside of the section of it devoted to housing, which is now completing its most prolific year, initiates little. It performs only upon order. Operating as it does upon a standby basis, if the truth of the matter were analyzed and adequately gotten across to the public, it may truly represent the world's most phenomenal example of achievement in the way of mass production prices under custom-built operational techniques.

"1949 has witnessed the housecleaning. The decks are now cleared for 1950. The industry's customers will get more for their money than in either 1948 or 1949. There will not be further price fluctuations in 1950 except within the very narrow range of from 2 to 5%, either up or down from current levels. The building industry, outside of the housing section of it, does not deal in price-tags. It does not have standard mass-produced products. Every structure is built-to-order. Therefore, the investors in plant or structure, commercially, industrially or otherwise, will have to take it upon faith that now is the time to build. Furthermore, because so many thousands of potential investors have already arrived at this conclusion, the building industry will be working at peak capacity throughout the new year."

Coffin, Betz & Co. To Admit Two Partners

PHILADELPHIA, PA.—Harry D. Brown, Jr., and Owen O. Freeman will become partners in Coffin, Betz & Co., 123 South Broad Street, members of the New York and Philadelphia Stock Exchanges, on Jan. 5. Both have been associated with the firm, Mr. Freeman as Manager of the municipal bond dept. Mr. Brown in the past was an officer of Stroud & Co., Inc.

New York Stock Exchange Weekly Firm Changes

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

Leo D. Tyrrell will retire from partnership in Biddle, Whelen & Co. Dec. 31.

Lawrie W. Burnham will withdraw from Burnham & Co. Dec. 31.

Henry Cartan and Gertrude Y. Rice will retire from limited partnership in Davies & Meija on Jan. 1.

Richard L. Morris, limited partner in Hayden, Stone & Co., will retire from the firm on Dec. 31.

John H. Kaplan will retire from H. Hentz & Co. Dec. 31.

Sydney P. Bradshaw, member of the Exchange, and Gordon A. Hardwick will retire from Montgomery, Scott & Co. Dec. 31.

Howard E. Duryea will retire from the firm of Starkweather & Co., Dec. 31.

Transfer of the Exchange membership of Russell G. D'Oench to Albert G. Scherer, Jr. will be considered by the Exchange December 29.

David Unterberg to Join N. Y. Law Firm

David Unterberg, Senior Enforcement Attorney of the United States Securities and Exchange Commission's New York Regional Office, resigned his post effective Jan. 3, 1950, to return to private practice. He is joining the firm of Unterberg and Unterberg, 32 Broadway, New York City, where he will specialize in securities and broker-dealer matters.

David Unterberg

While at the Securities and Exchange Commission, Mr. Unterberg handled, among other matters, the Playboy Motor Car Company case, which resulted in the return of over $3,000,000 to the investing public and the cancellation of $7,000,000 in subscriptions. He also tried the Haupt & Co. case involving the sale by D. A. Schulte of millions of dollars of personally held stock of Park & Tilford which, upon failure of a rumored "whiskey dividend" to materialize as expected, resulted in substantial loss to the public. As a result of the Haupt case, the Commission reversed an earlier opinion and handed down its opinion which is the law today.

Before joining the Enforcement Division of the Commission, Mr. Unterberg was an attorney with the Public Utilities Division of the Commission's Washington office.

Merrill Lynch Offer Four Scholarships

Merrill Lynch, Pierce, Fenner & Beane is establishing four $2,000 college scholarships to be given each year to the children of its employees, Winthrop H. Smith, managing partner of the brokerage firm announced at the annual dinner of the firm last night.

Mr. Smith explained that one four-year scholarship will be granted each year in the Pacific Coast, mid-Western, Southern and Eastern areas. All children of employees will be eligible to compete for the scholarships which will be granted on the advice of a board of educators appointed by the firm.

The first scholarships will be given for the next school year beginning September, 1950.

K. D. Pettit, Jr., V.-P. of Knickerbocker

Karl D. Pettit, Jr., has been appointed Vice-President in charge of sales for Knickerbocker Shares, Inc., 20 Exchange Place, New York City, principal underwriter of The Knickerbocker Fund. Mr. Pettit has been a wholesale representative for Knickerbocker Shares, Inc., in the eastern territory since 1945.

Smith, Barney Co. Partner

Smith, Barney & Co., 14 Wall Street, New York City, members of the New York Stock Exchange, will admit Nelson Schaenen to partnership on Jan. 1.

Joins T. C. Henderson Co.

(Special to The Financial Chronicle)

DES MOINES, IOWA—Charles W. Brown has become affiliated with T. C. Henderson & Co., Empire Building.

Dollar Gap and British Election

By PAUL EINZIG

Pointing out Britain's dollar position will play important part in forthcoming Parliamentary election, Dr. Einzig foresees Labor Government leaders aiming to have election take place when report on gold reserve will show increase. Foresees increase in gold reserve in January, but looks for reversal when April figure is reported.

LONDON, ENGLAND — The economic outlook in Britain for 1950 is obscured by the uncertainty regarding the general election—both in respect of its date and in respect of its result. And there can be no doubt that in both respects the development of Britain's dollar position will play an important, possibly decisive part. The choice of the election date by the Prime Minister is bound to be influenced by the dollar position and prospects. And the choice of the next Parliament and Government by the electorate is bound to be influenced by the same factor. For this reason, political prophets are now busy learning all they can about the dollar gap and the chances of its reduction in the course of the next six months or so. In order to be able to foretell when Parliament is likely to be dissolved, and how the country is likely to respond to the appeal of Government and Opposition, they are watching eagerly the monthly trade returns and the various factors that are liable to influence the British gold reserve during the first half of 1950.

Dr. Paul Einzig

Very little actual information is available about the effect of the devaluation on the gold reserve. The quarterly figure for the end of September showed a recovery of some $80,000,000 from the lowest point reached on the eve of the devaluation, and there have been official hints that since the beginning of October there was a further net influx of gold. We shall know more at the beginning of January when the change in the reserve during the last quarter of 1949 will be published. But it would be idle to place too much reliance on these quarterly figures which can be influenced by Government policy over a relatively short period. Dollar assets can be realized in order to make a better showing, or Marshall aid accountancy can be adjusted to ensure that certain receipts should fall into this quarter. There are, however, limits to the extent to which the gold returns can be "cooked."

The reason why the gold figures have assumed such importance in British domestic politics can be traced back to the experience of 1931, when panic over the gold standard crisis resulted in the transfer of millions of votes from Socialists to Conservatives. This is well remembered by Socialist leaders, and goes a long way towards explaining why Ministers are doing their best to underrate the gravity of the economic situation. Were they to admit that devaluation appears to have failed to set into motion adequate influences making for the closing of the dollar gap, it would be political suicide. For a further sharp decline of the gold reserve during 1950 conjures up the prospects of reduced rations and of unemployment through cuts in imported raw materials. Fears of such developments might make the history of 1931 repeat itself.

It is in order to reduce that risk that the Prime Minister has made all the necessary arrangements to be able to have an early general election if necessary. There can be little doubt that the gold figure for January will make a satisfactory showing. Should the Government be of the opinion that the gold figure for April would have to admit substantial losses, then the election would be arranged for February or March. Should it appear, on the other hand, from the information at the Government's disposal, that it would be possible for the Treasury to register a further increase of the gold reserve during the first quarter of 1950, then the election is likely to be postponed till June. Indeed, if the tendency of the reserve during the second quarter should be in an upward direction, quite possibly Mr. Attlee may wait till the last minute and the election would not be held until July, after the publication of the quarterly gold figure.

Needless to say, the gold reserve is not the only factor liable to influence the choice of the date of the general election. Mr. Attlee and his advisors are waiting to see if Mr. Churchill or other responsible Tory leaders will make the mistake of pronouncing themselves against the policy of full employment, food subsidies and social security measures. In particular they are looking out for any word which could be presented to the country as indicating the Conservative Party's intention of allowing unemployment to increase considerably. The moment such an opportunity is provided by Conservative leaders Mr. Attlee is certain to decide upon an immediate dissolution, irrespective of the position and prospects of the gold reserve. In the absence of some such event, the date of the election will be determined by the view taken by the Government on the prospects of a rise or fall in the gold reserve. Such a situation is probably without precedent, at any rate in Britain.

The view taken by the Government on gold prospects need not necessarily be shared by the majority of the electorate. For one thing, the public has no access to inside information. If Mr. Attlee should decide in favour of a February election on the ground that the improvement in the gold position during the last quarter of 1949 is not likely to be maintained in 1950, the public may vote under the influence of the reassuring gold figure in January.

One thing is certain. The public will not learn the full truth about the gravity of the situation from official quarters until after the general election. Meanwhile exhortations to work harder are offset by optimistic pronouncements, and anyone who tells the full truth is denounced by the Government as aiming at discrediting the British economic effort.

Minneapolis Assoc. Add

(Special to The Financial Chronicle)

MINNEAPOLIS, MINN.—Minneapolis Associates, Inc., Rand Tower, have added to their staff Lingell M. Aus, Lionel O. Birkeland, Guy F. Blichfeldt, Miles A. Bowler, Earl W. Cravens, Walter H. Diers, Richard M. Engebretsen, George W. Fried, Viola E. Hamilton, Robert W. Incerra, Victor E. Kremer, William A. Lawin, Nels F. Olson, and Henry W. Scott.

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Railroad Securities

Rail Rumor Market Active

Generally speaking the railroad market in the past week or so has been backing and filling in a rather narrow range. Individual issues, however, have displayed independent and sporadic strength, mainly on the basis of rumors rather than any specific developments. There have been persistent rumors that stock recapitalization plans for Missouri-Kansas-Texas and Western Maryland were imminent. The former has large dividend arrears on its only preferred stock issue and the latter on its first preferred stock, virtually all of which is owned by Baltimore & Ohio.

Analysts who have followed these situations closely are of the opinion that hopes for any stock recapitalization in either instance are premature. Missouri-Kansas-Texas is in the process of working out a plan to eliminate the interest arrears on the Adjustment Bonds. It seems fairly certain that nothing will even be started along the lines of providing for the back preferred dividends at least until the bond plan is entirely out of the way. Moreover, with the purchase fund that will be set up to retire the securities being given holders of the Adjustment 5s for their back interest, it will be quite difficult to find sufficient earning power to work out a feasible stock recapitalization.

Western Maryland has also had a bond plan, but this has just recently been declared operative. This plan was for the purpose of extending, on a voluntary basis, the maturity of the 1st 4s, 1952. The details of this plan were discussed in this column some weeks ago. The bonds to which the exchange offer was made are outstanding in the amount of $44,177,000. Of these some $20,000,000 had been deposited on Dec. 20 when the plan was declared operative. The exchange offer has been left open until Jan. 12, 1950 and presumably additional deposits will be made in the interim. It seems almost certain, however, that the company will be left with a sizable 1952 maturity problem. Until this has been finally solved it is difficult to see how a stock recapitalization plan can be worked out.

Illinois Central common also reacted bullishly to rumors, which rumors also appear to be ill-founded. No dividends have been paid on Illinois Central common since 1931 and no dividends were paid on the preferred from 1932 to 1947, inclusive. When dividends were resumed on the senior equity last year it was generally assumed that common distributions would also be instituted within a short time. However, preferred stockholders instituted suit for back dividends and this has delayed action on the common. Reports were current in financial quarters last week that regardless of the preferred stockholders' suit, directors were going to declare a year-end common dividend of $3.00 a share.

Illinois Central has also had a bond plan, which has been discussed in detail in earlier columns and which has recently been declared operative. Out of some $52 million of bonds that had been offered an extended lien, it is reported that $25,200,000 accepted. At the same time that that announcement was made the plan was extended to cover an additional issue—the $8,736,000 of Collateral 4s, 1953. Even if only a nominal amount of this bond is deposited, it is obvious that the question of the company's 1951-1955 maturities may no longer be considered a serious one. Dividends should be resumed on the common early next year.

The final stock notably affected by recent rumors has been the preferred stock of Chicago, Milwaukee, St. Paul & Pacific. The stock is not cumulative but unless the full $5.00 dividend has been paid in each of the three succeeding years, holders of the preferred have control of the company. So far this has been an academic question because of the voting trust. The voting trust expires next year. Unless payments aggregating $7.00 a share are made by next Dec. 1 control, when it passes from the voting trustees, will be vested in the preferred rather than the common stock. To forestall this it is possible that a substantial dividend may be paid on the preferred stock within the next 12 months. It seems hardly likely, however, that such a payment will be forthcoming over the near-term as has been rumored.

Continued from page 3

Railroad Securities Outlook

sider that Pacific Gas & Electric has needed a very great increase in debt to finance its expansion, while Southern Pacific effected a large decrease in debt with just about as much growth; when you consider that Pacific Gas & Electric has paid out a large part of its earnings in dividends, while Southern Pacific has saved about $300 million in ten years; when you make a comparison of coverage for fixed charges (allowing for Southern Pacific's non-operating income of $10 million in all three years covered and the absence of non-operating income in Pacific Gas & Electric), you may wonder why Pacific Gas & Electric 2¾s are worth over 100 and Southern Pacific 2¾s are worth only 82.

The ratio changes that have occurred in railroad bonds have other interesting implications. Using Southern Pacific again, fixed charges last year were about 3½% of gross. Now when fixed charges are such a low percentage of gross, there is very little practical difference between junior and senior bonds. As time passes, we shall probably see current differences diminish. There is good evidence that this will happen in the prices and yields of Union Pacific debentures and mortgage bonds, both selling on the same yield basis. It is hard to conceive of a company's being able to earn the top part of 3½% and not the bottom part; furthermore, you will probably never solve a financial problem, should one occur for Southern Pacific, by reducing debt, as in the past. You will no longer be able to solve a problem by reducing fixed charges any further because they have gotten too small. Nothing is solved by tinkering with 3½% of gross. When fixed charges were 20% of gross, they could be cut to 5% and a considerable improvement in earnings effected, but that is no longer possible. This change may well lead to a completely different attitude on the part of our Government and in fact this may now be taking place.

One factor that is present today in the debt picture is the lessened degree of vulnerability to depression or to other adverse developments. I never fully realized until early this year, when I prepared the statistics that appeared in my recent railroad bond article, some of which appear here, just how vulnerable the railroads were in 1936. I mentioned before the ratio of fixed charges to maintenance. In 1936 fixed charges were so large in relation to maintenance that a big cut in maintenance did not save much money in relation to fixed charges. Today the situation in that respect is entirely different. The lessened vulnerability is also indicated by the high operating ratios with which the railroads can now earn fixed charges. Operating ratios can be higher than they ever were and fixed charges still be earned. Most railroad companies, on the basis of 1948 figures, can earn fixed charges with operating ratios around 90%. This lessened vulnerability was indicated in September. September traffic was down 25%, which is a lot. Between 1929 and 1932 railroad traffic went down 50%, much more than between 1937 and 1938 and between 1920 and 1921. Twenty-five per cent is half of what happened between 1929 and 1932; yet in September Class I Railroads earned fixed charges close to three times. This decrease in vulnerability is not reflected in prices yet because so many of us still tend to emphasize adverse factors, but we are on the threshold of a changed viewpoint. Almost all of the adverse factors have been thrown into the railroad picture. October earnings will be bad but everyone realizes that. There will be a possible cut in the C. & O. dividend but I don't see much else bad ahead.

I mentioned as one of the favorable factors that have strengthened railroad bonds the inflation of every item in the balance sheet and income account, except debt, stock and fixed charges. These changes have not yet been appreciated. Even less appreciated is the fact that inflation has increased the earnings of some railroad companies although decreasing the earnings of others. Without the wage and frieght rate increases of the past three or four years, Kansas City Southern would not be earning $17½ this year. As a low cost operation this road was a net beneficiary of inflation and also of its location in the South West. Had wages and rates remained as they were in 1945, Kansas City might today be earning only about $10 per share. There is one further reason why inflation is important and that is its probable permanence. I do not imagine that railroad wages and freight rates will go down. Certainly there is no indication of such change now. Management more and more has begun to realize that the changes are largely permanent and that the way to cope with them is to increase efficiency of operation. In the past two years they have come to realize that the beneficiary of inflation is the low-cost operation. Kansas City Southern is one of the lowest cost operations in the country with smaller than average ratio factors, transportation ratio, etc. We have seen increasingly in the last year or two this search for improved economy in operation. For instance, there is the tremendous change in Southern Pacific, formerly one of our higher cost operations and now becoming one of our lower cost ones. In this case Diesel electric locomotives are a large factor. An alert management today can do tremendous things. The management that has done such a good job wtih Kansas City Southern moved into the Chicago Great Western sometime back. Among other things, the new group completely dieselized the road. Transportation ratio dropped from 45% to under 30% in three years. The railroad is spending money freely on maintenance to improve physical condition but at the same time has knocked transportation ratio down. In September, 1946, transportation ratio was 47% of gross; in 1947, 45% of gross; in 1948, 38%; this year 30% of gross; and in October, 28½%. In three years' time, the ratio has decreased about 18 cents on every dollar and the company does $30 to $35 million worth of business annually. You can see what will happen to net income when there are no abnormal expenses for maintenance.

Maintenance Maintained

I prepared rather hurriedly for this talk and it may be a little disjointed so I hope you will bear with me as I recall something special that I want you to think about. It is important to realize in connection with 1949 earnings that maintenance expenditures held up almost at the 1948 level, despite lower gross, and the ratio of maintenance to gross increased. I thought that was a little out of line so I make a check the other day all the way back to 1918. Not in one year since 1918 has the maintenance ratio ever gone up in a year of decreased gross. That increase in maintenance, or rather that steady maintenance in the face of decreased gross, took a piece out of 1949 earnings, but will probably not carry over into 1950.

Another factor in 1949 was that in the face of a decrease in volume, transportation ratio held just about even with 1948. Since it is about the same as last year with decreased volume and since maintenance ratio has risen, it follows almost automatically that with an increase in volume of business as anticipated for 1950, a good part of the increase in gross is going to be carried down to net income. When earnings figures for the next six months come out, we are going to be surprised at how much of the increase in gross has been carried down to net.

After a war, it is always necessary for railroads to make large capital expenditures. This was true after the first World War because the Government let the railroads run down and it has been true again this time. Large expenditures for locomotives, cars of all kinds, signals, tracks, and so forth have been necessary. All of these things cost a lot of money, and the railroads have been crying poverty in part because of this outlay of funds. One reason why they have been able to spend as much as they have is that in the last ten years, retained net income was $3 billion, which is large in relation to $8 billion worth of debt. When money is going out at a fast clip, management does not feel too liberal as far as dividend policy goes. This was, for instance, true in 1921, 1922, and 1923 when the railroads were spending large amounts of money, and it is true today. Santa Fe paid $16 per share in the last two years and earned $48. Kansas City Southern in the last two years earned $38, gave the stockholders $5, and kept $33. Seaboard earned $19 and the stockholder received $1. But as the necessity for spending diminishes, there will be larger dividends.

Higher Earnings in Prospect

Another important fact is that we are now faced for the first time in about a year with good earnings. Comparisons are very important. Unfortunately, many people do not understand earnings absolutely, but only comparatively. Increases in earnings tend to make people examine a company and its stock. Many people do not realize how substantial an earnings capacity some of these carriers have today and will have next year. But when they see higher earnings, they will examine and when they examine the finances of some of our railroads they are going to be surprised and often pleased to the point of buying.

Talking to any group gives a speaker an opportunity to air pet theories and I now have such an opportunity. Most people think of markets as being two kinds, bear and bull, but I think there are three kinds, bear, adjustment and bull. A study of the last 30 or 40 years makes a good case for this theory. I think that we have been in an adjustment market following the bear market of 1946 and will ultimately wind up in another bull market. I mention it at this time because after three or four years of adjustment markets of ups and downs, we find ourselves in a market quite similar to the markets of 1938-41 and 1932-35. We emerged from both of these on the up side. Psychologically the theory that we may be coming out of an adjustment market has merit and, I think, deserves some thought.

Another idea that may have some interest has to do with our fear of a depression. The possibility of depression has been uppermost in our minds for three years. Since the teens we have not had a bear market or a depression that was not immediately preceded by an excess of speculation in the stock market. 1921 followed the excess of 1919. 1929-32 followed the financial excesses of the late '20's. 1938-39 followed the excessively high stock prices of 1937. 1946 was not followed by a depression but by a collapse of security values which had been inflated in hundreds of cases.

There is one more point I should like to mention in connection with a possible depression. With railroads' fixed charges $400 million, about 4½% of this year's gross of $9 billion, we are not going to have again what we have had for 100 years in this country, namely, waves of railroad bankruptcies every time there is a panic or a depression. In the '30's and early '40's it was easy to solve a railroad financial problem by putting the railroad in bankruptcy and then cutting debt and fixed charges. In 1936 Seaboard had fixed charges of 24% of its revenues. But in 1948 fixed charges were 1.6% of revenues. You can see that no financial problem would be solved by a reorganization and wiping out of debt and charges. I think that in the future something entirely different will happen in the event of a railroad financial problem resulting for instance from further inflation of wages not accompanied by rate increases, or in the event of a depression or other adverse factors. The Government will step in and, in one way or another, will give the railroads money, either by control, purchase or subsidy. If that should happen, I think that a large segment of the debt, perhaps 90%, whether income or fixed interest bonds, first mortgage or debenture, will probably be paid off at 100. Bankruptcy will no longer solve a financial problem because debt and charges are now so small in relation to revenues.

The Best Buys

People always want to know what the best buy is. If you are at a low level of a market, probably the best buy is something selling at a very low price which does not have much merit. But the stocks I like that do have merit include Santa Fe, which earned $15 in 1946, $20 in 1947, $28 in 1948, and $12 in the first nine months of this year, as against $17 last year; Illinois Central, which earned $5 in 1946, $10 in 1947, $15 in 1948, and probably $10 or $11 in 1949; Rock Island, which earned about $11 last year and which earned $7 in the first nine months of this year, as against $8 last year; Denver & Rio Grande, which through bookkeeping earned $16 last year and which, without much bookkeeping, will earn about $7 this year

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but which could earn much more next year; Great Northern, which earned between $7 and $9 in the last three years and will earn about $6.50 this year because the iron ore movement completely stopped about a month ago; Kansas City Southern which, on a system basis, earned $21 last year and $12 or $13 the year before and which will earn about $17.50 in 1949; Seaboard Air Line, which people don't like, but which will sooner or later do better and which earned $6 in 1947, $11 in 1948 and will earn $8 this year; Southern Pacific, which I mentioned as one of the rail stock leaders, representing earnings of $7 in 1946, $9 in 1947, $12 in 1948 and about $9 this year; Texas & Pacific with $11 to $15 in the last three years and about $9 to $10 this year despite a loss of oil traffic; Southern Railway, which earned $5 in 1946, $7 in 1947, and $12.50 in 1948 and which will earn $5 to $6 in 1949, despite a combination of especially adverse factors. There are others but I cannot mention every one.

As for bonds, there is the list in my recent bond memorandum (mostly rated A and Baa), eligible for institutional accounts. If you want more speculative bonds that might have a bigger price lift, the logical place to go is to the income bond field. The income bonds have recovered relatively little ever since their 1946 and 1947 price decline. Bonds that sold at 100 three years ago are selling in the 50's and 60's. The ones I like include Seaboard, Denver, Frisco, Gulf Mobile & Ohio, Great Western, and Erie. Speaking of Great Western, the monthly interest charge on Great Western incomes is $10,000 or $125,000 a year. In September Great Western raised the maintenance charges from $400,000 to $800,000. Any company that can raise maintenance charges $400,000 in one month has pretty good income bonds when they take only $10,000 a month to service.

Before I close I would like to say something about passenger fares, in connection with the theory that railroads ought to be given increased rates which they can, if necessary, reduce if they are losing traffic. Passenger business bulks large in only four companies — New Haven, Central, Pennsylvania and Long Island, though it is true that the passenger loss of C. & O. has gotten a lot of publicity in recent years. Also, according to the ICC formula, most railroads, except New Haven, show a loss on passenger business. However, there is a misconception about that loss. It actually includes all of the business that is not classified as freight and includes mail, milk and LCL. These items are not receiving the publicity as loss items that they should be. I feel quite sure the Government is going to give the railroads an increase in mail rates because certain recent dockets of the Interstate Commerce Commission tend to suggest that pretty strongly. While on the subject of air mail rates, it may interest you to know that the airlines get more in dollars for moving 6% of mail than the railroads do for moving the other 94% of it. It is only just that they get more money and I think they will.

To sum up briefly: Psychologically and factually there are now present with us strong reasons for expecting a change in public regard for railroad bonds and stocks. I hope you join me in reaping a financial reward from such a change that ought not long be delayed.

Proskauer & Russhon

On Jan. 1 the New York Stock Exchange firm of Proskauer & Rosshon will be formed with offices at 11 Wall Street, New York City. Partners will be Richman Proskauer and George Russhon, both exchange members.

Reports Acceleration in Savings Deposits Gains

Henry S. Kingman, President of National Association of Mutual Savings Banks, estimates during November mutual savings banks gained $82 million in deposits, compared with gain of $55 million in November of previous year. Mortgage loans of banks rise by $94 million.

Regular deposits of the 531 mutual savings banks of the nation gained $82 million during November, 1949, as compared with a $55 million gain for the same month in 1948, according to a report just issued by Henry S. Kingman, President, National Association of Mutual Savings Banks, and President, Farmers and Mechanics Savings Bank of Minneapolis. As in every month beginning with November, 1948, except February, 1949, the increase exceeded that for the comparable month the year before. The rise reflects both a gain in amounts deposited and a drop in sums withdrawn.

Henry S. Kingman

Although special purpose and club accounts dropped sharply as a result of annual payments to depositors of $176 million in Christmas Club checks, not less than $45,000,000 of this amount was redeposited in regular savings accounts. Total deposits now aggregate $19,065 million.

At the close of November regular deposits were almost 5% higher than at the close of November, 1948, while other deposits were up nearly 14%. Over the same period the number of regular accounts rose 1% and the number of other accounts 4%. Reflecting the continued gains this year, in contrast to the lag during the third quarter of 1948, the increase in regular deposits of $646 million during the first 11 months of the year has been 50% greater in 1949 than in 1948.

During November the savings banks increased their holdings of mortgage loans by $94 million, while decreasing their holdings of corporate and municipal securities by $11 million, of cash by $24 million and of U. S. governments by $113 million. During the first 11 months of 1949 the savings banks added $785 million to their mortgage portfolio, which was 23% more than in the comparable period of 1948 and 8% greater than for the full year 1948. Over the first 11 months holdings of corporate and municipal securities rose $215 million in 1949 and $425 million in 1948, whereas holdings of U. S. governments fell $101 million in 1949 and $442 million in 1948.

Securities Salesman's Corner

By JOHN DUTTON

"Think and Speak Sparingly of Yourself and Your Problems"

Your job is selling. Your job is convincing others. Your job is showing others where their "best interest lies." Such is the essence of salesmanship. The other day I spoke with a carpenter. He said, "I take pride in my work. When I do a job it is done the best I can do. When I build a kitchen cabinet the doors meet and the edges are planed smooth. I give my employer eight full hours of work a day." He was a happy man. I asked him, "How are you doing?" He answered, "I feel fine."

"I feel fine." That is the reply of a man who KNOWS THAT HE IS GIVING A DOLLAR'S WORTH OF LABOR FOR A DOLLAR'S WORTH OF PAY. Here was a man who needed NO UNION to keep him busy or to fill his pay check every week—he thought of the FELLOW WHO PAID HIM HIS SALARY **FIRST**. The law holds! If you want to reach a father, speak well of his children. If you want a friend take an interest in another's welfare. If you want to be a successful salesman TALK AND THINK OF BENEFITS TO YOUR CUSTOMER. The foundation for successful salesmanship, for exceptional earnings, for the top rewards in the field of selling start with FORGETTING YOUR OWN PROBLEMS AND TRYING TO HELP OTHERS SOLVE THE DIFFICULTIES WHICH THEY ARE FACING. It is a small world—we all look alike when the chips are down. Self preservation—self interest—our own problems—our desires, hopes and ambitions—to us they loom important. To the great world around us WE DON'T EXIST. But how we welcome the man who comes along and makes us live for a moment—who listens to our ideas, our stories, and who takes AN INTEREST IN OUR WORLD. Is your business **selling?** Do you want to develop a sales personality that will take you to the top in your own chosen field of work? (Here comes self interest.) THEN LIVE OUTWARDLY—LIVE A LIFE OF FRIENDLINESS, OF INTEREST, OF UNDERSTANDING, IN THE HOPES AND DREAMS OF YOUR FELLOW MEN.

I am not a believer in some of the later day adventures into the field of metaphysics, of religion, of psychiatry. These things are a study in themselves—a lifetime study. But as just another human being I have watched men accomplish success who believed in what they were doing. All of us are in the dark—we all want to be on the right track—life is short and turbulent at best. HOW WE WELCOME THAT FELLOW WITH A SMILE WHO COMES ALONG OUR WAY AND BY HIS ATTITUDE SHOWS US THAT WE DO BELONG; WE ARE O. K.; WE HAVE SOMETHING TO GIVE TO THE WORLD TOO. The man who develops the faculty of thinking of others and forgetting himself BEGETS CONFIDENCE. The very act of self forgetfulness appeals to our own inner consciousness and says to us, "Hold up your head—keep your eye on the ball—it is all for the best—this fellow I am talking with is so sure of it HE IS THINKING OF THE THINGS THAT ARE OF INTEREST AND BENEFIT TO ME—HE MUST BE SURE OF IT HIMSELF.

Learning to be a successful salesman means developing a successful sales personality. To be a real person requires self mastery, understanding and faith. To all of you who want to make this next year the best you have ever had I say, "Let's start from the ground up next year—it's never too late to do a better job. Happy New Year and Many, Many, More.

Buying Agents Expect Good Business in Next Quarter

Composite opinion is optimistic, with some reservations for possible adverse effects of new domestic legislation and world politics.

A composite opinion of purchasing agents who comprise the National Association of Purchasing Agents' Business Survey Committee, whose Chairman is Robert C. Swanton, Director of Purchases, Winchester Repeating Arms Corporation, Division of Olin Industries, Inc., New Haven, Conn., finds as the year ends: Business conditions still reflect general feeling of optimism. Recovery from the major strike setbacks is progressing more rapidly than originally estimated, and production, usually off at this season, is holding up well. Order books, they report, are firm and of slightly longer range than a month ago. A strong trend toward price stabilization (steel excepted) is reported. Inventories are down, but there is some indication of an increase. Employment is good for this season of the year but buying policy is still cautious.

Robert C. Swanton

The consensus of industrial Purchasing Executives shows an expectation of good business through the first quarter of 1950. A few extend this estimate to cover the first six months, with reservations for the possible effects of new domestic legislation and world politics.

Commodity Prices

Except for the advance in steel prices late in the month, the December price trend was dominated by a tendency to level off and stabilize. 80% reported no movement in their principal purchased commodities. While Purchasing Agents realize the steel increase will spread into the cost of many fabricated items, competition is expected to hold the over-all effect to a minimum. The action in steel is not expected to become a starting point for an inflationary price spiral.

Inventories

Industrial inventories generally continue to decline. Steel shipments have permitted increased deliveries of associated goods and some inventories have been increased moderately. Turnovers are reported satisfactory. Few items, except steel, are really hard to get. Inventories are steadily coming back into balance following strike-caused maladjustments. Stocks are being held to known production schedule requirements.

Buying Policy

The general pattern remains within a "hand-to-mouth to 90-day" range. A movement from the lower side of the bracket into the 90-day column is noticeable. With inventories low, production schedules holding up, order books firm, and prices showing more stability, buyers are looking at future commitment schedules with more confidence.

Employment

Normally, industrial employment slacks off during December. The survey reports reveal 23% are adding to pay rolls, with 52% maintaining late November labor forces. Many of those laid off in October and November have been recalled, indicating that, as steel moves into easier supply, employment will pick up. Re-employment, however, is generally reported on a more selective basis.

Specific Commodity Changes

Markets continue the show of strength reported in November. Except for steel prices, however, they show no marked up or down trend.

On the **up** side: Cornstarch, dextrine, grains, eggs, dried fruit, beef, coffee, fuel oil, leather, high grade lumber, mica, rubber, steel, textiles.

Down were: Alcohol, paper bags, gray iron, castings, cellulose acetate molding powders, enamel, poultry, pork, paint, wastepaper, salt cake, tallow, tin, copper wire.

In **tight supply**: Aluminum, coal, copper scrap, steel, wax, zinc oxide.

Canada

Reports from Canada indicate a continuing high level of business in December, about the same as in the United States. The Dominion has had more price increases. Inventories are down. Employment trend is much lower than in the States. Buying policy is the same as in the United States. Canadian industrialists are troubled over the decline of exports and the increased competition from devalued currency countries. Power shortages are holding back some production.

Martin Named to Post By Internat'l Bank

William McChesney Martin, Jr., has been appointed United States executive director of the International Bank for Reconstruction and Development. Mr. Martin is now Assistant Secretary of the Treasury, which post he will continue, giving part time to the International Bank. Mr. Martin was formerly head of the New York Stock Exchange.

Wm. McC.Martin,Jr

John S. Hooker of Maryland has been appointed alternate U. S. director of the bank.

Robert Baird Co. To Admit Partners

MILWAUKEE, WIS.—Robert W. Baird & Co., 110 East Wisconsin Ave., members of the New York Stock Exchange, will admit Robert W. Haack and Carlton P. Wilson to partnership on Jan. 5. Both have been with the firm for some time, Mr. Haack as Manager of the trading department.

Abraham to Admit

Abraham & Co., 120 Broadway, New York City, members of the New York Stock Exchange, will admit John N. Bleibtreu, exchange member, to partnership on Jan. 1, 1950. Mr. Bleibtreu recently became associated with Abraham & Co. In the past he was active as an individual floor broker.

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Continued from page 7

Public Attitudes Toward Owning Securities

living in metropolitan areas, 10% own common stock. Eight percent of the units living in cities between 50,000 and 1,000,000 own common stock and the proportion of units owning stock decreases to 5% in communities ranging in size from 2,500 to 50,000. There is a slight increase in frequency of ownership in rural areas, the proportion being 8%.

Charts I to V show that although there are substantial amounts of savings available for investment in common stock, only a very small proportion of the spending units who have the resources to invest have actually invested in corporate stock. One indication of how extensive the untapped market is for common stock was revealed when we attempted to find a group of spending units in which stock ownership was high. We were not successful, even though we took a group made up only of business or professional people with incomes over $5,000 and who were over 35 years of age. Even in this group we found that only 30% of the spending units owned stock. However, the importance of age is shown by the fact that among young, high-income business or professional people, only 10% of the spending units own common stock. These results show the substantial markets available for corporate stock.

Pros and Cons Toward Stock Ownership

It is clear that millions of spending units have resources that they could invest in common stock. Why is it that they do not do so? We obtained reasons from answers to the question: "Suppose a man has some money over and above what he needs for his expenses. What do you think would be the wisest thing for him to do with his money nowadays—put it in a savings account or in a checking account, buy government savings bonds with it, invest in real estate, or buy common stock with it? . . . Why do you make that choice? . . . You didn't discuss common stock; what do you think of it?"

About 30% of all spending units with over $3,000 income, and 20% of all spending units with over $5,000 income, did not express an opinion about common stock. They are omitted from the results shown in Chart IV.

The results in Chart IV show data for spending units with money incomes over $3,000 and also again for those with incomes over $5,000. As will be seen, the majority of attitudes are clearly unfavorable toward common stock. Eighty-seven percent of the spending units with incomes over $3,000 express an unfavorable attitude; and of those with incomes over $5,000, 83% express a negative opinion. The reasons given for the unfavorable attitudes vary with income. The lower income groups are more likely to say they would not invest in common stock because they are unfamiliar with them. The higher income groups, however, more often mention that stocks are not safe as the reason for not buying them.

In connection with a feeling of unfamiliarity with stocks or the feeling that stocks are not safe, many units expressed the opinion that a person needed to spend all his time studying stocks and to become an insider, or have a very close friend who was, otherwise he could not hope to invest in profitable or even safe common stocks.

Unfavorable Comments

Some of the specific unfavorable comments about common stocks are as follows:

(1) A studio technician in a large city on the West Coast, with an income of almost $10,000 and a moderate amount of liquid assets, says:

"About the value of investing in stock, I've had so little experience in that that I really don't know much about it, but personally, I consider it too speculative, too risky. Another thing, any really good, desirable stock, I think, is gobbled up long before the small investor could ever get wind of it—so what's left is the stuff that the wise guys are not too anxious to buy. So I just rely on their good judgment and stay away from it too."

(2) A physician in a large city in the Midwest, with an income of $38,500 and large holdings in liquid assets and corporation stock or bonds says:

"I think mortgages and preferred stock are all right. Corporation bonds are all right, but common stock is too speculative."

(3) A tax accountant from a large midwestern city, with an income of over $10,000 and large liquid asset holdings, says:

"Common stock is good if you gamble at the right time, but it is easy to lose. Over a long period, counting collapses, your income from government savings bonds would equal common stock gains. That has been proved."

(4) An electrical engineer and consultant living in a large eastern city with $20,000 income says:

"Investing in real estate and stocks and bonds requires a good piece of cash and full time study of the markets. The average earner has neither the time nor the money."

(5) A young partner in a manufacturing corporation in a large eastern city with an income of close to $12,000 says:

"Stock is all right if he buys Tel and Tel or any substantial stock, but someone a little smarter than he will lead him to invest in a gamble and he'll end up in debt. You are better off by buying more government bonds and being contented, and receiving less interest and having it."

(6) The president of a wholesale business from a large midwestern city with an income of $18,000 who invested over $100,000 in his own business, says:

"Common stock? Stay away from it! I'm speaking from experience of what happened to me in 1929. I was just a kid, but I know what it did to me!"

(7) A sales manager from a large city in the midwest with a $24,000 income says:

"You may make a little more on common stock, but you are betting on having an inflationary period that will push stock up. I'd put my money in the bank or in savings bonds."

Favoring Stock Purchases

Among the comments made favoring the purchase of common stock are the following:

(1) A veterinarian in a small midwestern city with a $12,000 income and a large investment in a turkey farm says:

"The stock market is all right, because the prices for gilt-edge securities are low at present with a return of 6% interest. Farm mortgages would pay only 4%. The stock market hasn't risen much to reflect our inflation, except where there has been manipulation up and down."

(2) A chemist in a large eastern city, with an income of somewhat over $5,000 and moderate liquid asset holdings, says:

"I think corporation stocks are very good right now. They're cheap and they earn a lot. It's no trick at all to make up to 10% on your investment."

(3) A general counsel for a corporation in a large eastern city, with a substantial income says:

"With good advice in buying, and if he is willing to take a chance, he can buy stocks and expect better returns, but it is risky."

(4) A manager of a retail shoe store in a large eastern city, with a $14,000 income, sizable holdings of liquid assets and substantial investment in common stock, says:

"I would buy common stock. (Why?) Well, for instance, we put $5,000 in a savings account. The interest realized from this amount was small. We invested an equal amount in stock and the interest was more than double."

The preceding quotations as well as Chart VI are based on the answers to a single question concerning people's attitudes toward common stock. Obviously, these results are only indicative and not definitive. These data and the more extensive results on the distribution of ownership of common stock indicate, however, that far fewer people own common stock than have the resources to buy and even among those who now own some stock there are substantial resources available that have not been invested in corporate stock. Apparently fear, distrust, and a lack of familiarity are important reasons for not buying common stock. Taxes are rarely mentioned.

The investment business has two choices in attempting to obtain more funds for business in the form of risk capital. Either it can blunder along and follow the costly trial-and-error method or it can utilize the resources of the scientific method and discover

CHART I

PROPORTION OF OWNERS OF MARKETABLE COMMON STOCK

I. Spending Units in Various Income Groups Who Own Common Stock

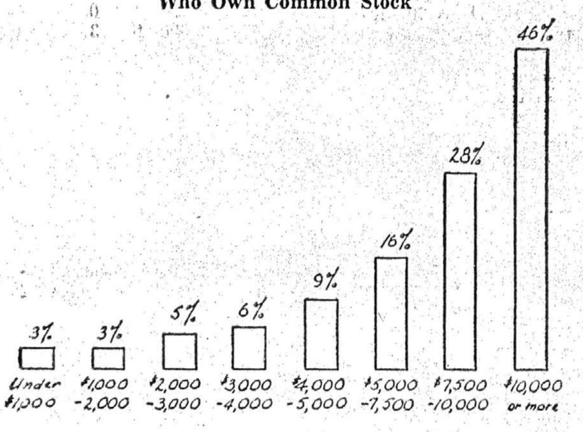


CHART II

PROPORTION OF OWNERS OF MARKETABLE COMMON STOCK

II. Spending Units with Liquid Asset Holdings (Govt. Bonds and Bank Deposits) of Various Size

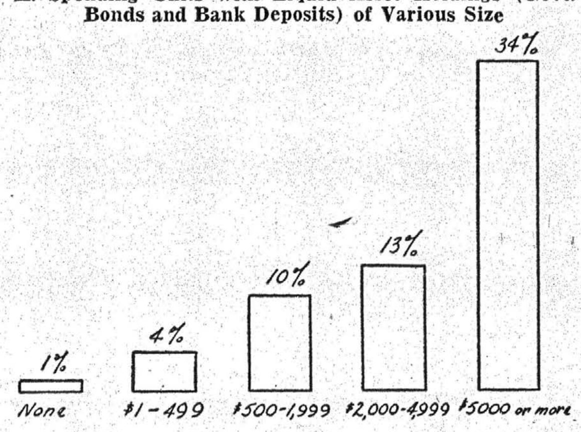


CHART III

PROPORTION OF OWNERS OF MARKETABLE COMMON STOCK

III. Spending Units in Various Age Groups (Age of Head of Spending Unit)

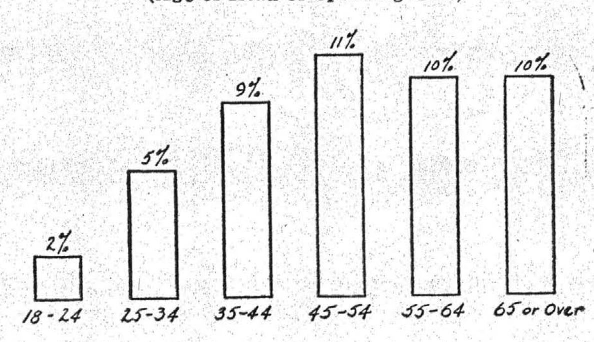


CHART IV

PROPORTION OF OWNERS OF MARKETABLE COMMON STOCK

IV. Spending Units in Various Occupational Groups

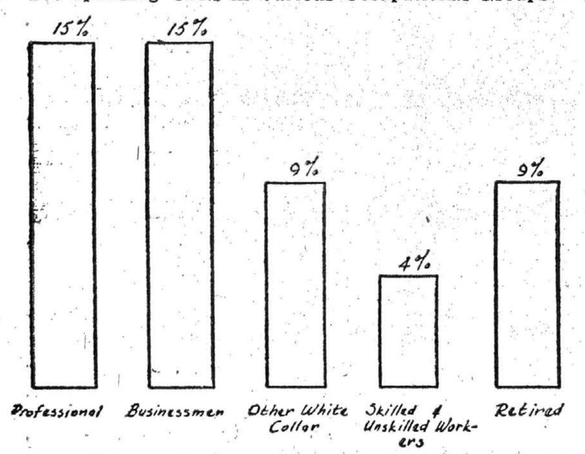


CHART V

PROPORTION OF OWNERS OF MARKETABLE COMMON STOCK

V. Spending Unit in Various Types of Community

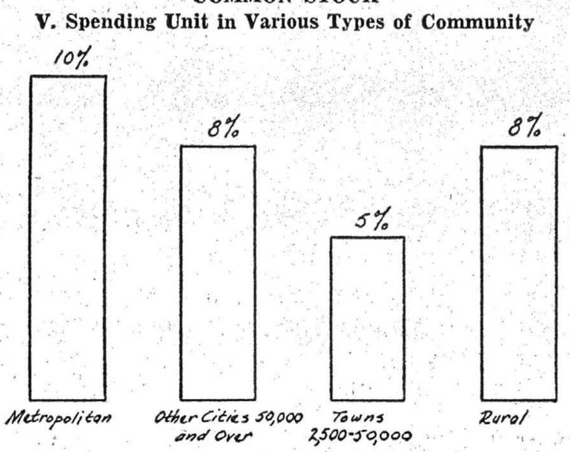
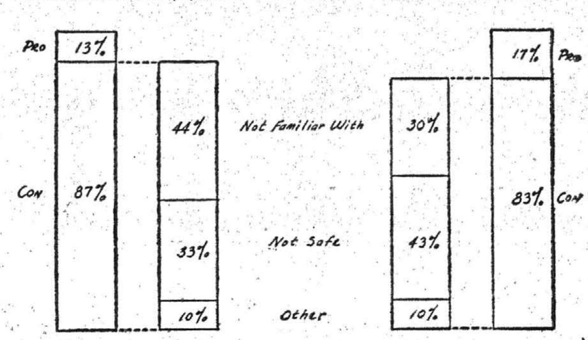


CHART VI

ATTITUDES TOWARD INVESTING IN COMMON STOCK

Spending Units With Income Over $3,000 **Spending Units With Income Over $5,000**



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in a systematic fashion what kinds of common stock people want and how to motivate them to invest in such securities.

Task of Securities Industry

The fundamental problem faced by the investment business is not an economic one. The available data clearly indicate that there are adequate financial resources in the hands of the public for a substantial increase in ownership of common stock. The fundamental problem is a motivational problem. What do people want and how can the necessary trust and familiarity be developed? What safeguards are necessary to protect the public? What steps will be most effective in motivating people to purchase common stock?

The scientific solution of this complex, motivational problem calls for an integrated program of research and action. A single study would be of little value. A continuous cycle of research and action is required. Research to find out what should be done; action to test the research results; further research and then action guided by the additional results. A continuous application of this cycle is needed.

Research Essential

Will this research prove useful? Only an actual test will tell, but I believe it will. At least motivational research on similar problems has proved its value. Note, for example, the motivational research we did for the Treasury Department during the war to help increase the sale of Series E bonds. Immediately after the Second War Bond Drive, we interviewed a nation-wide sample of 1,800 income receivers. In each interview we obtained data on the volume of bonds the respondent had been buying and the increase in his purchases during the drive. At another point in the interview, we obtained data from each respondent as to whether he had been exposed to a factor "X." We found that 25% of the people receiving income in the United States had been exposed to factor "X" and that among this group 47% bought more bonds than they had been buying. Among the 75% who had not been exposed only 12% bought more bonds than they had been buying. Factor "X" was an influence about which the Treasury Department could do something. By working on it, they doubled the proportion exposed to it in the Third War Bond Drive. Our survey after the Third Drive showed factor "X" had not decreased in importance. Among the 50% who were exposed to it only 16% bought more bonds than they had been buying. There was an increase of 70% in the dollar volume of Series E bonds sold in the Third Drive over the Second Drive. Throughout the war bond drives, the volume of war bonds sold showed a marked relation to the presence of factor "X." This factor was personal solicitation.

If the results of all the war bond campaigns are combined, about 60% of all persons who were asked once to buy bought more bonds than they had been buying. About 70% of all those asked to buy twice bought extra bonds and about 80% of all those who were asked to buy three times bought additional bonds. Only about 20% of those who were not asked to buy bought additional bonds. This pattern of relationship held for all income, occupational, geographical, and other groups and also held for the buying of bonds through payroll savings. Also, as we determined recently, this pattern still holds for savings bonds purchases.

Motivational research, in my judgment, can assist the Investment Bankers better to serve American business in securing for it the risk capital it requires. This research can also show how to do this job in the most economical manner possible.

NEWS ABOUT BANKS AND BANKERS

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED CAPITALIZATIONS

Harvey D. Gibson, President of **Manufacturers Trust Company of New York**, announces that Louis Noll of the bank's Comptroller's Department has been appointed an Assistant Secretary. Mr. Noll entered the banking business in 1920 and has been with Manufacturers since 1939. He is an alumnus of New York University and a member of the National Association of Cost Accountants.

* * *

The Board of Directors of **J. P. Morgan & Co. Incorporated**, at their regular meeting on Dec. 21, appointed the following as Assistant Vice-Presidents: Walter H. Page, DeWitt Peterkin, Jr., John P. Schroeder, Robert B. Whitney who are engaged in general banking, and George H. Chittenden, who is concerned with foreign exchange matters.

The directors of J. P. Morgan & Co. Incorporated at the same meeting transferred $10,000,000 of undivided profits to surplus.

* * *

The following promotions in the official staff of the **Bank of the Manhattan Company of New York**, at 40 Wall Street were announced on Dec. 22 by Lawrence C. Marshall, President: Walter P. Andrews to Vice-President attached to the Midwestern Division; John W. Gates to Assistant Vice-President in the Midwestern Division: Louis P. Pfeffer to Assistant Vice-President in charge of the Bank's Purchasing Department; Donald Bidgood to Assistant Treasurer in the Foreign Department; Gil M. Hostage to Assistant Treasurer in the Installment; Donald Bidgood to Assis-Mercer to Assistant Treasurer, Manager of the Williamsbridge Office: Gould R. Kardashian to Assistant Treasurer, Business Development Department, Queens; Henry C. Whitney to Assistant Treasurer, Credit Department, Queens.

* * *

Walter G. Kimball, Chairman of the Board of **The Commercial National Bank and Trust Co. of New York**, at 46 Wall Street, has announced that John E. Dobbin has been appointed an Assistant Cashier of the bank, effective Jan. 1.

* * *

William L. DeBost, Chairman of the Board of the **Union Dime Savings Bank, of New York**, has announced that at the annual meeting new officers were elected. They are Millard S. Trotter, who was made Secretary of the bank, John M. Robert and Rose D. Hill, who were elected Assistant Vice-Presidents. Mr. Trotter joined the Union Dime staff in 1920 and was made an Assistant Secretary in 1935. Mr. Robert and Mr. Hill have been Assistant Secretaries since July, 1943. Walter R. Williams, Jr., who comes to the bank in January, was elected Treasurer at this meeting. He comes from the Savings Bank Association of the State of New York, where he has been Executive Secretary.

Charles E. Brundage, general partner since 1932 of Brundage, Story & Rose, investment counsel, was elected a trustee of the Union Dime Savings Bank at the annual meeting on Dec. 21, it has been announced by Mr. DeBost. Before forming his own firm, Mr. Brundage was a partner of Scudder, Stevens & Clark, with whom he was associated from 1923-1931. Prior to entering the field of investment counsel, he was with the Federal Reserve Bank and the Guaranty Co. of New York. Mr. Brundage is a member of the Investment Counsel Association of America and a director of the Morristown Trust Co.

* * *

Barnard Townsend, President of the **Title Guarantee & Trust Co., of New York**, announced on Dec. 23 the election of Edward Thomas Bedford II, President of Bush Terminal Buildings Co., to the Bank's Board of Trustees.

Edward T. Bedford II

* * *

The **New York Savings Bank of New York** announced on Dec. 21 the election of Arthur J. Quinn to the office of Assistant Secretary. Mr. Quinn will be in charge of Personnel, Advertising and Public Relations.

* * *

The New York State Banking Department announced on Dec. 15 that approval had been given to a certificate of change of name of the **Dry Dock Savings Institution of New York** to the **Dry Dock Savings Bank.**

* * *

At a recent meeting of the directors of the **Lawyers Trust Company of New York**, Robert S. Kraham and George J. Mayer were elected Vice-Presidents of the company. Howard Blanke was made an Assistant Trust Officer and William E. Hines was appointed Secretary. Messrs. Kraham and Blanke have been with the company about 20 years. Mr. Mayer began as a messenger a quarter of a century ago.

* * *

Announcement was made on Dec. 21 that a second liquidating dividend at the rate of $3 per share, payable to the stockholders of the **Continental Bank & Trust Company of New York** on and after Dec. 28, was declared by the directors at a special meeting on Dec. 15. The stockholders have also been advised that—

"After payment of this second liquidating dividends of $3 per share, the trust company will still have remaining general reserves of approximately $4,700,000 with which to meet any contingent liability on its part, as well as to defray all future expenses of liquidation. Between May 1, 1948, when the bank went into liquidation, and the present time 114 corporate trust accountings and 147 personal trust accountings have been filed in court by your institution. A number of additional accountings still remain to be filed, and this will be done as rapidly as the necessary information with respect thereto can be obtained."

In our issue of Jan. 27, 1949, page 442, we reported the declaration of the first dividend at the rate of $3 per share, to be paid since the taking over of the bank by the Chemical Bank & Trust Co. in May, 1948.

* * *

The **Lincoln Savings Bank of Brooklyn, N. Y.**, has announced the following changes effective on Jan. 1: Fred. Gretsch, President, to Chairman of the Board; John W. Hooper, Executive Vice-President, to President. Mr. Gretsch, a trustee of the bank for the past 31 years, has been President since 1940. During his Presidency, the resources of the bank increased from $135,000,000 to over $375,000,000. Mr. Hooper, who is also a trustee of the bank, has been actively engaged in finance and industry for over 30 years and is still director and trustee in financial, industrial and philanthropic organizations among which are American Machine and Foundry Co., Brooklyn Chamber of Commerce, Brooklyn Chapter American National Red Cross and Wagner College.

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On Dec. 1 the capital of the **Bayside National Bank, of Bayside, New York**, was increased from $500,000 to $700,000 through the sale of $200,000 of new stock.

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The election of David Gales to a Vice-Presidency in the **Security Trust Company of Rochester, N. Y.**, has been made known by Pres. Bernard E. Finucane. Mr. Gales, who advances from the post of Treasurer, entered the service of the company as messenger in 1909, before achieving his present promotion, according to the Rochester "Times Union," he served also as Assistant Secretary and Secretary.

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At the regular monthly meeting of the directors of the **Rockland-Atlas National Bank of Boston, Mass.**, George P. Buell was appointed Assistant Vice-President. Robert J. Lusk and Lewis R. Power, Assistant Cashiers, were advanced to Assistant Vice-Presidents and George C. Newcombe, Assistant Cashier, was appointed Cashier. New appointments to the office of Assistant Cashier were John S. Howe, Franklin W. MacPhie and E. Stuart Franckum.

It is also announced that the directors of the Rockland-Atlas National Bank on Dec. 20 declared an extra year-end dividend of 25 cents per share, in addition to the regular quarterly payment of 50 cents per share. Both are payable Dec. 27 to shareholders of record Dec. 20.

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The election of three regular staff members to officers' positions with the **Second National Bank of New Haven, Conn.**, has been announced by Pres. Louis L. Hemingway, it is learned from the New Haven "Register" of Dec. 11, they are Louis L. Hemingway, Jr., who becomes an Assistant Cashier; Herbert F. Kusterer, of Woodbridge, also elected Assistant Cashier; and Harry O. Copeland. who has become Assistant Trust Officer.

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The directors of the **Palisades Trust Company of Englewood, N. J.**, have declared a 33⅓% stock dividend, increasing its capital from $300,000 to $400,000, Douglas W. Morgan, President, announced. The directors' action will be presented to the stockholders for final approval at their annual meeting, Jan. 24. The increased capitalization will be achieved by transfer of $100,000 from surplus to capital account. After this stock dividend, the bank will have $400,000 capital, $600,000 surplus and approximately $150,000 undivided profits, according to Mr. Morgan.

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Herbert D. Lawson, Jr., and John P. Sippel have been elected Vice-Presidents of the **National Metropolitan Bank of Washington, D. C.**, it was announced on Dec. 15 by Pres. C. F. Jacobsen. Reporting this, S. Oliver Goodman, in the Washington "Post" of Dec. 16, stated that Mr. Lawson is a former President of the Washington Chapter of the American Institute of Banking, while Mr. Sippel has been a national bank examiner in the Baltimore District. Mr. Lawson, who assumed his new post on Dec. 19 has resigned as Assistant Cashier of the Suburban National Bank of Washington. Mr. Sippel will assume his new duties at the beginning of the year. Before becoming a national bank examiner he had been associated with the Federal Land Bank from 1934 to 1935.

* * *

H. Walter Whichard, of Norfolk, has been elected a member of the general board of directors of **The Bank of Virginia, at Richmond,** according to an announcement by Thomas C. Boushall, President of the bank. Mr. Whichard has served on the advisory board for the bank in Norfolk for a number of years. In 1900 he and a brother founded the firm of Whichard Brothers Company, Inc., and he now is President of that company as well as President of Whichard Realty Co.

* * *

The Winters National Bank & Trust Co. of Dayton, Ohio, increased its capital as of Dec. 6 from $3,000,000 to $4,000,000 by the sale of $1,000,000 of new stock, according to a recent Bulletin of the Office of the Comptroller of the Currency.

* * *

Norman M. Sinske was recently elected President of the **Holton Street State Bank of Milwaukee.** In the Milwaukee "Journal" of Dec. 16 it was noted that Mr. Sinske previously was Executive Vice-President, a post to which he was named in 1941. As President he succeeds the late Henry Vetter. Mr. Sinske entered the bank in 1927 and was named Assistant Cashier a year later. He became Cashier in 1930.

* * *

The capital of the **First National Bank & Trust Company of Tulsa, Okla.**, has been increased to the extent of $1,000,000, raising it from $2,000,000 to $3,000,000; $750,000 of the increase was effected by the sale of new stock while the further increase was brought about by a stock dividend of $250,000. The new capital became effective Nov. 30, it was indicated in the Dec. 5 Bulletin of the Office of the Comptroller of the Currency.

* * *

Thornton Cooke, who founded the **Columbia National Bank of Kansas City, Mo.**, in 1919, will retire from active banking on Dec. 31, when he will relinquish the post of Chairman of the board. He will, however, remain on the board and the Executive Committee, according to the Kansas City "Star," which states that the post of Chairman will not be filled. From the "Star" we also take the following:

"In its thirty years the Columbia National's business has increased until deposits, at the last call, were $25,221,346. The bank now is headed by Charles L. Aylward, who was Assistant Cashier, the first to hold that office when the bank opened in 1919. Mr. Cooke took the Chairmanship in 1947, the Presidency thereupon passing to Mr. Aylward, then Executive Vice-President."

Mr. Cooke, now 76 years of age, gained his first banking experience at the age of 12, when his father, Col. Sidney G. Cooke, organized the Bank of Herington, Kansas, and employed him as an office boy. The latter later entered the University of Kansas,

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News About Banks And Bankers

returning thereafter to a banking career.

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The directors of the **California Trust Company of Los Angeles, Cal.,** have elected Golden R. Larson Assistant Treasurer, Frank L. King, President, announces. A member of the company's staff since last May, Mr. Larson was formerly associated with the War Assets Administration as Chief of the Budget Division and from 1933 to 1943 was review examiner with the Federal Deposit Insurance Corporation, at Washington. Prior to that he was with the Utah State National Bank in Salt Lake City for ten years.

* * *

Don R. Cameron has been elected Vice-President of **Union Bank & Trust Co. of Los Angeles, Cal.,** and Hal W. Cross advanced from Assistant Cashier to Cashier, it has been made known by Pres. Ben R. Meyer. Mr. Cameron entered the employ of Union Bank & Trust Co. in 1920 as escrow clerk, advancing to Assistant Trust Officer in 1921, Trust Officer in 1929, Senior Trust Officer in 1944, and now to the post of Vice-President. He has been Secretary of the directors' trust committee of the bank since its inception in 1936. Mr. Cross, a native of Kentucky, had his first banking experience with the Citizens National Bank of Louisville and later was associated with the Merchants Nation Bank, Baltimore, Md., as Assistant to the President. From 1921 to 1947, he was associated with the Burroughs Adding Machine Co. He became associated with Union Bank & Trust Co. in September, 1947, working with the Cashier's department and was named Assistant Cashier in September of this year.

R. Sims Reeves to Join L. Johnson Co.

R. Sims Reeves

R. Sims Reeves will become associated with the New York City office of L. Johnson & Co., 120 Broadway, as of the first of the year, as resident manager and trader. Mr. Reeves in the past was associated with Blair & Co., Inc., and Greene & Co., and conducted his own investment business in New York.

Peter Preater to Join B. W. Pizzini & Co.

Peter M. Preater will join the investment department of B. W. Pizzini & Co., Inc., 25 Broad Street, New York City, as of Jan. 2. Mr. Preater was formerly connected with Lawrence Turnure & Co.-Blyth & Bonner.

To Be J. C. Newsome & Co.

On Dec. 31, William C. Ridgway, Jr. will retire from partnership in Ridgway, Newsome & Co., 120 Broadway, New York City, members of the New York Stock Exchange, and on Jan. 1 the firm's name will be changed to J. C. Newsome & Co.

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Four-Pronged Attack Upon Equity Capital Problem

tively conservatively in relation to earnings and dividends by any historical comparison. The Department of Commerce has calculated that all stocks listed on the New York Stock Exchange sold at 16 times earnings in 1929. They sell at about 10 times earnings, or less, today. Listed common stocks gave an average yield of 3½% in 1929; they yield over 6% today. By contrast, high-grade bonds yielded more than 5% in 1929, and nearer 2½% today. And we should not forget that billions of dollars of broker's loans had been incurred to buy stocks on margin in the twenties, whereas today brokers' loans on stocks are negligible and investors generally are buying for cash, not on margin.

Those who invest directly in common stocks today, generally speaking, are thus getting good value, by any standard of historical comparison.

Institutional Investors

A second point of attack on the problem of the threatened equity capital shortage is the broadening of the market for equity capital among our financial institutions, the custodians of much the larger part of the liquid savings of the nation. Both because of law and because of tradition, the vast sums collected by American financial institutions — life insurance companies, banks, savings and loan societies and the like—are invested entirely or almost entirely in bonds and mortgages. Over the long run, it is not healthy to force this largest segment of the savings of the American people almost exclusively into debt instruments. For one thing, it forces them to buy the securities of companies that choose to issue bonds — often the older industries — so that they invest little in some of our most vigorous and expanding industries, such as the chemical and electrical manufacturing concerns that prefer to issue mainly or exclusively common stocks.

Significant progress has been made in developing techniques of common stock portfolio management to minimize risks of stock investment by institutional investors. The so-called "formula plans" that involve purchase of stocks on a scale down, and their sale on a scale up, minimize the timing hazard and avoid dependence upon the highly uncertain art of business forecasting. Diversification minimizes the risk involved in selection of specific issues for institutional portfolios.

I believe it would be wise to authorize all financial institutions to invest a specified moderate percentage of their resources in a portfolio of common stocks. A study made by Scudder, Stevens & Clark has shown that investors that do include equities in their portfolios, like the eleemosynary institutions, have achieved a substantially higher average yield over a period of years, while keeping principal intact, than do the institutions that buy only bonds. It would require, however, changes both in legislation and in the attitude of the managements of many financial institutions to achieve this—changes that an inquiry like yours can do much to bring about.

What Management Can Do

Business management itself can do much to foster a better market for equity securities. This has been demonstrated by the success of the public utility industry in selling some $750 million of common stocks to raise new capital this year, to supplement its bond financing program. We can study the successful equity financing of the public utilities to great advantage, since it provided clues to what managements in other industries can do to develop a better market for their common stocks. This is particularly true because individual investors in the lower income brackets have been an important group of buyers of the new utility stock offerings.

One thing corporate managements can do is to resist the temptation, admittedly very strong today, to finance with bonds. We have made bond financing very attractive for corporations in three ways. Bond interest is a deduction from taxable income for corporations, whereas dividends must be paid from taxable income. A corporation that sells 3% bonds must earn 3% on such capital to meet the interest. A corporation that sells common stock paying 6%—and most corporations must promise more than that to find a market for their equities — would have to earn 10% so that, after a 38% corporate income tax, there would be 6% left for dividends.

Furthermore, the easy money policy of the Treasury and the Federal Reserve System makes it easier for corporations, as well as the Federal Government, to borrow at extremely low interest rates. Low interest rates, as well as tax advantages, make bond financing exceptionally tempting.

Yet I believe it is the duty of corporate managements to finance at higher cost with equities so far as feasible. Bond financing, for the average industrial company, should be used for emergencies. The trouble with bond financing is not so much that interest is fixed—low money rates and tax advantages take care of that—as that sooner or later the principal comes due. Inability to meet principal is the usual cause of financial embarrassment. And bond financing is like a habit-forming drug—it is easy and pleasant at first, but the more a corporation resorts to it, the more necessary it becomes to borrow more, until stock financing becomes impractical and the business is headed for the financial rocks.

The Investors' League has a particular interest in seeing corporate managements resort to stock financing to a greater extent, because this will make both the bonds and the stocks that our members hold sounder and more valuable investments.

Corporate managements can promote a wider market for equities by:

(1) Paying out a larger proportion of total earnings over a period of time as dividends, where equity capital is to come mainly from selling stocks and not from withheld profits. The liberal dividend policy of the public utilities has done much to broaden the market for their equities.

(2) Returning to regular dividend policies. Investors in equities, as distinct from the in-and-out trader, like regular dividends. The most popular single equity investment in America, the capital stock of the American Telephone & Telegraph Co., has paid 9% each year in the past 30 years. And more than 800,000 investors in this country are satisfied and contented holders of A. T. & T. stock. Many of these holders bought the stock during the boom of the '20s and they have held it through the greatest of all depressions. The price has fluctuated, it is true, but they have received the same $9 dividend in each year during this difficult period.

We know that the telephone business is more stable than most business. But corporations generally can do a great deal to stabilize their dividend payments by building up reserves in good times to sustain dividends in bad, by maintaining a strong liquid position, and by developing more stable sources of income through diversification of their activities where they are now in a highly cyclical field.

Maintenance of regular dividends was a major policy objective of our stronger enterprises until the '20s. Then the numerous split-ups of the '20s, the depression of the '30s and the ill-advised undistributed profits tax of 1936-39 all conspired to make dividend disbursements more erratic. Section 102 of the Revenue Act, imposing a punitive surtax on "unreasonable" accumulations of surplus, has the same effect to some extent.

If we want a wide market for corporate equities, every assistance and encouragement should be given corporate managements to return to a regular dividend policy, so that the investors in their shares will have reasonable assurance that dividend payments will be maintained in the future.

What Government Can Do

Since Government has assumed so much more important a role in our economy than in the past, it can do much, along with the investment banking profession, institutional investors and corporate managements, to promote the development of a vigorous, adequate market for equity securities.

I am fully aware that the budget is unbalanced today, and that other witnesses before this committee have said much about the desirability of economy and the balanced budget. There are a few changes in tax law and administration that can be made, however, that would do a great deal to develop a healthy market for equity securities and would cost the Treasury relatively little. Furthermore, this cost would be covered several times over by two items of economy that are either assured or readily attainable. I refer specifically to the $1.5 billion reduction in defense expenditures disclosed by Secretary of Defense Johnson and by the $1.3 billion reduction in Federal expenditures that could be achieved forthwith through liberalization of the regulations under which which insured home mortgage loans are made to veterans, so that these mortgages would be purchased by financial institutions rather than by the Federal National Mortgage Association with Government money. In a period when financial institutions are so eager to buy mortgages, including insured mortgages on veterans' housing, I cannot for the life of me see how one can justify the revised budget item of $1.3 billion for the current fiscal year to cover purchases of home mortgages by "Fannie May."

The specific proposals I would make for Government action to foster equity investment are:

(1) Tax relief for smaller businesses, which find it most difficult to raise equity capital in the open market.

(2) Reform of Section 102 of the Revenue Act, to avoid interference with the flow of new equity capital to enterprise.

(3) A limited tax credit for dividend income up to a moderate maximum, to encourage investment in stocks by individuals by an initial modest abatement of the present double taxation of corporate income distributed as dividends. A more thorough correction of double taxation must await the time when the budgetary situation is stronger and a surplus is available for debt reduction.

First, let us consider how more venture capital can be procured for smaller businesses. A study of business history in the United States makes clear that many of our great industrial enterprises, in following the acorn to oak pattern of growth, have depended largely on retained earnings as a major source of equity capital. If we still believe in the system of free enterprise which makes it possible for a young enterpriser to start on a shoestring, produce valuable goods and services for mankind, become a millionaire and also a benefactor to the world, undue obstacles must not be placed along the road to prevent acquisition of equity capital for small concerns. Under prevailing conditions a Ford Motor Company or a du Pont Corporation cannot emerge out of a small business because, while yet small but growing fast, it is compelled to turn over so large a proportion of its earnings in taxes and/or dividends that there is nothing left to make expansion possible. There are several things tax-wise that can be done to remedy this situation. In the first place, corporate income tax rates should be changed so as to reduce the tax on the first $50,000 of corporate income to, say, 10%, the next $100,000 of corporate income to 20%, and the next $50,000 of corporate income to 25%. The present 38% rate would then apply to corporate income in excess of $200,000, instead of applying to corporate income in excess of $50,000. In the second place, Section 102 of the Revenue Act should be amended to provide that the surtax may not be imposed upon any business whose retained earnings are less than $200,000. These two changes in the tax law would make a larger proportion of the income of smaller businesses available for financing expansion and for new ventures, and so provide equity capital to smaller concerns that can rarely sell stock to public investors.

As Senator O'Mahoney has properly pointed out, those who propose a reduction in government revenues should also make specific suggestions as to how such revenue reductions can be offset. I estimate (subject to correction) that reduction in the tax rates on smaller corporations such as I have outlined would involve a revenue loss of about $300,000,000. No material revenue loss would develop in making Section 102 inapplicable to small businesses, since the assessment for which this section provides has seldom been imposed upon small concerns in the past. This revenue loss of $300 million would be far more than offset by the two items of expenditure reduction mentioned.

Next, let us consider how government can facilitate the flow of venture capital into larger businesses. American business history has demonstrated that retained earnings devoted to the acquisition of productive assets and stabilization of future dividend payments are beneficial to the entire economy. If Section 102 of the Revenue Act were liberalized, more venture capital could be assured for larger businesses, because the fear of an assessment makes this section far more effective than any revenue collected under it would indicate. I propose two amendments to that section. First, an amendment to provide that the surtax imposed thereunder would not apply to a corporation that invests its retained earnings in fixed tangible assets, whether in its own or in another enterprise. Second, an amendment to provide that the surtax imposed thereunder would not apply to sums set aside as a reserve for the exclusive purpose of paying dividends upon stock in

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later years, at the same rates as those prevailing at the time that the reserve was created.

The first amendment would overcome the uncertainty and would relieve the undue pressure to pay out dividends that are produced by Section 102. At the present time, many managements fear that Section 102 will be applied to them if they do not pay out the bulk of their earnings as dividends, because the Bureau of Internal Revenue may hold that earnings invested in assets which are not directly connected with the current business are retained "beyond the reasonable needs of the business." Of course, this proposal would not reduce Treasury income materially because of the limited enforcement of Section 102 to date.

My second proposal, looking to the maintenance of regular dividends rather than to larger payments in any one year, is of particular importance for the reason that investors in common stocks show an increasing interest in current dividend yield, rather than in capital gains. The Survey of Consumer Finances carried out under the auspices of the Board of Governors of the Federal Reserve System, as described in the October issue of the Federal Reserve Bulletin, throws much needed light upon the attitude of people toward investment in corporate stocks. Of those who favor the investment of savings in stocks, the majority ascribe their preference to the higher yield provided by such securities.

This attitude is supported by the striking ability of the public utility industry to sell some $750,000,000 of stock to investors this year at yields averaging at least 6%. When commercial banks generally pay 1% on deposits, mutual savings banks 2%, and savings and loan associations 2½% to 3%, common stocks which yield 6% are in a relatively very favorable position. Plainly, these facts give ample proof of the growth of yield-consciousness among the rank and file of small investors and savers in this country. The establishment of a dividend reserve out of earnings would do much to make the shares of industrial corporations, whose earnings are subject to much more fluctuation than those of public utilities, more attractive to the rank and file of smaller investors, because a dividend reserve would insure the maintenance of dividends to a greater extent when earnings are less favorable. At the present time, the establishment of such dividend reserves consisting of cash or government securities invites the application of the surtax under Section 102.

A third proposal which I would like to make to ease the shortage of venture capital for large and established corporations is to provide in the tax law a tax credit to the stockholder for dividend income, equal initially to 10% of the dividend income not in excess of $1,000 for any taxpayer. Admittedly, this is only a beginning in the direction of correcting the double taxation of corporate income which is distributed as dividends as imposed by our present tax laws. If we are in earnest about reviving a market for equity capital in this country, however, it is high time that a start were made in this direction. This proposal involves a loss of Treasury revenue which, according to unofficial estimates, would be about $300,000,000 per annum. But here again the reduction is only a fraction of the total savings from lower defense expenditures and from the liberalization of veterans' home mortgage terms which, as outlined before, would lead to a shift of the FNMA portfolio to private institutional investors.

Positive, effective and early action is required to encourage the flow of venture capital into small and large businesses, if additional jobs are to be provided to absorb the 700,000 persons who, according to the Department of Labor, are added annually to the nation's labor force. As investors, we feel that only a cooperative effort on the part of investment bankers, institutional investors, business managements and the Government will suffice to solve this problem in time. We feel your Committee, in its report, can provide a rallying point about which such a cooperative effort can be carried out to successful fruition, for the benefit of the entire nation.

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The Equity Capital Problem

benefits are fine, provided we enable industry to carry the burden. In the past, industry has been able to raise man-hour output some 2% per year. Now it looks like they will have to raise it some 3 or 4% per year. Possibly they can, but it will require huge amounts of new equipment requiring billions of risk capital. In the meantime we see our best men, many of them young, unwilling to take the risks of leaving their present jobs to take bigger and better jobs at higher salaries, simply because they have participations in pension trusts and because increased salaries mean little after taxes.

Additional Factors Bearing on Stock Market

Additional factors bearing on common stock markets are the margin requirements and the capital gains tax, which tend to restrict trading, particularly short-term trading, which kind of trading has a definite tendency to modify violent swings in prices either up or down.

The Federal Reserve Board has modified the margin requirements so that you can borrow up to 50% to purchase or carry listed securities and to 75% to take up new offerings of common stock under a distribution by way of rights to stockholders to subscribe.

The present capital gains tax is at the rate of 25% on all profits after a six-month holding period and at the individuals' surtax rates if held for a lesser period. Only negligible credit for any losses is permitted to apply against ordinary income. This tax tends to freeze property in the hands of old owners and adversely affects the liquidity of our markets. This is proven by the fact that it brings insignificant revenue to the Treasury—for 11 years an average of $155 million per year, less than 4/10 of 1% of present Federal revenues. At half the rate it would probably produce more revenue for the Treasury and assist in promoting more transactions. This would have the desirable by-product for both the Federal and State governments of more transfer taxes and for security dealers of more income upon which, in turn, they would pay more taxes.

This is a desirable objective because the market for new or fresh increments of equity capital (whether additional or new issues) is influenced largely by the nature of the secondary markets for securities already outstanding. A good secondary market (listed or unlisted) for older securities, therefore, is the first step toward obtaining a favorable supply of new capital. It follows that a vigorous and active market on the New York Stock Exchange, and in other markets, is a desirable thing in itself—and that this is one of the things which must come if there is to be an adequate supply of either new capital for old companies or pure venture capital for new enterprises.

Now, who is being hurt? Not primarily the rich man—the rich man has quit, he can live on accumulated wealth, often in large part from interest on tax exempt securities. Out of taxable income he has nothing to put into industry, and even if he did, plain common sense would dictate that he would be utterly foolish to take the risks with little net return. These little men who start in business with nothing but the determination to work, sweat, save and build—the man who starts alone, works alone, saves a little, buys a new machine to increase his production, then employs two or three men—these little men who start as proprietorships, then partnerships, building out of earnings—there are millions of them, there are some 3,700,000 tax returns of unincorporated businesses and only 500,000 returns of corporations—these little men always struggling to get big, which have proved the backbone of our country for generations—these are the men who are being hurt. They haven't a chance to build business from profits.

Let no one think from the foregoing remarks that I am in favor of an unbalanced budget and more inflation. I am not, but what I am interested in is the maximum tax revenues that can be raised without having a depressing effect on business itself, the source of all revenues, whether it be to the individual or to government. I am clear that raising tax rates from the present all-too-high peacetime levels is not the way to get more tax revenues, but that on the other hand, some judicious decreases in tax rates may so stimulate business activity as actually to produce more tax revenues in toto. In other words there is a law of diminishing returns. The recent experience of Canada along these lines is promising and should give us the encouragement to cautiously experiment along similar lines.

Effect of SEC Regulations

Other considerations which must be mentioned in connection with raising capital funds from the public distribution of securities are the time, labor and expense involved in meeting the requirements of the various Federal Securities Acts with their rules and regulations. These considerations are weighed when the question arises as to whether capital needs shall be met through retention of earnings or through so-called private placements as alternative means to public distribution. I believe that practically everyone in the securities industry thoroughly subscribes to the general principles embodied in the 1933 Securities Act, requiring complete disclosure of information to the investor in connection with a security issue. However, both the securities industry and the Securities and Exchange Commission certainly since 1940 have recognized that the provisions of the Act relating to dissemination of information during the waiting period, and the prospectus delivery requirements have never worked. Representatives of the industry and of the SEC have labored sincerely but unsuccessfully for a number of years past to reach an agreement upon changes which will make the procedures more workable and less expensive.

This problem was referred to by the new Chairman of the Securities and Exchange Commission in an address last week, in which he stated "that the unworkability of the present techniques established in the statute has been apparent for years." He has again held open the door to continued joint study of the problem by the Commission and representatives of the industry, and it is to be hoped that these further conferences will lead to something that may bring to the Congress some constructive amendments to make the Act more workable without weakening its fundamental safeguards.

My own opinion is that the registration process itself, requiring as it does complete disclosure, together with the liability provisions of the Act for fraud, misrepresentation and the like, constitute the real protection for the investor. It is doubtful if the average investor can gain very much information from reading himself the prospectus since the prospectus is by nature a complicated, technical and legalistic document. Nevertheless, the Act as interpreted by the Commission, is based on the theory that a copy of the prospectus must reach each prospective investor before he can be effectively solicited to purchase. This procedure is expensive and even though rules for expediting prospectus delivery have been adopted, the mechanics of prospectus delivery are still highly unsatisfactory. Most prospectuses intended for reading by individuals reach the wastebasket, but of course for those who want them, copies must be available. The average investor must depend upon the advice of their dealers, investment advisors, rating services and other financial publications who base their opinion on intelligent study of the prospectus and registration papers by qualified technicians.

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The Blind Spot in Corporation Advertising

toons or thumb through it casually. But when he pays what a financial publication charges, you can be sure that he does it only because he thinks he can get his money back with a profit on the investment. Every investigation that has ever been made shows that such publications are read assiduously and read by others than those who buy them. Several are actually required reading for everyone in the financial business.

An equally efficient and widely used channel through which to reach the financial public is the securities dealer organization. The member firms of the organized exchanges and their branch offices, together with the even more numerous dealers in unlisted securities form a network that covers the whole country and, through its final remote tentacles of mail, telephone and telegraph, reaches virtually every stockholder, investor and buyer of securities for income or profit—in a word, every member of the financial public—in the country. The dealer, whether an unlisted house or a member firm, is the basic means of communication with investors, both present and potential. These are the people to whom the investor is accustomed to go for financial and investment advice. Investor confidence in them is well established. Since their livelihood depends upon the continuing success of American enterprise, through dealing in its securities, they welcome accurate and sincere information and data pertaining to situations that will be of interest to their customers and clients.

If a corporation is to get its integrity advertising across, therefore, it must reach the dealer organization as well as go directly to the investor through the financial publications. One excellent way to reach the dealers is, of course, to do so through these same financial publications. But, as in other selling, direct mail may be and is effectively used to reach the dealer. There are companies, and a good many of them, that keep security dealers informed frequently and regularly, as to their financial status, their business activities and every aspect of their progress that is interesting and significant. There ought to be more. The most common complaint heard from stockholders, as well as from many dealers, is that they cannot find out enough about what is going on in a lot of companies to reach an intelligent decision about those companies' securities.

Finally, the use of representatives, in effect, salesmen, has often been demonstrated to be most effective in reaching the all-important dealer organization in order to advertise the company's integrity by furnishing information about its affairs. Effective as other means of advertising are in selling a product, an institution or an idea, their true purpose and main effect is to open the door, the door through which the salesman, or representative, or ambassador can walk in to the one man in the organization whose interest and opinion matter and convince him of the integrity of the company by answering his questions and furnishing him with information. This ambassador, or missionary if you please, not only should be fully conversant with his subject but have a background of personal experience in the investment business, both in and out of the large financial centers, so as to speak the language and appreciate the problems of the dealers that he encounters—both large and small firms in both large and small communities. In many instances he will talk not only with partners but with customers' brokers, salesmen, research staffs and, upon invitation, with selected customers and clients.

It is a wise management that does not depend upon any one horse to pull the load but combines them in a team. Whether one is selling frozen foods, the right of a chain store to lower prices or the advantages of investing in a corporation's stock, the effective way is to use all weapons together. Publication advertising attracts attention and carries the perstige of print; direct mail reinforces the publication message and augments it with more information than it is practical to print; and through the door thus opened the representative walks in to get action out of a prospect who is already in a favorable frame of mind.

Every transaction in a listed security is recorded on the tape and its issuer's name brought to visual attention in every office of every member firm and in many newspapers. If unlisted, it appears in the "National Quotation Sheets" that reach practically every dealer in the country that handles over-the-counter securities. This costless advertising makes public the extent of activity in a stock and it is this activity that indicates, quite definitely, the degree of acceptance and approval accorded to the corporation.

The number of corporations that are presenting their story, advertising their integrity, to the financial public through organized direct mail campaigns and, above all, direct and repeated personal contacts with all the far-flung units of the security dealer network, is increasing. It is becoming the hallmark of a successful, growing corporation that realizes its obligation to protect its stockholders and the value of fostering its sources of new capital.

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Prospects of Industrial Use of Atomic Energy

done. As to it being used to power airplanes, I think it is very doubtful. There are possibilities of using atomic energy in the propulsion of airplanes, but they are far in the future, they are very expensive, and the question is whether the expenditure of the material in the flight would be justified at all under the most remote conditions.

Of course, if you want to go to the moon, why, then, you have got to use it. It could be used, and you could probably get away with it. But I would see no reason for trying to go that distance.

The next thing, the objective we have, of course, is a little nearer at hand, and for that objective, under conditions as they exist today, I do not believe that atomic energy is the solution to the problem.

Now, as to the uses that do seem as if they had a future, what has happened there? I believe they have progressed in just about as fast a way as we anticipated. They are gradually coming into use. It was well know in 1945 that there is a great field and a growing field for the use of radioactive isotopes, particularly in research. Research, of course, has been popularized when it comes to medicine, but I believe that in the use of the radioactive isotopes, we may find that the use is even greater in research on plant life. It is one way that I know of today that a great deal can be learned as to what and why and the wherefore of the growing of plants. We want to know, for instance, on the use of fertilizers, whether the fertilizer does any good, whether it merely builds stalk or builds fruit, and by the use of radioactive isotopes, that can be determined.

As to the use of the isotope in industry, for strictly industrial purposes, I believe that there is a possibility there, but how it will come, I don't know. I think it requires some of this new approach that Mr. Crawford told you about. It certainly cannot be done with any knowledge that we have today. But the thought has always been there; the possibility of using the radioactive isotope as a catalyst, for example, or the use of it in some particular process, normally a chemical process—something of that kind may prove to be of value. You know that it has been used in oil exploration. That may continue, and may continue to be of value.

As to its use in treatment of medical ailments, there is every prospect that there will be some development along that line, but I do not anticipate that it will be as great in its usefulness as in medical research itself. It is a tool to be used as the X-ray was used, as the microscope has been used. That is not saying that eventually it won't come to be used as a cure itself.

Atomic Power in Russia

Now, as to the other development, and the development that to me seems to be the one that should be of primary interest to us today, the President announced that there was an atomic explosion in Russia. The only proper thing to assume is that the Russians now have a bomb, the equivalent of what we had in New Mexico in July of 1945, one that not necessarily can be dropped from the air but if placed near the ground can be exploded and can give off all of the results of an atomic explosion. Of course, we don't know—at least I don't, not having seen the evidence personally—whether it was a bomb or whether it might have been the failure of a pile or anything else that would give off the same indications. But the only safe thing to do is to assume that it was a bomb.

Now, the effect on American industry of that development, I think, is much greater than the effect of the progress in this country. It brings up immediately, how will American industry protect itself and our nation in the event of a war, not only against the use of a bomb but against the threat of the use of a bomb?

I believe you can picture, those of you who live around New York or have to suffer in the subways here at any time, just what would happen if there was the threat of an atomic bomb being dropped on New York City. Just how bad the panic would be would depend entirely on how fast the news spread. Last Summer, during a very nice Saturday and Sunday, there was a traffic jam out here on Long Island. It took something like ten hours for some of the cars to move a half mile. That is what we would be faced with in New York City. Any employer, any industry here, would be immediately affected by that, not only in the event a bomb was dropped but by the threat of a bomb.

That comes to the point of decentralization; how it should be carried out, if at all, and how it can be carried out. It is all very well for some of the loftier planners (who have never carried any responsibilities) to tell us that we should decentralize American industry. Well, to have really effective decentralization means a complete lowering of the standard of living of our people. It would mean, if we really had real decentralization, not that we scatter our plants throughout the country, but that we actually break down the system that we have. It would mean, for example, an automobile plant capable not of turning out the number of cars that General Motors or Ford or Chrysler does, but one capable of turning out, say, a thousand cars a year—but turning out everything going into those cars. It could not buy wheels from some company; it could not buy all its piston rings from one or two companies; it could not buy its fuel pumps, as was testified earlier this year, I believe—that 84% bought from the same company.

That is not decentralization, no matter where those big plants are put, because one break in the chain, one link, and our mass production goes by the board. There are advantages, of course, in those decentralized plants, even if we do not truly practice decentralization. The advantage is that the enemy, in attempting to bomb us, would not be able to strike all of the potential targets with one bomb. They will have to go and look for them. They won't wipe out all of the production; they will merely cut out one link in the chain.

Every big plant, in the way of manufacturing plants, is thus a menace from the standpoint of decentralization. We have our choice. We can decentralize and be safe, or we can stay as we are and maintain our standard of living. Or we can go partway between.

Personally, I think we should go partway between. I believe that we should, in the location of new plants, look into this situation of concentration. Don't put them all in the same place. Don't put your plants so close to the other man's plant that a miss on him will get you, or, as was the case at Nagasaki, place the two plants so close together that one bomb would take out two plants. It is true, they were three miles apart, but that is what happened. If they had been four miles apart, only one plant would have gone with that one bomb.

To me, that is the reasonable way of decentralization. It means the decentralization that has been going on in this country now for a number of years anyway, and a decentralization that is the effect of the changes in our system of life in this country. It means smaller plants, perhaps. It means not putting them all in the same place.

I believe that covers the particular subject. You probably have seen a great deal in the papers the last few days about the wartime situation, and you are undoubtedly tired of reading about my views on this subject and that. I would like, however, to emphasize to you that the real security of the United States in my opinion is not as sound as we would like to have it. The reason for that observation is this: that the American people today are not convinced, down in their hearts, that they have got anything to worry about. They feel that everything will come out all right. As a people, they are thinking as the average elected official feels who is responsible for government affairs, when government affairs are not going too well. He always hopes that something will happen to keep the crash off until he is out of office and his successor can handle it.

We have country that has been built up through hundreds of years. We have never been threatened before in our existence with complete annihilation. It is true that in the time of the Civil War, we were threatened with a division of our country that would have been very serious, but it would not have been an annihilation. It would not have been the destruction of everything that we believe in.

I would like to leave with you the thought that nobody who is defeated in a war today continues to exist, in the sense that we want to exist. He stays alive, perhaps, the nation stays alive, perhaps, but it is a very slim existence.

That, to me, is the fundamental thing that ought to be considered today. We must have confidence in our government. We must have confidence in the system of government. We must know that things have been conducted properly in the past; that if they were not conducted properly, we must know why they weren't and who was responsible—not for the sake of raking up ghosts from the past, but so that when the future comes, or the present, the people now in power will not make the same mistakes that were made in the past, if any were made, and so that we will continue to be a nation and not have happen to us what has happened to Germany, Japan, and other nations in recent years.

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Sterling Devaluation: 1931 Contrasted With 1949

of the country could hardly be called "national." Distrust continued to such a degree that even a dollar and franc £130 million loan, (equal to 73% of the bank's highest gold reserve) nor the expansion of the fiduciary issue by £15 million, and the certainty of a balanced budget could halt the drain of gold. Until July 23, the bank had made no attempt to stop it by raising the bank rate. On that date she raised it from 2.5% to 3.5%, and a week later to 4.5%. Unemployment had already reached a top level while the bank rate was being lowered and before the publication of the May report spread a kind of panic among foreign businessmen (July 14, 1931). This being so, neither a rise in the bank rate for the defense of the gold standard at the behest of foreign creditors, nor the latters' demand for a balanced budget can have caused it. It is rather the other way about. The rapid rise of unemployment had unbalanced the budget, and this budget deficit, which the Labor Party was unwilling to correct adequately, not only gave Mr. McDonald the chance to take refuge under the benevolent wing of Mr. Baldwin, but shook the world's faith in Britain's financial soundness. It is difficult to imagine today how high Britain's prestige stood; she was the embodiment of financial honesty. The blindness of the Labor Party had shaken confidence, notwithstanding the superb moral courage of its Chancellor, Philip Snowden.

Managed Currency No Remedy

Had Britain in those days possessed a managed currency, the result would not have been different. Lack of confidence would have deprived her of her reserves as rapidly as would happen now but for exchange control, made workable by the generous support of the United States and Canada.

The financial help recently extended to Great Britain is nearly ten times the amount of what was lent her in 1931, when it did not save her. The last shock came from the so-called mutiny of Invergordon (September 16), where some friction had arisen out of the reduction of pay to naval ratings. It loomed in the eyes of frightened capitalists as the beginning of Communism in Great Britain. Great Britain was forced to devaluate because her economic system was built on world confidence, and for the time being she had lost it.

The true inwardness of the act of devaluation was lost on Great Britain. She almost preened herself on having discovered, if not invented, a novel device for getting out of trouble; though devaluation was well known to every dishonest debtor, it had never before been used by a creditor. Now mankind learned with horror, that the saying "safe as the Bank of England" was no longer true. The greatest creditor country had failed. Great Britain had abdicated from the economic leadership of the world—in the same mood of absentmindedness in which she was supposed to have founded her Empire. Yet she was extraordinarily lucky. All her rivals clung for the time being to gold and the fall of sterling gave her the chance of undercutting them. The prices of imported raw materials and foodstuffs continued to decline, wholesale prices remained almost stable; British costs of living steadily moved downward from 167 (December, 1920) to 136 (April 1933). For once she had got the best of both worlds.

The budget was balanced. The Coalition Government elections convinced the world that there was no danger of Socialism or Communism in Great Britain. Sterling was allowed to find its own level. By October, 1931, it had lost over 20% of its value, being down to 3.89 the dollar; in November, 1932, at the rate of $3.28, the loss was over 30% or 20% more than the 10% overvaluation, which was supposed to be responsible for Britain's difficulties in foreign trade. The 6% bank rate imposed late in September could be reduced to 5% in February, and to 3.5% middle of March. It had served its purpose, which was not to strangle enterprise, but to attract the capital which had fled. In this respect it succeeded. In January, 1932, £50 million of the £130 million loan which had been unable to stop the crash, were repaid; the rest a little later. Yet the gold reserve of the Bank which had been barely above £121 million, at the end of 1931, reached a £191.8 million, in September, 1933 — two years after the debacle. Two months later (November, 1933), when the United States too had gone off gold, sterling in New York was worth $5.1479. Yet neither trade nor unemployment had conspicuously improved.

Effect of 1931 Devaluation

It is next to impossible to decide whether or not the 1931 devaluation did much good to Britain, for it was almost immediately followed by a complete reversion of her economic policy through the introduction of tariffs and. at the Ottawa conference, of preferential arrangements. Exports of British produce rose from £389 million (1931) to £396. Imports fell from £798 to £732 million; the adverse trade balance was considerably reduced. The production of consumers' goods (1925-29 basing 100) had risen from 73 in the third quarter of 1931 to 77 in the fourth quarter; a year later it was back to 72 and 75; producers' goods fared a little better. They rose from 89 in the third quarter 1931 to 96 in the fourth; a year later they were down again to 85 and 90. The freeing of sterling from the shackles of gold had not done much for production, though surplus labor and unused capital were available on a large scale. In the two years after devaluation unemployment had risen from 2.666 million (1931) to 2.881 million (1933); by 1935 it was just above 2 million—the number of unemployed had, of course, risen. In March 1935 it had just reached the pre-crisis (1929) level. Weekly wages had fallen from 96.75 (August, 1931) to 94 (September 1933).

The price of this meagre achievement had been heavy. Great Britain benefitted moderately as long as her leading rivals remained on the gold standard. Once they ceased to offer opportunities for currency dumping, these petty advantages disappeared, but not the consequences resulting from having attained them. British credit policy had helped to mitigate the German crisis. It had, however, intensified her own entanglements. The devaluation forced Germany either to follow Britain's example—which was next to impossible, for she could not hope to solve the reparation question by defaulting on her private creditors, having just made a standstill agreement with them—or she had to take a course of severe deflation. The Bruning government had really no choice. In a country where the word "inflation" released mass-hysteria, one could not tamper with the value of the currency. Deflation pressure increased the number of unemployed from 4,355,000 in September, 1931 to 5,668,000 in December, a figure which rose to 5,773,000 12 months later, and greatly helped the advent of Hitler. It proved very clearly, that devaluation might benefit a devaluating country temporarily at the cost of its competitors; when practised by a leading economic power, it spells chaos and anarchy all round.

The Recent Sterling Devaluation

In 1931 Britain's friends had strained every nerve to save her

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from devaluation. They may not have foreseen the long chain of catastrophic financial and economic reactions which would follow in its wake, but they had a much stronger foreboding than the British themselves—that she was leading the world toward an abyss. This time foreign opinion abetted, nay even impelled her to take that step; it was greeted as an act of constructive statesmanship. Yet 18 years ago, before devaluation had become almost universal, it had been recognized as a means for exporting a nation's unemployment troubles to other countries. It had aroused a good deal of moral indignation. This time it was accepted as the natural way for getting out of economic difficulties of one's own making. It had dealt a very heavy blow at the very principles of the International Money Fund, which had been founded with the object of preventing such happenings; yet it received its blessing. The standards of both the world's economic morality and of its economic intelligence have gone down considerably.

The conditions which the present devaluation was to cure are in every way the opposite of those prevailing in 1931. Great Britain today is suffering from over-consumption and over-employment, not as she did in 1931 from over-production and unemployment. She does not raise enough goods to pay for her imports, for her new overseas investments and for the payment of her debts.

In a free economy, devaluation must almost automatically raise the costs of imports and thus reduce consumption—it did not work in this way in 1931, as import prices continued to fall. In Britain's planned economy, imports do not depend so much on price movements as on government purchases and controls. They can be reduced by cuts of the type announced before devaluation was decided upon. But cuts are no remedy until they hurt so badly, that people try to get rid of them by greater output at lower labor costs, and increased exports. When cuts are not offset by imports from other areas, a larger share of the national income can be spent on domestic products, and the supply of goods available for exports is actually diminished. Foreign markets, moreover, contract for countries whose exports are not admitted and have no means to pay for their imports. The United States may not react in this way for they are giving away goods, but Canada does and has badly suffered from them. Cuts, moreover, do not prevent price rises of essential goods which must be imported to keep the industrial machine going; they drive up costs of production all round.

Devaluation defrauds those foreign creditors whose claims are expressed in the devaluation currency. They can, it is true, buy the same amount of goods as before until prices rise, provided that their assets are released and the goods are available. When their accounts are blocked and permission to use them is tardily given, their claims shrink in value as prices rise. By this process, Great Britain's 3.5 billion of frozen debts may finally be reduced to 2.45 billion. The creditors can avoid this by devaluating their own currency to the same degree. All members of the sterling area with the exception of Pakistan have done so. But their overall situation is worsened, for they have to pay more for imports from hard currency countries, and their purchasing power very quickly contracts.

Devaluation after all is a gratis transfer of part of a nation's purchasing power to other countries. It means selling your country short. If not a cause of a nation's pauperization, it is a revelation of it. The devaluation of sterling by 30% has added over 40% to the purchasing power of the dollar. Great Britain can buy 30% less in the United States and elsewhere, and the United States can buy over 40% more in Britain, and of its devaluating camp followers. This redistribution of the world's wealth by a socialist Britain in favor of the capitalist United States may perhaps be interpreted as a belated act of gratitude for the $6 or more billion which British labor has grudgingly accepted from the much belabored minions of Wall Street.

Britain Has Not Got the Goods

Unfortunately there is no guarantee that this sacrifice will succeed. Were the United States to spend 42% more dollars on British goods than before devaluation, the problem might be solved. But this implies their buying expanded British imports at predevaluation prices. This will not be done, partly because dollar costs for many British goods were too high and British deliveries too tardy, but partly too because Britain has not got the goods. In order to succeed, Britain must first reduce dollar prices, apart from some particular goods like whisky. A reduction of 15% would necessitate about 20% more sales in order to get the same number of dollars as before devaluation. There is no valid reason to assume that British production could rapidly exceed that amount under the stimulus of greater dollar profits. An increase of 20% would leave Great Britain's dollar shortage just where it was before devaluation.

She might, of course, switch over the so-called unrequited exports to countries like India to the United States, thus avoiding payments on her frozen debts. About 15% of British exports were released last year (£267 million) for this purpose. Such diversion would threaten the stability of India's economy and her political relations with the Commonwealth. The needs of the United States and India are moreover hardly identical, and the overall problem, insufficiency of all British exports, would not disappear.

Again, additional exports might be diverted from the home market. Here, too, the scope is limited. A large percentage of British consumption consists of capital goods, of consumers' goods and of services which are not exportable. No price reduction will induce United States consumers to buy British council houses or spectacles made for the health services, or solicit medical attendance. The offer—now being withdrawn—of free medical attendance for tourists to Great Britain, would secure additional dollars only were it to become one of Britain's main attractions to dollar owners. Nobody who knows the United States can imagine, that their citizens will rush over in shoals to be treated free of cost by British dentists, so that they can spend their hoarded dollars at Ascot or Stratford-on-Avon.

A diversion from the home market of a considerable percentage of Britain's actual output would, moreover, contract the volume of physical goods available for domestic consumption, while the national money income would if anything be expanded. The government attempt to obviate its pressure on prices by frantic appeals to keep wages stable and to save. They do not seem to be aware of the inherent immorality of asking people to postpone purchasing when informing them in the same breath, that they will get less for their money a few months hence. It is bad psychology too; once the potential investor gets really frightened, he loses all sense of proportion, and buys not what he really needs, but any stuff which may or may not be of use in the distant future, provided it has some physical durability. Fortunately this country has not been caught yet by a genuine fear of inflation; the bulk of the working class feel safe as long as rising prices are offset by more or less speedy rising wages. Where wages are automatically adjusted by agreements based on costs of living indexes, this catching-up can not easily be stopped; it threatens to release an all round demand for levelling up wages. In these circumstances, ceilings and exhortations can hardly hold down rising costs of production, and with them the magical, but purely temporary advantages of devaluation are bound to vanish.

Some observers consider this the natural salutary course, which events should follow when the price level has sufficiently risen, total purchasing power and total output will, they imagine, balance properly. But when this happy equilibrium has been established, costs are bound to be so high, that nothing but another devaluation would make many goods salable in dollar countries. Moreover millions of people with rigid incomes who are already suffering badly, will slowly be pushed down to the level of actual paupers. Owners of gilt-edged securities who cannot switch over into equities, holders of policies and pensions are being systematically robbed of their share of the national income, which they bought trusting the State. To them the State is not a benignant provider of welfare, but a thief who, under cover of euphonious phrases, is taking away their property. They have been unwise enough to try and provide for their old age by their own efforts, instead of calling on their fellow citizens to do it for them.

The government leaders flatter themselves that they can keep the price level fairly stable. They do not mind a slow rise, which will permit them to reap the benefits of devaluation. It will not bring them about until it can furnish a sufficiently strong incentive for an increase of the national output.

British Worker's Attitude

Fear of plenty — as the harbinger of unemployment — has made the British worker choose "leisure preference," or if one wants to put it differently, "austerity preference." Austerity has not hurt him very much—Anybody who has observed austerity on the Continent during the first world war or later in the year 1947, knows that well. British austerity is an irritant rather than an incentive. Were it not so, the members of the government would not dare to go round the country and tell the voters, that they are better off than they ever have been, and if the voters really felt hurt, they would not believe them. But when people fear that their extra efforts—besides being uncomfortable — may undermine their security, strong incentives are essential. Incitements for entrepreneurs, though badly needed, cannot be very effective; even when they are allowed to obey the profits motive, they have few means for imparting them to a working population which prefers comfortable scarcity to competitive plenty. A painful rise in import prices and costs of living might provide incentives, were the government strong enough to hold down wages. This was not necessary after the 1931 devaluation, for the continuous fall in foodstuff and raw material prices was pushing down costs of living; it will hardly be repeated for agricultural prices are pegged. Had the United States adopted the Brannan plan, under which the farmers' income is kept stable, while prices of farm products are allowed to fall, costs of living would have gone down. But next year is an election year, and as the American farmers do not seem to be greatly enamoured of the plan, it will not come up again before it is over; import prices in devaluating countries must rise.

In that case, **stable money wages** represent **declining real wages.** But it is in the power of the workers to increase their home take rapidly, at **stable money wage rates** by turning out more exportable goods. Increased output per man or shift would automatically cut costs by spreading overhead expense over a larger number of salable units. Without monetary deflation the price level would slowly decline and real wages would rise. Seventy years ago, progressive economists struggled hard to make employers understand, that higher wages and shorter working hours would in the long run reduce labor costs and increase profits. Many employers finally learned the lesson. In the meantime organized labor seems to have forgotten it. It will remember it perhaps only after it has found by bitter experience, that scarcity in the long run makes for more terrible unemployment than plenty.

The government is slowly realizing that some sort of monetary pressure may have to provide the stimulus for greater output. It does not dare to use the word "deflation," nor the methods by which it is worked. In the minds of most bright progressives, deflation is but an alternative term for original sin. It must not be touched—though if it is called "disinflation" it may not be deadly. Discount policy and even open market operations are of course of little avail in a world which has persuaded itself, that one can instantly transform bank money into physical capital by charging half a percent on it. Within the range of its suction power money can draw goods out of the production process; when this limit has been overstepped, cheap money almost invisibly fades into genuine inflation. It has to be syphoned off in some way. But governments who have pinned their faith on cheap money, do not dare to go boldly into reverse for fear that the entire credit structure may tumble down. When they have waited long enough it happens anyhow, as the depredation on the gilt-edged bond market in England is clearly demonstrating.

The way out is a reduction of government spending, especially on non-reproductive capital goods. When this is done on a sufficiently large scale, workers on such projects will become redundant, and transfer with a little gentle prodding to export industries needing a larger labor supply. That part of the national product which has been non-reproductive and non-exportable, will be reduced in favor of another increasing portion which can be sold to dollar countries. The scheme might work, were the scale of dismissal large enough to give a shock to the workers and to show them that both their comfort, their income and their job had been based on very unstable foundations — the bounty of the United States. Yet it is doubtful whether the pressure the government is able to apply is large enough to produce that shock, and without it the nations movable output will hardly grow fast enough to neutralize both rising import costs following devaluation and lesser dollar income per unit, without which sales cannot be expanded.

Labor in the United States has sometimes deliberately created temporary unemployment by strikes in order to bring about relative scarcity in the markets of its particular products; it can evidently afford it. British Labor's preference for relative scarcity and limited output is suicidal; for Britain's output must buy overseas foodstuffs and raw materials, without which she cannot work. It can hardly be increased sufficiently by a precariously balanced budget accompanied by mild semi-coercive direction of labor into export industries. As long as British Labor is content with stable incomes and stable purchasing power, output will not increase sufficiently, and costs will not adequately decline. But the British are slowly learning that leisure is the most expensive luxury a nation can indulge in, for while all other luxuries must be paid for by hard work, it is secured by doing nothing. The Continent used to reprove the English Upper Class for not being on the job from Friday afternoon until Monday morning. In the good old days when Britain sat on the top of the world, she could very well afford it. Now that Britain is living on the bounty of the United States, the whole nation has become week-end minded. Ample leisure is a high social ideal, but it does not create wealth; it is derived from it.

In the long run, the spectre of real scarcity—not merely the return of some coupons—and of rising prices will induce employers and employees to raise additional output at falling costs for export to all the world; not merely to shift from one market to another, otherwise devaluation will have been merely a shot in the arm, and unlike the 1931 devaluation, may be repeated. The decision of the General Council of the Trade Unions Congress to recommend a wage stop until 1951 as long as the price index does not fall below 112 (the present day figure), and does not rise above 118 implies the willingness of organized workers to accept temporarily a somewhat reduced standard of living. Experience can only show whether this potential fall of 5.36% in the purchasing power of wages and the "rationed unemployment" occasioned by the government's reduced expenditure will be sufficiently painful to induce more strenuous efforts on the part of the workers, resulting in a larger output at lower costs. The pressure may be offset in part by smaller spendings on amusements or by diminished savings and greater dissaving. In any case, it is a first recognition by British Labor of the plain fact, that no national socialist government is in a position to impose the stability it hankers after on the economic forces which move the world. In 1931, sterling was allowed to find its own level. It was stabilized as a convertible currency after the cataclysm which British devaluation had started, had somewhat subsided. Today there is no flexibility, and though the shock following devaluation, so far at least, seems to have been less violent, the end is not yet in sight.

Two With Waddell & Reed, Inc.

(Special to THE FINANCIAL CHRONICLE)

Walter Nielsen of Upland, Neb., and John W. Micek of Benkelman, Neb., are now associated with Waddell & Reed, Inc. of New York.

D. T. Moore & Co. Admit

James W. Brooks, member of the New York Stock Exchange, will become a partner in the exchange firm of D. T. Moore & Co., 50 Broad Street, New York City, on Jan. 1. He has been active as an individual floor broker.

With Hegeman Co.

(Special to THE FINANCIAL CHRONICLE)

STAMFORD, CONN.—Richard S. Vezina has become affiliated with Hegeman & Co., 300 Main Street.

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Continued from page 2

The Security I Like Best

it in Russia and the Ukraine. The world demand for sugar is expected to be substantially higher.

During the year 1949, the Cuban sugar companies suffered substantial inventory losses because of a drastic break in prices for blackstrap molasses, a by-product. These losses taken during the 1949 fiscal year, were a major factor in reducing earnings for the period. These losses should be non-recurrent and we do not expect them to be a burden on earnings for the 1950 fiscal year. All other things being equal, and figuring no profit on molasses—earnings for most of the Sugar Companies based on the anticipated production and an average selling price no lower than 1949, should be higher in 1950.

For instance, we estimate in the case of Vertientes-Camaguey, which earned

$5.28 in 1947
4.25 in 1948
2.08 in 1949

earnings of from $2.50 to $3.50 for 1950, depending upon the average selling price of sugar and molasses during 1950. The dividend rate of $2 appears safe and we expect its continuation. Priced at $12½, the yield on the stock is 16%.

In the same manner, Cuban Atlantic, which earned

$10.68 in 1947
8.35 in 1948
3.50 in 1949

could very well show earnings of between $4.50 and $6 for 1950. Regular dividend rate is 50 cents quarterly—an extra of 25 cents was paid in 1949, $1 in 1948 and $1.50 in 1947.

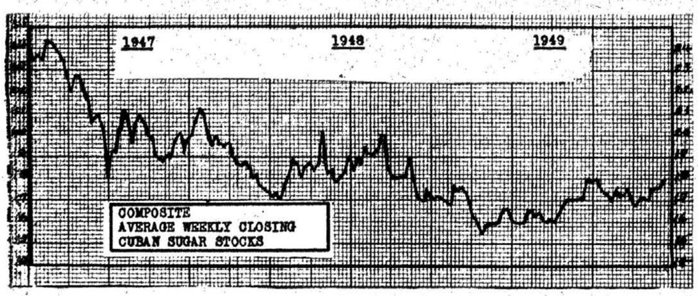
The current price is 19.

It would be our judgment that with price and production conditions during 1950 as related dividends for these two companies will not be less than in 1949.

From an international political standpoint, it would be well to follow the Chinese Communist attitude towards Formosa—any attempt to invade that sugar producing country could advance the world sugar price as it would necessitate supplying Japan from other countries.

We present herewith a chart of composite averages of representative sugar producing company shares since the beginning of 1947. At current levels, these sugar shares are not very far from their lows; one can detect a modest improvement in recent weeks, which suggests the beginning of an upward trend. The entire group appears to be in a position where substantial advances could take place during 1950.

Cuban Sugar Stocks



GERALD P. PETERS

Peters, Writer & Christensen, Denver, Colo.

When the subject matter of this forum was first mentioned, I said Government bonds, Series E—seventy-five—what could be better? And then I read, during the last ten years, while you may have gained 25% on the Series E, you lost 40% on the purchase price of the dollar.

Gerald P. Peters

So I said, "No, that's out, certainly, for the security man," and I said, "Here is a chance to do a little advertising in a local security about which most of us know some and some of us know more," namely, Frontier Refining common. I like it for the following reasons:

Maurice H. Robineau, who runs the company, is young, intelligent, capable, earnest, hard-working and successful. When he started in this business in 1940, and he got his little skimming plant up in Cheyenne, as a result of a suit with the Bay Petroleum Company, he went in with a very small company, a very small market, and very small earnings.

He first took that skimming plant and made a cracking unit out of it. He then turned the cracking unit over so that it could burn both sour and sweet crude. He then began to develop a market for the oil, which he had to buy in the Wyoming markets.

Along came the war. He was successful with Senator O'Mahoney and with the Government of the United States, and succeeded in having constructed in Cheyenne a hundred octane gasoline plant, for airplane gasoline. He ran it successfully for two or three years, until the end of the war, and then proceeded to purchase that plant at about one-sixth of its then value.

That purchase was completed. The plant came into his hands. He still had no oil, he had refining. And he had to gear the market He went out and sold about 85% of the production to the major distributors and about 15% to his own distributors.

During the last two or three years, the situation so changed that now he is selling about 85% to his own, and controlled, market, and about 15% to the major distributors, and since that time he has found oil.

He has oil in Zimmerman (Butte), up in Wyoming; he has oil in Maudlin Gulch, over in Western Colorado; he has some oil in Kansas; and he has a big field in Fiddler Creek, up in Wyoming.

Based on the first well, which came in 200 barrels a day, if run at capacity for a year, he would add $2,000,000 a year income to his company.

With fewer than a half million shares outstanding, it doesn't take much mathematics to determine that one well, if run at capacity, would mean about $4.00 a share to that company.

He is turning out the finest gasoline in this area. He has not only the highest octane of any gasoline in this territory, but he has polymerization, which means that it comes out with less sulphur in it than any other cracked gasoline in this territory. He has developed his own market. He has developed his own distribution. He has developed a capacity to sell all the gasoline which he can turn through the original refinery, and the government refinery, which has been turned over for automobile gasoline.

The stock has gone from one to 45 dollars a share in the last ten years. I would like to see another one that is its equal and I think from here on, Mr. Robineau expects to do it again.

J. A. WHITE

J. A. White & Co., Cincinnati, O.

The security I like best is the obligation of a school district or a community in Ohio whose economy rests upon agriculture, where the land is rich and productive and whose taxpayers are principally of German descent. Such a bond is not listed on any exchange, it is usually not "rated" by any national rating service and its "marketability" is admittedly not what the bank examiners seem to want. But the quality, the inherent soundness (which the examiners appear also to want), is superb.

J. Austin White

Such a security will not satisfy the speculator. It is not recommended for the person whose aim is to make money by capital appreciation. But it is an excellent investment for banks, for individuals, trustees, institutions, in fact for anyone who wants safety of principal and who pays Federal income taxes. And, in accordance with Emerson's law of compensation, these bonds carry a relatively high yield to compensate for their relatively low marketability. In fact, for this reason alone, some of these bonds, though actually of high quality, afford sufficient yield that they can profitably be purchased even by institutions and funds that do not pay Federal income taxes. This is particularly true of the longer maturities of many such bonds.

Further, such a security is not recommended as the usual so-called "hedge" against inflation. In this forum on "The Security I Like Best for the Future," probably many securities will be suggested as "inflation hedges." Assuming that there is such a thing as a satisfactory "hedge against inflation," one should realize that there is need for a hedge against other misfortunes.

The word inflation is used far too loosely, of course. But the threat of runaway inflation, where people lose confidence in the government credit and in the soundness of the dollar, seems indeed to be a real one. The people may yet abate this threat by sending to Washington a more conservative Government that will be more reluctant to spend, and give away, the American taxpayer's dollar. If the voters elect to return the same spendthrift Government as we now have, with the philosophy that Federal expenditures cannot be reduced and the only way to balance the budget is by levying more taxes, then we shall be faced not only with a greater threat of such runaway inflation, but also with a veritable Socialist Government. This Government, in the name of "protecting" the people from the inflation which the Government itself is causing, will shackle the people (not merely business, but all the people) with ever more controls, the same controls which have proved so destructive to Europe and England. It matters little whether such a Government be called the New Deal, the Fair Deal, Socialism, Facism, Nazism or Communism. The difference is only one of degree, and the result is a shackled economy with an increasing loss of individual freedom. Such a prospect is hardly conductive to investments in common stocks.

The security I like best is probably more suitable as a "hedge" against such a shackled economy than against inflation, because it is intended to provide safety of principal, with commensurate income, in an economy which promises to be disrupted by ever increasing governmental controls and taxes. Now why do I feel that safety of principal is provided in a bond of a community whose economy rests upon agriculture, where the land is rich and productive and whose taxpayers are principally of German descent?

In the first place, the economy of such communities has proven stable in the past, and will likely continue so. Agriculture is generally well diversified throughout Ohio. Such a community would not be dependent upon any one crop. There is no concentration of employment under one or a few managements, as might be true in an industrial community. Generally speaking each farmer is his own employer, and there is uniformly a greater degree of economic stability in a community of many small employers than in a community of a few large employers. Further, the rich land can be relied upon to produce enough to permit the farmer to meet his obligations, including the payment of his taxes.

In the second place, the farmers in such areas of Ohio have an enviable record of meeting their tax obligations promptly. This favorable record of tax payments, even in 1932-34, results not only from the ability to pay taxes in depression years as well as in prosperity, but also from a commendable desire to pay such taxes Probably the farmers, especially in the rich areas of Ohio, have a more desirable attitude toward paying their taxes, than any other group of people in the nation. As one banker put it, these people "feel good" when they have paid their real estate taxes. Furthermore, the investor should remember that such a bond is payable from taxes levied on the land which represents not only the farmer's home but also his business, his livelihood. There is thus a doubly compelling reason for the farmer to want to pay his real estate taxes.

In the third place, the so-called "German" farmers in Ohio have won for themselves an enviable reputation, both for paying their taxes promptly and also for being good farmers, both of which attributes are favorable for the investor in bonds of such communities. These farmers are not Germans, of course. They are Americans, and have been for many years. But they are of German descent, and they have won for themselves an almost universal reputation for being hard working, thrifty and conscientious Wherever one finds these German farmers he will almost invariably find that the land is rich. As one experienced banker-farmer put it "These fellows just aren't attracted by poor land." And you can rely upon their keeping the land good, by capable management.

In other words, I like such a bond because it is an obligation of a community with a stable economy and with taxpayers who are capable in their business and want to meet their obligations promptly. With such a favorable economy and favorable type of people, one need hardly ask about the debt burden.

Three examples of the type of bond which I like best, the payment of which rests on rich farming land in Ohio with diversified agriculture and with the farmers principally of German descent would be: Pettisville Local School District in Fulton County, Wasseon School District in Fulton County, Celina School District in Mercer County.

WILLIAM WITHERSPOON

Newhard, Cook & Co., St. Louis, Mo.

If I were asked what type of investment security I preferred at the present time, my answer without hesitation would be, "Common stocks." However, when asked what particular common stock I like best, I find it difficult to select one issue out of the many attractive ones which are available at the present time. Hence, the problem seems to resolve itself into the selection of a stock that could be attractive to the largest number of investors, whether they be small or large, speculative or conservative investors. The most universal stock, I believe, is that of General Motors; therefore, that is my selection.

William Witherspoon

General Motors has a wide range of products. Not only has it a diversification in the manufacture of automobiles in all price classifications but also a wide range of non-automotive items. This lends a degree of stability to the company's business that is not present in many corporations—an attribute of conservative investment.

Automobile manufacture, of course, dominates the total business of General Motors, and therefore, its sales have been very large during 1949. The demand for automobiles has been prodigious during the past few years, caused by the deferred demand created during the war. This "vacuum" is rapidly being filled. Nevertheless, replacement demand commensurate with the number of automobiles on the highways, and disposable personal income in the United States, should maintain present production schedules for at least several years to come. Hence, earnings should remain good if profit margins are maintained.

The 22.5% profit margin of General Motors before taxes during the first nine months of this year appears to have been somewhat on the high side, historically speaking—possibly by 2 to 5 percentage points. However, earnings for the full year of 1949, which have been estimated at somewhere between $14 and $15 a share, would have been in the neighborhood of $12 per share if the profit margin had been reduced to the more normal level through higher costs or lower selling prices.

Some reduction in earnings from the peak year of 1949 may be experienced in the early 1950's, but consider the amount of decline in earnings that must occur to impair the payment of even the lush $8 per share annual dividend if the comment of Messrs. Sloan and Wilson is to measure the disbursements. They pointed out recently that dividends in the pre-war years averaged about 85% of earnings and that something approaching this proportionate amount might prevail in subsequent years. If this policy should prevail, earnings

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would have to decline to under $10 per share to jeopardize the $8 annual payment and could decline to around $6 per share and still permit an annual dividend at the regular $5 rate. Even on a $5 annual dividend the stock at current levels of around 69-70 yields approximately 7.2%—a good return for anyone's investment, even in this time of prevailing high yields on common stocks.

General Motor's common stock appears attractive not only for the high yield that may be anticipated during the next few years, but also for appreciation possibilities. Dividends of between $5 and $8 per share cannot continue to be paid over a protracted period of several years without the price of the stock eventually reflecting that condition by a substantial appreciation. Hence, this common stock should attract those investors with a speculative inclination.

In summary therefore, the common stock of General Motors offers the large investor an equity of a proven concern with an excellent past record and although he may not be as interested in the large return, he should, nevertheless, be interested in the good possibilities of capital appreciation. The same is offered to the small investor, but the high rate of return will probably appeal more enticingly to him. The trustee should be attracted to General Motors because of its "blue chip" characteristics, while it should appeal to the speculator because of the capital appreciation possibilities during the next few years. Hence, this issue appears to be a universally attractive common stock.

Continued from page 11

Salesmen Wanted

happy to report that a marvelous camaraderie has been built between your personnel and ours.

Business from the hotel clientele on our system amounts to many hundreds of thousands of dollars every year. And, let me assure you, there is no air line in the business more interested in taking care of the needs and wants of the hotel people than Eastern, because we fully realize that only through cooperating with your boys, can we hope to receive the same consideration from them.

Some resort hotels regularly supply us with convention leads and even guest lists which are solicited by our sales personnel in the joint name of the hotel and Eastern. This is Service, gentlemen, and our customers like that kind of consideration.

Day in and day out we have traffic representatives, reservation clerks and counter sales agents visiting and talking to our passengers and prospective passengers trying to sell them to use Eastern when they travel—go on business trips — attend conventions—take vacations—and go on fishing or hunting trips. All of which has a large volume of hotel patronage at its terminal points.

I mention this to prove that, in addition to being so similar in our business activities, we are complementary one to the other. We bring people from near and far to **your** door, or we take them from **your** door to that of another hotel hundreds of miles away.

In like manner, you arrange air transportation for your guests through the efforts of your transportation people.

Must Measure Sales on 24-Hour Basis

Our sales success, the same as yours, must be measured on a 24-hour basis. The loss, created by the room that remains unsold tonight, by the seats that remain empty in flight, can never be recaptured.

Most manufacturers, wholesale and retail dealers are in partnership with Father Time, because if they do not sell today, they have a chance to sell tomorrow. In the hotel and air line business, Father Time works against us. There is no "Tomorrow" for today's empty rooms and empty seats The only advantage you have is you don't go broke at the rate of 200 to 300 miles per hour.

Then, too, our problems of how to make enough profits to stay in business are very similar in their basic aspects. None of us can stay in business unless a large share of our population engages in travel for business, health or recreation. None of us can stay in business unless our facilities stay "sold."

Since our problems are so identical, it is fortunate that the solution of our difficulties runs in parallel channels.

Your house count must run from 80% to as high as 90% of capacity before you reach the break-even point. Our load factor or seat sales must rise above 60% of capacity before we fly out of the red.

Assuming that these break-even points in seat sales and house counts are arbitrary and cannot be reduced by internal economics, there is but one way to bring our services and facilities to the public and that is through SALESMANSHIP.

There is nothing new in this idea—no magic formula about it. Salesmanship is an American invention. It began with the prerevolutionary Pack Pedler.

"Salesmanship Must Be the Fuel"

Throughout the years, it has created and met the demand built upon new discoveries, inventions and research. In our modern world, science and invention may form the engine and vehicle of our advancing pattern of existence, but salesmanship must be the fuel that will make it go places in America, and all over the globe.

Yes, gentlemen, salesmanship—creative, inspiring and effective salesmanship.

And while it is true the various forms of advertising are vital aids to sales, the elements that fight the ever-present elements of sales resistance are human elements, the Hoof and Mouth Shock Brigades of Salesmen—the vigorous push-button warriors — the fighters who ring door-bells.

A salesman must have the ability to contact all types of people. He must know his own business so thoroughly that he can answer all questions so satisfactorily he will convince his clients that he can produce and will deliver the goods and services he offers to sell. This seems, at first blush, a rather simple problem to solve.

But, salesmen! Just get some saelsmen! That is easier said than done. Good salesmen do not grow like corn in Kansas, and yet our economy at this time stands in need of more and better salesmanship than ever before.

Proof of this was furnished recently by James J. Nance, President of Hot Point, Inc., when he said that the electrical industry alone could absorb 150,000 salesmen in addition to those now employed. It takes productive power to put goods on shelves. And it takes sales power to create and maintain demand and take the goods off the shelves.

In Eastern Air Lines this year, because of changing conditions, we realized we must center our efforts on Service, as well as Sales. To me, Service is the key on which our business and yours is going to stand or fall, and that means you gentlemen, individually and collectively.

If the men and women in all departments of management think in terms of "Service," the task of selling will be a lot easier for the salesmen, because they will find big Welcome Signs on the door mats of customers, instead of mile-long tales of woe and bushel baskets of complaints.

Frankly, I am 100% with the salesmen—the **good, conscientious** salesmen. Pave the way for them by good services. Then they will be able to confine themselves to selling new customers, instead of going out and spending half or two-thirds of their time trying to resell mishandled or dissatisfied customers.

In Eastern we expect everyone to be a salesman, and that goes from the porter right on up to the top. It makes no difference whether he or she is a pilot, mechanic, traffic manager, supervisor, agent in operations, reservations, ticket counter or a radio operator—we expect everyone to sell—everyone to be a salesman.

This means everywhere they go—what they say or do—how they say or do it—as it all reflects on the public's attitude toward our company. The same goes for your people and your hotels.

Sales and Service Means Success

To succeed, we must combine Sales with Service. Let us always remember—to hold your own, you must work like a beaver. To get ahead, you must work twice as hard. To stay ahead, you must pull everlastingly with all your might.

But let us reflect a few minutes on the return of peacetime economics and the need to go out and work for business. In other words, to make four sales grow where only one sprouted before.

During the years that led up to our entry in World War II, and a few years after actual combat ended, we lived in a false prosperity—an Alice-in-Blunderland existence where people got paid for making errors, a period in which everybody won high awards with little or no effort.

Now At Turning Point

We are now, at long last, on the turning point from that high plateau of super-duper prosperity—a fool's paradise which too many people came to accept as normal. We are now on our way down to that lower plateau of realism and cold facts, which goes with peacetime activities.

Frankly, I am glad that we are returning to that level because now men will have to prove their ability to succeed. Men seldom do that when they are strolling on Easy Street. The same applies to employers. They went soft. Now management must again prove its ability to regain and retain its leadership.

In that connection, you hear a lot of crying on the part of businessmen. It is pathetic to me. I have talked to executives and sales organizations in various industries and, actually, it is shocking to find out how little some of the younger men understand and know about sales and selling.

We have lost a generation of salesmen. We have had no salesmen for the past 12 or 15 years. The reason is that business did not need them. People wanted more goods than were being produced—more services than were available.

Most people — merchants and owners of the business and so-called salesmen—turned into refusers. They could not get it for a year. They could not get it for six months. You cannot have it. We have too long a waiting list now. We do not want your order, it just clutters up our files and causes a lot of accounting that we do not want anything to do with.

During this insane state of affairs many companies discharged or laid off their salesmen. And what happened? Some of them died—some of them went into other lines of endeavor, some graduated into better positions, but too many of those who remained were contaminated with that Alice-in-Blunderland order-taking philosophy, and will never change because they are too old to change.

Therefore, most of them, as the years go by will find themselves on the relief rolls because they do not have the stamina it takes to sell. They lack the courage it takes to go down to the bottom, start over again, and fight for business.

You hear so-called salesmen crying because the client they called on said—"Well, I do not want your product, I am going to wait awhile. It will get cheaper." Those salesmen do not know ordinary everyday sales resistance when they see it.

When the new-model salesman meets resistance, he is lost. He is stopped cold right there because he does not have the sales-conviction, the business backbone to say "You are wrong! I have what you need today—not what you need next week, nor next month! And, I have the best there is at the right price, and right now."

Then, there is this everlasting talk about a slump! Do you realize, gentlemen, that today the level in industry and business is higher in volume than it was in 1939 and 1940 by 30 to 40%?

What are people talking about a slump for today — in 1949? There was no slump nine or ten years ago—there was prosperity. In fact, were zooming into that super-duper level of prosperity which spoiled so many of us. It made order-takers out of salesmen, and snobs out of those who should provide services.

When we talk about a 10 or 15% further drop, let us remember that the same thing could happen today that happened in 1929. You younger men never experienced those harrowing times. You entered your business careers on a high tide of prosperity—the highest that this land has ever known—superficial if there ever was anything superficial.

Slipping Back to Normal

And now that things begin to slip back to normal, a lot of younger men shed tears of self-pity over their hardships instead of good honest sweat through salesmanship.

Do not think that I do not understand your problems in the junior ranks of your various sales organizations. The number of young men equipped to face a Buyers' Market is pitifully small and yet, the very prosperity of the nation, our ability to keep our own heads above water and those of the rest of the world too, depends upon salesmanship.

In addition, it depends on our ability to prevent a Buyers' Market from reaching the same destructive extremes as our recent Sellers' Market.

I have great faith in the fruits of personal contacts in selling. Show me a good salesman and I will show you a man who makes friends. Not because he is a "good-fellow well-met," but because he tells the truth about his goods. He is not only informed but dependable. He makes friends. And that is what a business must have—friends.

It is trite, but true, that you cannot get on in this world without friends, be it business friends, social friends, or political friends. Friends — people who will help you, who are ready to give you a boost, indirectly or directly, whether you are there or not. Friendships are our greatest assets.

In the air line business, we are now engaged in making a brand new class of business friends — the traveler whose buying capacity will, in the long run, help to reduce the costly number of empty airplane seats and unsold hotel rooms.

I refer, of course, to the new low-fare, air coach flights which may change air travel from a class institution to a mass market.

Last summer, Eastern led in an experiment toward developing a low-cost summer influx into Florida and neighboring resort regions. Over a period of four months, we spent about $1,500,000 to prove that our great winter playland has an all-season appeal to vacationers.

Florida hotels, resorts and Chambers of Commerce cooperated in every way. Of course, even as Rome was not built in one day, so Florida's all-year role was not established in one summer.

But one thing was proven to our satisfaction — namely, that air lines and hotels working hand in hand can fill seats in airplanes and can sell rooms in hotels to people who never before have used either planes or resort hotels. You and I are both in business to succeed. When people travel, we prosper.

More Travel Ahead

One of the most beneficial by-products of our high level of prosperity has been a lively interest in the world and its affairs, coupled with a growing urge to travel. I am one of those who believe that to know America best, you must see America first.

In other words, do not spend time and money visiting other lands until you have seen your own. And I can assure you, gentlemen, that my interest in promoting this type of travel is entirely unselfish. It happens, however, to be completely in line with my belief that the main sales effort on the part of all thinking Americans should be to sell America.

In fact the danger is that unless we do that very thing, there will be nothing left in the world to sell. Welfare States and Poor House Governments have no need for salesmen. They only employ spenders and collectors.

Some of you may conclude that I have taken quite a bit of time to make a rather obvious sales talk. Yes, this is a sales talk.

Let me urge you to always remember there is no land like our land anywhere on the face of the globe. And, I am never too busy to sell that idea with every power at my command.

I believe in the United States, and I cannot think of any better way for a person to spend his vacation than in knowing more about this country of ours. Whether it is Michigan or Florida; the French Quarter in New Orleans or Beacon Hill in Boston—take advantage of the opportunity to meet and talk to your fellow citizens from all over our country—learn about their ways and glean their views — make new friends and then go back home to old friends with new ideas.

But more than that, you will go home with a new respect for our fellow Americans in every walk of life—a respect that will help us build in others a living loyalty and love of America that is more than selfishly skin-deep.

First Secs. of Fla. Formed in Tallahassee

TALLAHASSEE, FLA. — The First Securities Company of Florida, Inc., has been formed with offices in the Lewis State Bank Building, to deal in state and municipal securities. Colin English is President of the new firm.

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Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

Despite widespread optimism, market still not considered in good shape.

The great majority of present-day investors are vociferously bullish and the bears are silent. The various popular theories of stock market movements are being quoted daily to "prove" that stocks are going still higher and end with the conclusion that anybody who doesn't buy today is a sucker.

* * *

I'm afraid I'll have to be placed in the sucker category because I don't think stocks are the wonderful things people say they are. That old saw that stocks were made to be sold, is more applicable today than ever. I know, for example, if I wanted to sell a large amount of stock, I would do it when everybody wanted to buy them. I can see that sort of a thing going on all through the market.

* * *

This doesn't mean that the top has been seen, though it may have been. A buying-minded public can take markets still higher. It does mean, however, that the danger signals I thought I saw a few weeks ago, have not disappeared.

* * *

The only stock you're still long of is Denver Rio Grande. You bought it at 23, it's now about 29 and has a stop at 26¾. If it should get across 31 before the next column appears, then take your profit. If not, don't forget the stop.

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.]

Pacific Coast Securities

Orders Executed on Pacific Coast Exchanges

Schwabacher & Co.

Members
New York Stock Exchange
New York Curb Exchange (Associate)
San Francisco Stock Exchange
Chicago Board of Trade

14 Wall Street New York 5, N. Y.
COrtlandt 7-4150 Teletype NY 1-928
Private Wires to Principal Offices
San Francisco—Santa Barbara
Monterey—Oakland—Sacramento
Fresno—Santa Rosa

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The State of Trade and Industry

during this period that the automobile industry expects to set production records and expects March to be a record for all time.

This week the steel order picture continues to look good. Cancellations are running at about the same rate as they were, which is practically nil. Order volume has tapered off a little, mostly because mills are booked so far ahead that consumers are discouraged about trying to place orders right now.

There are at least five other bright business prospects on the horizon as the year ends, "The Iron Age" discloses: (1) Tremendous public works plans; (2) continued heavy buying by utilities; (3) new road-building programs; (4) a high level of housing construction; and (5) good prospects for office buildings.

No time is a good time to increase steel prices—from the political standpoint. However, one prominent government economist told "The Iron Age" that the steel industry's primary mistake was that it did not raise prices as much as producers of other basic commodities—that "if it had done so during the early postwar period none of this furore would have been raised." By this week most steel companies had met the new prices made effective Dec. 16 by U. S. Steel Corp.

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 93.1% of capacity for the week beginning Dec. 26, 1949, a decrease of 1.4 points from the preceding week's rate of 94.5%.

Curtailment of operations in some plants on Christmas Day accounted for the week's lower output.

This week's operating rate is equivalent to 1,716,300 net tons of steel ingots and castings compared to 1,742,100 net tons one week ago. A month ago the rate was 87.7% and production amounted to 1,616,800 tons; a year ago it stood at 97.3% and 1,753,800 tons, and for the average week in 1940, highest prewar year, at 1,281,210 tons.

ELECTRIC OUTPUT LAST WEEK 8.8% ABOVE LIKE PERIOD IN 1948

The amount of electrical energy distributed by the electric light and power industry for the week ended Dec. 24 was estimated at 5,993,943,000 kwh., according to the Edison Electric Institute.

It was 2,663,000 kwh. lower than the figure reported for the previous week, but 485,703,000 kwh., or 8.8% higher than the total output for the week ended Dec. 25, 1948, and 1,164,364,000 kwh. in excess of the output reported for the corresponding period two years ago.

CARLOADINGS FALL 4.4% FROM PREVIOUS WEEK

Loadings of revenue freight for the week ended Dec. 17, 1949, totaled 639,723 cars, according to the Association of American Railroads. This was a decrease of 29,102 cars, or 4.4% below the preceding week.

It represented a decrease of 114,829 cars, or 15.2%, below the corresponding week in 1948, and a decrease of 192,407 cars, or 23.1% under the similar period in 1947.

AUTO OUTPUT CONTINUES RISE STIMULATED BY GAINS AT GENERAL MOTORS AND CHRYSLER PLANTS

According to "Ward's Automotive Reports" for the past week, motor vehicle production in the United States and Canada rose sharply to an estimated 115,495 units from the previous week's total of 86,226 (revised) units. It was the first time since the week ended Nov. 19, that the total has exceeded 100,000.

Most of the week's improvement was attributed by Ward's to increased output by General Motors and Chrysler. The former's Chevrolet division resumed car production during the week, after being down since November 30.

The total output for the current week was made up of 88,520 cars and 20,038 trucks built in the United States and 4,310 cars and 2,627 trucks built in Canada.

The week's total compares with 94,668 cars built in the U. S. and Canada a year ago and 24,620 units in the like week of 1941.

BUSINESS FAILURES ADVANCE SHARPLY

Commercial and industrial failures rose sharply to 196 in the week ended Dec. 22 from 161 in the preceding week, Dun & Bradstreet, Inc. states. Failures were above the 116 of the comparable week in 1948 and twice the 91 in the similar 1947 week. However, casualties remained below the prewar total of 249 in the corresponding week of 1939.

Failures involving liabilities of $5,000 or more increased to 154 from 124 in the previous week and exceeded the 104 of this size reported a year ago. A rise also occurred among small casualties, those with liabilities under $5,000, which advanced to 42 from 37 and compared with 12 a year ago.

Wholesaling failures dropped despite the general increase. In retailing the increase was relatively mild, while construction and commercial service failures increased sharply. All industry and trade groups had more casualties than in 1948.

The New England States reported a sharp weekly increase in failures with lesser gains in the East North Central, West North Central, Mountain States and in the Pacific States. In the other areas there were slight decreases.

Increases over 1948 prevailed in all regions except the West North Central and West South Central States with the most noticeable rise in the Middle Atlantic and East South Central States where about three times as many concerns failed as last year.

WHOLESALE FOOD PRICE INDEX SHOWS FURTHER EASING

There was a further slight easing in the Dun & Bradstreet wholesale food price index last week. At $5.73, the Dec. 20 figure compared with $5.74 a week earlier. It represented a drop of 8.0% below the like date a year ago when the index stood at $6.23.

The index represents the sum total of the price per pound of 31 foods in general use.

WHOLESALE COMMODITY PRICE INDEX REGISTERS FURTHER MILD DECLINE

The daily wholesale commodity price index, compiled by Dun & Bradstreet, Inc., moved in a narrow range at a slightly lower level than in the preceding week. The index closed at 246.26 on Dec. 20 comparing with 246.75 a week earlier, and with 268.02 on the corresponding date a year ago.

Grain markets maintained a firm undertone last week with net price changes for the period relatively small. Strength in wheat reflected a lack of hedging pressure and tightness in the cash market where the movement from the country remained small. Export buying of wheat tended to lag; government purchases continued in small volume.

Trading in corn was active with all offerings easily absorbed.

The cash oats market showed independent strength and closed moderately higher than a week ago. In its final report of the year, the Department of Agriculture estimated this year's corn crop at 3,377,790,000 bushels, only 8.3% below last year's record of 3,681,-793,000. The total wheat crop was placed at 1,146,463,000 bushels, or 12.7% under last year's revised estimate of 1,313,534,000. Both crops were far above the 10-year average.

The domestic flour market was featured by inquiries for large quantities of hard wheat bakery flours late in the week.

Actual business, however, remained slow as bakers and jobbers limited their takings to nearby needs.

The coffee market developed a better undertone at the week-end, aided by an improved demand for actual supplies. Cocoa prices continued to rise as major producers continued to hold back on offerings. Lard prices advanced steadily last week. Business in the actual market broadened as traders sought to cover on future commitments. Stocks of lard continued to rise in the first half of November. Hog values stiffened as receipts fell below expectations; closing prices were up around 50 cents over a week ago. Cattle and lamb prices were somewhat easier as pre-holiday demand slackened.

Early steadiness in the domestic cotton market was followed by a decidedly firmer trend toward to the close of the week. The New York spot price showed a net rise of 40 points for the period.

Strength in final sessions was influenced by good export inquiries, an aggressive mill demand and by reports that cotton growers had voted overwhelmingly in favor of marketing quotas on the 1950 crop.

Entries into the government loan stock declined for the week, but were again larger than in the comparable week of a year previous.

For the week ended Dec. 8 entries were 247,023 bales, as against 275,766 the preceding week and 206,684 a year ago. Aggregate entries for the season through Dec. 8 amounted to 1,748,223 bales, as compared with 3,369,790 bales entered through the same date last year.

Cotton consumption during November, as reported by the Bureau of the Census, was about equal to trade expectations, totaling 771,833 bales for the month. This compared with 725,602 in October and 685,881 during November a year ago.

RETAIL TRADE MODERATELY HIGHER WITH NO CHANGE IN WHOLESALING

Retail buying rose moderately in many parts of the country during the period ended on Wednesday of last week. Aggregate dollar sales, according to Dun & Bradstreet, Inc., in its weekly summary of trade, were slightly below the level for the corresponding 1948 week.

Despite price discounts, department store dollar volume equalled that of a year ago in scattered localities.

The demand for apparel increased seasonally last week. Consumer interest in coats rose slightly, while the response to blouses and sportswear was enthusiastic. Lingerie was also popular. Men's ties and accessories were bought abundantly, but this was true to a lesser degree in the case of the volume of suits and coats. The purchase of infants' and children's clothes advanced moderately, in keeping with the Yule pattern.

Housewives bought noticeably more food the past week, as pre-holiday shopping began. Fresh meats and produce were especially sought, following fractional to slight price drops on many items. Canned foods were slightly less in demand, although volume in some items was modestly larger than for the similar period a year ago.

Interest in television was a dominant feature of a substantial increase in appliance selling. Dollar sales of vacuum cleaners and small radios were also heavy. Other popular items were housewares, records and light furniture.

Total retail volume in the period ended on Wednesday of last week was estimated to be from 0 to 4% below that of a year ago. Regional estimates varied from the levels of a year ago by the following percentages:

East, Midwest, and Northwest +1 to —3; New England 0 to +4; South 0 to —4; Southwest —3 to —7 and Pacific Coast —1 to —5.

Total dollar volume on the wholesale level continued steady in the week, being slightly below that for the similar period a year ago. Much re-ordering was on a spot basis. The number of buyers at wholesale centers diminished somewhat.

Department store sales on a country-wide basis, as taken from the Federal Reserve Board's index for the week ended Dec. 17, 1949, increased by 1% from the like period of last year. In the preceding week a decrease of 4% was registered below the like week of 1948. For the four weeks ended Dec. 17, 1949, sales registered a decrease of 4% from the corresponding period a year ago and for the year to date a decline of 6%.

Retail trade in New York the past week displayed much strength at the close due to late Christmas buying. Department store sales were estimated at 10 to 15% higher than a year ago. This increase was attributed to the extra shopping day before Christmas as contrasted with the like week in 1948.

According to the Federal Reserve Board's index, department store sales in New York City for the weekly period to Dec. 17, 1949, decreased by 2% from the like period last year. In the preceding week a decrease of 4% was registered below the similar week of 1948. For the four weeks ended Dec. 17, 1949, a decrease of 3% was reported under that of last year. For the year to date volume decreased by 7%.

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."

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Indications of Current Business Activity

The following statistical tabulations cover production and other figures for the latest week or month available (dates shown in first column are either for the week or month ended on that date, or, in cases of quotations, are as of that date):

		Latest Week	Previous Week	Month Ago	Year Ago
AMERICAN IRON AND STEEL INSTITUTE:					
Indicated steel operations (percent of capacity)	Jan. 1	93.1	94.5	87.7	97.3
Equivalent to—					
Steel ingots and castings (net tons)	Jan. 1	1,716,300	1,742,100	1,616,800	1,753,800
AMERICAN PETROLEUM INSTITUTE:					
Crude oil and condensate output — daily average (bbls. of 42 gallons each)	Dec. 17	5,000,150	4,979,300	5,211,050	5,697,300
Crude runs to stills—daily average (bbls.)	Dec. 17	¶5,389,000	5,234,000	5,292,000	5,766,000
Gasoline output (bbls.)	Dec. 17	18,329,000	18,219,000	18,157,000	17,902,000
Kerosene output (bbls.)	Dec. 17	2,555,000	2,068,000	2,227,000	2,537,000
Gas, oil, and distillate fuel oil output (bbls.)	Dec. 17	7,263,000	7,037,000	7,117,000	7,571,000
Residual fuel oil output (bbls.)	Dec. 17	8,056,000	7,853,000	8,214,000	9,494,000
Stocks at refineries, at bulk terminals, in transit and in pipe lines—					
Finished and unfinished gasoline (bbls.) at	Dec. 17	108,490,000	106,146,000	103,380,000	98,225,000
Kerosene (bbls.) at	Dec. 17	22,267,000	23,397,000	27,526,000	25,227,000
Gas, oil, and distillate fuel oil (bbls.) at	Dec. 17	82,450,000	85,926,000	92,652,000	76,344,000
Residual fuel oil (bbls.) at	Dec. 17	62,786,000	*64,476,000	68,620,000	64,445,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	Dec. 17	§639,723	§668,825	§758,972	754,552
Revenue freight received from connections (number of cars)	Dec. 17	§584,885	§592,621	§595,026	668,734
CIVIL ENGINEERING CONSTRUCTION — ENGINEERING NEWS-RECORD:					
Total U. S. construction	Dec. 22	$155,507,000	$119,434,000	$90,244,000	$173,235,000
Private construction	Dec. 22	80,135,000	75,379,000	44,949,000	111,832,000
Public construction	Dec. 22	75,372,000	44,055,000	45,295,000	61,403,000
State and municipal	Dec. 22	53,146,000	38,860,000	35,177,000	50,204,000
Federal	Dec. 22	22,226,000	5,195,000	10,118,000	11,199,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	Dec. 17	8,715,000	*9,250,000	14,150,000	11,593,000
Pennsylvania anthracite (tons)	Dec. 17	618,000	636,000	1,133,000	941,000
Beehive coke (tons)	Dec. 17	19,800	*13,500	5,900	143,600
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100	Dec. 17	580	*543	342	576
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	Dec. 24	5,993,943	5,996,606	5,537,122	5,508,240
FAILURES (COMMERCIAL AND INDUSTRIAL)—DUN & BRADSTREET, INC.	Dec. 22	196	161	148	116
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	Dec. 20	‡3.835c	3.705c	3.705c	3.720c
Pig iron (per gross ton)	Dec. 20	$45.88	$45.88	$45.88	$46.91
Scrap steel (per gross ton)	Dec. 20	$26.92	$27.25	$29.92	$43.00
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	Dec. 21	18.200c	18.200c	18.200c	23.200c
Export refinery at	Dec. 21	18.425c	18.425c	18.425c	23.425c
Straits tin (New York) at	Dec. 21	78.000c	78.750c	85.000c	103.000c
Lead (New York) at	Dec. 21	12.000c	12.000c	12.000c	21.500c
Lead (St. Louis) at	Dec. 21	11.800c	11.800c	11.800c	21.300c
Zinc (East St. Louis) at	Dec. 21	9.750c	9.750c	9.750c	17.500c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Government Bonds	Dec. 27	104.50	104.54	104.16	100.96
Average corporate	Dec. 27	116.02	115.82	115.24	111.81
Aaa	Dec. 27	121.67	121.46	121.25	117.60
Aa	Dec. 27	119.82	119.61	119.41	115.82
A	Dec. 27	115.63	115.43	114.66	110.52
Baa	Dec. 27	107.80	107.80	106.74	103.97
Railroad Group	Dec. 27	110.88	110.88	109.24	106.92
Public Utilities Group	Dec. 27	117.20	117.20	117.00	112.37
Industrials Group	Dec. 27	120.22	120.02	119.82	116.22
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Government Bonds	Dec. 27	2.17	2.17	2.20	2.43
Average corporate	Dec. 27	2.85	2.86	2.89	3.07
Aaa	Dec. 27	2.57	2.58	2.59	2.77
Aa	Dec. 27	2.66	2.67	2.68	2.86
A	Dec. 27	2.87	2.88	2.92	3.14
Baa	Dec. 27	3.29	3.29	3.35	3.51
Railroad Group	Dec. 27	3.12	3.12	3.21	3.34
Public Utilities Group	Dec. 27	2.79	2.79	2.80	3.04
Industrials Group	Dec. 27	2.64	2.65	2.60	2.84
MOODY'S COMMODITY INDEX	Dec. 27	346.5	346.4	347.2	396.5
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	Dec. 17	167,383	203,493	179,741	155,499
Production (tons)	Dec. 17	204,204	210,286	205,526	194,508
Percentage of activity	Dec. 17	92	96	94	96
Unfilled orders (tons) at	Dec. 17	377,366	421,332	416,000	323,781
OIL, PAINT AND DRUG REPORTER PRICE INDEX — 1926-36 AVERAGE=100	Dec. 23	124.6	124.9	125.8	143.1
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	Dec. 10	25,561	24,869	18,427	25,032
Number of shares	Dec. 10	776,625	744,891	538,982	737,797
Dollar value	Dec. 10	$30,688,357	$29,448,934	$22,562,168	$26,958,605
Odd-lot purchases by dealers (customers' sales)—					
Number of orders—Customers' total sales	Dec. 10	31,856	28,973	19,717	22,401
Customers' short sales	Dec. 10	187	247	123	133
Customers' other sales	Dec. 10	31,669	28,726	19,594	22,268
Number of shares—Customers' total sales	Dec. 10	897,933	819,060	520,452	636,647
Customers' short sales	Dec. 10	6,987	9,101	4,184	5,458
Customers' other sales	Dec. 10	890,946	809,959	516,268	631,189
Dollar value	Dec. 10	$30,473,267	$27,623,674	$18,831,219	$21,071,080
Round-lot sales by dealers—					
Number of shares—Total sales	Dec. 10	350,080	287,700	172,750	160,440
Short sales	Dec. 10	------	------	------	------
Other sales	Dec. 10	350,080	287,700	172,750	160,440
Round-lot purchases by dealers—					
Number of shares	Dec. 10	228,910	268,420	173,620	295,660
WHOLESALE PRICES NEW SERIES—U. S. DEPT. OF LABOR—1926=100:					
All commodities	Dec. 20	151.0	151.1	151.5	162.0
Farm products	Dec. 20	154.5	154.2	156.8	177.5
Foods	Dec. 20	155.6	156.5	159.5	170.4
All commodities other than farm and foods	Dec. 20	145.4	145.3	145.0	152.7
Textile products	Dec. 20	137.5	137.4	137.4	146.6
Fuel and lighting materials	Dec. 20	130.4	130.4	130.5	137.0
Metals and metal products	Dec. 20	169.6	168.7	169.2	174.0
Building Materials	Dec. 20	190.3	189.8	189.4	202.2
All other	Dec. 20	115.5	115.8	116.2	130.5
Special indexes—					
Grains	Dec. 20	160.9	161.9	158.3	170.1
Livestock	Dec. 20	187.9	185.3	185.9	218.3
Meats	Dec. 20	205.3	207.9	211.1	227.8
Hides and skins	Dec. 20	201.5	198.6	201.9	193.7

*Revised figure. ¶Includes 538,000 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
BANKERS DOLLAR ACCEPTANCES OUTSTANDING — FEDERAL RESERVE BANK OF NEW YORK—As of Nov. 30:			
Imports	$172,619,000	$140,223,000	$151,706,000
Exports	43,998,000	39,453,000	47,760,000
Domestic shipments	8,391,000	8,796,000	9,514,000
Domestic warehouse credits	16,547,000	13,734,000	14,118,000
Dollar exchange	------	901,000	1,161,000
Based on goods stored and shipped between foreign countries	9,131,000	11,606,000	15,219,000
Total	$250,686,000	$214,713,000	$239,478,000
BUILDING PERMIT VALUATION — DUN & BRADSTREET, INC.—215 CITIES—Month of November:			
New England	$16,043,935	$19,170,505	$17,918,084
Middle Atlantic	59,490,694	98,797,195	72,082,825
South Atlantic	34,043,573	36,216,765	25,362,852
East Central	63,325,364	75,216,843	46,548,545
South Central	51,829,002	60,834,591	36,698,603
West Central	19,714,248	22,228,696	16,039,423
Mountain	11,142,104	8,730,864	14,430,964
Pacific	54,168,235	58,789,593	53,293,276
Total United States	$309,757,155	$379,985,052	$282,974,572
New York City	37,418,647	54,703,602	49,415,458
Outside of New York City	272,338,508	325,281,450	233,559,114
BUSINESS INVENTORIES, DEPT. OF COMMERCE NEW SERIES — Month of Oct. (millions of $):			
Manufacturing	$30,800	*$31,100	$33,500
Wholesale	9,200	9,200	9,700
Retail	14,500	14,400	14,900
Total	$54,000	*$54,600	$58,200
CIVIL ENGINEERING CONSTRUCTION — ENGINEERING NEWS-RECORD — Month of November:			
Total U. S. construction	$589,224,000	$553,482,000	$451,112,000
Private construction	312,227,000	280,662,000	208,441,000
Public construction	276,997,000	272,820,000	242,671,000
State and Municipal	235,223,000	225,442,000	188,476,000
Federal	41,774,000	47,378,000	54,195,000
COMMERCIAL PAPER OUTSTANDING—FEDERAL RESERVE BANK OF NEW YORK—As of Nov. 30 (000's omitted)	$277,000	$278,000	$287,000
CONSUMER PURCHASES OF COMMODITIES—DUN & BRADSTREET, INC. (1935-1939=100)—Month of November	278.4	*285.3	296.8
COTTON GINNING (DEPT. OF COMMERCE):			
Running bales (excl. of linters to Dec. 13)	14,715,660	------	13,430,401
MANUFACTURERS' INVENTORIES & SALES (DEPT. OF COMMERCE) NEW SERIES—Month of October (millions of dollars):			
Inventories:			
Durable	$13,954	$14,266	$15,611
Nondurable	16,889	16,794	17,917
Total	$30,842	$31,069	$33,528
Sales	16,881	18,866	18,978
NEW YORK STOCK EXCHANGE — AS of Nov. 30 (000's omitted):			
Member firms carrying margin accounts—			
Total of customers' net debit balances	$813,106	$782,944	$551,101
Credit extended to customers	62,546	71,613	49,183
Cash on hand and in banks in U. S.	301,115	288,829	361,412
Total of customers' free credit balances	596,116	585,517	563,441
Market value of listed shares	73,174,833	72,630,605	65,466,283
Market value of listed bonds	132,444,956	132,221,476	131,233,680
Stock price index, 12-31-24=100	76.2%	75.9%	71.4%
Member borrowings on U. S. Govt. issues	$115,257	$152,088	$118,085
Member borrowings on other collateral	465,070	419,724	228,614
PERSONAL INCOME IN THE UNITED STATES (DEPARTMENT OF COMMERCE)—Month of October (in billions):			
Total personal income	208.4	*210.5	216.3
Wage and salary receipts, total	133.1	*134.8	138.1
Total employer disbursements	135.3	*137.0	140.3
Commodity producing industries	56.8	58.5	62.7
Distributive industries	39.8	*40.4	40.4
Service industries	17.4	*17.1	16.9
Government	21.3	*21.0	20.3
Less employee contributions for social insurance	2.2	2.2	2.2
Other labor income	2.2	2.2	2.0
Proprietors' and rental income	43.9	*43.8	49.0
Personal interest income and dividends	17.5	*17.4	16.8
Total transfer payments	11.7	*12.3	10.4
Total nonagricultural income	190.5	*193.1	192.9
TREASURY MARKET TRANSACTIONS IN DIRECT AND GUARANTEED SECURITIES OF U. S. A.—Month of November:			
Net sales	------	$1,659,950	$800,000
Net purchases	$11,531,250	------	------
UNITED STATES GROSS DEBT DIRECT AND GUARANTEED—(000's omitted):			
As of Nov. 30	$257,011,328	$256,805,409	$252,652,994
General fund balance	4,421,935	4,737,054	4,385,070
Computed annual rate	2.222%	2.222%	2.214%
Net debt	$252,589,393	$252,068,355	$248,177,924
UNITED STATES EXPORTS AND IMPORTS—BUREAU OF CENSUS—Month of October (000's omitted):			
Exports	$848,500,000	$904,400,000	$1,022,600,000
Imports	558,600,000	529,900,000	600,200,000
U. S. GOVT. STATUTORY DEBT LIMITATION —As of Nov. 30 (000's omitted):			
Total face amount that may be outstanding at any one time	$275,000,000	$275,000,000	$275,000,000
Outstanding—			
Total gross public debt	256,982,000	256,777,727	252,506,047
Guaranteed obligations not owned by the Treasury	29,327	27,631	56,946
Total gross public debt and guaranteed obligations	$257,011,328	$255,805,400	$252,562,994
Deduct—Other outstanding public debt obligations not subject to debt limitation	749,490	752,571	801,696
Grand total outstanding	$256,261,838	$256,052,837	$251,761,297
Balance face amount of obligation issuable under above authority	18,738,161	18,947,162	23,238,702

*Revised figure.

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Continued from first page

Business Prospects for 1950

But if we look at manufacturing and mining, measured by the monthly Federal Reserve Board Index—as Senator Douglas did—then there has been a recession. The adjusted FRB Index declined from a peak of 195 in the fall of 1948 to a low of 161 in July of this year—a decline of 17%.

However, if we measure industrial production for longer periods, as we did with Gross National Product, the difference is not nearly as large. The average FRB Index for all of 1948 was 191.7 and for the first three-quarters of 1949 was 176.5—a reduction of 8%.

The FRB Index gives an exaggerated picture of fluctuations of general business because it measures the output of only about one-quarter of the total civilian labor force, or about one-third of employed workers in non-agricultural establishments. It omits the labor force in the most stable industries.

If we look further and check up on individual industries we can see why 1949 is called a depression year by some people.

There has been a real depression in cotton textiles, some other textiles, radios, washing machines, and rubber tires. The backlog of orders of freight car builders practically disappeared in 1949. On the other hand, most heavy industries fared as well as or better in 1949 than in 1948.

If we turn our attention to the components of Gross National Product we can learn something more about the nature of this recession or adjustment.

Last year at a similar meeting in Cleveland, I was optimistic enough to say that business in 1949 would be just about the same as in 1948 and that Gross National Product would be about $260 billion. The average annual rate of Gross National Product for the first three-quarters of 1949 is estimated by the Department of Commerce at just $260 billion.[1]

But I don't wish to take credit for this accidental "hit" because, like so many forecasts that turn out well, it is the result of several offsetting errors. I estimated that 1949 would be better than 1948, although it has been worse. On the basis of the first three quarter results of 1948, I estimated 1948 Gross National Product somewhat low, at $256 billion. It turned out to be $262 billion, as I have said.

1949 Drop in Inventory Investment

I based this estimate of 1949 Gross National Product on an estimate of private and government investment expenditures. And in making this estimate of private investment for 1949 I made a less excusable mistake because I failed to foresee the very considerable drop in inventory investment from 1948 to 1949. This drop in inventory investment has been the distinguishing characteristic of the business pattern in 1949. In 1948 there had been a considerable increase in inventory investment amounting to $6.5 billion. This increase had been exceeded slightly in only one year, 1946, and was nearly double any prewar figure. It was an unusual situation that should have attracted my attention. In 1949 there has been a slight decrease in inventory investment over the first three quarters. In fact, the change of about $7 billion in inventory investment from Jan. 1, 1949, to Sept. 30, 1949, accounts for $7 billion out of the $8 billion decline in gross private domestic investment over this period.

The recession in manufacturing—indicated by the 17% drop in the FRB Index from November, 1948, to July, 1949—was almost entirely an inventory recession. Production had exceeded consumer buying and business buying for capital account during the fourth quarter of 1948 and the first quarter of 1949, and production fell below distribution in the second and third quarters of 1949. During these four quarters production declined considerably—as indicated by the FRB Index—but expenditures by ultimate users (persons and business firms) were notably constant.

This is a major reason for the relatively small change in Gross National Product and personal income, as compared with the drop in the FRB Index of industrial production.

I wish to emphasize, as I did a year ago, the value of this method of estimating the over-all condition of general business by estimating the total private and government expenditures of an investment nature. You can go wrong in estimating investment expenditures, as I did in overlooking the probable changes in inventories, but usually we can find out much more about changes in investment expenditures than we can about changes in consumption expenditures and changes in Gross National Product directly. I also wish to stress the inclusion of government expenditures of an investment nature—public works and military goods and other purchases from business by Federal, State, and local governments—because these government expenditures are not usually treated as investment, although they react on the economy in the same way as private in-

Method For Estimating 1950 Business Prospects

Suppose we apply this rough-and-ready method to the problem under discussion — the business prospects of 1950.

As I have explained, investment spending in 1949 has been at a very high level except for changes in business inventories.

If we use private and government expenditures of an investment nature (and exclude offsetting government loans and credits in foreign transactions) total investment expenditures in 1948 were nearly $65 billion and were at an average annual rate of about $60 billion in the first three-quarters of 1949.

I estimate the similar investment expenditures in 1950 will be around $55 billion and the corresponding Gross National Product will be in the neighborhood of $235 to $240 billion. These figures of G.N.P. compare with approximately $260 billion in 1948 and 1949. I am therefore forecasting for 1950 a drop in G.N.P. of around 10%.

Suppose we look at some of the details. Private construction has been at peak levels in 1948 and 1949, and it is reasonable to look for a long-term gradual decline. I have estimated a decline of 5 to 10% in 1950.

Producers' durable equipment has undoubtedly passed its postwar peak. These expenditures were nearly the same in 1948 and 1949 but are estimated to be 20 to 25% lower in 1950.

Changes in business inventories: because of the liquidation of these inventories during 1949 a small increase of $1 billion is estimated for 1950.

The surplus of exports over imports (included in Net Foreign Investment) is expected to decline about one billion dollars if the U. S. Government grants through E.C.A. are reduced during the 1950-51 fiscal year.

These two latter items just about offset each other (increase in inventories and decrease in export balance) so that the estimated decline in private investment is accounted for entirely by private construction and by producers' durable goods, and most of it by the latter.

Government investment (purchases from business) which amounted to $17 billion in 1948 and about $20 billion in 1949 (nine-months rate) is estimated to remain at about $20 billion in 1950. Public construction may be larger and military expenditures smaller.

Effects of GI Insurance Dividend

There is one unusual favorable factor that will increase customer demand during the first-half of 1950. This is the distribution of $2.8 billion of dividends to holders of GI insurance policies. I am assuming that the funds for paying the dividends will not come out of tax money, but will represent newly created money.

There is another way by which these forecasts can be checked and a clearer picture of the pattern of business in 1950 can be obtained. I refer to the pattern of business in the sense conveyed by the usual concept of the business cycle.

I know that the use of business cycle behavior as a forecasting tool is highly suspect and to many business forecasters it suggests the "little knowledge" that may lead the forecaster into trouble.

I am now engaged on a survey of forecasting practice of business firms. We have interviewed about thirty major corporations and in not one of them has the behavior of business cycles been stressed as one of their major forecasting techniques.

However, I am assigning a less important forecasting role to business cycles than is assigned to them by their more enthusiastic supporters. Usually the business cycle that is considered is related to business as a whole; and, usually, the argument against the use of this composite business cycle is that it has shown no useful regularity in its timing and length in the past. I agree with this opinion. The over-all composite business cycle is too erratic to be of any use in forecasting. But this is the result of its composite nature. The over-all business cycle includes many different cyclical movements, with different lengths, different relative amplitudes, and continually varying phase relations.

These valid objections do not apply if we use several single industry cycles, or even single product cycles, and treat them as separate individual cycles.

It is well known that these single industry or single product cycles have shown a useful regularity as to average length and as to time schedule. But I shall make use of only their average length. I shall use these industry or product cycles as average patterns of customer demand; and in this limited role they are useful and dependable.

The three patterns of customer demand that are most useful are quite familiar:

There is, first, the residential building cycle. This cycle has had an average 18-year length for the past hundred years. The current cycle, however, is an abnormally long one because of the war. This cycle, of course, is closely related to investment expenditures for private construction.

Then there is a heavy industry cycle of about 40 months average length that in normal times is useful. Just now it has largely disappeared because of the abnormal postwar demand for steel, automobiles, electrical machinery, and many other producers' goods and consumer durable goods. It can be expected to return when more normal conditions of customer demand return.

Finally, there is a cotton consumption cycle of about two years average length that is usefully related to soft goods in general and to department store sales.

Production Cycles Affecting 1950

Now how can these three industry or product cycles be used to reinforce the forecast for 1950 that I have just presented, and how can these normal patterns of customer demand tell us something more about the overall pattern of 1950 business?

Residential building and new private construction generally have been at peak levels for two years. We are, apparently, at the top of one of the 18-year residential building cycles; although this current cycle, as I have mentioned, will be longer than the average length, because of the Second World War. The upswing of the current cycle started in 1934. It has already lasted 15 years instead of the average nine years. We can reasonably guess that the current demand for houses and for industrial construction has begun to decline. We needn't guess how many years the decline will continue, nor how far down it may go. But we can reasonably conclude that the decline will be gradual both because its usual behavior is to decline gradually and because of the unusual sustaining effects of government housing programs.

Producers' durable equipment is related to the 40-month heavy industry cycle. There is a mixed situation in the durable goods-industries. Some of the smaller products, such as radios and washing machines, have gone through a complete cycle of demand since the end of the war, with low points earlier this year. These products that have already completed a declining phase of their cycle's customer demand should increase in sales during all of 1950. Steel showed the first signs of a satisfied customer demand last summer. The steel and coal strikes have created a new temporary unsatisfied demand, but by the middle of 1950, demand for steel will probably begin to decline again.

Automobiles have yet to show any overall slackening of demand. A normal seasonal decline was looked for last winter, but it did not appear. A beginning of decline in overall demand should be looked for late in 1950.

Principally on account of an approaching satisfied demand for steel and automobiles, the predicted decline in producers' durable equipment is confirmed by the position and normal behavior of these 40-month heavy industry cycles. The trend of demand and of spending should be down in 1950, and because of the normal pattern of demand of these durable products it will probably continue to decline in 1951.

There is a completely different pattern of demand in textiles and in semidurable goods generally. This characteristic pattern has completed two 2-year cycles since the end of the war with low points in 1945, 1947, and 1949. Consequently, it is reasonable to look for increasing activity in cotton and wool textiles, in many other soft goods lines, and in department store sales during the first half of 1950. We may also anticipate a declining trend into 1951.

If then, a down-trend in new private construction and in heavy manufacturing industry is combined with the short up-trend in soft goods industries, one tends to offset the other in early 1950, but all patterns are headed down hill in late 1950. The first half of 1950 should be better than the second half. Another reason for expecting an upward lift in business during the first half of 1950 is the distribution of $2.8 billion of new funds to holders of GI insurance policies by the Federal Government that I mentioned previously.

To repeat my predictions, I expect a moderate decline in general business in 1950 of around 10%, measured by total production (Gross National Product). I also expect that most, if not all, of this reduction will be concentrated in the last half of the year.

I hope you will give more weight to my remarks about the methods of forecasting than to the specific figures I have used or to the resulting forecast. This specific estimate of 1950 business prospects is no better than my estimates of the several kinds of investment expenditures. These estimates are rough and do not have the solid foundation of first-hand field studies. It is not only possible but probable that many of you in this audience have better information concerning investment expenditures of a specific kind than I have, and by using this general method can make a more accurate forecast.

In conclusion, I wish to stress three points concerning this forecasting method that I hope you will remember and practice in your own informal business forecasting:

First—That investment expenditures are the initiating force that determines the level of general business.

Second—That government expenditures of an investment nature—government purchases from business—should be included as a direct factor in establishing a forecast.

Third—Individual industry cycles and product cycles—not the single business cycle—can be used to supplement and check the estimates of investment expenditures in arriving at a forecast.

[1] This 1949 forecast was published in full in "The Commercial and Financial Chronicle," Jan. 6, 1949.

Montana-Wyoming Gas Stock Underwritten By Blyth Co. Group

The offering of 150,000 shares of common stock (par $5) of Montana-Wyoming Gas Pipe Line Co. to holders of common stock of Montana-Dakota Utilities Co. of record Dec. 20, 1949, at $13.25 per share, on the basis of one Montana-Wyoming share for each seven shares of Montana-Dakota held has been underwritten by a group of underwriters headed by Blyth & Co., Inc., and Merrill Lynch, Pierce, Fenner & Beane. Rights will expire at 2 p.m. (CST) on Jan. 4, 1950.

The Montana-Wyoming company proposes to construct, pursuant to authorization received from the Federal Power Commission a 12¾-inch outside diameter pipeline approximately 340 miles in length from the Worland Field near Worland, Wyo., to a connection near Baker, Mont., with the Montana-Dakota Utilities Co. natural gas transmission and distribution system serving eastern Montana, western North Dakota, and the Black Hills area of South Dakota, together with a combination gas compressor, dehydration, and sulphur removal plant at or near the Worland Field, and to lease such pipeline and plant to Montana-Dakota for a term of 25 years. Montana-Wyoming and Montana-Dakota have entered into a contract with The Pure Oil Co. for the purchase of natural gas from the Worland Field.

Paine, Webber Firm Adds

(Special to THE FINANCIAL CHRONICLE)

OMAHA, NEB.—Philip Maisel has been added to the staff of Paine, Webber, Jackson & Curtis, Medical Arts Building.

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As We See It

weeks has been less to "bargain" about wages and other concessions than to restrict production of coal throughout the nation.

Why?

Similar courses on occasion by producers of various kinds of goods — when they have been pursued here or abroad—have had the purpose of increasing prices and thus the profits of the producer. It is unlikely that Mr. Lewis and his lieutenants would particularly care if coal prices were sharply increased, but his ultimate purpose plainly is to make either the public or the operators pay the miners a higher price for their services. There is, of course, a law on the statute books which could be employed to place rather serious obstacles in the way of Mr. Lewis, but the President, pursuant to his tender-hearted attitude toward the labor union monopolists, is determined not to use it, even against his enemy, if he can find some way of avoiding it. Moreover, that law has more to do with limiting or restricting the way in which labor monopoly may be exercised than with destruction of that monopoly. The politicians are simply not interested in doing anything at all about this "trust," however much they may want at least to make a showing against other types of alleged monopolistic action, which in point of fact often exist more in the imagination of zealots than in this real world in which we live.

But in other places along the labor front things are also happening, of which the full significance is being wholly missed at least by such public commentators as we have had the opportunity to read or hear. For some time now the CIO has been in the throes of "purging itself of its "leftist" elements. The "right wing"—God save the mark—of the organization is, and has been for a good while past, engaged in an effort to get rid of the "left wing" either by retiring such officers as are so labeled or by expelling affiliates so tainted and replacing them with rival organizations promoted by the "rightist" top national management. To the Russians all this must seem a little tame, since no one is to be shot or hanged—at least not openly and blatantly—but it is nonethelsss a "purge" which, if successful, will rid the CIO of certain elements which have supposedly been communistically inclined and so rather conspicuously labeled.

Not What They Seem

But we can only hope that the rank and file will not suppose that all this means any such thing as the purgers would have us believe. It may or may not be that these unions and these leaders of labor now in the process of being purged have in considerable and lamentable degree become the tools of a foreign government—with all that such a situation implies in light of the aggressiveness of the world rulers of communism. It could be that action now being taken by the CIO will eliminate this sore spot—assuming its existence. We say only that these things "could be." Whether such is actually the case remains for the future and the facts, when revealed, if they ever are, to disclose.

But in all else the proceedings seem to us to be more of a farce than anything else. What is more, to discerning eyes the very arguments being presented scream of conditions wholly incompatible with "free enterprise" as we have known it. Take the proceedings in Washington last week in which the United Office and Professional Workers of America, a "leftist" CIO union, was given a "hearing" to permit it to prove it was not communist dominated. The Chairman of the "hearings" was one Emil Rieve, anti-communist head of the Textile Workers.

A succinct account of the whole affair was reported in the New York "Times" as follows:

"The CIO's 'prosecution' was led by Director of Research Stanley Ruttenberg. He produced copies of 'The Daily Worker' and of UOPWA publications in an effort to show that the union's line, at specific times, coincided with the Communist line and differed from national CIO policy. In reply, Mr. Durkin read a 4,000-word statement attacking the hearing as a 'travesty.' He said the UOPWA's policies are decided 'by the membership * * * acting through the democratic organs of their union. * * * No one and no political party has dictated to them.' The hearing ended after Mr. Durkin's statement.

"Hearing committees on all ten unions are expected to report to the executive board by the end of January, and expulsion of the unions is expected by March."

The Wrong "Line"

If this is an accurate account of what went on, and if similar accounts of what has been taking place elsewhere in the past few months are to be accepted at face value—and there is no reason to doubt them—then this "hearing" is a "cut and dried affair" with its ultimate outcome long ago decided. Now let there be no misunderstanding. It may be that those who have been directing the affairs of this affiliate of the CIO have been taking their orders from Moscow, and, if so, it may be a good thing for us all to have them smashed—if they really are smashed. That is not the point which interests at the moment. Rather it is the fact that this affiliate is accused not only of following the communist "line," but of failing to follow the CIO "line." Of course, the facts are not stated quite so bluntly, but they are there for all to read. Apparently the Moscow sycophants are to be eliminated in order to complete the monopoly enjoyed by Mr. Murray and his associates.

And who among them all does not shout from the housetops that he is "saving" free enterprise?

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Business Prospects for 1950

rocks of criticism by appeal to The Master's injunction: "He that is without sin among you, let him first cast a stone." I do not, of course, mean to suggest any slightest similarity between forecasters and the character who evoked that injunction.

This universality of forecasting arises from the necessities of modern economic society. This society possesses resources of skills, of money, and of physical property, far in excess of any previous time. The individuals and institutions holding those resources wish to allocate them to attain maximum possible results. And the high rate of change associated with technological development and intense competition means that prudent holders of resources of skill, money or physical property dare not take the risk of being indifferent about the outlook. Therefore, we are all concerned with forecasting, whether we like it or not. And the one prediction I can make with truly great confidence is that we shall become, next year and in the years that follow, more involved in forecasting than we are even now.

At the moment we are most concerned with the outlook for 1950, and I turn to that.

II

The Conditions of 1950

The domestic outlook for 1950 will be dominated, I believe, by changes in the demand for, and therefore the prospective production of, goods and services in five major areas of the economy. All of these already have been discussed extensively, and so can be set forth without much elaboration.

First, the effective demands of business institutions for capital items will, I believe, be at least a little, and perhaps even more than microscopically, smaller than during 1949. This decline will involve a smaller need not only for physical items but, as well, for financial accommodation.

Second, the effective demand for goods and services from the agricultural sector of the economy will be at least a little smaller in 1950 than in 1949. This decline will result from a reduction in agricultural income which appears to be generally anticipated.

Third, the effective demand for exports will be at least a little smaller, and the supply of goods we shall receive from abroad will be at least a little larger in 1950 than during 1949. This will result from the combination of expanding production abroad, probable diminution of the aid program and the fact that the recent devaluations have increased the cost of our goods to foreigners and have reduced the cost of their goods to us.

Fourth, the effective demand for automobiles will decline at least a little as a consequence of the progress made thus far in filling most urgent needs.

Fifth, the effective demand for goods and services on the part of governmental units of all kinds will rise at least a little in 1950 from 1949. The deficit will be larger, and constitute a force toward increasing the supply of money.

A great many other changes are likely to occur in the economy during 1950, but I believe these will be the ones of outstanding significance. You will be aware that I have not mentioned housing as an area of major change. I am suspicious of it because units being built so greatly exceed family formation. But the most careful estimates do not provide the basis for a prediction of significant decline in 1950.

III

Complications

The identification of these five major areas and the direction of change likely to occur in each is relatively easy. Much more difficult is the job of summing them to reach a conclusion about aggregate levels of output and income in 1950 as compared with 1949.

In the attempt to do so, it is necessary not only to consider the simple arithmetic of each—even if that could be estimated—but much more troublesome, one must consider the two well known economic functions: the principle of acceleration, and the multiplier. The acceleration principle concerns the effect of a change in consumption expenditures upon induced investment expenditures.[1] e.g., a small change in automobile sales may mean in enormous change in the demand upon machine tool company suppliers — this is purely example and not prediction for 1950. The multiplier theory simply says that a dollar of expenditure, or the reduction of a dollar in expenditure, makes a difference of several dollars through the ramifying effects on the butcher, the baker and the candlestick maker. It is more usually stated in terms of an effect of investment on consumption,[1] but can be broadened as is done here.

Furthermore, to make the problem more difficult, a host of qualifications attach to acceleration and multiplier. They will operate at different amplitudes in different environments; one would not expect the same results in such changes when they occur in a toppling structure as in 1931 as when they occur in a galloping forced rise as in 1943. And one would expect considerable differences depending on the objects to which they attach; I can certainly imagine conditions in which the sum of the effects of $1 of new expenditure would be a minus figure of several dollars. (This qualitative factor is one of the great difficulties for our econometric friends.)

IV

The Conclusion For 1950

With appropriate aid from mechanical and electronic calculators, supersonic flights through stratospheric theory, and my large quartz globe, I have concluded that the sum of five unequal numbers, four with minus signs and one with a plus sign, is a minus quantity. To speak in a more complicated manner, I conclude that the prospective declines in demand from business for capital items, from agriculture for goods and services, from foreigners for net goods and services, and from the economy for automobiles, will exceed the stimulus from government. To be more complicated still, I conclude that income and output in 1950 are likely to aggregate at least a little less in 1950 than in 1949.

As it happens this conclusion is exactly identical, except that the dates are advanced by one year, with my prediction made one year ago tomorrow at the forecasting session of the annual national meeting of the American Statistical Association in Cleveland.[2] And many of the same reasons given for that conclusion apply today.

At that time I examined Professor Haberler's postulations in his great book "Prosperity and Depression,"[3] as to conditions to be expected at the upper turning point of the cycle and concluded that all ten major points were present in the American economy at that time. In my interpretation, either six or seven of those ten conditions still exist in the economy today—and those which have changed are monetary factors which are to be expected to change during the downward course.

At that time I also reported on the status of those statistical series which have the best records in making turns in advance of general business turns. These series have been selected from the monumental collection of the National Bureau of Economic Research by my colleague, John M. Hartwell, Jr., and a year ago had been preponderantly suggesting a decline for a considerable period. Some of these are now suggesting an upturn, though the majority do not yet do so.

Finally, at that time, I listed seven of what seemed to be soft spots and five factors of strength. All seven of the soft spots, and all five of the strong spots, continue to exist, though the potency of some in each list appears to have been diminished.

Thus, on the basis of what appear to be the major prospective changes for 1950, plus a reading of theory, plus an examination of series with a good record of prediction, plus an examination of weak and strong spots, I conclude, as stated, that income and output in 1950 are likely to aggregate at least a little less in 1950 than in 1949. The evidence is not quite so conclusive as it appeared a year

1 Fiscal Policy and Business Cycles, by Alvin H Hansen, W. W. Norton & Company, Inc., New York.

2 Printed in "Commercial and Financial Chronicle," Dec. 30, 1948, Page 1.

3 Prosperity and Depression, by Gottfried Haberler, United Nations, Lake Success, N. Y., 1946.

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ago, but it still seems to me predominantly suggest a decline.

And so, now, as in Cleveland last year, I suggest that policy, both public and private, should emphasize caution and not daring.

V

Forecasts Should Not Mislead

Now, having made a forecast as to the shape of things to come in 1950, I find myself disconcerted with an uncomfortable question. Is this general forecast of little change, of continuation at a level of very high prosperity—even if a little less so—that so many of us made last year and are making again this year, likely to be misleading alike to the public and to public and private policymakers? I'm afraid it can be quite misleading — entirely aside from the possibility that it could be misleading by being wrong. For it suggests the inference that, since we've been having and are expected to go on having for another year at least a condition of high prosperity, that all is well with the American economy. I don't want to be a party to that complacent assumption, even by implication. And so I want to add two more considerations to the forecast, by asking two other questions about the present and near-term position and outlook for the economy. First, how does the probable level of output and income compare with the possible? Second, how does the probable economic policy compare with the desirable?

VI

Probable vs. Possible Output and Income in 1950

The answer to the first question I think must be emphatically that output and real income in 1950 are likely to be significantly less than would be perfectly possible without undue strain. In 1934 Dr. Nourse's careful study of "America's Capacity To Produce"[4] found that in the prosperous period of the latter 1920's this country was turning out almost 20% less than was possible. No such study is available of the present situation so far as I know, but a re-reading of the Nourse analysis with observation of the present strongly indicates, to me at least, that such a study, if made today, would again find production to be at a level significantly below what is possible without strain.

Other evidence points to the same conclusion. Available data suggest that something like 5% of possible man-hours are not worked due to absenteeism resulting from reported illness or work stoppages. Some portion of this is preventable. The highly significant studies at the University of Michigan under the direction of Dr. Rensis Likert are demonstrating that marked increases in productivity are possible by intelligent treatment of motivation;[5] this has nothing whatever to do with the speed-up or time and motion study and pressure. Businessmen widely report production is, for a variety of reasons, somewhat less than is possible in present hours with present equipment. Machinery makers of all kinds are explicit that most firms could increase productivity and thus production by using presently available equipment. And finally, we know that production has in fact been markedly higher in the recent past—and with a smaller labor force and without the vast amount of new machinery which has recently been installed.

The conclusion seems warranted that this economy could increase output and income, without strain, by something like 10% to 20%, and perhaps more. To the extent that output in 1950 is lower than that of 1949 this figure would be higher.

This potentiality has tremendous significance. Such an increase could defray the entire cost of the Federal Government if used for that purpose; thus it could be the equivalent of a repeal of the entire present Federal tax load which causes so much concern. Or it could, if so used, greatly raise the income of low income groups about which there is so much concern. I am not suggesting that such an increase, if realized, should be wholly used for either such purpose, but am merely using these examples to show the magnitude of the possibility.

VII

Likely vs. Desirable Economic Policy

Obviously, since present output and income are substantially below what is possible without strain, economic policy in the broadest sense is deficient. Obviously, therefore, the forecast of little change or small decline that most are making for 1950 represents a prediction that economic policy in its broadest sense will continue defective in 1950—or become more so. We are therefore not forecasting a happy state of affairs—even though we are predicting a level of business that would be high in comparison with nearly all past years, and a level of per capita consumption that would compare favorably with that anywhere else on the globe.

Those of us who are in effect predicting that the policy being made and to be made in the aggregate of the decisions by public and private policymakers is and is likely to be deficient should, I suggest, indicate the defects we are forecasting. Public discussion of these defects should be salubrious. I suggest that there are two major areas of defect.

First, policy in too much of the economy—both in public and private institutions—aims to maintain the *status quo* or as near to it as possible. Such a policy is profoundly inconsistent with an economy which has reached its present high strength and productivity through constant change to new and better methods of utilizing resources and which has such great possibilities for further advance of the same kind. Prominent among *status quo* policies, to which both public and private groups contribute, are those dealing with agriculture, labor, investment, interest rates, construction, prices, and taxation. Every public and private group could appropriately re-examine policies being followed or advocated. And I should like to suggest to all private groups that it is just possible that the mote is not only in the government's eye, and equally to suggest to government that all the guilt may not lie entirely in the private sector. The United States, and the same is true of any other country, cannot hope to make the best use of available resources by fighting change to better methods.

Second, the United States Government is being over-ambitious—at the urging of nearly every major group in the economy. It is utilizing some of present resources and committing large amounts of future resources, for purposes neither necessary to honor past obligations nor best designed to increase the nation's standard of living and strength. Inefficient resource use is the same as resource waste; use of resources to make one blade of grass grow when the same resources could be used to make two or three blades of grass grow is to squander our assets.

Equally unhappy is the fact that this over-ambition is preparing conditions which will make for economic instability in the future, and instability is both wasteful and weakening. Perhaps the major cause of the depth and duration of business dips in the past has been the failures of institutions which overcommitted themselves in boom time optimism and failed in recession, the failures aggravating the decline. Private finance has been quite conservative by every measure I know during recent years. Government has not. 'Tis said that imitation is the most sincere form of flattery—but one wishes that government were imitating some of the commendable practices of the private sector instead of one of its more grievous past sins. I know, of course, that the government can't go broke in the private sense, but the consequences of its over-ambition can be instability in the value of money—which is probably the most seriously unstabilizing factor of all.

The Hoover report, representing perhaps the most thorough and competent study ever made of governmental operations, has demonstrated that a sizable amount of funds is being spent unnecessarily. And there are significant areas, including agriculture, housing and social security where it is questionable if all of expenditures and commitments represent that use of resources best designed to increase the standard of living fastest and the strength of the country most.

I am not one opposed to government action *per se* nor an advocate of the theory that that government is best which does least, but neither do I think that government actions are all above and beyond question. And I observe with inescapable apprehension that we are now engaged in working an appallingly pitiful farce out of the plausible compensatory budget theory.

I hope that other forecasters will stick their necks out in the future on the meaning and causes of their forecasts as well as what is to happen in production and income during the next 12 months.

VIII

The New Half Century

It seems to me especially important that we forecasters — which term, as I said in opening, appears to include every person above the age of 18 — turn our minds even more strongly than ever before to the comparison of probabilities vs. possibilities of output and income and likely vs. desirable policies at this historic time. We are this week closing the 49th year of the most fabulous half century in human history, and preparing to get ready beginning next Sunday morning for a year of preparation for what may be a far more fabulous half century. In that great new period, we can, if we are as wise as we are perfectly capable of being, sweep on to accomplishments that will exceed our present possible imagination even far more than our present attainments exceed the wildest dream we could have dared to dream at the end of 1899. The knowledge and the materials are at hand. The great scientist Vannevar Bush has stated the fact cogently, forcibly and authoritatively in his profoundly important new book, "Modern Arms and Free Men," which I urgently recommend that you all read carefully and at once, far better than I could possibly do. I quote:

"We have not yet come to the end by any means. The applications of science yet to come are manifold and far-reaching. With them we can establish a standard of living in this country far higher than we ever have had; we can make more goods and have them more generally available throughout the population. We can prolong our lives and escape the ravages of old age, overcoming the scourges of mankind, epidemic disease, cancer, senility, to an extent that we can now barely grasp. We can create an environment in which the creative arts can flourish, in which the human spirit has an opportunity to rise and aspire. We can build a society in which there will be justice and good will. All this is within our grasp; we know it, for the performance of the past ten years is a guarantee of the effectiveness of the system under which we operate and of the fundamental principles to which we adhere. All we have to do to bring it about is to preserve that system and improve it and hold fast to those ideals and the faith from which they arise."[6]

4 America's Capacity To Produce, by Edwin G. Nourse and Associates, Review of Reviews Corporation, 1934.

See also "Controlling Factors in Economic Development," by Harold G. Moulton, Brookings Institution, 1949, Page 104.

5 Productivity, Supervision and Employee Morale, a report from the Survey Research Center, University of Michigan, 1948.

6 "Modern Arms and Free Men," by Vannevar Bush, Simon and Schuster, New York, 1949, Page 232.

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Who Is Really Socialistic?

have to ask you to pay me the 700 franc reduction which you got when you bought the ticket."

A long, violent and unfruitful argument between the traveller and the conductor followed. But again the fine print in the time table triumphed and the traveller grumblingly paid the 700 francs supplement.

The traveller had been attending an official meeting in Paris, he explained, and was entitled to a 30% reduction. One of the rubber stamps certified that the congress was official. A second certified that he had been in attendance. These two stamps he had, but he had forgotten to obtain the third, to be given by a railway station attendant, certifying that he had bought a ticket.

"Since I have a ticket, it is obvious that I bought it. What does that third stamp add to my ticket?" he complained. "Nothing, just bureaucratic red tape! And me, a member of the Communist Party and a government employee to boot," he complained.

"Well," the second traveller interjected, "you live here, work for the government and you should have known better. The mistake of our American travelling companion was a natural one. He is a foreigner for one thing. These railroads are nationalized, state enterprises, and we should depend upon them to do the right thing by the public. In the socialist tracts which I have read, I learned that only capitalist enterprises, such as private insurance companies, used fine print to fool the public. State enterprises would be above that sort of thing. No private railroad, no matter how hard boiled the capitalist management, would dare to indulge in such practices."

"The state railroads," my first companion went on to say, "inherited this practice from the days of private railroading. State enterprise is really much better than you think."

"The state tobacco monopoly, for instance?" the second traveller asked.

I was gazing out of the window watching the carefully cultivated fields, the animals in pasturage, the red tile roofs of the houses in the villages as our train sped rapidly through the countryside. In the meantime, my two companions were continuing the discussion.

The state tobacco monopoly, the second traveller was insisting, was indeed a meanly-managed enterprise. It sold cigarettes of poor quality, intolerably bad pipe tobacco, at prices up to five times higher than those charged by the private tobacco companies in the United States. The tobacco monopoly, a state enterprise, indulged in the shabby practice of pricing the French working classes out of their smokes. Could it be, I thought, that socialistic enterprises, in the end, were no more moral, perhaps even less, than private enterprises?

As the second traveller raised his voice, I forgot the countryside. He was saying: "There must be other ways of raising revenue than depriving people of their smokes. But then the fiscal aspect of state enterprise is one of their gravest dangers. Socialist theory teaches us that socialist enterprise operates at lower costs than private because it pays neither interest nor profits. It can, therefore, sell cheaper and the public gets more for its money. What the socialist theorists forget is that socialist states, like capitalist states, are always broke. They are always looking for new sources of revenue. And the state enterprise affords a very tempting source of funds. So in the end, prices are raised and the public gets less for its money than it did under private business."

"The tobacco monopoly has always been a high-price monopoly," my first companion countered.

"Yes, but there are others. Gasoline is another example. Gasoline today costs the Frenchman sixty to eighty cents a gallon, depending on his ration situation—two or three times the average price in the United States. Even the toughest, capitalistic oil companies there would not price their products that high. The profits of the oil monopoly, assuming that it is reasonably efficient, would make American oil tycoons look almost like philanthropists."

A passing freight train interrupted the conversation. It had many flat cars loaded with tractors and heavy farm machinery. All of this was evidence of the increased French industrial output, I reflected. The first traveller also noticed this and turned to me. "Don't you think," he asked me, "that Europe has made wonderful progress in rehabilitating its war damage—which was very severe—and in its economic development?" Without waiting for my answer, he added: "Since you are an American, I suppose you credit the Marshall Plan with all of this."

"No, I don't. I think that the Europeans deserve the credit. We have tried to be helpful, though, with the Marshall Plan."

"Helpful with the Marshall Plan? Why your Marshall Plan is not designed to be helpful to any one except yourselves. Your industry, with its unsalable export surpluses, could not live without the Marshall Plan. Don't tell me it is for the benefit of Europe. That is a joke! "

"Well, if it is a joke, I guess the joke is on me and the rest of the Americans, because it costs me, it costs all of us, a lot in taxes. But, really, we could get rid of these surpluses, as you call them, by distributing them in some other way."

"You are already in a depression in the States, and if you dumped these goods on your domestic market, you would see a repetition of your experience of the thirties."

"I don't think so," I answered, but I realized that I could not convince him.

In the countryside, outside our compartment window, farmers in their long blue blouses and their

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wives were busy in the fields. Wagons loaded with vegetables were in the yards around the station of a small hamlet through which we passed. Farmers had gathered in small groups on the station platform talking and gesticulating while waiting for the local train to take their produce to the markets of Paris. Did these farmers, I thought, feel the same way about the Marshall Plan as my travelling companion? As I turned from the window, the second traveller addressed me.

"Here is one thing I bet you do not know about the Marshall Plan. It is working here to benefit nationalized industries at the expense of private industry. This is done," he went on, "by making it very difficult and expensive for private industry to buy Marshall Plan goods and very easy for the nationalized enterprises to buy them."

He then launched into a long explanation of the "counterpart funds" system. Under this system the United States gives the European government goods under a free "grant." This government, however, sells the goods to the industrialist who ordered them in the first place and this buyer must pay his government in local currency for the full cost of the goods. This local currency is deposited in a special government account called "counterpart funds" which can only be spent by the European government for approved purposes. My travelling companion continued by presenting a specific example of the system in operation.

"Here is the way it works. A textile plant, say at Lyons, wants some looms under Marshall Plan funds. It must pay 10% down when it places the order. Then, when the looms are delivered, the balance of 90% is due, cash on the barrelhead. No credit is allowed: there are no 'terms.' In addition, our Lyons textile plant must pay the import and transaction taxes on the looms. These amount to sizable sums. Now if the Lyons plant fails to pay cash for its equipment, all well and good. If it does not, it is, today, very hard to get credit. The banks all have credit ceilings, imposed by the government, which they may not exceed. It is hard, also, to raise funds on the security markets. A loan may well cost the Lyons plant 8% or more for interest, commissions and fees.

"So our textile man thinks twice before he orders any Marshall Plan equipment. For him, it is no gift. He pays and pays plenty for everything he gets. It is only the government which gets a free gift. That is the way the counterpart fund system works in practice."

"Now," he continued, "take the way the nationalized or state industries work it. They order what they need with the help of their government funds. They have no credit problem. The state enterprise may also pay taxes on their Marshall Plan imports, but since it is a government enterprise, it it merely taking money out of one pocket and putting it into another.

"The net result of this is that the private business firm hesitates before ordering any Marshall Plan equipment. It must do a lot of figuring to be sure that the purchase will prove economically sound. And since the goods are expensive, and credit is short, in many cases the equipment, although badly needed, is not bought. The plant simply either adds new workers, or patches up its old machines to keep up its output. Our private industries will never get on their feet in this way and the counterpart system, that is, the way the counterpart system works under our regulations, is to blame."

He went on. "Now the nationalized enterprises face no such problems. They can, and do, buy what they require. They do not have to make a profit. They have no shareholders or bondholders to protect. They buy what they need with government funds. And so the Marshall Plan works to the benefit of state enterprise—socialism, if you will. I am sure this is not the intent of the plan.

"In spite of all this, we really do not have a socialist state as yet. We mustn't exaggerate or blow up a few state enterprises into a socialist system. What we have is *dirigism* — a state-controlled system."

A French family stopped at our compartment, opened the door, surveyed the interior as though they were about to enter and take possession. They evidently found the compartment undesirable, for, after eyeing us coldly and listening to the conversation for a moment, they closed the door and left. I felt relieved, for the conversation was getting interesting again.

The second traveller was now tracing the history of controls in the modern French state. According to him, controls began with the depression of the thirties. More controls were added during World War II and during the German occupation. Then came the shortages of the postwar period and the further extension of the managed system.

"I still maintain that these controls are needed," broke in the first traveller. "We have these controls because our economic system is out of balance and does not provide for the welfare of the people. To correct its internal and external balance, we must have controls or we would face collapse. Then we must make sure that the basic needs of all the people — especially the common people—are adequately met. So we must have controls."

At this juncture, I was about to reply but the second traveller addressed me. "Let me take up our friend's second point. I think that I know more about the way it works, since I am a European than you do. These controls," he went on, "serve to perpetuate the situation that they are designed to correct. They also keep us the permanent clients of good old Uncle Sam.

"The currency controls are a part and parcel of the system. Under them, exporters must turn over all, or a large part of their foreign currency earnings to the government. When importers require foreign currency to purchase abroad, they must ask the government for the foreign currency, with all the voluminous paper work which this entails and all the 'finagling' that such a system brings into being.

"The government grants requests for dollars and other hard currencies with difficulty. But soft currencies can easily be had. Now, the hard currency areas are cheap areas while the soft currency areas are high priced. So we buy where it is expensive. This adds to our costs of production and consequently makes our prices high. With our high prices, exporting becomes more and more difficult and again we must knock at the door of Uncle Sam and request more dollars. If our prices were lower, we could export more to him and become more self-reliant. Our high prices, which these controls maintain, are the crux of our inability to export to America. Until we reduce our prices, or until reductions are forced upon us, we will never be able to export."

I reflected a moment on this point. If this situation continued it would weaken the capitalist world by splitting it into two parts. One part, a "soft currency" area closed to the other and maintaining high prices and a second, an open, low-priced, economy. Certainly a socialist or managed economy was not as simple as the collectivist authors maintained. It had its own complexities and difficulties unknown to capitalism as well as to the socialist authors. I started to explain this idea.

"Now, don't interrupt me," the second traveller cried out. "I want to go on to show that these controls are not in the interest of the people as our friend here seems to think. Let's take price control as an example. During the war, the controlled prices were set at a point which permitted the least efficient, the marginal firms, to make a profit. You can imagine what the earnings of the better firms were under these circumstances.

"Then our price control system rapidly became a mechanism for obtaining price increases rather than for the maintenance of ceiling prices and the controlled prices went higher and higher, increasing the profits of our businessmen and lowering the purchasing power of our workers."

"Of course, profits were high all the over the world during and after the war," I interjected. "Profits in the United States have been very high. There has been much debate in my country on this subject."

"In America," he broke in, "profits may look large too you, but your American businessmen are really pikers compared with ours. The profits which our European business enterprisers have made would, if they published any reliable statistics, create a public scandal."

"And what's more these high profits do not benefit our economy. Do you think they are plowed back into reserves which increase the capital and the productive efficiency of our industries? Well, they aren't. They are sent abroad or they are used for speculation. There is no benefit to our national economy from these profits. Marshall Plan aid, in part, makes up for the failure of our enterprisers to reinvest profits in badly needed new equipment."

We were now passing through the region around Les Laumes near where Julius Caesar defeated Vercingetorix in 52 B. C. and brought Roman civilization to Europe. A young couple, evidently seeking privacy, opened our compartment door and then closed it softly without entering. The locomotive whistled loudly as we approached the station. But my two companions continued their discussion.

The second traveller was wondering what would become of Europe in 1952 when the Marshall Plan ended. What Europe needed to do before the aid ceased, was to let competition enter the closed economies of Europe; to reduce prices; to force manufacturers and dealers to unload their stocks and reduce inventories; to increase production.

Above all, the governments of Europe should abandon their attempts to be self-sufficient. The Marshall Planners, he felt, desired Europe to cooperate; to create complementary economies, not to foster the self-sufficiency of totally independent states.

These results could be attained, in his opinion, by abandoning most of the controls and letting nature take its course. The controls wound up by preserving and aggravating the conditions they were designed to correct. They made Europe a high-priced area; an area of shortages and of low production.

The conversation ceased abruptly as our train entered the long tunnel at Blaisy. Our compartment was in total darkness and the smoke started to enter our windows. I got up and closed them. The clackety-clack of the wheels on the rails, the rush of air in the narrow tunnel gave respite from the war of words, but not for long. A soon as we emerged from the tunnel, my companions arose, dusted their clothing by slapping it and resumed the argument. The first traveller was speaking.

He treated us to a chapter or two from some work on socialism. Controls were no good. Neither was state ownership of a few basic enterprises. The complete eclipse of capitalism was being written on the pages of history.

"We need an economy which produces for use and not for profit; one which creates goods which the masses need; not devoting its productive capacity to making luxury items for the rich. We require full employment at all times, not the depression-ridden capitalism without job security which we have today. Rent, interest and profits must be plowed under. Our society will have but one item in its national income accounts and that will be wages.

"All industries which are fit to survive the revolution should be owned by the state. They will be managed in the public interest, in the interest of all the people, I mean. . . . "

"You are a dupe, certainly," the second traveller interrupted, "for falling for such a line in face of all the facts. In spite of socialist programs, in spite of controls, supposedly in the interests of all the people as you say, we still have the same old society for the benefit of the few. Our prices are so high that farmers and workers are priced out of the market while the ruling class, which you would suppress, still can meet them.

"Your labor unions which are to play a major role in the New Jerusalem to which you think we are headed, are the quintessence of stupidity. Instead of bargaining collectively for higher wages, they declare they are in favor of lowering prices. Now it does not make much difference which you do—higher wages or lower prices both add up to higher standards of living for workers. But the point is that labor unions have no control over prices. But by collective bargaining, as it is practiced in the United States," he said looking at me, "you have some real action on wages.

"Now instead of getting you money and goods, they hand you theory and doctrine. A lot of good that does you. Just to show you how a controlled state treats its workers," he continued, "let's go back to the situation at the close of the war."

He then explained at some length, as our train was passing alongside of the canal near Dijon, the post-war French national wage policy. In order to hold prices down, controls were placed upon both wages and prices.

But prices rose while wages were pegged and the workers saw their purchasing power, their standard of living, sag while the bosses and speculators reaped a golden harvest. Reconstruction was not only attained by the sweat of labor, but also at the expense of its economic position. This policy was based on the theory of prices which held that prices are determined by labor cost. In a period of currency inflation accompanied by commodity shortages, this theory does not hold true. The theory of "scarcity value" applies here.

"That is socialism in practice. Do you think that a capitalistic democracy would be able to treat workers this way?" he asked.

The first traveller was fuming. He could hardly contain himself. But our train was already in the outskirts of Dijon and it was slowly coming to a stop. And so I blurted out.

"Pardon me, please. I know you would like to answer our compartment companion, but I get off here and there is just one point I would like to make before bidding you both adieu. And after I am gone, you can continue between the two of you, if you like.

"My only point is this. This socialist or communist Utopia you pictured a moment ago exists nowhere. As things now stand, it does not look as though it will exist anywhere in the foreseeable future. Least of all does it exist in Moscow or its satellites.

"All that we can hope for is to approach the goal of maximum welfare for all the people. No economic organization, real or projected, gives it to us completely. The best systems approach it more closely than the others.

"Now if you take socialism in terms of goals, in terms of results, rather than in terms of ideas, plans and promises; if you take socialism as an end result, as an attainment, the country which comes the closest to it is the good old capitalistic U. S. A.! If you go in for ideology rather than practice, this will shock you. But the country which approaches most closely the socialist goal of maximum welfare for all, is the least socialistic and most capitalistic of all. The shortest apparent way home is not always the quickest."

The train ground slowly to a halt as I picked up my baggage, descended and slowly wound my way through the station crowds into the fresh air of the capital of ancient Burgundy with its magnificent structures, its superb wines and food and its lusty folk who would rather live life than read or talk about it.

Export-Import Bank Grants Ecuador Credit

The Export-Import Bank on Dec. 21 announced the authorization of credits for the Republic of Ecuador aggregating $7 million to assist the Ecuadorean Government in financing the cost of United States materials, equipment, and services required for projects which will contribute to the reconstruction of damage done by the catastrophic earthquake of Aug. 5.

Of the total sum authorized, $1.5 million will be devoted to the financing of machinery and technical services which will be made available to a reorganized national highway maintenance department and used initially in the clearing of debris and the repair and reconstruction of roads damaged by the earthquake. When this task is completed the equipment and services will be utilized to put into effect a comprehensive program of highway maintenance under the system and methods employed in the United States.

An additional $1.5 million is allocated to the financing of railroad equipment, principally locomotives and track essential to the handling of increased traffic into the earthquake-affected area which will result from the movement of the large supplies of building materials and equipment required for the reconstruction effort.

The remaining $4 million will be allocated to specific projects submitted by Ecuador and agreed upon by the Bank and the Ecuadorean Government.

All of the projects which will be undertaken as a result of this financing will be directed principally toward meeting Ecuador's longer range reconstruction and development needs. In this connection Ecuador is making arrangements internally to meet the domestic costs.

Credits established in connection with this financing will be payable in quarterly instalments over a period of 20 years with interest at a per annum rate of 3½%.

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Securities Now in Registration

● INDICATES ADDITIONS SINCE PREVIOUS ISSUE

● ABC Vending Corp., N. Y. City
Dec. 27 filed 200,000 shares of common stock (par $1). **Price**—To be filed by amendment. **Underwriter**—Reynolds & Co., New York. **Proceeds**—For new machinery and equipment to expand activities.

● Alleghany Corp., Cleveland, O.
Dec. 19 (letter of notification) 16,500 shares of common and 400 shares of series A 5½% cumulative preferred stock, both to be sold by Allan P. Kirby, President of the company, and 500 shares of prior preferred stock to be sold by The Allan Corp., Wilmington, Del. **Prices**—For common, $4 per share; for series A, $80; and for prior preferred, $85. **Underwriter**—Auchincloss, Parker & Redpath, New York.

● American Bankers Insurance Co. of Florida
Dec. 12 (letter of notification) 4,000 shares of class A stock (par $10) at $35 per share and 6,000 shares of class B stock at par ($10 each). No underwriter. Proceeds to increase capital and enlarge surplus. **Office**—243 N. 2nd Avenue, Miami, Fla.

● American Cladmetals Co., Carnegie, Pa.
Dec. 15 (letter of notification) 10,000 shares of common stock (par $1) for account of selling stockholder. **Underwriter**—C. S. McKee & Co., Pittsburgh, Pa. **Price**—Expected at market.

● Armorlite Lens Co., Inc., Pasadena, Calif.
Dec. 12 (letter of notification) 4,077 shares of capital stock at $10 each. No underwriter. **Proceeds**—To buy equipment and expand business. **Office**—117 E. Colorado Street, Pasadena 1, Calif.

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., N. Y.
Nov. 3 filed $3,250,000 10-year 3% sinking fund debentures due 1958 and 200,000 shares ($10 par) class A stock. **Underwriter**—Israel Securities Corp. may be underwriter. Debentures are to be offered at par and the stock at $11 per share. **Proceeds**—To be used for economic development of Israel. Statement effective Dec. 9.

Ashland Oil & Refining Co., Ashland, Ky.
Dec. 15 (letter of notification) 15,000 shares of $1.20 cumulative convertible preferred stock (no par) to be sold to company employees at $20 each. No underwriter. **Proceeds**—To be added to working capital for general corporate purposes.

Automatic Firing Corp., St. Louis, Mo.
Dec. 9 (letter of notification) 6,300 shares of class B ($1 par) common stock, of which 2,400 are offered by Allan J. Strauss, 2,100 by Stanley Strauss and 1,800 by Leslie J. Weil. **Underwriter**—G. H. Walker & Co., St. Louis, is buying this stock at $2.333334 a share and selling it to Dempsey & Co., Chicago, the underwriter, at $2.50. Latter, will resell it at $2.875 each

Baltimore Trotting Races, Inc.
Dec. 15 filed $1,000,000 5% debenture bonds, due 1970, and 110,000 shares of common stock ($1 par). To be offered at $1,330 per unit, each unit to consist of $1,000 bonds and 110 shares of stock. No underwriter. Proceeds will be used to build a racetrack. Three officers also filed with respect to voting trust certificates for 290,000 shares of common stock, par $1.

Bank Building & Equipment Corp. of America
Dec. 9 (letter of notification) 6,500 shares of captial stock (following a two-for-one stock spilt, effective Dec. 20) at about $7 each. **Underwriter**—Scherck, Richter Co., St. Louis.

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.

Beverly Gas & Electric Co.
Dec. 20 filed 33,000 shares of capital stock (par $25) to be offered to stockholders at the rate of 1½ shares for each two shares now held, at $30 per share. No underwriter. The proceeds will be used to pay off $575,000 of notes held by the New England Electric System and bank loans.

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Broadway Angels, Inc., New York City
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. Statement effective Dec. 9. Offering expected in January.

● Cenco Corp., Chicago
Dec. 20 (letter of notification) 105,800 shares of common stock (par $1). **Price**—$2.75 per share. **Underwriter**—Blair F. Claybaugh & Co., New York. **Proceeds**—For additional capital for Central Scientific Co., a wholly-owned subsidiary. **Office**—1700 Irving Park Blvd., Chicago, Ill.

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.

Commonwealth Edison Co., Chicago (1/10/50)
Dec. 13 filed $49,000,000 sinking fund debentures, to be dated Oct. 1, 1949, and mature April 1, 1999. **Underwriters**—Names to be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Glore, Forgan & Co. **Proceeds**—For construction, additions, etc. to property. The sinking fund on new debentures will provide for ratable retirement of the entire issue by maturity. Bids expected Jan. 10, 1950.

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 about Jan. 6.

Consolidated Engineering Corp., Pasadena, Cal.
Dec. 12 (letter of notification) 200 shares of common stock (par $1) to be sold at $22 each to Paul W. Heasley for resale to the public. **Underwriter**—Hopkins, Harbach & Co., Los Angeles, Calif. **Proceeds**—For working capital.

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.

Dow Chemical Co.
Nov. 4 filed 175,000 shares of common stock (par $15). **Offering** — Offered to stockholders of record Dec. 20 at $44.50 per share on ratio of one new share for each 50 shares held. Rights expire Feb. 1, 1950. Employees of company, its subsidiary and associated companies will also be given an opportunity to subscribe. **Proceeds**—To be added to treasury funds and used for corporate purposes. **Underwriter**—None. Statement effective Dec. 9.

Duval Texas Sulphur Co., Houston, Tex.
Dec. 21 filed 375,000 shares of capital stock (no par) to be offered to stockholders at $13.50 per share at the rate of ¾ths of a new share for each share held. [The United Gas Corp., owner of 74.71% of the outstanding Duval capital stock, has agreed to purchase at the subscription price any shares of stock not subscribed for by other stockholders.] **Underwriter** — None. **Proceeds** — To be used, along with a $2,500,000 bank loan, to provide mining and milling facilities to mine potash in Eddy County, N. M.

Eastern Harness Racing Club, Inc. (1/9-13)
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 second week in January.

● Empire Building Material Co., Portland, Ore.
Dec. 15 (letter of notification) 1,000 shares of common stock at par ($100 each), the proceeds for working capital to expand operations and buy new machinery. No underwriter. **Office**—1205 S. E. Grand Avenue, Portland, Ore.

● Excelsior Insurance Co. of N. Y. (1/10)
Dec. 21 (letter of notification) 10,598 shares of common stock at $8.85 per share together with option, exercisable on or after April 1, but not later than April 11, 1951, to purchase 10,596 additional shares at the same price, together with a further option, exercisable on or after April 12, but not later than April 22, 1952, to purchase 10,596 additional shares also at $8.85 per share. To be sold for account of Virginia Fire & Marine Insurance Co. which owns 31,790 shares of Excelsior stock.

Fitzsimmons Stores, Ltd., Los Angeles, Cal.
Dec. 16 (letter of notification) 30,000 shares of class A common stock, of which 22,778 are to be issued in exchange for 3,254 shares of Roberts Public Markets, Inc. at the rate of seven shares of Fitzsimmons for each share of Roberts. Any additional shares not needed for the exchange will be sold at $10 each. No underwriter. **Proceeds**—For working capital.

Food Fair Stores, Inc. (1/10)
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. Expected about Jan. 10.

● Front Range Oil & Drilling Co., Denver, Colo.
Dec. 29 (letter of notification) 1,702,707 shares of common capital stock. **Price**—Par (5 cents each). **Underwriter**—Inter-Mountain Shares, Inc., Denver. **Proceeds**—For drilling of test wells for oil and gas. **Office**—711 Security Bldg., Denver.

Gibbonsville Mining & Exploration Co.
Dec. 6 (letter of notification) 250,000 shares (10c par) common stock. Price, par. **Underwriter** — William L. Henderson, Wallace, Idaho. To buy and install additional milling machinery. **Office**—Hutton Bldg., Spokane, Wash.

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**—$10 per share. **Proceeds**—Company plans to use $315,000 to redeem 3,000 shares 5% cumulative preferred stock ($100 par) at 105, and the remainder to improve lease-hold property and furnish new offices. **Business**—Manufacture of women's suits. Statement effective Dec. 15.

Hastings Manufacturing Co., Hastings, Mich.
Dec. 6 (letter of notification) 2,000 shares ($2 par) common stock, to be sold by Aben E. Johnson, President of the company, at $7 each. **Underwriter**—First of Michigan Corp., Battle Creek, Mich.

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.

● Huffman & Boyle Co., Inc., No. Hackensack, N. J.
Dec. 21 (letter of notification) 2,000 shares of 6% cumulative preferred stock, of which 800 shares are to be offered in exchange for $40,000 principal amount of outstanding debenture bonds on a par for par basis. The remaining 1,200 shares are to be sold at par ($50 per share), the proceeds to be used for working capital. No underwriting.

Idaho Maryland Mines Corp., San Francisco, Cal.
Dec. 12 (letter of notification) 14,000 shares of common stock at $1.90 per share, to be sold by Gwendolyn MacBoyle, executrix for the Estate of Errol MacBoyle, deceased. **Underwriters**—E. F. Hutton & Co. and Davies & Mejia, San Francisco.

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NEW ISSUE CALENDAR

January 4, 1950
Baltimore & Ohio RR. noon (EST)...Equip. Tr. Ctfs.

January 5, 1950
Northern Indiana Public Service Co.....Preferred
Pennsylvania RR. noon (EST)...Equip. Trust Ctfs.

January 9, 1950
Eastern Harness Racing Club, Inc.........Common

January 10, 1950
Commonwealth Edison Co..............Debentures
Excelsior Insurance Co. of N. Y............Common
Food Fair Stores, Inc.....................Debentures
Lawrence Gas & Electric Co....................Bonds
Missouri-Kansas-Texas RR. ....Equip. Tr. Ctfs.
Pacific Lighting Corp.........................Preferred
Seaboard Finance Co..........................Preferred

January 11, 1950
Southern Pacific Co. noon (EST)...Equip. Tr. Ctfs.

January 12, 1950
Western Maryland Ry..................Equip. Tr. Ctfs.

January 17, 1950
Middle South Utilities, Inc....................Common
Niagara Mohawk Power Corp.....................Bonds

January 18, 1950
Chicago, Rock Island & Pacific RR.............Bonds

January 20, 1950
Sharp & Dohme, Inc..........................Preferred

January 24, 1950
United Gas Corp. 11:30 a.m. (EST)..............Bonds

January 25, 1950
Indiana Harbor Belt RR..............Equip. Tr. Ctfs.

January 31, 1950
American Telephone & Telegraph Co.
11:30 a.m. (EST)........................Debentures

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.

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. (1/10)
Dec. 1 filed $2,750,000 of series A first mortgage bonds, due Dec. 1, 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%, to repay $1,000,000 notes held by banks and the balance for construction. Expected Jan. 10.

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 Trust 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.

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. Expected early in January.

● **Malone Darhasana Mining Co., Silver City, N. M.**
Dec. 12 (letter of notification) such portion of 1,939 shares of common stock held in treasury as are necessary to meet future expenses, to be offered to stockholders only at $5 each. No underwriter. The proceeds will be used to meet payments on options, etc. **Office**—Bell Block, Silver City, N. Mex.

Middle South Utilities, Inc. (1/17)
Dec. 21 filed 640,000 shares of common stock (no par). **Underwriters**—Names to be determined by competitive bidding. Probable bidders: Dillon, Read & Co. Inc.; Kidder, Peabody & Co. and Merrill Lynch, Pierce, Fenner & Beane (jointly); The First Boston Corp.; Lehman Brothers, Blyth & Co., Inc.; Union Securities Corp. and Equitable Securities Corp. (jointly). **Proceeds**—To make common stock investments totaling $13,000,000 in three subsidiaries, viz: Arkansas Power & Light Co., Louisiana Power & Light Co. and Mississippi Power & Light Co., so that these subsidiaries can continue construction programs. Tentative date of offering is Jan. 17.

Moller-Dee Textile Corp., Wilmington, Del., and Tel-Aviv, Israel
Dec. 7 filed 500,000 shares ($5 par) capital stock. **Underwriter**—Coffin, Betz & Co., Philadelphia. **Price**, par. **Proceeds**—To build a textile plant in Israel. **Business**—Cotton textiles.

● **(A. A.) Murphy & Co., St. Paul, Minn.**
Dec. 19 (letter of notification) 6,000 shares of 5½% prior preferred stock (par $50). **Underwriter**—Piper, Jaffray & Hopwood, Minneapolis. **Proceeds** — To pay outstanding bank loans.

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.

Niagara Mohawk Power Corp. (1/17)
Dec. 15 filed $40,000,000 of gen. mtge. bonds, due Jan. 1, 1980. **Underwriters**—Names to be determined by competitive bidding. Probable bidders—Halsey, Stuart & Co. Inc.; Morgan Stanley & Co.; Kuhn, Loeb & Co.; The First Boston Corp. Bids expected Jan. 17. **Corporation**—Will on Jan. 5 succeed to the merger of Buffalo Niagara Electric Corp., Central New York Power Corp. and New York Power & Light Corp. Central New York is to be the surviving company, and is to change its name to Niagara Mohawk. The Niagara Falls Power Co. will be its direct subsidiary. **Proceeds**—To repay $38,500,000 of bank loans obtained in 1948 and 1949 in connection with the construction program of the constituent companies and to finance in part the company's construction program. This program is expected to require about $43,000,000 in 1950 in addition to the $70,000,000 of expenditures since 1947.

Northern Indiana Public Service Co. (1/5/50)
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.

● **Pacific Lighting Corp. (1/10)**
Dec. 21 filed 100,000 shares of $4.40 cumulative preferred stock (no par value). **Underwriter**—Blyth & Co., Inc. and others to be named by amendment. **Proceeds**—To repay part of outstanding bank loans. **Offering**—To be made on or about Jan. 10.

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.

Royal Crown Beverage Co. of Poughkeepsie, Inc.
Dec. 8 (letter of notification) 8,000 shares of 5% cumulative preferred stock (par $20) and 40,000 shares of common stock (par 10 cents) and 18,000 common stock purchase warrants to purchase a like number of common shares. **Underwriter**—Raymond V. Edwards, Massapequa, L. I., N. Y. **Price**—$30.66 per unit, each unit consisting of one share of preferred and five shares of common stock. To retire bank loans for new equipment and additional working capital. **Office**—170 Washington Street.

Seaboard Finance Co., Los Angeles (1/10)
Dec. 7 filed 120,000 shares of convertible preferred stock, cumulative (no par). **Underwriter**—The First Boston Corp. **Proceeds**—To increase working capital, reduce bank loan, invest in subsidiaries. Expected Jan. 10.

● **Service Finance Co., Los Angeles, Calif.**
Dec. 19 (letter of notification) 65,000 shares of common stock. **Price**—Par ($1 each). **Underwriter**—Dempsey Tegeler & Co., Los Angeles. **Proceeds**—For working capital. **Office**—607 S. Hill Street, Los Angeles.

Sharp & Dohme, Inc., Philadelphia, Pa. (1/20)
Dec. 9 filed 171,815 shares of cumulative preference stock (no par). **Offering**—To be offered in exchange for 229 085 2/5 shares of $3.50 cumulative convertible preference stock, series A. at rate of three new shares for each four old ones. **Underwriters**—Alex. Brown & Sons, Baltimore, and Drexel & Co., Philadelphia. **Proceeds**—To redeem at $75 each plus accrued dividends any $3.50 preference stock not surrendered under the exchange. **Business**—Pharmaceuticals.

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.). Expected in January.

Soya Corp. of America, N. Y. City
Dec. 15 (letter of notification) 400,000 shares of common stock (par 1c) at 50c per share. **Proceeds**—For improvements and working capital. No underwriting.

● **Spokane Mining Syndicate, Inc.**
Dec. 12 (letter of notification) 400,000 shares of common stock at par (10c each) to fulfill an assignment agreement on properties leased to Saranac Mining Co., Inc. and for development and exploration of these properties. No underwriter. **Office**—730 Peyton Building, Spokane 8, Wash.

Sudore Gold Mines Ltd., Toronto, Canada
June 7 filed 375,000 shares of common stock. **Price**—$1 per share (U. S. funds). **Underwriter** — None. **Proceeds**—Funds will be applied to the purchase of equipment, road construction, exploration and development.

● **Sunny Valley Oil Co., Denver, Colo.**
Dec. 12 (letter of notification) 200,000 shares of capital stock at par ($1 each). No underwriter. Proceeds to explore for oil and gas in the San Luis Valley, Colo. **Office**—1120 S. Franklin Street, Denver, Colo.

● **Swormco, Inc., Washington, D. C.**
Dec. 13 (leter of notification) 25,000 shares of common stock to be sold at par ($1 a share) in blocks of no less than 10 shares. Proceeds for organization expenses, equipment and for operating expenses. **Office** — 811 Woodward Building, Washington, D. C.

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.

Thermoid Co., Trenton, N. J.
Dec. 20 filed sufficient shares of convertible preferred and common stocks for issue to employees under the 1950 trust of the Employees' Thrift Bonus Plan. This number is estimated at more than 14,000 preferred and more than 100,000 common shares, with maximum contributions from employees estimated at $400,000 and maximum contributions by the company at $80,000. No underwriter. **Proceeds**—For working capital.

Ultrasonic Corp., Cambridge, Mass.
Dec. 7 (letter of notification) $300,000 of 5% debenture bonds, due 1960 (which will have attached 3,000 shares of class A stock). The bonds are convertible into 40,000 shares ($5 par) capital stock. **Price** — $100 each. No underwriter. For general working capital. **Office**—61 Rogers St., Cambridge, Mass.

● **Union Trusteed Funds, Inc.**
Dec. 28 filed 35,000 shares of capital stock. **Underwriter**—Lord, Abbett & Co., New York. **Business**—An open-end investment company.

● **United Gas Corp. (1/24)**
Dec. 21 filed $25,000,000 of first mortgage and collateral trust bonds, series due Jan. 1, 1970. **Underwriters**—Names to be determined by competitive bidding. Bids, it is expected will be opened at 11:30 a.m. (EST) on Jan. 25 at 2 Rector Street, New York. Probable Bidders: Halsey, Stuart & Co. Inc.; Dillon, Read & Co. Inc.; The First Boston Corp.; Harriman, Ripley & Co. and Goldman, Sachs & Co. (jointly); Equitable Securities Corp. **Proceeds**—To purchase $18,000,000 of first mortgage bonds, 4% series due 1962, to be issued by United Gas Pipe Line Co., its subsidiary, and for general corporate purposes.

● **United States Fidelity & Guaranty Co., Baltimore**
Dec. 27 filed 300,000 shares of capital stock (par $10). **Price**—To be filed by amendment. **Offering**—To stockholders at the rate of one share for each 3⅓ shares now held. **Underwriters**—Alex. Brown & Sons, John C. Legg & Co., Stein Bros. & Boyce, and Baker, Watts & Co., all of Baltimore. **Proceeds**—For additional capital and surplus.

Upper Peninsula Power Co.
Sept. 28, 1948 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.

Prospective Offerings

American Telephone & Telegraph Co. (1/31)
Dec. 21 the directors authorized a new issue of $200,000,000 debentures to be offered at competitive bidding. It is expected that they will be dated Feb. 1, 1950 and mature Feb. 1, 1971, that a registration statement will be filed with the SEC early in January and that bids will be opened at 11:30 a.m., Jan. 31. Probable bidders—Morgan, Stanley & Co.; Mellon Securities Corp.; Halsey,

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Stuart & Co. Inc. and First Boston Corp. (jointly). Proceeds will be used to provide funds for extensions, additions and improvements to plant of the Bell System companies and for general corporate purposes.

Baltimore & Ohio RR. (1/4/50)
Company will receive bids by noon (EST) Jan. 4 at its New York office on its proposed offering of $11,865,000 equipment trust certificates, series BB, to be dated Jan. 1, 1950 and to mature $791,000 annually on Jan. 1, 1951-1965. Probable bidders: Halsey, Stuart & Co. Inc.; Harriman Ripley & Co. Inc. and Lehman Brothers (jointly); Salomon Bros. & Hutzler; Harris, Hall & Co. (Inc.).

● **Central Maine Power Co.**
Dec. 27 it was reported that a block of common stock of this company now owned by New England Public Service Co. may reach the marketing stage this spring.

Chicago, Rock Island & Pacific RR. (1/18-19)
Dec. 20 company asked ICC for authority to issue $55,000,000 first mortgage bonds, due Jan. 1, 1980, the net proceeds to be used toward paying off $25,760,000 of notes and to redeem on April 1, next, approximately $33,400,000 of general mortgage 4½% convertible income bonds, series A, due Jan. 1, 2019. To be offered at competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Kuhn, Loeb & Co.; Morgan, Stanley & Co.; Lehman Brothers and Bear, Stearns & Co. (jointly). The bank loan was made to redeem on Jan. 1, 1950, $25,760,000 first mortgage series A 4s, due Jan. 1, 1994. **Bids**—Expected to be invited around Jan. 9 and opened Jan. 18 or 19.

Cincinnati Gas & Electric Co.
Dec. 21 stockholders authorized an increase in the number of common shares from 2,500,000 to 6,000,000 shares. Presently there are 2,493,334 shares outstanding. Plans call for the issuance of 560,000 shares early next Spring, possibly in March, to finance, in part, an $85,000,000 expansion program. The stockholders will receive preemptive rights for the new stock offering.

Columbia Gas System, Inc.
Dec. 19, the directors authorized the sale of 304,998 shares of common stock (which represents the unsubscribed portion of 1,345,300 shares offered stockholders last June). Underwriters—Names to be determined by competitive bidding. Probable bidders: The First Boston Corp.; Merrill Lynch, Pierce, Fenner & Beane; Halsey, Stuart & Co. Inc.; Kidder, Peabody & Co.; Lehman Brothers; Goldman, Sachs & Co.; Union Securities Corp. (jointly); Morgan, Stanley & Co.; Shields & Co.; R. W. Pressprich & Co. (jointly); Blyth & Co., W. C. Langley & Co. (jointly). Bids expected toward the end of January, 1950.

Commonwealth Edison Co., Chicago
Dec. 13 it was indicated that $90,000,000 additional financing will be necessary for the period 1950-1953 to cover in part a construction budget of $290,000.000. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Glore, Forgan & Co.

● **Dallas Power & Light Co.**
Dec. 24 company reported planning sale, probably in May, of $8,500,000 bonds, for new money. Probable bidders: Halsey, Stuart & Co. Inc.; Equitable Securities Corp.; Lehman Brothers; Salomon Bros. & Hutzler; First Boston Corp.; Union Securities Corp.; Kidder, Peabody & Co.; Blyth & Co., Inc.; Merrill Lynch, Pierce, Fenner & Beane (jointly); Harriman, Ripley & Co.

Florida Power & Light Co.
Dec. 15 reported company expects to raise $12,000,000 in new money in 1950-1951 to finance in part its construction program. McGregor Smith, President, disclosed that no plans have been completed to date on what form the new financing will take, although the company expects to improve its current equity position, which is 38.6% of capital. Probable bidders for common stock: The First Boston Corp.; Dillon, Read & Co. Inc.; Smith, Barney & Co. and Blyth & Co., Inc.; Lehman Brothers; Union Securities Corp.; Merrill Lynch, Pierce, Fenner & Beane.

Indiana Harbor Belt RR. (1/25)
Dec. 15 company reported to be planning the issuance of $1,800,000 equipment trust certificates. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Harriman Ripley & Co., Inc. and Lehman Brothers (jointly); Harris, Hall & Co. (Inc.). Expected about Jan. 25.

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.

● **Kansas Gas & Electric Co.**
Dec. 23 plans were announced for issuance of a new preferred stock (with a 4½% to 5% dividend) in exchange for existing 7% and $6 preferred stocks on a share for share basis, with 7% preferred stockholders also receiving $5 per share in cash. New preferred stock not issued in exchange will be sold to underwriters and the proceeds used to redeem old preferred issues. Probable bidders: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc.; Kidder, Peabody & Co.; Smith, Barney & Co.; W. C. Langley & Co.; Lehman Brothers.

● **Laclede Gas Light Co.**
Dec. 21 it was reported that the company expects to be in the market for new capital early next year to finance part of its $20,000,000 construction program planned over the 1950-1953 period. The time and form of the 1950 financing will not be known until the construction requirements are finally determined, according to Robert W. Otto, President. Over one-third of the total is expected to be spent in 1950. Probable bidders: Halsey, Stuart & Co. Inc.; Goldman, Sachs & Co.; The First Boston Corp.; Lehman Brothers; Merril Lynch, Pierce, Fenner & Beane; Reinholdt & Gardner (jointly).

● **Laclede Gas Light Co.**
Dec. 27 it was reported company may refund its outstanding $19,000,000 3½% bonds due Feb. 1, 1965, and $6,500,000 3½% bonds due Dec. 1, 1965, through the issuance of possibly $28,000,000 of new bonds within the next year or so. For probable bidders, see preceding paragraph.

Lone Star Steel Co., Dallas, Texas
Dec. 13 announced company plans to issue and sell $5,000,000 10-year first mortgage bonds and to raise an additional $2,000,000 through the issuance to present stockholders of rights to subscribe for 592,185 additional shares of common stock. **Underwriters**—Dallas Rupe & Son, Dallas, and Straus & Blosser, Chicago. **Proceeds**—To retire present indebtedness, finance the construction of a cast iron pressure pipe plant, and for other corporate purposes.

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.).

Missouri-Kansas-Texas RR. (1/10)
Dec. 15 reported planning the issuance of about $1,650,000 of equipment trust certificates. Probable bidders: Halsey, Stuart & Co. Inc.; Harris, Hall & Co. (Inc.); Salomon Bros. & Hutzler; Harriman Ripley & Co. Inc. and Lehman Brothers (jointly). Expected about Jan. 10.

Montana Power Co.
Dec. 20 reported the company may issue in a few months approximately $22,000,000 in new securities, which may include bonds and debentures and possibly some additional common stock. Financing of $10,000,000 or more in bonds may be undertaken in May. The proceeds are to be used for expansion and extension of its gas and electric lines. Probable bidders for bonds: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc.; Union Securities Corp.; Merrill Lynch, Pierce, Fenner & Beane; Smith, Barney & Co.; First Boston Corp.

New Jersey Bell Telephone Co.
Company filed Dec. 8 with the New Jersey State Board of Public Utility Commissioners a plan for financing $65,000,000 of construction. Company proposes to sell $50,000,000 in common stock and $15,000,000 in long-term bonds to meet plant and installation costs. Probable bidders for bonds: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co.; Kuhn, Loeb & Co.; Shields & Co.; First Boston Corp.; White, Weld & Co.

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.

● **Pacific Petroleum Co.**
Dec. 15 reported contemplating the issuance of around 500,000 or 600,000 shares of common stock. Probable underwriter—Bingham, Walter & Hurry, Los Angeles, Calif.

● **Pacific Power & Light Co.**
Dec. 24 reported that company's tentative plans call for funding of $9,000,000 bank loans, probably in March. On Sept. 15 it was said plans to do some permanent financing of approximately $7,000,000 through the sale of additional first mortgage bonds to retire outstanding notes and to finance its construction program had been postponed to about May 1, 1950. Probable bidders: Halsey, Stuart & Co. Inc.; Kidder, Peabody & Co.; W. C. Langley & Co. and The First Boston Corp. (jointly); Union Securities Corp.; Equitable Securities Corp. and Salomon Bros. & Hutzler (jointly); Blyth & Co., Inc.; White, Weld & Co. and Harris, Hall & Co. (Inc.) (jointly); Carl M. Loeb, Rhoades & Co.

Pacific Telephone & Telegraph Co.
Dec. 15 company announced a plan to offer to its stockholders the right to subscribe for 814,694 additional shares of common stock at the rate of one share for each six shares of common or preferred held. American Telephone & Telegraph Co. owns 3,003,584 shares, or 90.34%, of the 3,324,604 common shares outstanding, and 640,957, or 78.17%, of the 620,000 6% preferred shares. Proceeds will be used to retire bank loans and to provide for additional expansion, additions and improvements.

Pennsylvania RR. (1/5)
Dec. 15 announced the company will receive bids at or before 12 o'clock noon (EST) on Jan. 5 at its office at Room 1811, Broad Street Station Bldg., Phila. 4, Pa., for $10,620,000 equipment trust certificates, series Y, to be dated Jan. 1, 1950 and to mature $708,000 annually on Jan. 1, 1951-1965. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Harriman Ripley & Co. Inc. and Lehman Brothers (jointly); Harris, Hall & Co. (Inc.); First Boston Corp.

● **Phoenix Silk Corp., Allentown, Pa.**
Dec. 28 the Attorney-General of the U. S. invited bids for the purchase, as an entirety, of 1,358 shares of capital stock (par $1 each). All bids must be presented at the office of Alien Property, Department of Justice, 120 Broadway, New York, N. Y., on or before 11 a.m. (EST) on Jan. 17. The stock will be sold only to American citizens.

Seaboard Air Line RR.
Dec. 9 reported that company has under consideration the refunding of its long-term first mortgage 4% bonds involving not less than $30,000,000. Probable bidders include Halsey, Stuart & Co. Inc.; Kuhn, Loeb & Co.; Lehman Brothers; First Boston Corp.; Harriman Ripley & Co., jointly.

● **Southern California Gas Co.**
Dec. 19 reported company may issue and sell approximately $20,000,000 of bonds, probably in May. Probable bidders: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc.; Lehman Brothers; Harris Hall & Co. (Inc.); White, Weld & Co.; Merrill Lynch, Pierce, Fenner & Beane; the First Boston Corp.; Shields & Co.; Kidder, Peabody & Co.

● **Southern Pacific Co. (1/11)**
The company has issued invitations for bids to be received by 12 o'clock noon (EST) on Jan. 11 at its offices at Room 2117, 165 Broadway, New York 6, N. Y., for $13,530,000 equipment trust certificates, series DD, to mature in 15 equal annual instalments of $902,000 each, and to be secured by new railroad equipment costing not less than $18,040,000. Probable bidders: Halsey, Stuart & Co. Inc.; Harriman, Ripley & Co. Inc. and Lehman Brothers (jointly); Salomon Bros. & Hutzler; Harris, Hall & Co. (Inc.); The First Boston Corp.

Southwestern Public Service Co.
Dec. 10 reported company will offer additional shares of common stock on a one-for-eight basis to its present shareholders early in 1950. Offering will represent part of the company's program to raise approximately $18,000,000 in the 1950 fiscal year ending Aug. 31 to finance its $20,000,000 expansion program for the year. Company has arranged for the private sale of $10,000,000 of 30-year mortgage bonds with a life insurance company to provide the major portion of funds needed in the 1950 fiscal year. The balance will be obtained through the sale of about $2,500,000 of debentures. In addition to the new financing, company also is said to be considering plans to refund some of its privately-held indebtedness. Traditional underwriter, Dillon, Read & Co. Inc.

● **Staten Island Edison Corp.**
Dec. 21 it was announced that sale of this corporation by General Public Utilities Corp. is expected to be completed in the next three months.

Texas Electric Service Co.
Dec. 19 reported may offer 100,000 shares of new preferred stock. Expected to be sold competitively, possibly in April. Probable bidders may include W. C. Langley & Co. and Glore, Forgan & Co. (jointly); Union Securities Corp.; Hemphill, Noyes, Graham, Parsons & Co. and Drexel & Co. (jointly); Harriman, Ripley & Co.; Blyth & Co., Inc.; Lehman Brothers; Kidder, Peabody & Co.; Smith, Barney & Co.

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., and Merrill Lynch, Pierce, Fenner & Beane (jointly); Union Securities Corp., White, Weld & Co., and Glore, Forgan & Co. (jointly); Carl M. Loeb, Rhoades & Co.; Drexel & Co. and Hemphill, Noyes, Graham, Parsons & Co. (jointly); Lehman Brothers; Salomon Bros. & Hutzler; Harriman, Ripley & Co.

● **Texas-Illinois Natural Gas Pipeline Co.**
Dec. 5 it was announced company plans to build a 1,400 mile pipeline, which it is estimated will cost between $140,000,000 and $150,000,000. James F. Oates, Jr., Chairman of Peoples Gas Light & Coke Co., stated financing of the new project would probably consist of 75% debt and 25% stock. If bonds are sold at competitive bidding, Halsey, Stuart & Co. Inc. head group.

● **Texas Utilities Co.**
Dec. 19 reported to be seeking about $8,000,000 new money in a few months through additional sale of about 400,000 shares of common stock. Probable bidders: Blyth & Co., Inc.; and The First Boston Corp. (jointly); Lehman Brothers; Dillon, Read & Co. Inc.; Union Securities Corp.; Merrill Lynch, Pierce, Fenner & Beane and Kidder, Peabody & Co. (jointly); First Southwest Corp.; Rauscher, Pierce & Co. and Dallas Union Trust Co. (jointly).

Webster-Chicago Corp.
Dec. 9, R. F. Blash, President, announced that he and Mrs. Blash have entered into an agreement with F. Eberstadt & Co. Inc., New York, and Shillinglaw, Bolger & Co., Chicago, covering a proposed public distribution of part of their shares of common stock of the corporation. No new financing by the company is involved. A registration statement relating to the proposed offering is expected to be filed with the Securities and Exchange Commission in the near future.

Western Maryland Ry. (1/12)
Dec. 14 company was reported to be planning the issuance of about $2,450,000 equipment trust certificates on or about Jan. 12. Probable bidders: Halsey, Stuart & Co. Inc.; Harris, Hall & Co. (Inc.); Salomon Bros. & Hutzler; Harriman Ripley & Co. and Lehman Brothers (jointly); Lee Higginson Corp.

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Our Reporter's Report

Except for those firms which are engaged in forming groups to bid for new issues due out next month, this was a week of little more than handshaking and congratulations in the investment banking world.

Off-the-Street investment interests, namely banks and insurance companies, are visibly more interested in closing up their books for the year than in looking over new situations.

Accordingly, as one active trader explained the other day, he had some "nice orders to buy and sell at certain prices" but found himself "locked out" of the market by the absence of interest from foregoing sources.

The only substantial investment interests which appeared to maintain an element of activity through the closing week were the individual trust accounts.

By and large the forthcoming American Telephone & Telegraph Co.'s $200,000,000 of new debentures, due out Jan. 31 next, provided the chief topic of current conversation. And well they should.

Two banking groups are forming to go after this one and will be headed by the firms which have become traditional rivals for Telephone's business since the advent of competitive bidding.

These two groups, between them, will represent just about all available investment underwriting capital, probably running to a hundred or more firms each as the time for bidding rolls around.

Big Rail Issue Looms

With the Chicago, Rock Island & Pacific RR.'s plan for financing of its entire funded debt now carrying the approval of shareholders, one of the largest pieces of rail bond business in months looms ahead of the market.

The proposal calls for the sale of $55,000,000 in new first mortgage bonds next month to provide funds for paying off of a bank loan and redemption, on April 1, of currently outstanding general mortgage bonds totaling $33,400,000.

The road already has called $25,760,000 of first mortgage bonds for payment Jan. 1 next, using funds secured through the bank loan. Completion of the program will make the road one of the few with a single mortgage debt, exclusive of equipment trust issues.

Getting to Market Early

American Telephone & Telegraph Co., parent for the operating companies making up the Bell System, plans early entry into the money market next year for funds needed to carry through on its extensive expansion program.

It will go directly to the public with $200,000,000 of new debentures, non-convertible, and will offer its employes the "rights" to subscribe for additional stock at a price $20 less than market, when payment is completed, but not more than $150 nor less than $100 a share.

The debentures will mature in 1971 and registration is expected early next month to permit opening of bids on the final day of January.

Veterans' Bonus Bonds

Several large pieces of soldier bonus financing remain to be undertaken and probably will contribute heavily to next year's public offerings in the state and municipal field.

Pennsylvania now looks like the leader in that direction, making its plans for an issue to reach market along about the early part of March.

The State is preparing to issue $375,000,000 of such bonds at that time, which would constitute a major portion of the $500,000,000 approved by voters in the last election.

This issue would mature in 14 equal instalments of $27,000,000 each, with one exception, the final maturity, which would be for $24,000,000. The first maturity was set for 1952 so that legislators might, in the meantime, devise a means for payment.

1949 in Retrospect

In the year-end issue of "The Guaranty Survey," published by the Guaranty Trust Company of New York, it is pointed out that for the first time since the war, American business is rounding out a year in which the net movement of prices in general has been toward lower instead of higher levels. A year ago prices had passed their peak, but the readjustment was still in its early stages—so early that it was difficult to determine whether the often-predicted postwar recession had really begun or whether the inflationary menace was still imminent. The publication states further that the last 12 months have answered that question and have brought some wholesome changes in economic conditions, while at the same time introducing new problems that are perhaps less urgent but no less serious in the long run.

New Problems Created

"Some of the dangers that faced our economic life a year ago have been avoided, one of the gravest of which was the threat of a return to the inequitable and uneconomic system of industrial relations that existed under the Wagner Act, "The Survey" states. "Another was the demand for new social programs that would have necessitated large additions to the already heavy tax burden. A third was the menace of deep new encroachments of governmental authority, and even governmental competition, in the field of business—first in the name of economic stability and later in the name of economic expansion.

"Although the worst of these threats were averted, for the time being at least, our economy did not escape the creation of new problems through unwise public policy. Two of the year's developments, especially, unless countered in some way not now foreseeable, seem likely to cause serious difficulty at some future time. One of these was the continuation of the high wartime price supports for farm products in the face of mounting surplus output. The other was the acceptance of new and expanded programs of Federal expenditure resulting in the prospect of the largest Treasury deficit ever incurred in time of peace and ending the hope of a balanced budget for an indefinite future period.

The Near-Term Outlook

"The natural consequences of such policies, however, may be deferred for some time, or may even be prevented by future developments that cannot now be foreseen. Economic tendencies in the near future are more likely to be determined by influences of another sort.

"Business has passed through a period of wholesome adjustment with comparatively little loss of income and without serious impairment of confidence in the early outlook. Consumer demand is still strong, especially for such durable goods as homes and automobiles. The steel shortage due to the strike will take time to fill. Liquid assets in the hands of the public and very large and ready purchasing power will be increased by veterans' insurance refunds of $2.8 billion to be paid in January. Once the coal dispute is settled, the immediate outlook for industrial relations appears generally favorable. Estimated business expenditures for new plant and equipment in the first quarter of 1950 are relatively high, though somewhat below the 1948 and 1949 levels. Large governmental expenditures for national defense, public works and foreign aid seem certain.

"These are the principal conditions underlying the general expectation of active business in 1950. Not all of them actually contribute to the standard of living, and some of them are probably storing up trouble for the future. They all help, however to bolster current demand and therefore are rightly regarded as stimulating factors in the near-term outlook.

The Chief Uncertainties

"There has not yet been time for events to show what effect the devaluation of foreign currencies may have on the foreign trade of the United States or on the worldwide problem of the 'dollar gap.' Exports to the Marshall Plan countries declined in October, while imports from those countries increased; but the changes were too small to suggest a decisive trend. Comment in financial circles indicates little faith in the idea that devaluation alone will solve the dollar problem. The restoration of comparative equilibrium demands more drastic measures either to diminish foreign dependence on goods from the dollar area or to reduce the costs of goods exported to that area.

"As far as conditions at home are concerned, the most likely threat to the fulfilment of favorable expectations for 1950 seems to lie in the possibility of ill-advised Federal legislation. There will certainly be pressure for reinstatement of the Wagner Act, for almost unlimited governmental tinkering in the economic field along some such lines as were laid down in the proposed Economic Stability and Economic Expansion Acts of 1949, and for tax increases to meet present levels of expenditure and to finance new spending schemes.

"Congressional action in these directions could strike a series of blows at business confidence that would upset all predictions. In the absence of an unexpectedly serious setback from this source or from the ever-present possibility of a crisis in international relations, business seems warranted in anticipating generally favorable conditions in the months immediately ahead."

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SALESMAN

Thoroughly experienced in Listed & Unlisted Securities, is looking for opportunity with firm that can handle private placements. Box S 1222, Commercial & Financial Chronicle, 25 Park Place, New York 8.

LIQUIDATION NOTICES

The First National Bank of Winsted, located at Winsted, in the State of Connecticut, is closing its affairs. All creditors of the association are therefore hereby notified to present claims for payment to the undersigned at said bank.

CLARENCE H. BUNNELL,
Liquidating Agent.

Dated December 9, 1949.

The Hurlbut National Bank of Winsted, located at Winsted, in the State of Connecticut, is closing its affairs. All creditors of the association are therefore hereby notified to present claims for payment to the undersigned at said bank.

EDWARD F. McARDLE,
Liquidating Agent.

Dated December 9, 1949.

DIVIDEND NOTICES

UNITED STATES SMELTING REFINING AND MINING COMPANY

The Directors have declared a quarterly dividend of 1¾% (87½ cents per share) on the Preferred Capital Stock, and a dividend of twenty-five cents (25¢) per share on the Common Capital Stock, both payable on January 14, 1950 to stockholders of record at the close of business December 30, 1949.

FRANCIS FISKE,
Treasurer.

Dec. 21, 1949

New York, N. Y.
December 21, 1949.

Philip Morris & Co. Ltd., Inc.

The regular quarterly dividend of $1.00 per share on the Cumulative Preferred Stock, 4% Series has been declared payable February 1, 1950 to holders of record at the close of business on January 20, 1950.

There has also been declared the quarterly dividend of 50¢ per share on the Common Stock ($5 Par), payable January 15, 1950 to holders of Common Stock of record at the close of business on January 4, 1950.

Pursuant to a resolution adopted at the Stockholders' Meeting held on July 10, 1945, no Certificate representing a share or shares of Common Stock of the par value of $10 each is recognized, for any purpose, until surrendered, and a Certificate or Certificates for new Common Stock of the par value of $5 each shall have been issued therefor. Holders of Certificates for shares of Common Stock of the par value of $10 each are, therefore, urged to exchange such Certificates, for Certificates for new Common Stock of the par value of $5 per share, on the basis of two shares of new Common Stock $5 par value, for each share of Common Stock of the par value of $10.

L. G. HANSON, Treasurer.

DIVIDEND NOTICES

COMBUSTION ENGINEERING-SUPERHEATER, INC.

Dividend No. 182

A quarterly dividend of fifty cents (50c) per share on all the outstanding stock of the Company has been declared payable January 20, 1950 to stockholders of record at the close of business January 6, 1950.

OTTO W. STRAUSS, Treasurer.

New England Gas and Electric Association

NEGEA

COMMON DIVIDEND NO. 11

The Trustees have declared a quarterly dividend of twenty-two and one-half cents (22½¢) per share on the COMMON SHARES of the Association payable January 16, 1950 to shareholders of record at the close of business December 30, 1949.

H. C. MOORE, JR., *Treasurer*

December 22, 1949.

RAYONIER

INCORPORATED

PRODUCER OF HIGHLY PURIFIED WOOD CELLULOSE

The Board of Directors has declared a regular quarterly dividend of fifty cents (50¢) per share on the Common Stock, payable February 15, 1950, to stockholders of record at the close of business January 27, 1950.

EDWARD BARTSCH
President

December 9, 1949

DIVIDEND NOTICES

CONSOLIDATED TEXTILE CO., INC.

Windsor

December 21, 1949

NOTICE OF DIVIDEND No. 17

The Board of Directors of Consolidated Textile Co., Inc., at a meeting held on December 21, 1949, declared 20¢ per share as a quarterly dividend on the Capital Stock of the Corporation, payable January 13, 1950 to stockholders of record December 30, 1949.

R. W. GLEASON,
Secretary

NATIONAL DISTILLERS PRODUCTS CORPORATION

DIVIDEND NOTICE

The Board of Directors has declared a quarterly dividend of 50c per share on the outstanding Common Stock, payable on February 1, 1950, to stockholders of record on January 11, 1950. The transfer books will not close.

THOS. A. CLARK
December 22, 1949. Treasurer

SIRCO

SOUTHERN STATES Iron Roofing Company

SAVANNAH, GEORGIA

Dividend on Preferred Stock

A quarterly dividend of thirty-one and one-quarter cents (31.25c) per share on the Preferred Stock of this company has been declared, payable on January 2, 1950 to stockholders of record December 15, 1949.

ROSS G. ALLEN
Secretary and Treasurer

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Washington . . . And You

Behind-the-Scene Interpretations from the Nation's Capital

WASHINGTON, D. C.—There shortly will go "on sale" another proposed public facility for the fostering of small business.

This is a much re-written draft of the "Veterans Economic Development Corporation" bill. This bill first saw the light of day early in 1946, when handed to Congressmen by the legislative agents of a prominent veterans' organization. A number of the most prominent Congressmen lent their names to the bill with their tongues bulging prominently in their cheeks, knowing it at that time had only a remote chance of consideration, and it has not yet been the subject of a hearing.

Since then, however, the bill has been taken up quietly and seriously by a number of prominent Senators. The last draft bore all the names of a score of authors from extreme left to extreme right and all the way in between, and counting both Republicans and Democrats. Vice-President Barkley, while still a Senator, and Attorney General, formerly Senator McGrath, were among the supporters.

The sponsors of this bill are seeking to enlist all shades of opinion on its behalf, and hence are not touting their proposition publicly. Instead they have been waiting until they were "all set" with a wide range of support from veterans' groups and from spokesmen for small business, before going ahead. They have been re-writing the original draft constantly, not only to bring it up to date, but to attempt to please the representatives of the widest areas of opinion. It is hoped to bring out a near-final draft shortly and open it to public hearings before the Senate Banking Committee or a subcommittee thereof.

In outward appearance, the bill seems to resemble closely the original bill of 1946, with its redundant references to aiding veterans as the primary objective of the proposed legislation. However, the bill has been modified to provide that offering credit facilities for small business, whether or not the borrowers are veterans, is co-equal to the objective of assisting veterans. The retention of the language about helping veterans may serve to retain strong veteran support for the proposition.

As so far revealed, the bill would create a $500-million dollar corporation which could duplicate exactly what the Reconstruction Finance Corp. can now do in the way of loans and service for small business—but it could do much more. At present the maturity of RFC business loans is limited to 10 years; the maturity of the loans of the proposed Veterans Economic Development Corp. is not subject to any specified time limit. RFC's loans are supposed to be adequately secured. The VEDC loans could be adequately secured OR "sound," so as to assure a reasonable prospect of repayment.

RFC now provides accounting, management, and legal advice to small business, whether or not they are customers. The VEDC could not only provide broadly its own technical service for small business, but could call upon any government agency for assistance in giving such free service.

Whereas RFC is at the moment limited to outstandings of $1 billion for business loans, the VEDC could have outstandings of $5 billion. Finally, the purposes for which VEDC could make small business loans are much broader than are allowed to the RFC.

On the other hand, there is a considerable prospect that before this bill is finally brought out, it will contain a provision integrating VEDC not only with RFC, but with all other government agencies offering credit facilities which might be used for small business, whether or not the borrowers were veterans. It may be worked out that VEDC will take only the junior or riskier compartment of a loan in which some other government agency can participate.

With the VEDC scheme, the number of proposed credit aid bills for smal business is imposing. The President has proposed that RFC's loanable funds be doubled and that the 10-year maturity limit on that agency's business loans be removed. The Federal Reserve Board has proposed that it be empowered to guarantee up to 90% of small business loans by commercial banks. The Small Business Advisory Committee of the Department of Commerce has proposed a loan guarantee scheme similar to that offered by the Reserve Board. Chairman O'Mahoney of the Joint Economic Committee is trying to persuade insurance companies to lend more freely to small business. Finally, another proposal getting a little attention here and there is for the setting up of special capital banks for small business.

* * *

Two important questions, among others, are left up in the air by the terms of the new regulations issued by FHA Commissioner Franklin D. Richards, to carry out the White House order that FHA insurance of mortgages shall be denied to persons who hereafter record a racial covenant in connection with properties built for rental or sale under such insurance.

One of the questions which will interest real estate men is whether the interdiction might be later interpreted administratively or in the courts, to go beyond the original, specified intent. That intent was only to bar the executing or recording of a racially-restrictive covenant on property.

If disappointed prospective renters or purchasers are later able to assert either in the courts or with the FHA a charge that in fact they were being discriminated against on account of race, even in the absence of a written instrument, then the foundation of the FHA insurance might become shaky indeed. The penalty for violating the regulation is the maturing of the mortgage.

A second question is: What weight FHA will give in its appraisals to properties which might acquire lower market values because of racial changes in neighborhoods?

Congress may be expected to explore these and other facets of the problem before going ahead with the "median income" housing bill, which presumably ~~is going~~ to get a plug from President Truman. If the White House had backed openly any such FHA amendments as Commissioner Richards announced at its direction at the time the $19-billion public housing bill was under consideration in the 1949 session, the public housing program would have been killed in the House.

* * *

Although it is not in the cards for action by Congress in 1950, the Labor Department's program for what in effect amounts to federalization of unemployment compensation, will bear close watching for the future.

The Labor Department is propagandizing for a general raising of benefits, liberalization of coverage, and extension of the period of jobless pay.

Under the department's program, beneficiaries would be entitled to a minimum of some $30 per week or 50% of their former wages while employed, if single, or up to about $42 per week and 70% of their former wages, if with three or more dependents.

These rates are higher than paid by most states.

Furthermore, the department would provide that every state pay out jobless benefits for a minimum of 26 weeks. Only two states now do so.

Finally, the department would cover the self-employed and other groups under UC, and would raise the rate of payroll taxes.

All these steps would involve eventual paying out of more revenue than the states now collect for unemployment compensation. To make up the difference, under the department's plan, Congress would provide Federal grants to the states.

This would in effect make the Federal Government the controller of unemployment compensation, with the states doing the clerical work. In a period of heavy unemployment, this program would add a very large increment to Federal expenditures.

* * *

While it will give probably little attention to unemployment compensation proposals, the Senate Finance Committee does intend to give a most thorough going over to the House-passed extension of the old age and survivors insurance program, and other social security features proposed by the House.

Members of the Finance Committee are piqued at the action of the House in adopting a sweeping extension of social security under a gag rule prohibiting no amendments and very little debate. They intend to take the bill apart in a series of hearings which will extend over a period of several weeks. The committee means to take its time about writing its own version of social security extension.

Under the bill as passed by the House, an increase of an average of 80% in monthly benefits would be provided Federal OASI pensioners. The House proposed to provide benefits for persons totally and permanently disabled. Payroll taxes would be levied upon the first $3,600 of any person's income, instead of the present first $3,000. Finally, the House adopted a proposed rising scale of OASI payroll taxes reaching 3¼% each on employee and employer by 1970.

(This column is intended to reflect the "behind the scene" interpretation from the nation's Capital and may or may not coincide with the "Chronicle's" own views.)

BUSINESS BUZZ

"I've got it! Let's put a tax on all taxes!"

Halsey, Stuart Offers Peoria & Pekin Union Ry. 3⅛% Ser. A Bonds

Halsey, Stuart & Co. Inc. is offering publicly today (Dec. 29) $2,500,000 Peoria & Pekin Union Ry. Co. first mtge. 3⅛% bonds, series A, due Jan. 1, 1975, at 100% and accrued interest. The firm won award of the bonds at competitive sale on a bid of 98.5467. The sale of the bonds is subject to Interstate Commerce Commission authorization.

Proceeds, together with other company funds, will be deposited with Central Hanover Bank & Trust Co., trustee, under the mortgage securing $2,500,000 of outstanding first mortgage 5½% bonds, series A, due Aug. 1, 1974, and will be used by the trustee for the retirement or redemption on Feb. 1, 1950, of these series A bonds at 104⅛%.

The new bonds will be redeemable at prices ranging from 105% to 100% and for sinking fund purposes at prices scaled from 102% to 100%.

The company owns and operates railroad terminal properties in and near Peoria, the second largest city in Illinois. All of its capital stock is owned by the following six railroads: Illinois Central RR. Co.; The New York Central RR. Co.; The New York, Chicago & St. Louis RR. Co.; Chicago & North Western Ry. Co.; The Pennsylvania RR. Co.; and Chicago & Illinois Midland Ry. Co.

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