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EDITORIAL

As We See It

The Basis of Current Uncertainties About Foreign Policies

The President has felt it necessary to interrupt his "vacation" in Florida to send an urgent appeal to one of his party members in Congress on behalf of the Administration's plan for foreign aid. There are those, doubtless, who will feel that the President over-argued his case—or as a matter of fact begged the question—in this "warning" to Congress and the country. "These measures," he says, "are not acts of charity. Neither are they a waste of the resources of the United States. They are, indeed, the keystone of our protection against the destruction of another war and against the terrible weapons of this atomic age." Now, of course, if all this is literally true, there could be no argument about what must be done, at least in broad outline.

Unfortunately for the President's effectiveness, however, there are those who would call into question, at least in part, some of the President's underlying philosophy, and certainly there will be a good many who will raise their eyebrows over the claim that a half-billion dollars (or if one is to interpret the President's position precisely, any amount at all) deducted from what the President's advisers in their wisdom have set down as a "minimum" would entail the consequences apparently envisaged by the Chief Executive. Of course, the President's letter is primarily a political appeal doubtless intended to marshal public support in such a way as to force hesitant members of Congress and the Senate into line.

Continued on page 38

Pensions and Politics

By DONALD R. RICHBERG*
Former Chairman, N. R. A. Board

Former New Deal official holds socialist guides will always lead labor unions from economic to political program, with socialised suicide the end of the road. Mr. Richberg offers following pension observations: (1) old-age dependency cannot be solved by industrial pensions alone; (2) single employer pensions are inadequate protection; (3) charity should be met by self-supporting taxation; (4) government's present insurance premium technique constitutes embezzlement; and (5) government should use pension taxes to purchase pension insurance from private insurance companies.

Some thirty years ago I had arguments with Samuel Gompers over the political policies of the American Federation of Labor, of which he was the guiding genius. It seemed to me that he was unduly fearful of developing labor's political power. He was definitely opposed to government regulation of working conditions, even in the interest of the wage earners. His lifelong attitude was expressed in a resolution adopted in the convention of 1914 which read:

"The American Federation of Labor, as in the past, again declares that the question of the regulation of wages and the hours of labor should be undertaken through trade union activity, and not be made subjects of laws through legislative enactment, excepting insofar as regulations affect or govern the employment of women and minors, health and morals; and employment by Federal, State or municipal government."

Donald R. Richberg

Gompers fought bitterly and successfully the continuing effort of partisan socialists to convert trade unionists to their economic and political theories. Years later I

*An address by Mr. Richberg before Pension Conference, Chamber of Commerce of the United States, Cincinnati, Ohio, March 29, 1950. Mr. Richberg is a member of the law firm of Davies, Richberg, Beebe, Busick & Richardson, Washington, D. C.

Continued on page 26

American Business in 1950

By EDWIN G. NOURSE*
Former Chairman, Council of Economic Advisers

While depicting the fundamentals as strong, Dr. Nourse cites the following factors as "gravely disquieting"—(1) the "injection" stimulating current prosperity in form of $2.8 billion G. I. insurance premiums; (2) the support from unprecedented increases in instalment credit, and drawing-down of wartime savings; (3) tremendous increase in mortgage credit; (4) vulnerability of supported farm commodity market; (5) postponability of further capital goods expansion; and (6) national sweep of pension plans. Above all, stresses as crucial the government's fiscal and monetary operations as the crucial factor in our future.

At the close of 1949 and the opening of this year, there was quite a harmonious chorus of optimistic forecasts for 1950. Now, the first quarter is closing on a note of prosperity practically up to the level of the forecasts. In spite of some drag as a result of strikes, it appears that we shall enter the second quarter with a good momentum of activity in such basic areas as coal, steel, automobiles, and construction and with such a willingness to spend on the part of the consumers that another three months of prosperity seem to be "in the bag." While in some quarters, notes of caution are being sounded as to the second half of 1950, other forecasters are renewing their assurances that 1950 as a whole will match the prosperity of 1949 or even the somewhat higher level of 1948. Only a few days ago, I read in one prominent business magazine: "A bust in business—a 1929—simply is not in the cards in the foreseeable future. . . . Elements of a bust are lacking now. Business outlook is for relatively

Edwin G. Nourse

*Address by Edwin G. Nourse at 14th Annual Central States Group Conference, Investment Bankers Association of America, Chicago, March 29, 1950.

Continued on page 15

TURN to page 2 for this week's participants and their selections in the CHRONICLE'S "Security I Like Best" Forum.

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The Security I Like Best

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.

This Week's Forum Participants and Their Selections

Crown Zellerbach Corporation — Joseph Andrews, Hooker & Fay, San Francisco, Calif.

Capital Goods vs. Consumers Goods and Services—Edward N. Carpenter, Partner, Jesup & Lamont, New York City.

Foote Mineral Co.—Daniel Cowin, Research Dept., Hettleman & Co., New York City.

Massachusetts Bonding and Insurance Co.—J. Irving McDowell, Partner, McDowell, Dimond & Co., Providence, R. I.

Glidden Company — Richard V. Wood, Investment Counsel, Louisville, Ky.

EDWARD N. CARPENTER
Partner, Jesup & Lamont, N. Y. C. Members, New York Stock Exch.
(Capital Goods vs. Consumers Goods and Services)

There is no one security I like best for the future. It seems to me that the man who singles out one issue for especial praise is guilty not so much of overvaluing his analytical ability, but rather of implying a working knowledge of more securities than it is humanly possible for him to know. (More than 2,800 issues are listed on the New York Stock and Curb Exchanges alone.) Furthermore, the widely accepted principle of diversification in all portfolios precludes the necessity for one to seek "a favorite security."

Edward Carpenter

The only sound basis for security analysis is comparison. The stock of one company should be chosen only after it has been compared with numerous other ventures *in the same industry*. Therefore, the work of the analyst is given considerably more direction when he realizes that a study of industries *per se* is a vital prerequisite to individual security selection. In this connection I am going to limit my observations to industries—more specifically, to two broad industry classifications.

At the present time, and for the foreseeable future, I believe that the capital goods industries on the whole do not provide attractive commitments.

During the acute depression of the 'thirties, capital goods activity was below normal, and the ensuing war saw virtually all heavy production diverted to the military. After the war there arose an unprecedented demand for capital goods. Satisfying this demand has understandably resulted in record-breaking expansion, modernization and retooling. A good indicator of capital goods trends is supplied by the level of industrial construction. In September, 1946, this activity reached a peak of $171 million, which amount was more than eight times the 1939 monthly average of $21 million. Despite the fact that the latter figure may have been below various concepts of normality and that the record high of 1946 incorporated considerably inflated construction costs, the greatest part of this upsurge came about as a result of deferred demand. Activity so generated is clearly cyclical and eventually must exceed the demand.

Since the 1946 peak, industrial construction has declined in each succeeding month, with but two exceptions in 1948, and in December, 1949, stood at $68 million, a drop of some 60%.

Not all capital goods industries have established the definite decline shown by industrial construction. Other types of construction, in fact, are currently doing far better, although these do not reflect the forces underlying the economy as accurately as does the industrial component. Approximately 40% of residential construction is dependent upon government support of mortgages; public utility construction demand stems from an industry relatively assured of its limited return by regulatory commissions; and public construction is obviously carried out at the behest of economic planners to whom costs are secondary considerations.

The machine tool industry is an example of a capital goods industry currently enjoying a recovery after a premature decline in mid-1949. However, in all segments of the capital goods business, war-created backlogs are rapidly becoming a thing of the past.

It is more fashionable nowadays to speak of a "correction" rather that a depression in any industry. However, common sense dictates that to remove major swings from the cyclically inclined capital goods industries, we must first abolish wars, which give rise to backlogs, followed by abnormally high production, and finally the inevitable recession which is apt to permeate the entire economy. Some economists believe that governmental expenditures directly, and credit policies indirectly, will keep the economy, including the capital goods industries, moving at a fast rate. Despite its increasing importance in the nation's economy, I question the ability of the government to underwrite industrial expenditures at any save an extremely depressed level. (And this task will not be eased by the rigid wage structure in these the most highly organized of all industries.)

If the government is incapable of supporting the boom in capital goods, however, it does not follow that its efforts will not be more effective in other areas. It appears certain that in the event of any recession government doles will prevent a reoccurrence of anything approaching the personal privations of 1932. Beyond the realm of possible government action in the future, the fact remains that the average income which was approximately $1,200 in 1920, has risen to $3,500 today. This trend is continuing, as evidenced by higher wages, increased social security, unemployment insurance, hospitalization and pensions. In short, the purchasing power of the consumer appears to be well entrenched and on the rise.

Whether or not a continued decline in the demand for capital goods instigates a general recession, I believe that capital goods companies have far less appeal for investors than consumers' nondurable goods and services. Food and drink processors, containers, tobaccos, drugs, retail stores, finance companies and utilities (among which I include airlines) on the whole present better opportunities than steels, nonferrous metals, coal, machinery manufacturers, farm equipment, building supplies and railroads.

These classifications are obviously very broad, and I am well aware that there are numerous exceptions on both sides of the fence, not to mention important industries I have by default left on the fence, such as automobiles, oils and chemicals. Some may disagree with the conclusions I have reached. Nevertheless, I believe such an approach to the problem of security selection is more provocative, if seemingly less profound, than isolated praise for one issue.

JOSEPH ANDREWS
Hooker & Fay, San Francisco, Calif.
(Crown Zellerbach Corporation)

The security I like best for the future is Crown Zellerbach Corporation common stock. The primary reason for the selection of this security is that it appears to be undervalued at its current market price, and the prospects for an increased dividend rate and market appreciation appear very likely. Also, this security is not only suitable for individual holdings but also is eligible for purchase by trustees and insurance companies

Joseph Andrews

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Price of Full Employment Under the Havana Charter

By EDWARD D. WILGRESS

Citing failures of British Labor Government as destroying myth of "full employment" doctrines, author maintains that if present trends in British economy remain unchecked, its very skeleton will be shattered. Contends American delegates to Havana Conference were hoodwinked by "full employment" slogans into accepting ITO Charter, and if Charter is approved by Congress it means condoning events leading to economic disaster. Concludes relaxing of trade controls is impossible if "full employment" principle in Charter is carried through.

It now looks as if socialism's prosperity claims may be debunked even sooner than was thought, for the "full employment" dream that buoyed up Britain's economy in rising seas of disaster is sinking fast. The government's failure to undertake fundamental structural and fiscal reforms since devaluation spells out the writing on the wall—for in Labor's frustrated policies lie the seeds of depression. In the maladjusted economy the government has promoted and maintained, unemployment must shortly rear its head.

Edward D. Wilgress

Thus will the "full employment" myth be shattered, and with it, the Labor Government's entire brief for socialist experimentation. Thus will be settled, also the verbal polemics over full employment, long the most bitter economic debates. The resolution of this issue will be of great moment. "Full employment," it must never be forgotten, has been Labor's paramount objective, and a fundamental issue in the history-making election that now marks Britain's swing to the right. Similarly "full employment" was the crucial question in the ill-fated ITO debates, where employment slogans—"more jobs than applications," "steadily increasing aggregate demand," and the like—hoodwinked American delegates into accepting permanent trade restrictions and eternal balance of payments difficulties—the ruinously nationalistic commercial code of the Havana Charter.

In brief, now that the Keynesian blueprint has become reality in England, it is no longer to be judged by the dazzling literary brilliance of its author, but by the tragically disappointing results of its performance. Its succession of failures can no longer be attributed solely to temporary war dislocation and disruption, for the myriad highly complex economic situations of the immediate post-war period are greatly simplified today. This clarification of the economic scene is vitally significant. For years, the public has been hopelessly confused by the succession of economic woes descending upon the world, and even more hopelessly baffled by the jargon of so-called experts, who could not speak the layman's language. Indeed, this confusion, alone, explains how a Labor Government remained in office despite numerous crushing defeats and trumpeting failures. It is remarkable that such a succession of economic upheavals—the fuel crisis, the convertibility fiasco, the repeated restrictions of imports, the failure to achieve, or even inspire, real European cooperation — has been overridden by the Labor government. Of course in many of these instances, an elemental historical change could partially explain catastrophe, so that the electorate was led to accept partial explanation for the whole. In that process, the government's role in deepening, extending and prolonging the crises by their own immortal folly was overlooked by many, and the few clear-sighted, courageous economists who condemned the government's errors were judged reactionary, maladjusted pessimists. Today their so-called theoretical predictions are the real and urgent problems to be met.

In fact, if the present trends in the British economy remain unchecked, the next few months will bring a culmination of woes in Britain that are the inevitable consequence of socialist policy. The very skeleton of the economy will seem to fall apart under the impact of a hopelessly burdensome budget, the intolerably tightened consumption and import controls, the further debauching of the pound, diminishing dollar aid and a widening dollar gap, the frustrated expedients of an unwieldly, harassed bureaucracy. Gradual paralysis will overcome the nation—even now unable to buy the raw materials needed to keep her industries going — and seemingly sudden, swelling unemployment will spread throughout the country. Nor can this next crisis be camouflaged by the same old excuses propounded by a cocky, doctrinaire parliamentary majority.

With the continuing crisis in Britain, the Havana Charter, drafted by socialist governments, will be presented to the American Congress for approval. If, as the Administration hopes, the Charter is ratified, the United States will have condoned the evil series of events culminating in economic disaster. She will have set back her aspirations towards freer, multilateral trade by at least 20 years. Just glance at the Charter's employment articles:

Article 3 defines prosperity

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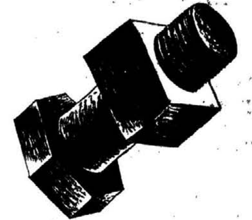

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The Growing Demand For Common Stocks

By ROBERT S. DRISCOLL*

Partner, Lord Abbett & Co., Investment Managers

Mr. Driscoll maintains important institutional changes have taken place in equity markets because of following developments: (1) growth of open-end investment companies; (2) pension funds with inclusion of common stocks; (3) rising participation of life insurance companies in equity investment; and (4) increasing acceptance of "prudent man" rule by trustees and legislators. After citing long-term bullish factors, concludes current increased interest in stocks is soundly based on: (a) premise a serious depression is unlikely; (b) wide differential in yields on stocks versus bonds; and (c) growth in real value of equities and their relation to market prices.

My talk today deals with the theory of equity investment and the outlook for the equity markets. This is such a broad subject, may I hasten to add, that I will not attempt to cover it fully. I am not going to describe all the facets of equity investments, nor am I going to try to make a forecast of where the stock market will be six months or a year from now.

Robert S. Driscoll

Institutional Changes

Instead, I should like to call your attention to certain institutional changes that are occurring in our equity markets because it seems to me these changes will be important to our economy over the next 20 years. Four important developments are in prospect: one, the growth of open-end investment companies; two, the growth of pension funds and their inclusion of common stocks in their portfolios; three, the growing interest of life insurance companies in common stocks for investment; and, four, the increasing acceptance of the "prudent man" rule by trustees and legislators. I should like to discuss the first two of these in some detail.

*A talk by Mr. Driscoll before Graduate School of Banking of Rutgers University, at Biltmore Hotel, New York City, March 18, 1950.

Open-End Investment Companies

I am on familiar ground in talking about the growth of open-end investment companies because I am associated with this industry. It has had a rapid rate of growth in the last 10 years. At the end of 1940, open-end investment funds had total assets of approximately $450 million. The total assets of this group declined by approximately $50 million in 1941. But since that time, there has been an increase in the total net assets of open-end funds in every year. At the end of 1949, total net assets were approximately $2 billion. It is not surprising that the total assets of investment companies increased during the early 40's under the influence of a wartime rising stock market, but it is remarkable and indicative of the future trend that this growth should have continued in the years 1947, 1948 and 1949 when uncertainties about the outlook existed in the minds of investors and the securities business generally was at a low ebb.

Further evidence of the growth of public interest in investment companies lies in the number of shareholders who own stock in these companies. On Dec. 31, 1940, there were approximately 300,000 shareholders. By Dec. 31, 1949, there were approximately 850,000 shareholders.

Referring back for a moment to the $2 billion of total net assets of open-end funds, you will observe that the average shareholder in these funds has an investment of slightly under $2,500. This relatively low figure will immediately suggest to you that small investors are responsible for most of the growth.

I think that all of you will be primarily interested in the amount of money which is being directed to the investment markets through investment companies. The open-end investment companies, as you know, are obligated to repurchase on demand shares owned by stockholders. Thus, the net increase in available funds is the difference between the sales of new shares and the repurchases made during the year.

The net increase in 1941 was only $8 million. Large growth did not commence until 1945 when the net increase amounted to $182 million. In 1946, it was $226 million, $178 million in 1947 and $146 million in 1948. The year 1949 topped all records with a net increase of $278 million.

You may not be as optimistic as I am about the outlook for increased purchases of investment company shares by the public, but I think you will agree from these figures that the chances are good that over the next several years the growth of open-end investment companies will average $200 million to $300 million a year.

I wish that I could give you an accurate estimate of how much of this growth represents new money coming into the equity markets. Unfortunately, there are no reliable records kept on this subject. From my own experience, however, I can tell you that a substantial portion of this sum does represent new money and, in my judgment, the percentage of the total growth which represents new money will increase as time passes.

Pension Funds

Leaving investment companies for a moment, the creation of pension funds on a broad scale is such a new development that any conclusion about the amount of funds they will make available for equity investment must be tentative. I know that many serious students of the problem feel strongly that equity investment should not be included in any pension plan. Nevertheless, the discussions that we have had in the last six months with people who are responsible for setting up pension funds lead us to believe that many of them will provide for equity investment.

One can only speculate on the percentage of pension funds that will be invested in common stocks. I know of some banks that are going to administer these funds who feel that as much as one-third of the pension funds may be in common stocks. Other plans call for the use of much smaller percentages. Some funds will not use common stocks at all. On the other hand, there are some pension funds already in existence which have a very large percentage of their total assets invested in equities.

Even though we do not have adequate statistics, I believe it would be a fair guess that, on average, 10% of the pension funds will be invested in common stocks. Common stock investment of this magnitude will produce a sizable flow of new money to the market each year.

The amount of money to be paid into pension funds each year is subject to statistical estimate. I think it is a fair assumption that over the next several years most union employees will be covered by pension plans. The number of union members employed in industry has never been officially estimated by the unions. Nevertheless, some research that we have made into this problem indicates to us that of the total salaries and wages for 1949, which are estimated by the Department of Commerce at $132 billion, approximately $50 billion was paid to union employees.

Since the cost of most pension funds in the initial stages is estimated at 6% of wages, I think it is fair to say that in the early years at least $3 billion a year will be paid into pension funds. 10% of this $3 billion figure is $300 million which may be available for common stock investment each year.

I want to say again that in setting up this figure we are making no more than a rough estimate. You may disagree with me as to the percntage of pension funds to be invested in equity securities and the $300 million guess which I have made about the size of this annual increment. I think, however, that no one of you will disagree with the thought that a substantial amount of new money is going to flow into the equity markets from this source.

At the present time, there are approximately 12,000 pension plans registered with the Internal Revenue Department. These plans cover in excess of 4 million people. The amount required to be paid in each year for these pension plans is over $1 billion. Since there are approximately 40 million people employed in industry, there can be no question but that the amounts of money paid into pension funds over the next few years are going to be sizable and that the figures which I have estimated may prove to be far too conservative.

The growth in the assets of

Continued on page 28

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Sources of Investor Information

By GEORGE F. SHASKAN, JR.*

Partner, Shaskan & Co., Members New York Stock Exchange

In lecture to women investors, Mr. Shaskan discusses the various tools available for appraising securities, including the annual report, company prospectuses, Stock Exchange listing reports, reports of "insiders" transactions, statistical and advisory services material, the trade journals, the financial magazines, and brokerage house studies. Depicts advantages, faults, and omissions, in each medium.

We now turn to the second principal section of our course—finding and understanding sources used in the analysis of securities. To analyze securities we use certain tools most of which center around or derive from a corporation's financial report—its balance sheets and its profit and loss statements. We shall study these in considerable detail in later lectures. But while financial reports most frequently tell us about what has occurred in the past or what the present condition may be, they sometimes can tell us little of the future which may be equally important or even more important in appraising a security correctly. Moreover, while the figures in financial reports reflect many of the important factors influencing business and economic conditions, we cannot learn what these factors specifically are from such figures and consequently must also look elsewhere for some of the information used in analyzing securities. Just what other information we make use of and where we can find this information will now occupy our attention.

Geo. F. Shaskan, Jr.

The Annual Corporation Report

The first great repository for information is, as we might expect, in the reports issued by corporations themselves. Most corporations issue an annual report which generally includes some discussion of the important factors relating to the corporation's business both past and future. Such discussion may include consideration of the general economic picture, the important activities in the industry in which the corporation partakes, and, specifically, how these are related to the corporation's own activities and the outlook for its own business and earnings. The report may comment on specific steps taken by the corporation during the past year to improve its business and what plans are contemplated for the ensuing year. Some picture will usually be given of the corporation's relationship to its employees, including the number of employees, wages, and special employee programs such as pension plans, hospitalization, etc. Important law suits, if any, against the corporation or on behalf of the corporation will be commented on. specifically as to how such suits may affect the affairs of the corporation. New financing plans, if any, will be described and the reasons given for such plans. Usually, an annual report will comment on the corporation's stockholders, their number, average shareholdings, and such other interesting items as their location. occupation, etc.

All of this information is important in attempting to assess whether the corporation is growing or stagnating, whether its administration is enlightened, whether it appears to be interested in its stockholders, etc.—factors which will reflect sooner or later in its securities' prices. The annual report also gives us the corporation's balance sheet as of the end of its fiscal year, and the statement of its earnings and expenses during that year. Recently, annual reports have also included important financial figures for several years in the past.

This annual report for 1949 of the Columbia Gas System is an illustration of what we have just described. It begins by listing the officers and directors of the company, and names of subsidiary operating companies since Columbia is a holding company. It then briefly highlights important figures for 1949. At greater length, it describes the company's activities in 1949, including the tremendous overall demand for natural gas, the company's efforts to discover new sources of gas, its successful acquisition of greater gas supplies. and its expansion. Plans for the immediate future are reviewed and the company tells of its program to bring natural gas to Baltimore, the Central Hudson Valley and elsewhere. The report then shows how the company has reduced the total number of employees despite greatly increased business but how average wages have increased from some $1,500 to almost $3,000 while benefits other than wages have jumped from under $100 to more than $300. The report comments on the dismissal of a lawsuit against the company in the corporation's favor, the need for additional financing to meet the company's growing business, and the increase in the number of stockholders in the company, who they are and how much stock they own. The report closes with the financial statements for the year, and some comparison with previous years' figures.

While all annual reports are by no means as complete as this one. this serves to show the extensive amount of information carried in such reports, most of which is important to an adequate analysis of securities.

Intra-Year Reports

Most corporations listed on an exchange also issue semi-annual reports and some even quarterly reports which briefly present the type of information given in greater fullness in the annual report. These are important because they provide information relatively more up to date so that we can have a current appraisal of the corporation's activities and standing.

Prospectuses issued by corporations in connection with new financing, as we have already seen, are also important sources of information. Turning to the prospectus issued in connection with Consumers Power Co.'s new financing, we find an extended report of the company's business, including the territory served with electricity and gas, operating statistics for previous years, a description of the corporation's property and franchises, regulation as a utility, employee relations and other information with respect to rates bearing on the company's business and earnings. The prospectus also includes a description of the stock issued,

Continued on page 31

*Transcript of part of the fourth lecture of a series on "Investment Planning for Women," given under the auspices of Shaskan & Co., at the Hotel Barbizon, New York City. The subsequent sessions will similarly be published in the "Chronicle"—Editor.

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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

Total industrial output for the nation as a whole moved into moderately higher ground the past week as coal production rose to more than three times the low level of the similar 1949 week. For the week ended March 18, 1950, coal loadings amounted to 191,234 cars, or an increase of 145,384 cars above the corresponding period a year ago. However, a slight decrease of 744 cars was noted below the preceding week this year.

Steel production last week registered full recovery from the coal strike with the ingot rate rising to 95.5% of capacity, the highest since the week of April 11, 1949. Production increases were quite general throughout the country the past week.

High-level steelmaking operations are assured for second quarter, "Steel" magazine currently states. Producers will enter the period with large order backlogs, especially in light, flat-rolled products. Overflow tonnage from first quarter will be substantial. Shipment delays will continue to be experienced. Increasing number of sheet sellers, oversold for the period, are temporarily withdrawing from the market. Despite the strong current market position, uncertainty for business after midyear persists. But trade authorities expect no letdown until well into summer.

Industrial purchasers, while pressing for deliveries of currently tight-supply products, are placing new orders cautiously, this trade paper states, and are apprehensive of being caught with large inventories. Labor developments in the auto industry are being watched closely, with cutbacks in steel needs being anticipater in event General Motors plants are struck. To what extent consumers' anticipated forward requirements earlier in the year is uncertain, the magazine adds. January mill shipments of finished steel, it notes, however, totaled 5,482,691 net tons, largest since April last year. Movement of cold rolled sheets, 711,813 tons, was largest on record.

* * *

In the automotive field output made further headway the past week, notwithstanding the continuing strike at Chrysler Corp., an important segment of the car and truck industry. The advance of course was of very modest proportions.

On Saturday, last, Herman Q. Weckler, Vice-President and General Manager of Chrysler Corp., made a new offer to the U. A. W. union to end the 8½-week strike by stating the company would deposit $30,000,000 now in a fund to back its good faith, ability and willingness to pay pensions for life to its employees as they retire.

This sum would be more than sufficient to fund pensions for life, at the time of retirement, to people who retire in the next five years of a pension contract. If the contract is not renewed, the remaining deposit would be used to fund, as they retire, pensions for other employees in the order of their retirement on the same terms as if the contract continued. If and as social security benefits increase, the deposit would be reduced accordingly, the offer stated.

This proposal and what goes with it in improved insurance and contract provisions, Chrysler pointed out, make it all the more senseless and inhuman for 89,000 Chrysler employees to be kept out of work for any issues in this strike.

When the CIO United Auto Workers' strike against Chrysler Corp. is settled, industry production totals are likely to shoot to record levels, Ward's said. Chrysler's plans call for daily overtime and a six-day work week for a schedule of 42,750 cars and trucks weekly, 25% more than the corporation turned out in its record week in 1949, it added.

This schedule calls for daily overtime and six-day operations, the agency said.

* * *

Business failures declined slightly in February, dipping 6% to 811. While casualties exceeded the 685 which occurred in the similar month of 1949, the rate of increase appeared to be slackening. Although more concerns succumbed this February than in any other February since 1942, they were 100 fewer than in that year and some 200 less than in the prewar 1940.

According to Dun's Failure Index, which relates casualties to the number of businesses in operation, there were 35 failures for every 10,000 active businesses in February. This rate was slightly above the previous February's 30, but below the prewar rate of 58 in 1940.

STEEL OUTPUT SET AT 96.7% OF CAPACITY—HIGHEST IN OVER A YEAR

The first days of spring brought a swarm of buyers into steel company offices, according to "The Iron Age," national metalworking weekly. They had a common objective—to wheedle more tonnage from producers.

From all appearances, predictions made earlier this year on the duration of strong steel demand may have been too conservative. Where steel producers formerly were talking terms of a somewhat softer market after the second quarter, the thinking now leans toward a strong third quarter, and perhaps beyond that. Some steel people say frankly they don't know when it's going to end. But the accent is on optimism—the negative thinkers are becoming harder to find.

One of the big reasons for the optimism among steel people this week is the apparent soundness of the market. Most consumers have had little opportunity to build up heavy inventories. This is cited as one reason why demand is less likely to take a sudden nosedive. The upsurge in conversion deals and the entry of relatively small consumers into these arrangements are cited as evidence supporting this belief.

As is usual in a tight market, producers are finding it easier to talk business with consumers who had formerly done their buying from other mills. This means that when demand eases

Continued o npage 35

Where Are We and Where Are We Going?

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

Dr. Slichter states we are in transition from postwar "catching-up" period to a current-need "self-sustaining" economy wherein employment and production drift slowly downward. Concludes (1) supplies, particularly of agricultural products, will become more abundant; (2) production costs will rise; (3) deficits will cause slow hesitant price level rise; and (4) increasing costs will worry businessmen into expanding technological research.

I

Where are we and where are we going? We are making the transition from a period of postwar boom or a catching-up period when demand was supported by a large volume of needs that had accumulated during the war and the depression of the '30s to a period when the demand for goods depends pretty largely upon the development of current needs—to a "self-sustaining economy." The peak in the postwar boom occurred in the latter half of 1948—in the third quarter in the case of prices and the fourth quarter in the case of production. During the catching-up period, between 1945 and 1948, civilian employment increased nearly 6 million, or about 11%, and the wholesome price level and the price level of consumer goods each rose by more than half. In the preceding six years, wholesale prices rose by a little more than one-third and prices of consumer goods a little less than one-third. (Table I.)

Prof. S. H. Slichter

The Slow Downward Drift

Since the peak in the postwar boom, employment, production, and prices have been slowly drifting downward. Between December, 1948 and December, 1949 civilian employment dropped from 59.4 million to 58.6 million. The index of factory output, which had been running around 200 in the last months of 1948, stood at 184 in December, 1949. Gross private investment dropped from an annual rate of $48 billion in the fourth quarter of 1948 (the peak to an annual rate of $35 billion in the fourth quarter of 1949. The index of wholesale prices at the end of 1949 was more than 10% below the peak of August, 1948 and the index of consumer prices was down about 3.4% from the postwar peak.

Thus far the transition from the catching-up economy to an economy based upon current demand has proceeded rather smoothly. Indeed, the smoothness of the transition has been its most important characteristic. The adjustment that has occurred thus far has been brought about in the main by shifts from the accumulation of inventories to reductions in inventories. Of the drop of $13 billion in the annual rate of gross private investment between the fourth quarter of 1948 and the fourth quarter of 1949, $10.5 billion represented a shift from the accumulation of inventories at the annual rate of $9 billion a year to a reduction in inventories at an annual rate of $1.5 billion a year. In other words, there was very little drop in investment expenditures on plant, equipment, and housing. Personal incomes decreased only a little more than 3%, from an annual rate of $216.6 billion in the last quarter of 1948 to $210 billion in the last quarter of 1949, and expenditures on consumer goods fell only a little more than 1%—from an annual rate of $180.9 billion in the fourth quarter of 1948 to $178 billion in the last quarter of 1949. The transition has caused some increase in unemployment—from 1.9 million in December, 1948 to 3.5 million in December, 1949.

Catch-Up Period Not Over

The period of transition from a catching up economy to a currently-supported or a self-sustaining economy is not over. During the year 1949 the demand for goods was sustained by a large catching-up demand for automobiles and housing. Indeed, the output of new automobiles and the number of new housing starts during 1949 broke all records. There was also a large amount of public construction that represented the meeting of accumulated demand. The pent-up demand for automobiles and housing is likely to sustain the general level of production for some months more. When the demand for automobiles and housing eventually drops, there may be a decline in the total demand for goods. Can the transition from catching-up economy to an economy based on current demand be completed without substantial drops in production and employment? What can be done to assure that the transition will be smooth and that severe unemployment will be avoided? What is the short-run outlook for the economy after the transition to an economy based upon current demand has been completed? What is the long-run outlook for the economy? What significant long-term trends are visible? Are basic changes occurring in the economic institutions of the country? These are some of the questions on which my remarks will attempt to shed a little light.

II

Can Avoid Further Drops

I believe that the transition from a catching-up economy to a self-sustaining economy can be

Continued on page 36

*An address by Prof. Slichter before the Dairy Industry Supply Association, Inc., Chicago, March 17, 1950.

TABLE I

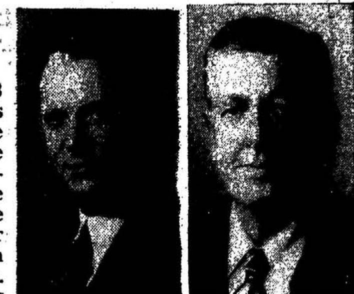
	1939	1945	1948	1949	Dec. 1948	Dec. 1949
Index of wholesale prices, 1926=100	77.1	105.8	165.1	154.9	162.4	151.2
Index of prices of consumer goods, 1935-39=100	99.4	128.4	171.2	169.3	171.4	168.6
Employment (millions)	45.7	52.8	59.4	58.7	59.4	58.6

The peak of wholesale prices was in August, 1948, when the index reached 169.8, and of the consumer prices in August and September, 1948, when this index reached 174.5.

"OBSERVATIONS"

A. Wilfred May's column not available this week.

Steinkraus to Address N. Y. State Chamber



H. W. Steinkraus James G. Blaine

Herman W. Steinkraus, President of the Chamber of Commerce of the United States, will be the guest speaker at the monthly meeting of the New York State Chamber of Commerce on April 6 at 65 Liberty Street. Mr. Steinkraus is Board Chairman and President of Bridgeport Brass Co. James G. Blaine, President of the local chamber, will preside at the meeting which will be at 12 o'clock noon.

Estimates Hour's Work Doubled in Purchasing Power Since 1914

National Industrial Conference Board study shows in last three decades factory workers wages rose twice as much as prices.

Purchasing power of an hour's work almost doubled from 1914 to 1948, according to a study on what an hour's work would buy in 1914 and 1948 which has just been completed by the National Industrial Conference Board. This, the Board notes, is because the average factory worker's wages rose twice as much as prices.

Living standards increased in almost every area of family expenditure, the Board found, and, as a result, "the 1948 factory worker had to work only about half the number of hours that the 1914 worker did to pay the family bills."

Although the 1914 wage-earner worked over 51 hours a week, "some other member of the family had to earn additional income" to supply the average amount of goods and services. The 1948 worker had to work "only 34 hours" to supply his family with the higher living standard that was considered average in 1948, according to the study.

The Average Factory Worker, 1914 and 1948

In 1914, the study shows, the average factory worker spent 51.5 hours on the job. He received 25 cents an hour and total earnings amounted to $12.72 per week. However, the study points out, he required $16 per week to support his family. The deficit of $3.28 per week had to be made up through 14 hours of work by other members of the family in order to make ends meet.

The average factory worker in 1948, on the other hand, spent 39.7 hours on the job and received $1.47 an hour. His weekly pay amounted to $58.52 per week. $49.52 was required to support his family and a surplus of $9 per week remained for savings or improvement of the living standard of his family.

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Devaluation—Six Months After

By AUGUST MAFFRY*
Vice-President, Irving Trust Co., New York

Reviewing devaluation effects in various categories, Mr. Maffry finds improvement in British gold and dollar reserves has been due more to Marshall Plan aid and reduced imports than to increased exports. Holds devaluation has had little impact on U. S. money market or gold movements. As to foreign trade, contends, though full effects on imports have not yet been felt, there is some shifting of demand for foreign goods. Ascribes recent weakness in U. S. exports to import restrictions and to higher prices of American goods in devalued currencies. Foresees no dollar devaluation.

The devaluation of the pound sterling and numerous other currencies is now six months behind us. At the time of these devaluations and for several weeks afterward, there was a lot of opinions expressed regarding the effects of devaluation on United States trade and on the trade of the countries which had devalued. I confess to having contributed my share. Now, however, six months after the event, we can do with fewer opinions and more facts.

August Maffry

Let us, therefore, reexamine in the light of available evidence some of the statements regarding the effects of devlauation which were current last Autumn. The first two of these statements fall in the field of finance, most of the others have to do with the effects of devaluation upon trade.

(1) At the time of devaluation it was generally stated that the devaluation of sterling would arrest but not stop the drain on sterling-area reserves. As matters turned out, British holdings of gold and dollars increased from Sept. 19 until the end of the year by nearly $350 million, and early in 1950 Sir Stafford Cripps said that they were still increasing. The next official report on sterling-area reserves is not due until early in April, so that we have no means of ascertaining what has happened since the first of the year.

Sir Stafford's figures made public in January show that during the last quarter of 1949 the dollar deficit of the sterling area dropped to $31 million, as compared with an average deficit of $500 million during the first three quarters of the year. Receipts by the United Kingdom under the Marshall Plan, drawings on the Canadian credit in favor of the United Kingdom, and drawings by Australia on the International Monetary Fund totaled $294 million during the last quarter. Hence, reserves increased during this period by $263 million, that is, to the extent of $294 million less the dollar deficit of $31 million.

According to the official statement, the factors involved in the reduction in the sterling-area dollar deficit in the fourth quarter of 1949 as compared with the preceding quarters were (1) an expansion in dollar exports from the sterling area, (2) a decline in dollar imports into the sterling area, and (3) delayed sterling payments which had been deferred in anticipation of devaluation. Information now available from other sources indicates that the decline in dollar imports into the sterling area was the most important of these elements. Delayed payments of sterling were apparently second in importance. Increased dollar exports from the sterling area were the least important.

*An address by Mr. Maffry before the 30th Annual Get-Together of Export Managers Club of New York, New York City, March 21, 1950.

Again according to the official statement, nonrecurring factors such as the reversal of delays in purchases and payments for sterling-area goods accounted for half of the reduction in the dollar deficit from an average of $500 million during the first three quarters of 1949 to practically nothing in the fourth quarter. If this was a correct guess, the deficit of the sterling area not accounted for by such nonrecurring factors must be reckoned at $250 million per quarter or $1 billion per annum. This is about the amount of extraordinary financial assistance now being received by the United Kingdom, chiefly in the form of receipts under the Marshall Plan.

Looking Ahead

Looking ahead into 1950 and beyond, the prospect is for a reduction in Marshall Plan aid by 25% or more in 1950-51, another substantial reduction in 1951-52, and a discontinuance of aid after June 30, 1952. The Canadian credit to the United Kingdom is also running out, so that the only extraordinary existing source of dollar funds for the sterling area would be the International Monetary Fund. On the other hand the full effects of the cuts in dollar imports may not appear until late in 1950.

These factors affecting British monetary reserves indicate that, unless there is a significant improvement in the trade of the sterling area with the dollar area, a renewed drain upon British reserves must be anticipated as Marshall Plan assistance is reduced. For the time being, however, the dollar deficit of the sterling area may be approximately offset by receipts under the Marshall Plan.

(2) A second observation generally made at the time of devaluation was that devaluation would have no significant impact on the United States money market. This opinion has to be qualified in the light of the facts. The movement of funds out of the market following devaluation is measured by increases in the deposits of foreign central banks and other official agencies at Federal Reserve Banks and by sales of gold to foreign central banks and treasuries. Foreign deposits at Federal Reserve Banks increased by $476 million from the middle of September 1949 to the end of the first week of March 1950. Sales of gold were $304 million during the same period. Thus the movement of foreign funds out of the market since devaluation has been $780 million. This loss must be accounted a significant market influence, although not all of it should be attributed to devaluation.

Effect on Foreign Trade

(3) I turn now to a number of statements having to do with the effect of devaluation upon foreign trade. One of these was that devaluation would not result in any sharp increase in imports into the United States.

The dollar value of imports has recovered since devaluation. It was $623 million in January, 1950 as compared with $530 million in September 1949, and the trend has been steadily upward. The outstanding fact, however, is that the rise in imports began before devaluation—in August, to be exact—and was obviously related to the upturn in industrial production beginning in July. A part of the continued increase after September, that is, after devaluation, represented delayed purchases which had been postponed in expectation of the devaluation of sterling and other currencies.

Devaluation was preceded and followed, therefore, by increased imports in terms of dollar values. It is doubtful that devaluation has had much to do with the movement. Heavier imports of coffee at higher prices accounted alone for a fourth of the increase in total imports between the third and fourth quarters of 1949. Imports of raw materials went up becauseof heavier buying to meet larger current industrial requirements and to fill up depleted inventories. Much larger quantities were imported at somewhat lower effective dollar prices. With respect to imported manufactures, there must also have been some increase in the physical quantity of imports but at greater reductions in effective dollar prices. As we shall see later, the increase in quantities imported from the United Kingdom, a principal source of manufactured imports among countries which had devalued, was not sufficient to offset the lower dollar prices.

There are some domestic lines which have apparently been affected during recent months by cheaper imports, although not in every case by cheaper imports attributable to devaluation. In several instances, the imports represent a resumption of imports of low-priced merchandise from Japan. Among the lines which I have seen mentioned as being seriously affected by increased imports, whether related to devaluation or not, are lead, textiles, fabric gloves, dinnerware, flower bulbs, synthetic pearls, and sewing-machine heads.

Effort of Devaluation on U. S. Imports

It remains to be seen whether the full effects of devaluation on imports have been felt. Whether they have or not depends, I think, upon whether one is talking about probabilities or potentialities. In terms of straight price competition, the decline in the effective dollar prices of imported goods, and hence the stimulus, if any, of lower prices on demand for imports, was presumably at a maximum shortly after devaluation. It will be diminished as time goes on as a result of the rise in costs of production in the area of devaluation. Whether foreign producers have yet taken full advantage of their improved competitive position in the American market is another matter and is not susceptible of statistical verification.

(4) Another statement regarding devaluation, closely related to the preceding one, was that devaluation would produce no, or, at least, no significant, increase in the total value of dollar exports from countries which have devalued and would not by any means serve to close the dollar gap of these countries.

If we take the United Kingdom as our example, we find that British exports in terms of sterling reached a new high level in January, which is the last month for which figures are available, but that dollar earnings from British exports were not correspondingly increased. Dollar exports to the United States and Canada in January were both higher than the average levels of the third and fourth quarters of 1949 but still below the averages of the first quarter. The total dollar value of exports to Canada seems to be increasing from month to month, but exports to the United States have tended

Continued on page 36

From Washington Ahead of the News

By CARLISLE BARGERON

To my perverse mind the most interesting phase of the McCarthy-State Department inbroglio has come to be the spectacle of the whole United States Government and its legions of propagandists and smear artists, those on its payroll and those among the journalists, trying to down the Senator and their seeming inability to do it. It is fascinating.

Carlisle Bargeron

Oh, how silly, what a small mind to become so engrossed when the problems raised are so tremendously grave. How can one be so callous when great reputations are being sacrificed on the altar of a man's political greed, when the effectiveness of our State Department is being nullified all over the world, when our foreign policy is being wrecked?

I can be this way because there is nothing basically new in the Senator's charges; I am yet to see the department's effectiveness anywhere in the world, except the distribution of American dollars, and its best friends do not claim it has a coherent foreign policy. Nothing the Senator says can injure the department among other nations more than it has in recent years injury itself. As an example, last year several of our diplomats abroad were perfectly willing to feed stories to the visiting American correspondents on the conduct of touring Senators and Congressmen, about how their debaucheries embarrassed them and put us in a bad light before the foreigners. But after the frank discussion about the homosexuals in the department developed, Bob Ruark, the roving Scripps-Howard columnist, decided to write of an experience he had had a year ago while enroute to Africa. On the boat were several State Department men going to African posts. One, according to Ruark, was an alcoholic, two were flagrant homosexuals and they were the laughing stock of the Arabs and Egyptians on the boat. One of the homosexuals kept crying at the bar over how he would miss his boy friend back in the States.

Every informed person in town knows that the unwieldy State Department is a hotbed of intrigue and is stewing in a cauldron of intellectualism, so highly developed, that it has no relation to reality or facts. An utterly unrealistic premise is evolved in fevered minds and other fevered minds take it as a proven fact and intrigue around it. Outside this near insane atmosphere, gossip columnists who become indignant at Senator McCarthy's charges of disloyalty, know there are disloyal personnel who slip them secrets calculated to belittle their superior or to break up the designs of a rival group, and these columnists play the game.

Chiefly underlying the department's high indignation against McCarthy is, as an example of intrigue, its plan to recognize Communist China. Britain wants to do it, so does our government. An effort to head this recognition off is what the Republicans are mainly trying to do in their general attacks on Secretary Acheson. McCarthy's charges are unquestionably delaying that move. When it comes, then our "foreign policy" which former Secretary of State Stimson and Senator Vandenberg are so solicitous about, will presumably be to "contain Communism" in Europe but embrace it in Asia.

No, I don't look for the department to be improved until a Republican Administration comes in and cleans it out from top to bottom. We would be amazed at how the international tensions would be relieved. To put it mildly, there would be more realistic or common sense thinking than the high intellectual and wholly factless thinking which we now have.

The outcome of McCarthy's charges, one way or the other, isn't going to change things. The best thing to do then is to look upon the fracas as a sports event, the U. S. Government and its propaganda legions, versus this one man. Will they get him down, or not? They are saying around here that if he just pins one person down out of all the security risk cases he has presented, he wins.

The seemingly hysterical efforts of his opposition is to prevent his doing this. It is downright fun to study the moves of the adversaries. The opening gun of the government propagandists was to smear McCarthy unmercifully. He was said to have gone to a Catholic clergyman and asked what he could best do to get reelected, and to have been advised that the Communist issue was a hot one. It develops that he doesn't have to be worried about reelection until 1952.

But regardless of the smears and the wails of anguish and indignation of those whose names were mentioned as security risks, McCarthy has kept pounding away, demanding that the Senate committee be permitted to look at the loyalty files of the department and the FBI. The impression of the unbiased observers here is that in this he has the Administration on the run, that he has particularly embarrassed Senators Tydings and McMahon, Democrats on the investigating committee, who are up for reelection this year. Their mail is crowded with demands that there be no whitewash.

So far we have the situation of the Senator making accusations and those accused simply denying them. The refusal to turn up the loyalty files is realized by the Administration to be full of political dynamite. So it called on J. Edgar Hoover in an effort to be bailed out. Hoover testified that to let anyone look at these files was out of the question. Hogwash! Let a business man come down here before an investigating committee, the first thing they do is to get his income tax return and dangle it before him by way of intimidation.

But if the committee thought Hoover's attitude would squelch McCarthy they were mistaken. He came back with another fusillade on information furnished him by State Department employees and paradoxically enough, on the quiet, by the FBI. He is the toughest nut the Administration has had to deal with in a long time.

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Banking and Business in the So-Called Welfare State

By ROY L. REIERSON*
Vice-President, Bankers Trust Company, New York City

After reviewing economic phases of the postwar economy along with government policies in relation to business and banking, Mr. Reierson finds there are potent inflationary pressures caused by national budgetary deficits, price support programs, and easy credit policy. Looks for these forces to prevail and predicts decline in dollar purchasing power over period of years. Says steady expansion of government lending poses real problem for bankers since it involves politicalization of credit and more highly competitive banking. Points out, despite its "welfare state" policy, government cannot abolish business cycle.

Current-day appraisals of trends in business and banking must reckon with two factors of cardinal importance, neither of which was significant a generation ago. The first of these is an international situation of unparalleled complexity and confusion. The second is a greatly expanded and broadened interest on the part of the Federal Government in economic conditions. Together, these two factors will have incisive bearing on the future course of business and banking in this country.

Roy L. Reierson

The International Situation

The impact of international affairs on the economy is readily apparent. Our economy shows that we are in a state of troubled peace in which our preparedness program dominates the scene. The cold war has inflated Federal expenditures and has complicated our budget situation. To speculate about future developments, however, is a futile task. The American public does not possess the basic information required for an independent appraisal of the international political situation. In addition, developments in the international sphere are largely beyond determination by the United States.

A reasonable working assumption for looking ahead seems to be that international conditions will neither deteriorate into a large scale shooting war, nor improve to the extent of permitting a world-wide return to a normal and peaceful way of life. This portends high levels of government spending for defense and foreign aid, close to current rates, for some time to come. However, this would not constitute a guarantee against a decline in the aggregate level of economic activity.

While this assumption of no great change in the international situation seems reasonable for the immediate future, it is admittedly not realistic over the longer term. Within the next decade or two we shall probably see the issue resolved in the direction either of peace or war. Peace would make possible substantial tax reductions which could provide a major stimulus to the economy. If peace should come suddenly, however, it might give rise to reconversion problems for certain industries and localities which could lead to some temporary deterioration in the aggregate level of business activity. The alternative, another war, would mean the complete regimentation of every major segment of our economic life. The changes in our economic institutions would be so fundamental as to require reappraisal of our entire political and economic future.

Government Action and Business Activity

The second major new factor, government intervention in general economic affairs, is somewhat more predictable, but its impact is much more difficult to appraise. The proponents of an ever-widening participation by government in our economic life cite the business record of the past year as convincing proof of the efficacy of government planning and intervention. The critics contend that the record might have been even better without government intervention. As is frequently the case, there are some elements of truth in both positions: in some respects, government action was probably helpful on balance, while in others, it certainly had a retarding effect. A brief survey of our major postwar business developments will perhaps clarify this question and also indicate how government policies affect the outlook for the future.

Postwar Business Developments—The American economy is in the third phase of its postwar development. The first phase, which began with the end of the war and terminated sometime in the second-half of 1948, was a period of reconversion, shortages and rising prices. Large accumulated demands for most major commodities were fed by a war-inflated money supply, greatly increased public holdings of government securities, and substantial holdings of dollars by many foreign countries. The inevitable result, in the face of limited production of many commodities, was a rapid increase in prices.

The second phase of our postwar business history began in the latter part of 1948 and continued into the second half of 1949. With the gradual rise in production and the satisfaction of more urgent wants, the supply-demand position shifted in many commodities. Also, high Government revenues led to large Treasury surpluses. As a result, inflationary pressures subsided and were followed by modest price and inventory adjustments. Industrial production declined fairly sharply, but most of the aggregate dollar measures of economic activity remained near peak levels, as did the physical volume of goods purchased by consumers. Prices softened, but significant price corrections were limited to agricultural commodities and a few basic raw materials. There was a conspicuous absence of credit crises or liquidation or price collapse, and money rates remained low.

The third phase of our postwar experience began shortly after the middle of 1949. The upturn in business activity was sparked by several factors. For one, it became necessary to restock business inventories, which had been drawn down by continued consumer buying in the face of reduced business orders. At the same time, there was a resurgence in building and construction, and in many consumer durable lines closely associated with residential building. Continued strength in automobiles was a further feature.

Despite all this, aggregate production in the economy has not returned to the peak levels of 1948, although admittedly strikes in basic industries have been important limiting factors in recent months. Employment has been maintained at high levels, but new employment opportunities are not developing as fast as the growth in the labor supply and, as a result, unemployment has increased. With business brisk, commodity prices have firmed in recent months, and consumer credit and real estate mortgage debt are reaching successive peaks. The rapid disbursement of the dividend on the National Service Life Insurance has helped to hold retail trade at dollar levels not far

Continued on page 32

*An address by Mr. Reierson at the Thirteenth Annual Reunion and Conference of the Graduate School of Banking, New York City, March 18, 1950.

New Issue

$18,000,000

The People of Puerto Rico

(Insular Possession of the United States)

4%, 2% and 1¾% Public Improvement Bonds

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Subject to redemption, at the option of the Treasurer of Puerto Rico, either in whole on July 1, 1955 or any date thereafter, or in part in inverse numerical order on July 1, 1955 or any interest payment date thereafter, at 102 if redeemed on or prior to July 1, 1960, at 101 if redeemed thereafter but on or prior to July 1, 1965, and without premium if redeemed thereafter.

Principal and semi-annual interest (July 1 and January 1) payable at the principal office of The Chase National Bank of the City of New York or, at the option of the holder, at the office of the Government Development Bank for Puerto Rico, San Juan, P. R. Coupon bonds in denomination of $1,000, registerable as to principal only or as to both principal and interest.

In the opinion of counsel, these Bonds and the income therefrom are exempt from taxation by the Government of the United States, or by the government of Puerto Rico or of any political or municipal subdivision thereof, or by any State, Territory, or possession, or by any county, municipality, or other municipal subdivision of any State, Territory, or possession of the United States, or by the District of Columbia

Acceptable at par as security for Public Deposits, eligible to secure deposits of Postal Savings Funds, and eligible at par as security for insurance company deposits in Puerto Rico

These Public Improvement Bonds, to be issued under authority of Acts of the Congress of the United States and of the Legislature of Puerto Rico, in the opinion of counsel will constitute valid general obligations of The People of Puerto Rico, and the good faith and taxing power of The People of Puerto Rico will be irrevocably pledged to the payment of the principal of and interest on these Bonds.

AMOUNTS, COUPON RATES, MATURITIES AND YIELDS OR PRICE

Amount	Rate	Due	Yield to Maturity	Amount	Rate	Due	Price or Yield to Maturity
$800,000	4%	1951	.80%	$950,000	1¾%	1961	@ 100
800,000	4	1952	.90	950,000	1¾	1962	1.85%
800,000	4	1953	1.00	1,000,000	1¾	1963	1.90
850,000	4	1954	1.10	1,000,000	1¾	1964	1.95
850,000	4	1955	1.20	1,000,000	1¾	1965	2.00
850,000	2	1956	1.35	1,100,000	1¾	1966	2.05
900,000	2	1957	1.45	1,100,000	1¾	1967	2.05
900,000	2	1958	1.55	1,100,000	1¾	1968	2.10
900,000	2	1959	1.60	1,200,000	1¾	1969	2.10
950,000	1¾	1960	1.65				

(Accrued interest to be added)

The above Bonds are offered when, as and if issued and received by us, and subject to prior sale and approval of legality by the Attorney General of Puerto Rico and Messrs. Mitchell and Pershing, Attorneys, New York, N. Y.

The Chase National Bank — Halsey, Stuart & Co. Inc. — Kidder, Peabody & Co.
Goldman, Sachs & Co. — Bear, Stearns & Co. — Phelps, Fenn & Co.
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Stroud & Company (Incorporated) — Fidelity Union Trust Company (Newark) — Ira Haupt & Co.
The Ohio Company — Hayden, Miller & Co. — Blunt Ellis & Simmons
Detmer & Co. — Paul H. Davis & Co. — Kebbon, McCormick & Co.
Whiting, Weeks & Stubbs — Martin, Burns & Corbett, Inc. — William R. Staats Co.
Breed & Harrison, Inc. — Paul Frederick & Company — Pohl & Company, Inc.

New York, March 29, 1950.

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The Current Utility Scene

By COMMISSIONER DONALD C. COOK*
Securities and Exchange Commission

Commissioner Cook lists companies, with $6-$7 billion of assets, still subject to Holding Company Act after completion of integration proceedings. Expects broader investment in industry's common stocks. For proper capital financing, he disapproves of too great reliance on retained earnings, and advocates liberal dividends. Urges "as-you-go-policy" instead of betting-on-the-stock market in the timing of stock financing. Endorses competitive bidding.

As all of us know, the electric utility industry was first subjected to intensive Federal regulation about 15 years ago, largely because this basic industry had been severely victimized by the "high and low" finance of the '20s. The numerous bankruptcies and preferred stock arrearages among both electric operating companies and holding companies in the '30s were primarily, if not exclusively, attributable to these financial practices, for the operating electric utility industry showed remarkable stability in the great Depression. I think it is easy to prove this statement. Kilowatt hours generated declined only 15% from 1929 to 1932, while in the same period, for example, the Federal Reserve Board index of industrial production fell 47.3%. We know, too, that the net operating income of private utility companies, before depreciation and taxes was greater in every year during the '30s than it was in 1928—a year which itself was better than previous years. The industry's gross income was actually higher in 1932 than it was in 1928. The utility industry was too important to the nation's economy to permit it to remain ensnared in the tangled web of frenzied finance. The Holding Company Act, one of the great and enduring New Deal reforms, was soon forthcoming. The statue, drafted in the finest traditions of New England conservatism, was bitterly fought by interests standing for radical finance. Oddly enough, the Act, which demonstrably was a bulwark of our system of free enterprise, was branded as the handiwork of wild-eyed and impractical Washington visionaries, or—and even worse—college professors! But that was before the professors built the Bomb.

Donald C. Cook

Two Major Surgical Operations

Primarily, the Holding Company Act was intended to perform two major surgical operations upon the utility industry: First, to break up the non-integrated holding company systems and to create an industry pattern of (a) operating companies returned to local control or (b) regional integrated holding company systems most of which, because of their interstate nature, would remain subject to the Holding Company Act; and second, drastically to simplify corporate structures by eliminating pyramided holding companies, trick securities, and excessive leverage. As you know, the ideal in this latter respect was a simple, understandable and well-balanced capital structure which would inspire investor confidence and permit public utilities to attract, on economical terms, the vast sums of new capital needed by them to finance their uninterrupted growth.

In a relatively short time, as these things go, remarkable results have been achieved. The prophets of confiscation and ruin were confounded as one holding company system after another emerged from the integration and corporate simplification process with demonstrable benefits to investors and consumers. Finally confidence was restored to a point where corporate managers were investing in their own securities. Let me quote some late figures as to the extent of the progress made. From Dec. 31, 1935 to Dec. 31, 1949, 696 companies with assets of $9,106,000,000 have been removed from the jurisdiction of the Act through divestment. For the most part, these were properties and securities of companies found by the Commission to be non-retainable by holding company systems. Some of the properties divested were sold to neighboring utilities who integrated them with their own operations. In addition to the figures just cited, 250 companies with assets of $5,470,000,000 have been divested by holding companies but remain subject to the Act by reason of their relationship to another registered holding company.

Systems Continuing Under Commission

While it is too early to determine precisely which companies or systems will remain subject to the Commission's jurisdiction, it is estimated that some $6 or $7 billion of assets (including electric, gas, and retainable non-utility assets) may remain subject to the Act after integration proceedings have been completed. Present indications are that the following systems, among others, are likely to continue under the Act:

American Gas & Electric Co.
American Natural Gas Co.
Allegheny Gas Co.
Central & Southwest Corp.
Columbia Gas System, Inc.
Consolidated Natural Gas Co.
Delaware Power & Light Co.
Derby Gas & Electric Corp.
Interstate Power Co.
Middle South Utilities, Inc.
National Fuel Gas Co.
New England Electric System.
Northern States Power Co.
Ohio Edison Co.
Philadelphia Electric Power Co.
The Southern Co.
Union Electric Co. of Missouri.
Utah Power & Light Co.
West Penn Electric Co.
Wisconsin Electric Power Co.

Comparable results have been achieved under the corporate simplification section. As you know, many unnecessary holding companies and other useless but expensive corporate entities have been eliminated, and the pyramided holding company system is becoming as archaic as the Pyramids of Egypt.

Financial Health Tremendously Improved

Practically all pertinent ratios reflect the tremendously improved financial health of this industry since 1935. More than $1,300,000,000 of sheer wind, or, as it is sometimes referred to, "balloon juice," has been eliminated from utility property accounts. Ratios of depreciation and amortization reserves to gross property went up from 10.8% in 1937 to 21.7% at the end of 1948. Coverages of all fixed charges and preferred dividends went up from 1.9 times to 2.7 times. While total debt and preferred stock have increased about 10.3% since 1937 to Dec. 31, 1948, generating capacity of privately owned utilities has increased by 42% and generation is up by 107%. Of course, much of this progress must be ascribed to better economic conditions. But I have seen too many of these improvements emerge from conferences at the Commission not to ascribe some of the accomplishments to the operation of the Holding Company Act. The cleaning up of the industry's accounts and the corporate simplification which has taken place are, of course, of major importance to you in your day-to-day work as securities analysts, and I want to say more about that later.

Old-Time Tycoon Gone

There has been another development in this industry which I want to mention. The capital structures and complicated corporate systems which flourished in the '20s reflected, in part, the type of men who then dominated this industry. Today, the utility tycoon, with his unresponsiveness to investor and consumer needs, is gone—or almost gone. In his place a new generation of utility executives has grown up. The new generation executives recognize the social responsibility of management. In varying degrees, they tend to be aware that they stand in a sort of trustee relationship to their investors, consumers, and the areas they serve. These men also tend to feel obliged to consider the interests of the public in every important decision they make. To the extent that the management of any particular company contains such men—and many managements do—it has an intangible asset of substantial importance.

Under the "old regime," by and large, financial policy for most of the nation's operating companies, whether they were located in Maine or California, was determined by a small group of holding company executives and their affiliated investment bankers in New York City or Chicago. Investment banking business of individual utility companies tended to be monopolized by a traditional banker. Competitive bidding was then a theory—not a reality. The break-up of centralized control over utilities has given operating management the opportunity of doing its own planning and of hiring banking, servicing and other technical assistance of its own choosing, according to its needs and the requirements of its area.

Competitive Bidding

I am not here to talk about competitive bidding, which was designed, in part, to overcome the influence of traditional relationships between banking houses and public utility companies, and its consequent deleterious effects on financing. But whatever else may be said about it, competitive bidding has diversified the management of security offerings. The Commission's Fifteenth Annual Report to Congress for the fiscal year ending June 30, 1949 contains a table covering 24 companies whose securities have been marketed at competitive bidding on at least four occasions during the last five years. The table shows the number of managing underwriters who have been successful in purchasing the securities of these companies. In only one instance was a single manager able to win all securities offered by a particular company over this five-year period. This manager had not been that company's traditional banker, and a number of other bids were submitted for each of the issues offered. In only one other instance of the 24 companies studied was any manager successful in purchasing as many as half of the

Continued on page 41

*An address of Commissioner Cook before N. Y. Society of Security Analysts, New York, March 29, 1950.

Dealer-Broker Investment Recommendations and Literature

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

Canadian Bond Quotations — Bulletin—A. E. Ames & Co., Inc., 2. Wall Street, New York 5, N. Y.

Chartcraft Method of Point and Figure Trading — William-Frederick Press, 313 West 35th Street, New York 1, N. Y.—$2.00

Over-the-Counter Index—Booklet showing an up-to-date comparison between the thirty listed industrial stocks used in the Dow-Jones Averages and the thirty-five over-the-counter industrial stocks used in the National Quotation Bureau Averages, both as to yield and market performance over an eleven-year period—National Quotation Bureau, Inc., 46 Front Street, New York 4, N. Y.

Puts and Calls—Booklet—Filer, Schmidt & Co., 30 Pine Street, New York 5, N. Y.

Railroad Margins of Safety—Analysis as a test of quality—Smith, Barney & Co., 14 Wall Street, New York 5, N. Y.

Television—A second look at the industry with particular reference to **Motorola, Inc.**, and **Zenith Radio Corp.**—Eastman, Dillon & Co., 15 Broad Street, New York 5, N. Y.

Utility Stock Analyzer — Tabulation of utility stocks as of April, 1950—Geyer & Co., Inc., 63 Wall Street, New York 5, N. Y.

* * *

Aerovox Corp. — Circular — George D. B. Bonbright & Co., Powers Building, Rochester 14, New York.

Amerex Holding Corp.—Report—New York Hanseatic Corp., 120 Broadway, New York 5, N. Y.

American Mercury Insurance Co.—Report—Peter P. McDermott & Co., 44 Wall Street, New York 5, New York.

Avon Allied Products, Inc.—Summary and analysis—Hill Richards & Co., 621 South Spring Street, Los Angeles 14, Calif.

Bankers Trust Co. — Circular — First Boston Corp., 100 Broadway, New York 5, N.Y.

Columbia Gas System—Analysis—Newburger & Co., 1342 Walnut Street, Philadelphia 7, Pa.

Walt Disney Productions—Analysis—Batkin & Co., 30 Broad Street, New York 4, N. Y.

Douglas & Lomason Company—Current Bulletin — Aetna Securities Corporation, 111 Broadway, New York 6, N. Y.

Federal Bake Shops, Inc.—Report—Cohu & Co., 1 Wall Street, New York 5, N. Y. Also available are analyses on **Foremost Dairies, Inc.**, **Landis Machine Company** and **Winn & Lovett Grocery Co.**

Hugoton Production Company—Report—G. A. Saxton & Co., Inc., 70 Pine Street, New York 5, N. Y.

Also available are brief data on **Black Hills Power & Light Co.**, **Iowa Southern Utilities Co.**, **Northern Indiana Public Service Co.**, and **Southwestern Public Service Co.**

McDonnell Aircraft—Memorandum—du Pont, Homsey & Co., 31 Milk Street, Boston 9, Mass.

Also available is a brief memorandum on **Hoffman Radio.**

Manufacturers Trust Co.—Analysis—Laird, Bissell & Meeds, 120 Broadway, New York 5, N. Y.

Mexican Railways — Analysis—Zippin & Co., 208 South La Salle Street, Chicago 4, Ill.

New England Public Service Co.—Booklet available for institutions and dealers—Ira Haupt & Co., 111 Broadway, New York 6, N. Y.

Northern Pacific Railway Co.—Analysis—H. Hentz & Co., 60 Beaver Street, New York 4, N. Y.

Northwest Airlines, Inc. — Special review—John H. Lewis & Co., 63 Wall Street, New York 5, N. Y.

Pacific Petroleums, Ltd.—Analysis—Walston, Hoffman & Goodwin, 265 Montgomery Street, San Francisco 4, Calif.

Reading Co.—Complete study—write to John McLaughlin, McLaughlin, Reuss & Co., 1 Wall Street, New York 5, N. Y.

Also available are detailed analyses of **Missouri-Pacific** general 4s of 1975 vs. **Missouri Pacific** 5½s of 1949; **Southern Pacific Convertible** debenture 3s of 1950; a rebuttal to the Senators on the **Missouri Pacific Reorganization Plan**; and a study of **Allen Industries, Inc.**

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

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

Also available is a brief review of the **Cement Industry.**

Rudolph Wurlitzer — Revised analysis — Raymond & Co., 148 State Street, Boston 9, Mass.

A. G. Becker Group Market Com. Stock Of Cook Coffee Co.

Public offering of 101,250 shares of common stock of Cook Coffee Co. at $13 per share was made on March 28 by an underwriting group managed jointly by A. G. Becker & Co. Inc. and Merrill, Turben & Co. The offering represents the first public distribution of the company's stock, but no financing on the part of the company itself, the stock involved in the offering coming from the holdings of various stockholders.

The company operates through subsidiaries more than 760 retail grocery "wagon routes" in various parts of the country. Operating company headquarters are in Cleveland. The business was established in 1921 and has operated profitably in every year since that time. Sales last year amounted to more than $18 million, with net income of $817,499, equivalent to $2.02 per share on the 405,000 shares of common stock outstanding. There is no other class of securities. The company has indicated its intention to declare a dividend of 25 cents per share, payable about June 15, and to consider payments at quarterly intervals thereafter. On the $1 annual basis thus indicated the yield at the offering price is 7.69%.

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LETTER TO THE EDITOR:

Takes Issue With Views Expressed By Heilperin on ITO

William L. Batt, Chairman of Committee for the International Trade Organization, says attack on ITO is dominated by theoretical considerations, with almost no regard for realities that surround it.

Editor, The Commercial and Financial Chronicle:

In your Feb. 9 issue you reprint the latest attack on the Havana Charter by Michael A. Heilperin. I have had the pleasure of debating this question with Mr. Heilperin and I have the utmost respect for his grasp of economic theory. However, I think it is unfortunate that Mr. Heilperin has permitted his thinking to become so thoroughly dominated by theory that he can examine an issue as important as the Charter with almost no regard for the realities that surround it.

W. L. Batt

Mr. Heilperin readily admits this, from which one may assume that he regards his criticisms of the Havana Charter with appropriate scepticism.

"The charter of a 'good' ITO would *prohibit* the use of import quotas, exchange controls, subsidies of all kinds, and all discriminatory trade practices. It would declare it a duty of every government so to conduct its country's domestic economic affairs as to make it possible for that country to remain economically solvent without the use of restrictive and discriminatory commercial and monetary policies." (*Italics* added.)

Mr. Heilperin readily admits "that the kind of ITO that the United States might properly join would find in the world of today very few adherents." Aside from the fact that it is highly doubtful that the United States Congress would approve a charter that did not permit the use of some quotas, subsidies and certain discriminatory trade practices (such as export controls for security reasons), one cannot but wonder what use an international trade charter would be—however "right" or sound it were theoretically—if it had no adherents. The present charter represents a preliminary agreement among 54 nations, and as Michael L. Hoffman pointed out (N. Y. "Times," Feb. 2, 1950), the General Agreement on Tariffs and Trade has demonstrated "that even incomplete adherence to the principles of a common trade policy is infinitely better than having no agreement at all."

Mr. Heilperin's theoretical world is, apparently, devoid of political problems, for at no point does his article reflect that there is any relationship at all between economic realities and the day-to-day political forces which have to be dealt with both in terms of domestic legislation and international action.

It is encouraging that this intellectually stimulating, but relatively unrealistic approach does not dominate the thinking of those responsible for national foreign policy—or those segments of business which have given careful consideration to the many political and economic facts vitally affecting American interests today. "Business Week" magazine, which is uniquely aware of the interests of American business, states editorially in its Feb. 23 issue:

"In spite of all its weaknesses, we think that the charter can help knock down the trade barriers between nations—and so, in the end, benefit American business . . . the United States may lose its leadership in international trade affairs if it rejects the charter. We proposed the idea. We have supplied much of the effort behind it. Our approval of the charter would give confidence to the countries that now fear the U. S. may return to economic isolationism. Our approval in itself would strengthen the drive for freer world trade. And it would give us a foundation on which we could continue to promote free trade. Recognizing all the weaknesses, we believe ITO must be given its chance."

I feel sure that when the charter comes before Congress within a month or so, the weight of evidence in support of the ITO will effectively refute the theoretical approach to foreign economic policy represented by Mr. Heilperin's article.

Sincerly yours,

(Signed) WILLIAM L. BATT.

March 10, 1950.

Committee for the International Trade Organization,
816 21st Street, Northwest,
Washington 6, D. C.

Business Man's Bookshelf

Careers for Specialized Secretaries—Juvenal L. Angel, Latin American Institute Press, 900 Park Avenue, New York 21, N. Y.—Paper—25c.

Chartcraft Method of Point and Figure Trading — William-Frederick Press, 313 West 35th Street, New York 1, N. Y.

Guide for Retail Advertising and Selling, A—Association of Better Business Bureaus, Inc., Chrysler Building, New York 17, N. Y.—Paper—$1.00.

How to Stay Rich: The Story of Democratic American Capitalism — Ernest L. Klein — Farrar, Straus and Company, 53 East 34th Street, New York 16, N. Y.—Cloth —$2.75.

Money and Organization—D. C. Reid—Macdonald & Evans, 8 John Street, Bedford Row, London, W. C. 1, England—Cloth—10s.

Our Irredeemable Currency System — Walter E. Spahr — The Gold Standard League, 1 Lloyd Avenue, Latrobe, Pa.—Paper—3 copies (minimum order), $1.00; (lower prices for quantity orders).

Transforming Public Utility Regulation: A Definite Administrative Program — John Bauer—Harper & Brothers, 49 East 33rd Street, New York 16, N. Y.—Cloth—$5.00.

Reports No Drain On Foreign Dollar Reserves in 1949

Commerce Department estimates foreign countries as whole were able for first time since war to go through year without having to supplement aid received from United States.

Foreign countries increased their gold and dollar balances by about $440 million through transactions with the United States in the last three months of 1949, offsetting the losses of $420 million they had sustained earlier that year, the Office of Business Economics, U. S. Department of Commerce reports.

Because of these gains, foreign countries were able—for the first time since the war—to go through a whole year without having to supplement the aid received from the United States by drawing upon their own reserves in order to meet their obligations in this country.

The balance of international payments of the United States for the fourth quarter of 1949 thus reflected a considerable improvement in the financial position of foreign countries. The improvement in the foreign reserve position resulted, however, from a reduction of foreign purchases rather than from an increase in foreign sales in this country.

United States exports of goods and services declined from an annual rate of $17.3 billion in the first half of 1949 to $14.5 billion in the second half of that year. The decline took place entirely in our exports and other transfers of merchandise. Total U. S. sales of services—including transportation and income on United States investments abroad—were approximately the same as in 1948.

About half of the decline in merchandise transfers can be accounted for by the reduction in government aid disbursements. However, the remainder of the export decline made possible the change from a reduction of foreign reserves at an annual rate of $600 million during the first half of the year to an increase at the rate of $700 million during the second half.

United States purchases of foreign goods and services did not change from the third to the fourth quarter of last year. The increase in merchandise imports was offset largely by the seasonal decline in expenditures by United States travelers in foreign countries including their payments for overseas transportation.

"Big Business—Good or Bad?"

A symposium on the question, "Big Business — Good or Bad?" will be held on TV Station WPIX, New York City, Thursday, March 30, from 7:30-8:00 p.m. The participants will be Robert S. Byfield, investment banker and economist; Wilma Soss, President, Federation of Women's Shareholders; Alexander Lipsett, labor expert and educator; and Jack Altman, Vice-President, retail and department store division, CIO. The show is directed by Gilbert Busch of Albert Frank-Guenther Law.

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March 28, 1950.

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Outlook for Profits in 1950

By V. LEWIS BASSIE*

Director, Bureau of Economic and Business Research University of Illinois

Specialist in business analysis forecasts favorable profits for business in 1950, ranging upward to 15% higher than in 1949. Holds outlook also provides most favorable climate for security markets, and predicts rise in stocks prices still has long way to go, since postwar freeze on speculative psychology is coming to an end. Looks for more normal relations between security prices and earnings power.

The prospective rebound of business activity from the coal-strike lows reinforces the optimism with which the spring months have been viewed by most business analysts. Doubts arise mainly as to the latter part of the year. These doubts gain emphasis in the minds of many as the stock market advances toward a test of the resistance level at the 1946 highs. Therefore, for whatever they may be worth, we present briefly the following results of our own review:

V. Lewis Bassie

General Business Conditions

There are both positive and negative factors in the current business picture, on balance pointing toward higher levels.

(1) Inventories were still being liquidated at the end of 1949. Since inventories are still below normal, even allowing for the long-term downtrend in their relation to sales, it is likely that liquidation will cease before the end of 1950 and be replaced by a limited rate of accumulation.

(2) Government expenditures for goods and services, other than foreign aid, are still definitely pursuing an upward trend.

(3) The foreign aid program will begin to decline after mid-1950, though the decline will be partly offset by the increase in military assistance for Western Europe. However, net foreign investment dropped to a new postwar low in the fourth quarter of 1949; and since net exports were then considerably less than the aid being granted, a higher level of exports is to be expected.

(4) The construction boom is sparked by new highs in residential building. Various explanations are offered to show why this high rate of housing construction is only temporary; but none of these seems as forceful as the simple and direct explanation that the country really needs the houses which are being built.

(5) Business outlays for plant and equipment have been declining, with the result that excess rates of investment based on backlogs have almost disappeared. Hence, a normal response of capital expenditures to generally prosperous conditions would call for a slight increase rather than any further decline in the latter part of the year.

(6) A more definitely negative factor will be the reduction of consumer purchases on credit, which reached a very high rate at the end of 1949, supported by peak automobile sales. However, a moderate decline in sales will not greatly affect the auto industry and will allow some reversal of the 1949 shift in consumer expenditures from nondurable to durable goods lines.

Summing up thus far, the net effect by the end of 1950 should be upward. To this must be added a coordinate increase in consumption, which will gain continued support from the increase in population. Consider, also, the temporary factors, like veterans' refunds and making up deficiencies of the strikes, whose stimulating effects will soon disappear. In view of the upward movement anticipated on other grounds, these factors may act primarily to bring activity up more quickly, with a leveling thereafter, rather than any definite decline. In other words, we seem now to be moving toward a higher plateau which should continue into the first half of 1951.

*Reprinted from the Illinois Business Review, published by the Bureau of Economic and Business Research of the University of Illinois.

Other Factors Affecting Profits

Productivity — The economic problem of 1950 seems likely to be the creeping increase in unemployment. Lack of jobs for 4.5 million workers is just too much to ignore, especially as the prospective expansion of activity is not sufficient to keep up with the growth in the labor force.

Manufacturing employment moved down steadily in 1949, releasing more than a million workers. Only part of the decline can be explained by reduced rates of production, as man-hours were cut about twice as fast as output. The number of production workers in manufacturing was down almost 10% from December, 1948, to December, 1949, and there was in addition a slight decline in average hours of work per week. In contrast, the Federal Reserve index of manufacturing production declined only 5½%.

As a result of these changes, there was an increase in production per man-hour of about 5%. This increase in productivity was the result of a concerted campaign by management to cut expenses and put operations of the most efficient basis possible. Results were much the same in durable and nondurable goods industries. In the former, there was a moderate decline in output and a larger decline in man-hours of employment; in the latter, higher production was obtained with a smaller working force. Continuation of this trend of productivity through 1950 will tend to increase profits in industries where sales and prices are firm, and to maintain them where declines are experienced.

Prices—Profits were helped to some extent in 1949 by more rapid declines in prices of materials than in those of finished products. Prices of farm products fell more than 10% during 1949, and some further declines are expected. Prices of other raw materials and semi-manufactured articles also showed considerable declines, though not as large. However, recent firming tendencies in these prices suggest that any further weakening in the price structure is likely to be limited.

The stability of prices other than farm products and foods during the last six months reveals no tendency to reduce prices at the expense of margins. Little inclination to lower margins was displayed by business, even in the scare of the 1949 recession; and more recently, there has been some tendency to improve margins by raising prices—exemplified by the increases in steel and tire prices at the end of the year. On the other hand, some declines may occur in particular commodities, like automobiles, which are affected by special situations.

Since margins are generally satisfactory at the present time, and both capacity and labor supply are adequate to fill orders, any further price changes seem likely to be moderate, leaving the general price level relatively stable.

Inventories—Price movements were responsible for the wide fluctuations of reported profits during the last two years. Changes in both sales receipts and inventory revaluation adjustments were largely the result of the price reversal.

If the decline in prices at which inventories are valued comes to an end, reported profits before income taxes would automatically move up $2.6 billion (the amount of the downward adjustment in 1949), or almost 10%. In addition, rising volume and productivity which, as indicated above, seem reasonably in prospect, should also tend to increase profits. Hence, reported net profit may, on a rough estimate, be something like 15% higher in 1950 than in 1949.

The combination of continued prosperity, stable prices, and rising profits provides the most favorable outlook for business. Although synthetic pessimism concerning the last half of 1950 has been given wide circulation, and should make for continued business caution, the situation will be such as to give business the confidence to move forward.

This outlook also provides the most favorable climate for the security markets. Stock prices still have a long way to rise before normal relations with earnings and bond yields are reestablished; and the action of the market during the last six months suggests that the postwar freeze on speculative psychology is ending. There now seems nothing but the possibility of increased international tension to block the advance.

In summary, our view of the situation is: Prosperity will prevail for another year at least. The outlook for profits is good; and trends toward establishing a more normal relation between security prices and earning power should continue.

Wood Heads Dept. Of Blair, Rollins

Ralph W. Wood of San Francisco has been appointed Manager of the newly created Business Extension Department of Blair, Rollins & Co., Inc., it was announced by Warren H. Snow, President. He will make his headquarters in the New York office, 44 Wall Street.

Mr. Wood has been identified with the investment business on the Pacific Coast for 25 years. From 1932 through 1942 he was with the investment subsidiaries of Transamerica Corporation. After serving three years in the Navy with a final rank of Lieutenant Commander he entered the import and export business in San Francisco.

Mr. Wood will devote a major part of his time in his new association to contacting dealers in the East and Middle West.

E. W. Ackley, Admits

BOSTON, MASS.—Edward W. Ackley has admitted E. Holley Poe to partnership in the firm of Edward W. Ackley & Co., 30 State Street.

J. F. Lewis, Jr. Opens

PHILADELPHIA, PA.—Joseph F. Lewis, Jr., is engaging in a securities business from offices at 505 Brinton Street.

Fall in the Price of Gold

By PAUL EINZIG

Noting recent and substantial decline in the price of gold on free markets, Dr. Einzig ascribes it to better currency situation in Europe due to Marshall Plan aid. Holds, though decline in gold price is favorable, there is no reason to expect it to fall to official value of dollar, and looks for another rise in gold premiums after 1952.

LONDON, ENG.: One of the effects of the war and its aftermaths was the development of a wide premium in the price of gold in free markets. While the official American price remained unaltered at $35 per ounce, the free price in the Middle East and the Far East rose to well over $50 per ounce. This was partly the result of the strong hoarding demand in countries where the population distrusted the stability of the national currency. To some extent, however, the premium was the result of the widespread feeling that gold was really worth more than its prewar price. Jewelry and other objects made of gold rose to a much higher degree than was justified by the appreciation of the dollar in terms of the national currencies concerned and by the rise in the cost of manufacture of these objects. Buyers were prepared to pay high prices for objects of gold, because they felt the official American prewar price was artificial.

Dr. Paul Einzig

As a result of the hoarding and industrial demand, and the high price gold commanded for hoarding and industrial purposes, much of the new gold output found its way to the free markets where it satisfied the non-monetary demand. This meant that less gold was available for export to the United States. This factor contributed to some extent to the scarcity of dollars. Even though the International Monetary Fund did its utmost to prevent the diversion of newly produced gold for non-monetary uses by objecting to the sale of gold at a premium, this rule could not be enforced effectively so long as the premium remained very wide and the temptation to sell gold in the free markets remained strong.

In recent months there was a sharp fall in the free market price of gold. Recently the premium on the official American price declined to about 10%, though it rose somewhat towards the middle of March. The fall of the price of gold in the Paris market attracted much attention because there is more information available about that market than about the Eastern markets. It puzzled French and foreign observers considerably because it was not justified by any improvement in conditions in France. Industrial and political conditions in that country remained unsettled, and her dollar gap was no nearer solution than the British dollar gap. Evidently the fall in gold was not due to any local conditions.

There is reason to believe that the disappearance of Chinese demand for gold played a leading part in the world-wide falling trend. It was the result of the establishment of a Communist regime, under which there appears to be little scope for private hoarding demand to continue. Simultaneously with this decline in demand, there appeared to be an increase of the supply of gold in the free market, due to the circumvention of the ban imposed by the International Monetary Fund on the marketing of gold at a premium. There may also have been some Russian selling, but there is no concrete evidence of this. Once the downward movement started, it gathered momentum through wholesale dehoarding in France and elsewhere by holders who expected a further fall.

The decline of the premium is distinctly a favorable symptom, and its complete disappearance would go some way towards assisting in progress towards balancing the dollar gap of gold-producing and gold-hoarding countries, in so far as the newly produced and dehoarded gold will be available for export to the United States. The psychological effect of a disappearance of the premium would also be reassuring.

Unfortunately there is no reason to expect that the premium on gold will disappear in the near future. It is likely to remain for some time to come, and the chances are that it will widen again. It is true, from an economic point of view there would be some justification for its contraction. After all, considerable progress has been made towards consolidation of post-war economies all over the world. Industrial and agricultural production has increased, and the depleted stocks have been reconstructed to a considerable extent. There is less danger of a currency chaos than there was a year or two ago. Most countries have succeeded in arresting the non-stop depreciation of their currencies, even though the situation and prospects are still far from ideal from this point of view. The scarcity of dollars has been reduced by Marshall Aid and by a decline of American exports.

Nevertheless, the state of uncertainty which in the past was mainly responsible for hoarding demand for gold continues to prevail. In the East in particular the events in China foreshadow a great deal of trouble and anxiety. The possibility of Communist invasion or infiltration is likely to induce the inhabitants—or at any rate those of them who possess means—to hoard gold. Nor is the political horizon in Europe very reassuring. French hoarders, once they have recovered from the shock caused by the unexpected fall in the price of gold, are sure to resume their traditional role.

Throughout modern history, the secular trend of the price of gold has been in an upward direction. Although there were many setbacks, some of them substantial, in the long-run a rising trend prevailed. There is no reason for supposing that it would be otherwise on the present occasion. After 10 years of incessant hoarding demand the technical position was ripe for a setback. But once the technical position has corrected itself through the liquidation of excessive hoards, it seems probable that the rising trend will reappear once more. The only possibility for a complete and lasting disappearance of the premium on gold lies in a consolidation of the international political situation. Unfortunately there is very little reason for hoping that this could be achieved. Moreover, there is also much uneasiness about a relapse into currency difficulties after the termination of Marshall Aid in 1952. It would be unduly optimistic, therefore, to consider the slump in gold as more than a temporary phenomenon.

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Outlook for International Trade

By THOMAS R. WILSON*

Chief Areas Division, Office of International Trade, U. S. Department of Commerce

Foreign trade specialist of U. S. Department of Commerce, ascribing imbalance in U. S. international trade to heavy foreign demand for our goods due to war's devastation, upholds policy of Marshall Plan aid and warns if this is cut off too abruptly it may cause economic disaster. Notes declining gap between U. S. exports and imports and looks for its continuance during year, bringing import gap to $3 billions, lowest since war. Sees no need of maintaining U. S. exports at current high level, and advocates encouraging greater imports.

This nation can take justifiable pride in the contribution we have made during the relatively brief period since the end of the war in helping to effect a remarkable rate of economic recovery in most of the war torn areas and in rebuilding the international trade network. Reconstruction has taken place in Western Europe more rapidly than after World War I despite the greater magnitude of destruction and production is well above 1938 levels. The volume of trade between all nations now exceeds prewar rates by a considerable margin, even though Germany and Japan, third and fifth ranking trade countries before the war, are still far from their previous relative importance.

Thomas R. Wilson

But most Americans are not concerned with recounting step by step, the role that we have played in helping to make these gains possible. Rather, are we interested in appraising the strength of the foundation that has been built and the character of the outlook both for ourselves and the other democracies. We appreciate that if the international trade structure is sound and strong, it can be a vital basis of sound and strong economic and political relations. With this in mind, I want to talk briefly about some of the highlights in world and United States trade developments since the end of the war, to say a few words about the trade outlook as we see it for the year ahead and to consider briefly a few of the implications of the current picture.

There is no need to dwell here on the effect of the war on the trade of nations. We, of course, were the arsenal for the democracies and continued throughout the war to ship a constantly increasing supply of goods both to the fronts in the East and the West, and to the people behind those fronts. From a value averaging about $3 billion in the years immediately preceding the war, our exports rose to $4 billion in 1940, by 1942 were over $8 billion and in 1944 reached the war time peak of $14.4 billion. While our imports rose somewhat over this period, their increase was comparatively moderate. The mounting difference between exports and imports was financed as we well know largely by our Lend-Lease program. You will recall that through the Lend-Lease program, nearly $50 billion in goods were made available to our Allies. It was these funds which made possible an export surplus in 1944 of $10.5 billion, the all time trade gap high. With the termination of the war, our exports fell to $10.5 billion in 1945 and to $10.2 billion in 1946. This was still over twice the volume of or prewar exports after full allowance for the price rises which had taken place.

The Postwar Foreign Trade Problem

The trade picture at the close of the war was very different, indeed, for much of the rest of the world. There is no need to dwell at any length on the devastating effect of the war on the exchange of goods between nations which were the theaters of hostilities. Leaving the United States out of the picture, the volume of world exports in the first full postwar year, 1946, was about 25% below prewar levels. This might perhaps not seem like a decline of overwhelming magnitude, but it presented exceedingly acute problems. The main difficulty which existed then, and which has been intensified in each succeeding postwar year, was that virtually all countries of the world had to turn to the United States as their main source of supply of many foods and essential manufactured goods without being able to send sufficient goods in return to make full payment. As the main supply source, the United States found itself responsible for one-third of world exports in 1947, in contrast to only 14% in 1938. This highly one-sided or unbalanced trade obviously introduced an acute balance of payments problem. To buy our goods, most nations were forced to draw heavily on their gold and short term dollar reserves. Many reduced their assets even beyond the danger mark from the point of view of sound monetary considerations. Together, foreign nations liquidated in the four and one half post war years over $5 billion of their holdings exclusive of their sales of newly mined gold. Between the war's end and the start of the Recovery Program, ERP countries had lost over 30% of their monetary reserves. This is a measure of the urgency of their needs.

The acute dollar shortage has been the dominating problem in the post war trade picture. There has been a continuing need for unprecedented amounts of American goods for relief, reconstruction and economic development and almost no countries have had a sufficient supply of goods and services to trade in exchange, or adequate gold and dollar resources with which to cover the trade deficit.

We have given full recognition to this problem in the financial aid we have made available. Our grants and credits since the end of the war have totaled more than $23 billion. This has made possible a continued outflow of our exports far in excess of our imports. During the four years, 1946 through 1949 our exports exceeded our merchandise imports by more than $25 billion and by about $32 billion if services as well as goods are included.

We know how much this aid has meant abroad as well as to ourselves. Overseas, it has helped to make possible the rapid reconstruction of plants, the revival of farm production, the rebuilding of homes and community facilities. Today in Western Europe, industrial production is running currently at somewhat over 20% above prewar levels. This is a signal achievement. It has meant the strengthening of democratic institutions. It has meant that the values we went to war to defend have been strongly reinforced. It means hope for the future both in political as well as economic terms.

The aid we have given, we have given unhesitatingly, motivated not only by humanitarian concern but out of full awareness of our own political and economic stake in the great gains which have been made.

What of the Future!

But aid at the rate of three, four or five billion dollars a year cannot go on indefinitely. This year, the Administration has recommended a substantial reduction in our foreign financial assistance below last years level with the expectation that our help must rapidly taper off.

What is this going to mean to the trade picture? Has there been any real sign of world trade recovery not only in terms of a higher volume of goods, but in terms of the achievement of a better balance? Are there signs that with this marked improvement in the return of production abroad, a larger volume of goods will be available to move in world trade channels? What will this mean for us? As our financial aid declines, must our exports drop correspondingly or can they be sustained? Will we face serious competition in third markets as Europe's capacity to export at comparable prices is restored, or can world markets expand sufficiently to absorb an increased flow of goods not only from Europe, but from the United States as well?

Let us look briefly at recent world trade figures and consider the trends which seem to be emerging and what light they throw on some of these questions.

I have said that in 1946 the volume of world exports excluding our own was about 25% below 1938 levels. And by volume, I mean the value of exports in terms of prewar dollars,—that is value corrected for price rises. 1947 saw slight improvement in these shipments, but in 1948 a marked change for the better took place. World exports excluding United States exports were then only about 7% below prewar. Last year further gains took place and while full figures are not yet available, our preliminary estimates indicate that trade volume was running about 5% above prewar. With our own exports added to those of the rest of the world, we conclude that the volume of world trade ran nearly 20% higher last year than in 1938.

While these figures are encouraging in indicating rapid and marked improvement, one must not be misled into thinking that the network of international trade is in as relatively a sound position as before the war. The major difference between the present and the prewar situation is the continuing existence of purchases from the United States over and above what is being sold here. It is this fact that gives the world trade situation its relatively unstable and unbalanced character despite the apparent return to prewar levels. In other words, our trade gap can only exist because our foreign financial assistance covers the difference between exports and imports. Our aid continues to sustain our export level. If this aid was suddenly to be withdrawn, not only would our exports drop by $3 billion or $4 billion, if not more, the whole structure of world trade would suffer a far-reaching and fundamental blow. In other words, we must look not only at total world trade figures, but at United States trade figures simultaneously. Is this excess of our exports over imports shrinking? Has there been any recent sign of improvement? Can the gap be expected to close by the time our aid tapers off? For if this were to be so, the elimination of our financial assistance by 1952 or '53 would not be a major blow to world trade, and it might be possible to achieve continuing world trade progress on a self-sustaining basis after our aid terminates, in which gain all nations might share.

Review of U. S. International Trade

With these questions in mind, let us review our own trade developments very briefly over the past several years.

I have already pointed out that by 1946 our exports had dropped from their 1944 peak to $10.2 billion. With imports in 1946, $4.8 billion, the trade gap was $5.3 billion. The following year, the export surplus shot up to its post war peak of $9.6 billion with exports at $15.3 billion and imports at $5.7 billion. Considerable improvement occurred in 1948 when the gap fell to $5.5 billion, but there was little apparent change in 1949 when the export surplus was $5.4 billion. I say apparent change because, while the figure for the year remained little different from the total for the year previous, there was an important real change emerging over the year as a whole not revealed by the annual total.

Likening the trade gap problem to a disease, I think we can say that the trade crisis was reached in the second quarter of last year, and the patient has been on the mend since that time. I might add that the prospects for continuing recovery, and at an accelerating rate, look promising.

What I mean to say is that the trade picture changed drastically over the year. Exports were running at annual rate of $13.5 billion at their high point in the second quarter of the year, reflecting an acceleration of deliveries under the ECA program. This was considerably higher than the rate reached in the year before. In that quarter, imports contracted sharply in response to domestic recession and in part on the expectation of devaluation and lower prices. In consequence, the export surplus shot up to $7 billion at an annual rate which was very high indeed. The resulting dollar drain was a major feature contributing toward the devaluation

Continued on page 39

*An address by Mr. Wilson before the Export Managers Club of New York, New York City, March 21, 1950.

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March 29, 1950.

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Bankers' Growing Responsibilities In Instalment Credit

By F. RAYMOND PETERSON*
President, American Bankers Association
Chairman of the Board, First Nat'l Bank & Trust Co., Paterson, N. J.

Association head observes consumer credit lending as a whole has grown to be very big business, and 40% of instalment loans are now extended by banks. They amount to $4½ billion, six out of seven banks participating therein. Urges country's bankers to shoulder their responsibility to preserve sound policy here as in other credit fields.

Consumer instalment lending is coming to play a more and more important role in banking. What affects banking also affects instalment lending.

F. Raymond Peterson

Instalment loans individually are small loans, in comparison with other types of bank credit. Consumer credit lending as a whole, however, distinctly is not small business. There is now a total of more than $18 billion of consumer credit outstanding. Of this total, of course, more than $7 billion consists of department store charge accounts, service credits, utilities bills, and similar forms of consumer credit. They are not consumer instalment loans. Consumer instalment loans now amount to approximately $11 billion; and of this total, more than $4½ billion or 40% are instalment loans by the banks.

Well over 12,000 banks—six out of every seven banks in the country—now make consumer instalment loans. They finance home appliances; automobiles; home repairs and improvements; and consumer borrowing for medical, education, and similar personal purposes. The nature of these loans emphasizes the growing responsibility placed on the commercial banks that engage in this type of lending. The banks are carrying a great social as well as economic responsibility because most of these loans have a personal or family-purpose nature.

So we as bankers have a distinct obligation on our part not only to supply the American people with the instalment credit they need, but also to supply this credit wisely, in volume and on terms that are socially and financially sound for the economy as a whole, as well as for the borrowers and lenders.

The tremendous economic significance of consumer credit has come to be more fully recognized in recent years. To the extent that new loans exceed the repayments and outstandings are increased, it adds to the nation's cumulative purchasing power. It creates broader markets for the products of industry and contributes to widespread distribution of these products. It thus helps to sustain employment and business activity. It makes mass distribution possible on a scale demanded by the American standard of living. This, of course, is an indispensable, if we are to enjoy the advantages and economy of mass production.

By fulfilling its responsibility to provide adequate instalment credit, on appropriate terms, banking can increase its services to the public, and enhance its present position in the instalment credit field. This calls for the exercise of initiative and farsighted care in extending these loans and fixing their terms.

*From an address by Mr. Peterson before the National Instalment Credit Conference, sponsored [illegible] Bankers Association, Chicago, Ill., March 27, 1950.

I should like to turn now to a very broad influence on the field of credit as a whole, in which you are playing an increasingly important part. The main function and the main reason for the existence of the banks is the administration of credit, whether it is business, agriculture, mortgage, or consumer credit. The banks are chartered by the states and the Federal government to accept deposits, and to assume financial risks for the business, industries, and individuals in the communities where they operate. They assume these risks by providing credit. This is the traditional, present and future economic justification for banking.

Credit Nationalization

In recent years, however, an ever increasing trend toward the nationalization of credit has developed. From a very modest beginning in the 1920's and early 30s, direct lending by the government to private borrowers, and government guaranty of loans made by private lenders have expanded enormously. Today, the loans, loan guaranties, and commitments of more than 20 government lending and credit agencies exceed $26 billion.

The total amount of loans outstanding on the books of the 14,000 commercial banks throughout the nation is $42 billion. Government loans, loan guaranties, and credit commitments now exceed more than half of this total of loans extended by the commercial banks. Operating through its various loan and loan guaranty agencies, the Government of the United States is today the world's largest banker and guarantor of credit. Its lending agencies reach out into every field of credit. They make business loans and loans to farmers, to state and municipal governments, to home owners, to railroads, and to others who normally should look to the banks as their source of credit rather than the government.

Under abnormal conditions, in times of great economic stress, in war or other national emergencies, the government's credit-granting and loan guaranty functions may be appropriate and justifiable. We approve of government lending and loan guaranties in national emergencies such as the Great Depression of the '30s and during the war. But since 1945, there have been no grave national emergencies that could conceivably justify the great growth in government loans and loan guaranties that has been brought about in the name of the welfare state. The $26-billion total of government loans and guaranties outstanding today does not include any loans to foreign governments. It includes only loans and guaranties for domestic business and industry, transportation, home owners, and farmers.

During the past two years, these government loans and guaranties have been increased by more than 33⅓%. Of the total outstanding, more than $9 billion are direct loans to borrowers, and another $2 billion are commitments to make these direct loans. The total includes over $12 billion of loan guaranties and insurance and about $3 billion of commitments for guaranty and insurance. Agricultural loans and guaranties exceed $4 billion. The balance of more than $7 billion represents loans and credit guaranties for business and industry, railroads, and other borrowers.

The year-by-year growth of this government-sponsored credit since the war ended is astounding. Last year alone, increases exceeding $5 billion in the loan and loan guaranty limits of all government credit agencies were authorized. The Reconstruction Finance Corporation was granted another $1 billion to buy mortgages through the Federal National Mortgage Association. The Federal Housing Authority was authorized to increase its loan insurance by more than $1 billion. The Public Housing Authority was granted an additional $2 billion in its loan guaranteeing authority. The Rural Electrification Administration was authorized to increase its loans by more than $225 million. There are the increases that government credit agencies demanded and received during the First Session of the 81st Congress.

Multitudinous Demands

Now that the Second Session of Congress is in progress, our legislators are faced with a multitude of demands from government credit agencies for more legislation enabling them to make more government loans and guaranties. One proposal would permit the RFC to participate up to 90% in small business loans by the banks, and allow it to make loans with maturities far longer than the present legal maturity of 10 years. Another proposal would authorize a creation within the Federal Reserve System of 36 investment corporations to provide credit for business and industry. It would permit the 36 corporations to insure up to 95% of any business loans not exceeding $10,000, with a maximum maturity of five years. These corporations would also be authorized to make direct loans to business borrowers.

Another proposal would create an entirely new business loan guaranty agency within the government. It would be authorized to insure up to $5 billion of business loans. Another would create a Veterans Economic Development Corporation to make loans to business up to a total amount of $5 billion. The Commodity Credit Corporation has asked for authority to increase its borrowing and lending power by another $2 billion.

It is impossible to estimate accurately the total amount of government-sponsored loan expansion that could come from all these bills. Probably, it approximates $20 billion. But one bill which I have not yet mentioned, the Full Employment Bill, which has long been dormant although it still is a possibility, could provide up to $45 billion of government-sponsored and guaranteed credit.

The Bill to the Taxpayer

Let me emphasize that when we speak of government credit, we really mean credit that is provided at the expense of the taxpayers. The real meaning of this government lending activity goes far deeper than this fact alone, and we oppose much of this lending as economically unsound, but it is also nationalization of credit that paves the way for a socialized nation. I utter the charge of socialist at no one who favors any of this legislation. I do say, however, that we are treading, perhaps unwittingly, on dangerous social and economic ground if the administration of credit is centralized in the hands of the Federal Government.

Strangely enough, this country is spending billions of dollars for defense against Communism abroad and the centralization of power and destruction of individual freedom that it carries with it. Yet here at home, we are fostering the growth of Socialist philosophy and practices through our trend toward centralization of credit in the hands of the government. Karl Marx's disciple, Lenin, pointed out that one short-cut to Socialism is this very centralization of credit in the hands of the state. "First seize the police and the army, and then control the administration and granting of credit, and you will control almost everything." This was the philosophy and teaching of Lenin.

I am aware that the banking industry is often criticized as conservative. It has also been said that we are "opposed to everything." But I want to point out that this country's economic expansion throughout its history has been due in large measure to the progressive, productive, and creative credit policies of banking. By assuming economic risks, we have pledged both our capital and our faith in this country and its economic development. We underwrite risks that are sound uses for the funds of our depositors. This necessarily means that we reject risks in which loss appears probable. We are far from being opposed to economic gains or social progress or an expanding economy. For more than a century, we have underwritten and guaranteed this progress and expansion.

I am aware that some may say we oppose government lending because we fear competition from government credit agencies. We believe in competition. The banking industry today is one of the most competitive industries in the country. What we do not believe in is the extinction of credit administration by the more than 14,000 highly competitive banks, operating in their own communities under charters granted them by the Federal and State governments.

We do not criticize for the sake of criticizing. We believe that the system of chartered banking guarantees certain economic rights for the American people. Among these rights are freedom for individual citizens to choose the bank with which they want to do business. This freedom does not exist under a statist government. Second, we believe that chartered banking assures the public that it will receive credit that is granted on the merits of the borrowers, and is not dependent upon political considerations. Third, chartered banking guarantees people their right of privacy in their financial need and transactions. Government loans must necessarily be exposed to public interest. If they are not, then government no longer serves the public. Fourth, chartered banking guarantees individual citizens their opportunity for personal financial success. Under chartered banking, ths right cannot be denied them by the whims or directives of government administrators. Finally, we believe that chartered banking focuses the life-giving functions of credit on local communities, upon whose welfare and growth the best interests of the nation as a whole depend. On the other hand, government-sponsored credit is essentially an impersonal, centralized function which dispenses credit broadly and without regard for community need and justification for it.

The Responsibility on Consumer Credit Lenders

The fundamental purpose of credit in any form, in good or bad times, is to help qualified individuals and farmers acquire goods and services and thus contribute to the growth and stability of the national economy. You, as consumer credit lenders, carry a large part of this responsibility. Credit policies must be geared to current conditions. They must be kept flexible. An established policy of easy credit terms as standard credit terms disturbs this flexibility.

Instalment credit terms that are too easy in times of prosperity tend to provide an unnecessary stimulant to business activity. Eventual repayment of these "easy" loans is a depressant when business activity is declining. Consumer credit lenders can make a real contribution toward maintaining sound credit terms by taking the lead in adopting sound credit policies. The banks, as specialists in the extension of this credit, have a responsibility to take the lead in encouraging sound lending policies among all lenders, just as they have a responsibility to encourage sound credit practices on the part of the government. Our success in fulfilling these responsibilities will be the measure of our competence and the guaranty of our future, as administrators of credit.

Phila. Secs. Assn. Appoints Committees

PHILADELPHIA, PA.—Newlin F. Davis, Jr., of Kidder, Peabody & Co., President of the Philadelphia Securities Association, has announced the appointment of Association Committees for 1950-51 as follows:

Arrangements Committee: Russell M. Ergood, Jr., Stroud & Co., Inc., Chairman; Newton J. Aspden, Aspden, Robinson & Co.; W. E. A. Davidson, Insurance Company of North America; Llewellyn W. Fisher, Sheridan Bogan Paul & Co., Inc.; Lewis P. Jacoby, Jr., Thayer, Baker & Co.; Thomas J. McCann, Gerstley, Sunstein & Co.; James J. Mickley, Corn Exchange National Bank & Trust Co.; William B. Morgan, II, Stroud & Co., Inc.; Charles S. Nagel, Provident Trust Co.; Robert F. Powell, Kidder, Peabody & Co.; C. D. Schloesser, Jr., Halsey, Stuart & Co. Inc.; Harry B. Snyder, Yarnall & Co.; Harold J. Williams, Boenning & Co.; Howard York, III, Doremus & Co., Inc.

Educational Committee: Melvin T. Thomson, Kidder, Peabody & Co., Chairman; Robert J. Campbell, Jr., Stroud & Co., Inc.; Henry Ecroyd, Jr., Provident Trust Co.; James G. Long, Smith, Barney & Co.; DeLong H. Monahan, Provident Mutual Life Insurance Co.; Osborne R. Roberts, Schmidt, Poole & Co.

Membership Committee: Franklin L. Ford, Jr., E. W. Clark & Co., Chairman; James T. Gies, Smith, Barney & Co.; George R. Harrison, Laird, Bissell & Meeds; William A. Lacock, E. W. Clark & Co.; Alfred W. Platt, The Fidelity Mutual Life Insurance Co.

Speakers Committee: Paul W. Bodine, Drexel & Co., Chairman; Frank H. Bailie, The Philadelphia Savings Fund Society; Walter W. Buckley, Walston, Hoffman & Goodwin; Harold F. Carter, Hornblower & Weeks.

Publicity Committee: Howard York, III, Doremus & Co., Inc.

Joins Shields Staff

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Paul J. Anderson has joined the staff of Shields & Company, 510 West Sixth Street. He was previously with Harris, Upham & Co.

With H. Irving Lee

(Special to THE FINANCIAL CHRONICLE)

SAN JOSE, CALIF.—Harry W. Boogaert has been added to the staff of H. Irving Lee & Co., First National Bank Building.

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Instalment Credit in The Months Ahead

By WILLIAM F. KELLY*
Senior Vice-President, Pennsylvania Co. for Banking and Trusts
Chairman, Consumer Credit Committee, American Bankers Ass'n

ABA official states there are over 12 million consumer instalment borrowers from the banks, constituting one of most important of banking functions. Reports recent survey shows vast majority of bank lenders adhering to sound credit practices and lending terms; but warns increasing competition is leading to peddling of credit terms in lieu of sale of merchandise.

It would be wonderful if I were able to stand here this morning and tell you, with certainty, what significant developments are to be expected in business during 1950. Maybe we would sleep sounder nights if I could say that our Consumer Credit Committee had met recently in Chicago and after reviewing all of the facts, had decided that our banks, during the months ahead, can go ahead and do business at maximum volume with a minimum of losses and collection difficulties.

William F. Kelly

When trying to estimate what conditions will be by the end of this year, we should keep in mind what Mark Twain said, "The things that we worry about most are the things that never happen."

No human has the power to accurately predict the future, and perhaps it is just as well. Even weather forecasters are wrong a good percentage of the time because weather, like business, is largely the result of local conditions; while the sun might be shining in most places, we can get mighty wet in a thunderstorm.

It is almost axiomatic in the newspaper business that the weather report is the most read item of news. Weather affects most people in a very real way. Carry this similie further into the banking business, and we could say that consumer instalment credit is the banking function that is of interest to most people because consumer instalment loans have a deep personal significance to our bank customers.

Local Responsibility Remains

In this National Instalment Credit Conference, therefore, we are attempting to provide you with information about general business conditions, about general developments which may affect the credit business; but in no way are we relieving you as managers of banks of the responsibility of knowing what the conditions are in your trade area and what course of action it will be wise for you to follow to meet the needs of your customers.

There are many promising things that have a bearing on consumer instalment lending. One of them, and probably the most important, is that character and competence are permanent factors to be considered in the granting of instalment loans. We have learned from experience that even if the capacity of the borrower is impaired, character and competence are safeguards which insure the repayment of our loans.

The constantly increasing volume of instalment credit in banks makes this phase of our business one of the most important of banking functions. At the present time, there are approximately 12 million people who have borrowed from their home town banks on instalment loans which aggregate about $4.5 billion. The people who have instalment loans from their banks are one of the most valuable groups of customers for banking services. The individual amounts they borrow are small, but collectively they represent about 17½% of the total of bank loans.

Over 12 Million Borrowers

Financial statistics are usually dull. We can talk about the total deposits, the total resources, and the total money supply, and give a lot of other figures. When we say that there are more than 12 million consumer instalment borrowers from the banks, we are summarizing an activity. Most of these borrowers have come to their local bank because they need funds to pay medical or other family expenses, or to buy home appliances, automobiles, or other consumer goods that make for satisfactory living. Many of these borrowers are engaged in small business enterprise. Their instalment loans represent the purchase of equipment which increases efficiency and earning power in their business and adds to their security. So the consumer credit borrower has a deep personal interest in his instalment loan. The public relations aspect of our business is therefore tremendous and inspiring.

A recent national survey shows that a vast majority of bank lenders are adhering to sound credit practices and sound lending terms. We are seeing greater competition in the merchandising and lending business. There has been an increase in sales campaigns with pressure from merchandising groups for more liberal lending standards.

Peddling Credit Terms

The decided intensification of competition at the retail level has revealed a weakness in price and seller's margin of profit. In an attempt to protect profit margins, there has been considerable advertising of easier terms, smaller down-payments, and longer maturities on durable goods sales. This represents peddling of credit terms rather than sale of merchandise. This situation could create excessive consumer debt and, if carried to an extreme, could reduce normal buying later when this debt is being liquidated. However, our Committee believes that there is no evidence to indicate that the American public cannot afford to buy goods on reasonable rather than excessively liberal credit terms. Purchasing power is still high compared with prewar levels.

We are, therefore, urging that our banks continue to carry on flexible and sound lending operations that will be geared to current conditions and on terms that will meet the needs of the individual community. We believe that it is a fundamental function of credit in any form, in good times and in bad, to help qualified individuals and business firms acquire the goods and services they need. Thus, our banks contribute to the growth and stability of the community and to the overall betterment of our national economy.

Credit practices and terms which act partly as a stimulant to buy produce only a temporary false economy and defeat fundamental purposes of credit. Credit practices which encourage cash purchases, which call for substantial down-payments and short maturities when employment and income are high, and which display confidence in the future of established borrowers when the business trend is downward help to create real business soundness.

We believe that these principles apply with equal force to all merchandisers of credit including retailers who sell on credit terms and to other lenders who compete in this field with the banks.

During the three days of this Conference, it is our hope that you will receive information which will prove helpful to you in your day-to-day banking operations. It is also our hope that this Conference will help to maintain the aggressive, the imaginative and yet sound policies which have led banks into their present dominant position in the consumer lending field. The rewards of success are substantial, the most fruitful being the knowledge that, through the services that our banks render, we justify the existence of privately owned and operated banking institutions serving our communities and our country.

*An address by Mr. Kelly before the National Instalment Credit Conference, sponsored by the American Bankers Association, Chicago, March 27, 1950.

Two With Amott, Baker

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS. — Robert S. Moore and Russell E. Skinner have become associated with Amott, Baker & Co., Inc., 10 Post Office Square. Mr. Moore was formerly with Edward E. Mathews Co. and Trusteed Funds.

With Bennett, Smith

(Special to THE FINANCIAL CHRONICLE)

DETROIT, MICH. — Earl D. Mahoney is now affiliated with Bennett, Smith & Co., Penobscot Building, members of the New York and Detroit Stock Exchanges.

Denies Dominican "Aggression" Against Cuban Sugar

President Trujillo explains Dominican Republic merely seeks U. S. quota in proportion to normal annual output.

NEW YORK—President Rafael L. Trujillo has rejected as unjust the accusations made by certain sectors of the Cuban press to the effect that the Dominican Republic is attempting to start a sugar war with that nation, explaining that the Dominican Republic is seeking only to be assigned a United States sugar quota in proportion to its normal annual output as compared to that of Cuba—the whole amounting to no more than approximately 10% of sugar sales to the U. S. by Cuba, which currently enjoys a virtual monopoly in the American market, reports the official Dominican Republic Information Center, 6 West 51st Street.

Rafael L. Trujillo

Cuban "Aggression" Charges

In a statement, President Trujillo said that during recent weeks the Cuban press has attempted to interpret as "aggression" against Cuban sugar interests "our just aspirations to obtain better treatment for our sugar in the United States market." Continuing, President Trujillo, declared:

"To avoid mistaken interpretations of our attitude, I would like to say that what we are seeking is solely that we be treated fairly. We believe that if the United States sells us 75% of our total imports and if we sell only 35% of our exports on the American market, it is fair that we be offered the opportunity to sell a larger amount of our products in that market to place the trade between the two countries on an equitable basis.

"We are not trying to cause any injury to Cuba or to any other sugar-producing country. The only thing we are seeking is to have put into practice with regard to our country the basic principles recognized in the General Agreement on Tariffs and Trade and in the Charter of the Organization of International Trade, to which President Truman so fitly referred in his recent talk at Alexandria.

"As it is well known, Cuba enjoys for her sugar in the United States market what can properly be termed a monopoly, for not only does she enjoy a preferential tariff which does not permit competition, but she profits from practically the total import quota of that product into the United States.

Geographical Good Neighbor Policy Wanted

"We sincerely believe that if the problem is properly considered, substituting for the historical concept on which the present quota system is based, a geographical Good Neighbor concept, Dominican aspirations could be satisfied without prejudice to Cuba or to domestic industries of the United States.

"Our sugar production is approximately one-tenth of that of Cuba, and therefore should we be assigned in the American market a quota in proportion to our production, compared with the quota and production of Cuba, it could be to the sacrifice of no one.

"What the Dominican Republic wants is to arrive at an agreement on this point among the parties interested; but despite our desire, certain quarters in Cuba accuse us of wanting to open a sugar war.

"The Dominican Republic has faith in the victory of its just cause," the President concluded, "and although there has been an attempt to distort the nature of its claims, we will not renounce the right to be given equitable treatment in international trade, since the future of the Dominican people depends on it."

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March 24, 1950.

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The Next Five Years In Export Trade

By JOHN F. CHAPMAN*

Vice-President, McGraw-Hill International Corporation

Analyzing political and economic problems facing exporters in next five years, Mr. Chapman predicts there'll be no shooting war with Russia, but ECA-type of export business will continue with emphasis on Far East. Says U. S. exports, though still suffering from dislocations, can be held at $10 billion a year, if exporters are aggressive and use proper pricing and selling methods. Urges more export analysis, and points out importance of export markets in maintaining domestic business. Upholds Marshall Plan aid.

Twenty billion dollars are at stake in the way that you and I answer the question: "What's the export outlook for the next five years?" If we foreign traders are willing to face the issue boldly and with a greater degree of ingenuity than some of us have shown since V-J Day, we can hold our annual export business at a $10 billion level.

John F. Chapman

But if we are going to sit back—as a lot of us are doing today—and wait for over-the-transom orders; or if we are going to let our top managements intimidate us into the kind of no-push, haphazard export selling that too many of us are doing; then we had better set our sights now at a yearly export business which, long before our five years are up, will drop to a bare $5 billion, and perhaps to even less.

The difference is more than the visible $20 to $25 billion that are at stake. The difference means good business for all of us, or modest business for some, and no business at all for a bigger group than many of us realize.

Political and Economic Problems Facing Exporting

Two sets of problems confront us in the five-year challenge just ahead of us.

One is political; one is economic.

On the international political front, inevitably we face five years of tension—the kind of tension that goes with the cold war, now thoroughly familiar to all of us.

But I can be more specific than this.

With no more than the facts that we have before us today it is still safe to predict three developments on the international political front which will have a direct and profound influence on our business:

(1) There will be no war within that period—no shooting war between the Two Worlds of Washington and Moscow — unless we crawl into our shell and say that the price of maintaining a free world in our area would cost more than it is worth.

I don't believe for one minute that our courage or our convictions will sink to that low level.

(2) We shall regain—and in the very near future—the initiative in the cold war which has been waged now, with widely divergent degrees of success, for five years. Vigorous moves, already in the advanced planning stage in Washington, will be spearheaded by an aid program for Southeast Asia which will be both military and economic in scope. Whatever your personal reactions to the kind of subsidized business which this provides to exporters, you had better get set now to win your share of it for the competition will be keen because it has been sharpened by two years of E.C.A. experience in Europe.

(3) Our drive to boost imports —the subject of last night's dinner session—will be bolstered by the pressure of this cold war. When Russia's newly-created Naval Ministry ups its already alarming submarine-building program; when Soviet planes flown by Chinese pilots appear along the Indo-China border; when Russian-controlled East Germany attempts to take over all of Berlin —you and I know that our military program will be stepped up with all of the stimulus to domestic business which this inevitably will bring.

The background which supports these three conclusions can be sketched very briefly.

Just glance at the Soviet Union's achievements since V-J Day. They form a distinct imperialist pattern which it is important for us to understand when we forecast the Kremlin's moves over the next five years.

The Soviet Union came out of the war with a whopping gain in territory. From the strategic slices which were slivered off of Finland, through the little Baltic states, and down through Poland, Czechoslovakia and Rumania, the Kremlin yanked back into its full control the westernmost territories that had been held by the Czars in the days of their greatest expansion. All of this was prearranged at Teheran, Yalta, and Potsdam. It cost Russia nothing but some sharp bargaining.

What most of us failed to understand then was that the Russians intended to control a far bigger area—both because it would provide them with a buffer against the West, which they mistrusted, and because it held some extremely valuable raw materials, industrial centers, and a mass of skilled workers.

Looking at this Iron Curtain zone today, we know that the Kremlin intended from the first to sew up in its baliwick the huge potential nickel resources of Finland; the rich breadbasket of the Baltic states and of Poland, as well as the Little Ruhr in Silesia with its great steel mills and its trained miners and foundrymen; the vast Skoda munitions plant and the uranium deposits of Czechoslovakia; the bauxite deposits of Hungary; the oil of Austria and of Rumania; and the fertile farmlands of Bulgaria.

There is no doubt now that all of these things were shrewdly calculated, and that they fitted into a much larger blueprint of expansion whose dog-eared pages are scrutinized coldly at each meeting of the Politburo. For we know now that the Politburo is as imperialistic as the czars and that the Kremlin has a plan for world conquest which is as bold as Hitler's, and as carefully laid out in detail.

Emboldened by their success in pulling the wool over our eyes and, due to our own gullibility in shutting us almost completely out of the very backyard of our European allies, the Moscow leaders attempted four quick moves further to improve their postwar position while we, supposedly, were still drugged from our wartime alliance.

The first was a quick but cautious drive to occupy northern Iran—where they wanted the oil and the military advantage of an enlarged base within which to protect their own Baku oil fields, and from which to launch a later move to dislodge us and the British from the rich oil fields of the Middle East. At this point we showed our first signs of consciousness, and—with our allies—applied so much diplomatic pressure that Moscow got frightened and pulled up stakes.

The next move was even bolder, but it was handled much more subtly. It was the effort to frighten the Turks into giving up their two provinces nearest to the Soviet Union, and — through the efforts of Communist supported guerillas—to take over Greece. Washington took its most courageous step in the whole postwar battle of nerves when, through the mouth of President Truman, it suddenly but very firmly announced its policy of containment of the Soviet Union. Despite recent diplomatic bungling on our part, don't overlook the fact that both Turkey and Greece are still free political units today. And remember too that, in striking contrast with neighboring areas, Greece conducted a free, democratic election within the last six weeks.

Enraged at this second setback to the Near East, the Kremlin struck out wildly to win victories for the Communists in the first postwar elections in Italy and France. Financial aid and moral encouragement from the allies successfully thwarted their ambitions, and Western Europe remained free to guide its own destiny.

Next Russian Move in Far East

Then came our next two momentous moves—so big that their importance is historical with all of us: the creation of Marshall Plan aid, and the organization of the North Atlantic Mutual Aid Pact.

If the story could end there we could afford to pause and rest on our laurels. Up to a year ago there is little question but that we were winning the cold war in Europe by successfully combating every aggressive move made by the Kremlin. It is well to recall now that up to that time the Russians had gained control of not one foot of territory which they did not win by our acquiescence at the famous wartime conferences.

Unfortunately, for the last year our failures in the Far East have been as spectacular as our earlier victories in Europe.

China is completely in the hands of the Chinese Communists and they have just completed a series of treaties in Moscow which, if they develop as the Kremlin is determined that they shall, will place Stalin in the driver's seat in an empire which stretches from the center of Europe to the Pacific, includes nearly one-third of the people of the world, and more than one-fifth of the land mass.

The time has passed when we can view complacently the loss of China. Our position in Korea, Japan, and the Philippines becomes untenable on the day that the Russians complete their militarization of China. And unless we act rapidly, the whole of southeast Asia — richest of the old colonial areas of the world—will fall by default to Communist regimes which have the backlog of Moscow and which will, of necessity, turn to Moscow for support in their early years.

What it is important for us, as world traders, to realize is that Stalin has a definite pattern of expansion in the Far East. Its outlines are already clear. And its objectives call for important advances in the five years just ahead.

Indo-China and Burma are next on the Kremlin's calendar. There will be no attack by Russian troops. There won't be more evidence of Soviet participation than possibly a few Russian planes which will have been sold openly to the Chinese Reds, or possibly to the Indo-Chinese Reds, just as we have been continuing to deliver planes to the Chinese Nationalist armies on Formosa.

The way Moscow will abet the local Communist forces will be to occupy our attention elsewhere, just as they pinned all our effort in Europe while China was being added to their world.

Russians' Forthcoming Maneuvers

Keep your eyes on their maneuvers in Europe for the next few months. They know that in this strategic region we have laid our first line of defense in the cold war. Bulgaria has already been cleared of U. S. diplomats who might prove to be troublesome observers in border troubles that you can definitely expect to develop along both the Yugoslav and Greek frontiers. Ostensibly, they will be moves by local Macedonians to carve a national home out of pieces of Greece, Yugoslavia, and Bulgaria. Actually, they will be a smokescreen created by Moscow to divert our attention from other moves farther to the East. Remember too that if this Macedonian move fails, the loss will mean nothing to Stalin's long-term program, for complete victory in the Far East, if it can be achieved, paves the way ultimately for an all-out assault on Europe. Hitler played exactly the same strategy only a decade ago when, with his Rome-Berlin-Tokyo axis, he thought he could win the war while our efforts were spread over such farflung fronts.

In Asia, watch the Chinese Communist moves along the frontier of India. The first border towns in Tibet have already fallen to the Mao Tze-tung troops. There's not a tank, or plane, or a police force worth mentioning to prevent the complete take-over of all of Tibet. And, while it will all be handled by the Chinese as an internal problem, with Tibet occupied Stalin will have paved the way for a new war of nerves, this time on Nehru. No one realizes better than the Kremlin the value of moving fast where a government and an economy are as weak as they are in India today. Nehru's already difficult problem will be dangerously magnified if he faces unfriendly forces leering down from the high Himalayas on this still poorly organized country with its millions of poverty-stricken people—100,000 of whom in Bombay alone sleep nightly in the streets because they can afford no homes.

And we must not forget that, while Malaya for the moment has lost the headlines to Indo-China and Bulgaria and a spy trial in New York, that rich outpost of Britain's Empire is just as vulnerable as the French colony to the north of it and no major constructive program is under way yet to ease the tension in any reasonable time.

This is the world in which you and I must do business in the next five years. Certainly there is nothing of Victorian calmness

Continued on page 42

*An address by Mr. Chapman before the Get-together Meeting of the Export Managers Association, New York City, March 22, 1950.

This advertisement is neither an offer to sell nor a solicitation of an offer to buy any of these securities. The offering is made only by the Prospectus.

101,250 Shares

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(Without Par Value)

Price $13 per Share*

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March 28, 1950

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Continued from first page

American Business in 1950

moderate changes up or down from the present levels into 1951. Adjustment downward may come in 1951."

No Prophet

Now I do not like to be a crepe hanger, and I simply will not pose as a business prophet. I have said repeatedly that I regard prophecy by an economist as a definitely unscientific procedure. He is not dealing with physical matter and natural forces under controlled conditions. Instead, he is dealing with a complex behavioristic process whose vagrant elements and whimsical changes far outrun the fickleness of the weather. It is impossible to know how labor leaders wielding new or greatly enlarged powers amid the bitter rivalries of union politics will act. It is impossible to know how business executives, some of them manifesting constructive imagination and recognizing deep social responsibilities in a new industrial age and some of them blindly or arrogantly clinging to prejudices and cliches of a master-servant day long outmoded, will meet novel crises. It is impossible to know in advance how politically minded administrators and legislators will exercise authority or trade votes under circumstances which are as yet not foreseeable or are only vaguely defined. To add to all these uncertainties, the weather man may "play the joker wild" not merely as to crops but through industrial stoppages or damage, through transportation tie-ups, or through upsets to consumer patterns of seasonal buying.

Identifying Strategic Factors

What the economist can do if he really knows his trade is to identify the factors or forces which are vested with peculiar strategic significance in the complex stream of business development. With the aid of his fellow craftsman, the statistician, he can measure at least roughly the magnitude of these elements or the intensity of these forces and formulate a logical conclusion as to the trend they define or the consequences which will follow if nothing is done to check or redirect those which are inimical to the attainment or continuation of prosperity.

By implication this statement of the economist's task defines the helpful partnership which should obtain between economist and business executive. The latter is in a position to know the intricate, infinitely varied and fast-changing details of actual business operations. Besides cheerfully reporting such of these details as are needed by statistical agencies in order to make up generalized statements of business conditions, the business executive should, and many of them do, ponder the meaning of their operative experience and contribute to the economist their insights as to how business decisions are arrived at, how results are evaluated, and why lines of strategy are followed which may seem to depart from the logic of the economist's generalized analysis.

On the other hand, as the economist brings his general analysis of trends and relations and cause-and-result sequences to the business man, with understanding of the realities of practical business as well as the refinements of analytical method, he should give the business man a useful kit of tools for dealing with the particular situations for which he is responsible. The executive should not look to the economist for business "dope" but should say: There are business indicators that I must watch. As these trends develop with the passing months I must interpret the meaning of each change in its impact on my business. In the largest businesses he must also ponder the effect that his policies will have on the general business picture.

Superficial vs. Fundamental Factors

It is with such a thought of collaboration between professional economists and practicing business man that I bring you, not a prophecy of the second, third, or fourth quarter of 1950, nor any crystal gazing into 1951 or 1952. I am simply reporting to you that, as I look at the current business scene, it appears to me that the factors which have contributed to a rather complacent view are those of superficial business strength or temporary economic trends, and that if we are to conduct ourselves skilfully and prudently to get all the prosperity out of 1950 and 1951 that there is potentially in these years, we need to check superficial against fundamental factors. We need to take full advantage of the fleeting opportunity, but at the same time adapt our executive decisions to the actual trend of economic events. Still more, we need to exercise our influence, individually or through proper organizational channels, to lessen dangers or strengthen favorable possibilities in the stream of events that still are susceptible to modification by the actions of private business or government.

The "fundamental" category in my title is in fact a little contradictory. In one sense, we all join with the optimism of the President in his recent State of the Union Message and his Economic Report to the Congress and in the optimistic addresses and interviews of Secretary Snyder, Secretary Sawyer, and other spokesmen for the Administration. They stress the country's fundamental strength. Of course this is a great country, rich in natural resources, capital plant and funds, and an unmatched labor force. It was not devastated by war, and it has before it a great growth potential. In all these regards, the fundamentals are strong, but only in the sense of constituting a strong foundation upon which aggressive and skilful performance, public and private, will make prosperity real and enduring.

Disquieting Conditions

But there is a second sense in which the word "fundamental" is to be applied to business. In this connotation, the conditions we shall confront later this year and in subsequent years seem to me not reassuring but gravely disquieting. They constitute a danger that we may throw away the strength of our sound foundation in basic economic resources. This danger stems from imprudence or ineptness which we as a people are showing in dealing with the general fiscal and monetary structure for which we, through our representative government, are responsible. This constitutes the broad overall setting within which particular business operations have to be carried on. Only by keeping our money sound can we have conditions within which private business operations can go forward confidently and successfully.

Before dealing with these fiscal and monetary fundamentals, I want to turn the searchlight on certain phases of current production, distribution and financing operations to see whether these superficial manifestations of prosperity are likely to continue. Analysis of the problems here will lead us naturally into consideration of financial and monetary issues since the two are closely interwoven. In the interest of brevity, I shall make a few categorical observations as to the nature of the business prosperity which we have enjoyed in the first quarter and seem likely to continue to enjoy in the second.

A Non-Recurring "Injection"

First: Current prosperity is to some extent being supported by a special deficit-creating and non-recurring Federal contribution of $2.8 billion to the private income stream in the the form of a refund of G. I. insurance premiums. To the extent that volume of business, prices, and profits are sustained by this marginal element in consumer income, it rests on a superficial, artificial, temporary, and inflationary kind of support. More than half of the total has already been disbursed and the whole injection will have been completed by mid-summer.

Second: Consumer purchases have been supported by an unprecedented rate of increase in installment and book credit, not to mention the drawing down of wartime savings, particularly through the cashing of E Bonds. The figure for consumer credit in December, 1949 stood at an all-time high of $18.8 billion, and in both November and December showed unprecedented month-to-month increases. It does not seem likely that the consumer goods market in the latter part of 1950 and in 1951 can be sustained through a similar rate of increase. Even for it to level out would have a mildly damping effect, and reduction in the rate of new consumer credit extension, even though far short of complete stoppage, would have a still more noticeable effect.

Third: There has likewise been a tremendous increase in mortgage credit, particularly on urban dwellings. One does not have to suggest that a single one of these mortgages is overextended or inadequately secured. The mere fact that so much stretch has taken place in that part of our economy and that recent and current strength rests in some part on that expansion raises a cautionary signal for the future. Is similar expansion in this area going to contribute to the maintenance of the present rate of prosperity? And what will be the consequences of a possible slowing down of this rate of expansion of long-term credit?

Fourth: Though no one can predict the outcome of the political dog-fight over agricultural support measures, the sheer weight of accumulating surpluses is beginning to have its inescapable effect on the farm commodity market. The Department of Agriculture itself predicts a lower rate of farm income this year, subject of course to arbitrary assumptions as to the weather. That might lessen or increase the depressing effect on farm income, but it seems clear that, with the rate at which the rural population has been putting high earnings into farm equipment and home equipment, this is a class of postponable expenditures which is now highly sensitive to any decline in farm income.

Fifth: Businessmen and economists quite universally in their analyses of prospective business conditions attach prime importance to the outlook for expenditures on capital goods. This item in total business spending has been maintained at an extremely high figure during the postwar reconversion period, with a peak of $19.2 billion in 1948. From a rate of $21.6 billion in the fourth quarter of 1948, it dropped to a quarterly rate estimated by the Council of Economic Advisers at $15.3 billion for the current quarter. Meanwhile, industrial construction and engineering contracts have shown a quite favorable figure thus far in 1950 and we have the fundamental confidence already referred to that this is a great and growing country with adequate financial reserves to go on modernizing and enlarging plant in full step with the demands of advancing technology and the remarkable "upsurge in population growth" which is now quite demonstrably under way.

Even admitting all these things, we are still left in doubt as to what is the maintenance rate for capital goods which would be called for by a maximum production economy over the next few years and decades. Unfortunately, we are confronted also by a lack of complete certainty that our business system under the general conditions provided by government will go confidently ahead to achieve that condition of maximum production. Here we confront some of the deep ambiguities created by the most recent State of the Union Message and Economic Report of the President—or at least not fully removed by those documents.

Capital Goods Expenditures Postponable

One thing we know in this connection and that is that the process of postwar reconversion has now been so fully completed and the catching-up process has now covered the lines of even the heavy industries to an extent that a change of pace in this field of expenditures is now possible and might run to a considerable number of percentage points. This is just another way of saying that, while this is a vital area of expenditure, it is also an area in which expenditures in the main fall into the class of those most "postponable." Contrary to the clamorings of certain Government spokesmen for a great expansion in steel capacity, we see current ability to produce quite well in step with sustained needs, though outlays for development of foreign sources of ore supplies abroad or for beneficiation plants at home loom clearly in the future—and are already being given constructive attention. The late war and recent armistice in the coal industry make it clear that there is there a substantial amount of excess capacity. Rates of output which have been maintained in automobiles and many classes of consumers' durables and in some areas of current consumption goods, to say nothing of agriculture, make it clear that a somewhat lower rate of expenditure in these fields would be possible and might seem wise during the next year or few years, even though a relatively early return to the $19 or $20 billion level of spending for plant and equipment might clearly be in the cards—though in that part of the deck not yet dealt.

Sweep of Pension Plans

One final factor needs to be taken into account in attempting to gauge the strength of this phase of our general business situation. That is the impact of recent pension settlements on the financial plans of companies. With the completion of pension contracts in the great basic industries, coal, steel, and automobiles, it is pretty clear that the sporadic

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American Business in 1950

development of company pensions which we had in the past will give way to a rapid sweep of pension plans throughout industry. Negotiated as these plans were under duress, even the companies that have already signed contracts are by no means sure of the actuarial conditions that will have to be met or of the funding arrangements which, in common business prudence, will have to be provided. This is no place to try to analyze the current pension issue. But it does seem to me pertinent to suggest that perhaps companies who are being hurried into pension responsibilities that they have not yet fully chewed over and assimilated may be somewhat slower to make improvement and expansion outlays than they would be if this particular problem had not been added to their previous sources of uncertainty.

As I said before I am not prophesying. The things I have been discussing do not necessarily presage a business depression either in late 1950 or at any other time. I have simply sketched five points that seem to me significant in the current business picture and that do not seem to me to be convincingly covered in some accounts of the current tide of prosperity. I do take responsibility for having suggested in this analysis that in some regards the runner seems to me to be drawing upon future reserves of strength for the maintenance of the present pace. I am raising the question whether the current performance is in the nature of a sprint in the back stretch rather than a manifestation of timing, good judgment, and stamina which assure the successful conclusion of a long-distance race or marathon.

Now I want to revert to what I said before to the effect that neither I nor any other man can give a definite answer to the questions thus raised. Whether certain persons postpone job-creating activities simply because they are postponable and the policy-maker is scared is a question which is and must remain on the lap of the gods. Whether business will be greatly impressed with the sweet overtures recently made by the Administration and will operate on a confidence in and responsibility for progressivism derived from this confident leadership remains to be seen. And no one can tell whether one or another cause of uncertainty, if it becomes a factor in decision in certain quarters, will then spread a mental contagion, so that sober concern gives way to apprehension, that apprehension turns to jitters, and jitters engender panic. But we do know that the great business public in a few enterprise system is a mighty skittish animal and that blind behavioristic fear, once started, can stampede even an intelligent people of high average education in truly terrifying ways.

The Crucial Monetary Situation

This leads me to the last observation that I wish to make. As I read the history of our own past and the annals of other countries, I am impressed with the fact that one point from which influences of the most deep-reaching and far-reaching sort emanate and the point also at which, given intelligence and determination, measures of protection and stabilization can be applied is in connection with the fiscal and monetary operations of the government. Whatever debate may rage, as to whether the government is called upon to do this or estopped from doing that, there is no debate about the constitutional mandate to maintain a sound and adequate currency.

It is obvious that this task has been rendered difficult by the events of a second world war within a generation and one in which and in its aftermath we were called upon to bear the brunt of the financial burden. We need not be too ashamed of the way in which, amid the terrific pressure of fast-moving war developments, we provided the sinews of war and got the job done. We may be less complacent as to the intelligence and fortitude with which we have faced the task of strengthening our financial affairs since the war, assisting the country to get on a workable set of wage-price relationships, on a new price level consistent with the existence of that large debt. Measures that forced the level too low would be deflationary and constrictive to the economy. Measures that permitted a level too high would be inflationary and, although they eased immediate tensions, would compound longer-run problems and invite the possibility that the whole system may get out of hand. This is the fundamental factor in the business situation of 1950 which, in my judgment, underlies the superficial manifestations of current prosperity and which may challenge and quite possibly upset the whole prospect in the not distant future.

Fiscal policy and monetary theory are somewhat abstruse matters in their full detail. I think, however, that without misleading over-simplification the essentials of the present situation may be reduced to brief form. The Administration avows a balanced budget policy, meaning a budget balanced over a period of time reasonably fitted to the ups and downs of business operation, and the exigencies of government. It talks of a compensatory budget in the sense of public support operations in times of national emergency or general depression. If such a policy of balancing the books and maintaining the confidence of the people is carried out, it calls for the accumulation of sizable Treasury surpluses in years of high prosperity that the debt may be prudently managed, the credit position of the country improved, and reserves accumulated to permit of support operations in depression or of meeting the financial strain of a cold war grown hot. This worthy theory is completely stultified by the spectacle of a Treasury deficit of $1.8 billion in 1949, the culminating year of the postwar inflationary boom and by a financial program which calls for deficits of at least $10.5 billion for fiscal 1950 and fiscal 1951.

Deficits as a Way of Life

Even if the results proved no worse than the official estimates—and there are plenty of reasons to think they might be worse—this would mean that in times of peace and prosperity, we were slipping into deficits as a way of life and that the already gigantic debt forced upon us by the late war again be on the upward climb.

Now, there are many people, and to my regret it includes quite a few economists, who express no concern about this situation, who aver that inflation can be contained and that a moderate amount of inflation is the mainspring of the lifeblood or the psychological stimulus that makes a private enterprise system work at full capacity. No one today can demonstrate that they are wrong, because no country with the same resources and possibilities and problems as ours has ever gone through precisely this experience. Even if one argues that there are basic similarities of disastrous inflationary collapses in other countries, it is responded that the peculiar differences in our situation are more significant and that this time we can "get away" with the attempt. Personally, I do not see printing press money as a certain or even likely outcome of our present situation, grave as I think it is. On the other hand, as I hear the way people who will be factors in this behavioristic process, from the cab driver to the big banker, from the small farmer to the executive in a giant corporation, I am impressed with the fact that uncertainty about the dollar is already gnawing at their thinking and may at any moment color the action of any one of these persons and, by rapid multiplication, become a national force that could seriously upset the comfortable process of postwar prosperity on which we are still travelling.

In case of doubt, some people are temperamentally disposed to say "take the long chance"; others "play it safe." It is along these lines that the battle will be waged and the outcome will be determined in the next few months and the next few years. I, for one, fear that the stakes are too gigantic, not merely in terms of the continued welfare of 150 million people of our own but in terms of our opportunities and responsibilities as the keystone nation in a society of free governments, for us to afford to take such chances. Moving sternly and realistically to a balanced budget would force some problems into a harder posture this year and might even give us a year or two of less active and less profitable business and somewhat more unemployment. But that is not too high a price to pay for assuring ourselves and the world that we have the determination and the "know-how" to put our affairs on a solvent basis.

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SOUTHERN NATURAL GAS COMPANY

a Report on its BUSIEST Year

In 1949, as in previous years, Southern Natural Gas Company continued to grow with the territory it serves. The Company's property, volume of gas sales and operating revenues all increased substantially, and net income kept pace with the larger capitalization resulting from the offering and sale of additional common shares to its stockholders.

The Company's service area has become one of the most important industrial sections of the country, and the need for additional natural gas facilities is clear. In order to serve increasing needs of its territory, the Company is now requesting authorization of the Federal Power Commission for a further substantial increase in the capacity of its system.

Copies of the Annual Report, which contains facts and figures telling the story of Southern Natural Gas from 1936 to date, will be sent to interested parties on request.

THE YEAR IN BRIEF

	(COMPANY ONLY) 1949	1948	(CONSOLIDATED) 1949	1948
Plant and Property (original cost)	$76,733,265	$72,133,336	$108,554,885	$101,428,478
Gross Revenues	23,186,808	18,474,747	32,164,809	26,953,217
Net Income	4,472,673	4,002,599	5,083,312	4,436,836
Book Value per Share	$21.21	$19.93	$23.91	$21.51
Net Income per Share	$ 2.88	$ 2.84	$ 3.27	$ 3.15
Shares Outstanding	1,555,459	1,409,212		
Cash Dividends Paid	$2,967,358	$2,466,028		
Dividends Paid per Share	$ 2.00	$ 1.75		

SOUTHERN NATURAL GAS COMPANY

WATTS BUILDING, BIRMINGHAM, ALABAMA

Harry Arnold on Mend

Harry L. Arnold

Harry L. Arnold, versatile trader of Paine, Webber, Jackson & Curtis, New York City, is recuperating after a serious operation and would be glad to hear from his many friends in the "Street," at his residence, 76-15 Thirty-fifth Avenue, Jackson Heights, N. Y.

With Stein Bros. Boyce

(Special to THE FINANCIAL CHRONICLE)

LOUISVILLE, KY. — Kenneth M. Green has been added to the staff of Stein Bros. & Boyce, Starks Building.

COMING EVENTS

In Investment Field

April 21, 1950 (New York City)
Security Traders Association of New York annual dinner at the Waldorf-Astoria.

April 28-30 (Greensboro, N. C.)
Southeastern Group of the Investment Bankers Association Spring Meeting at the Sedgefield Inn.

May 4-5, 1950 (San Antonio, Tex.)
Texas Group Investment Bankers Association annual meeting at the Plaza Hotel.

May 26, 1950 (Cincinnati, Ohio)
Municipal Bond Dealers Group of Cincinnati Annual Spring Party and Outing at the Kenwood Country Club (to be preceded by a cocktail party and dinner May 25 for out-of-town guests).

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

June 14, 1950 (Minneapolis, Minn.)
Twin City Bond Club annual picnic at the White Bear Yacht Club.

June 16-18, 1950 (Minneapolis, Minn.)
Twin City Security Traders Association summer party at Grandview Lodge, Gull Lake, near Brainerd, Minn.

June 23, 1950 (New York City)
New York Security Dealers Association Annual Outing at the Hempstead Golf Club, Hempstead, Long Island.

June 26-27, 1950 (Detroit, Mich)
Security Traders Association of Detroit & Michigan, Inc., and Bond Club of Detroit joint summer outing and golf outing at Plum Hollow.

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

Nov. 26-Dec. 1, 1950 (Hollywood, Fla.)
Investment Bankers Association annual convention at the Hollywood Beach Hotel.

Halsey Stuart Group Offering Seaboard Equipment Issue

Halsey, Stuart & Co. Inc. and associates are offering $7,065,000 Seaboard Air Line railroad equipment trust series G 2⅛% equipment trust certificates maturing annually April 1, 1951 to and including April 1, 1965. Issued under the Philadelphia Plan, the certificates are priced to yield from 1.35% to 2.50%, according to maturity, and are being offered subject to approval of the Interstate Commerce Commission.

Proceeds from the sale of the certificates will be used to provide for the following new standard-gauge railroad equipment, estimated to cost not less than $9,420,167: three Diesel yard switching locomotives and 64 Diesel road freight switching locomotives.

Other members of the offering group are: A. G. Becker & Co. Inc.; Otis & Co.; L. F. Rothschild & Co.; Merrill Lynch, Pierce, Fenner & Beane; The Illinois Co.; First of Michigan Corp.; Freeman & Co.; Wm. E. Pollock & Co. Inc.; Gregory & Son, Inc.; McMaster Hutchinson & Co.; and Mullaney, Wells & Co.

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Tyson Co. Opens Pittsburgh Branch

PITTSBURGH. PA.—Tyson & Co., Inc., investment bankers of Philadelphia, have announced the appointment of William S. Voorsanger as Manager of their newly opened office in Pittsburgh, Pa.

Wm. S. Voorsanger

Mr. Voorsanger has been associated for many years with the investment banking business throughout Western Pennsylvania, and as one of the organizers and Past Commanders of the American Legion in Allegheny County has long been a familiar figure in Pittsburgh's civic activities. He is also a Past Commander of the Spanish War Veterans in Allegheny County.

Mr. Voorsanger was formerly a Vice-President of J. A. Richie & Co. and also was associated with the late Myron T. Herrick of Cleveland. He comes to Tyson & Co. from Blair F. Claybaugh.

Sydney Stolack has also become associated with the firm as an account executive in its Pittsburgh office. Mr. Stolack is widely known throughout the Pittsburgh district where he has engaged in the investment banking business for many years. He formerly was connected with Blair F. Claybaugh & Co.

Comments on Canada's Trade Gap With U. S. And the Sterling Area

Bank of Montreal asserts that, despite Dominion's overall favorable trade balance in 1949, deficit with dollar and sterling areas was accentuated rather than alleviated.

Despite Canada's overall favorable trade balance of $193,000,000 in 1949, the problem inherent in her contrary balances with dollar and sterling areas was accentuated rather than alleviated in the past year, comments the Bank of Montreal on latest official figures in its latest business review issued March 24. Besides a sharp reduction from the $453,000,000 overall plus balance achieved in 1948, Canada saw her adverse current balance with the United States run up by 50% from $401,000,000 in 1948 to $604,000,000 in 1949 while her favorable balance with the sterling area contracted slightly.

"The gap between the United Kingdom's earnings and requirements of Canadian dollars was still discouragingly large," the bank notes. "The unbalance with the rest of the sterling area was actually widened by a combination of higher Canadian exports and lower imports. By contrast, Western European countries receiving ERP funds both bought less from Canada and sold more here, thus significantly reducing their deficit on current account with this country," the review said.

Under prewar conditions of multilateral trade and dollar-sterling convertibility, Canada worried only about a satisfactory overall picture. Today, without convertibility and with world trade maladjusted, the *quid pro quo* of bilateral trade has assumed practical significance for Canada, said the bank.

The combination of a dearer U. S. dollar and a cheaper pound sterling has focused attention on the United Kingdom as a source of Canadian imports. "Had her share of the greatly enlarged dollar total of Canadian imports last year been the same as prewar instead of 7% lower, close to half of her Canadian dollar gap would have been bridged," the bank said. Britain's Canadian dollar earnings are most readily augmentable by supplying iron and steel products of all kinds. Britain has also "noticeably lost place as a Canadian supplier of cotton fabrics, chemicals, electrical apparatus, hard coal and rubber products."

Active studies in this direction, plus greater response by Canadians to overseas merchandise with a price advantage from devaluation, are considered the most likely approaches to the trade problem by the bank.

$18,000,000 Puerto Rico Govt. Bds. Being Publicly Offered

Offering a new issue of $18,000,000 The People of Puerto Rico (Insular Possession of the United States) 4%, 2% and 1¾% public improvement bonds is being made by a group headed by The Chase National Bank. The bonds mature from July 1, 1951 to 1969, inclusive, and are priced to yield from .80% to 2.10%. They are subject to redemption in whole on July 1, 1955 or any date thereafter, or in part in inverse numeral order on July 1, 1955 or any interest payment date thereafter at 102 on or prior to July 1, 1960 and at par after July 1, 1965.

Other members of the offering groups are: Halsey, Stuart & Co. Inc.; Kidder, Peabody & Co.; Goldman, Sachs & Co.; Bear, Stearns & Co.; Phelps, Fenn & Co.; Banco Credito y Ahorro Ponceno, Ponce, P.R.; Blair, Rollins & Co. Incorporated; R. W. Pressprich & Co.; Stroud & Company, Incorporated; Fidelity Union Trust Co.; Ira Haupt & Co.; The Ohio Co.; Hayden, Miller & Co.; Blunt Ellis & Simmons; Detmer & Co.; Paul H. Davis & Co.; Kebbon, McCormick & Co.; Whiting, Weeks & Stubbs; Martin Burns & Corbett, Inc.; William R. Staats Co.; Breed & Harrison, Inc.; Paul Frederick & Co., and Pohl & Co., Inc.

Charles E. Harrington Joins B. J. Van Ingen

CHICAGO, ILL.—Charles E. Harrington has become associated with B. J. Van Ingen & Co. Inc. in their Chicago office, 135 South La Salle Street. From 1931 to 1950, Mr. Harrington was manager of the investment department of Woman's Benefit Association of Port Huron, Mich. Prior to that he was with A. G. Becker & Co. in New York and Chicago from 1923 to 1931. He graduated from the Wharton School of Finance and Commerce at the University of Pennsylvania in 1923. He was the first secretary of the Fraternal Investment Association.

Victor E. Williams, Manager of the Household Finance branch office at 131 West Michigan Avenue, Jackson, Michigan.

"I Manage an Office for Household Finance Corporation!"

"I have one of the most interesting and satisfying jobs in the world. Almost every day I meet salesmen, farmers, mechanics, teachers, office and factory workers—people from all walks of life. You see, my job is to make cash loans to folks with all kinds of money problems. Last year I lent money to thousands of these people.

"Of course, I didn't make a loan to everyone who came to me because a loan isn't always the best solution to a money problem. But I *did* make prompt loans to 4 out of 5 men and women who came to my office for help.

"*Why* they borrowed will interest you. The main reasons for borrowing were to consolidate old debts, to pay for medical expenses, or for business needs. These are all sound, constructive reasons.

"Like most Household Finance managers, I've been on the job quite a while—20 years to be exact. And behind me stands Household Finance's seventy-two year history in making loans. This experience has given me an understanding of family money problems and the most practical ways to solve them. And I'm proud of the fact that one out of every three new customers is sent to my office by someone I have helped in the past. Actually, that's my business—to help people help themselves.

"In the branch offices of Household Finance Corporation and subsidiaries from coast-to-coast in the United States and Canada, there are 490 other managers who feel as I do, and are on the job for exactly the same reason."

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Productivity Under Free Enterprise

By FREDERICK C. CRAWFORD*
President, Thompson Products, Inc.

Prominent industrialist maintains our ignorance about productivity facts causes destructive leadership. Blames management for delay in fulfilling its human relations; and the people for letting government enact impossible taxes, and for sanctioning big labor monopolies.

The outstanding development of our age is productivity under free enterprise. Productivity is the key to a better life, to a higher standard of living, an effective national defense, and world peace. It should have brought harmony, contentment and unity, but it has not. On the contrary, we Americans quarrel over the abundance it produces. Instead of studying its basic principles and planning for a still better future many groups are now working to destroy high production. Because of misunderstanding and ignorance about the facts of productivity and our free system, far too many Americans follow a destructive leadership.

F. C. Crawford

Professor Slichter has pointed out that in the past generation we have become an employee nation. One out of four of us in an employee. The center of political and economic power has shifted to this employee group which now takes the leadership. Unless this group acquires an understanding of the principles of productivity, they will destroy free enterprise. With it will go our freedom.

When material and time are put together to produce useful things, wealth is created. Time is the important ingredient and time is at once the most expensive and most wasted of our resources. Then, secondly, it is important that time be converted into useful things at a fast rate. The faster we do this, the faster we create wealth. Thus, anything that decreases the rate at which time is turned into useful things decreases wealth.

There are three factors which affect productivity: first, man-effort; second, the use of improved tools; and, last, improved methods in supervision and control. Of these, man-effort is all important. However, it is not the place to begin. For, without good tools and effective methods of management, the worker cannot operate efficiently.

Therefore, we will first talk about tools. For 100 years, American business saved 20% of all its production to buy our present productive equipment. The wearing out of these tools is a basic cause of our waste today. Fully half of the tools in the American factories are obsolete.

The next important feature of productivity lies in the techniques of management, including control of employment, flow of material, supervision and the like. Unless methods of management also improved, new tools by themselves will be ineffective. Methods and techniques used by management today are considered about 60% effective. If both improved tools and methods are employed, management will find the worker's effort will increase at an amazing rate. Under such conditions, an incentive system can greatly increase production, but not if it is used merely to bribe workmen with large bonuses to get them to produce under ineffective conditions. If Americans would stop fighting over the "loot" and, instead, cooperate in improving productivity, present production could be doubled in less than a decade. Considering that half our tools are obsolete, that methods are only 66% effective and man-effort only 60%, this is not an unreasonable expectation.

Consider the effect of this increase on the American people. Costs and prices could be cut in half, thus doubling purchasing power. Without a single pay raise, the factory worker would find his purchasing power doubled. Even more important, a wide circle of low-pay, fixed-income people, now out of the market, could enter it and become buyers of goods and services. For purchasing power does not, as labor contends, consist solely of the money wage. Rather, it is a result of production. Today, many believe that it makes no difference. Many people seem to forget entirely that high wages and prices eliminate fixed-income people from the market. The result is a short week for the high-paid worker and eventually his elimination.

All to Blame

All Americans are to blame for the failure to concentrate on productivity. First, I place the blame on management. Management delayed too long in fulfilling its human relations function in the family and the community.

Secondly, I place the blame on the American people apparently because they do not understand the principles of productivity. They have, through their government, burdened industry with impossible taxes. Through government, the people have sanctioned the growth of great labor monopolies, with immunization and privileges. Economically, labor leaders do not know where the roses grow. They have concentrated upon the division of what we have. They overlook the effort necessary to increase production in the future. It is a fallacy that better management reduces job opportunities. It is management's duty to eliminate every job. This always results in growth of business and creates added employment. This is the basis of job-making. Thirty years ago I began at Thompson with 200 men. For 30 years I have made every effort to eliminate those 200 men from the pay roll. Today, I have 12,000. Had I sought to provide 200 jobs, I would have been out of business years ago.

When General De Gaulle returned to France, he ordered a 40% wage increase in an effort to increase purchasing power. Everybody was happy. However, the next morning there was no more milk, gasoline or food. The people found themselves exactly where they had been the night before. To illustrate that increased production is purchasing power consider that in 1949 60,000,000 Americans enjoyed the highest money wages in history. Even so, business began to suffer because of the decrease in purchasing power. Again I blame labor organizations for their limitation of the use of new tools and methods. This is one of the causes of the decline of British production. We see much of this today in the United States.

Case Not Hopeless

The case, however, is not hopeless. People can be given an understanding of economic principles. Experience shows that results can be obtained through mass meetings with top management talking directly to the workers, or, through letters to the home, or to members of the community who see free enterprise at work.

When the worker understands the keys to greater productivity and how they will benefit him, he will help rather than hinder the productive effort.

From experience already gained we can state a human relations law for the uninformed worked. To him, better tools and better methods means only the speed-up. But to the informed worker, better tools, better methods and better man-effort provide an added opportunity for job security and higher real wages. Understanding means confidence in management and pride in achievement.

Americans have discovered the Aladdin's lamp — abundance. A new concept of management's responsibilities can bring great promise to American industry.

*Abstract of an address by Mr. Crawford before National Industrial Conference Board, New York City, March 23, 1950.

Wm. E. Pollock Opens Chicago Branch

CHICAGO, ILL.—Wm. E. Pollock & Co., Inc. have announced the opening of a Chicago office at 231 South La Salle Street under the management of A. M. Seaber. Charles E. Lundfelt is to be associated with this office in charge of the firm's local trading activities.

A. M. Seaber

The Pollock firm are specialists in U. S. Government securities and underwriters of municipal and corporate bonds. This is the firm's second branch to be opened within a year, the first being located in Beverly Hills, Calif.

These moves are understood to be indicative of the Pollock company's plans to undertake broader national coverage of institutional investors in the high grade bond field.

Iceland's Krona Rate Changed

The Government of Iceland has proposed and the Fund has concurred in a change in the par value of the Icelandic krona. The new rate, effective March 20, is 16.2857 kronur per U. S. dollar, equivalent to 6.14 cents per krona.

This is a second change in the par value of the krona following announcement by the Fund of an initial par value on Dec. 18, 1946. The rate then established was 6.48885 kronur per U. S. dollar, or 15.411 U. S. cents per krona. This par value was changed with the concurrence of the Fund on Sept. 20, 1949 to 9.34107 kronur per U. S. dollar, or 10.7054 U. S. cents per Icelandic krona.

The further 42.6% devaluation now effected represents an aggregate 60.2% change from the initial par value.

Walston, Hoffman to Open Seattle Office

SEATTLE, WASH.—About April 1st, Walston, Hoffman & Goodwin, members of the New York Stock Exchange, will absorb the investment business of Hartley Rogers & Co., 1411 Fourth Avenue Bldg.

Theron Hawkes, formerly an individual dealer in Seattle, will also be associated with the new branch.

Bank and Insurance Stocks

By H. E. JOHNSON

This Week—Bank Stocks

The quarterly statements of New York City banks to be published early next week are expected to show results which will be relatively favorable compared with those of a year ago.

As evidenced by the increased number of circulars being issued on bank shares by various investment houses, the statements are being awaited with more than the usual interest. Part of this increased interest in bank stocks arises from the improved outlook for banking operations, the results of which may be reflected in first quarter statements.

Earning assets during the current quarter have been moderately higher than they were a year ago. Lower reserve requirements are the primary reason for the gain, although deposit totals are indicated to have been slightly larger.

In the first quarter of 1949 reserve requirements were equal to 26% of demand deposits and 7½% of time deposits. During last year these requirements were reduced on two different occasions and at the present time are equal to 22% for demand deposits and 5% for time deposits.

This fact, combined with a small gain in deposits, has meant that the New York City banks have had a larger volume of funds employed. In some instances these funds have been used to advance commercial loans but in most cases they have been invested in U. S. Government securities. Although loan totals have been fairly stable so far this year, volume for most banks has been below a year ago. It was not until the end of the first quarter last year that the loan volume began to contract so sharply. While there has been some recovery from the low point reached last July, the general loan level is below the average of a year ago. Of course, it is expected that some banks will show variations from this general result.

As interest rates have been fairly steady, the loss of income from loans should be offset by the increased earnings from the larger volume of investments. Most of the banks have maintained close control of operating expenses. Thus, earnings for the current quarter should be well maintained.

These same factors are expected to continue to influence operations in the coming months. The effect of deficit financing may be more noticeable, with the banks gaining additional deposits. The loan volume will, of course, be dependent upon the general level of business.

One of the most favorable aspects of the current picture is the possibility that Federal Deposit Insurance assessments will be adjusted downward. Legislation now before the Congress for this purpose has been favorably received and while the final form of the bill is undeterminable at this time, the savings to the banks could be substantial.

As a basis of comparison the following tabulation on the first quarter results of a year ago and 1948 is shown below. Also presented are the total indicated earnings for 1949 and 1948.

INDICATED EARNINGS

	—First Quarter—		—Full Year—	
	1949	1948	1949	1948
Bankers Trust	$0.63	$0.87	$2.61	$3.08
Bank of Manhattan*	0.44	0.42	1.91	1.89
Central Hanover	1.50	1.50	6.52	6.88
Chase National	0.63	0.45	2.63	2.37
Chemical Bank & Trust	0.75	0.73	2.95	2.83
Commercial National	0.81	0.86	3.20	3.41
Corn Exchange	1.24	1.21	4.79	4.72
First National	17.00	20.52	81.56	83.99
Guaranty Trust	5.41	4.88	17.68	18.22
Irving Trust	0.29	0.30	1.21	1.19
Manufacturers Trust*	1.16	1.19	4.84	4.76
National City†	0.69	0.75	3.36	3.15
New York Trust	1.55	1.56	6.54	6.50
Public National	1.09	1.14	4.55	4.68
United States Trust	10.15	8.96	42.61	45.16

*Indicated earnings per share computed on basis of present capitalization.
†Includes indicated earnings of City Bank Farmers Trust Co.

Burke & Co. to Form

William P. Burke, member of the New York Stock Exchange, and Richard R. Thomas will form Burke & Co. with offices at 14 Wall Street, New York City, as of April 6. Mr. Burke who has recently been doing business as an individual floor broker was formerly a partner in Whitney & Elwell.

Three With Goddard Co.

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS. — John A. Frye, Kenneth D. Gilmore, and Graham D. Marshall have become associated with J. H. Goddard & Co. Inc., 85 Devonshire Street, members of the Boston Stock Exchange. Mr. Marshall in the past was with F. L. Putnam & Co. Inc. and did business as an individual.

BANK and INSURANCE STOCKS

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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.)

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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

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At Forty the Worker Will Be "Over-Age"

By ROGER BABSON

Mr. Babson expresses concern over effect on employment of men over 40 during next business downtrend. Says revision of their seniority rules would provide greatest help for them.

With a downward trend in the business cycle in the not-too-distant future, I am concerned about what will happen in the employment market to workers over 40—to say nothing of those 65 years and older. Assuming our present attitude and policy toward men over 40 continues, we will have a real social problem.

Roger W. Babson

A hundred years ago, we were a nation of youngsters in short pants. Our population is, however, gradually growing older. Mortality tables show that the average life expectancy has increased from about 48 years in 1900 to around 65 years in 1946. For example, the U. S. Bureau of Census reports indicate that at the turn of the century, only one in 25 persons was 65 or older, or about 4% of the population. By 1940, the 65-and-over group composed almost 7% of our population. The 1960 census will probably reveal a good 9% of our population in this older age bracket.

Assuming normal fertility and mortality and with immigration laws remaining constant, this has serious possibilities. Add to this, those between the 45 and 65 bracket, project to the year 2000, and you will find 40% of the population over 45! This maturing of our population is the result of advances in medical science, a declining birth rate, a markedly reduced number of young immigrants coming into our country, higher living standards resulting in a less hazardous physical life, etc.

Economic Problems of Over-Age Workers

There are already today a number of men over 40 who are jobless and tramping the streets. The Forty Plus Club can give you some soul-shaking stories. In 1900, 65% of the men 65 or over were employed. In 1949, there were but 45.6% with jobs. This is largely the result of the so-called "welfare legislation" due to which employers don't want to get loaded with older men who demand more unemployment insurance and who are more liable to accidents and sickness.

Back on the farm, the older worker could assume the role of manager and let younger hands do the more arduous tasks. The basic employment problem of old-age workers is something more than a problem of business cycles. It is the problem of the slowing down of physical and mental powers after 40: loss of dexterity, poor coordination, weakening eyesight, greater fatigue. But the conveyor belt continues to move just as fast whether you are young or old.

Prejudice Against Old Workers

Too many employers seem to identify oldness with a certain fixed age regardless of individual differences. There is no question but what the various compensation plans set up to protect the worker often militate against him because, in the words of one official, "Older employees add substantially to the cost of workmen's compensation, group insurance and other welfare plans." Employment managers also tend to look upon older workers as unable to learn new methods—hence, they are poor employment risks.

Psychologists tell us that while there is some slight decline in motor reactions and manual dexterity, the capacity to learn at 80 is as great as at 12. This suggests that the older worker may not be such a poor investment after all. As a matter of fact, the Bureau of Labor Statistics claims that the older worker has a lower absentee rate, is less prone to accidents, and is more stable, and more loyal to his firm. Further, the older worker possesses a background of experience and maturity that often cannot possibly be matched by the younger worker.

Seniority Rules

What would help men over 40 years of age most, is to have the unions revise their seniority rules. Certainly, this whole problem could well become an effective political football—and, in fact, already is. If private enterprise does not solve this problem, then the government surely will step in. Here, then, is another challenge for management! Let's hope management takes some constructive measures before it is too late!

Complete IBA Course In Chicago

CHICAGO, Ill. — Twenty-four employees of member houses, Central States Group, Investment Bankers Association of America, received Certificates of Achievement for the successful completion of the eighth course in investment banking sponsored by the group in cooperation with Northwestern University School of Commerce. Graduation exercises were held at the Drake Hotel in conjunction with the Fourteenth Annual Conference of the Central States Group. Albert T. Armitage, Coffin & Burr Inc., Boston, President of the IBA, made the awards.

Approximately 1,800 trainees have been enrolled since the association established the training program at 22 leading universities and colleges throughout the country immediately following the war. Originally inaugurated by the association to meet the unusual postwar training requirements of the industry, the training courses in fundamentals of investment banking have proved extremely valuable and are now an established feature of the association.

David J. Harris, Sills, Fairman & Harris, Inc., Chicago, Chairman of the Central States Group Education Committee, is in charge of the course offered in cooperation with Northwestern University.

For Lion Oil Company, 1949 was a year of accomplishment. All projects of a large scale program of capital additions to manufacturing were completed and placed in operation. Most of these additions were made to increase the volume and diversify the products of the Chemical Division. Of equal or greater importance for long term growth was the finding of new crude oil reserves which far surpassed the discoveries made by the Company in any previous year.

Capital expenditures for the development of additional underground oil reserves, particularly in the Diamond M Field of Scurry County, Texas, and for additions and improvements to manufacturing, marketing and other properties amounted to approximately $17,250,000.

During 1949, Lion drilled the equivalent of seventy-two net wells, of which sixty-one were completed as oil wells, one was a gas well, and ten were dry holes. These wells were drilled in Arkansas, Louisiana, Texas, Kansas, Colorado, Wyoming and New Mexico. Eighteen additional wells were drilling at the end of the year.

The most spectacular development program in the history of the Company began in 1949 with the discovery by Lion of the Diamond M Field of Scurry County, Texas. In this area, in a prolific pay section of Canyon Reef limestone, Lion completed fifty-two wells during 1949. The spacing pattern in the Canyon Reef formation is one well to each forty acres and present indications are that practically all of the Company's block of approximately 5,600 acres will be productive.

Lion continues to make progress toward integration of its activities in the petroleum industry. Meanwhile, the Chemical Division has grown so that it plays an important role in both sales and earnings. Because chemical and petroleum product markets are unrelated, substantial participation in each of these industries should provide additional balance and stability for the Company.

OPERATING SUMMARY	1949	1948
Number of Producing Wells (Net)	567	489
Net Crude Oil Production—Barrels	4,782,797	5,049,260
Total Undeveloped Acreage of Domestic Oil Rights	1,329,835	664,612
Total Producing Acreage	24,972	16,797
Crude Oil Run to Stills—Barrels	6,943,995	8,062,510
Station Marketing Sales—Gallons	97,765,498	93,671,275
Total Refined Oil Sales—Gallons	331,441,120	338,080,367
Total Chemical Product Sales—Tons	304,236	287,212
Common Shares Outstanding Dec. 31	2,340,813	2,340,730*
Number of Stockholders Dec. 31	6,222	5,135
Dividends Per Share	$ 1.50	$ 1.37½*
Annual Payroll	$ 8,872,336	$ 7,598,730

BY ORDER OF THE BOARD OF DIRECTORS

T. M. MARTIN, President

T. H. BARTON, Chairman of the Board

CONDENSED EARNINGS STATEMENT For Years Ended December 31	1949 Amount	1949 Per Share	1948 Amount	1948 Per Share*
Sales and Operating Revenue	$65,605,838	$28.02	$66,645,121	$28.47
Operating Charges, Interest, Etc. (Net)	53,283,067	22.76	49,408,252	21.11
Net Income Before Provisions for Income Taxes	12,322,771	5.26	17,236,869	7.36
Estimated Federal and State Income Taxes	3,207,610	1.37	5,514,437	2.35
Net Income	$ 9,115,161	$ 3.89	$11,722,432	$ 5.01

*The number of shares of stock and all "per share" figures have been adjusted for the 2-for-1 stock split of April 22, 1949.

For 1949 Annual Report giving financial information, write Public Relations Dept., Lion Oil Company, El Dorado, Ark.

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Name Now Wagner Reid & Ebinger, Inc.

LOUISVILLE, KY.—The firm name of Smart & Wagner, 415 West Jefferson Street has been changed to Wagner, Reid & Ebinger, Inc.

Prospectus upon request from your investment dealer, or from

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Boston 9, Massachusetts

Mutual Funds

By ROBERT R. RICH

Delaware Group Enters Mutual Fund Field

Marking the entrance of a Wilmington, Delaware, group into the mutual investment fund field, United Funds, Inc., a $30,000,000 mutual fund company announced today that, subject to approval of its 13,000 stockholders at the annual meeting on May 15, it will enter into a new management contract with Continental Research Corporation, a Delaware Corporation, for management of United Funds' investment portfolio.

Edmond du Pont

Continental Research has been organized by Cameron K. Reed, of Kansas City and Chauncey L. Waddell, of New York, in association with Charles F. Benzel, Edmond du Pont, Pierre S. du Pont, III, Reynolds du Pont, George P. Edmonds, W. W. Laird, Philip G. Rust, Henry H. Silliman and George Weymouth, all of Wilmington. Messrs. Reed and Waddell are President and Vice-President, respectively of United Funds, Inc. of Kansas City and New York, Edmond du Pont is a Director of United Funds, Inc.

Broaden Operational Scope

In another step designed to broaden the scope of its operations in the investment field, United Funds, Inc. has filed with the Securities and Exchange Commission a registration statement for United Science Fund.

Recommends Capital Stock Increase

A management recommendation to increase authorized capital stock of United Funds, Inc. to 10,000,000 shares of $1 par value from the presently authorized 6,000,000 shares, will also be submitted to stockholders for their approval at the annual meeting.

United Funds, Inc. was formed in 1940.

One Out of Five Trustees Unfamiliar With Funds

Almost one out of five of the lawyers and trust officers who replied to Scudder, Stevens and Clark's Survey of Fiduciaries listed a "lack of familiarity" as one of their objections to Mutual Funds.

This may come as a rude shock to the Mutual Funds industry, whose promotional campaigns are considered the most energetic in the investment field, and shows the need for a greater sales effort, perhaps with some reorientation of sales direction.

Greatest Obstacle to Sales

One might well remember the classic example of the hard-bitten sales manager who, when he was asked by a new president of the company what the greatest obstacle was to sales, retorted "Egotism." That no one ever heard of you, your product, your industry or your ideas is not an unrealistic premise in sales work.

Of the 801 trust officers and lawyers **who responded to the Survey**, 153, or 19%, listed as one objection to mutual funds a "lack of familiarity." Of the 153, 21% of these were lawyers, and 16.7% were trust officers.

Of the 534 lawyers and trust officers **who answered the question**, "If you do not use investment trust shares in trust administration, will you tell us why," 28.6% or 153, listed as one of the objections a "lack of familiarity." 40.4% of these 153 were lawyers and 20.3% were trustees.

No one will deny the well-deserved popularity and electric growth which has been the history of Mutual Funds from its inception, but, when competition for the citizen's dollar becomes keener, Mutual Funds "sales approaches" will face an acid test that few could withstand today.

Who Are Your Competitors?

And, in the broadest economic sense, Mutual Funds, besides competing with each other, are competing against refrigerators, automobiles, summer houses and catboats.

Before a consumer asks the question, "Which Mutual Fund should I buy?", he asks, "Will I get more enjoyment (marginal utility is the economic term) from my few thousand dollars if I spend it on a car, a boat, a summer house or if I invest it and enjoy the future years of income?"

And then the question is, "Shall I invest my few thousand in the market directly, government bonds, savings bank, real estate or Mutual Funds?" Finally, "Which Mutual Fund is best for me?"

If you want to know who your competitors are, look through the magazines and newspapers and examine the advertisements for automobiles, refrigerators, fur coats and Bermuda vacations. These are your competitors, operating, admittedly, under fewer advertising restrictions — which makes your selling job even tougher.

2½% Income Needed to Offset Rising Living Costs

Invested capital must increase at a rate of at least 2½% compounded annually just to keep up with the long-term decline in the purchasing power of the dollar, according to the latest issue of "Keynotes," published by The Keystone Company. This means that capital has to earn and be compounded at a rate of 3% annually to make any appreciable gain over the cost of living.

A study of the dollar in terms of what it would buy in the past 50 years shows that $10,000 set aside in cash in 1900 would be worth only $3,400 today in purchasing power. This is a 66% loss in real wealth, although the dollars were never touched. If the $10,000 had earned 2% interest compounded annually, it would still show a loss of $750 in the last 50 years. At 2½% compounded annually the $10,000 would show a gain, but only of $1,820.

"Keynotes" sees three choices open to the investor for keeping ahead of the decline in the purchasing power of the dollar. He can invest his money where it will earn at least 3% and compound his income; invest it where it can produce gains by increasing in value quite apart from income; or invest it where it will earn 3% or more and also have possibilities for growth of capital.

Five Funds File Offerings

Broad Street Investing Corp., New York, filed 250,000 shares of capital stock on March 24th; distributor is Broad Street Sales.

Mutual Fund of Boston, Inc., on March 24th, filed 60,000 shares of capital stock; underwriter is Russell, Berg and Co., Boston.

Whitehall Fund, Inc., New York, filed on March 24th, 10,000 shares of capital stock; distributor is Broad Street Sales Corp.

Elfun Trusts, New York, filed on March 24th, 50,000 units with no underwriter.

Equity Fund, Inc., Seattle, Wash., on March 27th, filed 500,000 shares of capital stock; underwriter is Pacific Northwest Co., Seattle.

Texas Fund Assets Jump

Net assets of Texas Fund, Inc. has jumped from the August, 1949 figure of $146,786 to $1,602,207 in March, 1950. Shares of the Fund were first offered on Oct. 4, 1949.

Warns Against Gov't-Guaranteed Farm Prices

Allan B. Kline, ECA member, maintains they would entail Federal control of agriculture and its marketing; and American farmer merely desires protection against undue price declines.

CINCINNATI, OHIO — Protection against undue price declines, not guaranteed prices at profitable levels, is what the American farmer wants from the Federal Government, Allan B. Kline, one of agriculture's most emphatic spokesmen, declared March 24 at the University of Cincinnati.

Allan B. Kline

Kline, a member of the Public Advisory Board of Economic Cooperation Administration (Marshall Plan) and recently reelected to a two-year term as President of the American Farm Bureau Federation, addressed the university's 29th annual Business and Professional Men's Group, weekly current affairs forum, on "Food Prices, Farm Income, and Public Policy."

Government-guaranteed prices at profitable levels would bring Federal control of both agriculture and the marketing of its output, Kline warned.

"Farm prosperity is not primarily a result of government farm programs," Kline said. "It is principally a matter of productivity, opportunity, and freedom of choice by the individual farmer.

"The most basic factor in farm prosperity is high production per man and a well-distributed real income in the non-farm economy. When non-farm people are highly productive, goods and services needed by farmers are plentiful at reasonable prices.

"If the farm family is highly productive, it will have a firm claim on society to a high standard of living.

"At the same time, in this free choice system of ours, farmers need protection against undue price declines because farm costs remain high when farm prices fall. These price falls are precipitous and ruinous.

"Farmers, however, do not seek guaranteed prices at profitable levels. To make good on such guarantees, government would have almost completely to control agriculture itself as well as the marketing of farm products.

"Food is cheap in this country. An hour's work will buy far more food here than in any other major country in the world. Our food is cheap because our agriculture is highly productive.

"It is highly productive because American industry has made available productive tools to work with, because American research and education have furnished the basis for the world's best technology of production, because the farmer has had the incentive, under our regulated free enterprise system, to seek greater rewards through intelligent planning and the application of superior brain power to the job in hand.

"The only real hope for further progress lies down that same road, where we know all of the twists and turns, as well as all of the alleged roadblocks."

Porteous Resigns As Head of Montreal Fund

Douglas K. Porteous

Douglas K. Porteous announces his resignation as President of Investment Distributors Ltd. of Montreal, Canada. The company sponsors two open-end mutual funds. Mr. Porteous will return to New York City.

Leonard Hanauer Co. Formed in Newark; J. B. Hanauer Continues

NEWARK, N. J.—The partnership of J. B. Hanauer & Co., 50 Commerce Street, has been dissolved and two new partnerships have been formed. Herbert A. Gluckman, William Hanauer, Jr., Irving Stern, Bert Friedman, general partners, and J. B. Hanauer, limited partner, will do business as J. B. Hanauer & Co. from the 50 Commerce Street offices. Leonard Hanauer is forming Leonard Hanauer & Co. to deal in municipal bonds from offices at 786 Broad Street.

ATTENTION, Bond Investors!

Write to your local investment dealer or to Hugh W. Long and Company, Inc., 48 Wall St., New York 5, for the official prospectus and other descriptive material about

Manhattan Bond Fund, Inc.

A REGISTERED INVESTMENT COMPANY INVESTING ONLY IN BONDS

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Olds Explains Steel Price Increase

U. S. Steel's Chairman accuses Joint Committee of ignoring industry's earlier testimony.

Asked about the majority and minority reports of the Joint Congressional Committee on the Economic Report, Irving S. Olds, Chairman of the Board of Directors, United States Steel Corp., on Mar. 27 commented as follows:

Irving S. Olds

"Officials of United States Steel appeared at a hearing in Washington on Jan. 24 and informed the Joint Committee on the Economic Report that increased costs of operation made necessary the moderate increase in United States Steel's steel prices of approximately 4% on the average, which became effective on Dec. 16, 1949. Testimony was then presented by United States Steel that the increased cost of the new insurance and pension plans is estimated to amount to $3.88 per ton of steel, to which should be added 29 cents a ton to cover the recent net increase in the cost of purchased goods and services, or a total increase in costs of $4.17 per ton of steel, as compared with an average increase of $3.82 per ton in the price of steel.

"The majority report appears to ignore entirely our testimony about the recent increases in our costs, which as we informed the Committee are not cost figures picked out of the air, but rather came from a thorough study made by our consulting actuary and by our people over many months. We raised our steel prices for the simple reason that our earnings are not sufficient to permit the absorption of these large increases in our costs estimated to amount to around $75,000,000 a year. It is elementary that if the cost of making steel goes up by virtue of greater employment costs or otherwise. higher prices for steel are the natural consequence," Mr. Olds concluded.

Rising Industrial Activity on Eastern Seaboard

Rise in business with decline in farm income noted by New York Federal Reserve Bank. Home construction booming, helped by mild winter. While bank loans and deposits remain practically unchanged, concern is noted over excessive liberalization of instalment credit terms.

Great divergence between the course of industry and agriculture is noted by the Federal Reserve Bank of New York in an article on Banking and Business Developments in the Second District, appearing in the April issue of its "Monthly Review of Credit and Business Conditions."

Industrial activity has improved in most of the areas visited by field representatives of the Federal Reserve Bank of New York since the first of the year. Farm income is declining, however, and this trend is reflected in retail sales and in a slower rate of repayment of bank loans in some regions of the Second Federal Reserve District. Home construction remains at a high level of activity, especially in the southern part of the district, where a comparatively mild winter has created favorable conditions. Bank loans and deposits are showing no unusual changes, but some bankers are becoming concerned about what they consider excessive liberalization of instalment credit terms.

The strike-induced coal shortage retarded manufacturing operations somewhat and created some additional unemployment, but with the settlement of the strike it appeared that production would resume its upward movement. Bridgeport, one of the larger industrial cities in this district, classified as a critical unemployment area, has shown steady improvement, and in Elizabeth, which was affected for a long time by a strike in its major industrial establishment, more normal conditions now prevail. In a few other places labor-management difficulties, or plant reorganizations, have tended to retard operations and to create some unemployment. In areas where manufacturing is diversified, workers affected by the cutbacks in one or more plants have usually been absorbed by other nearby plants where production was being stepped up. As a result, the over-all employment picture remains reasonably satisfactory. Retail trade volume ranges from slightly below to a little higher than the comparable period of last year. Lower prices, rather than a reduction in unit sales, are thought to account for most of the sales declines.

Unsatisfactory Agriculture

In agricultural sections, farmers feel that they have had an unsatisfactory year. This complaint is especially marked in potato-growing areas, where many did not participate in the government program and consequently were not qualified to take advantage of the government support prices. In Western New York many potato farmers continue to hold their crops in the hope of better prices. A decline in milk prices has also contributed to reduced farm incomes, although the drop has been offset to some extent by lower feed costs. Farm labor costs remain high, and greater use is being made of labor-saving machinery.

Banking opinion regarding the future of the real estate market is mixed. Some bankers look for further declines in values and construction costs, while others think that costs and prices will either remain at present levels or increase slightly. Construction of medium and low-priced houses remains active in many places, especially in the metropolitan New York area where a comparatively mild winter created favorable conditions. The demand in the New York area is chiefly for homes in the $8,000 to $15,000 range. In some of the city and suburban areas, multiple housing construction, largely of the garden type, has continued at high levels. Banking opinion is that new apartment rentals are too high and that this type of housing is fast reaching the saturation point in some areas.

Bank Loans in Narrow Range

Bank Loans, in general, have moved within a narrow range. The bankers visited by the New York Reserve Bank's representatives reported that commercial and agricultural borrowings were being reduced somewhat, although repayments of the latter were at a slower rate than usual as a result, it was thought, of smaller farm incomes. The demand for mortgage loans, while somewhat less active than last fall, has nevertheless been good and has tended to move upward in a number of localities as the mild winter season has enabled many home construction projects to proceed unhampered. Consumer credit continues to play a major role in the loan activities of some banks and has been in large demand. Some bankers expressed concern over the rapid increase in this form of credit and the tendency, especially of some types of financing organizations, to liberalize terms. Loan rates of the banks show little or no change, although some shading is indicated in keenly competitive situations for attractive offerings.

Investment activity of the commercial banks has been confined largely to the purchase of short-term government issues, but some have added State, county or municipal obligations to their holdings. Among the larger savings institutions, there has been a tendency in recent months to sell long-term corporate, railroad, and public utility issues and to shorten government holdings, particularly where mortgage holdings are increasing.

Deposit trends in the commercial banks are mixed, with demand deposits moving in a narrow range and from an over-all standpoint showing a slight upward trend after seasonal adjustment. Time deposits, despite some variations, show no pronounced change, on the whole. There is ample evidence that savings generally are increasing in the District but new accumulations are being attracted to the institutions paying the highest rates. In some areas, commercial banks suffer by comparison with the savings banks and the savings and loan associations. This has resulted in some uneasiness on the part of commercial bankers with regard to the interest rates they pay on time deposits; some feel that their rates will have to be brought into better alignment with those paid by other institutions if the downward trend in their time deposits continues. So far a large majority of commercial banks have held to their established rates.

Southwestern Secs. Formed in Dallas

DALLAS, TEX.—Hugh Bradford and Samuel P. Johnson have formed Southwestern Securities Company with offices in the Mercantile Bank Building to engage in the securities business. Mr. Bradford was formerly manager of the corporate trading department of Lynch, Allen & Co., Inc. Mr. Johnson was with Harris, Upham & Co.

New York State's Quota of New Savings Bond Drive Announced

Following the announcement by Secretary Snyder that the national sales goal of the Savings Bonds Independence Drive will be $650,000,000, State Director Philip M. Light of the U. S. Savings Bonds Division for New York disclosed today that New York State's share of the E Bond sales objective is $79,885,000.

The campaign will open May 15 and run through July 4. It will feature the Liberty Bell as its symbol and the slogan, "Save for Your Independence—Buy U. S. Savings Bonds," Mr. Light said.

Heading the volunteer organization in New York State will be Lewis E. Pierson, Chairman of the State Advisory Committee of the New York Savings Bonds Division, Mr. Light announced. Mr. Pierson, former Chairman of the Board of the Irving Trust Company and former President of the American Bankers Association, has long been associated with the U. S. Savings Bonds Program.

HIGHLIGHTS OF 54th Annual Report

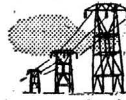
Southern California Edison Company · 1949

INCOME AND EXPENSES... Gross revenue in 1949 was $101,793,987, an increase of $4,199,813 or 4% over 1948. Net income was $18,368,338—equivalent to $2.99 per share of common stock, after all charges including preferred dividends, compared with $1.83 per share in 1948.

ADDITIONAL CAPITAL OBTAINED... In May 1949, an issue of 800,000 shares of common stock was sold for $31.00 per share or a total of $24,800,000. This was the Company's first sale of common stock in fifteen years. From December 1947 to May 1949 a total of $130,755,396 of new capital was secured through sales of stocks and bonds.

PLANT EXPANSION CONTINUES... At December 31, 1949, the Company's investment in plant was $542,224,661, an increase of $56,223,961 or 12% during the year, and an increase of $172,666,033 or 47% in the four years since 1945.

SMALLER BUDGET FOR PLANT IN 1950... ...The plant budget for 1950 totals $51,518,523, or $18,708,562 less than expenditures of $70,227,085 made in 1949. Net additions to plant for the year 1950, after giving effect to retirements, are expected to approximate $45,200,000. The 1950 construction program will require approximately $27,000,000 of further new capital.



GENERATION AND PEAK DEMAND AGAIN INCREASED... Total energy transmitted during 1949 was 7,564,493,195 kilowatt-hours, the greatest in the Company's history and 4% more than in 1948.

LOWEST RATES IN HISTORY... The Company made continuing reductions in rates for its services almost annually through and including 1941. Following the war, a further reduction was made in 1946. Even in the fifty-cent dollars of the period, the Company's rates have been lower since 1946 than at any previous time in its history.

COMMERCIAL AND SALES ACTIVITIES... The volume of new business obtained during the year 1949 was again substantial, though the rate of growth declined as compared with the two preceding years. A total of 61,868 meters were added to the system in 1949, compared with 73,021 in 1948 and 71,447 in 1947.

CONDENSED CONSOLIDATED BALANCE SHEET

December 31, 1949

ASSETS		LIABILITIES	
Electric Plant	$542,224,661	Stated Capital and Surplus	$243,384,694
Investments and Other Assets	9,546,664	Bonded Indebtedness	203,000,000
Current Assets	38,407,289	Current Liabilities	35,981,303
Deferred Charges	5,566,901	Depreciation Reserve	107,968,077
Capital Stock Expense	2,661,481	Other Reserves and Liabilities	8,072,922
Total Assets	$598,406,996	Total Liabilities	$598,406,996

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Geo. F. Patten Forms Own Investment Firm

George F. Patten, Jr.

(Special to THE FINANCIAL CHRONICLE)

PORTLAND, ORE. — George F. Patten, Jr., has formed the George Patten Investment Co. with offices in the American Bank Building to engage in the securities business. Mr. Patten was formerly an officer of Handel, Lundborg & Patten, Incorporated, in charge of the trading department.

Enrollment in A. I. B. Classes at Record

Enrollment in the classes of the American Institute of Banking, educational section of the American Bankers Association, reached an all-time high of 48,834, it was announced by Hartwell F. Taylor, National President of the Institute. Mr. Taylor is Assistant Vice-President of The Bank of Virginia, Richmond, Va.

In announcing the record enrollment, Mr. Taylor said: "The new record exceeds the previous high of 48,778 established in 1931. It is an outstanding achievement for Bernard H. Ineson, Chairman of the AIB Membership and Enrollment Committee, and to the other members of the Committee. The fact that more people than ever are taking courses under the AIB program is due in large part to their work, and to the cooperation of other Institute people throughout the nation." Mr. Taylor also noted that the present figure represents an increase of 10,409 in enrollments since Jan. 1, 1950.

On March 1, the AIB had 92,507 members. It is the largest educational institution of its type in the world. This year the Institute is celebrating its 50th anniversary with a program of special events, culminating in Minneapolis, Minn., at the Golden Anniversary Convention, June 11-16.

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Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

The government market continues to be on the defensive because of selling by insurance companies and Federal and rumors that the "F" and "G" bonds will be made available in large quantities to institutional investors. It is believed the uncertainty of the impending financing will be cleared up shortly through an announcement by the Treasury. All kinds of guesses are being heard, but the "F" and "G's" appear to be well in front of the rest of the field. Volume in the market has been quite sizable with fairly large amounts of securities changing hands through switches or new money purchases. While prices of the restricted issues and in particular the Vics have again given ground, these securities are still moving into strong hands. When Federal takes off the pressure, prices rally, which was the case last week.

The eligibles are the best acting issues market-wise, with the 2½% of September 1967/72 again the most sought-after obligation. Deposit banks, large and small, are stripping the entire eligible list with the former institutions now really going after the longest bank bond.

HOW HIGH WILL YIELDS GO?

Yield limits, that is, the upper levels, are the subject of considerable discussion in government bond market circles. Also the price differential between the longest eligible issue and the Victory bonds is attracting more than passing attention. The sustained decline in quotations of the restricted obligations, especially the longest maturities, has investors and traders alike attempting to figure out where a bottom is likely to be found. It is evident the agreement which has been reached between the Treasury and Federal has resulted in the higher yields and lower prices for most government securities.

However, yields of the Victory bonds are approaching levels where some investors are beginning to look at them with longing eyes. They would be interested in purchasing these securities but, as is generally the case when yields are rising, there are so many other conditioning factors involved in the situation that only rather minor commitments are made as prices continues to recede.

YIELD OF 2.40% ON VICS BELIEVED TOP

Among these factors is the yield trend, about which so much is being guessed at or predicted in so-called informed places. It seems as though the 2.40% yield figure as the upper limit appears to have considerable company. This is the top level which is looked for in the way of a return on the Victory bonds. This would be equivalent to a price of about 101½ for the June and December 2½s of 1967/72. If this should turn out to be a good guess and the longest tap issues were to stabilize at or near the 2.40% yield basis or a quotation of approximately 101½, there would still be room for some further yield and price adjustments. However, since very few are lucky enough to catch the bottom when making purchases, and the realization of this along with the knowledge that the best-laid plans of men and mice do sometimes go astray, is bringing into the market a little more scale buying of the tap issues than was the case a few weeks ago.

As a matter of fact, at times this buying is sizable enough so that prices would rally considerably if Federal were not in there hitting the bids as they appear. These larger-scale purchases by investors are being made because they need income and with the full understanding that a new issue could be much more than a passing fancy.

TRADERS MOSTLY INACTIVE

Traders are not inclined to do much under prevailing conditions save for a small number who have been selling a few of the taps short believing they can make a little something on that side of the picture. Although the government market is concerned now with the upper yield levels, the other side of the equation, which many believe could be witnessed with a reversal of the business picture, is being picked at 2.25% for the longest ineligible maturities.

Accordingly, with the 2.40% yield and the 2.25% yield as the upper and lower limits that are being guessed by many money market followers, and which probably means very little as a money market rate guide, one can understand why certain investors have been inclined to do a little more scale buying of the restricted obligations at this time. As the predicted upper yield is approached, it is believed purchases are likely to be increased.

SWITCHING MADE ATTRACTIVE

The price spread between the Victory loan issue and the bank 2½s of 1967/72 makes switching from the latter bond into the longest restricted obligation more attractive. Although many owners of the most distant bank obligation are not inclined to let go of their not-too-sizable holdings of this bond in order to acquire the longest tap issues, unless the price differential is three points or slightly more in favor of the latter obligations, there are others who have been switching into the Vics at currently prevailing differentials.

Quite a few non-bank owners of the September 2½s of 1967/72 that missed the three-point spread switch last year are watching developments very carefully now, so as not to lose out this time if, as and when it might come along.

Herman Liberman, Jr. Co.

Herman N. Liberman, Jr. & Co., members of the New York Stock Exchange, will be formed March 31 with offices at 111 Broadway. Partners will be Herman N. Liberman, formerly partner in Liberman & Stone, and Herman N. Liberman, Jr., who formerly did business as an individual. Both are members of the New York Stock Exchange.

Investors Corp.

MIAMI, FLA. — Investors Corporation of Florida has been formed with offices in the Congress Building to engage in a securities business. Officers are Arthur Fine, President and Treasurer; Harry McGown, Vice-President; and Edward D. Ashman, Secretary. Mr. Fine was formerly head of Arthur Fine & Co., Inc., New York City.

Purchasing Agents Report Rapid Recovery From Coal Strike

Business Survey Committee of the National Association of Purchasing Agents, headed by Robt. C. Swanton, indicate coal strike did no great damage to business, and recovery to normal conditions will be accelerated in next two months.

A composite opinion of purchasing agents who comprise the Business Survey Committee of the National Association of Purchasing Agents whose Chairman is Robert C. Swanton, Director of Purchases, Winchester Repeating Arms Co., Division of Olin Industries Inc., shows that February business was the second best month of the first quarter, very close to the high record set in January. The recovery from the slowing effects of the coal strike has been rapid and is expected to continue to accelerate over the next two months.

Robert C. Swanton

Appraising the effect of the coal strike, Purchasing Agents indicate that no great damage was done to general business. Coal began to move just as the shortage started really to hurt. Postponements of deliveries and ordering of finished goods were the only signs of any general setback. Business irrecoverably lost was, apparently, small and of a consumer nature—mostly seasonal goods.

New orders exceed December and February, and are only a little below January. The increase in production was slightly higher than that pattern. Commodity prices are tending slightly upward, with an inclination to level apparent. Inventories are almost static, though some tendency to build up is reported. Employment has rebounded to the January level. Buying policy is predominantly within 60-day range, (74%), with slight additions to those reporting in the 90- and 120-day bracket.

At the end of the year, industrial buyers were hesitant about forecasting business conditions beyond the first quarter. Taking another look as the quarter ends, the majority opinion expects good and increasing business through April and May; possibly leveling off in June; a somewhat more than seasonal decline in July. A few expect fair business well into the third quarter.

Commodity Prices

There is a general firmness in industrial materials prices. The trend is moderately up. Indications are that many sellers are fast to pass along the increased costs of basic materials. Purchasing Agents comment that many additions to prices, though small in amount, are higher than seem justified by the basic cost increases. Over-all, prices appear to be reacting normally to supply and demand.

Inventories

Industrial material inventories may be called static in March, for those reporting decreases are exactly offset by those showing additions to stocks. This is a slight reversal of the trend of many months. Some operating stocks have become abnormally low, due to slow deliveries caused by coal and steel strikes and the postponement of other orders and deliveries until stocks and incoming goods could be balanced. Turnover rates are reported satisfactory. The inventory situation is, therefore, considered healthy.

Buying Policy

The brisk pickup in business, following the coal settlement, has had little effect on buying policy. A conservative "hand-to-mouth" to 60 days is being followed by 74% of the reporters (78% last month). There is some pickup in the 90-day policy and a few spread over into 120 days as the controlling commitment range.

Employment

With back orders and production schedules increasing, employment is reported approaching the January pay rolls. In the weeding out process during the production cutback period, increased efficiency in production of the remaining workers was noted. Employers are finding a plentiful supply and a better selection of applicants to choose from in reactivating production lines.

Specific Commodity Changes

The changes this month were of moderate degree, with a few exceptions and mostly on the "up" side. Coal was up; fuel oil down; tin and zinc up; lead more than offset them, down.

Principal items showing **increases** were: Ethyl alcohol, bearings, used burlap, chlorine, drills, motors and other electrical equipment, files, coal, coke, jute, leather, lumber, muriatic acid, vegetable oils, refractories, natural rubber, salt, taps, tin, perishable tools, tires, zinc, zinc dioxide.

Down in price: Butter, fuel oil, gasoline, lead, lead pigments, lubricants, naptha, fish oils, sulphur dioxide, cotton textiles, yarn.

Still in **short** supply: Aluminum, benzol, burlap, cellophane, coal, coke, copper scrap, some grades of lumber, kraft paper, pipe, steel, zinc oxide.

Canada

Canadian industry was little affected by the coal shortage, as Winter stocks were comfortable and new shipments are now beginning to arrive. March general business shows some improvement over February. Production and back-order books are up, though at a lower rate than the United States. Prices are higher; inventories are unchanged; employment gaining sharply; buying policy the same as the States. Industries curtailed by the severe Winter are now becoming active. Construction backlog is substantial. Good seasonal pickup is expected, as outdoor work opens up.

Ward Heads Comm. Of L. A. Exchange

LOS ANGELES, CAL.—Murray Ward, President of Hill, Richards & Co., Los Angeles investment firm, has been named to head the plant tours committee of the Los Angeles Stock Exchange, Exchange President W. G. Paul disclosed.

As plant tours Committee Chairman, Ward directs the activities of planning trips to leading Southern California industrial firms for members of the local securities industry.

He is a member of the Industrial Securities Committee of the Investment Bankers Association, Chairman of the California section of the Business Conduct Committee of the National Association of Securities Dealers and a director of the Ducommun Metals & Supply Co.

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Public Utility Securities

By OWEN ELY

Recent Speculative Utility Favorites

Among the most active issues on the Stock Exchange recently have been two perennial speculative utility favorites, American & Foreign Power 2nd preferred and Standard Gas $4 junior preferred, and a newcomer to the "active" list, American Water Works. While of course there has been general activity in utility issues over the past year or more, it may be of interest to inquire why these stocks have suddenly attracted such a speculative following.

American & Foreign Power has recently begun work on a new recapitalization plan. The old plan, which was approved by the SEC and a Federal Court, failed of consummation because the company could not refund its old debentures as originally planned when the plan was first formulated. Under the old plan the controversial second preferred stock would have been assigned only 3/8 of a share of new common stock. On the basis of 1946 pro forma earnings published in connection with the plan, this common stock would have earned a little over $2 a share, and at the low price-earnings ratio usually accorded a foreign stock it might thus have been worth around $10 a share (assuming that Brazilian Light & Traction is a good yardstick).

Now, however, system earnings have improved sharply and an official projection of earnings for 1950 (recently furnished by the company to committees interested in the new plan) indicate that if the old plan were adhered to the 5 million shares of new common stock might be earning this year at the rate of perhaps $3.50 a share—on which basis the stock might be appraised at 15-20. Under the old plan therefore, the 2nd preferred stock would now have an estimated break-up value in the neighborhood of 5½-7½. However, judging from the recent market high of 25¼, holders of the 2nd preferred are apparently hopeful that they will receive substantially more than 3/8 of a share under the new plan, which is expected to be ready for submission to the SEC within a few weeks. Whether such hopes are fully warranted appears somewhat doubtful, although the overall improvement in the earnings picture might be expected to benefit the junior security holders. The common stock, which under the old plan would have received only 1/50 of a share of new common stock, also seems to be selling somewhat optimistically at the recent price around 4½.

Standard Gas & Electric $4 preferred (junior to the $7 and $6 preferred issues) has long been a mercurial issue. In 1945-46 it advanced from around 3 to 60 and later dropped back to around 18. In 1949-50 it broke out of its narrow trading range and advanced from 18 to a recent high around 73½. A recent study issued by a brokerage house gave some optimistic estimates on possible break-up value, one figure going as high as $138.63, with $12.13 left for the common (once regarded as worthless). These figures are after allocation of only $172 to the $7 prior preference stock (with its claim of $203, excluding the $15 call premium) and $160 to the $6 (with claim of $188). The 2nd preferred is then assigned $138 against its liquidating claim of only about $117 ($50 plus arrears). However, the study adds that if the prior preference stocks receive their full claims and the remainder is then allocated 80% to the $4 preferred and 20% to the common, the indicated values would be $123.79 and $10.87, respectively.

These high estimates are based on favorable two-year projections of earnings and market potentials for Duquesne Light, principal electric operating subsidiary (controlled by Philadelphia Company). Based on recent market prices for holdings of Standard Gas (except for Wisconsin Public Service, which is estimated) the $4 preferred would be valued at $79.40 and the common stock at $6.95 (according to the above story), and this is on the assumption that the prior preference stocks will receive only 85% of their claim, the latter percentage being based on the SEC practice in certain cases of "discounting" the value of dividend arrears on the assumption that they might be paid off over a period of years, in future.

Recent market interest in Standard Gas common stock seems to reflect a tendency to discount these two-year earnings projections for Duquesne as well as to assume that the claims of the prior preference stocks can be cut down on a discount basis.

A third issue which has been in the limelight recently, American Water Works, during 1949 sold on a fairly generous yield basis around 7-8 earning 88 cents and paying 30 cents. Recently it advanced in heavy trading to 12⅛. This excitement seems due to the belated discovery that the company might, if present negotiations go smoothly, obtain substantial book profits (one estimate indicates about $4 a share) from the sale of its Birmingham and South Pittsburgh water properties, raising book value to over $12. The Birmingham deal has been under way for some time. A few smaller sales of properties to other municipalities are also contemplated but it seems unlikely that these would yield any profits of the same magnitude as those just mentioned.

Some observers with plenty of imagination have apparently concluded that the company may sell all its water properties over the next year or so, but a company official has denied that the company has any intention to liquidate in the near future. In any event sales negotiations with a large number of municipalities would probably be slow and tortuous and might take several years even if the company actively pushed such a program. As for present potential gains over book value, there seems to be little likelihood that stockholders will get any quick cash from these sales, since proceeds are more apt to be used to retire parent company collateral trust bonds, or applied to the construction program or perhaps toward acquisition of new companies. While there will be some substantial improvement in the company's set-up if the proposed sales of Birmingham and South Pittsburgh go through, these would not seem to warrant Wall Street tales that $20-$40 per share may be realized by stockholders as "break-up value" in the not-too-distant future.

Business Outlook for 1950 Is Good, Says Cox

Dean G. V. Cox predicts any decline, resulting from catching-up on shortages, would be gradual and mild. Expects slight rise in personal incomes, high employment, and moderately lower corporate profits.

Any decline in business activity in 1950 is more likely to come because of progress in eliminating shortages in housing, autos and other durable goods than from a collapse of confidence, Garfield V. Cox, dean of the University of Chicago's school of business, declared March 23.

Garfield V. Cox

A decline, resulting from catching up on shortages, would be gradual and relatively mild, the university's Robert Law Professor of Finance, predicted in a forecast on "The Business Outlook for 1950."

"Business managements generally are proceeding too cautiously to be subject to a sharp reversal of expectations," Cox said.

He spoke before 210 members of the Executive Program Club at 84 East Randolph at the fourth lecture in the club's series on current trends in business. The Executive Program Club members, executives of many leading Chicago businesses, are graduates of the University of Chicago's two-year executive program.

Sales and New Orders Surprisingly Favorable

"Developments increasingly support the view that the rise in industrial production which began last August will carry farther in the second quarter of 1950," Dean Cox said. "Both the data of construction activity and of the inventories, sales and new orders of manufacturers are even more favorable than most forecasters predicted as the year began.

"If further major strikes are avoided, the Federal Reserve Board index of industrial production should reach 185 this spring," the University of Chicago dean said.

"The general commodity price average continues remarkably stable with the Bureau of Labor Statistics wholesale index at about 152. Because of the veterans' insurance refunds the annual rate of the national total of personal incomes stands at a new high. Even deducting the insurance dividend the income figure for January is higher than for any month since January, 1949.

"It is difficult at this time to make a strong case for a continuation of the rise through the second half of 1950, but expansion has often had a way of generating unforeseen momentum.

"The best chance of such a development in this instance would seem to be that a combination of a strong stock market, increased equity financing and peaceful settlement of labor disputes might lead to renewed expansion of business spending for equipment.

"The possibility of sustained strength in the stock market is suggested by the negligible total of brokers' loans, the rapid growth of open-end investment trusts and of pension funds, the relatively high yield of stocks, the need of individuals to increase investment income and renewed interest of the general public in common stocks," Cox said.

Likely Downtrend in Construction and Automobiles

Any change in the rate of construction activity or of automobile output in the second half of the year as compared with the first half now seems more likely to be downward than upward, Mr. Cox believes. Consumer purchases of other durables and of soft goods may be well maintained, but it is not likely they would rise enough to offset decline in construction and auto output should decline in these occur.

"It is disturbing to note that the cash outlay of the Federal Government for fiscal 1950 is running $10 billion higher than in fiscal 1948, and that in a two-year interval of high prosperity the balance has shifted from a cash surplus of $8 billion to a cash deficit of $5 billion," Cox said. "It is disquieting, also, that the homebuilding boom is being financed upon such slender equities, that a steady rate of consumer buying is accompanied by so rapid an increase in consumer debt, and that so much of our exports must still be financed by gifts and loans. The chances are that these factors will not cause serious trouble in 1950, but they warn of difficult readjustments that lie somewhere ahead.

Full-Year Average Above 175

"Though industrial production in the second half of 1950 will probably be slightly less than in the first half, the average for the year is more likely to be above the 175 figure for 1949 than below it. In the absence of crop failures the wholesale price index will remain close to 150 and will probably end the year a little lower than at its beginning.

"The national total of personal income will probably be slightly higher than last year's $212 billion; but because of the pressure for wage increases that exceed the rise in productivity, employment may increase less than the labor force grows. Keenness of business competition is likely to result in profits for 1950 moderately lower than those for 1949," Cox concluded.

L. A. Exch. Members

LOS ANGELES, CAL.—Two new members were admitted to the Los Angeles Stock Exchange, it was announced by Exchange President W. G. Paul.

They are Robert M. Green, Vice-President of Pledger & Co., whose membership was effected through intra-firm transfer of Gilbert L. Reed and C. Jerome Cable, partner of J. A. Hogle & Co., who took the membership formerly held by James E. Hogle.

Green, a graduate of UCLA, class of '42, was a First Lieutenant in the Second Infantry, United States Army, during World War II, serving in the European theater. He joined Pledger & Co. in 1940 and has remained with the firm since except for the period in which he was in the service.

Cable, who entered the investment business in 1906, came to Los Angeles from Chicago in 1923. He joined J. A. Hogle & Co. in 1941.

Report Life Companies Buying Corporate Stocks

Steady expansion of corporate stock holdings of the life insurance companies, evident for several years' was given still further impetus in January, when their purchases of stocks totaled $54,000,000, a higher figure than in any month of last year, according to the Institute of Life Insurance.

Total U. S. stock holdings of the life companies rose to a new high on Jan. 31, the $1 678 million representing 2.8% of total assets. This was the highest ratio of stocks to assets recorded since 1910. The stock holdings are now twice what they were five years ago and three times what they were before the war.

Chiefly Preferred

About three-fourths of the stocks held by the life companies are preferred, as that is the only type they are allowed to invest in under some state laws. The life companies have increased their total investment in corporate stocks by a billion dollars in five years, primarily through the purchase of preferred stocks.

Total new investments by the life companies in securities and mortgages of all kinds were $525 million in January, just $20 million under January, 1949. Mortgages accounted for $270 million. This was at a high rate, reflecting the continued heavy building of new homes, and it was 2% over the mortgage investment in the corresponding month of last year. Corporate bonds bought in January were $110 million, a reduction of almost one-half from the previous January. U. S. Government securities purchased came to $66 million in January, compared with $47 million a year ago.

Total assets of the life companies were $59,781 million on Jan. 31, an increase of $501 million in the month.

LIFE INSURANCE INVESTMENTS

Investments made by the Life Insurance Companies of the country during January and holdings at the end of January are reported by the Institute of Life Insurance as follows:

	—Acquired—		—Holdings—	
	Jan. 1950	Jan. 1949	Jan. 31, 1950	Jan. 31, 1949
	(000,000 Omitted)			
U. S. Government Securities	$66	$47	$15,215	$16,631
Foreign Government Securities	1	2	1,441	1,453
State, County, Municipal Bonds (U. S.)	9	15	1,044	870
Railroad Bonds (U. S.)	19	5	2,959	2,952
Public Utility Bonds (U. S.)	39	53	9,442	8,513
Industrial & Misc. Bonds (U. S.)	52	150	8,485	7,072
Stocks (U. S.)	54	8	1,678	1,457
Foreign Corporate Securities	15	--	528	457
World Bank Bonds	--	--	54	53
Farm Mortgages: Veterans Admin.	1	--	27	28
Other	25	25	1,123	989
Non-Farm Mortgages: FHA	112	109	3,559	2,501
Veterans Admin.	13	17	1,226	1,193
Other	119	114	7,130	6,296
Total Securities & Mortgages	$525	$545	$53,911	$50,465
Farm Real Estate	--	--	40	57
Other Real Estate	14	19	1,208	1,014
Policy Loans	41	34	2,243	2,071
Cash	--	--	1,055	980
Other Assets	--	--	1,324	1,159
Total Assets	--	--	$59,761	$55,746

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Canadian Securities

By WILLIAM J. McKAY

While it would appear that the utmost importance is attached to the state of the Canadian foreign exchange position on current commercial account, the role of capital account funds in the Canadian economic scheme seems to receive but scant attention. Since the establishment of the Foreign Exchange Control Board regulations the paramount concern of the Canadian authorities has been the current commercial account balance in trade with this country. This apparent attitude, however, fails to take into account the fact that Canada is at a stage of development where a steady influx of foreign investment funds is a prime necessity.

Without the capital assistance provided in the past by this country and Britain the Dominion could not have attained its present level of industrialization and in addition many natural resources now actively exploited would still lie dormant. Although Canada is steadily moving toward a state of self-sufficiency she is still largely dependent on outside sources for many industrial requirements, that without a constant influx of capital from abroad, would throw a heavy burden on the overall foreign exchange position. The value of these capital funds to the Dominion economy was emphasized in the period preceding the upward revaluation of the Canadian dollar in 1946. At that time the unofficial dollar in New York rose above the official level, and as a result the Dominion exchange reserves benefited directly from U. S. capital investments in Canada and heavy purchases of Canadian securities. It might be added that as a consequence of the record level of the exchange reserves of over $1½ billion the Canadian authorities viewed with complacency the excessive imports of U. S. luxury goods that took place during this period. Had greater attention been devoted to the question of capital account funds as distinct from current commercial operations, it is probable that this reckless dissipation of vital exchange reserves would have been avoided.

In the period immediately ahead the value to the Canadian economy of the U. S. capital inflow is likely to take on added significance, and will, therefore, warrant closer attention. According to recent signs and portents the Canadian foreign trade and exchange outlook is becoming increasingly gloomy. After July 1, it is unlikely that Britain will be able to continue to furnish U. S. dollars in payment of Canadian exports of wheat and farm products. Furthermore U. S. offshore ECA purchases are likely shortly to become a negligible factor. What is even more disquieting, Canadian exports to this country will inevitably register to an increasing extent the political and economic effects of the embarrassing U. S. surpluses of farm products. Also in industrial and Congressional circles here there is mounting concern with regard to the detrimental effect on domestic industries of highly competitive Canadian exports, notably of lumber and aluminum.

For these reasons alone it is highly improbable that the record-making pace of Canadian exports to this country can long be maintained. To some degree the situation will be mitigated as a result of the recent dynamic expansion of Canadian oil production which will increasingly curtail Dominion fuel imports from this country. At a later stage also the present disequilibrium of the U. S.-Canadian balance of trade should eventually be further corrected following greatly increased Canadian output of iron, base metals, asbestos, various rare metals, and possibly certain advanced forms of aircraft. In the meantime the chances of averting a difficult economic situation in the coming months would be improved by the adoption of measures designed to give greater encouragement to the flow of investment capital from south of the border. No other step would achieve greater progress in this direction than the decision to place capital movements in the same category as commercial payments. In other words to establish one rate of exchange for the Canadian dollar on the basis of which both financial and trade operations could be freely transacted.

During the week activity in the external section of the bond market was largely confined to dealings in the new Alberta refunding issue. The market for internal bonds continued dull and inactive but some interest is likely to be revived following the announcement of the call for the redemption on June 1 and June 15, respectively, of the $95 million Dominion 3s of 1955 and the $643 million 3s of 1951. Free funds remained steady in the neighborhood of 9⅝%, but as a result of the June redemptions there were increased offerings of funds for future delivery. The corporate-arbitrage rate was steady and virtually unchanged at 14¾%-14%. Stocks continued mostly to edge forward led by the Western oils, among which Pacific Petroleum and Royalite figured prominently. Industrials were also firm with Canadian Vickers, Brazilian Traction, and the paper group particularly active. Base metals held steady largely through support accorded to Consolidated Smelters and East Sullivan, but the golds were mixed and mostly lower.

CANADIAN BONDS

GOVERNMENT
PROVINCIAL
MUNICIPAL
CORPORATION

CANADIAN STOCKS

A. E. Ames & Co.
INCORPORATED
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New York 5, N. Y.
WORTH 4-2400 NY 1-1045
Fifty Congress Street
Boston 9, Mass.

With Donald C. Sloan

(Special to THE FINANCIAL CHRONICLE)

PORTLAND, ORE. — John G. Van Laningham is with Donald C. Sloan & Co., Cascade Building.

With Seligman & Co.

(Special to THE FINANCIAL CHRONICLE)

MILWAUKEE, WIS. — William A. Seligman is with Seligman & Co., 735 North Water Street.

Sad, but True!

"No plan which does not provide for complete ownership, control and inspection of atomic enterprises the world over and for generations to come can be safely accepted by the people of the United States.

Lewis L. Strauss

"No nation can be assumed to be governed by the moral standards to which we subscribe if it is a nation that, as a matter of doctrine, rejects religion, denies the authority of moral law, and has a record of action to demonstrate that it treats solemn covenants as matters of temporary convenience."

These views were recently expressed by Lewis L. Strauss, a member of the Atomic Energy Commission, who added that under such conditions it was impossible to come to terms "with the foes of democracy on a basis of agreement founded on mutual respect for solemn obligations evidenced by treaties and pacts."

These seem to be the basic truths of this matter. The truth in this case is tragic, but we must face it without flinching and without self-deception.

Our Mess With Farm Prices

While the need for revision of wartime support system has been recognized, its adjustment has been postponed from year to year, says Guaranty Trust Survey. Maintains continuance of present practice can end only in disaster.

The present situation in the agricultural price-support program is a natural consequence of the attempt to carry forward into the postwar period a structure of farm prices that was devised to meet the wartime emergency and that is wholly unsuited to peacetime conditions, according to "The Guaranty Survey," monthly review of the Guaranty Trust Co. of New York, published March 29.

"It has been recognized that the wartime price-support system needs revision, but the adjustment has been postponed from year to year in the face of perfectly clear indications that an unsound condition has been developing," the "Survey" continues.

"In theory, the law provides for control over production through acreage allotments and marketing quotas which are supposed to take the place of free-market price fluctuations in adjusting demand to supply. The practical effectiveness of these regulatory devices in the face of guaranteed high prices is very doubtful, as was shown by the accumulation of surpluses in the hands of the government during the prewar years. In this respect the postwar experience thus far is, broadly speaking, a repetition of that before the war. It is impossible to tell how the prewar experiment would have ended if the outbreak of hostilities had not caused demand to soar to such abnormal heights that the accumulated surpluses were quickly absorbed and it was found necessary to stimulate rather than restrain farm production.

Production Control Success Dubious

"There is no reason to suppose that production controls will work more successfully now than they did before the war, and the recent accumulation of surpluses certainly does not encourage such an expectation. Acreage allotments are obviously inadequate, because production is so largely controlled by weather and because there are so many ways of increasing yields per acre. Marketing quotas are a much more stringent form of control, but they have never demonstrated their practical effectiveness as a long-run regulator of output. Any form of control over one crop tends to divert the use of farm land to other crops, creating new surplus problems.

"Even under the most favorable assumption — that marketing quotas can be made to work—the natural tendency would be for one product after another to be subjected to such control until in the end the farmers become virtually agents of the government, operating as directed for a schedule of fees, while the consumers paid the bill twice—once in the form of taxes and once in the form of artificially high prices for a smaller supply of food and other products than would have been available to them in a free market. On the other hand, if production control cannot be made effective over the long term, it seems that the government must eventually face the alternative of allowing the system to break down or resorting to the mass destruction of surplus farm commodities.

1950 Plantings Blast Hope

"An reasonable hope of early substantial improvement in the general situation seems to have disappeared with the publication of the first official estimate of 1950 plantings. Farmers intend to devote a larger acreage to 17 major crops than they did a year ago. Even with the large decline in winter-wheat plantings last autumn, total crop acreage, if present intentions are carried out, will be only 3% smaller than in 1949 and will be the fourth largest in the past 13 years. Not only will the reduction in plantings of eight crops under acreage allotments be smaller than the government requested, but most of the land left idle by these curtailments will be planted to uncontrolled crops, illustrating the tendency for a surplus in one commodity to 'spill over' into others when an effort is made to bring it under control.

"The proposal of Secretary Brannan to allow prices of farm commodities to seek their natural levels and to pay the farmers the difference between those prices and support prices is politically alluring, but offers no solution to the main problem. The 'free' prices would be fictitious as far as the producer was concerned—that is, output would respond not to the open-market price, but to the total payment received by the producer. The consumer would continue to pay, but part of his payment would take the form of a tax rather than a price. Consumption might be stimulated to some extent, but production would certainly not be restrained. The necessity for production control would remain. It is difficult to see how the plan offers any advantages over the present system sufficient to warrant the greater complexity and expense of administration.

"When the possible consequences of the existing situation are considered—the regimentation of the farm population, the accumulation of unmanageable surpluses, the wholesale destruction of products—it seems an open question whether the best service to the farmer, as well as the rest of the people, would not be to liquidate the whole program in as orderly a manner as possible, and allow agriculture to stand on its own feet in the future as it did in the past, and as other industries still do. The political obstacles to such a course are well recognized. Price adjustments may be unpleasant, but is any possible alternative less so in the long run? In any case, continuance of the recent practice of postponing the decision from year to year can end only in disaster."

Charles Lob Joins Dallas Rupe & Son

Charles Lob

DALLAS, TEX. — Charles Lob has become associated with Dallas Rupe & Son, Kirby Building. Mr. Lob formerly conducted his own investment business in New Orleans.

Euler Co. Officers

PHILADELPHIA, PA. — Announcement has been made of the election of Joseph D. Euler as President of Euler & Co., Inc., 1518 Walnut Street, members of the Philadelphia-Baltimore Stock Exchange, following a change in the firm's form of business to a corporation from a general partnership.

Other officers of the corporation are: Charles L. Kauffman, Vice-President; A. E. Euler, Secretary; and Albert R. Christman, Assistant Treasurer.

Bittner Co. Admits

John G. Cravin has been admitted to partnership in Bittner & Co., 80 Broad Street, New York City. Mr. Cravin was formerly associated with Allen & Co.

J. W. Dorsey Opens

DETROIT, MICH.—John Worthington Dorsey is engaging in a securities business from offices in the Edison Hotel Building.

P. L. Goddard Opens

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF. — P. Lundberg Goddard is engaging in a securities business from offices at 720 West Washington Boulevard.

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The Depreciation Problem

Advantages of accelerated depreciation and replacement cost policies weighed by Conference Board. Replacement cost system seen providing relief during inflation and burden during deflation.

Private domestic investment has been overstated by approximately $17 billion in the period from the end of the war through 1948, according to an analysis of the effects of depreciation policy which has just been completed by J. Frank Gaston, Senior Research Specialist of the National Industrial Conference Board.

In that period, capital equipment used up, estimated in the conventional manner (original cost), amounted to $33 billion, the study points out. Had it been entered at what it would cost to replace this capital equipment, depreciation would have amounted to $50 billion.

The rising price level that has prevailed since World War II, the analysis points out, has brought into "sharp relief" the disparity between industry's depreciation charges and its replacement requirements.

American business management "feels a responsibility above and beyond regaining of past expenditures; in order to perform its obligations to its customers, its workers and its stockholders, management must somehow obtain a sufficient reserve to replace and replenish capital equipment when it becomes obsolete and worn out."

Accelerated Depreciation vs. Replacement Cost Controversy

As remedies, the analysis points out, attention has centered about the point whether depreciation should be charged upon an original cost basis or upon replacement cost—that is, whether upon retrospective cost or prospective cost. But more recently, attention has been directed toward accelerated amortization.

Replacement costs as a remedy "would provide relief in many instances while prices were ascending. This remedy would, in turn, create difficult problems in a period of deflation or descending prices. Taxes would be reduced in time of prosperity but the reverse would be true in depression years."

Changing Price Levels and Long-Term Capital Investments

The problem is "essentially one of changing price levels. If prices remained constant over time, the question would never arise whether to base depreciation charges upon replacement cost or upon original cost: the two would be identical."

Since capital assets are long-term ones, "there is ample opportunity for a discrepancy to arise between original cost and replacement cost. From the data available, it appears that fixed assets are turned over on the average of once in 25 years. That is to say, the annual depreciation in any year would be sufficient to eliminate the gross property account of corporations only once in 25 years if no new acquisitions were made in that period. This is certainly a different problem from that arising from the change in prices of inventories which are turned over one or more times a year."

Moderating Effect of Replacement Cost

The use of replacement cost has a "moderating effect" on the cyclical swings of corporate profits. "Instead of remaining fairly stable in good and bad times (when calculated upon original cost) depreciation charges upon replacement cost move with the business cycle, becoming larger in good times and smaller in bad times, assuming that prices move in accord with good and bad times. Profits would thus be reported lower in prosperous times and higher in depressions."

Effect Upon Taxes

The additional corporate taxes in most years of the last great depression "would not have been substantial" if replacement cost had been used. "In 1932, the year in which the additional burden would have been the greatest, corporate income taxes, however, would have been $470 million, or $88 million greater than the $382 million actually incurred."

But in those years, the study continues, the corporate tax rate was relatively low, less than 14% compared with 38% at present. "Thus any additional income in the future resulting from the use of replacement costs would be taxable at a rate nearly three times the rate obtaining in the great depression."

The Acceleration Plan

Another solution to the problem of depreciation under changing price levels "would be to use some plan of acceleration." Many concepts have been put forth, the study notes. They range from those urging complete freedom for the businessman to select and perhaps vary his annual charge from year to year to those which shorten the period of depreciation but place various other restrictions upon the freedom of the businessman to vary his annual charge.

Accelerated depreciation "escapes the criticism that has been leveled against most other plans seeking to alleviate the problem of depreciation under changing price levels. It is based upon cost, and the amount which can be charged against revenues cannot exceed the cost of the asset. A firm base is provided for the charging of depreciation."

Accelerated Depreciation in Operation

The accelerated rate, it is hoped, will make for economic expansion. "To find the answer it must be assumed that the actual useful life of the asset is greater than five years and that it is kept in operation by the firm for the period of its usefulness and not for the period over which its cost is recovered. It follows that the asset will be producing income for the firm at a time when no further depreciatioin charges will be permitted. As a result, net income from the particular asset will be high in the later years of the lifetime of the asset compared with the earlier years, assuming no change in rate of operation. In a sense, income will be shifted from the earlier years of the asset to the later years."

Since income taxes follow income, the study continues, a like shift will take place in this charge, assuming no change in tax rates. "Taxes will be low in the first five years relative to the later years of the lifetime of the asset. For example, suppose that an asset with a useful life of ten years costs $100,000 and the cost is to be charged off in in ten years. Assume further that the gross income from the use of the asset will come to $20,000 annually. The tax rate can be assumed to be 20%.

"Over the lifetime of the asset, the total income taxes paid will come to $20,000. Net income after taxes will come to $80,000. Over the full lifetime of the asset, the total income taxes paid would be the same as before and so would net income. The only change that would have taken place is a bunching of income in the last five years.

"If the assumptions made actually held true and no other factors complicated the picture, the end result of the use of accelerated depreciation would be to make computed income fluctuate violently over the lifetime of the asset. In the above example, dollar profits would be zero in the first five years and then jump to $16,000 in the last five years. By contrast, depreciation charged over the useful life of the asset would result in a uniform profit figure of $8,000."

Accelerated Depreciation Used During World Wars I and II

The device of accelerated depreciation has been used twice in the United States, but in each case it was adopted as an emergency in wartime. The purpose was to encourage private expansion of plant and equipment to produce war goods. It was an incentive provided to manufacturers to undertake new investment under the uncertain conditions of war.

The use of accelerated depreciation was first provided for in the Revenue Act of 1916. Since munition profits at that time were derived mainly from contracts with foreign governments, the device was adopted not as a means of securing expansion of manufacturing facilities, but rather as a method of obtaining a more equitable definition of taxable income. This law was repealed as of Jan. 1, 1918, by the Revenue Act of 1917.

In World War II provision for accelerated amortization was made in the Second Revenue Act of 1940, which also contained an excess-profits tax A corporation incurring costs in the expansion of emergency facilities was permitted to write off the cost in 60 months or less if the emergency ended sooner. The facilities had to be certified as being necessary for national defense.

Shull Heads Conn. Div. of Gold League

Frederick G. Shull of New Haven, Conn., recently retired from Aluminum Company of America after 40 years service, has been appointed Connecticut State Chairman for The Gold Standard League. The appointment was announced yesterday by Philip M. McKenna, National Chairman of the League at its headquarters in Latrobe, Pennsylvania.

Frederick G. Shull

The League advocates return to the Gold Standard, making all currency redeemable in gold coin upon demand at $35 per ounce. The purpose of the League is to give to the people the power to prevent deficit spending and financing and to prevent extreme losses in purchasing power through the use of the Gold Standard.

Mr. Shull, as Connecticut State Chairman, will appoint Vice-Chairmen in each Congressional District. Vice-Chairmen will in turn secure members for the League who will make known their demands for sound money to their Senators Congressmen and candidates for office.

The League, formed in June 1949, has members in all states and Chairmen in 14 states. Activities of the League have resulted in widespread support from many individuals, members of Congress, banking and insurance people. The League is supporting the Reed Bill H.R. 3262 which returns the country to the Gold Standard. Passage of the bill is expected in the next 12 months.

Securities Salesman's Corner

By JOHN DUTTON

I hesitate to pass along any ideas in this column and say that they will work—positively. But there are certain procedures which have been tested again and again and they have been successful. In this particular instance, there is no doubt about it. If you will follow the plan of making only one call a day on a qualified prospect—just five calls a week on prospective new accounts—you should build up a very substantial business in about two years. This is not much of a task. There have been men who have averaged two calls a day without much difficulty at all. Surely anyone can manage five calls a week on new people in addition to their regular accounts.

The first step is to find a proper basis for your call. It is always best to back up your interviews with steady newspaper advertising and also direct mail. You don't throw seed into sandy soil and expect it to grow. You plow, you irrigate, you fertilize and you cultivate—and you exercise patience. There are too many dealers who expect salesmen to go out and sell their friends and relatives—they do not advertise enough and back up their men. So first of all, **spend some money**. But spend it wisely. Find an idea—a purpose—a reason for a call. Send your men out to **serve** and to **help**. Give them some tools with which to do it. Don't expect business to fall into your lap.

Next step is to obtain a large enough list of stock buyers in your neighborhood that can be conveniently covered without too much waste. Stockholder lists are available and they are the best means of obtaining names. Other lists of prominent people can be circularized. Newspaper advertising will also bring in prospects but you must be prepared to cull out some curiosity seekers, etc.

After you have planned your campaign, and have secured your lists, then send out your advertising. Keep it up. Follow each inquiry until you have determined that it is useless to keep the name on your list. After you have prepared the way with advertising, and if possible have developed some inquiries, go out and see just one new person a day. If you can see two of them so much the better. Of course, if you are a new man without any accounts at all then see five or more.

This does not mean though that you will just make a friendly call. You are not going in to see your prospect because you desire to visit with him. You are going in to sell. That means first of all selling yourself. No one can tell you how to do that—you have to learn this **by living**. Next, you try to find a basis for **helping him**. I don't think this can be overstressed. Frankly, I honestly believe that there is more confusion, more indecision, and more downright worry by investors than any other class in this country today. What a clientele you could build if you just took the bull by the horns and showed people that you **could help them solve their investment problems**.

This is the broad overall plan for building a business. You can fill in the details. It is based upon common sense, solving other's problems, a willingness to work intelligently and consistently, and faith in the plan. It will work—try it! I have proof based upon the experience of others who have tried it, and not once did it fail to produce exceptional results and substantial business that continued to expand and grow. After a **service business** is started, it gains momentum—satisfied customers eventually solve your prospecting problem.

Reports Over $6 Billion Savings in 1949

Home Loan Bank Board says selected types of long-term savings has reached a new high of $169 billion.

Savings of American people in the leading types of financial institutions and in U. S. savings bonds increased by more than $6 billion during 1949, continuing the steady growth of recent years, the Home Loan Bank Board announced March 25. By the year-end the selected types of long-term savings covered by the Board's report had reached a new high of $169 billion.

Although down sharply from the level of the war years, annual net additions to savings are continuing well above the record for any year prior to 1942, the statement said.

Except for postal savings, the amount reported in each category showed some gain during 1949. Accounts in savings and loan associations and similar units and in mutual savings banks, the only types of institutions that registered greater net gains than in 1948, rose by 13.6% and 4.8%, respectively. Savings held by commercial banks, life insurance companies and in the form of savings bonds reported increases ranging from less than 1% to 6%. For the second consecutive year there was a drop in the balance of postal savings.

Of the various types of savings studied, the greatest amount was represented by the cash value of life insurance policies, aggregating about $50 billion at the end of 1949. U. S. savings bonds held by individuals was a close second with nearly $49 billion and time deposits in commercial banks, amounting to $35 billion, ranked third.

During the past five years savings and loan associations have almost doubled their holdings of savings, while increases in the other forms of savings studied ranged from 35 to 47%.

The table below gives estimated savings at the end of 1949 and 1948 and the percentages of increase during 1949.

	†Dec. 31, 1949 (Amount—000,000's omitted)	Dec. 31, 1948 (Amount—000,000's omitted)	Percent of Increase
Savings and loan associations	$12,460	$10,964	13.6%
Life insurance companies	50,000	47,139	6.1
Mutual savings banks	19,270	18,385	4.8
*Commercial banks	35,100	34,970	0.4
Postal savings	3,300	3,442	—4.1
U. S. savings bonds	48,600	47,500	2.3
Total	$168,730	$162,400	3.9%

*Time deposits. †Preliminary estimates.

NOTE—A three-page report carrying these figures for the years 1920-1949 is available at Home Loan Bank Board, 101 Indiana Avenue, N.W., Washington 25, D. C., Room 740. The Home Loan Bank Board report does not cover the entire field of savings, but is designed to measure long-term accumulations of individuals in major savings channels. More comprehensive studies of savings are made by the U. S. Department of Commerce and the Securities and Exchange Commission.

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News About Banks and Bankers

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED CAPITALIZATIONS

Robert E. McNeill, Jr., was elected a trustee of **Central Hanover Bank & Trust Co. of New York** at a regular meeting of the board of trustees on March 21. Mr. McNeill has been a Vice-President of Central Hanover since December, 1940. Prior to that he was President of Central Farmers Trust Co. and of Atlantic National Bank in West Palm Beach, Fla.

* * *

John J. McClean, a Second Vice-President in the foreign department of the **Chase National Bank of New York** died on March 22 after an illness of six weeks. He was 64 years old. Mr. McClean, after five years with the American Express Co., joined the staff of the Equitable Trust Co. in 1917. He was appointed Assistant Manager of the Equitable's Foreign Department in 1921 and Manager five years later. Promoted to Assistant Vice-President of Equitable in 1929, he became a Second Vice-President of the Chase at the time of the Chase-Equitable merger in 1930.

* * *

Lee Thompson Smith, Chairman of the Executive Committee and director of the **Home Title Guaranty Co.**, has been elected a director of the **American Trust Co. of New York**, it was announced by Harvey L. Schwamm, President of the trust company. Mr. Smith is President of The Real Estate Board of New York, Inc., and the New York Board of Title Underwriters. He is also a Governor of the Mortgage Bankers Association of New York and a director of City and Suburban Homes Co. He is identified with extensive civic activities.

* * *

Harvey D. Gibson, President of **Manufacturers Trust Co. of New York**, announces that Walter H. Wiley of the bank's Branch Loan Administration has been made an Assistant Vice-President. Mr. Wiley came to the bank in 1924 and after serving at several branch offices was transferred to the Brooklyn Division of the Branch Loan Administration in 1932. At the same time, it was announced that James B. Agnew, of the bank's office at Fifth Avenue and 43d Street, was made an Assistant Secretary. Mr. Agnew has been with the company since 1937.

* * *

Ground was broken in Little Neck, L. I., on March 27 for a new $250,000 building to house the Little Neck branch of the **Queens County Savings Bank of Flushing, N. Y.**; the branch is now located at 250-01 Northern Boulevard. The new building will be located at Northern Boulevard and 251st Street.

* * *

The retirement of Joseph G. Fischer, First Vice-President of the **Marine Trust Co. of Buffalo, N. Y.**, and Vice-President and Treasurer of the **Marine Midland Corp.** was recently announced. Mr. Fischer has also been a Vice-President of the Marine Midland Group, Inc., a service organization for the 19 Marine Midland banks. Edward C. Gruen, Vice-President and Treasurer of Marine Midland Group, Inc., has been elected to succeed Mr. Fischer as Treasurer of the Marine Midland Corp. Although retiring from active duty as an officer of these corporations, Mr. Fischer will not relinquish his other banking and business interests. He will maintain an office on the 16th floor of the Marine Trust Building in Buffalo to carry on his business and outside activities. He will retain his directorships in the Marine Trust Co., Marine Midland Group, Inc., The First Trust Co. of Tonawanda, The State Trust Co. of North Tonawanda and the Marine Safe Deposit Co. Besides his banking interests, he is also identified with various corporations.

A native of Tonawanda, Mr. Gruen, a certified public accountant in the states of New York and Georgia, was formerly an Assistant Professor and lecturer at the Georgia Institute of Technology and also at Oglethorpe University. He was also formerly a member of the Committee on Appeals and Review of the United States Treasury Department which was a predecessor of the United States Tax Court. Mr. Gruen also belongs to the American Institute of Accountants and the New York State Society of Certified Public Accountants.

It was also announced that George C. Textor has been elected Assistant Secretary and Assistant Treasurer of the Marine Midland Corp. Mr. Textor is Executive Vice-President of the **Marine Midland Trust Co. of New York.**

* * *

The New York State Banking Department on March 17 announced that approval had been given to a certificate reducing the par value of shares of stock of the **Bank of Cattaraugus, at Cattaraugus, N. Y.**, from $100 each to $20 each and increasing the number of shares from 1,000 shares of the par value of $100 each to 5,000 shares of the par value of $20 each.

* * *

Allerton C. Hickmott, Vice-President of the Connecticut General Life Insurance Co., was recently elected Vice-President of the **State Savings Bank in Hartford, Conn.**, and President of the New London Northern RR. In these positions he succeeds the late Charles G. Woodward. Mr. Hickmott has been associated with Connecticut General since his graduation from Dartmouth College in 1917. He was appointed Assistant Secretary of Connecticut General in 1925, Financial Secretary in 1937, Second Vice-President in 1947 and Vice-President in 1949. He has been a trustee of the State Savings Bank since 1942.

* * *

Robert C. Downie, President of **Peoples First National Bank & Trust Co., of Pittsburgh**, has announced that the directors on March 21 voted to increase the quarterly dividend to 45 cents per share. This is an increase of 20 cents per share annually on the 600,000 shares outstanding. The dividend is payable April 1 to stockholders of record March 27. According to Mr. Downie, earningswise, 1949 was the best year in the history of the bank. Net operating earnings amounted to $2,030,039, or $3.38 per share, compared with $1,896,825, or $3.16 per share, for 1948. In December, the directors declared an extra dividend of 10 cents per share, making a total dividend of $1.70 per share for 1949. Dividends have been paid each year by the bank since 1867. The bank at the year-end had total capital funds amounting to $30,063,489. Last year $2,000,000 was added to surplus, increasing the total capital and surplus to $26,000,000.

* * *

Announcement was made on March 16 of the election of G. Van Velsor Wolf, as a director of the **Maryland Title Guarantee Co. of Baltimore**, according to the Baltimore "Sun." Mr. Wolf is connected with the law firm of Marbury, Miller & Evans. It is added that Paul L. Plack was elected to serve as Title Officer and Assistant Secretary. He has been associated with the company for 15 years.

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The name of the **Teutonia Avenue State Bank of Milwaukee, Wis.**, has been changed to the **Teutonia Bank**, effective March 15, it is learned from a recent announcement by the Board of Governors of the Federal Reserve System.

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Oliver S. Aas, Assistant Vice-President of **First National Bank of Minneapolis, Minn.**, died on March 22. He was 51 years of age. Mr. Aas in 1927 joined the **First Minneapolis Trust Co.**, which later was absorbed into First National Bank. He was elected Assistant Trust Officer of the First National in 1937 and Assistant Vice-President in 1946. During the past two years, Mr. Aas was active in the bank's public relations program. He had also been active in civic affairs. Born at Aneta, North Dakota, Mr. Aas received a law degree from the University of Minnesota in 1925. A veteran of both World Wars, Mr. Aas served briefly in the Army in 1918 and during the last war was in the Navy. He held the rank of Lieutenant-Commander.

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The American National Bank of St. Cloud, Minn., increased its capital, effective March 14, from $100,000 to $150,000 by a $50,000 stock dividend.

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The Board of Governors of the **Federal Reserve System** announced on March 22 the appointment of Dr. John M. Gallalee, President of the University of Alabama, Tuscaloosa, Ala., as a director of the **Birmingham Branch** of the **Federal Reserve Bank of Atlanta** for the unexpired portion of the term ending Dec. 31, 1950. Dr. Gallalee succeeds J. Roy Faucett, a member of the firm of Faucett Brothers, Northport, Ala., deceased.

* * *

The resignation of Ellis C. Huggins as Chairman of the board of the **Empire State Bank of Dallas, Texas**, is announced. Mr. Huggins, who, according to the Dallas "Times Herald," resigns to give more attention to his personal business, will remain as a director. He was, it is said, one of the principal organizers of the bank which began business Sept. 20, 1948.

* * *

William H. Johnson, Vice-President of the **Anglo California National Bank, of San Francisco**, has been placed in charge of the newly created public relations department of the Anglo's capital office in Sacramento, it is announced by Allard A. Calkins, President. Mr. Johnson recently joined the Anglo Bank staff after serving for three years as Manager of the investment advisory department of the Hawaiian Trust Co., Ltd., in Honolulu, Hawaii. While in Honolulu he was President of the University of California Alumni of Hawaii and was active in Community Chest and Red Cross work. Mr. Johnson is a native of San Francisco.

* * *

Stockholders of the **Bank of America N. T. & S. A. of San Francisco**, at a special meeting voted in favor of the proposal of the directors to reduce the stated par value of the shares of common stock outstanding from $12.50 to $6.25 per share, and to increase the number of shares outstanding from 10,238,052 to 20,476,104. The change will be effected as of the close of business on March 31 by the issuance to stockholders of record at that time of one additional share for each share held. No action on the part of stockholders is necessary as regards presently outstanding certificates. It is stated that the action was taken in line with bank's policy of increasing the already widespread ownership of the bank. The plans to reduce the par value of the shares were noted in our issue of Feb. 23, page 812.

Continued from first page

Pensions and Politics

came to understand two things. One is that socialist guides will always lead the labor unions away from an economic program into a political program, which, in the forceful words of Samuel Gompers, is "economically unsound, socially wrong and industrially impossible." The other thing I have learned, which Gompers accurately foresaw, is that any political labor party will be dominated by socialists and that a socialist government will eventually destroy those very liberties, comforts and securities which labor unions are organized to gain, or to preserve, for industrial workers.

The Socialist Transformation

We have seen the transformation of a labor party into a socialist party in Great Britain. We are seeing in the United States the hurried transformation of a labor front party into a socialist party. This process is inevitable, because the reason for resorting to political action is to compel other people to do what they will not voluntarily agree to do.

When labor unions go beyond economic pressures and appeal to reason, when they seek to compel all workers to join them, and all other community interests to be subservient to theirs, no theory of political action will justify their compulsory rule and their destruction of individual liberty and rights of property, except the socialist dogmas that support the creation of an all powerful, tyrannical state.

So long as labor organizations sought only to establish the freedom of the workers to act together for their common benefit, so long as they sought only equality of opportunity and of bargaining power, and relied on voluntary agreements to protect their interests, they did not need nor desire to have the government compel employers or competing workers to submit to their orders.

They not only opposed compulsory arbitration of labor disputes, but they consistently opposed the establishment by law of terms or conditions of employment, even when supposedly for their benefit. Gompers even opposed a law-made eight-hour day! In those remote days the senatorial boss of the Republican Party said to the President of the A.F. of L.: "Once you get the government to do things with men, you never know what the end is going to be." And President Gompers commented in writing: "This was in exact coincidence with my own point of view."

"How Times Have Changed"

How times have changed! If, after fighting labor's battles for 20 years, Don Richberg is now a "reactionary," what would Sam Gompers be? It must be admitted that both of us always *reacted* vigorously against tyranny in any form, by anybody!

The chosen leaders of some 14 million organized wage-earners today are clamoring to have the government regulate the working and living conditions of American workers from the "cradle to the grave." Minimum wages, maximum hours are prescribed by law. "Labor practices" in collective bargaining are made "fair" or "unfair" by volumes of bureaucratic rulings. When the production of necessities is stopped by failure of voluntary agreements, outstanding labor leaders advocate government seizure and operation of entire industries.

They call for government aid in forcing all workers to join politically favored unions. They denounce laws protecting the freedom of workers to join or not to join an organization. They support, and would extend, government monopolies and monopolistic controls of food, fuel, power, communication and transportation. They clamor for government guarantees of social security and economic security in a braying chorus which would drown out all opposition to these advances of national socialism under the false banners of a "welfare state."

Relief in Socialized Suicide

As these socializers march into the utopian realms of socialized housing, socialized education, socialized medicine and socialized psychiatry, beyond which lie the alluring vistas of socialized labor and socialized thought control which are essential to the maintenance of a communist state, it is comforting to realize that, with the development of atomic energy, any completely socialized state will be able to find relief from its financial and spiritual bankruptcy in socialized suicide. That appears to be the principal objective today of the great socialized state of Russia, which opposes any effective restraints upon atomic warfare.

It is historically interesting to trace the processes whereby the American labor movement of 40 years ago has been transmuted into the utterly different labor movement of today. It is well to remember that the Socialists of yesterday were as vigorously opposed by the strong-minded leaders of that day, such as Gompers and Stone, as the Communists of today are opposed by such men as Murray and Green and Lewis. But we must also remember that, when the labor leaders of the '30's were induced to go political, to collaborate with government, and to become partisan, in order to rescue their organizations and their members from a calamitous depression, they accepted, at first reluctantly but eventually with enthusiasm, the coercive aid of political power as the easiest way to solve their problems of the hour.

We can assume that if Russian Communism had not demonstrated so soon and so forcibly the economic unsoundness, the social wrongs and the industrial weakness of national socialism, the drive to socialize our entire economy and to develop an all powerful national government, would have advanced even further than it has today. Happily, we now find hesitations developing, obviously among the farmers and less clearly among industrial workers, against making themselves completely dependent on the government for relief against the hardships and uncertainties of life in a complex industrial civilization.

Rural Population Not Seduced by Brannan

The lure of a Brannan plan, to guarantee a livelihood to farmers at the cost of submitting to government controls of production and distribution, has not yet seduced the rural population to abandon the independent way of life that is still the main inducement to men and women to accept

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the difficulties and to enjoy the freedoms of self-support.

The industrial workers, long educated to resent dependence on an employer for jobs and the improvement of living standards, have been more easily persuaded to accept dependence on government officials for economic security, particularly when they felt that through their own labor organizations they would be able to regulate their official regulators.

But, little by little, even the industrial workers have come to appreciate that a labor-controlled government has a capacity for mischief and a tendency to tyranny, under which the individual employee is more helpless than when dependent on the goodwill and ability of a local employer.

The slogan, "you can't strike against the government," carries with it a chill warning of the menace of dependence upon a boss against whose abuse of power you may find that you have no weapons of self-defense. The actual enslavement of labor in Russia under a state monopoly of employments makes the denunciation of "wage slavery" in the present competitive economy of the United States sound rather silly. Not until the socializing "welfare state" takes control of industry will there be any actual "wage slavery" in America.

As a result of the current confusion in economic and political thinking, the labor leaders of America are pursuing policies that are hopelessly in conflict. They put their faith more and more in uses of political power, whereby they are aiding to extend and to intensify political controls of industry. They steadily undermine the foundations of capitalism with reckless denunciations of profit-making and demands for oppressive taxes and excessive labor costs, which can only be met by price increases which reduce the actual rewards of labor. Yet the accumulation and investment of capital surpluses, needed to expand industries, and the payment of heavy taxes to support an extravagant government, are only possible through the making of the profits which these befuddled leaders denounce.

This hopeless conflict between policies and objectives is particularly evident in the prosecution of increasing demands for social security—for pensions, unemployment insurance and guaranteed earnings. If the labor program were pure socialism it might fail, and presumably would fail, because of the weaknesses inherent in a political management of industry. But, there would be at least some logic in a demand that the government rule industry and accept responsibility for employment, adequate wages, and the accumulation of surpluses, through which a satisfactory livelihood and economic security for industrial workers might be assured.

If, however, in accord with the professed faith of our labor leaders, free enterprise must be maintained so that the economic freedom of industrial workers, and all other citizens will be preserved, how can the government become the guarantor of employment and economic security? The government can of course protect and sustain the freedom of private enterprise to provide employment and economic security for all persons capable of useful work. The government can of course require a fair distribution of the rewards of private enterprise, and a trustworthy management, responsive to public moralities and private obligations.

Government's Impossible Task

But the government cannot plan and direct and spend the earnings of private enterprise in order to provide employment and economic security for all, without destroying the ability of private enterprise to achieve its primary purpose of providing employment and economic security for those individuals who accept its hazards in order that they may live as free men. An economic system in which individuals expend their energies and their individually accumulated gains for the purpose of individual support and security and suffer all their losses individually, but are forced to accept a political distribution of all their gains, is "economically unsound, socially wrong and industrially impossible."

That, however, is the system of enterprise which certain pressure groups and politicians are struggling to develop in the United States today. Its socialistic vices are hidden but not cured by camouflaging it as a "fair deal"—for deserving Democrats.

The economic unsoundness of this system is temporarily concealed by the process described as "deficit financing." What this means is that so long as we can mortgage our future, spend borrowed money for current expenses, and avoid paying our debts, we can go on living beyond our means and enjoy the prosperity of a father who is spending the heritage which belongs to his children.

The social wrong of this system is concealed by pious declarations that social justice and social security for all are its objects. The communists avow this noble ambition in the phrase "to each according to his need, from each according to his ability." But we have not yet arrived at that height of universal altruism which permits our politicians to persuade us of the glory of utterly self-sacrificing service to others. So we are only asked to believe in the virtue of a competitive economy in which the successful competitors are compelled to transfer most of their gains to the losers and thus are inspired to go on competing!

I am reminded of a protest I once made to a big business executive against his continuance of doing business in Nazi Germany. I said: "They take away all your profits," and he answered, with pathetic irony: "Yes, but they let us make them."

Our socializers today are at least wise enough to permit substantial profits to be made by American business because, although profit-making is noisily denounced as the evil product of predatory business, it is the essential source of revenue with which to maintain the political power of the socializers.

This is the reason why the industrial impossibility of socialism will be concealed until the time when industry is completely socialized. Until then private enterprise will continue to produce the profits out of which government services can be expanded, and to produce the surpluses for private investment with which deteriorated plants can be replaced and new plants can be built to meet the increasing demands of consumers and to provide additional employments for a growing population.

The most diligent and inventive socializers have not yet been able to develop social geese that will lay golden eggs of a quantity and quality comparable with the output of the individual geese of private enterprise. That is why both politicians and labor leaders of the liberal-spending school cannot decide whether private industry or government should be required to provide social security. They can agree that government should order the job done and should supervise it, but the question is: Who should pay for it?

Of course the people always pay for it ultimately, but, if they are taxed too much directly by the government they may begin to complain that they want to spend more of their own earnings themselves. However, if employers are made to pay for the people's insurance, then both labor and consumers (from whom employers will actually get the money) will have the pleasant illusion that somehow they are milking some of those wicked profits out of big business and getting "free" insurance. The truth is that employers must pay insurance premiums out of lower wages for labor and/or higher prices for consumers, because a businessman hasn't any money to spend for anything except the difference between what he pays out (largely to labor) and what he takes in from consumers.

Riding Two Horses

Well educated socialists like Walter Reuther look forward to the happy day when they will not have to struggle with the pains and difficulties of riding the two horses of private industry and government in opposite directions at the same time. Mr. Reuther told the Congress recently that he looked forward to the time when all old age pensions would be governmental. Then it would not be necessary to bounce back and forth, clubbing private employers into providing partial pensions and pressuring Congress into providing additional pensions.

Any good socialist would agree with Mr. Reuther that the whole job ought to be done by the government. Then pensions would not be used by employers as "unfair incentives" to keep men working at one job, when their souls yearned for a change of scenery. Then support in old age would not depend entirely upon sacrifice and thrift and the rendering of services valuable to others in the years of one's vigorous competence. Then the legal right to charitable support by the work of other men would give "dignity and pride" even to those most unworthy of such support. Then labor would not be compelled to strike perennially for higher pensions, but merely to vote biennially for liberal-spending Congressmen.

But Mr. Reuther, as a democratic labor leader, and defender of free enterprise, must frequently lay aside his comfortable red cloak and, donning the ill fitting fair deal coat of many colors, undertake the difficult task of browbeating employers into paying the cost of pension funds which will be administered—not by the employers, not by government, not by impartial trustees, but by a political-labor command. Unfortunately the examples set by the tyrannical demands of Johnlewisites at one extreme, and of communists at the other extreme, of the labor movement, have made it very difficult for any moderate labor leader to make reasonable proposals in collective bargaining that would strengthen and preserve the virtues of private enterprise.

Disappearance of Real Collective Bargaining

In fact real collective bargaining, as the peaceful adjustment of conflicting minor interests in the light of common major interests, has practically disappeared in the relations of big labor and big business. Now we have political bargaining to produce a temporary coercive settlement in a permanent conflict, a dictated peace intended to last only until resources can be organized for the next battle in a never ending war. This bargaining is for political ends, in which existing political power is called upon to help the contestants, with a clear warning that the labor movement is now primarily a political movement aiming at ultimate political control of government and that every politician should chart his course so that he will be counted either for or against the on-marching labor party.

Thousands of minor labor leaders, millions of the rank and file, have no understanding that they are moving down this broad highway that leads to national socialism. Hundreds of minor labor leaders and thousands of the rank and file, who are either communists or confirmed socialists, understand full well that they are engaged in a political war against a free economy and a democratic, republican form of government.

Among the top labor leaders there is every variety of political economic thinking, from the lawless despotism of John Lewis, through the rudderless drifting of William Green, to the suavely veiled socialism of Walter Reuther and the dogmatic truculence of the faceless, nameless Communists.

In view of the main topic of this gathering, the pension question offers a good example of the unfortunate and confusing results of this divided, discordant, muddled labor leadership. If there were a prevailing labor policy in favor of government pensions and in opposition to industrial pensions, the issue would be clear. If labor policy favored industrial pensions and opposed government pensions—or even favored industrial pensions for industrial workers and government pensions for others, the issues would be clear. But, organized labor, conscious of its great stake in free enterprise, yet half seduced by the glittering promises of socialized security, is engaged in the unhappy effort of trying to compel both government and industry to solve the same problem in different ways.

A Program

At the risk of exposing a greater ignorance than I am willing to confess I am going to suggest a program of pensioning that might be acceptable to all genuine believers in a free economy, but which, I am sure, will not be acceptable to any partisan socialist. The adoption of such a program would however develop a clear issue between these fundamental opponents in the shaping of our political economy.

First, it will not shock "free enterprisers" to assert that the problem of old age dependency cannot be solved by industrial pensions alone. Obviously millions of persons on the farms, in the professions and in domestic service would not be covered by industrial pensions.

Second, in order to avoid tying men down to specific employments, it is evident that single employer pensions, the benefits of which are only reaped by continuous employment, are inadequate protection for old age.

Third, a pension which is not earned is a pure charity, that is not a proper charge against an industrial enterprise, which should remain a profit-making and not an eleemosynary institution. Charity to the unfortunate or incompetent is, socially speaking, an obligation of an entire community, to be met by taxation.

Fourth, our national community, in this day of easy transportation and resettlement throughout the nation is the only one which can justly be charged with the obligation to supply charitable support to persons beyond the age and competence of self-support.

Fifth, in order to lighten this burden every self-supporting citizen through his years of self-support should be required to pay a tax sufficient to provide for him in old age the minimum pension which is to be provided for incompetents, or in the alternative, required to pay the premium for irrevocable private insurance which will guarantee him at least such a minimum retirement annuity.

Sixth, the present collection of insurance premiums by the national government and the expenditure of such premiums for current expenses is a procedure comparable to the embezzlement of trust funds which would not be tolerated in a private trustee. The deposit of government bonds with the government pension administration does not provide social security but leaves fulfillment of obligations to pensioners dependent upon subsequent appropriations of money obtained by taxes imposed on future generations. The honest method, of collecting no pension taxes in advance but of levying taxes each year to meet the pension obligations of that year, has the defect of not requiring each income earner if possible to provide for his own old age security out of his own earnings, which should be the obligation of the individual in a free economy.

Seventh, for these reasons and others, the government should be required and authorized to use pension taxes to purchase pension insurance from private insurance companies, which, by investment of their funds in private enterprises will insure the flow of private accumulated capital into the development and maintenance of private enterprise, thus providing for additional private employments and private income out of productive labor. Thus private enterprise will be strengthened instead of weakened as would be the result of a socialistic pension program.

Eighth, in supplement to such a national provision for a minimum security against old age disability, there would be available, as a subject of employer-employee agreement, the establishment of local pension arrangements as an incentive to faithful, continuous service, with appropriate provisions for an accounting on a severance of employment by either party. With such private pension arrangements the government should have no concern, except to make sure that no provision or application of any Federal law should make it impossible or impractical to provide irrevocable insurance for any kind of reasonable old age pensions.

Ninth, perhaps I should point out that if such local pension arrangements were made the employee covered would be relieved of his obligation to pay a Federal pension tax through the payment by him, or in his behalf, of an adequate premium, provided there was no right reserved to cancel the insurance and obtain a refund of payments.

In venturing these summary suggestions for the development of a non-socialistic pension program, I realize there may be pitfalls in my propositions immediately evident to such well informed students of this problem as I am now addressing. If so, I have floated over them, not because of any vain confidence that I have found an answer to perplexities with which I have been wrestling off and on during the last 20 years. On the contrary I have floated them over because of the hope that in a birdseye view of this field of confused conflict I might be able to see and to point out where and how the lines might be formed for a clear and decisive battle between the free enterprisers and the socializers.

Here is a problem emphatically calling for social thinking, and for a social solution, without accepting the ready-made solution of socialism—which promises to cure all social ills by the employment of government m e d i c i n e-men. First, they feed you political morphine so that you will dream beautiful dreams and not realize what is being done to you. Then they bleed you white with taxes. Then they give you blood transfusions of a part of your own blood—and, as the red oozes back into your pale cheeks, they cry exultantly: "The operation is a success. After a few more years of progressive anemia we will have you on your feet again."

We are decades beyond the era in which the charlatans of medical science could induce intelligent people to be bled to death. It is my fond hope that we are nearing the end of the era in which the charlatans of political science have been able to induce nations of intelligent people to be bled to death. That is my hope for the future of America.

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Equitable Life to Buy and Lease Freight Cars

Under the proposal, railroads would be enabled to obtain equipment immediately and without traditional 20% down payment.

A plan to purchase new freight cars from manufacturers and lease them to the railroads of the United States has been developed by the Equitable Life Assurance Society, it was announced March 27 by Thomas I. Parkinson, President. The Equitable purchase - lease plan a revolutionary development in railroad operation, will enable American railroads to secure immediately, without down payment, as much new freight car equipment as they need. The result, Mr. Parkinson pointed out, will be speedier, better freight service at lower operating costs for the nation's railroads because of the modern equipment. At the same time, employment among car manufacturers and affiliated industries will be maintained at a high level and the country's economy will generally benefit from this new outlet for life insurance investment funds.

T. I. Parkinson

In traditional practice the railroads have been required to make at least a 20% cash down payment on purchases of new freight car equipment. As a result, orders for badly needed new equipment have often been withheld whenever it appeared that general business, and railroad earnings in particular, might be on a down trend. This occurred in 1949, when because of a decline in railroad gross, the backlog of orders for new freight cars almost disappeared.

Over 30% of freight cars now in use are more than a quarter of a century old and substantially over one-half are more than 20 years old, Mr. Parkinson said. By the end of the twentieth year of service most railroads find it necessary practically to rebuild their freight cars. Yet, after such rebuilding jobs the cars still have such 20-year old disadvantages as limitation of size and excess of weight. Many engineers contend that it would be much more economical for the railroads to scrap 20-year old cars than rebuild them. However, to get the present car fleet even close to the ideal, where no cars could be over 20 years old, would take far more money than the railroads will ever have available — probably somewhere between five to five and one-half billion dollars. By comparison with these requirements, freight car purchases reached a high for the last 20 years in 1948 of only $417,000,000.

Under the Equitable's purchase and lease basis of financing, the railroads are not required to pay a 20% cash down payment. As a result their equipment purchases are not limited by their immediate working capital problems.

The Equitable plan is based on two documents: A purchase agreement between Equitable and the car manufacturer; and a lease of the cars between Equitable and the railroad.

Under the purchase agreement with the manufacturer, Equitable makes a down payment for the cars in cash and agrees to pay the balance in equal instalments over a period of five years so long as the rentals are received for the cars from the railroad. Interest is paid during the five-year period on the unpaid balances owed to the car manufacturer.

Under the agreement with the railroad, Equitable leases the cars to the railroad for an initial term of 15 years, giving the railroad an option of returning the cars to Equitable at the end of such term or of continuing to lease all or any of them for an additional term of up to 10 years at 20 cents per day.

"The Equitable purchase - lease freight car plan is one more good example of life-insurance investment funds in action," Mr. Parkinson pointed out. "It offers a fine investment opportunity for the Society's reserve funds, enables the nation's railroads to operate more efficiently and economically, and creates and stabilizes more jobs.

Railroad Securities

Actual and Prospective Rail Financing

One characteristic of the railroad securities markets of the past month or so has been the extremely low level of activity in the better grade and high grade sections of the bond list. It had been hoped in many quarters that the success of the Rock Island refunding operation would stimulate interest in this group by institutional buyers. There is still strong pressure of institutional funds seeking investment. Yields on quality industrial and public utility bonds are very low. Comparable investment grade railroad bonds are available to yields 25 to 50 basis points cheaper. The earnings outlook is bright. Notwithstanding all of these factors no great demand has as yet developed.

Despite the lack of general market activity for some time past, the new issue market is promised greater activity than has been witnessed in four years. So far as railroads are concerned, underwriters have had to subsist largely on equipment trust offerings since the wave of refundings that took place in 1945 and 1946. Now, presumably spurred by the low coupon that Rock Island got in its refunding, there are a number of new issues in prospect. To raise new capital Southern Pacific has offered stockholders a convertible 10-year issue, the offering having been underwritten by a group of investment bankers. By the time this column is printed Chicago, Burlington & Quincy will have sold at competitive bidding $25,000,000 of new long-term bonds, part for refunding purposes and part for property expenditures.

Early next month there will be a new issue of $4,000,000 of Wheeling & Lake Erie 2¾s, 1974. Proceeds from the sale of these bonds will be utilized to pay off the company's short-term bank loan. Later in the month it is expected that Seaboard Air Line will sell some $32 million of new first mortgage bonds. This will be for the purpose of redeeming the presently outstanding 1st 4s, 1996. If this operation results in any considerable interest saving there is a feeling in many quarters that a number of others may follow fairly quickly. Prominently mentioned in this connection are Gulf, Mobile & Ohio and Kansas City Southern, both of which have 4% first mortgage bonds outstanding.

About the only real excitement there has been in the rail field in the past couple of weeks has been the gyrations of Missouri Pacific old preferred stock. Earlier this year the shares had sold as low as 4⅛ and more recently they had been trading unspectacularly around 6-6½. Early last week, and on heavy volume, the stock jumped to 10⅞ and then almost as rapidly receded. By the end of the week it was down again to 8.

The sudden spurt of activity stemmed directly from news from Washington. A group of 20 Senators called for a Congressional investigation of the proposed reorganization plan. This plan was certified by the Interstate Commerce Commission some time ago and District Court hearings were scheduled to start on March 27. The investigation was proposed mainly on the basis of the ICC's elimination of the old common as having no value and the limited participation of the old preferred. In earlier Commission plans the preferred had also been eliminated but in the latest one, holders are allocated three shares of new Class "B" common for each seven shares of old preferred.

The resolution calling for the investigation cited the "extraordinary industrial development" in the 11 states served by the system, with a consequent substantial increase in potential earning power. Loud senatorial outcries against the severity of ICC reorganization plans and the elimination of stocks in such reorganizations are not any new phenomenon. There were serious attempts, accompanied by wild speculation, to bring political pressure to bear in order to preserve some equity for stocks of such roads as Rock Island and New Haven, but in the final analysis ICC opinion prevailed. Therefore, there seems little occasion for optimism that the present maneuvers will result in any further liberalization of the Missouri Pacific plan. After all, it appears reasonable to believe that the ICC had also heard of the industrial expansion in the area and had taken it into account when it set up the most recent proposed capitalization.

Jos. Buffington With Arthurs, Lestrange

J. Buffington, Jr.

PITTSBURGH, PA. — Arthurs, Lestrange & Co. have announced that Joseph Buffington, Jr., has become associated with them as manager of the trading department. Mr. Buffington was formerly with Stroud & Co., Inc., and The First Boston Corporation.

The firm also announces the removal of their offices to the Frick Building.

Leo A. Dunn Opens

CASPER, WYO.—Leo A. Dunn is engaging in a securities business from offices at 1432 South Ash Street.

D. F. De Beixedon

SOUTHAMPTON. L. I., N. Y.—Daniel F. De Beixedon will engage in a securities business from offices at 48 Main Street.

Continued from page 4

The Growing Demand For Common Stocks

open-end investment companies and the use of common stocks by pension funds should provide from $400 million to $600 million of additional funds each year. These funds will be under the control of professional managers and will have a material effect on the equity markets over a period of years.

Life Insurance Cos. and Trustees

The other important developments concerning life insurance companies and trustees, I will not go into at this time largely because you gentlemen, I am sure, have been following these trends more closely than I have. You all know of the "prudent man" bill which passed the New York State Senate two days ago. It may turn out that the amount of funds under institutional management for investment in common stocks will be increased greatly from these two sources.

All of this growing interest in equity investment has, in my judgment, a sound basis and is influenced primarily by changes in the economic conditions under which we live. Despite the fact that our economic past has been highly unstable and that the period ahead in many ways is equally uncertain, there have been developments over the past twenty years which have created a new interest in common stocks.

Government Safeguarding of Employment

The most important of these new developments is the influence that government has on the course of business activity. The government has proved in the past that it will take action to keep employment at a high level. High employment has been the cornerstone of our present government's policy and interestingly enough it is also the cornerstone of the policy of the British Labor Government. It seems to me that these trends will continue, whatever party is in power, and that in the future our government will not hesitate to unbalance the budget and to spend large sums of money to keep employment stable and to prevent a serious depression. Secondly, I think that we have clear-cut evidence that the government will regulate production, prices and marketing of farm commodities in order to maintain the farmer's purchasing power at a fair level in relation to the rest of the community. Thirdly, the search for social security under government auspices or by private planning will continue. The coverage of these plans will be broadened so that they are bound to have a great effect on our economy over the future. Fourthly, the government has taken the initiative in providing housing. This is a role that it will probably have to continue to play regardless of political changes.

The long-term interest of the government in these affairs indicates clearly that public expenditures will be large for years to come and that the effect of the Federal budget upon the level of business activity will be great. Under these conditions, it is probable that we do not need to fear a depression of the magnitude of the early 30's for quite some time to come.

I think it is also likely that the credit policies of the government will not undergo any material change. It now seems evident that the Federal Reserve and Treasury have come to some agreement on policy. Long-term interest rates may fluctuate more widely than they have in the recent past, but the problems of servicing a large Federal debt will probably require the continuance of an easy money policy and low yields on government securities.

Credit Structure Non-Collapsible

In fact, the entire credit structure, involving long-term obligations and based in large part on non-liquid assets, has become extremely rigid. It is almost impossible to think of any Administration permitting it to collapse.

I think that in appraising the period which lies ahead, we should assume that industrial selling prices will continue to be firm, chiefly because wage rates have shown a strong upward trend. Average hourly earnings have increased approximately 130% since 1939. They have increased more rapidly and continue to increase more rapidly than our gains in productivity. So long as we have strong labor unions, the hourly wage is not likely to break, and industrial selling prices will remain firm.

In sum, political and economic developments have lessened the chances of a serious depression. They have also altered the nation's investment mechanism.

High progressive tax rates have forced redistribution of the wealth of our country. The large personal fortunes that had been built up a few generations ago are being whittled down by this taxation, despite a growing national income. In 1914, for instance, our national income was about $36 billion. It had increased over 500% by 1949 to $222 billion.

Most important than the amount of this increase is the distribution of this income. By examining the reports of the Bureau of Internal Revenue, you will find that in 1914, the first year for which the records are available, 60 individuals and taxable fiduciaries reported incomes in excess of $1 million. In 1946, the latest year for which these records are available, there were only 94 such returns filed. This is a small increase in relation to the large increase in the national income.

The middle income group in this country has done well. In 1914, there were aproximately 200,000 individual income tax returns, representing incomes from $5,000 to $50,000. In 1946, over 3,222,000 taxpayers reported incomes in these brackets.

These figures suggest that the market for investment securities has shifted from the very wealthy to the middle income group in this country and that the institutions which serve the middle income group have the greatest prospects for continued growth. The figures I cited earlier on investment company growth confirm these conclusions.

HCL and Lower Bond Yields

Meanwhile, two fiscal developments have combined to make common stocks more attractive. They are the high cost of living and the low yields on high grade bonds.

The purchasing power of the dollar today is 40% lower than it was eleven years ago; high-grade bonds yield 20% less than 11 years ago. But common stocks yield 50% more.

These contrasting trends highlight the story told by the accompanying table (Exhibit 1) of monthly average yields on Moody's Aaa bonds and Moody's 200 common stocks for the 30 years, 1920 to 1949.

In 1920, the yield on Moody's Aaa bonds was 6.12%. The yield on Moody's 200 common stocks was 5.5%. Bond yields for that

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year were 111% of common stock yields.

While the yields on Aaa bonds were in a downward trend for the next 10 years and the yields on common stocks fluctuated widely for the period ending with 1930, it was possible for the investor to get a 7% higher return on average by investing in Aaa bonds than he would have gotten by investing the same amount of money in common stocks.

During the 1920's, the purchasing power of the consumer's dollar was also improving. Based on the period 1935-39=100, the purchasing power of the dollar increased from approximately 70 in 1920 to 83 in 1930.

Under such conditions, there was no pressure on the investor to seek a higher yield or to protect the purchasing power of his dollar through equity investment. Starting with 1931, the income advantage of Aaa bonds began to disappear, partly owing to the change in long-term money rates and partly owing to declines in the stock market. The Yield on Moody's Aaa bonds in 1930 was 4.55%. Since then, this yield has declined persistently until it averaged but 2.66% for the calendar year 1949.

Long-Term Rise in Stock Yields

The yield on Moody's 200 common stocks was 4.54% in 1930. It was 6.63% for 1949. The ratio of bond yields to common stock yields, which was 107.8% for the 11-year period from 1920 to 1930, was only 66% for the 19 years from 1930 to 1949.

The year 1949 represents a low point in the ratio of bond yields to common stock yields. For that year, it was only 40.1% of the yields avilable on common stocks.

These figures bring forcibly to mind the fact that the bondholder has been hit three ways: First, by declining money rates; second, by declining purchasing power of the dollar and third, by increasingly heavy taxation. We all know that fiduciaries as well as individual and institutional investors have been gravely concerned by these three problems.

This brings us squarely to face with the problem of whether the possibility of securing satisfactory investment results exists in common stocks.

In examining this problem, I should like to try to divorce my thinking from the bull and bear market psychology that is so likely to absorb the attention of many investment people and try to show the intrinsic values of long-term ownership of common stocks. It has been repeatedly demonstrated in past markets that when the public undertakes common stock investment in the hope of quick profits the results have been disastrous for most of them. If the managers of investment company assets and the managers of the common stock investments of pension funds let this type of thinking dominate them, the results will be equally disastrous and on a much larger scale. On the other hand, the prospects for success are bright if the common stock investments are made to participate in the growth in intrinsic value of the companies selected and to produce income. While forecasting the market is hazardous, professional management organizations have the resources to enable them to estimate the intrinsic values of common stocks.

EXHIBIT I

Monthly Average Yields on Moody's AAA Bonds and Moody's 200 Common Stocks for the 30-Year Period from 1920-1949

Year	Moody's AAA Bond Yields Monthly Avge.	Moody's 200 Common Stocks Yields Monthly Avge.	Ratio of Bond Yields to Common Stock Yields	Purchasing Power of Consumer's Dollar 1935-39=100
1920	6.12%	5.5%	1.113	69.8
1921	5.97	6.1	.979	78.3
1922	5.10	4.6	1.109	83.5
1923	5.12	5.3	.966	82.0
1924	5.00	5.2	.962	81.8
1925	4.88	4.3	1.135	79.7
1926	4.73	4.5	1.051	79.1
1927	4.57	4.6	.993	80.6
1928	4.55	3.9	1.167	81.6
1929	4.73	3.41	1.387	81.6
1930	4.55	4.54	1.002	83.8
1931	4.58	6.17	.742	92.0
1932	5.01	7.36	.681	102.5
1933	4.49	4.42	1.016	108.2
1934	4.00	4.11	.973	104.5
1935	3.60	4.06	.887	101.9
1936	3.24	3.50	.926	100.9
1937	3.26	4.77	.683	97.4
1938	3.19	4.38	.728	99.2
1939	3.01	4.15	.725	100.6
1940	2.84	5.31	.535	99.8
1941	2.77	6.25	.443	95.1
1942	2.83	6.60	.429	85.8
1943	2.73	4.89	.558	80.9
1944	2.72	4.81	.565	79.7
1945	2.62	4.19	.625	77.9
1946	2.53	3.97	.637	71.8
1947	2.61	5.13	.509	62.8
1948	2.82	5.78	.488	58.4
1949	2.66	6.63	.401	59.1

EXHIBIT II

Book Values of the Dow-Jones Industrial Average Compared With Adjusted Earnings and Dividends and Related to the Yearly Range of Prices From the Period 1935-1949

Year	Book Values	Adjusted Earnings	Dividends	Adjusted Earnings As % of Book Value	Adjusted Dividends As % of Book Value	Yearly Range Low High
1935	$80.42	$6.61	$4.00	8.22%	4.97%	96.71-148.44
1936	83.20	9.98	6.92	12.00	8.32	143.11-184.90
1937	86.48	11.35	8.44	13.12	9.76	113.64-194.40
1938	87.38	6.17	5.15	7.06	5.89	98.95-158.41
1939	90.20	9.05	6.15	10.03	6.82	121.44-155.92
1940	92.39	10.94	7.00	11.84	7.58	111.84-152.80
1941	95.45	11.50	7.39	12.05	7.74	106.34-133.59
1942	97.94	9.18	6.52	9.37	6.66	92.92-119.71
1943	101.68	9.84	6.31	9.68	6.21	119.26-145.82
1944	105.40	10.05	6.52	9.54	6.19	134.22-152.53
1945	110.29	10.56	6.69	9.57	6.07	151.35-195.82
1946	119.22	13.63	7.50	11.43	6.29	163.12-212.50
1947	126.65	18.80	9.21	14.84	7.27	163.21-186.85
1948	148.12	23.07	11.50	15.58	7.76	165.39-193.16
1949	162.46	*23.60	12.79	14.52	7.87	161.60-200.52
			Average	11.4%	7.02%	

*Estimated.

NOTE—Book values are based on net tangible assets per share adjusted to a basis consistent with the averages.

Investment in common stocks should be made on the basis of their going-concern value. The investor should pay for the company's ability to make profits and pay dividends. This type of analysis requires an appraisal of the demand for the company's products and an examination of the company's productive capacity; it requires an investigation of prices and costs. By analyzing separately the various components of balance sheet and income statements, an estimate of net income can be made. This work is done against the background of the company's results under various circumstances in the past. These conclusions can be checked in a general way by noting the past return on invested capital and projecting this into the future with such adjustments as changing economic conditions may require. With these studies in hand, the earning power can be capitalized in a manner consistent with the characteristics of the company in order to determine intrinsic value.

Company Characteristics for Capitalization

The general characteristics of a company upon which the rate of capitalization of earnings and dividends depends are the following:

(1) The rate of secular growth in relation to the average rate of growth of the country. A company with unusual growth prospects is worth more than a company with average growth prospects.

(2) The stability of earning power. Other things being equal, a company whose earnings fluctuate in a narrow range through the business cycle should be capitalized at a higher rate than one whose earnings fluctuate widely.

(3) The risk of important change in the character of the company's business.

The foregoing is a summary and not an exhaustive explanation of common stock analysis. I use it here to indicate that the search for good intrinsic values in relation to going market prices is well within the capabilities of competent professional management. I also use it as a preface to some further remarks about intrinsic value, so that my specific illustration will be set in its proper perspective.

The growth of tangible values is evident from an analysis of the changes in book value of our major companies over the past 15 years. We are all aware, of course, that book value figures have to be interpreted carefully. Stated book values sometimes bear little relationship to book cost. They give no value to the quality of management or to intangible assets which may have greater value than physical assets. They do not show whether the expenditures capitalized on the books have been made wisely or poorly, and they do not show the quality of a company's sales organization and facilities. Nevertheless, if an analysis of the book value of 30 industrial companies were made and these companies were recognized by competent analysts as well managed, changes in book value would have significance. It is a fair presumption that companies of this type have spent their retained earnings well and so have produced additional earnings for their common stocks.

I have made such an analysis of the 30 companies in the Dow-Jones Industrial Average for the 15-year period from 1935 through 1949. The net tangible assets per share of each company were computed and then adjusted to a basis consistent with the adjustments made to compute the market prices of the Average. These adjusted book values were related to the yearly high and low prices of the Dow-Jones Industrial Average. Both earnings and dividends, suitably adjusted, were then stated as percentages of book value. The results of this study appear in the accompanying table (Exhibit II).

The book value of the Dow-Jones Industrials, as of Dec. 31, 1935, was $80.42. In every year since, book values have increased, moderately from 1935 to 1946, and quite sharply since then to 162.46 in 1949.

Book Values and Reproduction Costs

The book value figures which I have just quoted certainly widely understate present day reproduction costs. In that sense, they are an understatement of the real values which they represent. Nevertheless, it is a significant fact that in the 15 years—1935 to the end of 1949—the book value of the Dow-Jone Industrial Average more than doubled. It is a fact which has to be taken into account in considering the future of stock prices.

By computing the adjusted earnings of the Dow-Jones Average and the dividends pair, we can calculate the per cent of adjusted earnings to book value and the per cent of adjusted dividends to book value. For the 15-year period, we find that adjusted earnings averaged 11.25% of book value. Adjusted dividends averaged 7.02% of book value. The difference between these two figures gives us a rough average of 4% per year as the amount by which book values have been increased, and this rates, compounded annually, closely agrees with the growth over the 15-year period indicated in our table.

It may be argued that this 15-year period is not a normal period and that the results obtained here are not indicative of what may happen in the future. This is certainly true inasmuch as the period includes the war years in which earnings were restricted by excess profits taxes, and the postwar years in which earnings were higher as a percentage of book value than they can normally be expected to be. Also, many companies took advantage of the low interest rates on borrowed funds in preference to diluting their common equities. However, the 15-year period also includes the latter half of the 1930's when business activity was at a lower level than it can probably be expected to be in the future.

Furthermore, if you accept the premise that the commodity price level is likely to remain high because of the activity of the labor unions in increasing hourly wages and the interest of the government in maintaining full employment, the earnings on present book value are likely to increase over a period of years. This is because the replacement of present facilities will involve much higher capital costs. Earnings on these new facilities must justify this additional cost. Otherwise, they are not likely to be made.

It is interesting to compare the book values of the Dow-Jones Industrial Average at the end of each year with the actual range of the Dow-Jones price level for that year. In making this comparison, the first thing to be noted is that in only two of the 15 years did the Dow-Jones Industrial Average sell below book value. The first of these periods occurred in 1942 when the Dow-Jones Average reached a low of 92.92 as compared with a book value for the year 1942 of 97.94.

The second year in which the Dow-Jones Industrial Average sold below book value was, surprisingly enough, 1949 when the Average reached 161.60 as compared with a book value of 162.46.

Thoughtful consideration of these figures may lead one to conclude that stock prices were much lower in terms of intrinsic values at the lows of 1949 than most people realized.

Against the Historical Record

I think these figures will also indicate the futility of trying to base decisions as to the offensive and defensive character of an investment portfolio on a formula which is based entirely on a consideration of historical price ranges. The intrinsic values of stocks can change so much in a 15-year period that such formula planning becomes a hopeless undertaking. What is required instead is that we face our thinking from the ranges of the past and analyze the real values of securities.

You will also note from the analysis of book values versus price ranges that at market peaks the Dow-Jones Industrial Average has sold substantially above book values. In 1937 the market peak was 194.40. This level was more than twice the book value of the Dow-Jones Industrial Average, at the end of 1937, which was 86.48.

In 1946, the Dow-Jones Industrial Average reached a peak price of 212.50. This was 78% above the book value of the Average, as of Dec. 31, 1946, which was $119.22.

The Secular Bullish Trend

You may find it interesting and profitable to speculate as to the meaning of these book value figures in terms of present market prices and probable future trends, but I would like to keep your attention focused on the great increase in book values that has occurred over a period of years from the retention of a portion of earnings for corporate purposes. All the evidence that we have indicates that this growth in book values will continue in the foreseeable future. Under sound management, this process should produce greater earnings and higher dividends over a period of years. The investor in common stocks has this trend running in his favor in addition to the higher return that is presently available from common stock investment.

In conclusion, it seems to me that the current increased interest in common stocks is soundly based—

First, on the premise that a serious depression is less likely to develop under present conditions;

Second, on the wide differential in yields on common stocks versus high-grade bonds;

Third, on the growth in the real value of equities and their relation to market prices.

Under these circumstances, it is the function of management to select securities offering the greatest intrinsic value and to protect the investors against unduly optimistic appraisals of the market by taking proper defensive action. With these precautions, common stock investment on a long-term basis should be successful and the growth in interest in equity investment should continue.

NY Security Dealers Association Outing

The New York Security Dealers Association will hold their Annual Outing Friday, June 23, 1950, at the Hempstead Golf Club, Hempstead, Long Island. There will be an all-day golf tournament for prizes with a soft-ball game scheduled for 6:15 p.m. and dinner at 8:15. For reservations contact Edward Enright, Executive Secretary, 42 Broadway, New York City. DIgby 4-1650; John J. O'Kane, Jr., of John J. O'Kane, Jr., & Co., is Chairman.

Federal Transfer Co.

Federal Transfer Co. has been formed with offices at 152 West 42nd Street, New York City, to engage in a securities business. Partners are Irving Berg and Bertram R. Kesner.

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The Security I Like Best

possessed of unusual foresight. In 1947, the company entered upon an expansion program, which, as of this writing, appears to have been largely completed. This has placed the company in an extremely advantageous position. The annual statement will not be released until after the end of the fiscal year, April 30, 1950, but is expected to show earnings in excess of $6 a share. The balance sheet will probably reveal sufficient cash alone to pay all the current liability. It will also show an item, which is not carried as a current asset, of $5 million in Treasury bonds as a reserve set-up for further plant expansion.

An indication of the conservatism of the management is shown by its investment in Fibreboard Products, which is carried on its books at cost. In reality, it would be safe to assume that the true value of this asset is approximately $7 million in excess of cost. As of April 30 next, the book value of the common stock is expected to approximate $37 a share.

Many critics might raise their eyebrows because the stock recently made a new high, but the writer feels that the price is more than justified, and the future prospects of the stock might easily more than offset such a criticism.

DANIEL COWIN
Research Dept., Hettleman & Co., New York City
(Foote Mineral Co.)

When asked to describe one's favorite security, it seems only natural that we turn to the one which it is believed will, over a period of time, provide substantial capital gains, with a minimum of current risk. In my opinion, we may best look to the chemical industry for such a security. I am thoroughly convinced that this industry can and will provide patient investors with worthwhile rewards in the future as in the past As this viewpoint is far from original, we must, of necessity, eliminate from our consideration those securities which we feel are presently discounting too much of their future prospects. In so doing, I have been forced to choose the stock of a company which is relatively unknown—Foote Mineral Co: This company's common shares are traded over-the-counter, and presently sell at about $40 per share. Based on earnings for 1949, after special write-offs, this would indicate a price of about 13 times reported earnings.

Daniel Cowin

Based on earnings before these charges, we have a security selling at a price earnings multiple of less than 10. The stock pays dividends of 20 cents quarterly—equal to 2%, based on today's price.

The history of this company is a long one, with a steady record of growth. It was originally formed about 75 years ago, as a hobby by its founder. For the last 45 years it has directed its energies toward the procurement and chemical analysis of rare ores and the chemicals derived therefrom. The company specializes in the processing of these ores, the extraction of compounds from them and the reduction of certain compounds to metals.

The company uses the little known but abundant elements of lithium, zirconium, strontium and titanium in its operations for their customers in the following industries:

- Ceramics
- Metallurgical
- Chemical
- Rubber and petroleum
- U. S. Government
- Air conditioning
- Electronics

Since 1936, net sales have actually increased ninefold—and profits about 12 times (after write-downs), and in each year but one (1946), part of the earnings have been paid out in dividends on its common shares.

Future increases in sales may be less dramatic, but important expansion is expected to result from the hugs sums that management has expended on research and development of new ideas. During 1949, a per share amount of possibly $6 (total of over $300,000), has been estimated to have been spent by the company in its research department. Part of this sum was contributed by other industrial companies working in conjunction with Foote and part by the U. S. Government. When this work is eventually translated into sales, returns should, on a capitalization of only 55,795 common shares, be very satisfactory.

The "bread and butter" business of this company has been centered in several products, the most important of which is welding-rod coating ingredients. This business has grown along with the welding industry and appears to be broadening further. Another product which appears to have important long-term possibilities is lithium. Foote is the major producer of lithium compounds, one of the most interesting of which is lithium stearate which is used in lubricating greases and renders them capable of withstanding extreme temperatures—as low as 90 degress below zero Fahrenheit and as high as 300 degrees above zero Fahrenheit. Several oil companies are now pushing sales of this product. Lithium is also important in a new method for enameling of tin sheet steel. Zirconium, another product, in its powder form, is used by the electronics industry to prolong the life of vacuum tubes . It has other future uses which cannot be told at this time. The company also sells tungsten products to the oil drilling equipment manufacturers. It also produces manganese and chrome ores and ferro alloys.

All of these products have different marketing, manufacturing and research problems which have been ably solved by the men who operate this company. The management has had long and varied experience in the chemical field. H. Conrad Meyer, the President, has served in an executive capacity for 34 years and has a world-wide reputation as an authority on industrial minerals. Other executives have also been associated with Foote for many years and own substantial amounts of the common stock. All employees are eligible to receive stock bonuses after three years of employment with the company. Their distributions are based on an incentive plan, and at present 45% of the common shares of Foote are owned by employees, including officers.

My feeling is that this company, which enjoys excellent management and has an outstanding research force, will continue to show excellent growth over the long-term and may provide the patient investor with unexpected appreciation in the medium to near-term. This factor, which I feel is not discounted in today's market price, is always a valuable one. In a company where emphasis is predominantly on product development.

Thus, in buying the stock at less than 10 times earnings anticipated for 1950, I believe one has obtained an interest in a seasoned security with a minimum of risk usually encountered in "growth situations," and a maximum of intangible profit-making possibilities. The intangibles are often more interesting than the unromantic investment opportunities with well defined potentials and little defense against the unknown elements which make for changes in valuations.

J. IRVING McDOWELL
Partner, McDowell, Dimond & Co., Providence, R. I.
(Massachusetts Bonding & Insurance Co.)

For insurance for one's future buy insurance stocks.

In the search for a security that will not be here today and gone tomorrow, one must be sure that the issue of the company selected is selling a service or a product that is absolutely essential in both good times and bad. Lacking insurance coverage, no business would, of course, dare operate today.

J. Irving McDowell

The past history of our leading insurance companies is one of steady and diversified growth, their volume of business being exceptionally well distributed both geographically and in diversity of industries served.

Large surplus accounts have been built up over many years by a policy of continually investing funds in a conservatively balanced portfolio of government bonds, corporate bonds, preferred stocks and common stocks. The insurance companies, therefore, take on the aspect of investment trusts, which brings us to the fact that they offer their stockholders a real hedge against inflation, while at the same time giving them some reasonable assurance of investment protection in times of deflation.

Many industries have much labor trouble, and in making an investment today one should be particularly careful to avoid those companies with a high proportion of labor costs. In the insurance industry the average cost is only around 10% of the volume of business.

Insurance companies, unlike industrial companies, do not have large investments in brick and mortar. An analysis of the balance sheet of any well-known insurance company reveals the fact that not only are the assets in a highly liquid as well as an income producing state, but that the liabilities consist almost wholly of reserves, without any bank loans or mortgages on property having priority over stockholders. The common shares are the sole beneficiaries of earning power.

Most insurance company shares are selling at a discount from their liquidating value, which, of course, means that the investor is buying a widely diversified portfolio of good securities for less than he would have to pay if he went into the securities markets to buy them himself.

One might properly say that the yield on insurance stocks is lower than in many other groups, but if an investor is really interested in buying today a security for the future, particularly under present income tax rates, he should certainly prefer that the directors of his company reinvest a large part of present earnings for him in order that his stockholdings should show a growth factor for the future.

To pick one particular insurance stock must resolve itself down to selecting a "special situation" as of this moment. For my part, the security I like best is Massachusetts Bonding & Insurance Co. Having lagged behind the other insurance stocks market-wise for the last two years, this issue should do better than the average for 1950. Selling around $33 per share and paying $1.60 per annum, it offers a yield of 4.8% to the investor. The asset value as of Dec. 1, 1949, was $37.05 per share.

Massachusetts Bonding & Insurance Co. for the last few years has been in process of strengthening its reserves tremendously. Obviously, this policy has been a drain upon earnings, but in the long run the substantial equity built up during that period will serve to increase underwriting profits for 1950 and for some time thereafter.

For instance, the underwriting profit for 1949 was given as $840,000 (after adjustment for acquisition costs on premium still in force at the end of the year), but nearly $1,400,000—or about $550,000 more than the total underwriting profit reported — was recovered from the loss reserves set up at the 1948 year-end.

The over-adequacy of these loss reserves in conjunction with a healthy volume of business is bound to be reflected in per share earnings in the near future. This fact would warrant any careful investor, on the alert for an under-priced stock in a sound and growing field, making an investment in the shares of Massachusetts Bonding & Insurance Co. at this time. This security, in my opinion, is considered suitable for individual investors and trustees and is of a conservative nature.

RICHARD V. WOOD
Investment Counsel, Louisville, Ky.
(Glidden Company)

I find it quite difficult to decide upon any one security which I like "best" because there are many bests. They are best in different ways and serve different purposes in building an investment fund. To be perfectly frank, I believe diversification, based on careful research, is the best security I know. In picking a stock as the best there is grave danger of being misinterpreted. So many people measure a stock solely by whether it "goes up." My observation is on a deeper basis and on along range point of view.

Richard V. Wood

Permit me this much leeway; let me say that I believe the Convertible Preferred Stock of the Glidden Company offers one of the best opportunities for the investment portfolio of an individual at the present time.

Glidden Preferred is listed on the New York Stock Exchange and enjoys a fairly active market. The common stock into which the preferred is convertible is traded on the New York, Midwest, Boston, Philadelphia - Baltimore Stock Exchanges.

This company was built on the sound foundation of the old Glidden Varnish Company of Cleveland, Ohio, founded in 1875. The life of the present Glidden Company began in 1917 and since that year the company has been expanded tremendously under the leadership of Adrian Joyce. He is now Chairman of the Board and his son, Dwight P. Joyce, is President.

In the beginning the Glidden Company was simply a manufacturer and distributor of paints and varnishes.

It was the vision of Mr. Joyce that his company should become self-sustaining in raw materials and he systematically set about to organize subsidiaries for the production of materials necessary to the paint industry.

In 1921 The Chemical and Pigment Company, Inc., was formed to manufacture lithopone, a white pigment produced from barium and zinc ores. Chemical and Pigment Company soon took over Euston Lead Company, which had outstanding patents for manufacturing white lead. In 1927 the California Zinc Company was incorporated to acquire zinc properties in Shasta County, Calif.

In 1933 American Zirconium Corporation was organized to produce titanium pigments. Patent rights were secured from American Lecithin Company to manufacture and refine lecithin. Later the assets of Nelio-Resin Corporation were acquired.

The assets of the Southern Pine Chemical Company were acquired in 1938 as a source of turpentine, and in 1941 elmenite and mica mines in North Carolina were purchased.

In the meantime Mr. Joyce had developed another unit to refine vegetable oils. Formed primarily to secure a supply of linseed oil, this unit was destined to lead the company into the food industry. The Glidden Company manufactures and distributes a number of food products under the trade name "Durkee's." It ranks as one of the leading manufacturers of margarine.

Discoveries with respect to the soybean did not escape Mr. Joyce's attention. His first interest was in the substitute derived for casein, but his vision extended beyond that and he formed a department for further research with the soybean. As a result, another division of the Glidden Company was formed with processing plants at Chicago and Indianapolis.

All of this expansion has had time to be digested or consolidated. Most of the subsidiaries have been dissolved and their assets and business have become an integral part of the Glidden Company. With his good sense, Adrian Joyce has avoided the error of building a one man company; while he has been the guiding light, nevertheless he has brought into his organization men of ability to run the various divisions.

The company is well financed and future earning power appears to be very bright. The Food and Chemical Divisions should add considerably to the stability of earnings in slack times.

To my way of thinking, there is a strong analogy between companies and human beings, indeed companies are nothing more or less than a group of human beings and they have similar characteristics.

The characteristic which I especially refer to here is that they are first young and immature. It is impossible to say how they will develop. Later they pass through adolescent age and the college age and come into young manhood and have the possibility of establishing a definite place for themselves in the community. Later they pass through maturity and become decadent.

It occurs to me that the Glidden Company has reached that age of maturity where its future can be judged with good degree of certainty. It is well established in its new greatly enlarged position in the country. It is still in the prime of corporate life and with its vigorous management considerable growth seems to lie ahead in the company's path.

If a person wishes to look for romance, the company's development of a new rubber emulsion paint which has tended to revolutionize the paint industry, and its development of hormones, includ-

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ing progesterone and testorterone as well as cortisone, offers that romance.

While definitely not undertaking to predict the movement of the Glidden stock, I do believe that the preferred stock is amply protected as an investment. In addition, the preferred stockholder has the privilege of converting into the common stock and thereby has the possibility of taking advantage of the future growth of the company.

Continued from page 4

Sources of Investor Information

what the proceeds from the sale of such stock will be used for and the corporation's financial structure both preceding and following the sale of stock. In this prospectus we find the names of officers and directors of Consumers Power and their compensation. Actually, a prospectus will usually include considerably more information than an annual report and is probably the single most complete source of information available about a company.

The Exchange Listing Report

A third corporate report which we have already seen is the Stock Exchange Listing Report issued in connection with the listing of securities on the New York Stock Exchange. In general such reports will include information comparable to that in a prospectus, although usually in less detail. However, where a prospectus is not available—and there will not be one unless there has been a new securities issue—the listing report can be very useful. In this listing report of the McCord Corp., for example, we find a description of the McCord Corp.'s business, its properties, its management, employee relations, stockholders, earnings and dividend record, financial structure, description of its bonds and stocks and financial statements for recent years. Corporations whose securities are listed on a registered exchange also make reports to the Securities and Exchange Commission, which reports are available to the public, either at the offices of the SEC or at the exchange on which such securities are listed.

For the investor, the most important of these reports are those designated as the 8-K and 10-K reports which are in effect the annual financial reports of the corporation and supplemental financial reports but which may carry figures in considerably greater detail than those provided in the corporation's annual report to its stockholders. On SEC forms 4 and 6, officers and directors of a corporation or any one owning more than 10% of any of the corporation's securities must report monthly any changes in their security holdings, including purchases and sales and net amounts still held.

Following the "Insiders"

In this way an investor may follow the investments of so-called "insiders" in their own companies. However, determining one's own investment program by following the "insiders" is seldom likely to work out profitably, and after studying for some time the price action of securities with the investment activities of "insiders" in those securities, it is my conclusion that this is not the basis upon which investment should be made. For one thing, "insiders" are frequently so close to a picture that they are not in the best position for judging the picture; in the short run, security prices and business operations may be unrelated; many "insiders" do not invest in securities of their companies; "insiders" can possibly avoid the requirements of reporting security transactions by acting through dummies. So much for the reports which come directly from corporations themselves.

The Statistical Services

Next we turn to the statistical services of which there are many. Best known, perhaps, are "Standard & Poor's," "Moody's" and "Fitch." Statistical services, either briefly or in extended form, compile and present factual material about corporations (generally from corporation reports) which is important for an appraisal of the securities of the corporation. This material usually includes the following: a description of the corporation's activities; a description of its various securities; names of officers; capitalization; record of sales, expenses, earnings, dividends for a number of years with balance sheets and income and expense statements for recent years. These are usually kept relatively up to date by supplements. In some cases the statistical information is coupled with forecast of future business, earnings and dividends, and sometimes even with investment recommendation and ratings. In general, it may be said that the statistical information carried by such services is accurate and vitally necessary for any security analysis. However, the recommendations and ratings generally appear to be superficial and have in the lecturer's experience proven to be something to be avoided for sound investment planning.

The Advisory Services and Their Shortcomings

Similar to the statistical services are the advisory services which offer recommendations on overall investment programming as well as on specific security issues. Typical of such advisory services are "Argus," "United Business Service," and "Value Line." Again, speaking only from the lecturer's own experience, such services have proved to be of more value in supplying important security information than in the actual recommendations made. As a conclusion, the lecturer would therefore urge that the advisory services, like the statistical services, be used primarily as a source of information rather than for investment planning.

The Trade Journals

Trade associations are industry organizations representing individual businesses. Much of their efforts is directed to the day-by-day activities of these businesses, but usually such organizations publish some report about their industry which the investor will find useful. In addition, they frequently collect the "vital statistics" of their industry, some or all of which they will make available upon request. Examples of trade associations which the lecturer has found useful in obtaining information are the Aluminum Association which publishes an interesting monthly report on new uses of aluminum and developments in the aluminum industry; and the American Gas Association whose annual yearbook "Gas Facts" carries important statistics about the gas industry.

Trade journal is the name given to the newspaper or magazine which specializes in the news and developments of a particular "trade" and which is principally read and used by people in that trade. Their number is legion. There seem to be trade journals for orchid growers, chicken raisers, and even star-gazers. For the investor, the chief interest of the trade journal is for the vast amount of information which such journals carry as to developments in their industry generally and even with reference to a specific company. As such, they frequently provide the investor with information which he might not find elsewhere.

For example, in this issue of "Iron Age," which is one of the trade journals in the iron and steel industry, we can read of developments in many companies which are not normally carried by financial journals but which may affect operations of corporations in which we are interested. In the statistical pages of the journal we find figures for prices and production which may provide us with significant information as to conditions in the industry, outlook, etc. Similarly, in this publication, the "Engineering and Mining Journal," used principally by the mining industry, we may read about how a leading metal refiner has learned to cut costs, the outlook for various metals, and recent developments of companies in this field. Other trade journals which we still want to consult on occasion are: "Oil, Paint & Drug Reporter" for the drug and chemical developments; "Coal Age" covering the bituminous coal industry; "Oil & Gas Journal" for developments in the oil and natural gas industry, and "Railway Age" for recent news in the railroad industry.

While trade journals are important, however, it might be well to point out that because of their detail and number they will be principally interesting to the professional security analyst more than to the investor, and should you not be able to get to the library to see every trade journal as it comes off the press, it might not be as serious as this discussion may have indicated. Moreover, much of the material in the trade journal is more important to the trader interested in day-by-day fluctuations than to the investor with his longer term approach.

The Financial Journals

The financial world, of course, has its own trade journals which are more useful to the average investor in that they specialize on the particular items in the economy which are likely to affect securities. One of these, by the way, is called "The Financial World." "The Wall Street Journal" is a daily trade paper for the financial community and one of the most important providing up-to-the-minute reports on industry and company developments and outlook, earnings and dividends, security prices, new issues, etc. "The Commercial & Financial Chronicle" is another of the important financial trade journals which supplies us with current reports about companies, industries, earnings, dividends, security prices, overall economic forecasting; and almost any other subject one might mention with a bearing on security prices and investments.

The editors of the "Commercial & Financial Chronicle," incidentally, have been thrice good to this course. First, they have supplied us with copies of their excellent journal so that we might become familiar with it. Secondly, after thumbing through a few of your lecturer's notes, they have concluded that it was unfair to expect you good women to absorb all of this material at the lecture period so that they have arranged to make these lectures available to you through their journal. Our first two lectures were printed in the "Commercial & Financial Chronicle" of March 16 and succeeding lectures will be available in each Thursday issue during the remainder of our series. Finally, they have been willing to share with us one of their editors, A. Wilfred May, who will be with us next week to tell us "How to Read (and How Not to Read) the Financial Section."

Government Publications

Government publications are another source which provide much of the basic overall economic data so necessary to security analysis. Again, these will be principally interesting to the professional analyst, and a good portion of their data will have been abstracted and made available in the financial journals, but the informed investor will also want to know about them. One of the most useful of the government publications—at least to this lecturer—is the "Survey of Current Business" of the Department of Commerce. The "Survey" provides in simple language an overall review of business conditions and outlook. It also carries monthly figures on a wide variety of business statistics, including wages, prices, production, inventories, etc., which collectively are the signposts of the economic activity of the country.

The Federal Power Commission publishes overall statistics on electricity and natural gas and operations of companies in these fields which are an important source of information. It also publishes findings, orders, and hearings in connection with activities of individuals companies. The Bureau of Mines makes available overall information on mining and metals.

In general, government publications provide information on an overall basis, either for the economy as a whole or industry-wide. Rarely is the information available for a particular company. However, to analyze the securities of any one company, we must know not only the operations of that company, but its position in its industry, the outlook for the industry as a whole, and for the overall economy. No matter how sound a particular company may be, if it is in a declining industry (viz., the horse-and-carriage industry about 1910), or if the overall economy is destined to turn down sharply as in 1930, its securities may be unsatisfactory for the investor.

Work of Brokers and Dealers

Finally, we must not forget the considerable amount of security analysis made available through the many brokers and dealers engaged in securities work. These range from extended reports running to more than 100 pages to brief one-sentence summaries usually with specific reference to a particular corporation or even to a particular security of that corporation, but occasionally dealing with an overall industry or general economic data. By and large these reports are one or two-page affairs stating the reasons why a security appears attractive and indirectly suggesting its purchase. The lecturer almost never sees a report emanating from a broker or dealer discussing a corporation whose securities should be sold short or disposed of if already held. To some extent this "occupational bias" reduces the value of these reports but as a group they offer valuable information which might not otherwise be available to the investor.

Brokers and dealers also prepare special analytical reports of corporations and their securities upon request of their customers. This is a particularly valuable service for the investor and in view of the willingness and usually the absence of charge with which such reports are made, there is little excuse for an investor's blind purchase or sale of securities.

This report on the International Hydro-Electric System written by Shaskan & Co. several months ago, for example, attempts to reduce a fairly complicated reorganization situation involving a holding company, that is a company whose chief assets are the shares of other companies, into simple language with some discussion of what the effects of this reorganization will be on the securities of the company. In the brief space of one and one-half pages, it is possible only to highlight the important features as they are expected to affect the securities. The actual research that may have gone into such a paper, however, is often considerable.

Many brokers and dealers also maintain special departments for assisting their customers with their investment problems. In most cases these services are also rendered without cost so long as the customer transacts his investment business with the particular broker or dealer assisting him. However, in some cases a slight charge is made, the idea being that this enables the investment advisor to maintain a greater degree of objectivity if his compensation is independent of the investment action which his customer eventually takes. If a charge is made, however, the broker or dealer must first be registered with the Securities and Exchange Commission as a Registered Investment Advisor, pursuant to which he must file certain information with the commission principally as to his moral conduct, and exhibit that he has had sufficient experience to qualify him for this position.

Investment Advisory Work

It should be noted at this point that it is not necessary to conduct business as a broker or dealer in order to qualify as an investment advisor. There are some individuals and firms which specialize in investment advisory work only, also being duly registered with the Securities and Exchange Commission. The investor using such investment advisors may then execute his orders with any broker or dealer that he chooses. It should also be noted that banks, trust companies and lawyers also exercise investment advisory services in much of their routine relationship with customers and clients.

George Burgess With H. G. Kuch & Co.

PHILADELPHIA, PA.—H. G. Kuch & Co., Widener Building, members of the Philadelphia-Baltimore Stock Exchange, announce the establishment of a municipal bond department under the management of George S. Burgess. Mr. Burgess was formerly with Wurts, Dulles & Co.

New York Stock Exch. Weekly Firm Changes

The New York Stock Exchange has announced that on April 6 transfer of the Exchange membership of Richard R. Thomas to C. Handasyde Whitney will be considered. Mr. Whitney will continue as a limited partner in Harris, Upham & Co.

On April 6 the Exchange will also consider the transfer of the Exchange membership of the late Eugene F. Malone to Seth H. Baker. It is understood that Mr. Baker will act as an individual member of the Exchange.

Yarnall Co. to Admit

PHILADELPHIA, PA.—Benjamin Rush, Jr. will on April 6 be admitted to limited partnership in Yarnall & Co., 1528 Walnut Street, members of the New York and Philadelphia-Baltimore Stock Exchanges.

Joins McDonald Staff

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, OHIO—Howard M. Bissell is with McDonald & Co., Union Commerce Building, members of the New York and Midwest Stock Exchanges.

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Banking and Business in the So-Called Welfare State

different from a year ago. The soft lines in retail trade are generally not doing so well as a year ago, but the hard goods and big ticket items show a significant improvement.

In some of the non-durable lines there are signs that inventories may be accumulating and that some decline from recent levels of operation may be expected later this year. Outlays for business plant and equipment and for farm equipment are down, the latter at least seasonally, but construction and the automobile industry are still operating at peak levels with no apparent deterioration in demand.

An evaluation of business prospects must not ignore that the price level is near its postwar peak and that for many industrial products practically no price corrections have occurred. Furthermore, the economy has been supported by an extremely high level of demand in heavy goods lines, such as construction and automobiles, reflecting in part accumulated deferred demands, and production in these lines has been running above what may be considered normal in long-term perspective. All this, together with the lesson of historical analogy for what it is worth, suggests that a deterioration in economic prospects appears more plausible than further improvement. The question, however, is, to what extent has the broader Government interest in the economy affected the basic forces?

Government Action in the Past Year — The economic record of the past year is inconclusive on the question of the efficacy of government action in stabilizing business activity. One of the major tests has been in prices of agricultural products. In the absence of price supports, it is clear that prices of many agricultural products would be substantially below their current levels. Indeed, government policy has not prevented prices from dropping below support levels on occasion. At the same time, it is obvious that we have made no progress in arriving at an economically defensible solution of the problem of surplus agricultural production. Our farm policies have helped maintain farm incomes at the expense of the consumer, and one cannot be sure that this has been a sound step. The defenders of government policies can hardly point with pride to a farm program that has the twofold defect of being politically unsatisfactory and economically unsound.

In the money market, government measures have been more effective. Early last year the authorities began to ease credit conditions. Their policies contributed to a rise in bond prices and facilitated long-term borrowings. However, the volume of new capital raised in 1949 was down sharply compared with 1948. The relaxation of consumer credit terms was more effective in that it gave a boost to some of the consumer durable industries last fall. On balance, the easy money policies of the authorities helped somewhat in avoiding a credit squeeze and a spiral of liquidation, but much more important was the lack of any widespread use of bank credit for speculative purposes in the postwar years.

In the field of residential building, the results are decidedly mixed. Government action has reduced the monthly carrying cost per dollar of investment at the same time that it has contributed to an inflation of building costs. The "Fannie May" program, beginning notably in the summer of 1949, helped to ease the mortgage credit situation in some areas. Also, multi-family housing received a real stimulus in the latter part of last year from the liberalized FHA Section 608 program. The decline in selling prices in 1949 was probably as much a reflection of excessive cost and builders' profits as of some easing of the persistent housing shortage. Much is made of the fact that residential starts in 1949 were at an all-time peak, about 8 or 9% above the previous peak in 1925. In the meantime, however, population has increased by over 30%. Considering the amount of government encouragement given to residential building, the surprising thing is that postwar building has not reached considerably higher levels.

On the whole, it appears that postwar conditions so far have not permitted a real test of the efficacy of government policy. The pent-up demands for durable goods, carried over from earlier years, were strong enough in 1949 to prevent the minor inventory adjustment from deteriorating into a more serious cyclical downturn, and helped to maintain employment and personal income. Government action in a generally favorable environment in which many heavy goods are still in short supply is far more likely to succeed than when such demands are largely for replacement purposes.

Future Government Action — On the two occasions in recent history when government attempted to stabilize economic activity, the record is far from convincing. In the 'thirties, the effort failed; last year conditions were not such as to provide a real test. However, the record is not likely to prevent continued efforts by government in the future. One of the primary objectives of the so-called "welfare state," of which so much is heard these days, is to achieve the levels of business activity necessary to maintain reasonably full employment. A closely related goal is to prevent deflation, that is, to forestall widespread and significant declines in the general levels of commodity prices. Other important aspirations are to stabilize the flow of incomes and to achieve a more even distribution. Recently, some awareness has been expressed of the desirability of maintaining high levels of investment in fixed capital.

The term "welfare state" has been applied to the collection of policies and practices under which government undertakes ever broader responsibility for trying to stabilize general economic conditions and for trying to take care of the individual from the cradle to the grave. The nomenclature is unfortunate. It confuses laudable and noncontroversial objectives with practices and devices which are frequently of questionable merit. There may be differences of opinion as to how far we have progressed into the "welfare state." But the role of government in the economy has been expanding for many years and the tempo is accelerating.

We are all familiar with the general methods by which the Government seeks to achieve the objectives of the welfare state. At the heart of most of these practices will be Treasury fiscal policy, which comprises both spending and taxing. Through unemployment compensation, disability payments, old-age payments, and similar social benefits distributed or guaranteed by the Treasury, efforts will be made to stabilize individual income. Prices of agricultural commodities and thus farm incomes are to be supported through substantial outlays by the Treasury. Disparities in personal income are to be reduced and a more even distribution of income is to be attained by highly progressive taxation. More income is to be diverted from savings into consumption, again by progressive taxes. The share going to wages and salaries is to be increased, while the portion remaining for profits is to be reduced. With a rise in unemployment, Government expenditures are to be increased and larger Treasury deficits are to be incurred as a deliberate measure designed to encourage business recovery and expansion. Of late, increasing attention has been given to the encouragement of capital investment through the use of Government credit or by direct Treasury financing.

Impact on Business and Banking

Already, Government is embarked on most of these programs and practices. Any deterioration in the economic climate will bring greater efforts to expand the size and scope of these activities. This is the environment in which business and banking must expect to operate in the foreseeable future. It is necessary, therefore, to point out some of the likely effects of these practices and policies on our business and banking problems.

Inflationary Pressures — The basic long-range force likely to be acting upon business and banking is the underlying bias in the direction of an inflationary environment. Inflationary pressures appear to be an essential part of the philosophy and equipment of the welfare state, and some economists regard them as the only means by which it can achieve and maintain full employment. The proponents of the welfare state justify their policies on the ground that these sustain purchasing power; the critics describe the whole operation as the essence of the "hand-out state."

Certainly the current Government policies will generally augment inflationary and price-sustaining forces in the economy. At least a portion of the Treasury deficits will be financed through the banking system, thus adding to the money supply. The price-support activities of the Government are another inflationary factor, and stockpiling activities provide some opportunity to support prices of basic materials. Perhaps the most important factor of all, however, is the pro-labor bias of the Administration. The power of key labor unions continually to force concessions from management at a rate faster than the gains in productivity means a rising level of industrial costs. Finally, easy money policies and loan guarantee operations are designed to prevent any substantial credit contraction in the economy. It is difficult to avoid the conclusion that inflationary forces are likely to prevail and that the dollar will suffer a decline in its purchasing power over a period of years.

Such a course of developments would probably involve more real problems for trust departments than for banking departments. On the surface, price inflation often appears favorable to the banks. Loan demands may be somewhat higher: thus, a large part of the 100% postwar rise in business loans of the commercial banks reflects the increased working capital requirements of business as the result of the postwar increase in prices. Likewise, inflation facilitates repayments by debtors. Part of the favorable loan record of commercial banks in the past 15 years can be ascribed to the generally inflationary environment that has prevailed during most of this period. Since its obligations are payable in current dollars, the commercial bank as a corporate entity escapes the unfortunate repercussions of price increases which bankers, as individuals, feel so keenly.

This inflationary bias does not mean, however, that commodity prices will rise every year. Nor does it mean that the immediate outlook is for a resurgent upward movement in the price level. A budget deficit of modest amount, unless fed by rapidly rising bank loans or investments, will not mean an increase in the money supply of inflationary proportions. Even a modest deterioration in business conditions would put the commodity price level under pressure and would doubtless bring some decline in the general level of prices over the near term.

Lending officers should not become so entranced by the long-term inflationary prospects as to ignore the real credit risks inherent in short-run price fluctuations. Indeed, for the years immediately ahead, some downward adjustment from the present peak levels of many postwar prices would not be unexpected. Demand and supply conditions will still remain of major importance in determining the price movements of individual commodities. Production and demand for many commodities are coming more closely into balance on a world-wide basis, and the international quest for dollars makes the American market attractive. Here at home, supplies are becoming more abundant, and production facilities, already ample, are increasing in efficiency, while demands are more and more closely approaching a replacement basis.

Nor do the price supporting activities of the government remove all problems. In the case of agricultural commodities, there is the real possibility that the government will be unable or politically unwilling to cope with underlying economic conditions, and that the ultimate adjustment in prices to a sounder basis may be delayed but not prevented. For the banker, judgment of market forces for individual commodities will remain a prerequisite for prudent lending policy. It seems a reasonable guess that over the next year or two the prospects favor somewhat lower rather than higher prices, even though the long-run trends may be quite different.

The Treasury Budget — In an earlier day of less sophisticated economists, governments were frequently tempted to increase their spending power in blunt and deliberate fashion by monetary debasement. The United States has not been entirely free of guilt in this matter. Once during our history we perpetrated a major devaluation of our monetary unit, and on an earlier occasion we engaged in the substantial issue of fiat paper money. For the most part, however, we have relied, and doubtless will continue to rely, upon the more sophisticated but equally effective device of deficit financing.

As government spending is one of the major weapons of the welfare state, a decline in general economic activity will inevitably evoke a rise in the rate of government outlays. This counter-cyclical increase in government expenditures in a period of declining business is now commonly accepted by economists as a useful tool of government policy. However, under the easy financial philosophy of the welfare state there is a persistent tendency for government spending to run ahead of the willingness of Congress to vote taxes, and this is true in good as well as in bad years. Over the past two decades, the Treasury has had a surplus in only two years.

There are those who profess to believe that our current budget deficits are only a passing phase brought on by the need for large defense expenditures. They suggest that an expanding economy on the one hand, and careful and prudent government housekeeping on the other, will bring a gradual rise in tax revenues and the emergence of a Treasury surplus. The preponderance of evidence, however, is certainly on the other side. The prospect is that over the next few years, even spared a shooting war, the deficits will average larger than the surpluses. This outlook for the budget has direct implications for the level of interest rates, the money supply and the volume of bank-earning assets.

Interest Rate Policy—The past decade of financial history in the United States is a record of extremely effective management and control over interest rates and the money market. The United States is perhaps the most avid exponent of a low interest policy in the world today. In other parts of the world and under the pressure of postwar inflation, many nations have found it either necessary or desirable in recent years to modify their cheap money policies. Reasoning by analogy, the conclusion is sometimes expressed that a real change in our interest rate policy will come either by choice or under the force of circumstance.

The finer points of money and credit management in the postwar period have been the topic of a good deal of controversy. For a time in the midst of the inflationary boom, the policy of supporting government bonds resulted in large purchases by the Federal Reserve banks, which evoked a considerable amount of public discussion and some criticism. More recently, differences of opinion in matters of credit and fiscal policy were aired before a Congressional subcommittee, and the latter expressed itself in favor of a Congressional mandate to establish the powers and prerogatives of the Federal Reserve Board in the field of interest rate policy. No further action has been taken and none seems in prospect. Finally, the present Council of Economic Advisers has expressed the extreme and untenable view, not generally held in Washington, that very low interest rates are desirable at all times and under all conditions.

However, it would be a mistake to assume, on the basis of a casual reading of the headlines over the past months, that wide differences exist among the responsible Washington agencies on the matter of interest rate policy. The area of agreement is much larger than the area of controversy. There is no difference of opinion among them as to the necessity of continued management and control over the money markets. There is no desire to embark on a really high interest rate policy or to allow the bond market to gather great momentum in one direction or another. We face, for the predictable future, the prospect of a managed structure of interest rates at levels that would be considered low by any reasonable historical standard. It is to be hoped that some flexibility of interest rate policy will be maintained, with rates advancing somewhat in periods of rising business activity and prices and declining in periods of sagging business or prices. However, the changes in interest rates are likely to be of modest proportions, and the general level of rates is not likely to rise significantly. Having weathered the problems posed by low interest rates in the years of violent postwar price inflation, the money managers in the near future are hardly likely to face conditions so embarrassing as to require a significant reversal of policy.

Government Lending Activities —The use of government credit or funds for business and other nongovernmental purposes goes back almost 20 years. Introduced

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originally in an effort to ameliorate distress in the midst of a great depression, these devices are now part of the accepted paraphernalia of government action in the economic sphere. They are popular alike in periods of inflation and depression. One of the safest predictions that can be made about the welfare state is that it will bring further expansion in the scope of both the loan and guaranty functions and a gradual liberalization of the terms under which credits will be made available by the government.

The new theory underlying the use of government funds and credit is very simple: their use will encourage investment in capital goods, contribute to a higher rate of activity in the heavy industries, and thus help to maintain the general level of business activity. The Administration plan for financing middle income housing, recently defeated in the Senate, is one example of this type of thinking. Furthermore, schemes abound for making funds available to small business. For established government lending activities, the trend over the years is in the direction of making credit available for longer periods at lower rates. Recently it has been proposed that when and if business activity declines, Federal funds or credit, or both, be made available to State and local governments, or to business, or to individuals, in order to encourage capital investment. All this, of course, is in addition to plans to expand direct government outlays for public works whenever required.

This steady expansion of government financing poses a real problem for bankers. Shall they participate in ventures which involve government guarantees, or shall they hold to "principle"? What should be the line of demarcation between the activities of the government and the bankers in many of these fields? How can the extension of these activtities be limited in scope?

Beyond these specific questions which the individual banker must answer for himself are some more general aspects of this steady expansion of government lending activities. Essentially this trend involves the politicalization of credit. It means the gradual atrophy of private lending institutions. It means the substitution of social or political criteria for the financial standards generally used in the extension of credit. It means that if private lenders and investors are simply to act as agents for government under a program of loan guarantees, their flexibility and initiative are severely undermined. It means all too frequently that inefficient businesses are subsidized at public expense.

Outlook for Earning Assets of Commercial Banks—In general, government policies are likely to lead to somewhat greater stability in the trend of total earning assets of commercial banks. This is because in periods of relatively unfavorable business, when the volume of loans generally declines, bank holdings of government securities are likely to rise. The Treasury under such conditions is likely to have larger deficits, and the monetary and fiscal authorities will not be averse to financing much of the deficit through the commercial banks. Contrariwise, when the business trend is upward and bank loans tend to rise, the Treasury deficit will be smaller, and the desire will be to finance it outside the banks in order to avoid increasing the money supply.

With regard to bank investments, the downward pressure characteristic of the early postwar years appears at an end. The underlying inflationary bias inherent in the policies of the so-called handout state and the prospects for rather general and frequent Treasury deficits mean that the volume of bank investments is likely to rise over the years. The size of the increase in bank holdings of government securities over a period will of course depend not only upon the amount of the Treasury deficit, but also upon debt management and money market policies and the general relationship between the aggregate volumes of savings and investment in the economy.

The outlook for the other major component of bank earning assets, namely, loans, is much more difficult to appraise. Loan behavior will vary with the character of the loan portfolio as influenced by the location and type of business of the bank. Real estate and consumer loans in all probability have not yet reached their peaks, although the rate of increase is likely to slow down later this year. The outlook for business loans is less cheering. The present volume of loans for working capital purposes already reflects a high rate of business activity at the postwar level of prices. Except for seasonal changes, further increases over the short term are likely to be modest even if the level of business does not recede. It will be increasingly difficult for banks to maintain their present volume of term loans in the face of serial repayments, lower plant and equipment outlays, and greater competition from savings institutions.

The postwar years have brought a combination of factors very favorable to the expansion of bank loans. For the next few years, however, the banks may be fortunate to hold their existing loan volume. Competition in lending will include pressure to keep lending rates relatively low. This is the sort of environment in which lending operations will become even more competitive, and where a premium will be placed on imagination and ingenuity in devising new, but appropriate, outlets for bank funds.

Some Fundamental Issues

Beyond the immediate effects of this politicalization of our economic life lie certain fundamental implications which need to be appraised dispassionately and in balanced perspective. We must accept the premise that mass unemployment has become politically and socially unacceptable and that the decision has already been made to avoid it at all costs. Demands are growing for greater security of employment, for better old-age pensions, for more social benefits, and our society is displaying an increasing intolerance toward the economic distress of any significant group in the population. The persistence with which proposals for new Government action are advanced, the support they receive, and the gradual extension over the years of the sphere of Government indicate the underlying popular or political appeal of the welfare state. This we must recognize!

Despite its broad and expanding powers, Government can give no real assurance of its ability to cope with the economic hazards of 150 million people or to limit fluctuations in the economy as a whole. The welfare state will not do away with the economic consequences of human frailities, errors, and incompetence. At best, economic diagnosis is difficult and economic forecasting inherently inexact; in a political atmosphere the problems are multiplied. Economic trends will gain momentum before Government takes action and the trends will continue after action has been initiated. Government policy frequently takes a long time to formulate, enact, and implement, and the results are not always predictable or immediate. It seems clear that the business cycle will remain with us.

More important than the promptness with which Government can cope with the ever-changing economic scene is the underlying question of the inherent soundness of its economic policies. For instance, the emphasis of the welfare state upon high and progressive taxation, together with a pro-labor and anti-business bias, clearly endangers the attainment of an adequate volume of private capital investment. These policies invite an atrophy of private investment, and imperil the high levels of production and employment which make possible advances in real welfare; this course leads down the road to socialization and nationalization. Another critical deficiency is that the welfare state has developed a highly efficient technique for redistributing incomes, but has done nothing to stimulate productive effort. On the contrary, by removing the fear of unemployment and assuring minimum income standards on the one hand, and appropriating profits and higher earnings on the other, incentives are undermined from both sides.

Much of this has already become apparent abroad. In the United States, because of our more abundant natural and industrial resources and our greater productivity, the consequences have not yet become so noticeable. However, if the basic trends persist, we cannot expect to escape these consequences, which will be satisfactory neither to the proponents nor the critics of the welfare state.

The situation thus presents a real challenge. Society demands that government underwrite some measure of economic security and stability. But government cannot deliver on such commitments unless there are real incentives and rewards for creative effort under private enterprise. How to achieve a reasonable amount of economic security without sacrificing the productivity on which it depends is our cardinal problem.

I have no panacea. To find a solution will require plenty of thought and hard work on the part of businessmen and bankers. They must spend more time on the study of national problems. They must enlist in the government service whenever they can make a contribution. They must take the initiative in devising constructive and positive programs under which business enterprise will retain its freedom and will be able to join with government in the solution of mutual problems. They must make more of an effort to understand the social problems and points of view of the average American family. They must convince the public that lasting economic progress can come only from more production, and that this in turn requires that enterprise be allowed to remain virile and vigorous.

Four With P. C. Rudolph

(Special to THE FINANCIAL CHRONICLE)

SAN JOSE, CALIF. — Charles Hansen, John A. Lombard, C. M. Reschke, and H. F. Soderwall have become associated with Paul C. Rudolph & Co., 40-D South First Street. Mr. Reschke was formerly with Capital Securities Co.

With Coburn & Middlbrook

(Special to THE FINANCIAL CHRONICLE)

HARTFORD, CONN. — George C. Weeks of Freedom, N. H., is associated with Coburn & Middlebrook, 37 Lewis Street. He was formerly with Boardman, Freeman & Co. and R. H. Johnson & Co.

With John Nuveen

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — Donald C. Malmquist has become associated with John Nuveen & Co., 135 South La Salle Street. He was formerly with Spencer Trask & Co. and Lazard Freres & Co.

Predicts Rise in Auto Demand and Credit

George Romney forecasts demand for cars and trucks will remain strong during 1950-55 period, requiring volume of instalment credit somewhat higher than in 1949.

CHICAGO, ILL.—Demand for new passenger cars and trucks this year and annually for the 1950-55 period should remain very high and require a volume of automotive instalment credit somewhat higher than in 1949. This forecast was made March 28 by George Romney, Vice-President of Nash-Kelvinator Corp., Detroit, Michigan, speaking at the National Intalment Credit Conference of the American Bankers Association at the La Salle Hotel here.

George Romney

"Even allowing for the effect of strikes on total production and the probability of some lowering of demand during the latter part of the year," Mr. Romney said, "output of the industry in the next 12 months should be only slightly below the record 1949 total of 5,114,269 passenger cars and a motor vehicle total of 6,243,572 units.

"Current new passenger car registrations, in fact, are running nearly 25% above a year ago."

Mr. Romney said present trends indicate private passenger car registrations will total about 39.3 million in 1950, against the 1949 total of 35.5 million. Taking into account an estimated population increase of about 8 million and a reasonable motor vehicle scrappage rate, he estimated new vehicle production should average nearly 5 million vehicles annually over the next five years.

He told the bankers that retail financing for this rate of production and sales would call for an average annual volume of about $6.5 billion. This compares with $6 billion required to handle retail automobile instalment purchases in 1949. He pointed out that the percentage of cars financed has increased steadily since the end of the war. Last year it was 30% to 40%. Today it is running above the prewar average of 60%.

Discussing the long range outlook for the automobile industry, Romney said that while the picture is very encouraging, some adverse factors require serious attention. He cited tax, parking and highway problems as potentially diminishing the economic utility of the automobile. A great deal of work must be done in providing off-street parking facilities in cities and towns throughout America, he said.

Highway Construction Needed

"We must also face realistically the fact that our national 'highway' plant is largely inadequate to meet present-day traffic needs," he said. "The nation faces an expensive construction program if it is to avoid the potential loss resulting from the retarded use of motor vehicles."

"Recent studies indicate," he said, "that about $4.4 billion should be spent yearly on road and street work, to meet highway needs on a long-term basis and to catch up with deficiencies resulting from the depression and war. About $3.5 billion was spent in 1949."

Among the highway problems he noted were (1) the continued diversion of about $200 million a year in special state highway-user taxes to nonhighway purposes; (2) the "dispersion" of an even larger yearly amount of state highway-user taxes to roads and streets that properly should be supported by local, general and property taxes; (3) the current trend toward imposing an extra highway-user tax on top of existing special-user taxes in the form of toll highway projects.

Scores Excise Levy

The speaker scored the Federal excise levy on motor vehicles as unfair, pointing out that the tax falls heaviest on low-income groups. He said, the levy adds about $95 to the selling price of the average new car. Along with other taxes, the result is that it costs the average worker 2½ weeks' wages just to pay the taxes involved in owning and operating a car for one year.

Mr. Romney praised the commercial banks for helping to extent the broad base of credit required to finance the heavy production and sale of motor vehicles since the war. He called their contribution "perhaps the greatest windfall the automobile business has received in the past 30 years." But he said the banks should enter into wholesale financing of vehicles on a basis commensurate with their participation in retail lines of automobile credit. He suggested that commercial banks should either recognize the financing requirements of an automobile dealership by extending services comparable to those of the old line finance companies, or limit themselves to the "orthodox" functions of the commercial bank.

Expressing concern over tendencies toward deterioration of credit terms, Romney said he hoped commercial banks would take full advantage of their position as a credit influence and exercise restraint in the extension of retail credit.

Morgan Stanley Group Offers $25,000,000 Burlington R.R. Bonds

Morgan Stanley & Co. and associates offered to the public on March 28, subject to authorization of the Interstate Commerce Commission, a new issue of $25,000,000 Chicago, Burlington & Quincy Railroad Company first and refunding mortgage series of 1990 3% bonds at 100% plus accrued interest. The subscription books were closed shortly after the offering was made.

Proceeds of the sale will be used in part to provide for the redemption on Feb. 1, 1952, of the outstanding $12,460,100 of the company's first and refunding mortgage 4½% series B bonds due Feb. 1, 1977, and for payment of expenditures since March 1, 1949, in the acquisition or construction of a new line of railroad between Missouri City Junction, Missouri, and Needles Junction, Missouri. The new line will shorten and improve the company's route between Kansas City and Chicago.

The Burlington company has announced that after receipt of payment for the new bonds it will for a period of 10 business days pay not less than 110½% plus accrued interest to date of delivery for any series B bonds presented at J. P. Morgan & Co. Incorporated.

With Berwyn T. Moore Co.

(Special to THE FINANCIAL CHRONICLE)

LOUISVILLE, KY.—Berwyn T. Moore, Jr., is with Berwyn T. Moore & Co., Inc., Marion E. Taylor Building.

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Continued from page 3

Price of Full Employment Under the Havana Charter

narrowly and superficially as high aggregate demand within each nation. It asks that depression tactics—cheap money, supplementary public investment and "pump priming" be the three pillars of wise and permanent employment policy. Thus it completely forgets that high employment is but **one aspect** of a well functioning, prosperous economy. It ignores completely the fundamental condition of high employment — a harmonious national structure of production within an harmonious world structure of production. It utterly reverses the real cause-and-effect relationship, by making international prosperity dependent upon national prosperity, and, then, national prosperity dependent upon "full employment."

Inspired by Lord Keynes

This grave error in perspective, expressed in a revolutionary accent on effective demand was, of course, inspired by Lord Keynes. It is an error which stems from certain confusions in its author's, as in his disciples', minds. But it stems, also, from the value judgments Keynesian extremists make about the whole economic process, in toto. These value judgments blind them to the fact that a policy of employment through "planned inflation" is economic folly; they seem to see only the "planned" and not the "inflation." In their hands, such an employment program becomes a blueprint for national policy making, an experiment in methodology. In their hands, the "revolution of effective demand" becomes the revolution of artifically bloated cost and price structure, of government intervention and central control, of econometrics and bureaucracy. It becomes the revolution of neo-economic nationalism—as virulent as any the world has known.

Of course, the nationalistic disruption of trade engendered by the Keynesian definition of employment was evident to most of the conference delegates. The subsequent Articles of the Charter concerning employment were drafted with a logic that belies the verbosely diplomatic language in which they, as Article 3, are expressed. They show how clearly the delegates understood that socialist employment policies must lead to balance of payments difficulties. The relevant paragraphs of Article 21, written with just this contingency in mind, read as follows:

"The Members recognize that, as a result of domestic policies directed toward the fulfillment of a Member's obligations under Article 3 relating to the achievement and maintenance of full and productive employment and large and steadily growing demand . . . such a Member may find that demands for foreign exchange exercise pressure on its monetary reserves which would justify the institution or maintenance of restrictions under paragraph 3 of this article. Accordingly,

"(i) **no Member shall be required to withdraw or modify restrictions which it is applying under this Article on the ground that a change in such policies would render these restrictions unnecessary;**

"(ii) any Member applying import restrictions under this article may determine the incidence of the restrictions on imports of different products or classes of products in such a way as to give priority to the importation of those products which are more essential in the light of such policies."

Thus Article 21 links national full employment programs to balance of payments difficulties. It shifts the emphasis of the Charter from what it was in the Proposals and American Draft Charter—the pursuit of free trade—to what it was to remain—the pursuit of national full employment. It shifts the emphasis from the general elimination of quantitative restrictions to their general application.

Not Permitting Contraction Means Inflation

But this shift in the Charter was inevitable; it is a fact that governments pursuing an employment policy of "steadily rising levels of effective demand," a policy which never permits contraction in any sector of the economy, must maintain a continually increasing inflationary pressure. Such inflationary pressure invariably forces the national cost and price structure out of line with those of other countries, so that the exchange rate soon becomes far too high. The overvalued exchange rate, however, is never corrected precisely because it permits maintenance of artificially high costs and prices within the nation. The inevitable result, of course, is a drain on the country's supply of foreign exchange, and balance of payments difficulties. Those difficulties, furthermore, are heightened by the abnormally large demand for foreign goods the inflationary pressure has stimulated. Exchange controls soon become necessary to protect monetary reserves, and the government's control of foreign trade more total and far reaching.

In addition, these restrictions applied to "safeguard the balance of payments" are very likely to be permanent. This is true because the distortion of the national cost and price structure by inflation naturally makes it more difficult for the country's industries to compete with those of other nations. Thus the government, having sterilized the forces of adjustment by planned inflation, finds it must shield its high cost industry from falling foreign demand. Under such circumstances, import and export barriers mount ever upwards, as high cost producers and trade unions press the government for protection against "cheap" foreign goods, and subsidies for their unwanted exports. Indeed, their pressure can hardly be resisted, for resistance would mean unemployment — however temporary—in some sector of the economy, and this the government has sworn to avoid. It is thus obliged to accede to such private reclamations; and every time it grants these interests further protection, it increases their bargaining strength. As long as it continues to give them priority over the consumers, it can never refuse them. What is more, it can never remove protection once given, for that, too, would entail a readjustment of certain industries and a measure of temporary unemployment.

This irrevocability of socialist trade restrictions is a vital fact usually ignored by national planners who impose them. Such men maintain, quite blindly, that removing trade restrictions will be easier after the national economies have achieved "full employment," even when the very foundations of national employment have been laid on these same restrictions.

No Relaxing of Trade Controls Under ITO Charter

But, as we have seen, relaxing trade controls is impossible if socialist policies of effective demand are carried through, and deflation is never permitted in any sector of the economy. Once nations, in perfect international anarchy, seek stability independently from each other, there is no easy road back to the decontrol of trade. Industries borne artifically on the seas of inflationary aggregate demand can hardly stand in international competition; distorted national cost and price structures borne on the same seas become impossible to integrate within the world economy. So long as such inflated economies fail to adjust, the decontrol of trade will be impossible.

Britain has been very slow in realizing this fact—or realizing it publically, at least. But there is no doubt in the official diplomatic mind any longer. Said Mr. Harold Wilson on Jan. 20: **"Basic controls, such as those of the location of industry, foreign exchange, and** the volume of investment, will be maintained as **permanent instruments** to ensure the maintenance of our economic position and the fulfillment of our full employment programme."

Thus the men who, at Geneva and Havana, convinced the American delegates that quantitative restrictions and exchange control were only **temporary are finally** putting matters straight. **They** now proclaim a permanent **policy** of restricting purchases **abroad to** protect the home market, **and of** forcing sales abroad **to maintain** essential imports.

It should not be necessary, however, to insist upon the consequences of a policy of **arbitrary** government "import selection." **It** presages economic disintegration of the world, and breeds increasing political frictions. It cannot be otherwise, for there is no "invisible hand" to ensure that the interests of one country will not be pitted against those of another. The bitter rubber and oil disputes which have stirred passions on both sides of the Atlantic are but a sign of things to come. Should "import selection" become general practice, it would endanger every other industry in the world judged "non-essential," or "replaceable," by omnipotent bureaucrats who execute all-embracing national plans to protect their own private employment structures.

It is quite unrealistic to pretend, therefore, as did Keynes, that

> "when goods are homespun and nations learn to provide themselves with full employment by their domestic policies, . . . there need be no important economic forces calculated to set the interests of one country against that of its neighbors."

Such argument echoes in a vacuum. "Import selection" in Britain has only meant the promotion of trade along Schachtian lines, a drive towards **autarchy**, the reduction of real **income**, and "full employment" at **intolerably** lower standards of living. **In the** descending spiral of restraints **on** trade, she is no longer **able to** purchase raw materials, **foodstuffs** or manufactures where **they are** produced with least effort **and expense**. Instead, she is **forced to** exploit her own resources **to exhaustion**; to resort to barter **where** possible; and where **impossible, to** forego altogether what **she cannot** produce herself. **Yet even by** making these sacrifices, **she has** only been able to maintain factice full employment at the expense of the future viability of the nation, a most transitory stability which must crumble in the next few months to come.

But this is not all. As the effects of the British socialist depression are felt throughout the world, other like-minded states may well apply new restrictions in the hope of staving off repercussions at home. That is, they will invoke Article 6 of the Charter which permits them to "protect" themselves from a drop in international demand. But it is quite fallacious to believe that, by using Article 6's "safeguards for members subject to external deflationary pressure," depressions can be localized or neutralized.

The history of the interwar period demonstrates exactly the opposite conclusion. The national policies of "safeguard" used in those years—the quantitative restrictions, export subsidies, and currency depreciation—were fruitless policies of *suave-qui-peut*. In the desperate competitive struggle to salvage markets, everyone was the loser. In the end, the maladjusted national structures of production—all protected by "import selection"—spelled disastrous depression. The rigidities in the national economies, and the consequent disruption of the world credit market and monetary standard, were among the root causes of the depression. These rigidities had, in fact, threatened collapse throughout the '20s, but had been hidden by international credit expansion, which caused an illusory increase in world trade. As soon as the United States and France withdrew credits, the consequences of these deep maladjustments became apparent. As credits contracted, and many even failed to be repaid, international exchanges declined drastically.

Breakdown of Trade Deepens Recession

This breakdown of trade, its loss of resiliency, clearly deepened and spread the business recession. It was, for most countries, the greatest single factor of distress, since without the multiplication and elevation of trade barriers, the crisis would have been less general, less long, and less severe. Clearly, the two best hopes of recovery in the interwar period, reviving international trade, and restoring flexibility to the national economies, were forgotten in the chaos of policies deemed more "expedient." We need not dwell upon the consequences of that shortsightedness, but we must always remember that the severity of the 1929 depression was far from accidental.

It seems inconceivable, therefore, that the Charter should make the same tragic mistakes today in its analysis of the business cycle. Article 6, by recommending a policy of *sauve-qui-peut* nullifies Article 20 (1) just when it most needs to be obeyed. By condoning the maintenance of structural maladjustments in the national economies, and commanding the permanent increase of inflationary pressures, it unites the two most fateful elements of catastrophic depression. It makes the possibility of another 1929 terrifyingly real. Indeed, the effects of such a depression today could be far more serious, for passions will run bitterly when the question of responsibility for the crisis arises, and the political consequences of economic disorder are felt. The dangers in such a situation—and they are many—must be squarely faced. "Given the present political divisions of the world, to recommend autarchy as a general policy is to recommend war as an instrument for making autarchy possible."[1]

Here is the "revolution in the theory and practice of domestic economic policy"—reducing employment problems to absurdity, from whence any parrot who learns to say "effective demand" can be called an economist. Here is the policy that would achieve stability by accelerating inflation, drown out structural maladjustment by sterilizing the forces of adaptation, raise international standards of living by indulging in autarchy. This is the new economic nationalism which has brought poverty and discord to Britain, and threatens world depression. This is the philosophy which was codified in Articles 3, 6 and 21. Quantitative restrictions are entirely sanctioned therein—nor can the organization ever suggest their removal when they are part of a "full employment" program. Full scope is thus given to socialist governments whose domestic economic policies demand increasing economic isolation from their neighbors.

U. S. and "Full Employment" Policies

The United States cannot endorse these full employment policies which have precipitated crisis in England. The British economy, artificially bloated, held together by administrative controls, can only function now if somebody else is prepared to foot the raw materials bill. It is not likely, and probably not possible, that the United States continue to perform this remarkable feat much longer.

But with the essential prop of Marshall Aid gone, what then? It would be neither politically wise nor economically expedient for the United States to turn her back on her struggling European friend. A strong and stable Britain is so essential to political stability and enduring prosperity in Western Europe that the United States must continue its efforts to restore a healthy world economy. She must, therefore, replace Marshall Aid with a really constructive, long-term policy of economic cooperation with Great Britain.

In short, the United States must throw out the life lines to the American market. By opening her doors wider to imports, she can help other nations adjust to a new, and natural, equilibrium most effectively and realistically. That natural equilibrium must, in fact, be established, for only then can we hope for real and enduring stability in Britain and the free western world. The United States must, therefore, continue its program of tariff reductions, steadily preparing the way for an expanding world economy.

But equally important, the United States must keep its hands free to pursue this program of tariff reductions in the most effective way. She must be able to bargain individually with other countries, offering wide access to her market **in exchange for the complete elimination of quantitative restrictions and exchange controls.**

Of course, the possibility of bargaining for the elimination of QR was foreseen in the drafting of the Reciprocal Trade Act. Under the provisions of the ITO Charter, however, it may prove illegal for the United States to do so. Yet surely it would be the height of ridicule and irony for the United States—the most powerful of nations and the most sincerely desirous of non-discriminatory multilateral trade—to find herself helpless in a world of bilateralism and blatant discrimination. Then, bound by a charter which she had initiated to accord equality to those who treat her unequally, she would, like a shorn Samson, find her powers completely neutralized. At the mercy of those who would combat her good faith and superior efficiency with the lethal weapons of economic warfare, she would be a sorry champion of liberal internationalism.

Such defeat, the United States cannot possibly allow. Every chance of reconstituting a world economy depends upon her staying in a position to lead the fight for economic internationalism. If the use of traditional instruments of international economic cooper-

1 Lionel Robbins, *Economic Planning and International Order*, London, 1937, p. 321.

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ation were denied her, she could not hope to establish enduring stability in the western world. Only by refusing to participate in a discriminatory system, and by negotiating the withdrawal of trade controls in exchange for free access to her market, can she establish the nucleus of a free trading system.

But the negotiation of tariff concessions can only succeed if the American business community cooperates with the government, and within itself. For while American business as a whole must inevitably enjoy the real benefits of an expanding world economy, some must meet the challenge of increased foreign competition. Among these, of course, many are able, and willing, to adjust to the new situation easily, and with a minimum of business reorganization. Others, however, do not feel that they could do so. It would obviously be unfair that these few bear the full brunt of overall tariff adjustment. It is, therefore, most welcome that Secretary of State, Mr. Acheson, should advocate relief payments to manufacturers hurt by tariff reductions. Such payments would be wholly justified, not a series of handouts to the inefficient, but a means of spreading the risk fairly. It would establish the principle that the nation as a whole must assume the responsibility of adjusting the American economy to its new world position.

But it must be said again that the success of a tariff reduction-business compensation program rests primarily on the American business community. From **them** must come the leadership and statesmanship needed in these difficult times. Already many businessmen are heard to say "Sweep away the tariffs. It would mean that I'd have to reorganize my business, but I'll see what I shall do." This is an encouraging attitude in a discouraging world. If it could inspire labor and business leaders across the sea, it would take surprisingly little to make the dollar problem seem manageable again. Yet it is deeply significant that many American business leaders are courageously showing the way. As they rally the increasing support of their colleagues, a new means of really effective American economic leadership throughout the world is in view.

Rejoins John J. O'Brien

(Special to The Financial Chronicle)

CHICAGO, ILL. — Oscar G. Stass has rejoined the staff of John J. O'Brien & Co., 231 South La Salle Street, members of the New York and Midwest Stock Exchanges. He has recently been with Barclay Investment Co.

With Slayton & Co., Inc.

(Special to The Financial Chronicle)

CHICAGO, ILL. — Warren A. McCracken has become associated with Slayton & Co., Inc., 135 South La Salle Street. He was formerly with Kebbon, McCormick & Co. and Stern, Wampler & Co.

Carter Manning Opens

Carter Manning is engaging in a securities business from offices at 51 East 42nd Street, New York City. He was formerly with Corporate Leaders of America and First Investors Corp.

Two With Barrett Herrick

(Special to The Financial Chronicle)

CHICAGO, ILL. — Harry A. Cain and Roland J. Hepp are with Barrett Herrick & Co., Inc.

Atkinson-Jones Adds

(Special to The Financial Chronicle)

PORTLAND, ORE. — Alonzo C. Keefhaver is now with Atkinson-Jones & Co., U. S. Bank Building.

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The State of Trade and Industry

mills which had formerly considered a consumer an exclusive account might have to share the available business with another producer who had helped out in a pinch. Also, among consumers who have had to scramble for steel supplies, incurring higher costs to keep their production lines running, there is a growing tendency not to depend on a single source of supply for their steel.

There are some sobering factors in the steel market this week. A few of the big tonnage steel consumers who have been most aggressive in their procurement tactics are receiving steel faster than they are using it. This hasn't caused them to stop grabbing every ton of steel they can get their hands on. But it does indicate that when their inventories reach a satisfactory level they will exert less pressure on the market.

A comparison of conversion costs also provides food for thought. This week the final cost of conversion steel is about $50 to $65 above mill prices. This includes extra freight charges for transshipment, fees for rolling and all other extra charges. But when conversion was in its heyday two years ago steel procured in this manner was costing about $100 a ton above mill prices.

Much depends on what happens in the auto industry during the balance of this year. In January, auto, truck and parts makers received 21.7% of total estimated steel shipments. Last year they received an average of 18.8% of shipments compared with 15.5% in 1948. This means that demand for new cars will have to stay at a very high level to support a strong steel market during the second half of the year.

The sparring between the United Auto Workers and General Motors will be watched more closely as the May 29 contract deadline approaches. GM has already warned its parts suppliers to expect the worst—possible a 30-day shutdown. If GM is struck the steel market will feel it quickly.

The scrap market also points to a strong but sane market for steel. The crazy scrap market of two years ago was supported by three things: (1) Conversion deals, (2) wild buying by consumers, and (3) a ruptured scrap cycle due to the war. Today the scrap market is strong, but it remains on an even keel. Time has repaired the ruptured scrap cycle. Consumers are buying cagily in order to avoid upsetting the market. And conversion deals lack the steam to push scrap prices into crazy flight.

Steelmaking operations this week are scheduled at 96.5% of rated capacity, up 1½ points from last week. Scrap prices remain firm, supporting this high rate of steelmaking.

The American Iron and Steel Institute announced this week that the operating rate of steel companies having 93% of the steel-making capacity for the entire industry will be 96.7% of capacity for the week beginning March 27, 1950. This is an advance of 1.2 points from last week's rate of 95.5%.

Output this week will be the highest since the week of March 21, 1949, when production reached 1,863,800 tons.

This week's operating rate is equivalent to 1,843,400 tons of steel ingots and castings for the entire industry compared to 1,820,500 tons one week ago. A month ago the rate was 73.7% and production amounted to 1,404,900 tons; a year ago it stood at 99.8% and 1,839,800 tons, and for the average week in 1940, highest prewar year, at 1,281,210 tons.

ELECTRIC OUTPUT SHOWS DECLINE FROM PREVIOUS WEEK

The amount of electrical energy distributed by the electric light and power industry for the week ended March 25 was estimated at 5,993,062,000 kwh., according to the Edison Electric Institute.

It was 22,265,000 kwh. lower than the figure reported for the previous week, 589,256,000 kwh., or 10.9%, above the total output for the week ended March 26, 1949, and 928,507,000 kwh. in excess of the output reported for the corresponding period two years ago.

CARLOADINGS FURTHER IMPROVE IN LATEST WEEK

Loadings of revenue freight for the week ended March 18, 1950, totaled 725,570 cars, according to the Association of American Railroads. This was an increase of 17,608 cars, or 2.5% above the preceding week.

Coal loading amounted to 191,234 cars, an increase of 145,384 cars above the corresponding week a year ago, but a decrease of 744 below the preceding week this year.

The week's total represented an increase of 117,648 cars, or 19.4% above the corresponding week in 1949 and 25,977 cars, or 3.7%, above the comparable period in 1948, in both of which years loadings were cut by work stoppages at coal mines.

AUTO OUTPUT EXTENDS GAINS OF PREVIOUS WEEK

According to "Ward's Automotive Reports" for the past week, motor vehicle production in the United States and Canada expanded to an estimated 134,978 units compared with the previous week's total of 134,453 (revised) units.

This week's estimated United States output is 128,778 units. Even an additional 25,000 contributed by Chrysler plants would be enough to top the record of 153,090 established last July, Ward's noted.

The total output for the current week was made up of 104,142 cars and 24,636 trucks built in the United States and a total of 4,565 cars and 1,635 trucks built in Canada.

The week's total compares with 120,341 units produced in the like 1949 week.

BUSINESS FAILURES DECLINE FURTHER

Commercial and industrial failures decreased to 186 in the week ended March 23 from 208 in the preceding week, reported Dun & Bradstreet, Inc. Despite a decline for the second consecutive week, casualties exceeded the 166 and 101 which occurred in the comparable weeks of 1949 and 1948. Failures remained below the prewar level; they were 46% below the total of 350 in 1939.

Failures involving liabilities of $5,000 or more accounted for the week's decline; casualties of this size dropped to 141 from 173 in the previous week and compared with 129 a year ago. Small casualties having liabilities under $5,000 increased to 45 from 35 and also exceeded the 1949 level.

WHOLESALE FOOD PRICE INDEX EASES FURTHER IN LATEST WEEK

A further drop of two cents last week brought the Dun & Bradstreet wholesale food price index for March 21 to $5.79, from $5.81 a week earlier. The latest figure is identical with that recorded on the like date a year ago. It represents a decline of 13.8% from the corresponding date of two years ago when the index stood at $6.72.

The index represents the sum total of the price per pound of 31 foods in general use. It is not a cost-of-living index.

WHOLESALE COMMODITY PRICE INDEX CLOSE TO HIGHEST LEVEL OF YEAR AS A RESULT OF FIRMNESS IN LEADING COMMODITIES

Price movements last week were again mixed, but firmness in many leading commodities held the daily wholesale commodity price index, compiled by Dun & Bradstreet, Inc., around the highest level of the year. The index closed at 249.48 on March 21, against 249.45 a week previous, and 256.23 on the like date a year ago.

Although there was some irregularity at the close, grain markets on the Chicago Board of Trade showed considerable strength, with many deliveries of wheat, corn, oats and soybeans selling at new high levels for the season. Cash wheat was rather quiet with offerings small as farmers showed a tendency to hold their surplus stocks.

There was some improvement in the outlook for the new Winter wheat crop as the result of rains in parts of the West and Southwest.

Trading in both the domestic and export flour markets continued on a very limited scale with buyers showing extreme caution in making commitments.

Cotton prices were irregular but developed a slightly firmer tone as the week closed. Activity in spot markets declined rather sharply.

Sales reported in the ten markets last week totaled 95,100 bales, as compared with 124,600 the week before, and 98,800 in the corresponding week a year ago.

A continuing supporting factor was the encouraging export trade outlook.

In the latter part of the week, mill price-fixing and short covering sent new crop contracts to the highest levels of the season. Advances were held in check through profit taking and hedge selling against purchases of loan equities, and liquidation prompted by continued slowness in textiles and uncertainty regarding domestic mill consumption later in the season.

Exports of cotton during the week ended March 16 totaled about 168,000 bales, or more than twice the volume of the previous week, according to the New York Cotton Exchange. Exports for the season through March 16 approximated 3,243,000 bales, as compared with 2,689,000 for the same period a year ago.

Consumption of cotton during February, as reported by the Bureau of the Census, averaged 37,592 bales per working day, against a January rate of 37,651, and the February, 1949, average of 32,546 bales.

Loan entries in the latest week were again small while repossessions continued in good volume. Net loan stocks as of March 9 totaled 2,639,000 bales, compared with 4,431,000 to the corresponding date last season.

RETAIL TRADE AIDED BY PRE-EASTER APPAREL BUYING—WHOLESALE TRADE DOLLAR VOLUME HOLDS ABOVE LIKE 1949 PERIOD

Spurred by a pre-Easter pick-up in apparel buying, total retail volume rose slightly in the period ended on Wednesday of last week. Sales were also aided by a continuance of seasonal temperatures in some areas. Dollar volume for the country was slightly below the level for the comparable week a year ago, Dun & Bradstreet, Inc., reports in its current summary of trade.

The demand for apparel rose noticeably last week in scattered localities and promotions helped to stimulate the popularity of many items with shoppers. Millinery buying increased moderately, as did an interest in women's short coats, lingerie and footwear. The demand for sportswear, while high, fell slightly. There was no marked change in the sales volume of men's coats and suits.

Retail purchases of housefurnishings and other durable goods were generally sustained at the previous week's high level. Some items, noticeably television and radio sets, living room furniture, bedding, and draperies, increased moderately in aggregate dollar volume. The interest in housewares responded favorably to promotions. The demand for floor-coverings dipped slightly, while that for large appliances was moderate.

Total retail dollar volume for the period ended on Wednesday of last week was estimated to be from 1 to 5% below that of a year ago. Regional estimates varied from the levels of a year ago by these percentages:

New England +3 to —1; East, South, Midwest, and Northwest —1 to —5; Southwest +1 to —3; and Pacific Coast +2 to —2.

Over-all wholesale buying continued to be virtually unchanged the past week; dollar volume of orders was fractionally above the moderately high level of the similar week in 1949. The present level was largely sustained by substantial bookings in durable goods. The number of buyers attending various wholesale markets declined slightly from the previous week's figure and was below that of a year ago.

Department store sales on a country-wide basis, as taken from the Federal Reserve Board's index for the week ended March 18, 1950, showed a rise of 1% from the like period of last year. In the preceding week a decline of like amount was registered from the like week of 1949. For the four weeks ended March 18, 1950, sales reflected a decline of 1% from the corresponding period a year ago, but for the year to date show a drop of 3%.

Retail trade in New York last week showed seasonal expansion, but dollar volume dipped slightly under like period of 1949.

According to the Federal Reserve Board's index, department store sales in New York City for the weekly period to March 18, 1950, fell 2% from the like period last year. In the preceding week a decline of 2% was registered from the similar week of 1949. For the four weeks ended March 18, 1950, a decrease of 3% was reported from the like week of last year. For the year to date volume decreased by 6%.

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Devaluation—Six Months After

to fall since their sharp rise in November. The overall dollar gap remains and, as noted above, was apparently running at the rate of $1 billion per annum during the fourth quarter of 1949.

(5) Another statement very frequently made following devaluation was that devaluation would create financial incentives on producers in the area of devaluation to export to dollar markets.

This statement was correct if properly interpreted. Take again the example of the British producer. Let us say that, because of devaluation, he was in a position to raise the sterling price of his product but not enough to offset the drop in the value of the pound. At his new and higher sterling price he has no greater incentive to export to the dollar market than to soft-currency markets, or, indeed, to export at all in preference to selling in the domestic market if demand from non-dollar markets will absorb his output. However demand for his product from the dollar area would be expected to strengthen in response to lower effective dollar prices, while demand from other areas would fall off in response to the higher cost of his product in terms of sterling.

Some shifting of demand and trade has undoubtedly occurred in response to these opposing influences. However, the demand for British and other goods in soft-currency areas has continued strong and has been reinforced by the higher price of competing dollar goods. The attraction to the British producer of soft-currency markets has therefore continued strong; and his position there is protected in a number of ways, chiefly by the shortage of dollars. The British producer may seek expanded markets in the United States, in order to compensate for falling demand from other sources, or out of patriotic motives, or simply with the purpose of increasing his total business by taking advantage of his improved competitive position in dollar markets. These are the only incentives for dollar export resulting from devaluation.

Effect on U. S. Exports

(6) I come now to the aspect of devaluation which is of most concern to American exporters. At the time of devaluation last year, the obvious statement was made that it would result in increased price competition for American products in export markets. Some observers, among which I include myself, said that it would not result in any drastic reduction in United States exports. Others predicted a more or less serious decline.

The argument against any sharp drop in United States exports because of devaluation stressed the importance of factors other than price in export trade, especially the inability of foreign competitors in many lines to supply increased quantities of goods and their frequent lack of marketing and servicing facilities. This argument also noted that the reduction in effective prices of goods coming out of the area of devaluation was on the average perhaps not more than one-half of the devaluation of foreign currencies. It took account of the fact that many United States products were still competitive in terms of price despite the decline in the prices of competing foreign products and that the prices of some United States exports were also falling for reasons unrelated to price competition abroad. This point of view was based also on the belief that the demand for United States products in foreign markets is limited at present only by the supply of dollars available to foreign countries to buy American goods and upon the prediction that the supply of dollars would remain high. The opposing argument was that an increase in the prices of American exports in the area of devaluation of 44% and a reduction in the prices of exports from the area of devaluation to third markets up to 30% would have highly adverse effects on many United States exports. But let the facts speak for themselves.

United States exports during the first three months after devaluation, that is, during the last quarter of 1949, were below the levels of 1948 and early 1949 but no lower than during the third quarter of 1949. Then in January they dropped sharply to the lowest figure since October 1946.

The explanation of the weakness in exports since devaluation could be that American goods have been priced out of foreign markets by the depreciation of foreign currencies. There are undoubtedly cases of this kind, but I have had very few specific examples come to my notice. The fact that the weakness set in before devaluation suggests that the explanation lies in restrictions on dollar imports in many countries which either have lost or are losing dollars. Restrictions on dollar imports into the United Kingdom and Commonwealth countries announced in July began to take effect during the second half of 1949. Exports financed under the Marshall Plan and other foreign aid programs of the United States Government were reduced during the second half of the year as compared with the first. The Argentine market continued in a decline, and the South African market went from bad to worse. Import restrictions imposed by Brazil because of dollar shortage cut that market in half. The Philippine market has now been restricted in order to stem the loss of dollars. And there are other examples of the same kind.

Thus, the principal explanation of the general weakness, and it has been general, in United States exports both before and since devaluation would seem to be the prevalence of payments difficulties. A subsidiary explanation applicable particularly to Latin American markets is that European suppliers are regaining a more normal position in the trade, thereby displacing American suppliers. This would have happened if there had been no devaluation. However, the depreciation of European currencies undoubtedly speeded up the adjustment and will enable it to go further than would have been possible if they had not been devalued.

Only if the accumulation of gold and dollars which has been in progress since devaluation should persist and become widespread, that is, only if foreign countries in general begin to hold dollars rather than spend them, could it be said that price competition resulting from devaluation was mainly responsible for a decline in United States exports. The time has been too short and the pertinent statistical information is so far too fragmentary to make possible any firm judgment on this aspect of the matter.

Continued Shrinkage in Dollar Supply

The outlook is for a continued shrinkage in the supply of dollars available to foreign countries to buy American goods. The Marshall Plan appropriation for the next year of operations beginning July 1950 will be substantially reduced, and the amounts allocated to Marshall Plan countries for current dollar imports may be further reduced by a set-aside from the appropriation of one-half billion dollars to underwrite the proposed European Payments Union. Imports into the United States may be as large or larger in 1950 than in 1949. New dollar investments abroad, on the other hand, will probably be smaller, and allowance must be made for some further accumulation of gold and dollar reserves by foreign countries.

Even so, exports will certainly pick up from the low level of January 1950 and, most observers agree, will probably reach $10-11 billion for the year as a whole, exclusive of shipments under the Military Assistance Program. Markets in the coffee-producing countries will improve. The Argentine market is looking up. Mexico may soon lift some import prohibitions. Canadian import restrictions have been relaxed, and further relaxations are promised later this year. The Indonesian market should now open up by benefit of Export-Import Bank credits and, it is hoped, also by benefit of increased exports of Indonesian products.

Effects of Devaluation on Costs

(7) It was also generally pointed out at the time of devaluation last year that devaluation would be followed by an immediate increase in the cost, in terms of devalued currencies, of materials and components imported from the dollar area and bring in time a corresponding increase in costs of production. Thus it was reasoned that price competition in domestic and export markets from goods coming out of the area of devaluation would be increasingly offset by an increase in costs and prices in terms of devalued currencies.

In the event, the price rise in terms of devalued currencies has not been confined to materials coming out of the dollar area but has applied also to materials coming out of the area of devaluation itself. For example, not only has the cost in terms of devalued currencies of American cotton increased sharply since devaluation, but also the cost of rubber and wool, to take two examples. Not only has the cost of oil and oil products gone up roughly in proportion to the devaluation of foreign currencies, but also the cost of nonferrous metals, to take another example.

In the case of the United Kingdom all import prices rose between September and December by 12%. Prices of imported raw materials alone went up by 10%. So far, however, these higher prices for imported materials have been only partly reflected in the prices of finished products and not at all, on the average, in export prices. In other words, the effects of the higher sterling cost of imported materials have yet to be felt in the United Kingdom itself and in British export prices.

It was also anticipated at the time of devaluation that the cost of living would eventually increase in countries which devalued their currencies, thus cause pressure for higher money wages, and so increase costs of production.

Turning again to the example of the United Kingdom we find that retail prices have scarcely moved since devaluation. The price of bread and flour was marked up, but, this was offset by a decline in the price of clothing. Retail price controls have been effective during the period since devaluation, and it is now clear that stocks accumulated before devaluation cushioned its effects on prices. Despite the failure so far of the cost of living to rise, large sections of British labor are becoming restive under the wage freeze agreed between the Trades Union Congress and the Labor Government. It was possible to maintain the truce until the recent elections. Whether it can be held much longer is doubtful, particularly since the effects of devaluation on retail prices cannot much longer be postponed.

(8) Finally, I come to three statements regarding devaluation which should be recalled but which require little comment. It was often heard at the time of devaluation that it would not "work" and would be followed by further devaluation. I was not able to follow this idea then, and I am still unable to do so. If the rather drastic devaluation of sterling and other currencies does not achieve the results which were hoped for in some quarters, then it is hardly conceivable that the experiment would be repeated unless under circumstances which offered no alternative. In other words, it may be advisable for a country to cheapen the dollar cost of its exports in order to stimulate sales, but if the stimulus turns out to be too small to offset the reduction in prices, there would be no sense in continuing the process. I personally doubt that it was possible to make, on strictly economic grounds, a conclusive case for devaluation last year. The question is academic because the devaluation of sterling at least was certainly a forced devaluation undertaken in order to arrest an unsupportable loss of monetary reserves. If the recent devaluations fail to narrow the dollar gap of countries which devalued, I do not see how any case can be made for further devaluations.

(9) There is also a persistent notion that the devaluation of foreign currencies would eventually bring about a devaluation of the United States dollar. This amounts to saying that the United States would be induced, in order to protect the competitive position of American producers in both domestic and export markets, to devalue the dollar by raising the price of gold. This notion makes no sense at all to me. It would have the United States attempt to undo the devaluation of foreign currencies which it encouraged only a short time ago. Whether the United States could devalue the dollar in terms of other currencies is moreover doubtful, since other countries could exercise the option of devaluing their own currencies further in terms of gold.

(10) Finally, there was the common observation at the time of devaluation that devaluation alone would not solve the dollar problem of European and other countries and that the effectiveness of devaluation in bringing a solution would depend upon collateral measures—measures relating to national budgets, rate of investment, credit, wages, hours of work, productivity of labor, efficiency of management, financial incentives to export, and all of the other factors which determine relative costs, relative prices, and competitive power in international markets. Now that six months have passed since devaluation, I am sure that this is one statement on the subject on which we can all agree.

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Where Are We and Where Are We Going?

completed without substantial further drops in production and employment. Nevertheless, some further drop in production and employment is likely before the transition has been completed. I do not believe that contraction in production and employment will begin until the latter half of 1950 at the earliest and perhaps not until 1951. For some months the demand for goods will be well sustained by the disbursement of the special insurance dividend of $2.8 billion to veterans, by the large volume of construction under contract, and by the strong demand for automobiles. Let me first explain why I believe that after the first half of the year or a little later there is likely to be further contraction in production and then explain why I do not believe that it will be severe or last long.

One reason for expecting the transition to a self-sustaining economy eventually to cause some drop in production and employment is that the current rate of investment is apparently somewhat above normal. It is impossible to estimate precisely what a normal rate of investment should be. At the beginning of 1949 the country possessed about $129 billion worth of industrial equipment—the original cost of this equipment less depreciation expressed in dollars of 1949 purchasing power. Experience seems to indicate that this equipment needs to be replaced at the rate of about 9% a year. This would require expenditures of about $11.6 billion a year for replacements of equipment. To provide new equipment for the annual increase in the labor force would require an investment of about $1.1 billion a year and to increase equipment per worker at the rate of 1.5% a year would require additional expenditures of $1.9 billion. Replacements and new investments would require outlays of about $14.6 billion a year on equipment.

Real estate improvements of American industry at the beginning of 1949 were about $162.6 billion. The replacement rate has been about 2.9% a year, requiring expenditures of about $4.7 billion a year for replacement. To provide new plant for new workers would require annual expenditures of about $1.5 billion a year and to increase plant per worker about 1.5% a year would require additional expenditures of $2.4 billion. Total "normal" expenditures on industrial plant for replacement and expansion may be put at roughly $8.6 billion a year. About 600,000 new dwelling units a year are needed to provide for the increase in families and another 200,000 to replace existing dwelling units. At an average of $8,000 per unit, total "normal" expenditures on housing may be estimated at roughly $6.4 billion a year.

These rough estimates indicate that "normal" expenditures on equipment, plant, and housing are about $29.6 billion a year. Let us put the figure roughly at $30 billion a year. In the last quarter of 1949 these expenditures were running at the annual rate of $36.5 billion a year, or roughly 20% above normal. Since expenditures on private investment are somewhat above normal, they may be expected to decline. Indeed, they are slowly declining, and outlays on industrial plant and equipment are expected to be around 13% smaller in 1950 than in 1949.

Farm Prices Above Normal

A second reason for expecting the transition to a self-sustaining economy will produce a further drop in production and employment is that the prices of farm products are substantially above the level where they can be expected to remain. During the present fiscal year the government is spending about $1.4 billion on keeping the prices of agricultural products too high to clear the market. Consequently huge surpluses of corn, wheat, cotton, potatoes, butter, eggs, and other

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farm products are piling up. It is plain that the prices at which farm products are supported will have to be substantially lowered. Politicians will be reluctant to face this unpleasant fact, and the excessive support of the prices of farm products will only be slowly withdrawn. Nevertheless, general knowledge that prices of farm products are bound to come down will encourage conservative buying policies throughout the entire economy.

Although I expect that the transition to an economy based upon current demand will not be accomplished without a further drop in production and a further rise in unemployment, I do not expect that the drop in production and employment will be large. There are six principal reasons for this conclusion. In the first place, the economy is better equipped than ever before to withstand contraction. Its banking system has been strengthened, short-term private debts are no longer large in relation to the national income and are no longer an important source of money supply, and the country has a system of unemployment compensation.

In the second place, the holdings of liquid assets by individuals are large in relation to the rate at which they are spending money. At the present time the annual rate of personal expenditures for consumer goods is only 3.6 times the average personal holdings of cash and demand deposits as against 5.9 times the average of 1939.

Private Investment Will Decline

In the third place, although the rate of private investment will probably slowly decline for sometime, it will also remain above "normal" for a considerable period and it may reverse its trend before it declines to normal. There is still a substantial backlog of demand for equipment, industrial plant, and housing. It is not possible to estimate the size of this backlog accurately. At the end of 1949, capital per worker was about 5.1% less than it was in 1929. To bring capital per worker up to the amount in 1929 would require an investment of about $23 billion. Certainly this figure may be accepted as a very low estimate of the unsatisfied backlog of demand for plant, equipment, and housing. The actual backlog is probably, somewhat higher because during most of the last century capital per worker has been increasing. The fact that a large backlog exists does not, of course, mean that business enterprises and individuals will choose to spend their money catching up on their needs for plant and equipment at once.

In the fourth place, the high demand for automobiles and housing may continue so long that demand for many kinds of industrial equipment and plant increases in time to offset the eventual drop in expenditures on automobiles and housing.

In the fifth place, any drop in production and employment will be retarded by expenditures on public works for which there is a great need. In particular, the great rise in the number of trucks and automobiles has made a large part of the road system of the country obsolete. Outlays for roads and bridges will be large and many of these projects will be financed by tolls. During the decade of the fifties the country will have about 40% more children between 10 and 20 years of age than it had in the previous decade. This creates a great need for schools and playgrounds.

In the sixth place, any drop in production and employment will be limited by the deficit in the budget of the Federal government. In the present fiscal year, the cash accounts of the government will show a deficit of about $5 billion. These accounts include a non-recurring expenditure of $2.8 billion represented by the insurance dividend payment to veterans. Expenditures on defense and on the support of farm prices in the coming fiscal year will probably be larger than in the last year. The yield from taxes may be smaller, particularly if some of the excise taxes are reduced or repealed. Another deficit of close to $5 billion seems fairly certain.

Speculations at the present time as to when the drop in production and employment will come, how far it will go, or how long it will last are not likely to be accurate. The result will partly depend upon the reaction of business and government to contraction. If there were a substantial reduction in excise taxes and a fairly substantial cut in expenditures of the government, the deficit in the next fiscal year would remain around $5 billion. Such a deficit combined with a reduction in taxes would probably avert a drop in production and employment. In the absence of special measures to discourage contraction, I would not expect the gross national product during contraction to fall below an annual rate of about $240 or $245 billion or for the annual average of monthly unemployment figures to get up much above 5 million.

A drop in employment during the next several years will produce a smaller rise in unemployment than it would have done in the past. A large number of companies have installed pension plans which pay fairly liberal benefits to employees of 25 or 30 years' service. A rise in unemployment would put the managements of these companies under considerable pressure to limit the layoffs of younger men by putting long-service employees on pensions. Consequently, a recession would see a substantial increase in the number of employees that are on pensions. It would not be surprising to see a contraction of employment produce a rise of 500,000 to a million in the number of persons drawing pensions.

III
Transition to Self-Sustaining Economy

What can be done to assure that the transition to a self-sustaining economy is smooth and produces the least possible volume of unemployment.

Aggressive selling policies by business concerns accompanied by willingness to cut prices in order to make sales would help. So also would aggressive policies in replacing equipment with low-cost, modern equipment.

The government could help sustain employment: (1) by making reforms in the tax laws designed to encourage new enterprises and investment in old enterprises (increasing the carry-forward provision of the corporate income tax from two years to five, eliminating the "notch rate" on corporations with net incomes of $25,000 to $50,000, permitting new equipment to be written off in five years); (2) by cutting expenditures and passing on the savings promptly in the form of general tax reductions; (3) by opening up new investment opportunities by encouraging the construction of limited-access, through highways financed by tolls; and (4) by extending and liberalizing the old-age insurance and annuity scheme. Each of the steps would be useful, but the most useful of all would be cuts in expenditures with offsetting reductions in general taxes. Such a policy would mean that the deficit in the Federal budget would be reduced only as the increase in incomes raised the yield of taxes. It would mean that the people of the country would be given some hope of at least a slow reduction in taxes. At the same time, the deficit in the budget would tend to increase the quantity of cash held by individuals and business concerns, thus helping to sustain private spending during the transition from the catching-up economy to a self-sustaining one. Extending the coverage and liberalizing the benefit formula in the Federal old-age and survivors' insurance plan would increase the pensions received by persons who might be retired as a result of a drop in employment. This increase in pensions would help to halt the drop in employment.

IV
Normal Unemployment

Since the country is in the midst of making a shift from a catching-up economy to one based upon current demand, this is an appropriate time to ask what is a normal volume of unemployment to expect after the transition. In 1949, the average volume of unemployment was 3.4 million out of a labor force of 63.6 million, an unemployment rate of 5.3%. In 1946, 1947 and 1948, unemployment was around 4% of the labor force.[1] In order to keep unemployment down to around 4% of the labor force, demand had to be strong enough to exert considerable upward pressure on prices. During most of the time when unemployment was only 4% of the labor force, prices were rising. This suggests that some measure of inflation is necessary to keep unemployment down to 4%. In 1949, on the other hand, with an unemployment rate of 5.3%, prices were slowly sliding downward. Does this indicate that an unemployment rate of about 5% is compatible with stable prices, but that a lower unemployment rate can only be achieved by some inflation?

One may be skeptical that there should be such a difference in the conditions associated with a 4% unemployment rate and those associated with a 5% rate. The explanation is probably to be found in the main in the behavior of inventories. The drop in prices in 1949 was undoubtedly assisted by the reduction in inventories that was going on during the last three-quarters of the year. Had business not been reducing inventories, the price level would not have fallen. It would probably have continued to rise slightly. Hence even a 5% unemployment rate may not be compatible with stable prices. Perhaps the rate that would make possible stable prices would be 6% to 7% of the labor force. With trade unions as powerful as they are, even this rate of unemployment might not prevent unions from forcing increases in prices by raising money wages faster than the engineers and managers are able to raise output per man-hour.[2]

There is another way of looking at the problem. If one is more interested in the volume of employment than in the stability of prices, one might say that a certain amount of inflation is necessary in order to get the rate of unemployment down to 5% and that still more inflation is necessary in order to get unemployment down to 4%.

V

Let us look briefly at the short-run outlook for the economy after the transition to an economy based upon current demand has been made. The period that I have in mind is sometime after 1951 and perhaps after 1952. It is not possible, of course, to foresee the course of business two or three years in advance. Nevertheless, it is possible to raise questions about certain problems that will be confronting the economy and about the probable consequences of certain specific events. That is what I intend to do.

Four Important Short-Run Questions

There are four questions about short-run economic trends that stand out with particular importance. They are:

(1) How will the economy be affected by modifications in the government's program for supporting farm prices?

(2) How will the economy be affected by the end of Marshall Plan aid?

(3) How will the economy be affected by the strong upward pressure by trade unions on wages?

(4) How will the economy be affected by the financial condition of the government and government fiscal policy?

Let us consider these questions one by one.

Modification of Farm Price Program

(1) **Modification of the program for supporting farm prices.** It is plain, as I have pointed out, that the government's price support program will have to be drastically modified. The people will not indefinitely tolerate expenditures of well over a billion dollars a year to keep the prices of farm products so high that huge surpluses pile up. The recovery of agricultural production abroad will make the problem more acute. I do not know what form the modification of the program will take. I believe, however, that it will have two characteristics: (1) it will make agricultural products available at prices considerably below present ones; (2) it will cost the government large amounts of money. The immediate effect of the change may be mildly deflationary, but this effect will not last for long. The government subsidies will limit the drop in the incomes of farmers; the large increase in population that has occurred during the last 10 years will help prevent a drastic drop in the prices of farm products; and, to the extent that the prices of farm products do decrease, money will be released for the purchase of other goods.

(2) **The effect of the end of Marshall Plan aid upon the American economy.** The end of Marshall Plan aid may threaten serious consequences for the economies of some other countries—so serious that the aid in some form is likely to be continued. Even if it is not continued, however, the economic consequences to the United States are not likely to be large or important. The excess of exports over imports financed by the Marshall Plan is only about 2% of the gross national product of the country. Just about the time that Marshall Plan aid is scheduled to end there will be a large increase in the volume of United States savings bonds reaching maturity. The maturities of E bonds will jump from $1.1 billion in 1951 to nearly $4 billion in 1952, $5.6 billion in 1953, and $6.3 billion in 1954. They will reach a peak in 1954. In 1955 the maturities will drop to $5 billion, and in 1956, to $2.6 billion. A large proportion of the money derived from maturing E bonds will probably be invested in new issues of government savings bonds or other securities. A good part of it, however, will be spent on goods. The net effect of the maturities will be to offset pretty completely within the United States the consequences of the end of Marshall Plan aid.

(3) **The upward pressure of trade unions on wages.** The American trade union movement is highly competitive and the strongest unions are very powerful. Few employers are a match for these unions and most employers do not believe in organizing to resist union pressure. Consequently, one must not expect unions to be successful in pushing up money wages. Will employers be able to raise output per man-hour as rapidly as wages increase? There appear to be great opportunities to increase output—opportunities that accumulated during the war and that depend on installation of new equipment and new methods. Only now is the economy beginning to feel the full effects of the large expenditures on new equipment made during the last three years. Despite the fact that technological progress may be rapid, one must expect wages to rise a little faster than productivity.

The success of unions in raising wages will increase the difficulty of maintaining a satisfactory level of employment because higher labor costs will not be easily and quickly translated into higher prices. Business managements will be ingenious in limiting their use of the relatively expensive kinds of labor, simply because such ingenuity will be more and more necessary. This will make for technological progress. If the resourcefulness and ingenuity of managers and the technological progress made by the engineers do not raise output per man-hour as rapidly as the unions raise wages, either prices will have to rise or unemployment will increase. I have said that I do not believe that prices will be easily raised in response to rising costs. One reason why prices will not be easily raised is that the course of prices of most farm products will probably be slowly downward. This will encourage a wait-and-see attitude among business concerns toward all prices and will make for hand-to-mouth buying. Another reason why prices will not be easily raised is that the strong trade unions and perhaps a government that is not very sympathetic to business will cause managers and investors to take a cautious view of the prospects of future profits. Consequently, I believe that the response to higher wages will be a mixed one—partly a slow rise in prices and partly a slow rise in unemployment. Increases in unemployment will raise the bargaining power of employers, but it is hard to say at what level of unemployment and at what rate of price increase labor costs will no longer rise relative to prices.

(4) **The effect of the financial condition of the government on the economy.** The expenditures of the government will continue to be high, partly as a result of the cold war and partly as a result of the many demands for payments based on need—pensions, old-age assistance, payments to veterans. Today the defense expenditures and payments based on need together account for about $24 billion of expenditures by the Federal Government, or over half of the government's outlay. This does not include expenditures on the European Recovery Program. The revenues of the government will probably fall short of its expenditures by at least $2 or $3 billion a year. In view of the great strength of trade unions, a deficit in the budget will be badly needed. It will help increase the volume of money held by the country and will help offset the bad effects of trade unions upon the vigor of business enterprise. Perhaps the deficit will be large enough so that prices will rise as rapidly as labor costs and so that collective bargaining will not

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[1] In 1946, the total labor force (including armed forces) averaged 60.8 million and unemployment, 2.3 million; in 1947, the labor force was 61.6 million and unemployment, 2.1 million; in 1948, the labor force was 62.7 million and unemployment, 2.1 million.

[2] Back in 1929 with a civilian labor force of 49.2 million, unemployment averaged 1,550,000, or 3.2% of the labor force. Joint Committee on the Economic Report, *Report of the Subcommittee on Unemployment Pursuant to S. Com. Res. 26*, p. 100. Even with this low rate of unemployment prices were stable in 1929. An important fact is that in 1929 trade union membership was only about one-fourth as large in relation to the labor force as it is today.

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Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

Last week was one of those heart-failure periods, carried over into the start of the current week. A jump to the 209.78 industrial figure started a gleeful rubbing of hands; sage nodding among the boardroomers and even tentative inquiries at the order room window, some of which actually resulted in orders. But just as everybody started to agree that things would start popping, the market turned around and scared many new-born bulls out of a year's growth.

* * *

The worst scare came Monday, March 27th, when out of nowhere a drive started, resulting in an overload on phone lines caused by worried holders calling their brokers to find out "why?" Brokers called up each other for assurances and then called their customers to tell them "the latest information of what they were doing." The mysterious and omnipotent "they" were bandied about in sage fashion like pronouncements from on high. It was an awesome thing to watch. Everybody was hunting for "reasons," and failing to find them invented them to satisfy palpitating hearts.

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The break Monday was the most serious of all. It immediately threw Tuesday into the big question-mark category. If the break were to continue, then Tuesday's market would show it and instead of a minor correction it might develop into a full-blown spill. Well, Tuesday's market saved the day. Prices opened plus from the previous close and sighs of relief swept through the canyons of Wall Street with the strength of tornadoes.

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Before hitting you with more, allow me to interrupt to say I think the averages will go up again, maybe as high as 215, before a real break will come.

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The reasons for this have nothing to do with statistics, or rather with income and balance sheets. On an earnings basis a good case can be made out for almost any stock. I'm not vitally concerned with earnings, except my own. I'm interested in what makes the wheels tick.

* * *

Up to a week ago the short position stood at about 2,500,000 shares, the largest it's been since about 1932. A lot of it is probably short sales against the box. But whether it's in the box or in the hands of the broker doesn't matter too much. A sustained rally can start covering that will take them up to the 215 figure in a short time. Now here's the wet blanket: I don't think many stocks will go up very much, certainly not those held by the public. It will be the leaders, the high-priced babies, that'll probably carry the load.

[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

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Three With Connolly Co.

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS. — Ralph S. Murphy, Vincent P. Rafferty, and Herman R. Schoeler have become associated with Walter J. Connolly & Co., Inc., 30 Federal Street. Mr. Murphy was formerly with Elmer H. Bright & Co.; Mr. Rafferty with Ellis, Clayton & Fox; and Mr. Schoeler was in the investment business in New York City.

Joins C. A. Parcells

(Special to THE FINANCIAL CHRONICLE)

DETROIT, MICH. — Peden A. Meikle is with Charles A. Parcells & Co., Penobscot Building, members of the Detroit and Midwest Stock Exchanges.

With Curtiss, House Co.

(Special to THE FINANCIAL CHRONICLE)

CANTON, OHIO — Andrew G. Catherwood has become associated with Curtiss, House & Co. of Cleveland. In the past he was Canton manager for Fahey, Clark & Co.

With Bache & Co.

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, OHIO — Eugene A. Torok is with Bache & Co., National City East Sixth Building.

SPECIAL CALL OFFERINGS

• Per 100 Shares Plus Tax •

Bethlem Steel .	@ 35	June 19	$225.00
General Motors	@ 77½	May 29	325.00
Southern Pac. .	@ 52⅝	July 25	325.00
Western Union	@ 22¾	June 23	225.00
Amer. Airlines .	@ 11	July 17	112.50
Y'ngstown Sh. .	@ 82¼	May 26	325.00
Homestake Mi.	@ 45½	June 16	237.50
Sharon Steel . .	@ 28⅛	Sept. 26	225.00
U. S. Steel . . .	@ 32	June 10	200.00
Kennecott Cop.	@ 50½	June 17	287.50
Pepsi-Cola . . .	@ 11	6 mos.	137.50

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Where Are We and Where Are We Going?

prevent the attainment of close-to-full employment.

The general conclusion from this inquiry may be summed up as follows: Supplies of many things will be becoming more abundant. This will be particularly true of agricultural products. Production costs will be rising. There will be large enough deficits in the budgets of the state, local, and Federal government to permit a slow rise in the general price level. The advance in the price level, however, will not be a buoyant rise, but rather a slow and hesitant one. Increasing costs will worry businessmen, will cause them to wonder whether they can recoup their rising costs by higher prices, and will greatly stimulate their efforts to expand technological research.

VI

What are the longer trends in the economy? Some people believe that America is going Socialist or, at least, is developing into a planned economy. It is obvious that American economic institutions have been changing rapidly, and that many of the changes are far-reaching. Hence it is natural to ask if private enterprise is on the way out and whether a new kind of economy is developing here. In order to be better prepared to answer these questions, let us note briefly a number of the most important changes that have been occurring. Six of them seem to me to be particularly important:

(1) There has been a substantial shift in political power from businessmen to employees and farmers. In days past, the businessmen were dominant in making public policies. Today the AFL, the CIO, or the American Farm Bureau Federation each has more weight in Washington than the National Association of Manufacturers or the United States Chamber of Commerce.

(2) The government has undertaken far-reaching control over the distribution of incomes. It has done this partly by the progressive income tax and partly by making large payments based upon need. Progressive income tax means that recipients of incomes of $25,000 a year or more today have one-sixth less income after taxes than they had 20 years ago. In the meantime the total of all personal income after taxes has increased nearly 2½ times. The government is distributing on the basis of need about eight times as much today as it did 20 years ago. This does not count some payments of a temporary nature made to veterans. Total payments based on need, such as old-age assistance, old-age pensions, unemployment compensation, general relief, workmen's compensation payments (but exclusive of payments to veterans) totaled $7.1 billion in 1948, or almost as much as all dividend payments of all American corporations.

Government Controls

(3) The government controls the prices of an increasing number of commodities. It imposes ceilings on railroad rates, electric light and power rates, gas rates, and telephone rates. It puts floors under wages and under the prices of farm products.

(4) There has been a great expansion of the areas in which the government prescribes the rules of the game in more or less detail. Two outstanding examples are the field of industrial relations and the securities market.

(5) The government has become a large direct operator in some parts of the economy. For example, it is the largest lender of money in the country.

(6) The government has developed a fairly extensive system of subsidies.

What do all of these trends add up to? What sort of an economy is developing in the United States? It is plain, I think, that the economy will be run more and more by the government through laws and the decisions of administrative agencies and by the trade unions through collective bargaining. The economy will not be a planned economy. The government intervention in economic activities will reflect the political influence of many kinds of groups, and public policies will represent compromises. Some policies will be inconsistent in economic terms with other public policies.

But though the economy will be run more and more by the government and the trade unions, consumers and businessmen will count for a great deal. The choices of tens of millions of consumers will determine what is made, and four million business enterprises outside of agriculture and about six million in agriculture will each determine what it will produce and what methods it will use. In other words, decentralized decision-making, which has always been a characteristic of the economy, will not be wiped out by government intervention in economic matters or by collective bargaining. The framework of laws, administrative orders, and trade union rules within which consumers and business managers make their decisions will be more elaborate and more restrictive, but the economy will still remain one in which the most important decisions are made by millions of consumers and business managers.

Decentralized Decision-Making

The fact that the economy is run in large measure by decentralized decision-making is highly significant. This kind of decision-making has three important advantages. One advantage is that most decisions are made by each person for himself, not by someone else for him. A second advantage is that decisions are made by people who are close to the facts and have a first-hand understanding of conditions that have to be met. A third advantage is that decentralized decision-making gives opportunity to small minorities. This is particularly important in the making of decisions concerning possible new ways of turning out goods. An industry may have 100 enterprises, but if only one of these considers a new method to be worth trying out, it receives a trial. If it works, it is imitated. Hence, decentralized decision-making greatly increases the capacity of the economy to experiment. And since a new discovery may be made in any one of tens of thousands of places, decentralized decision-making puts pressure on producers to improve their products and their methods. Thus it helps make the economy more competitive.

In these days when great shifts of power are taking place in the economy and when far-reaching changes are occurring in economic institutions, it is desirable to remember that in some important respects the economy is changing very little. It does remain one run in the main by tens of millions of consumers each buying what he prefers and by millions of business managers each using his own judgment as to what to make and how to make it. Furthermore, the very intervention of government and the activities of trade unions are stimulating business concerns to supply themselves more abundantly with technical knowledge so that they can adapt themselves satisfactorily to the conditions imposed on them by the government or the trade unions. So long as the economy is run in large measure by decentralized decision-making, it can be counted on to be adaptable and progressive, and to grow rapidly in productivity.

Continued from first page

As We See It

Techniques likely to be effective for such a purpose are naturally different from those which are suitable for use in addressing the relatively few who have given and are giving all such matters careful and dispassionate thought.

The fact remains that matters of such fundamental importance to us all should be studied and appraised not on the basis of appeals designed to win the masses, but upon their real merits. This sort of appraisal is particularly difficult at this time by reason of the chaotic state of the world in general. It is rendered the more difficult for those who would think for themselves by the poor record of officials and others originating and supporting current policies and by the equally low standing of many of those who are now engaged in attacking those policies and those programs.

Root of the Problem

Senator McCarthy has been nothing if not wild in his charges against almost everyone whose name has come to his attention. The way in which his cases, thus far, seem to tumble to the ground when subjected to study could bring a sense of false security to thoughtless people. It is about as difficult to doubt that the various Government organizations have been seriously spy-ridden in recent years as it is to believe many of the McCarthy charges. The Condon and Hiss episodes, to say nothing of other indications, can scarcely leave the informed and alert mind fully at ease about many of these questions. The attitudes

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of the Secretary of State and even of the President have hardly been of the sort to set doubts at rest.

But current doubts about the wisdom of our foreign policies and about the skill with which they are being effected have much deeper origins. It is now all too evident that the powers that be had no adequate understanding of the real inwardness of the world situation in 1939, and had learned but little by the time that Pearl Harbor plunged us officially into a conflict in which we had for a good while been actually taking part. Documents recently made public in Washington are now reported to give little evidence that even at the end of the war there was any real grasp of the situation by which we should be faced when the fighting ceased. Certainly, little that had been said up to that time, by any one in authority gave any hint that understanding had come to them.

War Propaganda

All through the war we had fed the masses upon the nonsense that we (fighting by the side figuratively if not literally of one of the most notorious enemies of what we think of as democracy) were engaged in a war to end totalitarianism and imperialism. The Kremlin, its tongue in its cheek, had supported this propaganda consistently with double talk about democracy. Very little evidence existed of any awareness anywhere of any grasp of the fact that what we had really done was to permit ourselves to be drawn into a fight characterized chiefly by a clash among the four leading totalitarian states of the world, all of which had ambitions, usually conflicting among themselves, of empire and domination. Precisely why we should have for a moment supposed that the winning leopard in this gladiatorial contest would suddenly change its spots, it is very difficult to understand.

Then as the war approached an obvious end, came the peace concept of an economic (not to say political) vacuum in the center of Europe. And this idea, too, had strong support in Washington, and in one form or another, we are not certain that it does not still have strong support there, although not in the extreme form that the then Secretary of the Treasury suggested in the later years of the war. Of course, such a notion has little of the realistic about it. No such vacuum could long exist if neighboring lands are to flourish. It would in any event quickly cease to be as a result of competitve nationalism. Even the so-called "democracies" are far from being without ambitions of one sort or another. But their attitude is relatively unimportant by the side of the fact that to the East lay a giant land with expansionist ideas no whit dimmed by the centuries and without any trace of any respect for the opinions of mankind — to say nothing of a conscience.

Dubious Leadership at Home

Another absurdity which still remains astride the current thinking involves the notion that all the troubles of the world could be or can be cured by the imposition of "democracy" upon the peoples of the world, including those who have no understanding of the word and have shown repeatedly that they are without any really abiding interest in it as well as others which have been relatively successful in its application. This ready-made cure, moreover, is to be applied precisely at the time that the historical champions of "democracy" are themselves abandoning it—or at the very least exchanging it for something which would never have been accepted as the real article only a very few decades ago.

Now with all this in the background, it is not surprising that thoughtful men begin to wonder when they read such statements as that sent from Florida the other day in support of the Administration's ECA measure. And, of course, there is no evidence of any ending of this enormous outpouring of funds to Europe and elsewhere. All of us, we are certain, would feel more comfortable if we could summon more faith in those who lead us.

Skaife & Co.

SAN FRANCISCO, CALIF.—Skaife & Co. is engaging in a securities business from offices at 110 Sutter Street.

With Waddell & Reed

(Special to THE FINANCIAL CHRONICLE)

BEVERLY HILLS, CALIF.—J. Charles Sutherland has been added to the staff of Waddell & Reed, Inc., 8943 Wilshire Boulevard.

Faroll Co. Adds

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — Sigmund Lawton has been added to the staff of Faroll & Co., 209 South La Salle Street.

Joins Francoeur Staff

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — Robert L. Francoeur is with Francoeur & Co., 39 South La Salle Street.

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Outlook for International Trade

of the currencies of some 30 countries early last Fall.

In the later months of last year, imports rose as efforts were made to restore depleted inventories, with the increase in industrial activity in the United States and with somewhat lower prices in foreign markets in terms of dollars which resulted from devaluation. Our exports dropped sharply in the third quarter in response to the mounting dollar crisis overseas and, in the last months of the year, when they became more costly in terms of revaluated currencies, were relatively stabilized. In consequence, the export surplus moved rapidly downward. By the end of the year, the trade gap was running at an annual rate of $3.5 billion, just exactly half of what it had been earlier in the year. This is a startling, significant and, in fact, an encouraging contrast to the $7 billion annual rate obtaining from January to June.

The trade gap may well continue to decline this year. It would seem reasonable to anticipate a moderate increase of imports above last year's fourth quarter rates to a total of around $7.5 billion and a fairly stable export level, or possibly a quite moderate export decline from the annual rate of $10 5 billion manifested in the fourth quarter.

Our view with respect to merchandise imports rests on the assumption that economic conditions in the United States will remain relatively good throughout the year and that the supply situation abroad can be expected to make further gains. The statement with respect to exports is based partially on our estimate of expected imports and also on the assumption that Congress will authorize ECA funds at or near recommended levels. I might add that we have also assumed that the other major items in the balance of payments will remain relatively close to last year's totals. I would caution, in passing, that estimates of this kind must be regarded as highly preliminary and subject constantly to revision.

Some of you may have seen the trade figures for this past January and may regard them as inconsistent with the trends I have just projected. Exports in January, the most recent month for which data are available, were, at an annual rate, $8.9 billion and imports $7.5 billion, producing an export trade surplus of only $1.4 billion. If January were to set the pattern for the year, a fairly steep export decline might be considered in prospect. I do not believe this likely. It would be a mistake to generalize from one month's figures. The variation from month to month is large and there is no evidence as yet that the January picture will be sustained.

Predicts Import Gap of $3 Billion in 1950

Forecasts of this kind are hazardous at best, but if I am correct in my analysis, the export surplus on the trade account should narrow considerably this year perhaps to a total of the order of $3 billion. We know that the gap must continue to narrow from now on out and close in a relatively few years. But the question with which we are all concerned is whether the gap will close both our exports and our imports at relatively low levels or whether our imports can be raised significantly thus sustaining exports at relatively high levels.

I have pointed out that imports of around $7.5 billion in contrast to $6.6 billion in 1949 would seem to be within the realm of feasibility this year. I would emphasize, however, that imports of $7.5 billion are exceedingly low as compared to prewar imports where considered in relation to the size of the economy.

In the years 1920 through 1929, our imports averaged about 4.5% of the total value of the output of all goods and services. This year imports of $7.5 billion would be equivalent to about 2.8% of gross national product. This would suggest that the total could be considerably higher without injury to the domestic economy. If our imports today were to bear the same relationship to production as they did in 1920, for instance, they would be running today at the rate of $15 billion.

To say that by the termination of the European Recovery Program our imports at current prices *could* reach a goal of $10 billion might be to propose too modest a target. Such a figure would make adequate allowance for the technological changes which have been introduced in recent years which have given us synthetic substitutes for such natural products as silk and rubber, leading imports before the war. In thinking about this goal, it should be remembered that our economy can be expected to grow over the next three years. If our output increases at the long term historical rate of 3% a year, the value of total output of goods and services at 1949 prices should be running at over $285 billion compared to the current rate of around $260 billion. If this economic growth does in fact materialize, imports of $10 billion would then be equivalent to about 3½% of total output against the 4½% ratio averaged throughout the 1920's. This reinforces the conclusion that a $10 billion import level might, in fact, be considered overly conservative. Were it possible to raise the import level another billion dollars by 1953 to $11 billion, we could anticipate that our exports in that year would be running at the rates that obtained in 1949, or $12 billion.

While I have characterized a goal of $10 or $11 billion as not unobtainable, it would be highly unrealistic to assume that imports could reach this level without the most intensive efforts both on our own part and that of other nations eager to increase their dollar sales.

Steps Needed to Balance International Trade

If we are to move in this general direction we must recognize the steps that are called for.

First, it would seem clearly evident that we must not cut back on our foreign financial aid program too sharply. If United States imports are to increase, the goods must be available abroad to buy. An overly sudden decline in our assistance could produce major economic dislocations abroad and imperil the entire investment made in recovery since the war.

It would also seem evident that we must intensify our efforts made in recent years to reduce the numerous barriers to imports. Burdensome customs procedures which can be modified without legislative correction are in process of elimination and legislation is being proposed which, if enacted, would make further desirable modifications.

Reciprocal trade agreement negotiations will recommence in September. Significant mutual gains have been achieved in the past through these negotiations and further gains can be expected again to be realized.

The Economic Cooperation Administration is working closely with representatives of countries participating in the European Recovery Program as they seek to improve their merchandising for this market.

Great international fairs are in prospect in this country in which foreign merchandise will be widely displayed. The obstacles to easier and expanded travel overseas are under our joint attack. Here too is a source for a considerable increase in dollar purchasing power available abroad.

A stockpiling program of essential materials is well under way and will play a part in helping to achieve the import goal.

The President has urged upon Congress' approval of the Charter of the International Trade Organization which would provide a code of fair trade rules and a mechanism for improving international commercial relations.

The recent adjustments in exchange rates and the reduction in exchange controls which took place this past Fall should plan an increasing part in making possible a larger volume of international business. Import and exchange controls will be reduced as the world dollar shortage is relieved by a higher American import total.

If we reject these various courses of action and insist that imports remain at their present low level relative to the size of our economy, our merchandise export total might fall $4 billion, $5 billion or possibly even more by the time the recovery problem terminates. Such a decline in the value of exports would exert more of a deflationary effect than the figures alone suggest. Workers making goods for export, thrown out of their jobs, would be forced to cut down their own buying and a chain reaction of displacement would set in which might result in a loss of national income several times the value of the export decline. It is also true that our exports are highly concentrated in relatively few production fields, and the impact of a sharp and sudden export drop would hit them hard, affecting many localities which could not easily make an adjustment even over the course of several years. This does not mean that the American economy must maintain its exports at present levels or be threatened with a recession. Of course, we could make the necessary adjustments to lower foreign demand because of our capacity for domestic economic growth. We can in time absorb this slack at home, but we must be frank to recognize that this would be a difficult process.

While we could make the adjustment to a lower export level, we must face the fact that a sharp decline in our exports would have a serious effect on many of the countries which were most hard hit by the war. A sudden cutoff of essential supplies from the United States might greatly weaken their economies and precipitate political consequences which neither they nor we can well afford.

There have been few times in our history when we have been confronted with so clear and important a choice. If we repeat the trade policy history of the 1920's, when all too many held the mistaken concept that exports could move outward in large quantities even when imports were held to low levels, we may again reap the consequences of those policies. If, on the other hand, we buy abroad at high levels, we shall be able to continue to sell at high levels. We can strengthen not only our own economy but our neighbors' overseas.

We can take encouragement from the fact that both in this country and abroad the general public is more than ever aware of the mistakes made in the field of trade relations in the interwar period. There is widespread appreciation of the vital stake we all have in the promotion of a higher rate of international exchange of goods.

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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:

	Date	Latest Week	Previous Week	Month Ago	Year Ago
AMERICAN IRON AND STEEL INSTITUTE:					
Indicated steel operations (percent of capacity)	April 2	96.7	95.5	73.7	93.8
Equivalent to—					
Steel ingots and castings (net tons)	April 2	1,843,400	1,820,500	1,404,900	1,839,300
AMERICAN PETROLEUM INSTITUTE:					
Crude oil and condensate output—daily average (bbls. of 42 gallons each)	Mar. 18	4,844,000	4,826,950	4,936,850	5,202,450
Crude runs to stills—daily average (bbls.)	Mar. 18	†5,361,000	5,314,000	5,278,000	5,335,000
Gasoline output (bbls.)	Mar. 18	17,936,000	17,608,000	17,617,000	17,410,000
Kerosene output (bbls.)	Mar. 18	2,129,000	2,429,000	2,398,000	2,169,000
Gas, oil, and distillate fuel oil output (bbls.)	Mar. 18	6,663,000	6,250,000	6,890,000	6,775,000
Residual fuel oil output (bbls.)	Mar. 18	8,014,000	8,210,000	7,753,000	8,411,000
Stocks at refineries, at bulk terminals, in transit and in pipe lines—					
Finished and unfinished gasoline (bbls.) at	Mar. 18	135,052,000	135,284,000	131,647,000	127,310,000
Kerosene (bbls.) at	Mar. 18	13,592,000	14,407,000	17,116,000	18,220,000
Gas, oil, and distillate fuel oil (bbls.) at	Mar. 18	43,102,000	46,575,000	53,030,000	50,039,000
Residual fuel oil (bbls.) at	Mar. 18	41,966,000	44,544,000	51,330,000	59,234,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	Mar. 18	§725,570	§707,962	§560,116	607,922
Revenue freight received from connections (number of cars)	Mar. 18	§674,070	§587,655	§517,959	575,035
CIVIL ENGINEERING CONSTRUCTION — ENGINEERING NEWS-RECORD:					
Total U. S. Construction	Mar. 23	$177,330,000	$213,207,000	$263,585,000	$180,930,000
Private construction	Mar. 23	111,584,000	146,597,000	166,960,000	64,307,000
Public construction	Mar. 23	65,746,000	66,610,000	96,625,000	115,623,000
State and municipal	Mar. 23	49,363,000	58,394,000	74,514,000	57,621,000
Federal	Mar. 23	16,383,000	8,216,000	22,111,000	53,002,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	Mar. 18	13,300,000	13,200,000	2,425,000	2,986,000
Pennsylvania anthracite (tons)	Mar. 18	1,215,000	1,202,000	616,000	189,000
Beehive coke (tons)	Mar. 18	54,100	*19,400	2,600	43,000
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE = 100	Mar. 18	263	253	231	261
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	Mar. 25	5,993,062	6,015,327	5,854,259	5,403,806
FAILURES (COMMERCIAL AND INDUSTRIAL)—DUN & BRADSTREET INC.	Mar. 23	136	203	210	168
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	Mar. 21	‡3.837c	3.837c	3.837c	3.754c
Pig iron (per gross ton)	Mar. 21	$46.38	$46.38	$46.38	$46.74
Scrap steel (per gross ton)	Mar. 21	$28.42	$27.92	$27.42	$34.92
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	Mar. 22	18.200c	18.200c	18.200c	23.200c
Export refinery at	Mar. 22	18.425c	18.425c	18.425c	23.425c
Straits tin (New York) at	Mar. 22	77.375c	76.500c	74.250c	103.000c
Lead (New York) at	Mar. 22	10.500c	10.500c	12.000c	18.000c
Lead (St. Louis) at	Mar. 22	10.300c	10.300c	11.800c	17.800c
Zinc (East St. Louis) at	Mar. 22	10.000c	10.000c	9.750c	17.500c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Government Bonds	Mar. 28	103.17	103.15	103.46	101.71
Average corporate	Mar. 28	111.22	116.41	116.41	113.12
Aaa	Mar. 28	121.25	121.25	121.46	119.00
Aa	Mar. 28	119.82	119.82	120.02	117.20
A	Mar. 28	115.82	116.02	116.02	112.19
Baa	Mar. 28	108.88	106.88	108.70	104.83
Railroad Group	Mar. 28	111.62	111.62	111.62	108.16
Public Utilities Group	Mar. 28	117.40	117.40	117.40	113.89
Industrials Group	Mar. 28	120.22	120.22	120.22	117.60
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Government Bonds	Mar. 28	2.26	2.26	2.24	2.38
Average corporate	Mar. 28	2.84	2.83	2.83	3.00
Aaa	Mar. 28	2.59	2.59	2.58	2.70
Aa	Mar. 28	2.66	2.66	2.65	2.79
A	Mar. 28	2.86	2.85	2.85	3.05
Baa	Mar. 28	3.23	3.23	3.24	3.46
Railroad Group	Mar. 28	3.03	3.08	3.08	3.27
Public Utilities Group	Mar. 28	2.78	2.78	2.78	2.96
Industrials Group	Mar. 28	2.64	2.64	2.64	2.77
MOODY'S COMMODITY INDEX	Mar. 28	357.6	355.9	356.1	369.8
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	Mar. 18	194,402	219,528	179,849	151,534
Production (tons)	Mar. 18	205,932	191,702	205,712	166,999
Percentage of activity	Mar. 18	92	89	92	81
Unfilled orders (tons) at	Mar. 18	382,006	395,211	344,030	267,528
OIL, PAINT AND DRUG REPORTER PRICE INDEX — 1926-36 AVERAGE = 100	Mar. 24	121.9	121.9	121.3	135.9
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					
Number of shares	Mar. 11	28,120	27,345	29,848	18,577
Dollar value	Mar. 11	830,839	808,763	898,951	527,257
	Mar. 11	$29,257,620	$32,879,477	$35,683,156	$20,577,307
Odd-lot purchases by dealers (customers' sales)—					
Number of orders—Customers' total sales					
Customers' short sales	Mar. 11	27,676	27,718	34,351	17,898
Customers' other sales	Mar. 11	213	113	287	217
Number of shares—Customers' total sales	Mar. 11	27,463	27,605	34,064	17,681
Customers' short sales	Mar. 11	776,288	782,446	960,523	476,465
Customers' other sales	Mar. 11	8,235	4,078	10,230	8,102
Dollar value	Mar. 11	768,053	778,368	950,293	468,363
	Mar. 11	$28,150,205	$27,697,212	$35,926,083	$15,897,496
Round-lot sales by dealers—					
Number of shares—Total sales					
Short sales	Mar. 11	258,730	246,820	324,980	150,970
Other sales	Mar. 11	------	------	------	------
	Mar. 11	258,730	246,820	324,980	150,970
Round-lot purchases by dealers—					
Number of shares					
	Mar. 11	278,640	272,720	270,150	218,040
WHOLESALE PRICES NEW SERIES — U. S. DEPT. OF LABOR—1926 = 100:					
All commodities					
Farm products	Mar. 21	151.7	*152.0	152.5	158.3
Grains	Mar. 21	157.4	*159.2	153.9	171.1
Livestock	Mar. 21	164.6	165.5	162.6	160.7
Foods	Mar. 21	196.6	201.0	199.5	211.4
Meats	Mar. 21	155.2	*155.5	158.3	163.0
All commodities other than farm and foods	Mar. 21	212.5	*214.1	220.2	223.6
Textile products	Mar. 21	145.4	*145.2	145.3	150.6
Fuel and lighting materials	Mar. 21	136.2	*136.3	137.0	142.3
Metals and metal products	Mar. 21	130.1	130.2	130.5	134.0
Building materials	Mar. 21	169.6	169.3	169.4	174.4
Chemicals and allied products	Mar. 21	192.9	193.2	191.5	198.9
	Mar. 21	116.5	115.8	115.3	121.1

*Revised figure. †Includes 485,000 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
BUSINESS INVENTORIES, DEPT. OF COMMERCE NEW SERIES — Month of Jan. (millions of dollars):			
Manufacturing	$31,100	$30,800	$34,400
Wholesale	9,100	9,100	9,500
Retail	13,200	13,800	14,700
Total	$53,500	$53,800	$58,500
CASH DIVIDENDS — PUBLICLY REPORTED BY U. S. CORPORATIONS — U. S. DEPARTMENT OF COMMERCE — Month of February (000's omitted)	$213,200	$530,200	$204,000
CIVIL ENGINEERING CONSTRUCTION — ENGINEERING NEWS-RECORD — Month of February:			
Total U. S. construction	$686,215,000	$915,475,000	$563,000,000
Private construction	411,984,000	428,051,000	374,000,000
Public construction	274,231,000	487,424,000	189,000,000
State and Municipal	210,443,000	211,840,000	169,000,000
Federal	63,688,000	275,584,000	20,000,000
COMMERCIAL PAPER OUTSTANDING—FEDERAL RESERVE BANK OF NEW YORK— As of Feb. 28 (000's omitted)	$257,000	$258,000	$268,000
CONSUMER PURCHASES OF COMMODITIES—DUN & BRADSTREET, INC. (1935-1939 = 100)—Month of February	239.8	*276.9	286.1
LIFE INSURANCE PURCHASES — INSTITUTE OF LIFE INSURANCE — Month of February (000' omitted)—			
Ordinary	$1,207,000	$1,140,000	$1,154,000
Industrial	4 3,000	203,000	375,000
Group	695,000	402,000	182,000
Total	$2,335,000	$1,745,000	$1,711,000
MALLEABLE IRON CASTINGS (DEPT. OF COMMERCE) — Month of January:			
Shipments (short tons)	62,874	57,379	71,876
For sale (short tons)	32,918	29,679	38,040
For producers' own use (short tons)	29,956	27,000	33,836
Orders booked, less cancellation, for sale (short tons)	34,390	34,719	26,943
Unfilled orders, end of month, for sale (short tons)	62,307	60,835	126,393
NON-FARM REAL ESTATE FORECLOSURES—FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION—			
Month of December	1,348	1,597	1,231
PERSONAL INCOME IN THE UNITED STATES (DEPARTMENT OF COMMERCE)—Month of January (in billions):			
Total personal income	218.4	*209.8	214.6
Wage and salary receipts, total	134.1	*133.5	135.9
Total employer disbursements	136.9	*135.7	138.2
Commodity producing industries	57.4	*57.3	60.5
Distributive industries	40.2	*40.2	40.3
Service industries	17.5	*17.2	17.1
Government	21.8	*21.0	20.3
Less employee contributions for social insurance	2.8	2.2	2.3
Other labor income	2.2	*2.1	2.0
Proprietors' and rental income	46.2	*44.8	48.5
Personal interest income and dividends	17.4	*17.3	17.0
Total transfer payments	18.5	*12.2	11.2
Total nonagricultural income	199.5	*191.4	192.0
PROSPECTIVE PLANTING FOR 1949 — U. S. CROP REPORTING BOARD — ACREAGES IN THOUSANDS—As of March 1:			
Corn, all	82,765	------	87,910
All spring wheat	19,727	------	22,559
Durum	3,260	------	3,693
Other spring wheat	16,467	------	18,866
Oats	47,964	------	44,525
Barley	13,879	------	11,203
Flaxseed	4,027	------	5,199
Rice	1,645	------	1,339
Sorghums for all purposes	14,568	------	11,754
Potatoes	1,862	------	1,924
Sweet potatoes	603	------	548
Tobacco	1,582	------	1,626
Beans, dry edible	1,678	------	1,900
Peas, dry field	281	------	367
Soybeans	13,500	------	11,409
Cowpeas	1,192	------	1,177
Peanuts	2,570	------	2,929
Hay	75,091	------	72,835
Sugar beets	930	------	769
REAL ESTATE FINANCING IN NON-FARM AREAS OF U. S. — FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION —Month of January (000's omitted):			
Savings and Loan associations	$308,052	$337,474	$216,608
Insurance companies	94,584	103,397	72,765
Banks and Trust companies	214,863	230,692	174,195
Mutual Savings banks	64,593	82,420	50,378
Individuals	163,713	171,359	158,891
Miscellaneous lending institutions	178,195	199,858	116,722
Total	$1,024,000	$1,125,200	$789,559
TREASURY MARKET TRANSACTIONS IN DIRECT AND GUARANTEED SECURITIES OF U. S. A.—Month of February.			
Net sales	------	$6,577,800	$1,750,000
Net purchases	$13,481,200	------	------
U. S. GOVT. STATUTORY DEBT LIMITATION —As of Feb. 28 (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	256,368,355	256,865,375	252,721,282
Guaranteed obligations not owned by the Treasury	27,051	27,029	26,110
Total gross public debt and guaranteed obligations	$256,395,406	$256,892,405	$252,747,393
Deduct—Other outstanding public debt obligations not subject to debt limitation	739,111	741,851	785,345
Grand total outstanding	$255,656,294	$256,150,554	$251,962,047
Balance face amount of obligations issuable under above authority	19,343,705	18,849,445	23,037,952

*Revised figure.

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The Current Utility Scene

issues offered. Examination of the membership lists of underwriting syndicates also reveals that individual banking firms now participate in offerings under widely diverse leadership.

We at the SEC cannot help but believe that the diversification in underwriting is healthy both for the utility company and for people in the securities business. Logically, one cannot profess to believe in the competitive free enterprise system and yet insist on restricting the scope of its operations to only the other fellow's business.

But it seems that these hard-won gains must periodically be rewon. Not long ago, a partner of one of the largest investment banking firms in America, in a speech to a utility industry group, invited the industry "to institute an arrangement with competent people to advise you with respect to your financing." In less euphemistic language, the invitation was, of course, for a continuing banking relationship which, obviously, would not be limited to financial advice but would also include underwriting the company's securities. I for one, do not believe that the history of the past quarter of a century can be erased so easily. I think we have learned that a financial adviser to a company should not also underwrite its securities. The two functions are inconsistent, for, as a buyer of the company's securities, the underwriter-financial adviser has an immediate conflict of interest with the company—the seller. The buyer should not ask, and cannot be permitted, to sit on both sides of the table with the seller. And in no other business does he demand the privilege of doing so. I believe we have also learned that, apart from combining the functions of adviser and underwriter, it is unhealthy for a company to enter into a tacit understanding whereby management of the underwriting of its securities is monopolized by a single firm; there are too many others in the investment banking business who, in any given case, may have fresher ideas or would otherwise be more enterprising, particularly as to price and spread. Once a utility, voluntarily or otherwise, permits the management of its investment banking business to be handled by a single firm, the custom of the investment banking business is such that other bankers will not in any way compete for the business or in other respects infringe upon the traditional banker's relationship. The utility, therefore, must inevitably incur the higher costs and other disadvantages of monopoly price.

Electric utility capital, as you know, is turned over only once every four or five years; capital costs are, therefore, an important factor in the fixing of rates. The national public interest and the particular interest of consumers in low-cost power and the interest of utility investors in maximizing their income require that the industry's securities be issued and sold only on the most economical terms. Management, if it perseveres in its efforts to strengthen and preserve the private utility industry, must insist on following this course.

The Great Construction Program

As you all know, the electric utility industry is in the middle of a great construction program. In the five years since the War, 1946-1950, new generating capacity totaling over 17 million kw. has been, or will be by the end of 1950, installed by the electric utilities. Excluding Federal projects, money expended, and to be expended, in the five-year period totals over $9 billion. While the rate of increase may now be declining, the industry is of the general opinion that installed capacity of all electric systems, including Federal, contributing to the public supply will reach a total of about 92 million kw. by 1955 as compared with about 68 million kw. at the end of the 1950. The electric utilities are certainly a "growth industry." Obviously, this growth will require going to the capital markets for substantial sums.

Of course, this construction program can continue to be financed successfully only if utility securities remain attractive to investors. Earnings, naturally, are basic in this respect and, while, to a considerable extent, the trend of earnings is beyond managerial control, there are many other factors which are within managerial control. These latter factors are sometimes not given sufficient weight, I think, in considering how to attain investor appeal.

Industry's Future Appeal

The main appeal of utility securities in the coming years will be, I believe, not to the speculative investor interested in large, quick capital gains but to the investor attracted by the industry's stability and prospects for growth over the years. The decline of interest rates, both governmental and corporate, and the many undesirable characteristics of preferred stocks have forced "defensive investors," including institutional ones, into common stocks. Fortunately for them, a whole new field of relatively conservative investment—as things go in these troubled times—has now been opened — utility common stocks. Primarily as a result of the Holding Company Act, highly leveraged and speculative holding company securities have now been converted to the more stable common stocks of operating utilities. This is a major development in American finance. All of you are aware, I am sure, of the trend to change State laws to permit various types of institutional investors to buy common stocks. In some jurisdictions it is being done, in part, by extending the definition of "legals" to include stable utility equities; in other jurisdictions, including New York there is pending legislation to substitute the "prudent man rule" for the legal list—a substitution which will permit trustees to invest in common stocks. Capital from savings banks, life insurance companies, and personal trusts is becoming available for investment in this industry in ever-increasing amounts. The great growth which is now taking place in common fund trusts, in investment companies, and in industry pension funds will increase the supply of capital for this industry.

Balanced Capital Structures Needed

These great sources of capital, primarily in the hands of sophisticated investors, will gravitate toward those utility companies which best maintain the essential characteristics of this industry—stability and growth—and which treat the investor fairly. The company which does not attain and maintain a balanced corporate structure without undue leverage will not appeal to these investors and will be at a disadvantage in competing for capital. As to what proper ratios are, the minimum objective today, I think, should be definitely higher than the 25% minimum common stock equity which the SEC spoke about in 1939. Obviously, of course, no one capital ratio formula is suitable for all the companies in this industry, but a more conservative pattern is clearly discernible.

I want to mention a number of other factors within managerial control which are important to investors. Most of the industry is fully aware that investor confidence can be retained only by a policy of full and current disclosure. The word "current" should be emphasized. By and large, the utility industry does a good job in keeping investors currently informed and is conscious of the need of doing a better job. Many electric utility companies now announce monthly earnings figures, and most companies publish quarterly earnings statements. However, there are still a few electric companies and a number of gas companies who give general release only to semi-annual or even annual reports. While some of these companies appear willing to provide quarterly statements upon request, the ordinary investor looks in vain for this information in the major financial services.

Quarterly Reporting

It is difficult to see why all utilities in the electric and gas industries should not, at a minimum, publish quarterly earnings data. Indeed, the time will come when utility investors, some of whom are required to make important investment decisions almost daily, will demand monthly earnings data from these industries. Publication of quarterly and monthly data not only keeps investors informed, but also serves the additional function of keeping management "on its toes."

Playing With Depreciation Allowances

It is a truism that investors are entitled to accounting practices which do not distort income results. While accounting practices of the utility industry are undoubtedly more standardized than in almost any other, we have occasionally noticed a tendency to "play" with depreciation allowances and other non-cash charges to income or otherwise take steps to effect artificially reported earnings. In an industry where everybody else's figures and ratios are widely known, sophisticated investors will lose faith in a management which fails to follow sound accounting practices consistently applied.

Dividend Policy

One of the most important attributes of a utility company to investors is its dividend policy. In the growing utility industry, many companies find that they must utilize retained earnings to assist in financing construction. Some utility companies, however, have attempted to finance their construction programs through a maximum of retained earnings and a minimum of new common stock financing. Our experience has been that it is difficult to maintain or attain proper capital ratios in this manner because of the large amounts of new capital needed. It is well known that electric utility common stocks sell more on a yield basis than on an earnings basis. All other elements being equal, dividends paid, rather than income earned, are the most significant price-determining factor. A utility management which relies too heavily on retained earnings is, therefore, consciously or unconsciously, cheapening the price of its stock. If it errs too much in this respect it is unfair to the utility investor interested primarily in income rather than in capital gains, and it is to the investor for income to whom it must look for new capital. If its price-earnings ratios are too low, it exposes itself to relatively severe dilution of earnings when it goes to sell common stock, and this, in turn, intensifies its reluctance for common stock equity financing.

Of course, dividend policy must vary for each company and must take into consideration numerous factors such as capital ratios, the nature and volatility of the company's load, size and history of the company, trend of earnings, rate problems, margin of safety of the proposed dividend policy, to mention only a few.

I do not want to be understood by what I have said as urging general dividend increases. But there is an optimum dividend policy for each company, and I am expressing doubt that all companies have given full weight to all the factors involved. One may err, of course, on the high side as well as on the low side, considering the necessity of having balanced ratios and financing construction needs.

We are now in the fourth year of the electric utility expansion program. During the first two years—1947 and 1948—many companies financed their expansion through heavy reliance upon senior securities, particularly debt money. It is estimated that common stock and retained earnings were only 23% of new money financing, exclusive of intra-system transactions, in the two-year period 1947-1948, the balance being raised by 59% of debt and 18% of preferred stock. For the year 1948 alone, common stock and retained earnings were only 19.6% of the new money raised. The common stock market had been very good in the first half of 1946, and, apparently, companies could not reconcile themselves to selling common stock at the materially lower levels prevailing in 1947 and 1948. As you know, of course, the market has been steadily rising since June, 1949, and we have seen a substantial amount of common stock financing for this industry in 1949. It is estimated that, in 1949, common stock and retained earnings constituted 33.3% of new money, exclusive of intra-system transactions, the balance consisting of 53.6% debt and 13.1% preferred. The gamble that many companies took that markets would be better in 1949 "paid off." But it *was* a gamble, and, considering the senior securities of the industry, it was gambling on a "margin" of only 31% for the median publicly held company in the industry. Utility managements should not be in the business of speculating on the stock market, and they do not, any more than you or I, have a crystal ball which can assure them that the market will be better "next fall" or "the following spring."

Betting on the Stock Market

In many cases, appropriate common stock financing is postponed because of the expectation that the next six months or the next year will see better earnings. Such a decision involves the assumption that the market will value those higher earnings on at least as favorable basis as today's earnings. Of course, that is merely another way of betting on the market—which is not the business of an electric utility company.

It is time to abandon the view that new issues of electric utility common stock should be confined to "boom" markets. By and large, the capital needs of the utility industry should be financed on an "as-you-go" basis. Under this policy, and in the light of the company's objective as to an optimum capital structure, permanent financing would always include common stock among the securities offered to finance expansion. In this way its capital ratios will be constantly maintained and it will assure itself of attaining its ultimate objective as to capital structure. As W. F. Stanley, of Southwestern Public Service Company, recently pointed out, a "financing-as-you-go" policy is similar to the policy followed by insurance companies in investing their funds "as they go." The "averaging" of prices involved in "financing-as-you-go" programs should result over the years in relatively low money costs. A "financing-as-you-go" program reflects the growing status of electric utility common stocks as a relatively stable investment security and assigns to them a constant and major role in the financing of utility construction.

As security analysts, your work has been greatly facilitated by the developments in the utility industry in the last 10 years. The elimination of "wind and water" from utility accounts and the simplification and integration of holding company systems have now placed security analysis in the utility industry on a rational basis. In the past, with few operating company equities available and with all the complexities and uncertainties, including the effect of excessive leverage, surrounding holding company securities, you could put only the speculative investor into securities of this industry—others had to be warned: "Danger, stay away." Today it is possible for you to speak with relatively greater confidence—I emphasize *relatively*—about this industry than perhaps about any other.

The Analyst's Role

You, as security analysts, can play a dynamic role in keeping utility securities a relatively stable investment. Your views tend to be reflected in the investment advice people receive in all parts of the country. Investment decisions made by a small local trust fund in Kalamazoo or a large insurance company in New York reflect your recommendations. Utility companies should realize that, to the extent that their financial policies and other practices affecting investors minimize investor appeal, you, as a group, will divert funds to companies which treat investors more considerately and more fairly. I would urge you to speak out, both individually and through the society, against "unfair-to-investor" practices. To the extent that you will reflect the long-run needs of the investor as distinguished from the in-and-out speculator in utility common stocks, you can become the articulate voice of the owners of this industry—its common stockholders. And don't forget the consumer. His interest in a public service industry should be, and is, parallel, and not antagonistic, to your clients'—and, therefore, your—interests.

Gerber Products Com. Offered by A. G. Becker

An underwriting group managed by A. G. Becker & Co. Inc. on March 29 made public offering of 130,000 shares of common stock of Gerber Products Co. at $29.75 per share. Proceeds are to be used by the company for capital additions and for increased working capital. An additional 10,000 shares are being offered by the company direct to employees at the same price, without underwriting.

Gerber was the pioneer in the preparation of canned baby foods and is today the leader in the industry, producing nearly 50 varieties of food and doing an estimated 35% of the total volume of business of the industry. Plants are located at Fremont, Mich.; Oakland, Cal., and Rochester, N. Y., and a newly organized company, 50% owned by Gerber, is now operating in Canada.

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The Next Five Years In Export Trade

about it, but neither need there be despair. Our government for the moment has lost the initiative in the cold war and we have suffered a tremendous setback. There are indications, however, both from the Acheson talks of last week and from rumors wafting out of Key West that a new policy stand is in the making which will be comparable in dramatics to the announcement of the Truman Doctrine three years ago. If it is comparable in boldness as well with the campaign we successfully waged for three years in Europe, it can bring the crisis under control again. And with our vast industrial strength, our organizational genius, and our ingenuity there is no reason why we cannot make it succeed.

As businessmen we must never allow ourselves to forget that the last thing Stalin wants is war. Those blueprints on the walls behind the table at which the Politburo meets call for conquest on a much cheaper basis. And for the very good reason that Russia still lacks—and will lack for many years — the industrial machine either big enough or sufficiently efficient to risk a showdown with our side.

So, politically, let's recognize the future for what it is:

No shooting war; more ECA-type business — this time in the Far East; and a gradually expanding defense program at home to help meet the threat from Moscow. It's not the easy-going kind of outlook that we would like, but certainly there is nothing in it that the red-blooded exporter can't face. Experience of the last four years has proved that the stakes are as profitable as they are exciting.

The Economic Outlook

I wish I could be as certain about the economic outlook for the next five years.

On the question of imports I share the point of view of the more optimistic of your earlier speakers.

And while all of us know that ECA aid will be smaller next year than originally planned, we know too that no political shenanigans in Washington will remove entirely that important prop to our exports for at least another two years.

My limited confidence in our ability to solve the economic problem of the next five years rests squarely on the fact that you export managers have not yet succeeded in selling management in this country on the full importance of your job and of your share in their business. This meeting, in which our bosses in the National Association of Manufacturers are joining with us for the first time in our long history, offers us an opportunity to sell them a four-point program which must be adopted quickly if foreign trade is going to rise in the five years ahead to some status above that of a stepchild in the majority of our American businesses.

Here's what we have to sell our managements, and I hope they are present again this morning to hear us state our case:

(1) Export is now big business. Intelligently cultivated, it can be held at $10,000,000,000 a year. With today's vast mass production machine we can't calmly watch our exports fall much below this level without serious domestic repercussions. If that happens, it would contribute as much as any other single factor toward a depression which Moscow still hopefully predicts is going to overtake us. We've completely outgrown in-and-out-of-the-market tactics but, unfortunately, you would never know it from the way that some of us are forced to operate.

(2) We can't sell successfully overseas unless we know our customers first hand. It's plain old-fashioned today to try to win a a half million dollar deal by mail or cable with some stranger in Sao Paulo or Bombay. Our European competitors need the business so desperately that they will be there ahead of us unless we're ready to do what we do at home: hop a plane and handle the job on a personal basis.

(3) We can't meet foreign competition with a price structure that ranges—according to the industry—from deliberate dumping of surpluses at any price to "all-that-the-traffic-will-bear" prices. If we are really in the export business for keeps, we owe it to our distributors and to our customers to operate with a set of rules as stable as those we apply at home.

(4) We can't strengthen our position or expand our sales overseas unless our bosses agree to establish some of the same kinds of market analysis and product acceptance surveys without which any alert domestic sales manager refuses to operate. More facts on overseas markets are available today than many of us realize. And so are the facilities to reduce these facts to the kind of market surveys you need if you are going after this business intelligently.

Export Business Still Suffering From Dislocations

Today, five years after the war, United States export business is still suffering from the dislocations of both war and postwar. For much of the six war years we had little or nothing to sell in export, and for the last four years there has been a demand for almost everything we had to offer. It's not surprising that a lot of the old drive and a good deal of skill has temporarily gone out of overseas selling.

There is a good deal of evidence that management can be convinced of the importance of exports if you present a factual story dramatically. I know of one corporation in this country doing a gross annual business of more than $1,000,000,000 and whose postwar exports were rolling along at $60,000,000. But when the export department went to management with the full export picture—showing that total U. S. exports in their line were more than ten times that $60,000,000—they won a hearing from the top brass. For these executives would feel that their domestic business was slipping if they failed to supply less than 15% of the home market. Today they are pushing a shrewd export drive to capture an equal share of the overseas sales.

I know of another company — a much smaller one whose gross output in the years right after the war totaled about $18,000,000. But last year demand dropped to $14,000,000 and the company naturally was forced to cut costs drastically. What shocked me was to see them cut out all promotion of their export business despite the fact that it was rolling along at the highest level in its history. A single salesman was circling the world for this company, hitting every major continent on an average of just once in every five years.

This is not the kind of selling which will maintain our exports at a $10,000,000,000 a year level. Our competition in Europe, reviving at a rapid rate during the last few months, is roving the Latin American and African countryside with the diligence and perseverance which gave them an enviable position in almost every foreign market before the war. They know their representatives intimately, and a lot of their ultimate customers by their first names.

If your management has never allowed you a trip beyond Canada, Mexico or Cuba, have you made an issue of it? Successful overseas selling in the next five years is going to mean personal selling to a greater extent than ever before. If you've been in the business long, you know this as well as I. But have you sold it to the boss?

Other speakers have outlined to you the dollar situation as of today and tomorrow, but I'm going to be just as smart as they have been and refuse to detail it to you for five years ahead.

It's perfectly clear, however, that there are not going to be during the next five years enough dollars to pay for all that other countries would like to buy from us.

What it is important for us to understand, and to sell the head office, is the fact that more dollars are available now than most of us realize for the kind of goods that most of us in this room sell. And this is going to be true during much of the five years ahead.

Peculiar Responsibility of Export Managers

A peculiar responsibility rests on the shoulders of you export managers today.

In Moscow, a tight-lipped little group of men in the Kremlin daily scan the news of what you are doing to sell your goods around the world.

When you pour into Iran the supplies that are helping to put that nation on its feet, they call you warmongers and hold feverish midnight meetings to scheme and plan some move that they hope will frighten you into inaction.

When you are pushed out of a market like China, they pour over the loud-speakers an avalanche of news about the retreat of the decadent capitalist system and call their bigwigs to plot another coup in some other rich market.

No factor will outshine in importance during the next five years this issue of our relations with Russia.

It already dominates our domestic as well as our international political thinking.

And, unless we act fast, it can, during the next five years, come to dominate our economic thinking as well.

What you export managers, with your first-hand knowledge and realistic appraisal of the world situation, can do is take the lead in holding our foreign trade at today's healthy levels.

You have the know-how. You should have the vision. You must develop the drive to do at home with your bosses the same fine selling job that you've done overseas.

It is the thing that Moscow fears most because it is the thing we do best.

It is something that we have a better opportunity to sell at home today than at any time I can recall, because it means we can fight a mounting crisis with the weapons with which we are most familiar. And—let's not forget one of the basic tenets of our system: The more successfully we meet the challenge of the next five years, the more profitable it will be—for our businesses, and for ourselves.

Securities Now in Registration

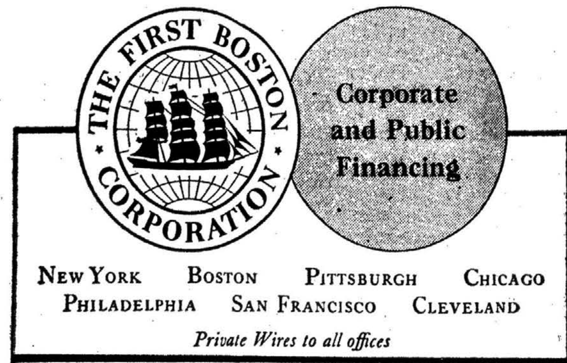
• INDICATES ADDITIONS SINCE PREVIOUS ISSUE

All American Casualty Co., Chicago, Ill.
Feb. 27 filed 1,000,000 shares of common stock (par $1). **Price**—$2 per share. **Underwriter**—M. A. Kern, President of company, will sell the stock. **Proceeds** — For stated capital and paid-in surplus to carry on business.

Alumitape Sales Corp., Los Angeles, Calif.
Feb. 28 (letter of notification) 130,000 shares of common stock to be offered at par ($1 per share). No underwriter. Proceeds are to promote and advertise Venetian blind tape and other products and for general selling expenses. **Office**—5404 Alhambra Ave., Los Angeles, Calif.

• **American Investment Co. of Illinois**
March 27 filed 31,892 shares of common stock (par $1) to be offered to employees. **Underwriter**—None. **Price**—$15 per share. **Proceeds**—For general corporate purposes.

• **Anchor Casualty Co., St. Paul, Minn.**
March 24 (letter of notification) 10,000 shares of capital stock (par $10) at $25 per share. No underwriter. Proceeds for additional working capital. **Office**—2700 University Avenue, St. Paul, Minn.



• **Arizona Warehouse System, Inc., Phoenix, Ariz.**
March 20 (letter of notification) 50,000 shares of class A capital stock (par $1) and 5,000 shares of class B capital stock (par $1) to be sold in units of 10 shares of class A and one of class B for $10 a unit. No underwriter. Proceeds for operating costs. **Address**—Box 1468, Phoenix, Ariz.

Armstrong Rubber Co., West Haven, Conn.
March 10 (letter of notification) 1,200 shares of class A no par value common stock to be sold at $14 per share by James A. Walsh, President. **Underwriter**—F. Eberstadt & Co., Inc., New York.

Armstrong Rubber Co., West Haven, Conn.
March 8 (letter of notification) 1,000 shares of 4¾% cumulative convertible preferred stock and 3,000 shares of class A no par value common stock, to be sold at $40 and $14 per share, respectively, by Frederick Machlin, Executive Vice-President of the company. **Underwriter**—F. Eberstadt & Co., Inc., New York City.

Ashland Oil & Refining Co., Ashland, Ky.
Feb. 27 filed 50,000 shares of $1.20 cumulative (no par) convertible preferred stock (convertible into common prior to July 15, 1958) to be offered to employees and officers of company and subsidiaries. **Underwriter**—None. **Price**—$20 per share. **Proceeds**—For working capital. Statement effective March 20.

• **Associated Natural Gas Co., Tulsa, Okla.**
March 14 (letter of notification) 2,500 shares of common stock at $100 per share. No underwriter. Proceeds to build a natural gas transmission line. **Office**—105 N. Boulder, Tulsa, Okla.

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.

Bluegrass Life Insurance Co., Louisville, Ky.
March 10 (letter of notification) 100,000 shares of common stock at $2.50 per share. No underwriter. Proceeds for minimum operation capital. **Office**—Marion E. Taylor Bldg., Louisville, Ky.

Boston Edison Co. (4/12)
March 14 filed $18,000,000 of first mortgage 30-year bonds, series B, due 1980. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Lehman Brothers; First Boston Corp.; Harriman, Ripley & Co., Inc.; White Weld & Co. Proceeds will be used to pay $12,000,000 bank loans and for redemption of $6,000,000 25-year 3% notes due 1970. Expected about April 12.

• **Broad Street Investing Corp., New York**
March 25 filed 250,00 shares of capital stock. **Distributor**—Broad Street Sales Corp., New York. **Business**—An investment company.

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• **Brown & Scott Packing Co., Wilmington, Del.**
March 21 (letter of notification) 221 shares of preferred stock to be offered at $100 per share, with a bonus of one share of common stock to accompany each preferred share purchased. No underwriter. Proceeds for working capital.

• **Calnev Investment Corp., Los Angeles, Calif.**
March 17 (letter of notification) 20,000 shares of common stock to be offered at par ($10 per share). No underwriter. Proceeds to complete drilling oil well. **Office**—1711 S. Kingsley Drive, Los Angeles, Calif.

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**—Reported negotiating with new underwriter. **Proceeds**—To develop mineral resources. Statement effective Dec. 9. Indefinite.

Capper Publications, Inc.
March 20 filed $2,000,000 of series 6 five-year first mortgage 4% bonds and $2,000,000 of series 7 10-year first mortgage 5% bonds. **Price**—At par, in denominations of $100, $500 and $1,000. **Underwriter**—None. **Proceeds**—To redeem outstanding bonds and improve facilities. **Office**—Eighth and Jackson Streets, Topeka, Kan.

Central Arizona Light & Power Co.
March 21 filed 125,000 shares of common stock (par $5) and 40,000 shares of cumulative preferred stock (par $50). **Underwriters**—First Boston Corp. and Blyth & Co., Inc. **Proceeds**—To pay current construction loans and for further construction costs. **Price**—To be filed by amendment. Expected mid-April.

• **Chemical Crops, Inc., Morrill, Neb.**
March 20 (letter of notification) 170,000 shares of common stock (par $1). **Price**—$1.50 per share. **Underwriter**—Robert D. Bowers Co., Denver, Colo. **Proceeds**—To build oil seed processing plant.

• **(The) Chicago Fair, Chicago, Ill.**
March 24 filed $1,000,000 of subordinated debentures, due 1960. **Underwriter**—None. **Price**—At par. **Proceeds**—For construction, alterations and general administrative expenses. **Business**—To hold an exposition in Chicago.

Cincinnati Gas & Electric Co.
Feb. 24 filed 556,666 shares of common stock (par $8.50), of which 498,666 will be offered to stockholders of record March 15, 1950, at $28 per share, at rate of one new share for each five held (rights to expire April 7) and 58,000 shares will be sold to officers and employees. **Underwriter**—None. W. E. Hutton & Co. headed groups in previous years. **Proceeds**—For construction. Statement effective March 15.

• **Colonial Acceptance Corp., Chicago, Ill.**
March 27 filed 164,560 shares of first series convertible class A common stock (par $1). **Underwriter**—Sills, Fairman & Harris, Inc. **Price**—$5 per share. **Proceeds**—For working capital and to reduce bank loans.

• **Congratulations, Inc.**
March 28 (letter of notification) 400 shares of common capital stock (par $25) to be offered at public auction through Adrian H. Muller & Son, 39 Broadway, New York, on or about April 4. Bid expected to be nominal, there being no market for this security. **Proceeds**—To go to two selling stockholders. **Office**—515 Madison Avenue, New York City.

Cuddy Mountain Mining Co., Spokane, Wash.
March 17 (letter of notification) 1,000,000 shares of common stock to be offered at par (10 cents per share), the proceeds to complete the purchase of Blue Dog Mine A Weiser, Idaho, and to develop this mine. **Underwriter**—Explorers, Inc., Spokane. **Office**—711 Hutton Building, Spokane.

Delaware Power & Light Co. (4/5)
March 8 filed 232,520 shares of common stock (par $13.50) to be offered to stockholders of record April 5, 1950, at the rate of one share for each six held, and then to be offered employees with a maximum purchase of 150 shares per employee. Rights will expire April 24. **Underwriter** — (For unsubscribed shares) to be determined by competitive bidding. Probable bidders: W. C. Langley & Co. and Union Securities Corp. (jointly); Harriman Ripley & Co., Inc.; Kidder, Peabody & Co.; White, Weld & Co. and Shields & Co. (jointly); Lehman Brothers. **Price**—To be filed by amendment. **Proceeds**—To finance construction for the company and two subsidiaries. **Bids**—To be received at company's office, 600 Market St., Wilmington, Del., up to 11.30 a. m. (EST) on April 5.

• **Dodge & Cox Fund, San Francisco, Calif.**
March 28 filed 25,000 shares of beneficial stock. No underwriter. **Business**—Investment company.

Dome Exploration (Western) Ltd., Toronto, Canada
Jan. 30 filed $10,000,000 of notes, due 1960, with interest at 1% in the first year, 2% in the second year, and 3% thereafter, and 249,993 shares of capital stock (par $1). To be sold to 17 subscribers (including certain partners of Carl M. Loeb, Rhoades & Co., State Street Investment Corp. and State Street Research & Management Co.) **Underwriter**—None. **Proceeds**—For general funds. **Business**—To develop oil and natural gas properties in Western Canada.

Douglas Oil Co. of California
Feb. 3 (letter of notification) 15,000 shares of common stock (par $1) to be sold at the market price of about $3.75 per share by Woodrow G. Krieger, President. **Underwriter**—Shearson, Hammill & Co., Los Angeles, Calif.

• **Drewrys Ltd., U. S. A., Inc., South Bend, Ind.**
Feb. 20 (letter of notification) 8,015 shares of common stock (par $1) to be sold by Carleton S. Smith, President, for $12 per share. **Underwriter**—R. C. O'Donnell & Co., Detroit. **Office**—1408 Elwood Ave.

Drewrys Ltd., U. S. A., Inc., South Bend, Ind.
March 1 (letter of notification) 9,000 shares of common stock to be sold at the market price by Alfred Epstein. No underwriter.

Duval Sulphur & Potash Co., Houston, Texas
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 on Feb. 14, 1950. [The United Gas Corp., owner of 373,557 shares, or 74.71% of the outstanding 550,000 shares of Duval capital stock, has agreed to purchase at the subscription price any shares of stock not subscribed for by other stockholders.] Rights will expire March 9. **Underwriter**—None. **Proceeds**—To be used, along with a $2,500,000 bank loan, to provide mining and milling facilities to mines potash in Eddy County, N. M. Statement effective Feb. 14.

• **El Paso Natural Gas Co., El Paso, Tex.**
March 27 filed 65,000 shares of convertible second preferred stock, series of 1950, no par value, to be offered to common stockholders at the rate of one preferred share for an unspecified number of common shares held on April 10. **Underwriter**—White, Weld & Co., New York. **Price**—To be supplied by amendment, along with dividend rate. **Proceeds**—To pay for construction of new San Juan pipe line. Expected in April.

• **Elfun Trusts, New York City**
March 24 filed 50,000 units. No underwriter. **Business**—Open-end diversified investment company.

• **Elkhorn-Beaverhead Mines Co., Dillon, Mont.**
March 20 (letter of notification) $200,000 of non-interest bearing production notes and 200,000 shares of common stock (par 10c), to be issued in units of $100 of notes and 100 shares of stock for $100 a unit. No underwriter. Proceeds to develop mine properties.

NEW ISSUE CALENDAR

March 30, 1950
Hoffman Radio Corp.________Common
Palisades Nepheline Mining Co., Ltd.________Capital
Trad Television Corp.________Common

March 31, 1950
Iowa Electric Light & Power Corp.________Pfd. & Com.

April 1, 1950
Gundel (J. B.) & Co., Inc.________Common

April 4, 1950
Georgia Power Co., 11 a.m. (EST)________Bonds
Lit Brothers________Debentures
Metropolitan Edison Co., noon (EST)________Bonds & Pfd.
Southeastern States Telephone Co.________Common
Tennessee Gas Transmission Co.________Preferred
United Representatives, Inc.________Debentures

April 5, 1950
Delaware Power & Light Co. 11:30 a.m. (EST)________Common
National Motor Bearing Co., Inc.________Capital
San Diego Gas & Electric Co.________Common
Wheeling & Lake Erie RR.________Bonds

April 10, 1950
Hastings Manufacturing Co.________Common
Utah Fuel Co., 11 a.m. (EST)________Common

April 11, 1950
Mississippi River Fuel Corp.________Common
Pennsylvania RR., noon (EST)________Equip. Trust Ctfs.
State Loan & Finance Corp.________Debentures

April 12, 1950
Boston Edison Co.________Bonds
Great Plains Development Co. of Canada, Ltd.________Notes & Stock
Reading Co., noon (EST)________Equip. Trust Ctfs.
St. Louis-San Francisco Ry.________Equip. Trust Ctfs.

April 13, 1950
Delaware, Lackawanna & Western RR. Noon (EST)________Equip. Trust Ctfs.

April 18, 1950
Pacific Power & Light Co.________Bonds

April 19, 1950
Public Service Electric & Gas Co.________Bonds
White (S. S.) Dental Mfg. Co.________Capital

May 22, 1950
Iowa Public Service Co.________Preferred

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• **Empire Oil of Texas, Dallas, Tex.**
March 10 (letter of notification) 13,868 shares of capital stock (par $10) to be offered at par to stockholders at the rate of seven new shares for each eight shares held. No underwriter. Proceeds to buy oil properties and for operating costs. **Office**—403 Republic Bank Building, Dallas, Texas.

Equitable Securities Co., Indianapolis, Ind.
Feb. 24 (letter of notification) $100,000 of 5% sinking fund debentures. **Underwriter**—City Securities Corp., Indianapolis. **Proceeds**—For working capital.

• **Equity Fund, Inc., Seattle, Wash.**
March 27 filed 500,000 shares of capital stock. **Underwriter**—Pacific Northwest Co., Seattle. **Business**—Investment company.

Fitzsimmons Stores, Ltd., Los Angeles, Cal.
Dec. 16 (letter of notification) 30,000 shares of class A common stock, of which 22,778 were issuable in exchange for 3,254 shares of Roberts Public Markets, Inc. at the rate of seven shares of Fitzsimmons for each share of Roberts. [At Feb. 10, 1950, 12,943 shares of class A stock had been issued in exchange for 1,849 Roberts stock.] Any additional shares not needed for the exchange were to be sold at $10 per share, to stockholders, officers and employees. No underwriter. **Proceeds**—For working capital.

Fox Metal Products Corp.
March 16 (letter of notification) stock purchase warrants exercisable prior to July 31, 1950 entitling holders thereof to purchase a total of 30,000 shares of common stock (par $1) at $3 per share. **Proceeds**—To be added to working capital. **Office**—4002 So. Clay Street, Littleton, Colo. **Correction**—This corrects item published in last week's "Chronicle."

Garfinkel (Julius) & Co., Inc.
Feb. 2 (letter of notification) 5,000 shares of common stock (par 50c) to be sold by Mrs. Dee M. Schmid, Washington, D. C., at the market price of between $19⅝ and $16¾ per share. **Underwriter**—Auchincloss, Parker & Redpath, Washington.

• **General Fuse Co.**
March 23 (letter of notification) 60,000 shares of common stock at 50 cents per share. No underwriter. Proceeds for purchase of machinery and working capital. **Office**—Robert Street, South River, N. J.

Georgia Power Co. (4/4)
March 3 filed $15,000,000 of 30-year first mortgage bonds due 1980. **Underwriter**—To be decided by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc. and Kidder, Peabody & Co. (jointly); The First Boston Corp.; Union Securities Corp. and Equitable Securities Corp. (jointly); Shields & Co. and Salomon Bros. & Hutzler (jointly); Lehman Brothers; Drexel & Co.; Morgan Stanley & Co.; Harriman Ripley & Co. **Proceeds**—To finance construction program. **Bids**—To be received up to 11 a.m. (EST) April 4. Statement effective March 22.

• **Gold Strip Mines, Inc., Seattle, Wash.**
March 21 (letter of notification) 40,000 shares of common stock to be offered at par ($1 per share). No underwriter. Proceeds to equip and develop mining properties in Alaska. **Office**—726 Republic Building, Seattle, Wash.

Granville Mines Corp., Ltd., British Columbia, Canada
Feb. 16 filed 100,000 shares of common non-assessable stock (par 50c). **Price**—35c per share. **Underwriter**—None. **Proceeds**—To buy mining machinery and for working capital.

• **Great Plains Development Co. of Canada, Ltd., Calgary (Alta.) and Montreal, Can. (4/12)**
March 22 filed $10,000,000 of notes due 1965, bearing from 1% to 4% interest between 1952 and retirement date, and 500,000 shares of $1 par value capital stock (Canadian currency). **Underwriters**—Dominick & Dominick and Kidder, Peabody & Co., both of New York, and James Richardson & Sons, Winnipeg, Canada. **Price**—To be filed by amendments. These securities are to be offered in units of $1,000 of notes, with a detachable warrant for 50 shares of capital stock, and 50 shares of capital stock. **Proceeds**—For general funds. **Business**—Developing oil and natural gas resources in Alberta, Saskatchewan and possibly British Columbia.

Gulf Atlantic Transportation Co., Jacksonville, Florida
May 27 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 Blair, Rollins & Co., Inc.; John J. Bergen & Co. and A. M. Kidder & Co. on a "best efforts basis." **Price**—Par for common $5 for class A. **Proceeds**—To complete an ocean ferry, to finance dock and terminal facilities, to pay current obligations, and to provide working capital.

Gundel (J. B.) & Co., Inc., N. Y. City (4/1)
March 8 (letter of notification) 10,000 shares of class A common stock and 2,000 shares of class B common stock to be offered at $20 and $50 per share, respectively. Proceeds will be used to place first mortgage loans on homes and for other realty transactions. **Office**—209 West 125th Street, New York 27, N. Y.

Gyrodyne Co. of America, Inc.
March 3 (letter of notification) 150,000 shares of common stock, class A (par $1) and 18,000 shares of 5% cumulative participating preferred stock (par $4). **Price**—Preferred at par and class A at $1.50 per share. **Underwriter**—Jackson & Co., Boston, on a "best efforts" basis.

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Proceeds—For development of model, etc. **Office**—80 Wall Street, New York City.

Hahn Aviation Products, Inc., Phila., Pa.
March 9 (letter of notification) 100,000 shares of capital stock to be offered at par ($1 per share). Proceeds for the manufacture and sale of a patented aviation spark plug. No underwriter. **Office**—2636 No. Hutchinson Street, Philadelphia 33, Pa.

Hammond Instrument Co., Chicago, Ill.
March 13 (letter of notification) 2,000 shares of common stock (par $1). **Price**—$20 per share. **Underwriter**—Paul H. Davis & Co. of Chicago.

Hastings Manufacturing Co. (4/10)
March 20 filed 300,000 shares of common stock (par $2). **Underwriters**—F. Eberstadt & Co. of New York and Watling, Lerchen & Co. of Detroit. **Price**—To be filed by amendment. **Proceeds**—To Aben E. Johnson (President) and 52 other stockholders.

● **Helio Aircraft Corp., Norwood, Mass.**
March 22 (letter of notification) 9,000 shares of preferred stock (par $1) and 9,000 shares of common stock (par $1) to be sold in units of four preferred shares and one common share for $25 per unit. No underwriter. Proceeds to build a four-engine helioplane prototype. **Office**—Boston Metropolitan Airport, Norwood, Mass.

Hoffman Radio Corp. (3/30)
March 9 filed 50,000 shares of 66⅔ cents par value common stock. (In addition, warrants outstanding for purchase of 45,000 shares of common stock to be purchased at $4 per share may now be exercised.) The 50,000 block is being sold by Frances E. Hoffman and Jane Leslie Hoffman, wife and daughter of H. L. Hoffman, President of the company. **Underwriters**—William R. Staats Co., Los Angeles, and Paul H. Davis & Co., Chicago. **Price** — To be filed by amendment. **Proceeds** — For working capital. Expected about March 30.

● **Home Loan & Investment Co., Grand Junction, Colorado**
March 20 (letter of notification) $100,000 of 4% debenture notes. **Price**—At par. **Underwriter**—None. **Proceeds**—For working capital. **Office**—119 N. 5th Street, Grand Junction, Colo.

Howe Sound Co.
Feb. 28 filed 76,983 shares of 4½% cumulative preferred stock, par $50 (convertible into common stock on or before April 1, 1955), offered first to common stockholders of record March 20 in ratio of one preferred share for each six common shares held. Rights will expire April 4, 1950. **Price**—At par. **Underwriter**—Union Securities Corp. principal underwriter. **Proceeds**—To be used to complete the development of the Blackbird cobalt mine in Idaho.

Hytron Radio & Electronics Corp., Salem, Mass.
March 10 filed 200,000 shares of 6% cumulative convertible preferred stock ($8 par value) and 440,000 shares of common stock (par $1), of which 40,000 shares of common stock will be sold by four officers of the company. **Underwriters**—Barrett Herrick & Co., Inc., New York, and Sills, Fairman & Harris, Inc., Chicago. **Price**—$8 for the preferred; the common stock price to be filed by amendment. **Proceeds**—To finance expansion of Hytron and its subsidiaries. Expected second or third week in April.

Illinois Power Co.
March 21 filed $10,000,000 first mortgage bonds due 1980 and 300,000 shares of cumulative preferred stock (par $50). **Underwriters**—Merrill Lynch, Pierce, Fenner & Beane for preferred not needed to exchange outstanding 200,000 shares of 4.70% preferred stock (on a share-for-share basis plus cash, about April 5 to April 19). Underwriter for bonds to be determined by competitive bidding; probable bidders include: Halsey, Stuart & Co. Inc.; White, Weld & Co. and Merrill Lynch, Pierce, Fenner & Beane (jointly); Harriman Ripley & Co., Inc., and Glore, Forgan & Co. (jointly); Union Securities Corp.; Kuhn, Loeb & Co., and Lazard Freres & Co. (jointly); The First Boston Corp. **Price**—for preferred to be filed by amendment. **Proceeds**—To pay short-term bank loans made for construction. Expected in April.

Inter-Mountain Telephone Co.
March 20 filed 95,000 shares of $10 par common stock to be offered to holders of record March 31 in the ratio of one share for each two shares held. (42,776 shares to be acquired by Southern Bell Telephone & Telegraph Co. and Chesapeake & Potomac Telephone Co.) **Underwriters**—Group of six headed by Courts & Co. **Price**—To be supplied by amendment. **Proceeds**—To be used to reduce short-term bank borrowings outstanding.

● **Investors Syndicate of America, Inc., Minneapolis, Minn.**
March 28 filed $13,000,000 of series 15 and $46,000,000 of series 20 face amount certificates. **Underwriter**—Investors Diversified Services, Inc. **Business**—Investment company.

Iowa Electric Light & Power Corp. (3/31)
March 13 filed 108,834 shares of cumulative preferred stock (par $50) and 925,000 shares of common stock (par $5). These new stocks, along with cash, will be offered in exchange for the outstanding 49,290 shares of series A 7% preferred stock, 15,605 shares of series B 6½% preferred stock and 43,939 shares of series C 6% preferred stock. All unissued shares will be offered publicly with a 10-day standby. **Underwriters**—The First Boston Corp., New York, and G. H. Walker & Co., Providence, R. I. **Proceeds**—Will be used to redeem unexchanged shares of old preferred stock at $102.50 per share. Expected March 31.

Iowa Public Service Co. (5/22)
Feb. 21 filed 50,000 shares of cumulative preferred stock (par $100). **Underwriter**—To be determined by competitive bidding. 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.; Lehman Brothers; White, Weld & Co. **Proceeds**—For payment of bank loans and for construction. Expected May 22.

● **Jefferson Telephone Co., Jefferson, Iowa**
March 22 (letter of notification) $131,000 of series D 3¼% first mortgage bonds due 1970. **Underwriter**—Wachob-Bender Corp., Omaha, Neb. **Proceeds**—To retire series A and series C bonds and for other corporate purposes.

Kansas City Power & Light Co.
March 3 filed 1,904,003 shares of common stock (no par) to be offered by United Light & Rys. Co., Chicago, at $12 per share to United Light stockholders of record March 23 on the basis of three shares of Kansas City stock for each five shares of United stock held. Rights are to expire April 20. **Underwriters**—None. If unsubscribed stock exceeds 1% of the total, United Light may consider competitive bids on this balance. Statement efective March 22.

● **Kropp Forge Co.**
March 20 (letter of notification) 100,000 shares of common stock (par 33⅓ cents) to be offered first to stockholders of record March 22, 1950, at the rate of one share at $2.37½ for each seven shares held. **Underwriter**—Blair F. Claybaugh & Co., New York, at $2.50 per share for unsubscribed stock. **Proceeds**—For additional working capital and to pay a loan owing to the LaSalle National Bank, Chicago.

Lincoln Telephone & Telegraph Co., Lincoln, Nebraska
March 2 (letter of notification) 15,000 shares of common stock (par $16.66⅔). **Price**—$20 per share. **Underwriter**—None. **Offered**—To common stockholders of record Jan. 9, 1950; rights to expire April 3, 1950. **Proceeds**—For working capital and expansion.

Lit Brothers, Philadelphia, Pa. (4/4)
March 13 filed $6,000,000 sinking fund debentures (subordinated) due March 1, 1970. **Price**—To be filed by amendment. **Underwriter**—Group to be managed by A. G. Becker & Co., Inc. **Proceeds**—To retire $5,987,000 of 6% preferred stock. Expected about April 4.

Lowell Electric Light Corp., Lowell, Mass.
Dec. 30 filed 55,819 shares of capital stock (par $25). **Offering**—To be offered at $35 per share to common stockholders at the rate of one new share for each three shares held. **Underwriter**—None. **Proceeds**—To repay bank loans, for construction and to make further improvements.

Lytton (Henry C.) & Co., Chicago, Ill.
March 1 (letter of notification) 7,000 shares of common stock (par $1). **Price**—$8 per share. **Underwriter**—Straus & Blosser, Chicago, Ill. **Proceeds**—To two selling stockholders.

● **McDonnell Aircraft Corp., St. Louis, Mo.**
March 23 (letter of notification) $100,000 worth of common stock (par $1) and warrants to purchase this stock at $10 per share to be sold at the market price of about $25 per share by J. S. McDonnell, President of the company. **Underwriters**—Merrill Lynch, Pierce, Fenner & Beane; Smith, Moore & Co.; G. H. Walker & Co., St. Louis; and Smith, Barney & Co., New York.

Metropolitan Edison Co. (4/4)
Jan. 20 filed $7,000,000 of first mortgage bonds, due 1980, and 30,000 shares of $100 par value cumulative preferred stock (par $100). **Underwriters**—Names to be determined by 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.; White, Weld & Co. (bonds); Lehman Brothers (bonds); Kuhn, Loeb & Co. (bonds); Smith, Barney & Co. and Goldman, Sachs & Co. (jointly on preferred); Glore, Forgan & Co. and W. C. Langley & Co. (jointly on pfd.). **Proceeds**—For construction and to reimburse treasury for past capital expenditures. **Bids**—Tentatively expected at noon (EST) on April 4.

Middlesex Water Co., Newark, N. J.
Feb. 9 (letter of notification) 5,200 shares of common stock offered to common stockholders of record March 17 at $50 per share on a one-for-five basis. **Underwriter**—Clark, Dodge & Co. **Proceeds**—To pay notes and for additional working capital.

Miller (Walter R.) Co., Inc.
March 6 (letter of notification) 1,000 shares of 6% cumulative preferred stock at par ($100 per share). **Underwriter**—George D. B. Bonbright & Co., Binghamton, N. Y. **Proceeds**—To assist in acquisition of 1216 shares of company's common stock.

Mississippi River Fuel Corp. (4/11)
March 21 filed 245,708 shares of common stock (par $10) to be offered first to common stockholders of record April 4, 1950, in the ratio of one share for each four shares held; rights to expire April 24, 1950. **Price**—To be filed by amendment. **Underwriter**—Union Securities Corp. will head group. **Proceeds**—To be used to retire $7,250,000 bank loans and balance applied toward construction costs.

● **Mohawk Business Machines Corp.**
March 21 (letter of notification) 58,612 shares of common stock (par 10c). **Price**—$1 per share. **Underwriters**—Jacquin, Bliss & Stanley, 44 Wall Street, New York City. **Proceeds**—For working capital. **Office**—743 Fifth Avenue, New York, N. Y.

Mountain States Telephone & Telegraph Co.
March 10 filed 183,918 shares of capital stock, to be offered to stockholders of record March 27 at the rate of one for each five shares; rights are to expire April 28. **Underwriter**—None. **Price**—At par ($100 per share). **Proceeds**—To pay indebtedness to its parent, American Telephone & Telegraph Co., and for corporate purposes, including construction.

● **Muskogee (Okla.) Industrial Finance Corp.**
March 17 (letter of notification) 2,500 shares of common stock (par $20) and $100,000 of 7% certificates of indebtedness. No underwriter. Proceeds from common stock will be used to liquidate demand notes. Certificates of indebtedness needed for loans in excess of surplus and capital stock.

● **Mutual Fund of Boston, Inc.**
March 24 filed 60,000 shares of capital stock. **Underwriter**—Russell, Berg & Co., Boston. **Business**—An investment company.

National Motor Bearing Co., Inc. (4/5)
March 17 filed 129,000 shares of capital stock (par $1), of which 87,000 shares are for account of selling stockholders. **Underwriter**—Blyth & Co., Inc., San Francisco. **Price**—To be supplied by amendment. **Proceeds**—To be used to pay off outstanding loans. Expected April 5.

National Research Corp., Cambridge, Mass.
Feb. 14 (letter of notification) 4,000 shares of common stock (par $1), to be offered at the market price for the account of Clara A. Coolidge and others. **Underwriter**—Paine, Webber, Jackson & Curtis, Boston. **Office**—70 Memorial Drive, Cambridge, Mass.

● **National Sugar Refining Co., Denver, Colo.**
March 23 (letter of notification) $300,000 of first mortgage serial bonds, series of 1950. **Price**—At $1,000 principal amount each. **Underwriter**—Peters, Writer & Christensen, Inc., and Boettcher & Co., both of Denver. **Proceeds**—To retire balance of an outstanding note and outstanding second mortgage income bonds.

● **Norlina Oil Development Co., Washington, D. C.**
March 28 filed 600 shares of capital stock (no par) to be offered at $5,000 per share. No underwriter. Proceeds to be used to explore and develop oil and mineral leases.

● **Northwest Cities Gas Co., Walla Walla, Wash.**
March 15 (letter of notification) 21,370 shares of convertible preferred stock (par $5). **Price**—$10 per share. **Underwriter**—None. Proceeds—To convert plant in Eugene, Ore., to propane gas and to improve mains and facilities, as well as for working capital.

● **Norwich (N. Y.) Pharmacal Co.**
March 24 filed 50,000 shares of series A convertible preferred stock (par $30) to be offered to common stockholders at the rate of one preferred share for each 16 common shares held. **Underwriter** — Hornblower & Weeks, New York. **Price**—To be filed by amendment. **Proceeds**—To build a $500,000 chemical plant and warehouse facilities north of Norwich, N. Y., and to expand business.

Oklahoma Gas & Electric Co.
March 6 filed 97,900 shares common stock (par $20) to to be offered stockholders of record on or about April 5, 1950, at the rate of one for each 10 now held. Rights will expire in about 15 days after mailing of warrants. Standard Gas & Electric Co., owner of 550,041 shares, plans to subscribe to the 55,004 shares to which it is entitled. **Underwriter**—No underwriter, but any NASD member helping a stockholder with a subscription will be paid 25 cents per share. **Price**—To be filed by amendment. **Proceeds**—For construction.

● **Orchards Telephone Co., Orchards, Wash.**
March 16 (letter of notification) 500 shares of common stock. **Price**—At par ($100 per share). **Underwriter**—None. **Proceeds**—To modernize plant.

Pacific Gas & Electric Co.
Feb. 23 filed 1,656,156 shares of common stock (par $25) offered initially to common stockholders of record March 14 at $30 per share on the basis of one new share for each five shares held. Rights will expire April 5. **Underwriters**—Blyth & Co., Inc., heads group of about 200 investment firms. **Proceeds**—To finance in part construction program. Statement effective March 14.

Pacific Power & Light Co. (4/18)
March 17 filed $9,000,000 of first mortgage bonds due 1980. **Underwriters**—To be determined by competitive bidding. 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.; Lehman Brothers. **Proceeds**—To be used to pay off 2¾% promissory notes held by Mellon National Bank & Trust Co. and payable May 1, 1950.

Pacific Telephone & Telegraph Co.
Feb. 23 filed 814,694 shares of common stock (par $100) to be offered common and preferred stockholders of record March 21, 1950 at the rate of one share for each six shares held; rights expire April 21. **Underwriter**—None. **Price**—At par. **Proceeds**—For Construction and to repay bank loans made for construction purposes. American Telephone & Telegraph Co., parent, owns 3,732,493 shares, or 91.75% of the 4,068,165 common shares outstanding, and 640,957 shares, or 78.17% of the 820,000 shares of 6% preferred stock. Statement effective March 14.

● **Packard-Bell Co., Los Angeles, Calif.**
March 20 (letter of notification) 9,500 shares of common stock (par $1) to be issued under warrants held by Howard D. Thomas, Jr., Palm Springs, Calif., at $7.50 per share. **Office**—12333 W. Olympic Blvd.

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Palisades Nepheline Mining Co., Ltd. (3/30)
Feb. 21 filed 1,000,000 shares of capital stock (par $1 Canadian funds). **Price**—40 cents per share. **Underwriter**—F. W. Macdonald & Co., Inc., New York. **Proceeds**—For mining costs. **Business**—Mining nepheline syenite deposits. Statement effective March 27.

Pennsylvania & Southern Gas Co., Westfield, New Jersey
March 17 (letter of notification) 15,761 shares of common stock at the market (estimated at $4 per share) for account of R. Gould Morehead, Treasurer. **Underwriter**—Bioren & Co., Philadelphia.

● **Plumbic Mines Co., Salt Lake City, Utah**
March 23 (letter of notification) 302,500 shares of common capital stock (par 20 cents), of which 200,000 shares will be offered at 12½ cents per share. **Underwriter**—Cromer Brokerage Co., Salt Lake City. **Proceeds**—To explore and develop mineral land in Piute County, Utah. **Office**—39 Exchange Place, Salt Lake City, Utah.

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.

● **Preferred Fire Underwriters, Inc., Seattle, Washington**
March 15 (letter of notification) 1,500 shares of participating preferred stock and 10,500 shares of common stock, at $100 and $1 per share respectively. No underwriter. Proceeds to organize the Preferred Fire Association. **Office**—1020 Virginia St., Seattle 1, Wash.

● **Public Service Electric & Gas Co. (4/19)**
March 29 filed $26,000,000 first and refunding mortgage bonds to be dated May 1, 1950, and to mature May 1, 1980. **Underwriters**—Names to be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co. and Drexel & Co. (jointly); Kuhn, Loeb & Co. and Lehman Brothers (jointly); First Boston Corp.; Union Securities Corp. and White, Weld & Co. (jointly). **Proceeds**—To redeem a like amount of first and refunding mortgage bonds, 3¼% series, due 1966, at 103%. **Bids**—Expected to be received on or about April 19.

● **Republic Investors Fund, Inc., New York**
March 29 filed 2,000,000 shares of common stock. **General Distributor**—Leffler Corp., New York. **Business**—Investment company.

● **Rough Creek Placer Co., Inc., Ketchum, Idaho**
March 13 (letter of notification) 140,000 shares of $1 par value common stock at par ($1 per share). No underwriter. Proceeds to explore and mine placer claims. **Office**—San Valley Agency, Ketchum, Ida.

● **San Diego (Calif.) Gas & Electric Co. (4/5)**
March 21 filed 500,000 shares of common stock (par $10). **Underwriter and Price**—To be filed by amendment. Traditional underwriter: Blyth & Co., Inc. **Proceeds**—To retire $4,800,000 of bank loan notes incurred for construction, to reimburse the company's treasury for construction expenditures, and for further construction.

Security Insurance Co. of New Haven
March 22 filed 50,000 shares of capital stock (par $10) and warrants enabling stockholders to purchase these shares at the rate of one share for each five held. **Price**—To be filed by amendment. **Underwriters**—Chas. W. Scranton & Co. and Day, Stoddard & Williams, Inc. **Proceeds**—To increase company's capital and surplus.

Sentinel Radio Corp., Evanston, Ill.
Feb. 15 (letter of notification) 40,000 shares of common stock (par $1). **Price**—$6.50 per share. **Underwriters**—Sulzbacher, Granger & Co., New York. **Proceeds**—For working capital.

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.

South Carolina Electric & Gas Co.
Nov. 22 filed $22,200,000 first and refunding mortgage bonds, due 1979. **Underwriter**—Names by amendment (probably Halsey, Stuart & Co. Inc.; Kidder, Peabody & Co.; The First Boston Corp.; Union Securities Corp.). **Proceeds**—To redeem a like amount of outstanding first mortgage 3⅝% and 3⅞% bonds. Expected in April.

Southern New England Telephone Co.
March 9 filed 400,000 shares of common capital stock (par $25) to be offered common stockholders of record March 28, 1950, at the rate of one new share for each seven held. Rights will expire April 21, 1950. **Underwriter**—None. **Price** — At par. **Proceeds** — To repay advances from American Telephone & Telegraph Co. and for further construction.

Southwestern States Telephone Co. (4/4)
March 15 filed 114,828 shares of common stock (par $1). **Underwriter**—Central Republic Co., Chicago. **Price**—To be supplied by amendment. **Proceeds**—From 65,000 shares go to construction program of company; remaining shares are being sold for account of Allied Syndicate, Inc of Wilmington, Del. Expected April 4.

● **Sta-Kleen Bakery, Inc., Lynchburg, Va.**
March 20 (letter of notification) 3,375 shares of common stock to be sold at $11 per share by five persons. **Underwriter**—Scott, Horner & Mason, Inc., Lynchburg.

State Bond & Mortgage Co., New Ulm, Minn.
Feb. 27 filed $500,000 of series 1305 investment certificates; $1,000,000 of series 1207-A accumulative savings certificates, and $10,000,000 of Series 1217-A accumulative savings certificates. No underwriter. An investment company.

State Loan & Finance Corp. (4/11)
March 15 filed $4,000,000 of 5% 10-year sinking fund debentures. **Underwriter**—Johnston, Lemon & Co., Washington. **Price**—To be filed by amendment. **Proceeds**—To pay off serial notes and for working capital. **Business**—Holding company for personal loan subsidiaries. Expected about April 11.

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.

● **Supreme Perlite Corp., Phoenix, Ariz.**
March 17 (letter of notification) 125,000 shares of (no par) common stock at $20 cents per share. No underwriter. Proceeds for manufacturing and operating purposse. **Office**—5120 N. 13th Place, Phoenix, Ariz.

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. of record July 15, 1949, at rate of one share for each five held. **Price**—At par. **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.

Tennessee Gas Transmission Co. (4/4)
March 14 filed 100,000 shares of cumulative preferred stock (par $100). **Price**—To be filed by amendment. **Underwriters**—Stone & Webster Securities Corp. and White, Weld & Co., New York. **Proceeds**—To be added to general funds for use in construction. Expected April 4.

Texmass Petroleum Co., Dallas, Texas
Jan. 13 filed $2,937,254 of 4½% senior cumulative interest debentures due 1965; $1,147,150 of 5% junior income debentures due 1970; 30,500 shares of $5 class A cumulative preferred stock (no par), with no rights to dividends until 1956; 51,000 shares of $5 class B cumulative preferred stock (no par), with no rights to dividends until 1956; and 2,000 shares of common stock (no par), represented by voting trust certificates; to be issued under a plan of debt adjustment. Any interest payable on debentures must first be approved by RFC, which recently loaned the company $15,100,000. **Underwriter**—None. **Business**—Oil production. Statement effective March 23.

● **Trad Television Corp. (3/30)**
March 23 (letter of notification) 600,000 shares of common stock (par 1c). **Price**—35 cents per share. **Underwriter**—Tellier & Co., New York. **Proceeds**—For working capital, etc.

United Mines of Honduras, Inc., Wilmington, Delaware
March 16 (letter of notification) 150,000 shares of common stock (par 50 cents). **Price**—$2 per share. **Underwriter**—Willis E. Burnside & Co., Inc., New York City. **Proceeds**—To pay indebtedness and for general corporate purposes. **Office**—North American Building, Wilmington, Del. Expected in April.

United Representatives, Inc. (4/4)
March 1 (letter of notification) $300,000 10-year 6½% debentures due April 4, 1960. **Price**—At par. **Underwriters**—None. **Proceeds**—For development of financing foreign shipments. **Office**—250 Park Avenue, New York, N. Y. **Offering**—Expected April 4.

Vashon Telephone Corp., Vashon, Wash.
March 9 (letter of notification) $49,000 first mortgage 5% serial and sinking fund bonds at $1,000 per bond, plus accrued interest from Nov. 1, 1949. **Underwriters**—Wm. P. Harper & Son & Co. **Proceeds**—To be used for telephone equipment and other corporate needs.

Videograph Corp., N. Y. City
Feb. 2 (letter of notification) 300,000 shares of common stock (par 10c). **Price**—$1 per share. **Underwriter**—George J. Martin Co., New York. **Proceeds**—For additional working capital. **Business**—Assembles a coin operated combination television and phonograph. **Office**—701—7th Avenue, New York, N. Y.

● **Welex Jet Services, Inc., Fort Wayne, Tex.**
March 20 (letter of notification) 2,500 shares of common stock (no par). **Price**—At market (about $16 per share) to be sold by Mr. and Mrs. Ramsey C. Armstrong. **Underwriters**—Laird & Co., Wilmington, Del.; Barron McCulloch and William N. Edwards & Co., Forth Worth, Tex.

Western Uranium Cobalt Mines, Ltd., Vancouver, B. C., Canada
Feb. 28 filed 800,000 shares of common capital stock (par $1). **Price**—35 cents per share. **Underwriter**—None. **Proceeds**—Exploration and development work.

Westinghouse Electric Corp.
March 2 filed 500,000 shares of common stock (par $12.50), to be offered to employees under company's employee stock plan. **Underwriter**—None. **Proceeds**—For general corporate purposes.

● **Whitehall Fund, Inc., New York**
March 25 filed 10,000 shares of capital stock. **Distributor**—Broad Street Sales Corp., New York. **Business** — An investment company.

Wilcox-Gay Corp.
March 20 filed 300,000 shares of common stock (par $1); also 112,000 shares to be reserved for exercise of outstanding warrants through Nov. 1, 1952 at $1 per share. Statement to be withdrawn.

● **Wisconsin Fuel & Light Co., Manitowoc, Wis.**
March 24 (letter of notification) 886 shares of common stock. **Price**—At par ($100 per share). **Underwriter**—Kalman & Co., Inc., St. Paul, Minn. **Proceeds**—To buy outstanding capital stock of Wausau Gas Co.

Prospective Offerings

American Can Co., New York, N. Y.
March 3 announced company is considering a program of long-term financing for working capital. Probable underwriters: Morgan Stanley & Co.; Clark, Dodge & Co.; F. S. Moseley & Co.

American Gas & Electric Co.
March 3 announced company plans in May to sell $27,000,000 of serial notes (to mature either in 1-to-15 years or 1-to-20 years). Probable bidders: Halsey, Stuart & Co. Inc.; Union Securities Corp.; Salomon Bros. & Hutzler; First Boston Corp.; Harriman Ripley & Co., Inc. Proceeds would be used to redeem $15,162,300 of 4¾% preferred stock and the balance to retire bank loans.

● **Amun-Israeli Housing Corp.**
March 8 reported company will sell to public early in April $10,000,000 of 15-year 3% first mortgage bonds.

● **Atlantic City Electric Co.**
March 21 it was reported company may sell later this year $2,000,000 of convertible debentures. Stockholders will vote April 11 on increasing common stock from 1,172,000 shares to 1,400,000 shares. Probable underwriters: Union Securities Corp.; Smith, Barney & Co.

● **Atlantic Coast Line RR.**
March 28 announced stockholders will vote April 18 on creating a new mortgage to be dated March 1, 1950, providing for a maximum of $200,000,000 bonded indebtedness. The net proceeds would be used to refund $50,724,000 first consolidated mortgage 4% bonds due July 1, 1952, to refund $33,325,000 of general unified mortgage bonds due June 1, 1964, and the balance for construction costs. Probable bidders include Halsey, Stuart & Co. Incorporated.

Brooklyn Union Gas Co.
March 8 company announced it plans to issue $8,000,000 of mortgage bonds and sell 186,341 shares of convertible preferred stock which may have a par value of $40 per share. Latter will be offered for subscription to common stockholders on a one-for-four basis and may be underwritten by Blyth & Co., Inc. and F. S. Moseley & Co. Probable bidders for bonds include: Blyth & Co., Inc. and F. S. Moseley & Co. (jointly); Merrill Lynch, Pierce, Fenner & Beane; Lehman Brothers; Kuhn, Loeb & Co. and Lazard Freres & Co. (jointly); Harriman, Ripley & Co., Inc. and First Boston Corp. (jointly). **Proceeds**—To retire bank loans of $14,625,000, and to pay part of cost of conversion from manufactured to natural gas. Stockholders will vote May 4 on approving financing plans.

Carolina, Clinchfield & Ohio RR.
Feb. 4 reported company planning sale of $3,885,000 mortgage bonds. Probable bidders: Halsey, Stuart & Co. Inc.; First Boston Corp. and Kidder, Peabody & Co. (jointly); Dick & Merle-Smith; R. W. Pressprich & Co.; Harriman Ripley & Co. and Drexel & Co. (jointly). Proceeds to pay notes due to Louisville & Nashville RR.

Celanese Corp. of America
April 12 stockholders will be asked to authorize the creation of 1,000,000 shares of a new preferred stock (par $100), 505,000 shares of which can be issued at any time. Plans are being formulated for the issuance this year, if market conditions are considered satisfactory, of an initial series of this new preferred stock which may be convertible into common stock. Net proceeds would be used in part for expansion of the business, including additional production facilities. Probable underwriters: Dillon, Read & Co. Inc.; Morgan Stanley & Co.

Central Hudson Gas & Electric Co.
March 15 reported that the company may issue $19,100,000 of new securities to provide funds for its 1950-1952 construction program, estimated to cost approximately $24,100,000. Financing may consist of first mortgage bonds and preferred stock. Probable underwriters for bonds: Kidder, Peabody & Co. and Estabrook & Co.

Central Illinois Light Co.
March 10 Commonwealth & Southern Corp. notified SEC it will sell from time to time, during a three months' period commencing March 20 on or off the New York Stock Exchange, its holdings of 7,314 shares of Central Illinois stock.

Central States Electric Corp.
March 1 it was announced that under an amended plan of reorganization it is proposed to issue to holders of all classes of 6% preferred stock for each old share the right to buy a unit consisting of eight shares of new common stock and $14 principal amount of new 4½% income debentures for a package price of $18. The common stock, except for approximately 4,600,000 shares held by Harrison Williams and associates, would be offered the right to buy a unit of one new common share and $1.75 of new income debentures for a package price of $2.25 for each five common shares held. The issue of new stock and debentures would be underwritten by Darien Corp. and a banking group headed by Hemphill Noyes, Graham, Parsons & Co., Shields & Co., Blair, Rollins & Co., Drexel & Co. and Sterling Grace Co.

Chicago & Western Indiana RR.
Jan. 31 reported company will probably issue in the near future some bonds to refund the 4% non-callable consolidated first mortgage bonds due July 1, 1952. Refunding of the first and refunding mortgage 4¼% bonds, series A, due Sept. 1, 1962, is also said to be a possibility. Probable bidders: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co.; Lee Higginson Corp.; Harris, Hall & Co. (Inc.); Drexel & Co.; Kuhn, Loeb & Co. and Salomon Bros. & Hutzler (jointly); Harriman, Ripley & Co., Inc.; First Boston Corp.; Lehman Brothers; Paine, Webber, Jackson & Curtis; Kidder, Peabody & Co.

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● **Cleveland Electric Illuminating Co.**
April 25 stockholders will vote on increasing authorized preferred stock from 500,000 shares to 750,000 shares to provide company with an adequate number of unissued shares and to enable it to sell or exchange such shares, if desirable, under future market conditions. Probable underwriter: Dillon, Read & Co. Inc.

Columbia Gas System, Inc.
April 27 stockholders will vote on reclassifying 500,000 shares of unissued common stock (no par) into 500,000 shares of unissued preferred stock (par $50). They will also vote on a proposal to amend the company's charter so as to permit the public sale of common stock without first making an offering of the shares to its own common stockholders. While it is anticipated that additional equity financing of the construction program will be required in 1950, it has not been determined whether or not part of such requirements should be obtained from the sale of preferred stock. Such determination will be made when the financing "is closer at hand." The company's program currently calls for the sale of $10,000,000 of additional common or preferred stock and $17,000,000 of debentures to finance its expansion program. **Underwriters**—May be named by competitive bidding. Probable bidders for equities: Blyth & Co., Inc.; Shields & Co. and R. W. Pressprich & Co. (jointly); Merrill Lynch, Pierce, Fenner & Beane; Lehman Brothers, Goldman, Sachs & Co. and Union Securities Corp. (jointly); Morgan Stanley & Co. Probable bidders for debentures: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Morgan Stanley & Co.; Lehman Brothers; Merrill Lynch, Pierce, Fenner & Beane.
March 4 it was reported that in case company decides to refund $77,000,000 of outstanding 3⅛s, such operation may also involve retirement of $14,000,000 serials issued under same indenture. Probable bidders: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co.; Lehman Brothers; Salomon Bros. & Hutzler; Merrill Lynch, Pierce, Fenner & Beane.

Commercial Credit Co.
Subject to approval of stockholders on March 30, company plans to sell $25,000,000 of new preferred stock some time next month. A group of underwriters, headed by Kidder, Peabody & Co. and The First Boston Corp., are expected to offer the stock.

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.

Dayton Power & Light Co.
April 13 stockholders will vote on increasing the authorized common stock from 2,000,000 to 4,000,000 shares and on releasing from preemptive rights 50,000 shares of such stock to be sold to officers and employees. It is also planned to offer between 200,000 and 250,000 shares of common stock (first to stockholders) and $7,500,000 preferred stock, probably in May. Probable bidders: Morgan Stanley & Co.; W. E. Hutton & Co.; Lehman Brothers.

● **Delaware, Lackawanna & Western RR. (4/13)**
Bids will be received on or before noon (EST) on April 13 at the office of J. G. Enderlin, Treasurer, Room 2008, 140 Cedar Street, New York 6, N. Y., for the purchase from it of $1,995,000 equipment trust certificates, series J, to be dated April 1, 1950 and to mature in 15 annual instalments of $133,000 each from April 1, 1951 to April 1, 1965, inclusive. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Kidder, Peabody & Co.; Harris, Hall & Co. (Inc.).

● **Duquesne Light Co.**
March 27 announced that company will require $12,500,000 of new money in 1950 to finance this year's construction program, which is temporarily being financed by bank loans.

● **Foster Wheeler Corp.**
March 27, David McCulloch, Vice-Chairman of the Board, announced that an extra 300,000 share authorization to market new stock might be needed at some later date to provide additional working capital to cope with the large volume of business on hand.

● **General Computing Machines Corp., New York**
March 20 it was announced company plans public offering of 100,000 shares of new split-up common stock. **Proceeds**—For production program. **Office**—60 Dey Street, New York, N. Y.

General Public Utilities Corp.
March 13 corporation has received SEC authorization to solicit stockholder approval of a proposed charter amendment which would permit the public offering of any of its stock for cash without according the then existing stockholders prior subscription rights to such stock. The proposal is to be voted upon at the annual meeting to be held May 1, and must obtain the favorable vote of the holders of two-thirds of the company's outstanding shares entitled to vote.

Georgia Power Co.
Feb. 21 company reported to be planning $6,000,000 additional financing before the end of 1950 (in addition to $15,000,000 of bonds soon expected to be offered); $18,000,000 more in 1951 and $16,000,000 more in 1952.

Green Mountain Power Corp.
March 7 amended plan of reorganization filed with SEC provides for sale of approximately 100,000 shares of new common stock for cash to the public through underwriters, subject to prior subscription rights by present preferred stockholders. Exemption from competitive bidding has been requested. **Proceeds**—To retire 4¼% notes and for working capital.

Gulf States Utilities Co.
Feb. 16 reported company may offer $7,500,000 preferred stock and $13,000,000 "new money" bonds in April or May, this year. Probable bidders for bonds: Halsey, Stuart & Co. Inc.; Blair, Rollins & Co., Inc. and Carl M. Loeb, Rhoades & Co. (jointly); The First Boston Corp.; Equitable Securities Corp. and Union Securities Corp. (jointly); Glore, Forgan & Co.; Kidder, Peabody & Co.

● **Idaho Power Co.**
March 23 announced stockholders will vote May 3 on increasing common stock from 900,000 shares to 1,800,000 shares, the additional shares to be reserved for future financing (probably not until 1951).

Interstate Power Co.
May 2 stockholders will vote on authorizing an issue of 250,000 shares of preferred stock (par $25). Company also planning to issue in May or June $8,000,000 of bonds. A group headed by Merrill Lynch, Pierce, Fenner & Beane and Kidder, Peabody & Co. has been formed to bid on the latter issue. Other probable bidders may include: Halsey, Stuart & Co. Inc.; Smith, Barney & Co.; First Boston Corp.

Investors Telephone Co.
March 31 stockholders will vote on approving long-term borrowing of up to $6,000,000, the proceeds to be used to redeem $2,320,500 first lien collateral 3% bonds due 1961, $359,000 first mortgage 3⅛% bonds of Platte Valley Telephone Corp., a subsidiary, and $150,000 of bank loans, with the remainder added to working capital.

Iowa Electric Co.
March 10 reported that early registration with SEC is expected of an offering of about $18,000,000 preferred and common stocks through a negotiated deal. Probable underwriters: First Boston Corp. and G. H. Walker & Co.

Keyes Fibre Co.
March 14 company reported planning issuance of a new preferred stock and redemption of two present preferred issues. Probable underwriter: Coffin & Burr.

Knott Hotels Corp., New York, N. Y.
March 2 the directors authorized discussion with Hayden, Stone & Co. as principal underwriters of a proposed offering of 100,000 shares of new unissued $5 par common stock. Proceeds will be used to reimburse treasury for capital expenditures already made and to increase working capital.

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.; Lehman Brothers.

National Fireproofing Corp.
April 6 debenture and common stockholders will vote on a plan to refinance the $2,636,900 5% income debentures due may 1, 1952, together with interest thereon amounting to $635,790, and provide additional working capital, by issuance of evidence of indebtedness not to exceed $3,500,000. Probable underwriters: Kneeland & Co.; Glover & MacGregor.

New York Central RR.
Feb. 7 reported that offering of $9,000,000 equipment trust certificates is expected early in April. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Harriman Ripley & Co., Inc. and Lehman Brothers (jointly). Expected in April.

New York State Electric & Gas Corp.
Stockholders March 23 approved a proposal to authorize a two-for-one split-up of the common stock, the sale of an additional 800,000 shares of new common stock and 200,000 shares of new serial preferred stock. Company expects to presently offer 272,380 shares of the increased common stock to present common stockholders in ratio of one new for each seven shares held. Proceeds estimated to be between $6,000,000 and $8,000,000, will be used to finance this year's portion of the construction program, which, it is estimated, will cost over $55,800,000 in the next three years. Traditional underwriter: The First Boston Corp. Other probable bidders for preferred issue: Kuhn, Loeb & Co.; W. C. Langley & Co.; Lehman Brothers and Glore, Forgan & Co. (jointly); Harriman Ripley & Co., Inc.; Salomon Bros. & Hutlzer; Kidder, Peabody & Co. and Merrill Lynch, Pierce, Fenner & Beane (jointly). Registration of common stock offering expected about April 7.

Northern Natural Gas Co., Omaha, Neb.
Jan. 20 announced that the company proposes to issue and sell at competitive bidding $40,000,000 of 2¾% 20-year debentures and to sell 304,500 shares of common stock on the basis of one share for eight shares now outstanding, the latter to supply from $9,060,000 to $10,657,500 of new capital. The net proceeds, together with other funds, will be used to finance the company's construction program. Probable bidders for the debentures: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc.; The First Boston Corp.; Kidder, Peabody & Co. Offering of stock expected in May and of bonds in June.

● **Northwestern Public Service Co.**
March 21 it was announced company plans permanent financing for its 1950 construction program, estimated to cost about $1,800,000. Proceeds would be used to retire temporary bank loans which are to be secured by an issue of $600,000 of 3¼% bonds to mature June 1, 1978. Application has been filed with FPC for authority to issue said bonds to the Chase National Bank.

Ohio Edison Co.
Feb. 21 announced company proposes to issue and sell at competitive bidding $52,000,000 of first mortgage bonds due 1980 and to issue additional bonds or borrow $4,200,000 from banks on instalment notes. Probable bidders include: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co.; White, Weld & Co. and Glore, Forgan & Co. and Union Securities Corp. (jointly); First Boston Corp. Proceeds would be used to redeeming all outstanding first mortgage bonds and serial notes of Ohio Public Service Co.

● **Oklahoma Gas & Electric Co.**
March 28 it was reported company may issue in May $17,500,000 in new bonds. The proceeds would be used to retire $7,500,000 of 3¼% bonds and the balance for construction costs. Probable bidders: Merrill Lynch, Pierce, Fenner & Beane; The First Boston Corp.; Halsey, Stuart & Co. Inc.; Lehman Brothers; Equitable Securities Corp.; Harriman Ripley & Co.

● **Pacific Petroleums, Ltd.**
March 27 it was reported that registration with the SEC is expected in about two weeks of a public offering of about 500,000 additional shares of common stock (payable in U. S. currency) by an underwriting group headed by Eastman, Dillon & Co. Proceeds are to be used to expand oil operations in Canada.

● **Pennsylvania Power & Light Co.**
April 17 stockholders will vote on authorizing 100,000 additional shares of series prefgerred stock and 12,000 additional shares of 4½% preferred stock. Latter issue is to be offered in exchange, share for share, for present outstanding 4½% preferred stock. It is expected not over 75,000 shares of series preferred stock will be sold in late 1950 or early 1951. **Traditional Underwriters**—First Boston Corp.; Drexel & Co. **Proceeds**—To finance balance of 1950 construction program.

● **Pennsylvania RR. (4/11)**
Bids for the purchase of the company of $10,110,000 equipment trust certificates, series Z, to mature $674,000 annually from April 1, 1951-1965, inclusive, will be received up to noon (EST) on April 11 at the office of George H. Pabst, Jr., Vice-President, at Room 1811, Broad Street Station Building, Philadelphia 4, Pa. This will constitute the first instalment of an aggregate of not exceeding $20,115,000 of such certificates, series Z. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Harriman Ripley & Co., Inc. and Lehman Brothers (jointly).

● **Pfizer (Chas.) & Co.**
April 3 stockholders will vote on increasing authorized common to 2,000,000 shares from 1,500,000 shares. It is not planned to sell any of the additional shares at present. Traditional underwriter: F. Eberstadt & Co.

Philip Morris & Co. Ltd., Inc.
March 20 directors authorized officers to develop plans for public financing of $25,000,000 to $30,000,000, part of which might be in the form of additional common stock. Traditional underwriter: Lehman Brothers.

● **Phillips Petroleum Co.**
March 28, K. S. Adams, President, indicated that the company may replace its $85,142,357 of bank debt (of which $10,423,211 falls due in 1950) with permanent financing, which may take the form either of bonds or a convertible debenture issue.

Public Service Electric & Gas Co.
April 17 stockholders will vote on issuance of $90,000,000 new bonds for the purpose of refunding $50,000,000 3⅛% bonds due 1965; $10,000,000 3¼% bonds due 1968; $15,000,000 3% bonds due 1970 and $15,000,000 bonds due 1972.

● **Reading Co. (4/12)**
Bids for the purchase from company of $3,810,000 equipment trust certificates, series R, will be received at or before noon (EST) on April 12 at the office of R. W. Brown, President, Room 423, Reading Terminal, Philadelphia 1, Pa. The certificates are to be dated April 15, 1950, and to mature serially in semi-annual instalments of $127,000 each from Oct. 1, 1950 to April 15, 1965, inclusive. Probable bidders: Halsey, Stuart & Co. Inc.; Lee Higginson Corp.; Salomon Bros. & Hutzler; Kidder, Peabody & Co.; Harriman Ripley & Co., Inc. and Lehman Brothers (jointly); Harris, Hall & Co. (Inc.).

Rochester Gas & Electric Corp.
March 17 company reported to be planning issuance some time this year of about $7,000,000 new securities (probably bonds and preferred stock). Probable bidders for both issues: First Boston Corp.; Salomon Bros. & Hutzler; Harriman Ripley & Co., Inc.; Lehman Brothers; Carl M. Loeb, Rhoades & Co.; Union Securities Corp. and Equitable Securities Corp. (jointly). Probable bidders also for bonds: Halsey, Stuart & Co. Inc.

● **St. Louis-San Francisco Ry. (4/12)**
March 28 company reported planning issuance of $2,250,000 equipment trust certificates, series F, about April 12. Probable bidders: Halsey, Stuart & Co. Inc.; Harris, Hall & Co. (Inc.); Harriman Ripley & Co., Inc. and Lehman Brothers (jointly); Salomon Bros. & Hutzler.

Schering Corp.
Jan. 26 announced the Alien Property Custodian is preparing to offer at competitive bidding 440,000 shares of common stock (total issue outstanding) late in March or early in April. Registration with the SEC expected shortly. Probable bidders: A. G. Becker & Co. (Inc.), Union Securities Corp. and Ladenburg, Thalmann & Co. (jointly); Merrill Lynch, Pierce, Fenner & Beane; Kidder, Peabody & Co.; F. Eberstadt & Co.; Allen & Co.

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Seaboard Air Line RR.
Feb. 7 directors appointed a committee to proceed with the refunding of the approximately $31,800,000 outstanding first mortgage bonds, provided satisfactory terms could be arranged. Probable bidders include Halsey, Stuart & Co. Inc.; Kuhn, Loeb & Co.; Lehman Brothers; First Boston Corp. and Harriman Ripley & Co. (jointly); Union Securities Corp.

Southern California Edison Co.
March 3 it was reported that company expects to issue this summer $55,000,000 of bonds. Probable bidders: The First Boston Corp. and Harris, Hall & Co. (Inc.) (jointly); Halsey, Stuart & Co. Inc.; Blyth & Co., Inc.; Shields & Co. Proceeds would be used to refund $30,000,000 3¼% bonds and for construction costs.

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.
Feb. 16 directors approved (and on March 16 by ICC) the offer to stockholders of record March 10, 1950, of the privilege to subscribe, at par, on or before March 31, 1950, for $37,727,600 of convertible debentures, due April 1, 1960, convertible into common stock at $55 per share. Underwriters—Blyth & Co. Inc. and Salomon Bros. & Hutzler and associates, awarded the issue on March 9, named a 3% coupon and $735,688.20 as underwriting compensation to be paid by company.

● **Southwestern Associated Telephone Co.**
March 27 company announced plans to sell to the public 16,500 shares of preferred stock (no par).

Spencer Chemical Co.
March 10 company reported planning issue in April of 200,000 shares of common stock with Glore, Forgan & Co. and Kidder, Peabody & Co. as underwriters.

Texas & Pacific Ry.
March 21 directors approved purchase of 13 additional Diesel-electric locomotives (to cost approximately $3,500,000), to be financed largely by equipment trust certificates (expected to total around $2,400,000). Probable bidders: Halsey, Stuart & Co. Inc.; Lee Higginson Corp.; Kidder, Peabody & Co.; Salomon Bros. & Hutzler; Harriman Ripley & Co., Inc.; Harris, Hall & Co. (Inc.); Blair & Co., Inc., L. F. Rothschild & Co. and Schoellkopf, Hutton & Pomeroy, Inc. (jointly); Bankers Trust Co., New York.

● **Thompson Products, Inc., Cleveland, Ohiho**
March 28 the stockholders approved a proposal to increase the authorized common stock from 500,000 shares, no par value, to 1,000,000 shares, par $5, in order to provide for a 1.20-to-1 split-up and for future financing, acquisition of property and other puroses. No immediate financing planned. Probable underwriter: Smith, Barney & Co.

● **Transcontinental Gas Pipe Line Corp.**
March 27 it was announced that the company will sell $32,000,000 additional first mortgage pipe line bonds (which may be placed privately) and will borrow $10,000,000 from banks. Proceeds will be used to expand operations.

Utah Fuel Co. (4/10)
The referee will offer at public auction at 11 a.m. on April 10 all of the 100,000 outstanding shares of stock of this corporation at the Guaranty Trust Co. of New York, 140 Broadway, New York. Business—Mining of coal in Utah and Colorado and manufacturing of coke in Utah and sale of said products.

● **Utah Power & Light Co.**
March 28 G. M. Gadsby, President, reports company plans late this year to sell $10,000,000 of bonds, plus an additional like amount in 1951, together with 150,000 additional common shares in the latter year and 165,000 shares in 1952, the proceeds to meet construction costs. Probable bidders for bonds: Halsey, Stuart & Co. Inc.; Drexel & Co.; Harriman Ripley & Co., Inc. and Union Securities Corp. (jointly); Kidder, Peabody & Co.; White, Weld & Co.; Lehman Brothers; Carl M. Loeb, Rhoades & Co.

● **Virginia Electric & Power Co.**
March 27 it was reported that company may issue next fall $20,000,000 of "new money bonds." Probable bidders: Halsey, Stuart & Co. Inc.; Union Securities Corp.; Kuhn, Loeb & Co.; White, Weld & Co.; Stone & Webster Securities Corp.; Salomon Bros. & Hutzler.

West Coast Transmission Co., Ltd.
Feb. 10 reported that Eastman, Dillon & Co. and the First Boston Corp. were ready to underwrite the financing of the 1,400 mile pipe line proposed by the West Coast Transmission Corp., along with Nesbitt, Thomson & Co., Ltd., of Montreal, Canada, and Wood, Gundy & Co. of Toronto, Canada. The financing would be divided 75% to bonds and the remainder to preferred and common stock. A large amount of the bonds are expected to be taken by life insurance companies. Arrangements will be made to place in Canada part of the securities. It is expected an American corporation will be formed to construct and operate the American end of the line in Washington, Oregon and California. The completed line, it was announced, will cost about $175,000,000.

Wheeling & Lake Erie Ry. (4/5)
March 9 announced company plans to issue and sell $4,000,000 bonds early next month to refund a like amount of bank loans. Underwriters—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; First Boston Corp. and Kidder, Peabody & Co. (jointly); Salomon Bros. & Hutzler; Lehman Brothers; Harriman Ripley & Co. Inc. Expected April 5.

White (S. S.) Dental Mfg. Co. (4/19)
Feb. 2 announced stockholders will vote April 4 on increasing the authorized capital stock (par $20) from 300,000 to 450,000 shares. The company plans a 5% stock dividend, the offering for sale to stockholders of 29,891 shares on a 1-for-10 basis, and an offering of 20,000 shares for subscription by employees. Underwriter—Drexel & Co. Expected April 19.

● **Wisconsin Electric Power Co.**
March 23 reported company plans to issue $25,000,000 of bonds. Probable bidders: Halsey, Stuart & Co. Inc.; Glore, Forgan & Co. and Equitable Securities Corp. (jointly); Lehman Brothers and Salomon Bros. & Hutzler (jointly); Merrill Lynch, Pierce, Fenner & Beane; First Boston Corp.; Union Securities Corp. and Harriman Ripley & Co., Inc. Proceeds—About one-half for refunding and remainder for new construction. Expected early in June.

Equitable Gas Com. Stock Marketed by Underwriting Group

2,000,000 shares offered at $24.25 per share, thereby bringing ownership of utility into public hands.

Equity financing amounting to $48,500,000 was undertaken on March 28 with the public offering of 2,000,000 shares of Equitable Gas Company common stock. At the conclusion of this financing the company will be a publicly owned operating utility. The stock is priced at $24.25 per share and is being sold for the account of Philadelphia Company in compliance with a divestment order of the Securities and Exchange Commission under the Public Utility Holding Company Act of 1935. Kidder, Peabody & Co.; Merrill Lynch, Pierce, Fenner & Beane and White, Weld & Co. are joint managers of a group of investment banking firms which is making the offering.

The current financing is the final step in a program initiated in 1947 for the reorganization of the natural gas properties in the holding company system of Philadelphia Company, and as a means of facilitating compliance by Philadelphia Company with the SEC order. Philadelphia Company has transferred its ownership of the entire common stocks of Pittsburgh and West Virginia Gas Company and Kentucky West Virginia Gas Company to Equitable Gas Company. The resulting three-company system will be engaged in the purchase, production, transmission, storage, distribution and sale of natural gas.

Capitalization of Equitable Gas to be outstanding at the conclusion of the financing consists of $31,080,000 of funded debt; $3,000,000 of 2.80% instalment bank loans, and 2,000,000 shares of common stock, $8.50 par value.

It is the intention of Equitable Gas Company, according to the prospectus, to establish regular quarterly dividend payment dates on March 1, June 1, Sept. 1 and Dec. 1 with the declaration necessarily dependent upon earnings, cash position and other relevant factors. On March 21, 1950, the board of directors of the company declared a quarterly dividend of 32½ cents per share on the common stock, payable June 1, 1950, to stockholders of record May 10, 1950.

Our Reporter's Report

Investment bankers are inclined to be a little more sanguine on the outlook for debt securities now that the pressure on Treasury bonds appears to be subsiding somewhat.

Belief now is that the Treasury will undertake its next piece of new financing during the coming month and that very likely the terms will be made known within a fortnight or so.

Once this operation is out of the way the markets, both seasoned and new issue, are expected to be looking up. The steady open market pressure on Treasuries since the turn of the year has not been making it any easier for underwriters.

The effect of this operation by the money managers has been most pronounced, of course, on the municipal and quasi-government markets. The World Bank's flotation was a case in point, though this issue is reported to be moving gradually since the termination of the syndicate.

Things took on a better coloring this week with investor demand asserting itself strongly, particularly in the new issue market around mid-week. Bidding for a run of corporates and the Puerto Rican issue brought out plenty of competition.

And reoffering, notably of the corporate issues involved, disclosed a much more lively interest on the part of buyers than had been the case in recent weeks.

Burlington's Issue Moves

Despite the rather wide gap between the bids of the winning group, 99.53 for a 3% coupon and that of the runners-up, 98.529 for the same rate, Chicago, Burlington & Quincy R.R.'s $25,000,000 of new first mortgage bonds found a ready reception.

A third bid trailed the winner by a full 1⅜ points. However, close pricing for reoffering of the bonds appeared to offset this particular angle. Moreover, being a railroad issue, this undertaking afforded investors an opportunity for a little diversification, something that has not been too frequent of late.

At any rate repriced at 100 for an indicated working margin of only about $4.70 a bond, the issue was taken quickly with several big insurance companies and a number of New York and Philadelphia savings banks reported on the buying side.

Equitable Gas Co. Stock

Involving a turnover of $48,500,000, the public offering of 2,000,000 shares of common stock of Equitable Gas Co. found investors showing a lively interest at the set price of 24¼ a share.

Underwriters and dealers participating in this distribution had been carefully familiarized with their merchandise in this instance, through a series of pre-offering sessions attended by company officials.

The end of the first day brought reports that about 80% of the total had been sold, with the balance in strong hands and unlikely to move below the syndicate price.

This stock was sold by the Philadelphia Co., subsidiary of Standard Gas & Electric under an SEC divestment order.

Nor. Indiana Public Service

Northern Indiana Public Service Co.'s $12,000,000 of new first mortgage, 30-year bonds, brought out a host of bids, ranging from the winning tender of 102.229 for a 2⅞% coupon down to 101.347 for the same rate. The runners-up in a field of eight bid 102.1932.

Priced for reoffering at 102.542 to yield 2.75%, reports in dealers' circles were that this was destined to be another fast operation.

Next Week Busy

Next week promises to provide enough business to keep bankers and their dealer affiliates busy and happy. True the bulk of the business will involve senior and junior equities. But then the majority of these impending undertakings were of the negotiated variety and, to that extent, the more appetizing.

The only sizable bond deal up for bids, to be opened on Tuesday, involved $15,000,000 of securities for Georgia Power Co. And with at least six bids indicated, this looked like an issue that would bring out the competition.

The stock issues, all in the utility field, indicated the market would face a reasonably good test of its absorption powers.

HELP WANTED

WANTED ASSISTANT TRADER

By New York branch office of out-of-town firm. Box R 330, Commercial & Financial Chronicle, 25 Park Place, New York 8.

DIVIDEND NOTICES

GOODYEAR

DIVIDEND NOTICE

The Board of Directors has declared today the following dividends:

$1.25 per share for the second quarter of 1950 upon the $5 Preferred Stock, payable June 15, 1950 to stockholders of record at the close of business May 15, 1950.

$1.00 per share upon the Common Stock, payable June 15, 1950 to stockholders of record at the close of business May 15, 1950.

The Goodyear Tire & Rubber Co.
By W. D. Shilts, Secretary
Akron, Ohio, March 27, 1950

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 April 1, 1950 to stockholders of record March 21, 1950.

Ross G. Allen
Secretary and Treasurer

DIVIDEND NOTICES

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 May 1, 1950, to stockholders of record on April 11, 1950. The transfer books will not close.

THOS. A. CLARK
March 23, 1950. Treasurer

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Washington . . . And You

Behind-the-Scene Interpretations from the Nation's Capital

WASHINGTON, D. C.—One of the little-noted phases of the President's mass or reorganization schemes was that which, on the face of it, would subject the national banking system to complete political domination.

Among the several plans which the President proposed, in effect, to transfer every departmental power within the agency to the Secretary of the Department and then permit the Secretary, in effect, to delegate that power back to the agency which handles it, was one which would transfer to the Secretary of the Treasury the powers of the Comptroller of the Currency to supervise national banks. This an incidental but real point involved in the reorganization plan relating to the Treasury.

In practice the Comptroller of the Currency is semi-independent within the Treasury. Its examiners and examining policy are left alone by the Treasury. So long as John Snyder is Secretary of the Treasury, it is a safe bet that the national banks will not be monkeyed with by the Treasury or be asked to submit to political policies.

On the other hand if there should be a Treasury Secretary who took his powers literally, should this plan go through, he could certainly try out a lot of ideas on the national banks on how they should lend or invest depositors' money.

As yet it is not known who within the Administration thought up the idea—which is again attributed to the Hoover report—of making it possible for some future Treasury head to mess into bank supervision policy. This may come out later in hearings.

* * *

About the defeat of cooperative housing: This defeat was so decisive that cooperative housing is dead for years to come unless Mr. Truman, in the forthcoming election, can liquidate about 50 conservative members of the House, plus a half dozen conservative Senators.

In the Senate, cooperative housing was defeated by five votes, and in the House, by 63 votes. Conservatives in the House under the leadership of Rep. Jesse P. Wolcott (R., Mich.) took a long chance in defeating, sometimes by narrow margins, every Administration move to "improve" the bill by making it less costly, and hence more palatable. They insisted upon killing the entire section, thereby incurring the maximum effort of the Administration forces.

They won, so it is a complete victory. As a result of taking this chance, they have laid that particular ghost for years and it will walk again only if November, 1950 brings a strong flood tide for the Truman forces in the election.

With public housing, which this same Congress passed last year, it was always complained that the conservatives were thwarting the will of the people by keeping it from the House, although the Senate had passed it a couple of times. With cooperative housing, however, both Houses killed the proposition within a few days of each other.

Leading opponents of cooperative housing attribute the defeat not to the lobby against it by private industry, which was weak compared to the lobby conducted against public housing. The defeat was due to a growing worry about the debt, and the "guarantee of cooperative housing loans did not confuse members into believing that it was not Federal debt creation.

Second, the defeat was due to the overall worry about Socialism. Most opponents agreed that if "cooperative" housing to the tune of either $1 or $2 billion were approved, it would be a matter of less than 10 years before the government was financing housing for all but the "rich," if any rich were left that long.

While the Senate killed cooperative housing it did enact several other radical expansions of government insurance, and direct government loans for GI's, and for housing at universities. How many of these can survive is now being threshed out in conference.

* * *

One of the marvels of this town is that a Congressional subcommittee is conducting an extensive investigation and "it ain't saying nothing to nobody." A subcommittee of the House Expenditures Committee under Rep. Porter Hardy (Dem., Va.) for three months, off and on, has been holding closed hearings on the Rural Electrification Administration, and has not even announced the subject of its REA inquiry. All that Chairman Hardy will say on or off the record is that the subcommittee is about ready to report and that when the report is made public, then everybody can find out what it is about. Scores of REA officials have been seen parading into and out of the inquiry.

* * *

Two "little" bills whose cost eventually would be anything but small, are about to get a favorable report from the House Education and Labor Committee. They are worth keeping an eye upon.

One of these would set up a fund of $600 million to finance local school constructions costs. Half this fund would consist of free gratis grants toward local school construction, and the other $300 million would consist of RFC loans for school construction, loans to run 20 years and cost 2½%.

The other would rather generally have the Federal Government pay for primary and secondary education of children "on certain non-supporting Federally-owned property and for school children residing in localities over-burdened with increased school enrollments resulting from Federal activities in the area."

Both these propositions would enact as permanent law, parts of the war-time Lanham Act, in which the government undertook by one means or another to provide municipal services in areas of congested war production. Localities got used to Federal help during the war. They want to keep it.

Neither of these bills will get much attention from the public generally, until they are about ready for passage. It is probable that neither of them will become law this year.

What gives them significance, however, is that they are logical compromises for the aid to education bill, which seems to be stymied in the House. The teacher-education lobby could concentrate on getting "at least this much" passed, as soon as possible, and save its fire for the big Federal aid to education bill later.

* * *

Here is about what is expected in the way of a highway authorization bill from this Congress: The sum will be $500 million, probably no more. That will be $500 million for each of the two fiscal years commencing July 1 next. Congress is not inclined to give more, despite the feeling that roads have been neglected.

Congress probably will kill the new-fangled idea of setting up a special fund of $70 million or more for especial use in inter-city, key highways, and to be apportioned on a basis of 75% Federal, 25% state contribution. The sentiment seems to be for retaining the old 50-50 formula.

On the other hand, there is a possibility that $150 million per year of the $500 million will be earmarked for the inter-city highways on the 50-50 conventional matching basis, thereby cutting down on the authorizations available for other state numbered, urban, and secondary roads.

Another thing which may pass is the new provision proposing to permit the use by a state of Federal aid highway money to pay bonds sold by a state to finance Federal aid highway construction in anticipation of the 50% Federal contribution. It was explained, however, that while permitting receipts from Federal authorizations to be employed for that purpose, the bonds would in no way be Federally guaranteed, but would depend upon Congress appropriating money to make good on projects already allocated, approved, and constructed.

* * *

With the publication of the Joint Economic Committee's report on "Volume and Stability of Private Investment," last week, it has now become certain that the JEC has departed primarily from any concept of studying broad questions and instead has turned into a vehicle for publicizing one-man shows.

This report is as much Senator O'Mahoney as the Monetary subcommittee report was Senator Douglas. It has got to be that Chairman of JEC subcommittees are granted a special franchise through these subcommittees to conduct special one-man circuses to propound and capitalize their pet ideas and nostrums.

Thus, Senator O'Mahoney, as Chairman of the Investment subcommittee, emphasized throughout the report what has come to be known as the "O'Mahoney fairy tale," not because he invented it, but because he spends so much time riding this idea.

This idea is that government has to be big because business is big. Big government comes only because business is big and government, by some unexplained process, has to match it with bigness.

Senator O'Mahoney loves the private enterprise system, and he means it. He is every bit as convincing as the Wolf, expressing solicitude for Little Red Riding Hood.

Tax reduction is important, and something by golly had better be done about it, the Wyoming Senator believes. However, the government can't cut revenues now because it must maintain domestic prosperity, world prosperity, and world peace. So, the Congress had better get right in there and study the tax problem.

Senator Bob Taft and Rep. Christian Herter of Massachusetts did take time out enough to give a few elementary figures to show that the tax problem has something to do with shortage of equity capital, and to note, incidentally, that the shortage of equity capital affects big as well as little business, something O'Mahoney largely overlooked.

Incidentally, O'Mahoney belittles the complaint of double taxation of corporation income. There is "nothing extraordinary" about it, the corporation income tax being called by him a "franchise tax." If business kicks about the "franchise tax," then why doesn't it go back to the individual and co-partnership way of doing business, the Senator infers.

(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

"Board Room? — My goodness! Are you in the lumber business too?"

Cement Stocks:
Riverside Cement
Spokane Portland Cement
Oregon Portland Cement
Coplay Cement Mfg.
Giant Portland Cement
LERNER & CO.
Investment Securities
10 Post Office Square, Boston 9, Mass.
Telephone HUbbard 2-1990 Teletype BS 69

Walt Disney Productions
"The Cinderella Stock of 1950"
Analysis on Request
Missouri Pacific
General 4s 1975
Convertible 5¼s 1949
Common A and Pfd.—When Issued
BATKIN & CO.
30 Broad Street, New York 4
Tel. WH 3-3388 Tele. NY 1-1965

HAnover 2-0050 Teletype—NY 1-971
Firm Trading Markets
FOREIGN SECURITIES
All Issues
CARL MARKS & CO. INC.
FOREIGN SECURITIES SPECIALISTS
50 Broad Street New York 4, N. Y.

Southern New England Telephone
Stock and Rights
Hill, Thompson & Co., Inc.
Trading Department
120 BROADWAY, N. Y. 5
Tel. REctor 2-2020

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