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EDITORIAL

As We See It

That Bogey of Unemployment

There has been a disposition for some time past in some quarters to get into a dither over the possibility of mounting unemployment. As against 10 or 12 million unemployed during the darkest days of the great depression of the early and middle 1930's, and against a million or two less after a half decade of New Deal effort to relieve the situation, the unemployment figure is now creeping up toward something like half the latter amount. The memory of the difficulties of obtaining work during most of the time from about 1931 or 1932, until World War II altered the basic nature of the situation, still lingers poignantly in the minds of hundreds of thousands, even millions of the people of this country — thanks to the hardships then endured and to the assiduity of politicians in keeping these things fresh in the minds of the voters.

It is, accordingly, natural enough that the politicians now in office shiver a little at the thought of an upward trend of unemployment continuing for the next few years. It accounts in substantial part for the continuous talk about the necessity of an "expanding economy," and about measures insuring growth of "job opportunity" in the years to come. In point of fact, politicians and seekers after political preferment have for a good while past been earnestly endeavoring to make political capital of these "dangers" which lie ahead and against which they and their party alone know how to defend us. It is, of course, not difficult to demonstrate that with a growing popu-

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Prevalent Stock Market Misconceptions

By LUCIEN O. HOOPER*

Market Analyst, W. E. Hutton & Co., Members N. Y. S. E.
Former President, National Federation of Financial Analysts Societies

Prominent writer of stock market literature discourages cyclical approach to investment problems, asserts political factors always overstressed, and points out limitations of charts and systems. Finds level of stock prices is lower than averages suggest. Urges commitments based on fundamental investment value, and holds most investors overstress price fluctuations.

I have chosen the text, or subject, "Solving the Mysteries of the Stock Market" for good reasons. In the first place, this subject is vague and allows me to talk about anything. In the second place, it is an attractive text, and that leads you to come and hear me talk.

L. O. Hooper

I am an analyst, and I write popular financial literature, stuff that perishes with the using. Sometimes it is right, and sometimes it is not so good. But I hope that above all, it will be entertaining and helpful, and make a contribution to contemporary thought.

I would like tonight to push aside the veil of mystery, and talk about some of the fundamentals with which the analyst, or the commentator, has to contend as he prepares these emanations of wisdom, or quasi-wisdom.

I am going to be very frank. Perhaps I may be disillusioning, but I am going to be wholesome and honest as I talk to you about this problem of solving the mysteries of the stock market.

In the first place, I would like to have you bear with me for a moment while I ask you to consider with me

*Special transcript of address by Mr. Hooper before the Boston Investment Club, Boston, Mass., March 29, 1950.

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Our Paper-ized Economy

By MELCHIOR PALYI

Economist observes change in psychological climate toward money—from gold to paper—was gradual process, and attributable to public's acquiescence and nonrealization of transition from the golden calf to the paper calf. Urges citizens to concentrate political efforts toward "thinking in gold" with restoration of automatic gold coin standard and an "over-balanced" budget.

Preliminary Note

Apparently—this article deals with a topic of no immediate practical relevance. But I believe that the subject is of utmost importance to businessmen and investors, the more so since it seldom is being faced squarely. If we want to know where we are heading — what the chances are for a return to rational normalcy (or normal rationality)—or what is to be done about it—the stark realities of the situation have to be understood.

Dr. Melchior Palyi

The more economists there are around—and who by this time is not an economist?—the less interest there seems to be in the truly significant problems of economics. The simplest "facts of life" escape attention. How many of us pay attention to the fact, or even realize, that in our own lifetime the most momentous upheaval in monetary thinking has taken place? That the whole structure of public policies which tend to revolutionize the economic system all started with, are based on, and follow with iron logic from, a **fundamental shift or twist in the concept of money**—of a dollar.

The Meaning of the Dollar Sign

Let us begin at the beginning. Just what does the Dollar Sign stand for? The one on your bank account or bond means that if you so wish, the bank or the U. S. Treasury has to give you in exchange $1 in currency. That boils it down to a piece of paper, called a note, which in turn is "redeemable." A $10 Federal Reserve Note carries the imprint, "This Note Is Redeemable in Lawful Money." But lawful money (legal tender) consists of notes. Thus, our $10 note is convertible into

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CORPORATE FINANCING IN PROSPECT—For a complete analysis of new corporate issues scheduled to reach the market, see our "Securities in Registration" department on page 50.

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

Lockheed Aircraft Corporation—Selig Altschul, Independent Aviation Consultant, N. Y. City.

Masonite Corporation—R. F. Newman, Investment Counsel, Milwaukee, Wis.

New York, New Haven & Hartford Series A Convertible 4½s of 2022—Winfried H. Oppenheimer, Partner, Oppenheimer, Vanden Broeck & Co., N. Y. C.

Madison Square Garden Corp.—Robert L. Scheinman, Ralph E. Samuel & Co., New York City.

United Carbon Corp.—George F. Shaskan, Jr., Partner, Shaskan & Co., New York City.

SELIG ALTSCHUL
Independent Aviation Consultant
(Lockheed Aircraft Corp.)


Selig Altschul

The aircraft industry is currently in a strategic position with sustained productions levels virtually guaranteed for key segments during the next few years. Further, any intensification of the international situation is likely to accelerate and augment aircraft procurement programs.

Among the companies favorably situated in this respect is Lockheed Aircraft Corp. The company has made long recovery strides during recent years. Its former cumbersome inventory position has been cured and heavy bank indebtedness completely eliminated. At the 1946 year-end, Lockheed was in debt to the tune of $40 million. By prepaying $6 million remaining on the notes extending to July, 1951, the company liquidated its entire debt late in 1949.

In recent years, Lockheed's earnings have demonstrated considerable stability. For 1949, the company showed a net profit of $5,491,000, equal to $5.10 per share. This compared with $6,239,000 or $5.80 per share for 1948. However, during 1948, the carry-forward tax credits resulted in a net saving of about $2,800,000 in taxes to the company. Similarly, during 1949 the company picked up in earnings, tax adjustments belonging to previous years, and amounting to $1,155,988 or $1.07 per share.

The interesting aspect in the Lockheed picture is the well-defined production outlook, ranging well into 1951. With a total backlog of $229,746,000 at the 1949 year-end, 1950 sales and billings are likely to show a sharp increase over 1949 sales of $117,667,000. The company is unique in that about 21% of its total backlog is represented by commercial orders for its Constellation series. This amounts to about 48% of the entire industry's commercial orders as reported to the U. S. Bureau of Census at the 1949 year-end. Commercial business, once the original development cost is completely amortized, carries with it much higher profit margins than prevail for military bookings.

Listed unobstrusively in the company's recent annual report but publicly for the first time, is the receipt of an order for 45 additional P2V search-patrol planes assuring the company a steady production schedule until the fall of 1951 on this model. The F-94 series of jet all-weather fighter planes is also booked steady throughout 1951. The jet military trainers, designated T33A and TO2, are scheduled for a steady rate of output for the first half of this year and at a reduced rate thereafter into the fall of 1951.

It is this steady flow of production of given series of planes which is conducive to efficient and economical operations, advantageous to the government in lower costs and desirable to the company because of greater profit incentive. Nearly all of Lockheed's military business received last year was under the so-called "target-type" contract. This type of contract provides the management with a strong incentive to cut costs by placing a premium on improved efficiency.

Dividends paid during 1949, amounting to $2 per share, while up from the $1.50 per share disbursed during 1948, were less than 40% of reported earnings. With the heavy debt retirement program completed, it is conceivable that with increased sales and earnings prevailing for 1950, there will be strong pressures for increased dividend payments this year.

The coming form of turbo-prop and jet development of commercial transports are merely continuing manifestations of the constantly changing aspects of the aviation industry which dictate close surveillance of any investment commitment in the group.

R. F. NEWMAN
Investment Counsel, Milwaukee, Wis.
(Masonite Corporation)


R. F. Newman

The selection of Masonite Corporation common (59) as the security I like best is hedged by the belief that there is no perfect investment. The investor holding United States Government Bonds since 1940 has been injured, although the number of dollars of his principal remains the same. Masonite Common is attractive to the investor with a substantial diversified portfolio for the following reasons:

Masonite Corporation, a leading manufacturer of hardboard, was incorporated under the laws of the State of Delaware in September, 1925 under the name of Mason Fibre Company. In March, 1928, its name was changed to Masonite Corporation. The principal products and the processes for manufacture were invented by the late William H. Mason, who enlisted the financial assistance of wealthy and successful residents of Wausau, Wis. Shortly after incorporation, the principal manufacturing plant of the company was located at Laurel, Miss., near to large timberland holdings adaptable to the process. Principal hardboard products of the company are produced and sold under the names Masonite Wallboard, Pressdwood, Tempered Pressdwood, Presdwood Temprtile, Masonite Loftingboard and others, certain of which are registered as trademarks in the United States Patent Office. These various products are stated by the company of to be "The wonder wood of 1,000 uses." Applications to offices, public buildings, stores, kitchens, bathrooms, living quarters and many types of exteriors are almost innumerable. There are certain farm applications such as silos, grain bins, barns, chicken shelters and the like. Increasing industrial uses are being found. Appearance, durability and price are important factors aiding the continually increasing sales of various company products.

Sales in 1929 exceeded $2,100,000, with net earnings of $316,000 after preferred stock dividends of $94,000. Net earnings increased to $1,000,000 in 1935 and $1,600,000 in 1937. Net earnings of $1,000,000 were reported in the relatively bad industrial year 1938. In 1941, sales reached the $13,000,000 level, with net earnings of 1,900,000. A poor tax base restricted earnings during the war years. The year 1948 saw a level of not quite $37,000,000 attained, with net earnings of $7,000,000. Percentage of net earnings to sales has changed very little. Accordingly, sales of $50,000,000 to $60,000,000 in 1951 to 1953 would seem to forecast earnings of $13 to $15 per share.

Property account of not quite $2,000,000 was little changed from 1929 to 1937. A small increase was shown from 1937 through the war years but the big expansion has taken place since 1945, depreciated plant and equipment account having increased almost $12,000,000 during that period to $17,500,000.

As to the capital structure, common stockholders invested $600,000 in the common in 1929; perhaps $400,000 had been invested previously. Preferred stock and bonds at the end of 1930 totalled $2,347,700; therefore, a considerable leverage existed. From 1930 to 1937, the bonds were paid off and working capital increased from $1,000,000 to $2,300,000. Preferred stock was increased to $3,500,000 in 1941 and the rate reduced to 4½% but, by the latter year, net worth totalled $5,500,000. Shortly after the war, this preferred stock was eliminated and, for three years, common stock provided the only capitalization. In 1944, sale of 60,000 shares for acsh produced about $2,250,000 and, in 1948, 75,276 shares were given in payment for the Marsh Wood Products Company, a company engaged in the business of decorating Masonite Duolux hardboard, with the trade name "Marlite." Marlite plastic-finished panels are of great beauty and durability for ceilings and walls. It seems fair to say that, of the present net worth of $25,000,000, about $19,000,000 has resulted from reinvested earnings. Last reported book value per share was $37.48, contrasted with $1 per share in 1933. Expansion since the war was partially financed through a $5,000,000 3% loan to the Equitable in 1948 and a timber loan of $900,000 at 2½% in part payment for the California property. The present ratio of debt to net worth (one to four) is conservative.

Average price increase of Masonite products since 1939 is about 30%, contrasted with almost 100% in the average of all other building products. Masonite has a substantial investment in affiliated companies in Canada, Australia and the Union of South Africa. Important earnings from these sources may be reflected in Masonite figures for 1951 or 1952. An important new plant in California, aimed to serve eight Western States, should be in operation this summer and be a factor in sales and earnings by the 1951 fiscal year.

Employee relations are quite good and the attitude of the man-

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Wartime Savings Provide Strong Cushion for Continued Prosperity

By ARNO H. JOHNSON*

Vice-President and Director of Media and Research, J. Walter Thompson, New York

Mr. Johnson holds large volume of maturing Savings Bonds will stabilize nation's purchasing power. Maintains basic economic changes since 1940 in country's productivity and real purchasing power indicate that with small effort we can continue advancing our prosperity.

Arno H. Johnson

Some basic changes have taken place in our economy since before the war that must be taken into consideration before allowing ourselves to be stampeded into any belief that serious depression is inevitable or that unemployment must become a problem beyond the solution offered by expanding markets and a higher standard of living.

These changes have to do primarily with our increased population and its changed character in relation to age distribution and participation in the labor force; with our increased ability to produce; with the increased real purchasing power of our population; and with the opportunity for a substantial further increase in the standard of living of our people.

Huge Savings Backlog

An important factor influencing the stability of our purchasing power is the huge backlog of accumulated savings. Of particular importance from now on is the large volume of U. S. Savings Bonds held by the mass of our population which are beginning to mature in rapidly increasing amounts.

For the last 6 years we have been bombarded constantly with predictions of an imminent postwar depression with heavy unemployment—usually just about 6 months in the future.

In the face of all these predictions and in spite of hampering strikes such as those in the basic industries, coal and steel, the total disposable personal income after taxes reached an all time yearly high of $191.2 billion in 1949.

Likewise, the *real* purchasing power of our population after full correction for both taxes and increased prices was at the highest level in postwar in 1949, and so were total personal consumption expenditures for all goods and services.

Present High Income Level

This present high level of national income, which now stands at over 2½ times our most prosperous prewar years of 1929 or 1940 and over 5½ times the depression low of 1933, is a basic challenge to business and to government to encourage, and to work vigorously for, a *higher standard of living* for the American people. Only an advancing standard of living can provide the markets for our increasing ability to produce, or can provide employment at satisfactory wages for our growing labor force.

A conservative goal for 1950 based on present production and employment would provide over $200 billion of disposable personal income after taxes. With $200 billion of disposable income in 1950, the *real purchasing power* of the American people after correction for present prices would exceed prewar 1940 by 60% and 1949 by over 6%. Personal consumption expenditures for all goods and services could reach $188 billion or about $10 billion greater than 1949—an increase of over 6% in the immediate 1950 potential for increased standards of living. And personal savings could continue to accumulate at an annual rate of $12 billion—over 4 times as fast as in 1940.

Disposable Income, Consumer Expenditures & Real Purchasing Power

	Disposable Personal Income After taxes (Billions)	Personal Consumption Expenditures (Billions)	Consumer Price Index (1940=100)	Real Purchasing Power In 1940 Dollars (Billions)
1929 Pre depression high	$82.5	$78.8	122	$67.6
1933 Depression low	45.1	46.3	92	48.8
1940 Last prewar year	75.7	72.0	100	75.7
1948	190.8	178.8	171	111.8
1949	191.2	179.4	169	113.2
1950 Goal	200.0	188.0	165	121.2

This is in no sense a prediction of events to come in 1950 or 1951—but any unemotional analysis of the basic changes that have taken place since 1940 in our national productivity and real purchasing power will indicate quite clearly that it will be possible to maintain our high level of production and employment and to advance further our standard of living if only we will make the small additional effort needed to create the demand.

The fundamental elements of our high purchasing power and high productive ability still exist as they never did in our prewar history and justify the belief that

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*An address by Mr. Johnson before March, 1950 Savings Bond Conference, Treasury Dept., U. S. Savings Bonds Division, March 29, 1950.

Investment Trust Securities in The American Fiduciary Field

By MAYO ADAMS SHATTUCK*

Director, Boston Fund, Inc.
Former President, Massachusetts Bar Association

Mr. Shattuck maintains under present politic-economic trends, aggregate wealth is being more widely spread, problems of family's capital management becoming more pressing, diversification ever more important and various media for diversified investment growing more valuable. Hence accumulated fiduciary accounts must be managed with greater imagination and flexibility—and certainly ancient restrictions on trustees' powers must be removed, and their purchase of investment company securities legitimized.

My job, on this pleasant occasion, is to try to portray the opportunity for investment company securities in the American fiduciary field. That field, I am sure you realize, is not limited to the classic trusts which have for generations been set forth in wills of decedents and in formal indentures. It includes, also, an enormous number of related companions of a relatively informal and very modern nature. A transaction may be said to be fiduciary in nature if it possesses one central characteristic, i.e.: that some person, or corporation, or committee, or board, is charged with the custody and management of some other person's money, for some specified purpose; whether the purpose is charitable or public or strictly private in nature.

Mayo A. Shattuck

No Clear-Cut Classification

There is no satisfactory way to classify or categorize these fiduciary transactions. Distinctions are often drawn, for example, between charitable trusts, on the one hand, and private trusts on the other. Distinctions have also been drawn between so-called court trusts, like testamentary trusts, on the one hand, and non-court trusts, like life insurance and personal property or real property trusts, on the other hand. Distinctions have also been drawn between the so-called charitable or social or religious corporation, on the one hand, like churches, schools, fraternal orders, library and cemetery associations, and true or express trusts, like the one which your businessman creates for his family or some favored charity. These distinctions are not very important for our purposes: the fact is that in each such arrangement there is a fiduciary function, the management of the property of others on an agency or trust basis, and that what we have to say about the investment powers possessed by these managers, and about the eligibility of investment company shares in those portfolios, is to some degree or other applicable to all of them. To be sure, in our cumbersome and very largely outmoded sets of laws bearing upon these investment powers one may discover various types of standards: one for a church, another for a cemetery association, one for a guardian, another for a trustee, one for a government fund, another for a private fund like a pension or profit sharing fund, and so on. But these labored distinctions and standards are, as we shall see in a moment, pretty much vestigial remains of a disordered past. We must know about them, to be sure, in order to know the degree to which we can be of service in these fields, but we can detect in the Prudent Man Rule, of which I shall speak in a moment, a tide or drift of legal development which we hope may greatly simplify a very confused picture in the forseeable future.

Trust Technique Flexible

One thing I might speak of in passing. The trust form is at once the most flexible and useful of all managerial notions of a legal nature. As Austin Scott has said the use and form of the Anglo Saxon trust is limited only by the imagination of the draftsman, excepting always the very few public policy limitations, like those known to the lawyers as the Rule against Perpetuities and the allied rules effecting restraints upon alienation. English and American legal history show that the trust has been usefully adapted to almost every kind of business and family transaction. Professor Maitland, one of the great English legal scholars, once observed, I think rightly, that the conception of the trust idea, that is, the idea of possession of legal title by a fiduciary to be held and managed for the benefit in equity, or in conscience, of another, is the greatest single invention of the Anglo Saxon legal mind. Of course that invention did not spring full born and full shaped from any one brain, or out of any one situation. Our law is not built that way, thank Heaven. We do things the slow way.

The English Background

I hope I won't bore you if I take a moment to show you, very briefly, how the fiduciary device developed at the English law and if I then indulge in a few comments upon how our social economy and our fiduciary procedures appear to me to be evolving.

When the will and trust were new in England the ancient feudal economy was holding strongly. Money markets and dealings in negotiable securities did not exist. The fiduciary function consisted very largely of a sort of protective holding of some res, as the lawyers call it; as, for example, a farm or other tract of land, and of yielding the produce, whether it was wool or wine or food, to the use of some beneficiary, very often the church. The active functions of the trustee, while managerial in a limited sense, were rudimentary and noncommercial, to say the least. The idea, for example, that a trustee might trade the farm or the trust res for some other thing of value, and thereafter account for the proceeds, didn't begin to occur to anyone until there took place that world shattering series of economic and social changes which we now recognize under the historic term Industrial Revolution. When at last that series of social changes had been completed the theory of trusteeship likewise changed; emphasis shifted from the concept of preservation and protection of the res, to preservation and maintenance of the value of the res. This second theory has been called the Quantum theory; under it the trustee was recognized to have performed his duty rightly and adequately if during the period of his trust he had preserved intact the value calculated in pounds sterling, or in legal tender Troy ounce gold dollars, with which he started his long expedition. With the advent, particularly in the nineteenth century, of every sort of trading market; markets for real estate and produce, bills and notes of hand and, ultimately, participations in business enterprises like shares of stock, the trustee became much more concerned with the preservation of intangible and comparatively liquid wealth than he was with the tangible sort of res of previous centuries—although, of course, in some areas of the United States, particularly the rural districts of New England, one often finds examples of fiduciary administration in both types of property.

The Respect for Property

I do not need to tell you how greatly the art of trusteeship waxed in the golden days of Victoria, both in England and in the United States. The expanding United States of America, through most of the nineteenth century, followed in the footsteps of the Old Country in developing what

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*An address by Mr. Shattuck at 14th Annual Central States Group Conference, Investment Bankers Ass'n of America, Chicago, March 29, 1950.

Final Market Rise Still Ahead

By JACQUES COE

Senior Partner, Jacques Coe & Co.

Investment expert declares even important break now would merely mean interruption before final excited stage of the bull market.

The one certain thing in Wall Street is that the obvious never happens—and the unexpected often does.

During these past two months all security-minded eyes have been focused on the market averages, wondering in what direction they would jump. Clustered for a relatively long period in a well-defined narrow area, the obvious implications were that if they broke out on the down side, we were in for a substantial reaction; conversely if on the up side—a brand new bull market swing would be under way.

Jacques Coe

It is as simple as all that. Just wait for the signal to buy or sell—then jump in and collect the profits.

As a matter of historical fact, more often than not, any "mass" buying on obvious bull or bear signals usually turns out to be unprofitable. When it happens on the bull side, the type of buying which follows the popular bull signal usually exhausts itself very soon thereafter; consequently those people who jump in with the hope of selling out eventually to still more enthusiastic bulls, usually find themselves frozen.

Merely an Interruption

For the first time since last June, 1949 ("Throw Away Those Dark Glasses") we are beginning to suspect that an important interruption in the rising trend may not be too far away. This interruption would mark the end of the second phase before beginning the third or final phase. In one of our previous bulletins, we traced the classical pattern of a bull market, separating it into its various periods of particular market behaviorism.

Briefly, during the first phase discouraged and tired holders are liquidating while far-sighted people are accumulating.

During the second phase the public gradually acquires a belated realization of business improvement.

The third and final phase always turns out to be the most exciting period—with excessive buoyance and with everything going to "500."

Presently, we see nothing in the broad overall picture to warrant either the assumption or the conclusion that the bull market *in its entire aspect* is over or nearly over. In practically all previous bull market culminations, there have been distinguishable (somewhere along the line of the crest) a number of red flags.

The French saying, "The more it changes, the more it remains the same," should be applied to final stages of all bull markets. When we finally reach the top of this market, there will be many logical arguments to the effect that "this time everything is different," hence the market is bound to go much higher.

Portents of Future Troubled

This is the time when one should be guided by certain technical signals which have proven useful in the past—indications which reflect the weakness or strength of the internal structure. Here are some:

(a) Unusually high volume averaging in excess of 3,000,000 shares daily for several months.

(b) Substantial increase in customers' debit balances.

(c) A 40% to 50% *reduction* in the average short interest (which right now is still at its peak).

(d) A declining tendency for bond prices. The Dow Jones 40 bond figure has been around 101¾ to 102 for the last few months. If breaking below 101, it would cause concern.

(e) A cyclical period in the stock market based on the 41-44-month "formula." (Often referred to in previous bulletins.) July, 1950, is the median month, and historically, a top could be five months early or five months late, so that either we could already be in the high period zone or it could also run as long as November, 1950. Nevertheless, broadly speaking, we are in the danger zone.

(f) Our own "Index of Confidence" is a calculated relationship between certain speculative and investment stocks. According to a moving average formula, this index could be turning down some time in June or July.

(g) As a matter of historical record, the motor shares over a broad period of time have a habit of making their average highs and lows from three to four months *ahead* of the overall market averages. At this writing, the market averages have continued their advance, but the motors made their high around the middle of February, so that if the motor group fails to make a new high between now and the middle of June, one of the most significant red flags will be waving the danger signal of "look out below."

The $64 question really is whether the coming interruption is going to be major or minor. With the data at our disposal, we ought to be able to make a pretty good guess, but in the meantime a little selling here and there should not do any harm.

Modified Frear Bill Offered by Flanders

Senator Ralph E. Flanders, Republican of Vermont, on March 29 offered a substitute amendment to the Frear Bill to a subcommittee of the Senate Committee on Banking and Currency. This comprises a milder substitute for the pending legislation sponsored by the Securities and Exchange Commission which would have brought under its regulatory powers all firms having assets of more than $3 million or 300 stockholders.

Ralph E. Flanders

The new Flanders proposal would require all corporations, irrespective of size, to send out once every 12 months "a statement in sufficient detail to enable all stockholders to ascertain the true financial condition of such corporation at a time not more than 90 days prior to the date of the mailing of such statement."

Senator Flanders' proposal also would make it unlawful to solicit a proxy "unless the solicitation is accompanied by a statement in sufficient detail to enable the person whose proxy, consent, or authorization is solicited to ascertain the true financial condition of such corporation as of a date not more than 90 days prior to the date such solicitation is made; or knowingly to include in any such statement any false, inaccurate, or misleading matter or information or to omit from such statement any matter or information the effect of the omission of which is to render such statement inaccurate or misleading."

Senator Flanders explained the purposes of his action as follows:

"I offered the substitute because it seemed to me that the abuses instanced by the SEC lay almost entirely in lack of information provided stockholders. The amendment aims to assure that stockholders will be provided with information as to the financial status of a company by Federal statute enforceable in Federal courts. It will not be necessary to legislate any extension of bureaucratic government for that purpose."

Joins H. L. Emerson

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, OHIO—John T. Mack is now associated with H. L. Emerson & Co., Inc., Union Commerce Building, members of the Midwest Stock Exchange.

McDonald Co. Adds

(Special to THE FINANCIAL CHRONICLE)

COLUMBUS, OHIO—Harold B. Hackett has become associated with McDonald & Co., 50 West Broad Street.

The State of Trade and Industry

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

There was virtually no change in aggregate industrial output for the nation last week when compared with the figures for the preceding period.

Production of soft coal mined the previous week approximated about four times the tonnage dug during a strike in the similar week in 1949, which resulted in overall industrial production rising moderately above that for the corresponding 1949 week.

With respect to employment figures, continued and initial claims for unemployment show a slight drop in the week ended March 18.

However, the adverse effects of higher prices of coal, both soft and hard, as a result of the industry's new wage agreement on employment are now being felt.

According to latest reports, close to 3,000 miners in the Pennsylvania coal fields have been made idle through the closing of high-cost coal mines in the four weeks since the industry signed its new wage agreement with the United Mine Workers.

Leading coal operators predicted that the number of displaced bituminous miners would reach 50,000, or one-eighth of the national total of 400,000, by midsummer under the combined pressure of price resistance and higher labor costs.

Most large producers advanced prices at the mine 10 to 30 cents a ton after the contract with the John L. Lewis union was signed last month, but many found it necessary to wipe out the increase to hold their customers.

So sharp have been the inroads of fuel oil into the market for coal along the Eastern seaboard, it is understood, that large consumers in the metropolitan area have had offers of coal at prices 15 to 35 cents a ton below those prevailing before the wage agreement.

* * *

Ingot conversion tonnage again holds the spotlight in the steel market, says "Steel" magazine, this week. Frantic consumers, especially of the light, flat-rolled products, are contracting increasingly for premium-priced steel. Practically all automobile companies, including strike-bound Chrysler Corp., are buying conversion metal. Smaller manufacturers, such as miscellaneous stampers, over the past several weeks have been adding to the clamor to get on converters' books. This all adds up to what trade authorities describe as the most hectic conversion situation in the past 18 months.

Virtually all major steel product classifications are in buoyant demand with specialties getting more attention, the magazine notes.

Structural steel needs are rising as the building season gets under way. Auto requirements continue pressing with no letdown sighted barring labor trouble now brewing. Railroad needs are heavier and small fabricating shops are getting more tank and similar work. Appliance manufacturers, too, are having a good season.

* * *

New construction put in place during the first quarter of 1950 totaled $4,400,000,000, a new record and 18% above the like 1949 quarter, the Departments of Commerce and Labor report. Private construction rose 17% and public building rose 21%. Non-farm home building accounted for 44% of the quarter's total, against 35% in 1949. Construction in March was valued at $1,500,000,000, 8% above February and 18% higher than March, 1949.

* * *

The Treasury's receipts from income taxes during March, according to early estimates, will be 15% below those of March, 1949. Its revenue from all sources for the first nine months of the fiscal year that began last July 1 is expected to be close to 5% under the like period of the previous year. If this trend con-

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The Financial Pages

How—And How Not—To Read Them

By A. WILFRED MAY*

Executive Editor, "Commercial and Financial Chronicle"

In a lecture on financial journalism Mr. May describes: (1) the financial section, and how it is made up; (2) Who reads it; (3) How to read it; and (4) How not to read it.

First let me emphasize the importance of the "How Not" part of my announced topic, and that it is in no way a sub-title or parenthetical. For the caveats on what to avoid in one's reaction to financial journalism are crucially bound up with basic investment policies and practice.

A. Wilfred May

Because of time restrictions, I will in this lecture confine my specific bases of reference to the financial section of our daily newspapers, and to our financial dailies. At the same time, most of my **general** observations and conclusions will of course apply to **all** financial journals — and to trade publications and services too.

I propose to cover the following grounds: (1) A brief description of the financial section, and of how it is made up; (2) Who reads the financial section; (3) How to read it; and (4) How not to read it.

The Newspapers

Let us first consider our "lay" newspapers, of which the nation has 300 morning editions with 29 million circulation, and 1,450 "PMs" (afternoon editions) with 40 million circulation. Of this grand total about 80-90% carry financial news of some kind, albeit much, including that in the tabloids, is of the pink-pill spoon-fed variety.

It should be realized that in every section of the newspaper, carrying the day's developments in politics, world affairs, local doings, society events, editorials, court decisions — and even including sports, deaths, cartoons, and shipping news—there may be items having direct or indirect connotation on finance in general and on the individual's pocketbook in particular. But it is in the financial and business section that the reader gets the assurance of specific, concentrated, and complete coverage of events and information which he, as investor, dare not miss. Here he has access to a running account of the day's news developments in the world of business, finance and industry; news of specific companies, including their earnings and dividend action; and a statistical record of several thousand prices of items varying from stocks, bonds, money, basic commodities and textiles, to the cash and future prices of farm products. And there is that most popular phenomenon, a tabulation of the stock market's transactions previous session along with a resume account — usually leavened with the author's individual explanations of the course of prices.

There is offered a wealth of specific indices on the course of business and finance, as: weekly figures of automobile production, bank clearings, business construction, railroad carloadings, oil production, department store sales, electric power production, and iron and steel production.

Stock Market Coverage and Makeup

Bearing on the stock market itself: their own stock and bond averages — on a daily, monthly, and yearly basis—are published daily by the N. Y. "Times" and the "Tribune," the "Tribune's" consisting of 100 stocks broken down by industries, and the "Time's" of 50 stocks. The "Wall Street Journal" uses the well-known Averages of its affiliated firm of Dow-Jones, as do the "Journal of Commerce," and the "World-Telegram and Sun" (on an hourly basis).

Some of the papers publish their own daily charts of the market's trend, which incidentally is useful to the growing army of technicians.

Most papers have adopted the technique of daily publication of the past day's "most active stocks," in box form on a volume basis. The "Times" and "Tribune" giving 15, and the "Wall Street Journal" 10 issues.

(In carrying the implication of importance, such ranking of stocks by volume in lieu of market

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*A lecture by Mr. May, fifth in a series on "Investment Planning for Women," given under the auspices of Shaskan & Co., Hotel Barbizon, New York City, March 28, 1950.

Thank God for American Business!

By HON. CHARLES SAWYER*
Secretary of Commerce

Secretary Sawyer urges business to undertake political activities to regain influence lost to labor and farmers. Advises telling public of facts about business in lieu of vague general statements. His own conclusion is that success of capitalistic system depends on continued successful operation of American business.

In my first speech after becoming Secretary of Commerce, in my home town of Cincinnati, I addressed the Advertising Federation of America. I stated to that audience, "It is no exaggeration to say that America's greatest responsibility today—to itself and to the world — is to maintain its own robust economic strength." I stated also that I accepted the position of Secretary of Commerce because I was convinced "that the work of the Department of Commerce is vital to the national welfare. It is vital because its primary function is to help American business, and I am one of those who believe that the success of American business is essential to the successful operation of our social, economic and governmental systems."

Charles Sawyer

Thus, at the earliest opportunity I made plain my intention to help American business—without excuse or apology. In these two years I have tried to do that — with what success others than I should say. Today, if possible more firmly than before, I believe that the success of the capitalist system depends upon the continued successful operation of American business.

American business itself must do two things: It must continue its great contribution to our prosperous living; and it must by some method acquaint the American people with the extent and value of that contribution.

How shall it continue that contribution, and how shall it disclose what it is doing? In each of these fields advertising plays a part. I am not one of those who think that advertising is an adventitious appendix of American business. On the contrary, business would be a shrunken and pitiable thing if it had not enjoyed the stimulus and the strength of advertising. To appreciate properly the value of advertising one need only ask what would become of American business without advertising — if no housewife knew what was being made or offered for sale except as she found it while she wandered through a store by herself. Even a display in a window or a sign on a store is advertising; those things would not be done if we abolished advertising.

Because I believe in the importance of advertising I have formed an Advertising Advisory Committee to suggest ways to improve the services of the Department of Commerce to advertising. This Committee is composed of well-known leaders in the advertising business, selected because they had shown creative imagination in relating advertising to the welfare of the nation.

Impressed by Business Leaders

I have met this group of leaders and have been impressed by their competence and idealism. Already they have started to work on a survey of the services rendered by the Department of Commerce and I am looking forward with great interest to the results of their evaluation. I hope and believe that through this Committee business and government can find ways to serve the public more effectively.

"How shall American business continue its contribution to our prosperous living?" To discuss this question intelligently, we must recognize a truth which too few people are aware of, or at least too few think about—that our system of doing business is inseparable from the texture and pattern of our civilization. It is difficult, if not impossible, to think of business on the one side and our culture on the other. Our manner of doing business has affected deeply the way we live and even the way we think. Business methods and accomplishments have in large part been responsible for the vitality and variety of American life. Business has set the tempo of our living. It has produced a civilization in which the frequency and extent of contacts with one another have been greatly increased and the means of enjoyment have been multiplied many times.

Business emphasis on getting things done, as well as doing them better, has given to the American mind a pragmatic as well as flexible attitude which is not duplicated elsewhere in the world. Millions of Americans depend upon business for their employment. Millions of Americans own all or part of a business or receive their income from investments in business. Business is so much a part of our lives that we have taken it for granted. Neither businessmen nor others should take American business for granted.

It is probably true that today business enjoys a higher favor in the minds of the American people than it has during the years recently passed. There have been times when the chorus of antipathy to business was strong and widespread. It was under attack in our universities, in the so-called "liberal press," in government bureaus, and even in our pulpits. A professor at Harvard, in a book published the first year of the war, spoke of the "almost universal hostility" to the capitalist system. This statement was extravagant and untrue, but it was not wholly untrue. Today people do not speak scornfully of profits. Young people in our universities hear less about the "maturity" of our economy. Journalists are writing more about the problems and potentialities of capitalism and less about its abandonment. Communism, which had—and still has —a strong appeal to the radical mind, has not fulfilled its promises, and has moved steadily toward, and finally arrived at, absolute tyranny. This has made capitalism look much more attractive.

Business Accomplishments Extraordinary

The accomplishments of American business have been extraordinary. A few weeks ago I learned a little known fact which illustrates the way in which American business benefits the people. Today, the American houewife can buy a can of peas for less than it cost her during the depression. In spite of inflation in food prices and the increase in the wages of industrial workers and the much higher returns to the farmer, the processor, the wholesaler, and the retailer, this product—improved in quality—is bought by the consumer at a lower price than it was bought during the period of low prices and depressed economic conditions.

Behind this startling statement is written a fascinating story of business achievement—a story of teamwork by scientists, farmers, investors, engineers and distributors. It involves the use of formerly unused summer-fallow land in the States of Washington, Oregon and Idaho, the building of highly efficient plants in the areas where peas are grown, a new process of coating steel with tin by electrolytic methods, a market expanded by wise and extensive advertising, and better methods of moving and delivering the product to the consumer.

This story is typical and could be multiplied a thousand times. The volume and scope of American business pass the imagination. In 1949, over 200 billion dollars—four-fifths of our national income—came from private business. In that year business paid over $115 billion in wages and salaries to its employees, and spent hundreds of millions of dollars in scientific and industrial research. It shivered with fear in late '48, and as a result inventory accumulation by American business dropped by approximately $12 billion in the following months. So vast is American business that a dislocation in only one part of its activity took more money out of the stream of national income than we have spent on the Marshall Plan in the last two years.

To contemplate the collapse or even the weakening of this great institution is frightening. Those Utopian theorists who in the seclusion and security of their studies tamper so nonchalantly with the structure and the methods of American business should realize that American business is as delicate as the organism of the human body. It has grown over the years, at places perhaps too fast and too far, but for the most part in a healthy and normal way, and functions today not only for its own benefit but for the benefit of the American public—with a smoothness and an efficiency and

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*An address by Secretary Sawyer before American Association of Advertising Agencies and Association of National Advertisers, White Sulphur Springs, West Virginia, March 31, 1950.

Corporate Management And Director-Trustees

By BEARDSLEY RUML*
Former Chairman, Federal Reserve Bank of New York

Mr. Ruml declares efficiency and justice require new concept of the board of directors, to be rule-making body superior to executive officers. Advocates election of director-trustees representing interests of customers, vendors, or employees, in addition to the stockholders.

Business is one of the most pervasive facts of modern life. Practically everybody who lives in a city, town, or village does business with business several times a day, and practically everybody else has something to do with business many, many times in every year.

Beardsley Ruml

What is it that business *does* in our complicated modern world? First and primarily, it is the job of business to get things ready for use. Second, in doing this work of production and distribution, business concurrently provides people with productive activity—something useful to do—and a social setting in which to do it. Third, and finally, business makes a place where the inevitable savings of the people can be put to work.

How does business do these things? A business does these things by making rules, enforcing its rules when possible, and compromising them when necessary.

It is in no sense a figure of speech to refer to a business company as a private government. A business is a *government* because within the law it is authorized and organized to make rules for the conduct of its affairs. It is a *private* government because the rules it makes within the law are final and are not reviewable by any public body. Some might say that the reason a business is a private government is because it is owned by private individuals, but it seems to me that the existence of private authority is more significant than the element of ownership.

If business is private government, who are the governed? We are the governed.

How We Are Governed by Business

We are governed by business in one or all of four possible capacities: (1) as stockholder, (2) as vendor or supplier, (3) as customer, or (4) as employee.

Let us take these four capacities in which any of us may stand in relation to business and examine them. In what sense is the stockholder subject to the rule-making powers of the business in which he has placed his savings? One might have thought that it would have been the other way around, that the stockholders, being the owners, would have the rule-making power instead of being subjected to it.

The stockholders collectively elect a Board of Directors, and the Board of Directors elects a management. At the time of an election, the stockholders have the legal right to change the directors and hence to change the managers. They also have the right to vote on specific rules for the running of the business that may have been proposed in a Proxy Statement. But, except at the time and place of a stockholders' meeting, the stockholders ordinarily have no rule-making power.

A Stockholder by Choice

In addition to the laws, the stockholder has a final safeguard against business rule-making that he may find uncongenial—he may sell his stock. True, he may not be able to sell his holdings for as much as he paid for them. And, if he wants an income on his savings, he may become a stockholder-citizen under another business government which may please him little better or no better at all. Nevertheless, he can free himself at a price if he wishes; he is not locked in. The company he keeps, he keeps by choice.

The Vendors

The second group among those governed under the rule-making of business are the vendors or suppliers of raw or semi-finished materials, manufactured articles for resale, or services of one kind or another, utilities, transportation, and the like. The vendors are usually, but not always, other businesses which are making rules of their own for the business which is to them a customer.

The rules applying to vendors cover all the specifications made by the purchaser on the things that are purchased, the price that will be paid, when it will be paid, the quantities, qualities and nature of the things supplied, the date of delivery, provisions for return of damaged or unwanted goods, restrictions on the sale to others, and all the rest. The contract or understanding in which these terms are embodied is like a treaty between two sovereign states. In entering into such a business treaty, both parties give up in some measure their freedom of subsequent action. They give it up because it is advantageous as compared with the alternative of making no arrangement at all.

The Customers

The third group of the governed are the customers. The businesses which are customers of other businesses we have dealt with in our consideration of vendors. Most customers, the tens of millions of them, are individuals buying things and services at retail.

Superficially, the individual customer seems to be at a great

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*An address by Mr. Ruml at New York University's third annual conference on the Social Meaning of Legal Concepts, New York City, April 3, 1950.

From Washington Ahead of the News

By CARLISLE BARGERON

The House Committee on Investigating Lobbyists, headed by Representative Buchanan of Pennsylvania, which, as I understand it, is going about its business on a very high plane, not with a view to persecuting anybody but simply to learn one of the most important workings of Democracy, could do no better than make a study of the recent fight around the Kerr bill. This is a measure, still subject as this is written, to a Presidential veto, and tremendous pressure is being exerted on the Chief Executive to veto it, which would prohibit the Federal Power Commission from regulating natural gas at its source, as it goes into the pipe lines. There is no controversy over the commission's right to regulate it after it enters the interstate pipe line system.

Carlisle Bargeron

The story behind this fight is one of the most interesting of the Washington bureaucratic saga to take place in a long, long time. It is a story of what Bureaucratic propagandists can do.

The bill was sponsored by Senator Kerr of Oklahoma, a multimillionaire oil man, but who until this bill came up, was a darling of the New Dealers because he was listed on their side and a generous campaign contributor. He felt impelled to introduce the bill because the Supreme Court ruled sometime ago that the FPC could move into the regulation of natural gas at the source if it wanted to and two of its five members promptly whetted their Bureaucratic chops. They had to get a third member, Mon Wallgren, Truman's friend, who was turned down by the Senate for chairmanship of the National Resources Board, but permitted to become a member of the commission, to go along with them. It is at least doubtful that he would have done so because he has told friends recently that he is fed up on this damned "liberalism," with which he has been playing for so long, and feels it about time in his life to show some sense. Nevertheless, it was quite possible for him to have been won over.

When the Kerr bill came up in the House several months ago it was passed with slightly a ripple. Only a few members thought there was any more justification for the Federal Government's regulating the price for which the natural gas producer sells to the distributor than for fixing the price at which the farmer sells to the market, the price which the mine operator gets for his coal or the price of oil. The bill passed easily.

But in the intervening months before it came up in the Senate, the two EPC members did their work and what they did is a commentary on the impression that honest and conscientious public servants simply seek to enforce the laws given to them to enforce. They called in the four most widely syndicated columnists in Washington and told these gullible gentlemen, whose gullibility comes from their wanting to believe, that the selfish interests were about to betray the people, the poor consumers of natural gas. Now, they sold these gentlemen the story that here was a bald attempt by the natural gas tycoons to gouge the poor people, that if the Kerr bill was passed, natural gas costs would be boosted to take hundreds of millions of dollars from the consumers' pocketbooks, this in spite of the fact that there is probably no commodity in the country today more competitive than the three fuels: oil, gas and coal. Naural gas is moving into the markets against oil and coal because it is cheaper and to the anguished woe of the other two fuels. It simply won't move in if there is any price gouging.

These facts are so clear that it is amazing that these columnists, all well educated, one a Rhodes scholar, could not have seen them even if they are overly anxious to play the Leftist Bureaucratic game. But over a period of weeks they kept up a steady demagogic chirp about the Kerr bill. They gave a tremendous propaganda blow-up to the "brilliant" professor, Senator Douglas of Illinois, for his analysis of the bill. This, according to one of the columnists, was one of the most enlightened studies ever made by a mere member of Congress and it proved Douglas' ability for the Presidency; well, at the least the vice-presidency which Douglas was never giving a thought to because his idea was to be a good Senator, but this, according to this admiring columnist, was the very way to be President.

It is amazing what this group of propagandists accomplished. Truman had earlier given the bill the green light. Now, he turned around and directed the Democratic National Committee to throw its influence behind right in this struggle against evil.

The bill passed the Senate by only four votes and the propaganda having been what it was, you found Republicans, wedded to the philosophy of free enterprise, voting against it on the grounds that there came times when the people had to be protected.

Because of a minor amendment, the bill had to go back to the House. This body had been turned completely around and the bill got through only by the skin of its teeth. The Administration is now terribly afraid that the Republicans will make an issue of its selling out to the oil and gas interests, and politics being what they are, that is exactly what the Republicans will probably do. But it all started with two little ambitious Bureaucrats.

The Earnings Outlook For Commercial Banks

By RALPH A. BING

Head, Investment Dept., Sutro & Co., San Francisco, Calif.

Analyst expects present strong trend of bank earnings, resulting from growth in investment volume, lower reserve requirements, stiffening interest rates and high-yielding consumers' and real estate loans, to continue into late 1950. Thereafter, from longer-range viewpoint, available cushions against inflationary pressures will limit to 7.5 to 10% banks' income shr.nkage resulting from a prospective decline in lending volume and interest rates.

The earnings outlook for commercial banks necessarily depends upon the prospects for general business conditions and on trends in fiscal and monetary policies. Therefore, a general economic analysis has to lay the groundwork for any projection of bank earnings beyond the immediate period ahead.

Ralph A. Bing

The current, strong trend of bank earnings is, of course, mainly the result of the 1949-50 growth in investment volume made possible by lower reserve requirements, and a slight recent stiffening in interest rates; moreover, the volume of high-yielding consumers' and real estate loans has, so far, continued to increase throughout the country. This trend will probably extend into the latter part of 1950.

However, it is the contention of this article that, from a longer-range viewpoint, i.e. over the next year or two, a resumption of the general downtrend in business conditions may result in a decline in loan volume of 10% to 15%, and in an average decrease in interest rates of some 10%. During a period of general business decline, the very nature of modern commercial banking will provide a cushion for operating income which most other business lines lack. First, to the extent that loan and investment maturities extend over a period of years, deflationary pressures will make themselves felt only gradually. Second, in our "Keynesian" era, deflation in the private business sector is most likely to be accompanied by accelerated fiscal inflation and deficits; as private lending opportunities contract, commercial banks will step up their investments in "governments," and while yields are meager and may decline even further, such investments nevertheless constitute a secondary defense line in slack times.

In view of these cushions, the combined effect of the prospective decline in lending volume and interest rates seems likely to be relatively moderate; the total operating income of many banks may on balance not shrink more than some 7.5% to 10% from 1949 levels. The effect of such an income decline on net operating earnings depends, of course, on how much management will be able to trim operating costs. Wide differences in managerial policies call for a careful analysis of every individual case.

Outlook for General Business Activities

Although the settlement of the coal strike is now speeding up the pulse of our economy, it seems likely that, in a few months, the level of general economic activities in this country will resume the moderate downtrend that first emerged late in 1948 and extended into the early early summer of last year. Among the well-known deflationary forces, we mention the declining rate of private expenditures for new plant and equipment (excepting electric utilities), the improving balance in the market for housing facilities, the anticipated disappearance of backlog demand for new cars, continued shrinkage in our export markets, and a growing conviction that present farm support levels cannot be maintained indefinitely, both from a political and economic viewpoint.

The combined deflationary effect of these factors is likely to outweigh the increase in government spending (Federal plus local), unless the international situation deteriorates substantially further, which we doubt (in fact, the fantastically destructive potentialities of the H-Bomb may well help reduce the actual danger of a new world war). Thus, a 10% to 15% decline in general economic activity over the next year or two would seem to be a legitimate assumption.

Fiscal Prospects

The gross Federal debt—now about equal to the boomtime 1949 Gross National Product of $257 billion—is likely to continue its uptrend in the coming years. As in the past few years, pressures for specific expenditures are likely to be much more effective than the general clamor for fiscal economies. Moreover, when general business activities recede and unemployment figures rise, the Federal and local governments will step up public works expenditures despite shrinking tax revenues, and consequently will chalk up substantial new deficits.

According to a recent estimate by the Federal Reserve Board, the Treasury may have to sell $4 billion worth of new securities before June 30, 1951, and the actual figure may turn out to be even higher.

However, over-all figures are far from telling the whole story, and the Treasury exerts vast additional influence upon money markets and commercial bank earnings by the type of debt management it chooses.

Since the Victory Loan was floated in 1945, the Treasury has not offered any new long-term marketable bonds to investors, and in 1949, the supply of bank eligible Treasury Bonds was reduced for the third consecutive year. As at the end of 1949, commercial banks held approximately $44.5 billion in Treasury Bonds or roughly two-thirds of their total investments in U. S. Government obligations, with the remaining third committed in bills, certificates and notes. However, in the next 3 years, over 70% of those bonds will mature or become callable. Of the $7.1 billion bonds held by the Federal Reserve, only a negligible part consists now of the bank-eligible variety; thus, open market sales by the Fed could only indirectly, to some degree, alleviate the dearth of eligible bonds available to banks.

These facts point up the pressure which would develop in the market for bank eligible bonds in the years ahead, unless the Treasury, at last, changes its policy of short-term financing and refunding. Recent indications,

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J. H. Silcox Admits

CHARLESTON, S. C.—F. Mitchell Johnson has been admitted to partnership with J. Heyward Silcox in J. Heyward Silcox & Co., 36 Broad Street.

Vic Wikle Adds

(Special to THE FINANCIAL CHRONICLE)

ANDERSON, IND.—Ralph R. Ferguson has been added to the staff of Vic Wikle & Associates, Inc., Citizens Bank Building.

Housing Activity in the Nation

By EWAN CLAGUE
Commissioner, Bureau of Labor Statistics, U. S. Department of Labor

Bureau of Labor Statistics Chief reveals large volume of new housing construction, with 1,025,800 new units started in 1949, and the same level indicated for 1950. Says housing shortage is especially acute in metropolitan areas, where building of rental housing lags.

National Housing Volume and Housing Demand

With 80,000 new nonfarm dwelling units started in February, the nation has just completed the most spectacular winter homebuilding season in its history. Builders have been starting new dwellings at the rate of about 80,000 units a month since last December, a volume we would not normally expect until the spring. Still, this monthly volume represents a seasonal drop of 16% from the huge November figure of 95,500. Thus, the usual seasonal pattern has been maintained, but with activity at a very high level.

Ewan Clague

The unexpectedly large volume of housing so far this year reflects assurance about costs, which most experts agree will probably change little over the year. Added to this has been uneasiness about credit after expiration on March 1 of the emergency mortgage insuring provisions of the National Housing Act. Unusually favorable weather in many parts of the country has also contributed to the winter's large volume. Housing demand continues virtually unabated, buoyed by high consumer income and the continuing high marriage and birth rates.

Accomplishment this year follows the homebuilding record achieved in 1949 when, as latest estimates show, 1,025,800 new units were started, nearly 10% above the previous peak of 937,000 in 1925. Even without the 36,000 public units started, 1949 surpassed all other years in housing activity. What is more, while attention was centered on the boom in apartments (41% above 1948) builders started the largest number of 1-family houses in any single year in history. About 790,000 single-family homes were begun last year, up 3% from 1948, when the previous record was established.

What inroads had we made in the housing shortage by the end of 1949? One way of answering this question is by comparing the number of new dwellings started with the increase in the number of households over the past few decades.

The number of new nonfarm dwellings started in the 1920's outnumbered by a million and a third the increase in the number of households (approximately the number of family units) between 1920 and 1929. This housing advantage, however, was completely wiped out in the 30's, when the increase in households outdistanced new housing volume by 1,840,000. The gap became wider still in the 1940's when nearly 1,500,000 more nonfarm households were added than new dwellings started. The housing deficit, created largely during the depression and war years when new homebuilding dropped sharply, exists primarily in urban areas. We do know that building of new rural nonfarm dwellings had exceeded the increase in rural nonfarm households by the end of 1949.

This discussion has so far been confined to provision of *new* housing units. For one thing, there is no accurate information about the volume of converted dwelling units—housing provided by conversion of nonresidential structures to residential use or by conversion of old residents to include additional apartments. A large proportion of converted units are in any case makeshift accommodations. In addition, if they are weighed against the units lost by change from housing to nonhousing use, it appears that conversions have provided a relatively small addition to the permanent housing supply.

Indications are that the new dwelling units started each year will have to exceed a million for several years to wipe out the backlog, as well as to meet current population increase and effective demand.

Housing in 15 Metropolitan Areas

Because of the backlog in urban places, the housing shortage is especially acute in the nation's metropolitan areas. For this reason, the Bureau of Labor Statistics is now engaged in studying the volume and characteristics of the new housing started in 15 major metropolitan areas—Atlanta, Boston, Chicago, Cleveland, Dallas, Denver, Detroit, Los Angeles, Miami, New York, Philadelphia, Pittsburgh, San Francisco, Seattle, and Washington, D. C. We are comparing here for the first time the results of the surveys in these areas with respect to the volume of new housing started since the war. A little later this year we shall present the results of the Bureau's studies of the characteristics of the new housing provided in the 15 areas.

The Bureau's surveys show that New York and Los Angeles far outstripped all other metropolitan areas in homebuilding since the war. The 293,260 new nonfarm dwelling units started in the New York-Northeastern New Jersey metropolitan area, and the 277,325 started in the Los Angeles area, constituted 16% of the nation's new housing units begun in the postwar years, 1946-49. No other area came within as much as 40% of the New York or Los Angeles achievement. Next in housing volume was Chicago with 95,660 units. Pittsburgh, among the first six metropolitan areas in the country in size and industrial importance, was one of the least active in homebuilding among the 15 surveyed.

The reason for such wide variation in housing activity lies in differing rates of population growth as well as population size. In general, the metropolitan areas which were among the leaders in population increase from 1940 ranked high also in homebuilding rate (number of units started per 10,000 population). Of nine areas for which an estimate of 1949 population could be obtained, Miami, the smallest, ranked first in poulation increase from 1940 (53%) and greatly surpassed all the others in the number of postwar dwelling units started per 10,000 population. Miami held only 7th place, however, in the actual number of units started, but nevertheless ranked ahead of both Boston and Pittsburgh. This may be explained by the fact that the Boston and Pittsburgh areas held the last two places, respectively, in population growth, with less than 10% increase between 1940 and 1949, compared with Miami's 53%.

The most urgent housing need in the metropolitan areas is for rental units. Homebuilders in these areas have responded variously to this need. Apartments were 7% of the total number of nonfarm dwelling units started in the Detroit area in 1949, and, at the other extreme, 69% in the Washington, D. C., area. In 1949, as compared with 1948, significant gains were made in the number of apartments started in the majority of the areas, but there were declines in Chicago, Denver, Los Angeles, Miami, and Seattle. In the Boston area, the entire 1949 increase in rental-type units was in public housing; in New York, public housing accounted for nearly two-thirds of the rise in apartment construction.

In the majority of the 15 surveyed areas, the proportion of rental-type units to the total of nonfarm dwellings started was greater than the proportion in the United States as a whole (23%). This is to be expected, however, since rental housing is largely urban and is most common in the largest cities. It is more extraordinary that the ratio of rental type units to the total started in 1949 was less than the United States ratio in the Cleveland, Chicago, Denver, and Detroit areas.

Halsey, Stuart Offers Metropolitan Ed. Bonds

A group headed by Halsey, Stuart & Co. Inc. today (April 6) is offering $7,000,000 first mortgage bonds, 2¾% series due 1980, of Metropolitan Edison Co. at 101.644% and accrued interest. The group won award of the bonds at competitive sale on April 4 on its bid of 101.285%.

Proceeds from the sale of the bonds will be deposited with the trustee and withdrawn from time to time against additions to and betterments of the company's facilities made or to be made subsequent to Nov. 1, 1944. The amounts so withdrawn will be applied against the purchase or construction, subsequent to Nov. 30, 1949, of new facilities and the betterment of existing facilities of the company or to the payment of short-term loans incurred or to be incurred by the company subsequent to Nov. 30, 1949, for such purpose.

Regular redemptions may be made at prices ranging from 104.644% to 100%. Special redemptions run from 101.644% to 100%.

Rudolph Adds Four

(Special to THE FINANCIAL CHRONICLE)

SAN JOSE, CALIF.—Paul C. Rudolph & Co., 40-D South First Street, have added to their staff Frederick Bense, Arthur M. Breckenridge, O. Glenn Orr and Raymond F. Paxton. Mr. Breckenridge was formerly with Hannaford & Talbot.

Floyd A. Allen Co. Adds Dowd & Ogden to Staff

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—John J. Dowd and Walter D. Ogden have become associated with Floyd A. Allen & Co., Inc., 650 South Grand Avenue. Both were previously with Gross, Rogers & Co.

With Fewel & Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Edward W. Heid has joined the staff of Fewel & Co., 453 South Spring Street, members of the Los Angeles Stock Exchange.

Changes Needed in Dow Jones Industrial Averages

By JOHN DUNCOMB

Mr. Duncomb advocates adding more issues and elimination of several high price stocks from list by substituting lower price issues.

There are 30 industrial stocks in the Dow Jones Averages. At this writing, 16 of these stocks are selling above $50 per share and 14 below $50 per share. The 16 stocks selling above $50 per share range in price from 50⅛ to 219½, a total range of 169.38 points. The 14 stocks selling under $50 per share range in price from 16⅞ to 49¾, a total range of 32.375 points. In this writer's opinion such figures fail to give a true picture of the stock market action.

The method of figuring the Dow Jones Averages has not changed in many many years. It is this writer's opinion and the opinion of other people with whom he has conferred that not only more stocks should be added to the list but that several of the high priced stocks, especially those selling over $100 per share, such as Allied Chemical, American Can, American Telephone & Telegraph, etc., should be eliminated from the list. By so doing the Industrial Averages would be more properly balanced. The above mentioned stocks all pay large dividends and when they sell ex-dividend the amount of the dividend is naturally deducted from the price of the stock. Being a large dividend to have to deduct, it naturally has a considerable effect on the Industrial Averages.

This writer gave an example of this in a previous article written a few months ago. On a certain day, at this time, the first hour Industrial Averages showed a decline of $1.42. The general market seemed to show only fractional changes and many people were quite amazed that such a decline had taken place. A few minutes later, however, the News Ticker printed an explanation of how the figures were arrived at by stating that $1.09 of the $1.42 was caused by the decline of some five points in Allied Chemical and a few smaller declines in one or two other high priced stocks. The rest of the Industrial list, therefore, showed a decline of only 33 cents. This writer realizes that the situation concerning the Dow Jones Industrial Averages has been going on for many years but he also is of the opinion that if several of the high priced stocks could be eliminated from the list and the list enlarged, such a situation, as above mentioned would not have happened and a more true picture of the stock market would have been given.

Dealer-Broker Investment Recommendations and Literature

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

Aid to Timing — A method of measuring the time and duration of price trends, including a daily index for 1861-1884—George Lindsay, 19 East Grand Avenue, Chicago 11, Ill.—60c.

Coming Interruption?—Analysis of market outlook—Jacques Coe & Co., 39 Broadway, New York 6, N. Y.

Heavy Truck Industry with special reference to Reo Motors—Analysis — Bruns, Nordeman & Co., 321-323 Broadway, New York 7, N. Y.

Investment Facts About Common Stocks and Cash Dividends—Third edition—New York Stock Exchange New York 5, N. Y.

New York City Bank Stocks—Comparison of earnings and other statistics as of March 31, 1950—Laird, Bissell & Meeds, 120 Broadway, New York 5, N. Y.

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.

Problem of Income for Individual Investors—In current issue of "Investors Almanac" — Estabrook & Co., 15 State Street, Boston 9, Mass. and 40 Wall Street, New York 5, N. Y.

Railroad Bond Exchange—Bulletin on recommended switch from Chicago & Northwestern Railway First Mortgage 3s of 1989 to St. Louis-San Francisco Railway First Mortgage 4s of 1997—Smith, Barney & Co., 14 Wall Street, New York 5, N. Y.

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

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.

Anchor Hocking Glass — Circular—Shearson, Hammill & Co., 14 Wall Street, New York 5, N. Y.

Also available are circulars on **Chicago, Rock Island & Pacific**, and **Consolidated Edison Co. of New York.**

Aro Equipment Corporation—Memorandum—Stanley Heller & Co., 30 Pine Street, New York 5, N. Y.

Automatic Firing Corp.—Circular—Dempsey & Co., 135 South La Salle Street, Chicago 3, Ill.

Bank of America, N. T. & S. A.—Comprehensive study in brochure form—Blair, Rollins & Co., Inc., 44 Wall Street, New York 5, N. Y.

Boston Terminal Reorganization Plan—Detailed report giving objections to plan—Carreau & Co., 63 Wall Street, New York 5, N. Y.

Central States Electric Corporation—Analysis with emphasis on the various reorganization proposals—Dreyfus & Co., 50 Broadway, New York 4, N. Y.

Cleveland Worsted Mills Co.—Circular — Prescott & Co., National City Bank Building, Cleveland 14, Ohio.

Collins Radio Co.—Circular—Lee Higginson Corp., 231 South La Salle Street, Chicago 4, Ill.

Connecticut General Life Insurance Co.—Analysis—First Boston Corporation, 100 Broadway, New York 5, N. Y.

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

Dumont Laboratories—Circular—Rauscher, Pierce & Co., Mercantile Bank Building, Dallas 1, Tex.

Electric Bond & Share—Circular—Auchincloss, Parker & Redpath, 729 Fifteenth Street, N. W., Washington 5, D. C.

Emery Air Freight Corp.—Analysis — Reynolds & Co., 120 Broadway, New York 5, N. Y. Also available is an analysis of **Associated Transport, Inc.**

Frick Company, Inc.—Analysis—Cohu & Co., 1 Wall Street, New York 5, N. Y. Also available is an analysis of **Art Metal Construction.**

Iowa-Illinois Gas & Electric—Memorandum on "growth" utility—Ralph E. Samuel & Co., 115 Broadway, New York 6, N. Y.

Kennametal, Inc. — Circular—Arthurs, Lestrange & Co., Frick Building, Pittsburgh 19, Pa.

Kerr-McGee Oil Industries, Inc.—Special report—Straus & Blosser, 135 South La Salle Street, Chicago 3, Ill.

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

Lane-Wells Company—Progress report — Walston, Hoffman & Goodwin, 265 Montgomery Street, San Francisco 4, Calif.

Also available is a circular on **National Container Corp.**

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.

New York Chicago & St. Louis Railroad — Analysis — Eastman, Dillon & Co., 15 Broad Street, New York 5, 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.**

Royalite Oil Company, Ltd.—Bulletin—Bache & Co., 36 Wall Street, New York 5, N. Y.

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

Appointed Officers of Guinness Mahon Firm

Announcement is made of the appointment of Anthony W. Guinness as Vice-President and director, and Miss Jessica Tyndale as Treasurer and Secretary of Guinness Mahon Representation Co., Inc., 115 Broadway, New York 6, N. Y., an affiliate of Guinness, Mahon & Co., merchant bankers of London.

With Daniel Reeves

(Special to The Financial Chronicle)

BEVERLY HILLS, CALIF. — Jack Newman has become affiliated with Daniel Reeves & Co., 9445 Olympic Boulevard, members of the New York and Los Angeles Stock Exchanges.

COMING EVENTS

In Investment Field

April 20, 1950 (New York City)
Security Traders Association of New York Bowling Tournament with Investment Traders Association of Philadelphia at the Ten Pin Alleys, New York.

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 2, 1950 (Dallas, Texas)
Dallas Bond Club cocktail party at the Downtown Club, 4:30-6:30 p.m. for visiting dealers and wives en route to Texas Group IBA spring meeting.

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 2, 1950 (New York City)
Bond Club of New York annual field day at Sleepy Hollow Country Club, Scarborough, N. Y.

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 16, 1950 (Philadelphia, Pa.)
Investment Traders Association of Philadelphia annual field day at Whitemarsh Country Club.

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.

Joins Moseley Staff

(Special to The Financial Chronicle)

INDIANAPOLIS, IND.—Robert E. Grider is with F. S. Moseley & Co., Circle Tower.

Fred Marshall Joins Rufus Carter on Coast

SAN FRANCISCO, CALIF.—Fred A. Marshall has become associated with Carter & Co. on the Pacific Coast in the wholesale distribution of mutual funds sponsored by National Securities & Research Corp., New York.

Fred Marshall

Mr. Marshall, a Stanford University graduate, is well known in the investment banking field on the Pacific Coast where he has had wide experience with leading security firms and the Bank of America. For the last four years he has been a wholesale representative of Lord Abbett & Co.

Rufus Lee Carter, whose main office is in Los Angeles, has announced the opening of a San Francisco office in the Russ Building where Mr. Marshall will make his headquarters.

Pennsylvania Brevities

P. T. C.'s Decade of Progress

PHILADELPHIA—Caught between the upper and nether millstones of reduced revenues and higher wages, not adequately compensated for by increased fares, the Philadelphia Transportation Co. reported a net deficit of $2,265,000 for 1949, the first loss sustained since the company was reorganized on Jan. 1, 1940.

As a result, the full 3% contingent interest was not earned on the $28,228,000 consolidated mortgage 3-6% bonds and the directors have declared supplemental interest in the amount of 2.433% payable July 1.

The company's annual report for 1949, released last month, highlights the expanded operations of the system since its recapitalization. The following is summarized:

Since Jan. 1, 1940, funded debt has been reduced by $9,448,000 net and full interest charges, on an annual basis, are $814,000 less than they were at the beginning of 1940. During 1949, the company acquired through sinking fund operations and retirement of serial maturities $1,738,700 principal amount of funded debt. Annual interest requirements for the year were reduced by $72,712.

P.T.C. began operation of Philadelphia's transit system with available cash or about $6,000,000 with which to undertake an extensive program of modernization and improvement. In 10 years' time, $22,800,000 has been spent out of cash, wartime revenues and the proceeds of equipment trust certificates for more than 1,500 new streetcars, buses and trackless trolleys, while additional funds have been invested in terminals, shops, garages, power and communication facilities and other property and equipment.

The establishment of 19 new routes has combined with 40 extensions of existing routes to enlarge the system by more than 250 route-miles. Much of this has been necessitated by migration of the city's population toward and beyond the city's boundaries. These population shifts have lengthened the average ride, thus contributing to the higher cost of providing service. At the same time, the city has benefited through substantial increases in tax values resulting from the development of new areas.

The following comparisons arising from a study of company statistics over the 10-year period are of interest.

Passengers carried in 1940 numbered 671,672,000, compared with 913,706,000 in 1949 and a postwar peak of 1,119,422,000 in 1946.

Gross revenues in the first year of operation totaled $34,040,000, rose to $67,895,000 in 1948 and dropped to $63,990,000 in 1949.

Total payroll rose from $16,915,000 in 1940 to $41,196,000 in 1949. The high was $41,716,000 paid out in 1948.

Taxes and rentals paid to the City of Philadelphia were $3,312,000 in 1940 and $4,018,000 in 1949. The high was $4,376,000 in 1947.

Wages per work-hour increased from 80.7 cents in 1940 to a high of 169.2 cents in 1949, a gain of 110%, during which period average fares rose from 7.89 cents to 11.66 cents, an increase of 48%.

Wage increases demanded by Transport Workers Union, CIO, were granted in compromised form after a 10-day strike in February, 1949. Relief through higher fares was sought by the company, granted temporarily from May 14 to June 12 and became permanent on Oct. 18. Last February, the CIO union, after another strike threat, obtained additional wage and benefit increases estimated to add $1,300,000 annually to the company's labor bill. A further adjustment of fare schedules is now under consideration by the Pennsylvania Utility Commission.

* * *

Pitts. Rwys. Plan Nears Consummation

Last week the Securities and Exchange Commission formally approved the reorganization plan for Pittsburgh Railways Co. and subsidiaries, thus indicating an early end to operation of the system under Trusteeship which began in June, 1938.

Under the plan, the 50-odd underliers will be consolidated with the operating company into a new company of which Philadelphia Company, parent, will own 50.9% stock control. Issues guaranteed by Philadelphia Company will be paid in cash. Holders of other system securities will receive cash and new securities in satisfaction of their claims.

The plan is scheduled for a hearing before the Pennsylvania Utility Commission beginning April 12 and will later be submitted to the U. S. District Court for Western Pennsylvania for a final hearing and effectuating order.

Philadelphia Company at present remains under an SEC order to divest itself of its gas and transportation properties. It is assumed that at some later date Philadelphia Company will have to distribute or sell its interest in the reorganized railways.

* * *

Autocar Sales Drop

Reflecting strong competition in the heavy duty truck manufacturing industry, plus forced sales to reduce inventories, Autocar Co. sales in 1949 declined 27% to $22,250,078, resulting in a loss of $1,165,255 for the year. This compares with a profit of $389,661 realized in 1948. Edward F. Coogan, President, in company's annual report, stated that sales had turned up in the final quarter and were holding satisfactorily thus far in 1950. A new diesel model for lighter chassis weight is receiving good trade acceptance.

* * *

Follansbee Steel Corp., Pittsburgh, has retired its bank indebtedness and is free of debt except for ordinary current liabilities.

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Philco Co.

William Balderston, President of Philco Corp., states that the March quarter just completed represents the greatest first quarter in company's history with sales volume about $78,000,000.

Production and sales of television receivers are currently running at a rate of over 20,000 per week and, Mr. Balderston believes, are headed for the 25,000 mark. Company's annual report had estimated 1950 production of television receivers at 800,000 sets.

* * *

Pennsylvania Salt Mfg. Co.

Sales and net profits of Pennsylvania Salt Manufacturing Co. for 1949 were highest in the company's 100-year history, reports George B. Beitzel, President, in the annual report. Increased profits were attributed to higher sales and lower manufacturing costs, the latter resulting from efficiencies of equipment modernization. Net sales of $33,173,199 produced earnings per share of $3.30, compared with $32,430,710 and $2.78, respectively, in 1948.

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Duquesne Light Co.

PITTSBURGH — Despite adverse influences of coal and steel strikes, Duquesne Light Co. reported operating revenues of $57,904,949, highest on record, for 1949. Net income amounted to $10,541,911, equal to $4.26 per common share, compared with $10,082,034, or $4.04 per share, in 1948. The company expects to add $20,600,000 to plant in 1950.

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Pennsylvania Power & Light Co.

ALLENTOWN—Pennsylvania Power & Light Co. reported gross revenues of $70,010,006, in 1949, resulting in earnings of $2.13 per common share, compared with revenues of $66,530,342 and $2.02 per share in 1948. Capital expenditures from 1945 to 1949 have totaled about $105,000,000 and about $60,000,000 will be added to plant in 1950 to 1952. On April 17, stockholders will vote on a proposal to authorize 100,000 additional shares of series preferred.

Charles W. Weaver Dies

Suddenly, last week, Charles W. Weaver, a member of the "Chronicle's" editorial department and a resident of Forest Hills, Long Island, died of pneumonia after less than a week's illness.

Mr. Weaver was an old-time newspaper man and greatly respected by his editorial associates on the "Chronicle" for his fairness and friendly qualities of heart. In his earlier years, Mr. Weaver served the Hearst chain of papers in several important capacities. Mr. Weaver is survived by his wife, Estelle M. Weaver.

With King Merritt Co.

(Special to THE FINANCIAL CHRONICLE)

DETROIT, MICH.—Charles H. Hampton is now with King Merritt & Co. Inc.

Joins C. A. Parcells

(Special to THE FINANCIAL CHRONICLE)

DETROIT, MICH.—Horace R. Rathbun has joined the staff of Charles A. Parcells & Co., Penobscot Building.

Branch Banking and Bank of America

Branch banking makes available to small business enterprises, small communities and small depositors the large-scale financial resources, experience and service which are at the disposal of the nation's cities and great industries and gives promise of becoming the American way of banking, according to an analysis of the development of the Bank of America N.T. & S A., the largest branch banking system in the United States. The study, prepared in brochure form by the investment firm of Blair, Rollins & Co. Inc., is entitled "Branch Banking Builds a Golden Empire in the West."

Enumerating the principles and policies basic in the growth of the Bank of America into the largest publicly-owned banking system in the world — into an institution with 525 branches (compared with 24 branches in 1921), $5,775,110,029 deposits and 4,088,018 deposit accounts—the booklet states that "since the business and financial crisis of the early 1930's, branch banking has developed more rapidly in the United States than in the preceding century." On Dec. 31, 1933 there were 2,911 branch banking offices in the United States. Fifteen years later, on Dec. 31, 1948, the number had increased 53.3% to a total of 4,461 offices. Branch offices are now permitted by 35 states and throughout the District of Columbia, state-wide branches are allowed in 18 of these 35 states and throughout the District of Columbia. In 1910, only 12 states permitted branch banking. Branch banking has long been established in Canada, England, Wales and Scotland.

"State-wide branch banking supplies big city service at low cost throughout a wide area; brings trust services to the residents of small communities who otherwise would have to travel to city banks for similar service; accelerates the turnover of loanable bank funds, and facilitates the flow of credit within the branch banking system to points where needed and when needed," the brochure said. This flexibility of service, it pointed out, helps depositor, borrower and shareholder.

Cantor, Fitzgerald Opens S. F. Branch

SAN FRANCISCO, CALIF.—Cantor, Fitzgerald & Co., Inc., has opened a new branch office in the Russ Building. Associated with the new office will be Garbor De Bessenyey, Paul Frank, Raymond H. McIntosh, George A. McQuillister and Edward J. Peck.

With Geo. V. Yates Co.

CARMEL, CALIF.—Frank G. Van Bergen is with George V. Yates & Co., Patterson Building.

Bank Holding Companies' Control Should Be Tightened

By THOMAS B. McCABE*

Chairman, Board of Governors of the Federal Reserve System

Reserve Board head states although bank holding companies are not necessarily undesirable, effective curbs are necessary to avoid possible dangerous abuses. Interprets pending bill as accomplishing the following purposes: (1) overcoming the alleged inadequacies of the existing law relating to holding company affiliates; (2) regulating expansion of bank holding companies; (3) requiring bank holding companies to give up most of their investments in non-banking companies; and requiring them to register with the government and to file reports and submit to periodic examinations.

I believe I could never forget the bank holding company legislation, because when your Committee in the Spring of 1948 was considering my nomination as a member of the Federal Reserve Board, one of your chief concerns was with the holding company bill then pending in Congress. Some of you will recall that after being questioned at some length I was told to go back and take a sort of a post-graduate course on bank holding company matters and to report back to the Committee after my homework was completed. At that time bank holding company legislation had been carefully considered by this Committee and had been favorably reported; and, in this connection, I would like to request that the report of this this connection, I would like to request that the report of this Committee with respect to S. 829, the bank holding company bill in the last Congress, be inserted in the record. Your careful study of that bill, together with the fact that the present bill (S. 2318) is in large part similar to it, would almost seem to render unnecessary any comprehensive statement on the subject at this time. However, in view of the many other matters which continuously press upon the members of this Committee for attention and the fact that there has been some change in the Committee membership, I am going to assume that you may not have clearly in mind some of the points regarding this legislation, and I will proceed to state as briefly as I can the more recent developments in connection with the proposed legislation and the reasons why the Board feels that its enactment is necessary and important.

Thomas B. McCabe

Consideration Since 80th Congress

Since S. 829 was under consideration by the 80th Congress, the legislation has undergone further careful consideration by the Board, and over a period of a year and a half we have had numerous informal conferences with representatives of a number of groups who are interested. These include the American Bankers Association, the Reserve City Bankers Association, the National Association of Supervisors of State Banks, the Independent Bankers Associations, and various bank holding companies. These meetings, in most instances, were attended by the Comptroller of the Currency and the Chairman of the Federal Deposit Insurance Corporation or their representatives. As a result of these discussions, various changes have been made in the bill so as to take into account and give effect to the best and most constructive suggestions received as well as we have been able to appraise them. I have never known a bill which had more careful and extended study and consideration by all parties who might be interested or affected than has this bill.

*Statement of Chairman McCabe before Senate Banking and Currency Committee, March 1, 1950.

Legislative Purposes

You will recall that the principal purposes of this legislation are (a) to overcome the inadequacies of the present law relating to holding company affiliates, (b) to regulate the expansion of bank holding companies, (c) to require bank holding companies to give up their investments in nonbanking companies, and (d) to to require bank holding companies to register, make reports, and submit to examination. In other words, the basic objectives of S. 2318 are the same as those of S. 829 which your Committee reported favorably in the last Congress. Although the Senate Calendar was such that it was not possible to act on the bill at that time, you will recall that S. 829 had the support of the Federal Advisory Council of the Federal Reserve System (a statutory body that is composed of a banker representative from each of the 12 Federal Reserve Districts and that acts in an advisory capacity to our Board) and of numerous banking organizations, as well as the majority of the major bank holding companies. In its report on the holding company legislation pending in the last Congress, the Federal Advisory Council pointed out that such legislation was urgently necessary, and I would like to submit for the record at this point a letter received in the last few days from the Council, which indicates its general approval of the pending bill.

The Recognized Need

The need for the enactment by Congress of appropriate and effective bank holding company legislation has been recognized by the American Bankers Association and has been reiterated by the Independent Bankers Associations. Moreover, I am advised by the Director of the Bureau of the Budget that the President favors legislation designed to provide for more effective control of bank holding companies, although he has not approved any particular draft of a bill.

I should like to emphasize that this bill is not all-embracing. It does not provide a death sentence for bank holding companies; it does not provide for freezing all companies in their present situations; it does not forbid a bank holding company to establish offices across State lines; it does not bring an individual under the restrictions applicable to bank holding companies; and it does not require holding companies to accumulate any greater reserves than does the present law. On the other hand, the bill does require bank holding companies to rid themselves, with reasonable exceptions, of the ownership of companies not engaged in the banking business; it provides for the regulation of expansion by bank holding companies; and it provides a means of more effective supervision of bank holding companies. The bill is in no sense revolutionary; it is evolutionary.

As I have indicated, S. 2318 is very similar to the bill S. 829 in the 80th Congress, but at this point I think I should mention some of the principal differences between the two:

S. 829 included a preamble which contained the statement that it was the declared policy of Congress "generally to maintain competition among banks and to minimize the danger inherent in concentration of economic power through centralized control of banks." After listening to the various viewpoints expressed as to the desirability of this declaration of policy, it was the Board's feeling that it might properly be omitted from the bill, and it is not included in S. 2318. Some of the groups with whom we discussed the matter, notably the Independent Bankers groups, felt, and I believe still feel, that it would be desirable to retain a provision of this kind. Others, however, felt that it was particularly objectionable and should be omitted.

A related change is that with respect to the provisions of the bill which prescribe certain standards to guide the supervisory agencies in passing upon acquisitions by holding companies or banks of banks or branches. Included among these standards in S. 829 was consideration of "the national policy against restraint of trade and undue concentration of economic power and in favor of the maintenance of competition in the field of banking." In S. 2318 the language has been changed to provide for consideration of "whether or not the effect of such acquisition may be to expand the size and extent of a bank holding company system beyond limits consistent with adequate and sound banking and the public interest." (Sec. 5(d).) I will comment further on this change a little later.

Another important provision in connection with the consideration of the acquisition of banks or branches is that which requires that the appropriate Federal supervisory agency notify the bank supervisor in the State in which the acquiring bank is located of the proposed transaction so that he may submit his views and recommendations on the subject. These must be taken into consideration by the Federal agency in acting upon the proposal. (Sec. 5(e).)

The term "bank holding company" in the new bill includes any company which controls a bank operating four or more branches, rather than a bank operating merely one or more branches as provided in S. 829. We feel that the definition as applied to a bank with one branch is too inclusive. (Sec. 2(a).)

In connection with the authorization to examine bank holding companies and their subsidiaries, S. 2318 contains a provision, not in the previous bill, authorizing use of the reports of examinations made by other supervisory authorities to the extent that the information contained therein is adequate for the purposes of the law. (Sec.3(c).)

S. 2318 also adds a new provision permitting a bank holding company to own up to 5% of a nonbanking company or to own an investment company which in turn owns not in excess of 5% of any nonbanking company. We feel that this provides a reasonable exception to the requirement for the divorcement of nonbanking assets without in any way breaking down the principle which is involved. (Sec. 4(e).)

S. 2318 contains a new section specifically providing that the enactment of the bill "shall not be construed as preventing any State, to an extent not inconsistent with this Act, from exercising the same power and jurisdiction which it now has with respect to banks, bank holding companies, and subsidiaries thereof." This is intended to eliminate any implication that Congress in enacting this legislation is depriving the States of any power which they have in this field, except where such power would be inconsistent with this bill. (Sec. 13.)

There are other differences between S. 2318 and the earlier bill, S. 829, but I believe I have described the more important of the changes. Now, before discussing in more detail the proposed legislation and the inadequacies of the existing law, a word concerning the nature of bank holding companies might be helpful.

The bank holding company problem is, as you know, not a new one to the Congress. Bank holding companies had a rapid growth during the 1920's, most of the major companies being organized in that period. After extensive hearings which began in 1930, Congress recognized the need for and undertook to provide for the regulation of bank holding companies. This legislation was a part of the Banking Act of 1933. However, the inadequacy of the law soon became apparent, and there were recommendations and proposals for new legislation. For example, in a mesage to Congress in 1938, President Roosevelt recommended the enactment of legislation to prohibit further expansion of bank holding companies and to require their elimination as soon as practicable. In its annual report for 1943, the Board pointed out in some detail the deficiencies in the existing law and made certain broad recommendations with respect to new legislation. Since then, various bills have been introduced in Congress; and the Board, as well as others, has continued to urge enactment of effective legislation on this subject.

May I say at this point that we do not regard bank holding companies as being necessarily undesirable; in some instances, they have been helpful in providing better management for banks, in assisting them financially, and in encouraging improved banking service. Nevertheless, dangerous abuses are possible in the absence of effective regulation. One of these is the unlimited expansion

Continued on page 46

A Birdseye View of Current World Trade

By A. W. ZELOMEK*

Economist, International Statistical Bureau, Inc.

Remarking on the great amount of wishful thinking traditionally pervading views of world trade, Mr. Zelomek cites numerous unfavorable factors in our present outlook. Calls attention to increasing imports, non-solution of dollar deficit, and growing competition facing American exporter. Concludes, nevertheless, that profitable business is still available to those on the spot and daring.

I think that more wishful thinking has probably been done about foreign affairs than any other single subject.

A. W. Zelomek

I refer now to the average person — the man in the street—rather than to the export manager. You people have been in touch with foreign developments in a direct commercial sense and know much more about what has been going on.

Knowing that I would be here today, I naturally followed some of the comments made at the Chicago World Trade Conference late last month. I was happy to see that many prominent speakers stressed the competitive nature of trade; and spent more time in discussing problems and difficulties than they did in proposing easy solutions.

Most of my own clients are engaged primarily in domestic activity. I think I can say that I have a wide contact in that field, and that the realistic viewpoint at the moment has little use for generalities. Speculation as to whether the outlook is favorable or unfavorable does not receive too much attention. Everyone I run into says quite frankly that competition is back, and that the only way to get along is to work harder and more intelligently than the competitor. There simply isn't enough business for all the companies that expanded during the war, and for all the new companies that have been formed since. The successful manufacturer or merchant increases his sales or production at someone else's expense.

*Copy of address by Mr. Zelomek before Export Managers Club, New York City, March 21, 1950.

Kindred International Situation

I find the same situation in world trade. More goods are coming in from abroad; the high level of government foreign spending has not solved the dollar deficit; and the American exporter meets increasing competition as each day passes.

Behind the competitive conditions which are now arising, a basic transition towards a new international division of world trade is hidden. It is worthwhile to recognize this process, and to draw some practical conclusions, even if day to day transactions often absorb the export manager's full time.

The last few years have been deceptive. Hopes were built up, and they will probably be shattered when ECA ends. It is doubtful that ECA will have accomplished anything beyond helping in the restoration of economies which were wrecked by the war. These countries will now have to find a new place for themselves in world trade. The same applies to Southeast Asia and also to Latin-America.

This reorientation will be a painful process, but it will also open up new possibilities for imports and exports—provided the trader knows the situation on the spot intimately, and provided he has the right contacts. This last is often most important.

In present-day trade decisions must often be made quickly. Even large corporations will miss opportunities unless quick decisions can be made, when goods have to be rerouted, trans-shipped or bartered; or new trading areas have to be entered before a competitor can exploit the new possibilities.

These comments do not indicate that I am pessimistic or hopeless. If I knew of any way in which a person could make a good living without doing any work, or without competing, or without taking any risks, I would be happy to do it, and I am sure I would have a great deal of company. Just because we face facts, and admit to ourselves that profits no longer fall into our laps, does not imply despair. It simply indicates that we are taking a normal viewpoint toward operating problems.

Arithmetic

I won't spend much time on the arithmetic of exports. Foreign buyers have to have dollars, if they want to buy in the United States. They probably won't have as many dollars as they had last year. Furthermore, some of the dollars they do have may be kept in reserve.

How much ECA and other forms of loans will be off, won't finally be decided for some months yet. ECA, itself, is reducing its requests and Congress may even cut down further. Nor do I believe that there will be an expansion in private loans of any great proportion. There are not many areas in the world today where the private lender can send money with any confidence of being able to get interest or principal back. Total decline in government loans will probably be at least $1 billion.

Point IV Quantitatively Unimportant

I do not believe that Point IV of President Truman's program providing for American aid to "underdeveloped countries" will amount to much in terms of dollars. However, the Import-Export Bank and the International Bank

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European Payments Union Versus Sterling Area

By PAUL EINZIG

Correspondent cites following objects of present British plan: (1) limiting possible gold loss; (2) maintaining Britain's special relations with sterling area; (3) safeguarding sterling's international trading currency role; and (4) maintaining bargaining power in bilateral trade negotiations. Reports British feel Americans fail to understand vital importance of maintaining Britain's sterling area position.

LONDON, ENG.—After months of negotiations and hesitation, Britain has now produced a plan under which she is only prepared to enter into limited partnership with the countries of Western Europe. So long as there was a possibility of limiting the scope of the proposed European Payments Union there was a possibility of Britain participating in it on an equal footing with other countries. Since, however, it has become evident that the European Payments Union is meant to create an unrestricted multilateral trading area, the British Government decided to define the limits to which it is prepared to join in the scheme.

Dr. Paul Einzig

In substance the British plan provides for Britain's participation as a lender to the fund, but rules out British borrowing from the fund. While Britain is prepared to provide the sterling needed for the settlement of adverse balances of various countries on their trade with Britain, she does not wish to make use of the facilities provided by the fund for the settlement of her adverse trade balances with other European countries. Britain intends to retain the system of bilateral pacts under which the participating countries agree to retain sterling, up to a maximum ceiling, if they have a favorable balance on their British trade. This means that, instead of borrowing from the Union, Britain would borrow from its individual members.

The British plan pursues fourfold objects: (1) It aims at limiting the possible loss of gold Britain would suffer through the operation of the Payments Union scheme. (2) It aims at maintaining Britain's special relations with the sterling area. (3) It aims at safeguarding the role of sterling as an international trading currency. (4) It aims at maintaining Britain's bargaining power in bilateral trade negotiations.

American insistence on full British participation is causing much bitter feeling over here, largely because of fears that it would result in very heavy losses of gold. The experience of 1947, when Britain lost in a matter of months practically the entire dollar proceeds of the American loan, owing to American insistence on premature convertibility, is still remembered. And it is expected that should Britain allow herself to be persuaded into accepting the full European scheme, history would repeat itself—with the difference that this time it is not the "cushion" represented by the proceeds of the American loan that would be lost but the remains of the gold reserve. It is realized that American opinion cannot be disregarded, and the only question is how much gold the Treasury can afford to lose for the sake of satisfying American opinion. While it is admitted that the U. S. is entitled to take away with one hand the Marshall Aid it has given with the other hand, it is felt there must be a limit beyond which Britain should not go.

Sterling Strength to Europe's Interest

There is a strong feeling that it is to the interest of Europe as well as of Britain and the sterling area that sterling should be strengthened rather than weakened. The position is often compared with the one prevailing on the eve of the Battle of Britain when Mr. Churchill decided to retain the main strength of the Royal Air Force for the defense of Britain rather than fritter it away in a hopeless attempt to stem the German tide on the continent. History has proved that decision to be right, for Britain's capacity to resist the German onslaught has subsequently led to the liberation of Western Europe. It is now felt that, should heavy gold losses undermine confidence in sterling, in the long run Western Europe would also suffer, because Britain's capacity to be of real assistance would weaken.

Must Avoid Gold Losses in All Directions

This argument has a weak side —that it is only applied to Western Europe and not to domestic affaairs or to sterling balances. Britain's effort to minimize the sacrifice of gold involved in the operation of the multilateral currency scheme would undoubtedly command much more respect if Sir Stafford Cripps displayed an equally firm determination to avoid losses of gold in other directions. At home the disinflationary effort aiming at a reduction of domestic consumption has not gone far enough to safeguard exportable output for overseas markets. And the irresponsible releases of sterling balances which, judging by the terms of the recently concluded agreement with Israel, continue unabated, convey the impression that the Government is prepared to lose gold on a large scale for the sake of supporting holders of such balances, and that it is because of such losses that Britain cannot afford to go further in the matter of currency cooperation with Europe. There is undoubtedly a case in favor of a priority of the countries of the Commonwealth, but neither Egypt nor Israel would come under such priority.

American Misunderstanding of British Position

There is a widespread feeling in Britain that American official circles, political circles and public opinion fails to understand the vital importance, from a British point of view, to maintain sterling as an international currency and to maintain Britain's position as the financial centre of the sterling area. While Britain's gold losses arising from the European Payments Union scheme could be compensated out of Marshall Aid payments, the loss arising through a disintegration of the sterling area would be permanent. The British plan is presented as a compromise which would retain Britain's role as a partner in Western Europe without sacrificing her role as the leader of the sterling area. The full significance of the proposals cannot be judged until all details become available, and until negotiations on an official level have made it clear to what extent Britain is prepared to go to meet American opinion.

The World's Insomnia

By M. PAUL REYNAUD*
Former Premier of France
President of the Economic Commission of the Consultative European Assembly

French statesman urges greater speed toward unified defense with common General Staff for all Atlantic Nations. Declares Western Germany must become part of European union. Says clearing union depends on Cripps' alternative plan.

Having traversed this country from coast to coast, and from North to South, I have been able to see for myself its physical and moral soundness. No doubt, the problems of commodity prices and the wage level are difficult of solution and fraught with danger, in this democracy as the others, but the fact that industrial production is 80% above the prewar level must have deprived of all hope those who counted on a postwar crisis of readjustment to weaken the United States and to diminish its role in world affairs. On the contrary, it is in a position to exert decisive influence on the making of a United Western Europe. The component countries have two reasons for such union: to avert invasion and to make a Europe viable from an economic point of view.

Paul Reynaud

France has suffered so much through the two world wars that she would never repel any approach to an understanding with the eastern world. But if launching a war of aggression is the first of crimes, to close one's eyes to the peril and not to prepare to face it is surely the second.

Three Crucial Questions

Three questions are hanging like storm clouds over the minds of those who, in America and in Europe, take an interest in their safety. Will Soviet Russia stop, at last, after so many conquests in Europe and in Asia? Have we ever seen, in the history of mankind, a conqueror stopping of his own free will? Have we ever seen a conqueror sincerely desired and called for by a portion of each one of the nations not yet conquered by him?

I have come to you as a citizen of a people which is on the front lines on both fronts: in Europe and in Asia.

In Europe, we are, as usual, the advance guard of democracies. In Asia, we have been shedding our blood for five years, in our fight for the common cause, against communism.

The Security of Europe and the Fate of America

If the immediate danger is in Asia, the main danger is in Europe. It is in Europe that the fate of humanity will be settled. Let us glance at the world situation. There is a fact which plays an important, and perhaps, in the long run, a capital part: it is manpower. There are 150 million Americans on one side, and on the other side, 200 million Russians. These Russians are far behind the Americans from the standpoint of education and standards of living, but what about efficiency? Granted that they are backward mechanically and technically, but fanaticism and terrorism bind the Soviet worker to his job so thoroughly that the efficiency is high. Human life weighs very little, which is of great importance for atomic experiments and there is no question of production being crippled by strikes.

To the 200 million Russians, you must add 100 million satellites, which makes a total of 300 million on the eastern side of the Iron Curtain, in Europe.

This, then, is the decisive factor: the 250 million Western Europeans including a great number of scientists and a highly skilled working class.

The other day a Russian marshall predicted a new victory for Stalin. Suppose the Eastern conqueror could lay his hands on these 250 million, you would then have to face a mass of 550 million, to say nothing of the 400 million Chinese. The Western fruit is all the more tempting for the hand of the Eastern conqueror in that it would represent the complete control of the huge industrial centers and, particularly, of the Ruhr, France, Luxembourg, and Belgium's steel works. What a temptation!

In that event, what would lie ahead for America?

For the time being, Europe's safety is based on the American atomic bomb stock. But an atomic explosion has been detected in Russia. What will be the situation in two or four years? Will your present superiority continue? Will it still be a safeguard for Europe? Who knows what is going on and what will be going on behind the Iron Curtain? Thus, we may expect in the near future, a certain atomic equality. In that event we must look to the classical arms. On the Eastern side of the Iron Curtain, there are 175 active divisions, as there were before the war, and the Russians, if they decide to declare war, can mobilize about 20 million men.

What of our side? On the European continent, West of the Iron Curtain, there is the equivalent of 20 to 30 Russian divisions.

Do you feel safe?

Of course, Europe has the Atlantic Pact, and arms have already been shipped. For this, we are most grateful.

But do you feel safe? Don't you sometimes ponder on what Baldwin said one day in the House of Commons: "A democracy is always two years behind a dictator."

Are we really facing up to this danger?

My opinion is that we have to go farther and faster. We must unify Europe for her defense and, as this problem is too much for Europe alone, we must have a common General Staff which will dispose of all the Atlantic forces. To the European armies, part of the Atlantic Forces, I personally think we should not hesitate to include not a German army, but German troops—an important distinction.

Making a Viable Europe

It would be useless to create a European army if it were to be undermined from within by communism. Two consecutive wars brought about by man's madness and crimes put Western Europe in danger of sinking into communism. Because of the lack of raw materials which could be bought only with dollars, Europe was threatened with widespread unemployment and revolutionary troubles. Up until now, it has been saved by the Marshall Plan. Now, our American friends tell us: "Do as we did in the early period of our history, when we united our 13 colonies." Between the Eastern and the Western giants, there is room for a Europe, not for a mosaic of European states. How could the small countries of a divided Europe—that broken mirror—compete with the two giants of the World? The purchasing power of the 150 million Americans is equivalent to that of 450 million Europeans. Create, in Western Europe, a large market for these 250 million, I am in favor of anything that would bring closer together the nations of the Atlantic community. But, as to an economic union, there is no doubt that under present conditions, as Mr. Will Clayton said last Jan. 23 to the House Foreign Affairs Committee, if the European countries and America formed an economic union, "the giant industries of the United States in certain mass production fields, would put out of business every comparable industry within the union in other countries." First of all, we must become worthy, on the economic level, of membership in an Atlantic union. European union must come first.

The Obstacles on the Road

Of course, it was one thing to unite the 13 American Colonies with industry and in its infancy and it is quite another to unite the highly industrialized nations of present Europe. It is all the more difficult that, for the last 20 years, these nations have marched backward, along the road to united Europe.

First, in the wage of the economic crisis of 1929 which resulted in a fall of prices, came the restrictions on imports, the quotas. In time of such distress, each nation tried to defend its producers as best it could.

And this situation was aggravated by the war, with each country producing for its military needs and to keep its people alive, without regard to the cost. Thus were born agricultural and industrial enterprises which are not viable in times of peace. But still, they are there. That was not all. The war also brought about exchange controls.

And finally, to top it all, the Allies permitted Russia to cut Europe in two. Before the war, Western Germany exchanged its industrial goods for Eastern Europe's agricultural products. The Iron Curtain makes such exchanges virtually impossible. So that, today, Western Germany is a new Britain, without Commonwealth, without a merchant marine and without a city of London.

Such are the facts which make more difficult the task of unifying Europe. And I say nothing of an event which came about early in this century: the stoppage of European emigration to the New World, which blocked the safety valves of European overpopulated countries like Italy.

So much for the difficulties caused by the mistakes or the crimes of men. But there is another one, which is more fundamental. Outside of these industries, children of the economic crises or of the war, creatures of abnormal conditions, there are normal industries, created before the crisis and the war. In each country, some of them would benefit by the unification of Europe. But others would suffer and perhaps disapear. Another class of corpses. Of course, Russia, uniting Eastern Europe and perhaps more than that, doesn't mind a mere matter of corpses—of any kind—but we democratic people do.

There you have the fundamental difficulty.

To save Europe by uniting it calls for a surgical operation, and without anesthetics. The surgeon must be clever but is it possible to perform an operation without shedding one drop of blood? One of my British Labor colleagues in the Strasbourg European Assembly said to us, last August: "If the uniting of Europe involves unemployment, even on a small scale, our workers will tell you: 'Go to the devil with your Council of Europe, and give us back our salaries and our work'." I answered him: I fully understand that state of mind, but let me tell you that your workers—and ours—seem to believe that the status quo will last. But it will not last. The Marshall Plan will be over soon. And if we haven't accomplished anything toward making a united Europe then we shall have more unemployment in 1952. Not a temporary evil leading to a better future, but a permanent and hopeless evil.

That speech is not made to please the crowd, but there are cases when duty demands that we do not please the crowd.

What Have We Done, So Far, to Build a United Europe?

Once we have removed the obstacles laid down, during these 20 years, there still will remain, for us, to build a united Europe. But we must, first, remove these obstacles from the road. So, you can imagine the weight of our task. Now, just where are we on the road? On the 2nd of last November, the Council of the OEEC decided to lower quotas by 50%. That sounds like a lot. But it is important to note that this 50% is 50% of private purchases and only of purchases made from other Western European countries. So that this 50% falls to 10% of a country's total foreign purchases. We are far, yet, from the Europe of 1930 . . .

The European Payment Union

Last December, the economic committee of the Assembly of Strasbourg recommended to the governments a system of clearing for the settlement of commercial transactions between European nations. These recommendations were proposed by the OEEC experts to the council of the OEEC, at its February meeting. The advantage of this system is that it would bring about the multilateralization of the exchanges and of the payments. Moreover, it would restore the practice of paying in gold. It would also be a step in the direction of union. At the February OEEC meeting in Paris, Sir Stafford Cripps had rejected this proposal. He had said that Great Britain could not afford to be a debtor in terms of gold. I see his point, Britain must consider her war sterling debts toward India and Egypt, but the Bank of England's reserves are increasing since the devaluation of the pound and, after all, in the world of today, one has only a choice among risks. We are waiting for the alternative plan

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*An address by M. Reynaud before American Committee on United Europe, at Cosmopolitan Club, New York City, March 30, 1950.

Increase Imports, or Else—

By CURTIS E. CALDER*
Chairman, Electric Bond and Share Co.
National Vice-President, NAM

U. S. must increase imports or face substantial decline in exports, Mr. Calder declares. The only alternative—"an economic and fiscal absurdity"—is continuing the program of large-scale gifts and loans abroad. States pouring out our national wealth in unrequited exports would irreparably drain our energies and resources.

Our Chairman has ably outlined to us the nature and importance of the problem which we have under construction tonight — that of the foreign trade gap. He has shown us how normally we tend to export more than we import; the problem was not urgent when the difference could be paid for by our acceptance of gold or other assets. He has pointed out that the problem is now urgent because we possess a substantial part of the world's gold and other nations' depleted reserves which they formerly used to clear their adverse balances with us. He has posed the question of what we should do after termination of our foreign aid program under which we have been giving away to the world goods far in excess of what we could expect to get paid for.

Curtis E. Calder

He has shown how a foreigner gets dollars with which to pay for the goods he desires to purchase from us; we give him or lend him those dollars or permit him to earn them by selling something or rendering us a service for which we are willing to pay. He has indicated the extent to which we have been giving him dollars—our taxpayers' dollars.

He has pointed out that our economy is geared to a high level of exports. I accept that thesis. A sharp long-continued contraction of export volume carries serious implications to every segment of this economy, labor, agriculture and industry. The $64 question to which we must find the answer is, how can we maintain a high volume of exports and get paid for them.

Get paid for them! That is the theme which I wish to develop in some detail because I cannot accept a continuing program of large-scale gifts and loans by our country to foreign governments as a means for bolstering exports as anything other than an economic and fiscal absurdity. Please do not misunderstand me. I did not reach that conclusion in criticism of our foreign aid program. I am sure that the humanitarian aspects of our foreign aid program have the support of the vast majority of the American people. Most of us are convinced that our contribution toward the relief of hunger and distress, and toward the restoration of foreign productivity, have been worth while. We believe that our assistance has brought new hope to our friends across the seas, and has strengthened their resistance to the blackjack of communism.

Our gifts have prepared the ground for expanding trade among nations. We hope that they may thus result in strengthening things that we hold dear . . . broadening prosperity . . . nourishing the roots of peace . . . and enlarging freedom of trade between free men.

But it must be obvious that we cannot indefinitely continue to pour out our national wealth in unrequited exports that are a net drain on our economy to the extent that they are not compensated by imports of foreign products. We cannot indefinitely continue to place our taxpayers' gift dollars at the disposal of other governments for the purchase of their requirements in the American market. No nation, however rich and productive, could long withstand such a drain upon its national energies and resources.

If we are agreed that we are not going to attempt to maintain a high volume of exports by giving them away, let's return our attention to the means by which a foreigner may earn more dollars with which to buy our goods and services. He may do so by selling us assets located in his country. . . . That is to say, foreign investment. President Truman's Point 4 has spotlighted worldwide attention on this aspect of the problem. Through the sale for dollars of such assets, the foreigner increases his supply of dollars available for purchase of our goods. Let's look at it a moment not only as related to our immediate problem but as an instrument of foreign economic development under the Point 4 program.

There seems to be general agreement that an increased flow of private investment capital is greatly to be desired—from the point of view of both investor and recipient. But those of us who have a background of experience in the foreign investment field know that it is easier to wish an increase in these investments than it is to get them.

It is not that American investors have lost their courage or their willingness to venture. It is, rather, that under the conditions now existing in many parts of the world, the investor feels that the cards are stacked against him. Usually, the American businessman has to consider the interests of thousands of his individual stockholders—who will hold him to account if the capital is lost or if the investment proves unprofitable. He must balance the hazards and uncertainties of foreign investment against the known advantages of investing at home.

At home he has no dollar transfer problem. Here his property is safe from illegal seizure. Here the rules of the game are more clearly defined, and though his profits may be less large, they are also less risky. At home he is not faced with discrimination or unfair treatment arising from prejudice against the foreigner. And he is free to use his profits, after taxes, as he sees fit.

If the home investor decides to stay out of business in the foreign field, or not to add to his foreign commitments, he cannot be compelled to change his decision.

The possibility of expanding the volume of private foreign investments sufficiently to afford real assistance in bridging the foreign trade gap, will depend almost entirely upon the recipient countries. It will depend upon their willingness and ability to create conditions within their borders that will make these investments attractive.

The United States Government can assist, it is true, by negotiat-

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*An address by Mr. Calder before the Foreign Trade Gap Dinner, co-sponsored by the National Association of Manufacturers, and the Export Managers Club of New York, N. Y. City, March 21, 1950.

Why I Chose a Career in Finance

By JAMES B. RAMSEY, Jr.
Granbery, Marache & Co., New York City

[First of a series of articles by members of the younger generation in the investment banking industry]

Various considerations prompted me to select investment banking for my business career, and associate myself with Granbery, Marache & Co., members of the New York Stock Exchange.

James B. Ramsey, Jr.

While I knew that Wall Street had changed a great deal, and was on an entirely different plane in the 'Forties, and undoubtedly would be in the 'Fifties, than it had been in the speculative 'Twenties, nevertheless, I felt there was a very definite future for me here. I knew that the financial district no longer attracted the young men just out of college in droves, as it formerly did, and no longer could fortunes be made by boy wonders overnight. Furthermore, the SEC had come into existence in the 'Thirties, and with it many changes had developed in the methods and manner of conducting business. The speculative orgies had brought with them some public distrust and apathy. However, public regulation and realization on the part of the Street of the necessity for an improvement in morals tended to bring back the industry into favor. This development undoubtedly would have come sooner or later, anyway, and was bound to be healthy. There must be an opportunity for making a real living wherever transactions were numerous and conducted on such a large scale, with adequate capital, as takes place in the Street.

The fundamental character of the business was fascinating to me. It has always held my interest. Sound investment banking and business techniques had now arrived. It was like the development of the mining business after prospecting, or the exploitation of an invention after discovery. Other factors which influenced me were associations which threw you together with the top men in the country. Furthermore, fluctuating prices and changes in economic situations are conducive to excitement, and investment banking is certainly an exciting business. Few can deny it. Anything of importance, new industries, methods, etc., finds its way sooner or later to the Street.

Another important factor was that our industry is composed of a number of Stock Exchange and investment banking houses, and that no one company or corporation is large enough to dominate the field completely. In fact, it is the policy, through syndicates and various accounts, to cooperate and do underwriting deals together. There is a community of interest among houses that is not paralleled in other lines. While there is plenty of competition, this cooperation has a tendency to make for close friendly relations. Investment banking does not lend itself particularly to monopoly. There are too many sides and angles to the picture. There are no such things as patents, or control of natural resources.

After a brief period of incubation, I learned the various divisions into which most investment banking firms are divided, namely, selling, trading, syndicate and new business. I discovered that partners come from all of the divisions, and each one is equally important. The selling end, however, had more appeal to me. To sell properly, one had to have a knowledge of securities, and be familiar with tax laws, not only of the country, but of the states in which the investors resided. I also learned that the investor was particularly concerned with capital gains, and this was a field all by itself. It was up to me to see that the portfolios of my customers increased, as the larger the increase in the portfolios, the more satisfield customers I would have, and the more profits that would accrue to me. Each investor's problems may be totally different. I had the conviction that I was performing a most necessary and useful service in giving proper counsel, such as it might be, to all.

One day, I would be occupied with studying political developments, and the next, measuring the effect of the gold reserves held in Kentucky on our banking system, or perhaps the influence of the newly discovered iron ore in Venezuela on the price of steel, or Middle East oil on the present structure of mid-continent crude. From now on, I will have to associate myself with the study of nuclear energy, rare earth compounds, titanium, and the awakening of the new giant, television, and what not.

How does one build up a clientele? All one needs is an average personality and intelligence, and I guess customers just grow. As for myself, I am definitely in the development stage. I have plenty of room for expansion, but in the meantime I can see daylight, and I am enjoying it. The greatest thrill one can get is to make a correct recommendation, and have the satisfaction of seeing it turn out the way one was sure it would.

Zebold With Prescott

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, OHIO—Haven L. Zebold has become associated with Prescott & Co., National City Bank Building, members of the New York and Midwest Stock Exchanges. Mr. Zebold was formerly in the municipal department of McDonald & Co. with which he was associated for a number of years.

Joins Harris, Upham

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS. — Frank W. Archer has become affiliated with Harris, Upham & Co., 30 State Street.

Joseph Garside Opens

NORWOOD, MASS. — Joseph Garside is now engaging in a securities business.

Low Interest Rates—One Cause Of Reduced Equity Financing

By A. M. SAKOLSKI

Dr. Sakolski points out, as among causes of reduced resort of business corporations to equity financing, the prevailing abnormally low interest rates, which make it more profitable for business managers to borrow funds than to issue capital stock. Warns impetus thus given to excessive borrowing may cause over-expansion of credit and further inflationary trends.

A. M. Sakolski

During the last five years there has been an almost continuous discussion of the dearth or decline in equity financing, and during the last year Congressional Committees as well as private organizations have been holding hearings on the problem. Much has been written and spoken as to the nature of the causes of the problem and the remedies that should be applied. There seems to be a general agreement that the taxation structure, combined with restrictions on securities marketing, have been the chief impediments to equity financing. There is a great deal of truth in these assertions. However, these reasons apply only to one phase of the problem. They furnish a basis for the investor's lack of incentive to acquire common stocks. But they do not touch upon the causes which lead corporations under current conditions to seek and use the instrument of borrowing either on a short-term or long-term basis, as a means of obtaining needed capital. In other words, no explanation is offered why business corporations are willing and able to go into the loan markets to obtain needed funds to carry on or to expand business operations.

All this has been fully recognized in the recent report of the Subcommittee on Investment of the Joint Committee of the Economic Report, which states:

"The inducement to finance capital expansion by debt is partly the result of the high ratio of earnings yield to price for financing most common stocks. In that regard the period since 1947 has borne marked similarity to the years 1919, 1920, and other boom years in that stocks of long-established and successful American companies are selling at prices representing yields on current, as opposed to past or prospective, earnings of 6 to 13%. Indeed, the yield afforded by the earnings of all industrial common stocks when computed as a percent of average stock prices was 13.8 in 1948, 10.8 in 1947, as compared with 12.1 in 1920. Obviously the inducement to sell stock at such high yields is small as compared with borrowing funds at less than 3% from life insurance companies and other sources of long-term capital. By borrowing at 3%, earnings can be further pyramided on the stock already yielding 13%."

Interest Rate Is a Price

As in all other trading markets, the capital markets are affected by price changes relating to the thing or service traded. A significant, but neglected, change that has taken place in the capital markets over the last decade has been the marked and severe decline in interest rates, i.e., prices charged for borrowed money. The decline has been equally pronounced in short-term money rates or commercial loans as in long-term money rates, as indicated by the yields on government, municipal and corporation bonds. On the other hand, because of the extra business risks and other aftereffects of the severe business depression throughout the 1930s, the price of acquiring equity capital, represented mainly by common stocks, has advanced, leading to the inability to obtain an equal amount of funds from this source at a relative price anywhere nearly commensurate with the low cost of obtaining capital in the loan market. In other words, the gap between income yields on bonds and current cash dividends on common stocks has been almost steadily widening. According to an estimate of the New York Stock Exchange, the income yield, based on cash dividends of common stocks, has risen from 6.1% in 1940 to 7.8% in 1949. The result has been a greater incentive to borrow by business corporations, when such organizations are in a position to choose between borrowing through the issue of credit instruments or obtaining needed capital through additional stock issues. Moreover, interest is computed as an expense, and, to that extent, reduces taxes, whereas taxes are deducted from profits available for dividends. This gives an additional advantage to business borrowing.

That the low interest rate policy instituted by the Roosevelt regime before the war, and since followed without interruption, is largely responsible for this situation can hardly be denied. Of course, during the extended business depression, idle money accumulated, resulting in declines in interest rates on high-grade credit risks. But, with the return to boom conditions, as existed during and following the war, it would be expected from precedents of former years in which similar conditions prevailed, that interest rates would advance. The reason that this has not been the case is plainly due to the Treasury's policy, backed up by the Federal Reserve Board, of keeping down interest rates for the purpose of protecting the market for government obligations, and also to maintain at a low level the cost of its short-term current borrowings from the banks.

The level of government bond interest yields affects the rates on other obligations, and thus corporate borrowings can be had at present at what might be termed abnormally low rates. This is even admitted by the President's Economic Advisers' latest "Annual Economic Review," in which it is stated: "Corporate managers have recently preferred to borrow funds at prevailing low rates of interest, rather than to dilute the corporate equity capital, as they describe an issue of new stock at the price at which it can be absorbed by the existing market."

Borrowing at Low Interest Rates Chief Source of Dividends

In this connection it should not be forgotten that borrowing capital at a cost lower than the profit that can be obtained from its use constitutes the chief source of dividends to stockholders. Few corporations today or at any other time could pay substantial dividends without the use of borrowed capital, unless they greatly increased their profit margins. Borrowing, therefore, has been the means of creating earnings for equity capital. Or, using a term first applied only a few years ago, borrowing or outstanding indebtedness at low fixed rates acts as a "leverage" for elevating the value of a corporation's common stocks.

This concept was strongly stressed by the English economist, Walter Bagehot, about three-quarters of a century ago in his classic on the London Money Market, "Lombard Street." Commenting on the continual activity and economic importance of the London money market, Bagehot wrote: "English trade is carried on upon borrowed capital to an extent of which few foreigners have an idea, and none of our ancestors could have conceived. In every district small traders have arisen which discount their bills largely, and with the capital so borrowed, harass and press upon, if they do not eradicate, the old capitalist. The new trader who borrows has obviously an immense advantage in the struggle of trade. If a merchant has $50,000, all his own—to gain 10% on it, he must make $5,000 a year, and must charge for his goods accordingly; but if another has only $10,000 and borrows $40,000 by discounts (no extreme instance in our modern trade) he has the same $50,000 to use, and can sell much cheaper. If the rate at which he borrows be 5%, he will have to pay $2,000 a year and if, like the old trader, he makes $5,000 a year, he will still, after paying interest, obtain $3,000 a year or 30% on his own $10,000. In modern English business, there is a steady bounty on the use of borrowed capital, and a constant discouragement to confine yourself solely or mainly to your own capital."

It was along the same lines as this that Daniel Webster speaking in the Senate of the United States remarked on March 12, 1838:

"The declaration so often quoted, that 'all who trade on borrowed capital ought to break' is the most aristocratic sentiment ever uttered in this country. It is a sentiment which, if carried out by political arrangement, would condemn the great majority of mankind to the perpetual condition of mere day laborers. It tends to take away from them all that solace and hope which arise from possessing something they can call their own. There is no condition so low, if it is attended with industry and economy, that it is not benefited by credit, as anyone will find out, if he will examine and follow out its operations."

And on another occasion, in defending bank credit, the Great Daniel explained:

"Credit is the vital air of the system of modern commerce. It has done more, a thousand times more, to enrich nations than all the mines of the world."

Of course, all this, now well acknowledged as a postulate of economics, assumes that business borrowing is profitable to the borrower. It may be further assumed that the lower the cost of borrowed capital, the more will be borrowed and, other things being equal, the greater will be the borrower's profits.

The Current Low Cost of Borrowed Capital

It is not necessary here to furnish elaborate statistical data to illustrate the decline in both long- and short-term interest rates during the last decade. To all interested parties the facts are well known. The yields today on all classes of credit instruments are about at the lowest levels in the history of the nation—so low, in fact, that the life insurance companies have found it increasingly difficult to earn an aggregate return on their investments sufficient to cover the guaranteed rate to policy holders on their reserves. Commercial banks, also, receive such low rates on their short-term loans, that despite the low ratio of their capital to deposits (resulting from large government bond holdings) they are unable to earn sufficient net profits to afford their shares a market value above liquidating value.

Under these conditions of governmentally induced and seemingly abnormal low interest rates, it would certainly be a poor business move for a corporation, whose capital structure could afford it, to forego borrowing needed capital rather than dilute the equity of existing shareholders by issuing more stocks. Such policy would mean lower rather than higher dividend rates, but, with the constant narrowing of the gap between costs and prices, it can eventually mean no dividends at all.

All this does not mean that more equity capital is not needed at the present time or that a continuous mounting of debt in capital structure of a business is not a dangerous trend both to the business itself and to the public. There is no substitute for sound financial judgment, and excessive borrowing is almost as bad in low interest periods as it is when interest rates, because of strained credit conditions, are abnormally high.

That some self-imposed restraints on injudicious borrowing, induced by governmental low interest policy as well as by subsidized Federal lending, should be clamped down on business, and quite soon, is without question. Of course, it might be expected that private banking and other institutions, who furnish the borrowed funds, or through whose hands the funds are channeled, will in their own interest, exercise these restraints. But experience proves this has not always been the case. The danger of inflationary credit expansion arising both from Federal fiscal policy and the excessive Federal guarantees of all sorts of credit transactions should not be passed over lightly in forecasting the future, despite its current advantage in permitting business to borrow at low cost and dispense with large equity financing. As stated recently by William McDonnell, President of the First National Bank of St. Louis:

"The Federal Government is the largest single borrower and, with the need to continually renew its obligations, is anxious to have available to it cheap and abundant credit. If, however, credit is made cheap and abundant for the Federal Government, it necessarily tends to become cheap and abundant for other borrowers. If such credit situation is continued too long, it can lead to inflationary excesses of the most dangerous character."

Despite the Keynesian doctrine that the interest rate could and should be pushed down to the zero point, the level of interest rates plays an important role in the national economy. But this role apparently is ignored in present day central bank practices and in national economic planning.

Closing the Dollar Gap

By HON. JAMES E. WEBB*

Under Secretary of State

Asserting closing of the dollar gap at a high level of international trade is most important single step that can be taken toward economic and political stability of free nations, high ranking State Department official reveals ECA in 1949 financed 23% of all commodities going into export. Says this situation should be only temporary and European nations as well as U. S. should strive to balance trade with dollar area. Praises reciprocal trade agreements for lowering tariffs and calls for united effort of individuals and government to integrate our domestic and foreign policy.

As has been so clearly shown, the United States has for a long time been exporting far more than it has imported. It has been financing most of the difference out of the public Treasury.

James E. Webb

The situation today is that in 1949 ECA financed 23% of all commodities going into export. This included 60% of the cotton, 22% of the machinery and equipment, 51% of the coarse grains, 52% of the tobacco, 22% of the petroleum products, 27% of the meat and 17% of the iron and steel products.

This is a situation which neither you as businessmen nor we as government officials would want to see continue any longer than was absolutely necessary.

So I think we would all agree that we do not want to continue public financing indefinitely as a major means of closing the dollar gap.

Close Gap at High Level of Trade

I think we would also all agree that we want to close the gap at a high level of international trade. To close it at a low level would manifestly have an adverse effect on important segments of our economy and on other friendly countries.

People sometimes tend to play down the importance of exports to the United States. But last year we exported about $12 billion worth of goods and $3 billion worth of services, and that is a lot of money and a lot of employment, no matter how you look at it. One out of every five pieces of the agricultural equipment produced in the United States in 1948 was exported; one out of every four pounds of tobacco was exported; one out of every three bales of cotton was exported; and two out of every five bushels of wheat were exported. Over 2,000,000 Americans in all levels of our economic life are dependent for their jobs on export, over and above the large number of agricultural workers who are also dependent on exports for their present prosperity.

Moreover, I think we all of us here in this room would be in agreement as to our broadest objectives and as to the kind of a world trading system we would like to see established. I could not do better in stating this point than to repeat the conclusion of the report of the Fletcher School, to which Mr. Calder referred earlier this evening.

"Our efforts today should be directed toward the expansion of international trade, and particularly toward the restoration of multilateral trade in the world. This would do more than anything else to solve the problems arising in connection with the relationship between our own economy and the economies of other nations. The restoration of the multilateral trading system would permit private firms to trade directly with each other, and to use the earnings from such transactions in any country in the world. Under this system trade would rest on economic principles alone, making available to the world the products and skills of each individual nation as they have been developed by geography and tradition. There would be a minimum of government intervention with a view to dictating the channels or terms of such trade. In such a world, the environment would be highly favorable to our private enterprise system. In such a world the cessation of the Marshall Plan aid would have the least effect upon the American economy, and the problem of the foreign trade gap could be most easily solved."

Clearly, the closing of the dollar gap would be one of the great steps toward the achievement of these objectives.

Mr. Calder has pointed out that there is much that other governments can and should do to help in this process by stimulating their production, lowering their costs and creating a favorable climate for investment. But there is also much that the United States can and should do. In fact, much of what needs to be done can only be done by the United States. We more than any other single nation or people have the power through our individual and collective actions to help create a better world economic climate. Therein lies our hope for the future—and our responsibility.

Our Present Policies Can Close Gap

Most of our present policies can, if vigorously pursued, contribute greatly to the closing of the dollar gap.

In the first place, we have recognized that, if our own and other countries' trade is to increase, the rest of the world must be economically healthy. Other countries must be able to be good customers and good suppliers.

Five years ago normal world trade had all but disappeared. The economic system of half the civilized world was in ruins. Millions of people were without food, shelter, or the means of earning a living. Their factories had been bombed, their crops destroyed.

We Americans had the energy and the means to help our allies rebuild their shattered lives. We did help.

In Western Europe, whose trading relations are so important to the whole civilized world, we have been making an unprecedented effort to aid in repairing the economic ruins of the war. Today, this area has food and jobs and hope. The threat of communism there has receded. Production is above prewar levels. The exports of these countries and their trade with one another have increased. They are on their way to becoming, once more, healthy and vigorous partners in the economy of the world.

The European Recovery Program thus has helped to put the nations of Western Europe into a position to expand their production of goods and services with which to trade with the rest of the world and with us, and thus help to close the dollar gap.

In the underdeveloped regions of the world millions live under conditions of abject poverty, disease and ignorance. Yet from many of these countries come some of our most vital raw materials, and their citizens could be among our best customers. These people need technical assistance, plans for their own economic development, and capital for the development of their natural and human resources.

The development of these areas is one of the most urgent tasks we face. It is necessary to the economic progress of the world; it is essential to the preservation and expansion of the democratic way of life. It will also help these areas to expand their trade with other areas and with us and thus contribute to closing the dollar gap. The Point IV program is designed to aid in this process of economic development. It is primarily a program of aiding these regions to take the steps necessary to their own economic growth.

Bilateral Commerce Treaties Desirable

Another way in which we can hope to contribute to the economic development of other countries is through the program, which has already been referred to this evening of negotiating modernized treaties of friendship, commerce and economic development.

I think this is worth more than a brief mention. Commercial treaties were among our earliest means of regularizing international activities. The present version, which we call modernized, was worked out with the Treasury, the Commerce Department, the Agriculture Department, and other Federal agencies. It has stood the test of three recent successful negotiations. We have high hopes that it will become the basis for a pattern or system of international commercial relations which will benefit not only ourselves but every nation with which we conclude such a treaty.

These treaties, to which every friendly nation in the world is eligible, are doubtless familiar to many of you. Let me summarize, however, their main purposes and provisions.

They accord most-favored-nation treatment unconditionally and often national treatment. They set up an international legal framework designed to help business activity to increase and capital to be more readily invested. They furnish protection from discrimination or molestation and they provide for the enforcement of contracts. They provide certain basic protections for individuals. In short, they aim to create an international environment which will release the energies of millions of men and women, business people, professional people, scientific people, and those from almost every walk of life, from many present uncertainties including illegal interference or hampering restrictions. In such an environment, individuals can have the best opportunity to produce a sum total of wealth and knowledge and things of the spirit greater than any governmental authority can produce for them.

But the nations of Europe cannot fully recover, and the underdeveloped areas of the world cannot develop effectively, unless they are able to trade with each other and with other countries. That is why we attach so much importance to the reestablishment of the multilateral trading world described in the Fletcher School statement which I read you. And that is why we have been the leader among nations in the long negotiations which led to the Charter for an International Trade Organization. This Organization provides, first of all, a code of principles that member countries will agree to follow in the conduct of their trade with each other, and secondly, an international forum for the orderly dis-

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*An address by Under Secretary Webb before the Export Managers Club, New York City, March 21, 1950.

NSTA Notes

INVESTMENT TRADERS ASSOCIATION OF PHILADELPHIA

The Investment Traders Association of Philadelphia will hold its annual field day at Whitemarsh Country Club Friday, June 16. Golf and softball will headline the intercity sports of the day. Out-of-town guests are invited.

DALLAS BOND CLUB

The Dallas Bond Club will have a cocktail party honoring the visiting dealers and their wives en route to the Texas Group IBA Spring Meeting on the afternoon of Tuesday, May 2, 1950, between the hours of 4:30 and 6:30 p.m. at the Downtown Club in Dallas. The Committee in charge of this party consists of Robert K. Foster of Blyth & Company, Chairman; R. McRae Davis of the Texas Bank & Trust Company; and Landon Freear of William N. Edwards & Company.

SAN FRANCISCO TRADERS ASSOCIATION

The San Francisco Security Traders Association will hold their annual spring party at the Diablo Country Club June 9, 10 and 11.

SECURITY TRADERS ASSOCIATION OF NEW YORK

The Bowling Tournament between the Security Traders Association of New York and the Investment Traders Association of Philadelphia will be held Thursday, April 20, at the Ten Pin Alleys, 23 Park Row, New York City, at 7:30 p.m. Following the match the usual dinner celebrating and honoring the visitors will be held at Joe King's (3rd Avenue and 17th Street).

All STANY members are invited to watch the bowling and attend the dinner, at $8.00 per person. Reservations should be made before April 12 with Charles Kaiser, Grady, Berwald & Co.

Tom Canova Assigned To Treasury Post

Thomas A. D. Canova, well known in Wall Street for many years as a trader and specialist in U. S. Government securities, has been appointed to the U. S. Treasury Department as a Deputy Director in the Savings Bonds Division for New York. Mr. Canova has been active in previous Treasury programs and will continue to assist the Treasury Department as consultant to coordinate various promotional, public relations and bond sales activities during the forthcoming "Independence Drive" national savings bond campaign.

Thos. A. D. Canova

Iowa Electric Light Offering New Pfd. On Exchange Basis

First Boston Corp. and G. H. Walker head underwriting group.

Iowa Electric Light and Power Co. is offering to the holders of its outstanding $100 par value preferred stock the right to exchange such shares for 108,834 shares of new 4.80% cumulative preferred stock of $50 par value and 839,628 shares of new common stock. The exchange offer, which will terminate April 12, 1950, is being underwritten by The First Boston Corp. and G. H. Walker & Co. and associates. In addition to purchasing the unexchanged shares, the underwriters are also purchasing for immediate sale 85,372 shares of common stock. The company at the expiration of the exchange offer will call for redemption, at 102½ and accrued dividends, all of its old preferred stock that has not been exchanged. The capitalization at the conclusion of this financing will consist of $22,000,000 funded debt, 108,834 shares of $50 par value 4.80% preferred stock, and 1,000,000 shares of $5 par value common stosk.

Iowa Electric Light and Power Co. is engaged in the electric business in Iowa, serving an area extending through the heart of the central Iowa corn belt, considered to be the nation's richest farming area. Total operating revenues for 1949 amounted to $10,905,157, of which approximately 83% was derived from the sale of electricity and the balance from the sale of gas, steam and hot water.

It is the intention of the board of directors, according to the prospectus, to declare a dividend of 22½ cents per share on the new common stock, payable on July 1, 1950.

Arthur Richards With Newburger & Co.

PHILADELPHIA, PA.—Newburger & Co., 1342 Walnut Street, members of the New York and Philadelphia Stock Exchanges, announce that Arthur C. Richards is now associated with them as a registered representative.

Burnham Admits

Burnham & Co., 15 Broad Street, New York City, members of the New York Stock Exchange, will admit Alex Wolf to limited partnership on April 13.

Tennessee Gas Pfd. Stock Issue Offered

Stone & Webster Securities-White Weld group offers 100,000 shares of 4.60% preferred stock at $105 per share.

An underwriting group, jointly headed by Stone & Webster Securities Corp. and White, Weld & Co., on April 4 publicly offered a new issue of 100,000 shares of 4.6% cumulative preferred stock, par value $100, of Tennessee Gas Transmission Co. The stock is priced at $105 per share.

Proceeds of the sale will be added to the general funds of the company and will be used to help finance the current expansion. The company expects that its delivery capacity which was approximately 710,000 MFC of natural gas per day on Dec. 31, 1949, will be increased to a daily capacity of 1,060,000 MFC, as authorized by the Federal Power Commission, during the winter of 1950-1951. As of Feb. 28, 1950, it was estimated that the remaining cost of completing the presently authorized pipe line expansion program would amount to approximately $116,000,000.

The new stock carries a sinking fund commencing in the year ended April 1, 1956, sufficient to retire issue by April 1, 1980. The new stock is redeemable at the option of the company at any time at prices decreasing from $108 per share if redeemed prior to April 1, 1955 to $105 per share if redeemed on or after April 1, 1965, and for the sinking fund at a price of $105 per share.

Investment Analysts To Hear J. H. Ward

CHICAGO, ILL. — J. Harris Ward, Secretary of the Commonwealth Edison Co., will address the luncheon meeting of the Investment Analysts Club of Chicago to be held today in the Wedgewood Room of Marshall Field & Co. Mr. Ward will talk on the Commonwealth Edison Co.

New Officers

PORTLAND, ORE. — Officers of Campbell & Robbins, U. S. Bank Building, are James G. Robbins, President; Harold L. Temple, Vice-President; and John T. Pasquill, Secretary-Treasurer.

Edward Julius With Pollock in Chicago

CHICAGO, ILL. — Edward H. Julius is now associated with the sales department of William E. Pollock & Co.'s newly opened Chicago office, 231 South La Salle Street.

E. A. Henderson With Shearson, Hammill

The association of E. Allen Henderson with Shearson, Hammill & Co., members of the New York Stock Exchange, in its main office, 14 Wall Street, New York City, is announced. Mr. Henderson was formerly with Glore, Forgan & Co.

Farm Price Upturn Seen As Temporary Interruption in Deflationary Trend

Rise in unemployment beyond 5 million, and building decline forecast by Alexander Hamilton Institute.

After showing a downward trend from a record high peak of 306 in January, 1948, to 233 in December, 1949, the index of the prices of farm products, as compiled by the Bureau of Agricultural Economics on the basis of January, 1910-December, 1914 as 100, recovered to 235 in January and to 237 in February, according to a report of the Alexander Hamilton Institute. It is probable, however, that this upturn represented only a temporary interruption rather than a definite reversal of the deflationary movement. Despite the fact that prices in February were down 22.5% from the all-time high in January, 1948, they were still as highly inflated as they were at the peak of the inflationary movement after World War I, as well as being 163.3% above the prewar level in August, 1939.

The Drop in Exports

According to the Alexander Hamilton Institute, the value of merchandise exported from the United States in January to $744,000,000, a new low for the current recession, and 47.4% under the postwar peak of $1,414,000,000 recorded in May, 1947. On the other hand, the value of imports in January extended its upward trend for the sixth consecutive month, rising to $623,000,000. As a result, exports exceeded imports in January by only $121,000,000, the smallest gap reported since the beginning of the present trend toward a closer merchandise trade balance.

Of the $121,000,000 excess of merchandise exports over imports in January, $47,000,000 was financed by net gold and silver imports, leaving only $74,000,000 to be financed by United States Government aid and other means. This suggests that the downward trend of merchandise exports may soon be halted, provided that the United States maintains its present demands for foreign imports.

The Rise in Unemployment

After declining in January to 56,947,000, the lowest figure since April, 1947, the number of persons employed in the United States showed a slight rise to 56,953,000 in February, according to the Alexander Hamilton Institute. This gain in employment, however, was not sufficient to absorb the increase in the available supply of workers from 61,427,000 in January to 61,637,000 in February.

The result was that the number of persons unemployed rose from 4,480,000 in January to 4,684,000 in February. This was not only a new high for the postwar period, but it represented the largest number of unemployed in any month since August, 1941. The unemployment figure last year was 3,221,000.

From now on until fall, employment should show a seasonal upward trend. There are indications, however, that this increase will be exceeded by a gain in the available supply of workers. It is thus possible that unemployment will rise above the 5,000,000 mark by early summer.

The Building Boom

According to the Alexander Hamilton Institute, total building contracts awarded in February ran far above the level of a year ago, as was the case in January. Most of the gain was accounted for by residential building contracts, although there was also an increase in non-residential contracts. According to the figures compiled by the F. W. Dodge Corporation, combined residential and non-residential contracts awarded in 37 Eastern States amounted to 71,024,000 square feet of floor space in February as compared with 48,510,000 square feet in the corresponding month last year, an increase of 47.0%. The total for the first two months was 135,399,000 square feet this year as against 89,887,000 square feet last year, a gain of 50.6%.

Residential building contracts awarded in both January and February were at a record high rate. The volume in February was 73.4% larger than in the like month last year, while the total for the first two months was 89.7% higher than a year ago. If the percentage gain in February over last year's level was maintained during the remainder of 1950, the annual volume of residential building contracts this year would exceed 900,000,000 square feet as compared with the previous high record of 568,383,000 square feet in 1929.

There is a good possibility, however, that high building costs will prevent building activity from being maintained at the present rate during the remainder of this year. A preliminary figure shows that the index of building costs, on the basis of 1926 as 100, rose to record high figure of 213.2 in February, or more than double the annual average of 103.9 in the prewar year of 1938.

Dr. Starkweather to Advise Valenta Co.

Dr. L. Starkweather

Dr. Louis P. Starkweather, Chairman of the Department of Finance, Rutgers University, School of Business Administration, has become investment advisor to Frank L. Valenta & Co., Inc., 1 Wall Street, New York City, sponsors of Natural Resources Fund, Inc., an open-end mutual fund, it was announced. Dr. Starkweather is also a corporation and investment consulant and lecturer in finance at the Graduate School of Business Administration of New York University.

Canadian Securities

By WILLIAM J. McKAY

So far the Canadian economic situation has been remarkably well sustained at a high level of business activity and production. The unemployment figures earlier in the year gave some cause for concern, but with the approaching end of the winter season there are already indications of a downward trend. The recent budget speech of Finance Minister Abbott likewise was highly optimistic, and the forecast was made that the general level of business will remain good into 1951. It was mentioned however that any further extension of pensions and social services would have to be met by higher taxes. Mr. Abbott further stated that the Federal expenditure ceiling would be fixed for the foreseeable future at a figure of $2.4 billions.

Thus it appears that the Federal Government will make every effort to stabilize the Canadian economy at its current peak level. There are however important elements in the situation that are not susceptible to direct control by the Dominion authorities. In particular the volume and direction of foreign trade are governed principally by external factors outside the scope of Canadian direction. In view of the Dominion's high degree of dependence on foreign trade, the Canadian economy is all the more vulnerable in the event of adverse external developments. A pertinent example is the present state of U. S.-Canadian trade. The latest returns show that Canadian trade with this country has now reached its highest level in history. The unprecedented proportion of 66% of Canada's total trade is now transacted with the United States. During February Canadian exports to this country constituted 64% of total shipments abroad, which compares with a ratio of 50% during 1949, and 38% over the past 30 years.

On the other hand Canada's trade elsewhere, and particularly with her other great customer, Britain, has registered an alarming decline. The February figures reveal that in comparison with the same month last year Canadian exports to Britain have declined by 31%, and by 42% in comparison with the February, 1948 returns. It has also to be borne in mind that the current statistics still reflect the execution of orders arranged a year or more ago. Furthermore the impact on Canadian trade of sterling devaluation has not yet registered its full effect.

Consequently in the period immediately ahead economic developments in this country and Britain will have a critical bearing on the Canadian economic situation. In the course of his recent budget speech, Finance Minister Abbott also warned that a considerable part of the recent increase in the Canadian exchange reserves to a high level of $1,204 millions is accounted for by a rise in Canadian balances held by other governments. Mr. Abbott stated that these balances are now "abnormally high," but they are likely to be reduced in the next few months by exports which will be applied against these balances. "To this extent," the Finance Minister remarked, "our reserves at their current level include the proceeds of some future earnings which have in effect been received in advance." It was also revealed that in the next few months heavy transfers of earnings on U. S. investments in Canada are expected. During the second quarter of last year the Canadian exchange reserves declined by $90 millions as a result of U. S. repatriation of current earnings. Thus despite the present highly satisfactory state that is reflected in current statistics, a few threatening clouds are now beginning to gather on the Canadian economic horizon.

During the week the external section of the bond market once more relapsed into its previous apathetic state following the short-lived period of animation provoked by the new Quebec and Alberta issues. The internals on the other hand reflected a moderate investor demand and prices were a shade firmer despite the decline in Canada in anticipation of an imminent announcement of the June refinancing terms. Free funds, following a slight decline caused by offerings in connection with the June internal bond redemptions, rallied on further demands in connection with Alberta oil financing. Although transactions were on a restricted scale the corporate-arbitrage rate declined to 15½%-14¾%. Stocks on the whole were inclined to lag but the Western oils were a notable exception. Pacific Petroleum registered a sharp advance in active trading and Royalite and Calgary and Edmonton made substantial gains. Speculative golds attracted some attention among which Aumaque, Barnat Mines, Norseman, and Louvicourt figured prominently. On renewed rumors of acquistion by the Manitoba Government, Winnipeg Electric touched a new high. Base metals were mixed but East Sullivan, Gulf Lead, and Labrador registered small gains.

Robert McCook With Walston, Hoffman

PHILADELPHIA, PA.—Robert McCook, formerly on the Trading Desk at Hallowell, Sulzberger & Co., is now a registered representative with the Philadelphia office of Walston, Hoffman & Goodwin, 1420 Walnut Street.

Vanderhoef Robinson Admit Irvin Kerr

Vanderhoef & Robinson, 31 Nassau Street, New York City, members of the New York Curb Exchange, announce that Irvin W. Kerr has been admitted as a general partner in the firm. Mr. Kerr has been with the firm for many years.

CANADIAN PACIFIC RAILWAY COMPANY

Sixty-Ninth Annual Report of the Directors, Year Ended December 31, 1949 (Abridged)

HIGHLIGHTS

YEAR'S RESULTS:	1949	1948	Increase or *Decrease*
Gross Earnings	$ 363,252,094	$ 355,249,702	$ 8,002,392
Working Expenses	342,620,125	336,830,536	5,789,589
Net Earnings	20,631,969	18,419,166	2,212,803
Ratio, Net to Gross Earnings	5.7%	5.2%	0.5%
Other Income	$ 23,636,653	$ 24,864,949	*$ 1,228,296*
Interest and Rental Charges	14,543,817	15,890,264	*1,346,447*
Dividends—Preference Stock—4%	3,872,768	4,557,682	*684,914*
—Ordinary Stock—5%	16,750,000	16,750,000	------
Balance for Modernization and Other Corporate Purposes	9,102,037	6,086,169	3,015,868
YEAR-END POSITION:			
Property Investment	$1,381,246,250	$1,324,512,797	$56,733,453
Other Investments	193,444,952	234,431,233	*40,986,281*
Funded Debt	79,373,000	102,037,000	*22,664,000*
Reserves	503,527,526	486,524,243	17,003,283
Working Capital	89,283,032	97,715,688	*8,432,656*
TRAFFIC STATISTICS:			
Tons of Revenue Freight Carried	56,445,684	60,036,833	*3,591,149*
Revenue Passengers Carried	11,969,457	13,629,044	*1,659,587*
Revenue per Ton Mile of Freight	1.20c	1.13c	0.07c
Revenue per Passenger Mile	2.72c	2.48c	0.24c

To the Shareholders:

The year 1949 was one of sustained industrial and commercial progress throughout Canada. Gross earnings from rail operations again surpassed those of any previous year, but net earnings, though showing a slight improvement over 1948, were substantially below the requirements found reasonable by the Board of Transport Commissioners. The rate of return on the net investment of your Company in rail property was 1.96% for the year 1949, far below an adequate level.

As your Directors have stated from time to time, net earnings from rail operations have been insufficient to provide any return to holders of ordinary stock. But for the unusually large income from other sources it would not have been possible for your Company to meet even the modest dividend that has been paid in recent years.

On the application of the Railways made in July 1948 for an increase of 20% in freight rates, the Board of Transport Commissioners announced its decision in September 1949, authorizing an interim increase of 8% (except on grain rates within Western Canada) and a specific increase of 8c per ton on coal and coke. The judgment postponed the final determination of the application until several investigations and studies had been completed, including those of the Royal Commission on Transportation which has been sitting since the early summer of 1949.

An appeal was taken by your Company to the Supreme Court of Canada on two questions of law arising out of the judgment of the Board. The Court held that the Board had erred in postponing the final determination of the application of the Railways, and certified its opinion that the Board had failed to perform the duty imposed upon it by the Railway Act.

The Board, at the request of your Company, then set the application down for final hearing, which was concluded on February 7 last. The judgment of the Board, dated February 28, finds that in place of the 8% interim increase previously allowed, the Railways should now be allowed a 16% increase. On coal and coke an increase of 15c per ton instead of 8c is authorized. It is estimated that these increases, had they been in effect for the full year 1949, would have yielded to your Company only $22 million, while the revenue deficiency as established by the Board itself amounted to approximately $30 million. The steps necessary to redress this situation are now under consideration.

The Income and Profit and Loss accounts of your Company show the following results for the year ended December 31, 1949:

Income Account

Gross Earnings			$363,252,094
Working Expenses			342,620,125
Net Earnings			$ 20,631,969
Other Income			23,636,653
			$ 44,268,622
Fixed Charges			14,543,817
Net income			$ 29,724,805
Dividends:			
Preference Stock:			
2% paid August 1, 1949	$ 2,131,203		
2% payable February 1, 1950	1,741,565		
		$ 3,872,768	
Dividends:			
Ordinary Stock:			
2% paid October 1, 1949		6,700,000	
			10,572,768
Balance transferred to Profit and Loss Account			$ 19,152,037

(The final dividend of 3% on the Ordinary Stock which was declared subsequent to the end of the year and is payable March 31, 1950, amounting to $10,050,000, is not deducted in the accounts for the year 1949.)

Profit and Loss Account

Profit and Loss Balance December 31, 1948		$196,737,313
Final dividend of 3% on the Ordinary Stock, declared from the earnings of the year 1948, paid March 31, 1949		10,050,000
		$186,687,313
Balance of Income Account for the year ended December 31, 1949	$ 19,152,037	
Portion of steamship insurance recoveries representing compensation for increased cost of tonnage replacement	576,264	
Miscellaneous—Net Credit	315,163	
		20,043,464
Profit and Loss Balance December 31, 1949, as per Balance Sheet		$206,730,777

Railway Operations

Gross earnings increased $8 million, or 2.3%, over those of 1948. Of this, about $6 million is attributable to freight traffic. There was a net increase of approximately $18 million from adjustments in freight rates, but this was largely offset by a drop of nearly $12 million in the volume of traffic, which was 6% lower, measured in tons, and 4% lower measured in ton miles.

Working expenses increased $5.8 million. Of this increase $4.2 million resulted from the general wage increase of 17c per hour, which was in effect for the full year 1949, as compared with ten months in 1948.

Maintenance expenses increased $5.6 million—$2.5 million in maintenance of way and structures and $3.1 million in maintenance of equipment.

Track laying expense was greater, principally because of the installation of additional quantities of track material, including 223 more track miles of rail.

Equipment repair expense was higher owing to increased wage and material costs and to the increased number of freight and passenger cars repaired.

Maintenance expenses were credited with an amount of $7.5 million withdrawn from the Maintenance Fund. Of this amount, $6.25 million was applicable to track materials. Withdrawals from the Fund, as in 1948, were based on a formula which was applied without regard to the increase in prices of these materials as compared with prices at the time the accruals to the Fund were made.

Depreciation charged to maintenance expense was $2.5 million less than in 1948. Of this, $2.2 million resulted from the adoption of revised user rates developed in studies made during the year. The service lives on which the user rates now are based closely correspond with those on which the Board of Transport Commissioners based its straight-line depreciation rates for rate making purposes in its judgment of September 20, 1949.

Transportation expenses were little changed from last year, but the ratio of these expenses to gross earnings declined to 42.4% from 43.4% in 1948. This reduction resulted largely from a substantial decrease in fuel expense, the increased use of diesel power being a factor.

Operating performance showed an improvement; the average freight train load was greater and freight train speed increased. There was, however, a substantial increase in empty freight car miles.

Net earnings from railway operations in 1949 amounted to $20.6 million, an increase of $2.2 million. The ratio of working expenses to gross earnings was 94.3%, a fractional reduction only from 94.8% in 1948, the highest ever recorded. Between the years 1920 and 1939 this ratio varied from a low of 77.3% to a high of 85.4%.

Other Income

Other income amounted to $23.6 million, a decrease of $1.2 million compared with 1948.

Net earnings from ocean and coastal steamship operations decreased $454,000. Ocean freight traffic was much lower and the effect of this was only partially offset by higher passenger carryings due to the return of the *"Empress of France"* to the Atlantic route. Two new vessels placed in operation on the British Columbia Coast routes favourably affected the results for the year.

Net earnings of hotels increased $640,000. Revenues were higher, mainly owing to the increases in rates for rooms and meals, made in July 1948, being effective for a full twelve months.

Net earnings from communication services increased $780,000. Rentals from leased wires were higher and there was an improvement in revenues from domestic messages resulting from an increase in tolls of 15% made effective July 4.

Dividend income decreased $2.8 million, principally because of the lower dividend paid by the Consolidated Mining and Smelting Company of Canada, Limited. The dividend rate on the stock of that company was reduced from $11.00 in 1948 to $9.50 in 1949.

Net income from interest, exchange, separately operated properties and miscellaneous sources increased $666,000. Contributing to this increase was the inclusion of $698,000 representing the net income of the Insurance Fund. The policy adopted in 1941 of retaining such income in the Fund was considered for the present to be unnecessary. Also included was an amount of $359,000 received as interest for the period 1945 to 1948 on Duluth, South Shore and Atlantic Railroad income bonds acquired on the reorganization of that company. Offsetting in part this additional income, was a reduction in interest earned by the Steamship Replacement Fund and an increase in the operating loss of the Northern Alberta Railways, half of which is borne by your Company.

Fixed Charges

Fixed charges amounted to $14.5 million for the year, a decrease of $1.3 million.

Rents for leased roads and interest on Consolidated Debenture Stock payable in sterling were lower as a result of devaluation. The effect of this devaluation was offset somewhat by increased charges on equipment obligations, on Consolidated Debenture Stock and on Collateral Trust Bonds payable in United States currency, because of the devaluation of the Canadian dollar.

Guaranteed interest was lower owing to the maturity on January 1, 1949, of Soo Line Second Mortgage Bonds.

Net Income and Dividends

Net income, after payment of fixed charges, amounted to $29.7 million, an increase of $2.3 million. Dividends declared from net income aggregated $20.6 million. This amount included dividends of 4% on the Preference Stock and 5% ($1.25 per share) on the Ordinary Stock, of which the final 3% was declared after the close of the year.

Earnings per share on the Ordinary Stock amounted to $1.93 per share. This compares with $1.70 in 1948 and $2.04 in 1947.

Profit and Loss Account

The Profit and Loss balance of $196.7 million at December 31, 1948, was reduced by $10 million, the amount of the 3% dividend on Ordinary Stock, which was declared after the close of 1948 and paid on March 31, 1949.

Miscellaneous—Net Credit amounting to $315,000, included a credit of $438,000 representing the unused balance of investment reserves set up to provide for potential losses in respect of investment in controlled lines in the United States. Other miscellaneous charges and credits were principally in respect of adjustments in property investment account.

Land Accounts

Land sales amounted to $3 million, which included 27,868 acres of timber lands and 59,880 acres of farming land, the latter at an average price of $5.12 per acre. At the end of the year land holdings consisted of 1,627,145 acres, of which 1,000,863 were farm and pasture lands and the balance timber lands and townsites.

At the close of the year 35,880 acres in respect of which your Company holds title to petroleum rights, under varying reservations, were under lease to oil companies and 11,193,882 acres were under reservation for exploration. Oil production increased over 1948 and royalty payments were therefore higher. Rents, royalties and reservation fees produced $1.7 million in 1949, an increase of $515,000 over 1948.

Cash received on land account totalled $5.5 million. Disbursements, including taxes, were $1.5 million. Deferred payments on lands and townsites at the close of the year were $8.5 million, a reduction of $585,000 from the 1948 balance.

Balance Sheet

Total assets at the end of the year amounted to $1,714 million.

Property investment increased $56.7 million. The largest item of expenditure was $44.6 million for rolling stock, of which $9.5 million was for motive power, $25.3 million for freight train cars and $9.5 million for passenger train cars.

Funds amounting to $16.7 million on hand from equipment trust certificates issued during 1948 were applied towards the cost of new equipment delivered in 1949.

The Log Chateau at Montebello, Que., and certain other physical assets of the Seigniory Club Community Association were acquired by your Company in consideration, mainly, of the surrender of $2 million First Mortgage Income Bonds of the Association. The assets so acquired have been leased to the Association for a period of 25 years.

Part of the advances made to Canadian Pacific Transport Company and to Canadian Pacific Air Lines for working capital and other purposes were repaid through the issuance to your Company of additional capital stocks of these wholly-owned subsidiaries.

The Maintenance Fund was reduced by $7.5 million.

Withdrawals from the Steamship Replacement Fund included $5 million, representing construction costs of British Columbia Coast vessels and reconversion costs of the *"Empress of Scotland"*, and $10.7 million used to redeem Collateral Trust bonds.

Working capital of $89.3 million at the end of the year was $8.4 million lower than at the end of 1948.

Finance

The amount of serial equipment obligations discharged during the year was $12 million.

On July 2, 1949, $10.7 million 4% Collateral Trust Bonds matured. Because of the present extraordinarily high cost of shipbuilding and the uncertain conditions prevailing in the Orient, your Directors have not considered it wise to undertake the replacement of ships for use on the Pacific Ocean, or for the expansion of your Atlantic Fleet. In order, therefore, to make the best use in the meantime of the funds set aside for that purpose, it was decided to appropriate $10.7 million from the Steamship Replacement Fund to redeem these bonds. This sum was deposited with the Trustee for the issue.

These transactions resulted in a net decrease of $22.7 million in funded debt during the year and a reduction of $13.6 million in the amount of Consolidated Debenture Stock pledged as collateral.

Pensions

Expenditures for pensions during the year amounted to $10.4 million. These included the proportion of pension allowances paid by your Company, its contribution to the Pension Trust Fund and levies in respect of employees covered by the United States Railroad Retirement Act. The periodic review of the pension position recently completed by the Actuary indicated that owing to the larger number of employees and higher wage rates, the resulting pensions to emerge in future years will be substantially increased. To assist in providing for increased pensions, your Directors authorized an increase from $1.75 million to $3 million in the annual contribution to the Pension Trust Fund.

The number of employees pensioned during 1949 was 1,326; and 574 pensions were terminated by death. At the end of the year there were 10,388 on the pension payroll, an increase of 752.

Employee Relations

"Non-operating" employees of Canadian railways, including hotel employees and employees of other ancillary operations, have made demands for a forty-hour week with the same weekly earnings, and a wage increase of seven cents per hour (ten cents in some cases). Compliance with these requests would cost your Company approximately $35 million annually. When negotiations failed to bring about a settlement, the Minister of Labour established two Boards of Conciliation which began their investigations into the disputes early in 1950.

Canadian Pacific Air Lines, Limited

Operations of your Air Lines resulted in a net loss of $113,000 as compared with a net loss of $194,000 in 1948.

Operations in Canada continue to show improvement and revenues increased. The Pas operations were augmented by opening of the Winnipeg-Churchill service on June 7. A service from Montreal to Noranda was commendecd on May 16. The survey division ceased operations March 1.

The year 1949 marked the official opening of commercial operations on the new Pacific routes. Service to Australia via Honolulu commenced July 13 and to Japan and China via Alaska September 19. In order to provide more efficient and economical operation, an order has been placed for delivery of two De Havilland "Comet" jet-propelled aircraft which are expected to be in service by 1952. These aircraft are particularly suitable for operation over the long distances encountered in the Pacific service due, in part, to their considerably higher cruising speed.

An additional 600,000 shares of stock of your Air Lines were issued to your Company in exchange for advances of $3 million previously made. To meet obligations in connection with the Pacific service an advance of $2 million was made during the year. These transactions brought your total investment in Air Lines to $11 million at the close of 1949.

United States Subsidiaries

Net income of Minneapolis, St. Paul & Sault Ste. Marie Railroad Company, after provision for fixed and contingent charges, amounted to $1.1 million, a decrease of $622,000 compared with 1948. Gross earnings decreased $1.6 million, principally as a result of lower freight tonnage handled in 1949; offsetting this, in part, was a decrease of $1 million in expenses. A dividend of $1.00 per share on the capital stock, the same rate as paid in 1948, was declared on February 21, 1949. This amounted to $719,000, of which your Company received $360,000.

Under the plan of reorganization approved by the Interstate Commerce Commission and the Court, the reorganization managers formed a new company, under the laws of the State of Minnesota, to take over the properties of The Duluth, South Shore and Atlantic Railway Company and Mineral Range Railroad Company as from November 1, 1949. The new company is named Duluth, South Shore and Atlantic Railroad Company.

In accordance with the plan, the initial capitalization of the new South Shore Company consists of $5 million First Mortgage 4% Income Bonds and $10.5 million Common Stock, represented by 210,000 shares having a stated value of $50 per share. Your Company received $4.1 million of the new bonds, all of the new stock, and $1.2 million in cash. The new bonds and stock have been recorded in the accounts of your Company at $13.6 million which is the remaining book value of investments in, and advances to, the old companies after giving credit for the cash payment referred to.

South Shore operations during 1949 resulted in an operating deficit of $539,000, compared with net earnings, on a comparable basis, of $748,000 in 1948. A marked decrease in freight earnings was the principal factor in this result.

Hearings in the reorganization proceedings of the Wisconsin Central continued before an Examiner of the Interstate Commerce Commission. Evidence was presented in support and rebuttal of the proposal of a group of bondholders for modification of the plan of reorganization approved by the Commission, designed to increase their proportion of new securities. Further briefs on the subject are to be filed by the interested parties.

Rates and Services

On April 23, the Board of Transport Commissioners delivered a judgment upholding the application of the Province of British Columbia for removal of the so-called "Mountain Differential" in freight rates. This adjustment in rates became effective July 1.

An interim increase of 8% in Canadian class and commodity rates and a specific increase of 8c per ton on coal and coke were authorized by the Board of Transport Commissioners in its judgment of September 20, and were made effective October 11. Grain rates in Western Canada were not affected.

Rates on international, overhead and certain import and export traffic were subject to two increases granted United States railways in 1949, and made applicable in Canada to these classes of traffic by authority of the Board of Transport Commissioners. The first, averaging 5.4%, was made effective January 11, and a further increase of approximately 3.7% became effective September 1.

Various increases in passenger fares in Canada were put into effect during the year. Sleeping and parlour car fares were increased approximately 25% on January 15. Coach and first class fares were raised 15% on April 10 and May 11, respectively.

Special express rates issued to meet motor truck competition within Canada were increased by 8%, effective October 11.

Rates on the British Columbia Coast steamships were increased by varying amounts during the year.

An increase of 15% on domestic message telegraph tolls was authorized by the Board of Transport Commissioners, effective July 4.

Negotiations are still under way on the application made by the Railway Association of Canada in November 1948 for an increase of 55% in mail rates payable by the Government of Canada.

New motive power delivered during the year consisted of 6 steam locomotives and 48 diesel-electric units, of which 20 were road units and 28 were yard switchers. The change-over to diesel-electric motive power for all services on the Esquimalt & Nanaimo Railway on Vancouver Island was completed during 1949. Diesel power was also placed in use on the Montreal-Newport-Wells River line in June. The efficiency and economy of this type of power have been satisfactorily demonstrated.

A total of 3,596 new freight cars and 45 new passenger cars were placed in service. The passenger cars included 14 coaches and 5 roomette units.

The new classification yard in the Montreal area was nearly completed at the end of the year. The yard occupies an area of 680 acres. Traffic entering or leaving the yard will be controlled by a modern centralized traffic control system. Movement of cars from the hump to the classification tracks will be handled by push-button control through retarders and power operated switches. When complete, the yard will be one of the most up-to-date on this continent, and will meet the requirements of modern traffic conditions.

Capital Appropriations

In anticipation of your confirmation, capital appropriations aggregating $9 million, in addition to those approved at the last Annual Meeting, were authorized by your Directors during the year. The principal items were $4 million for the new vessel for the Vancouver-Nanaimo route, $3.6 million for the modernization of the *"Empress of Scotland"* and $535,000 for additions and betterments to communication facilities.

Your approval will be requested also for capital appropriations of $33.4 million for the year 1950.

The appropriations for new rolling stock make provision for 58 diesel units, 720 freight cars, 50 express cars and 317 work cars. The diesel units, consisting of 30 "A" units, 20 "B" units, 4 road switchers and 4 yard switchers, will be placed in service between Cartier and Fort William on the Schreiber Division in Ontario.

Directorate

The undermentioned Directors will retire from office at the approaching Annual Meeting. They are eligible for re-election:

The Rt. Hon. Sir John Anderson, G.C.B.
Mr. L. J. Belnap
Hon. Eric W. Hamber, C.M.G.
Mr. Ross H. McMaster
Mr. G. A. Walker, K.C.

Officers and Employees

It is a pleasure for your Directors to record again their appreciation of the effective work of officers and employees in all branches of the service. Their co-operation in the constant effort to achieve efficiency in operations is gratefully acknowledged.

For the Directors,
W. A. MATHER,
President.

Montreal, March 13, 1950.

CANADIAN PACIFIC RAILWAY COMPANY

General Balance Sheet, December 31, 1949

ASSETS

PROPERTY INVESTMENT:		
Railway, Rolling Stock and Inland Steamships	$ 964,265,009	
Improvements on Leased Property	116,763,991	
Stocks and Bonds—Leased Railway Companies	134,883,654	
Ocean and Coastal Steamships	62,476,772	
Hotel, Communication and Miscellaneous Properties	102,851,824	
		$ 1,381,246,250
OTHER INVESTMENTS:		
Stocks and Bonds—Controlled Companies	$ 71,923,324	
Miscellaneous Investments	47,157,050	
Advances to Controlled and Other Companies	6,819,809	
Mortgages Collectible and Advances to Settlers	921,051	
Deferred Payments on Lands and Townsites	8,492,454	
Unsold Lands and Other Properties	11,546,859	
Maintenance Fund	17,850,000	
Insurance Fund	13,183,540	
Steamship Replacement Fund	15,435,365	
		193,444,952
CURRENT ASSETS:		
Material and Supplies	$ 46,305,383	
Agents' and Conductors' Balances	13,875,642	
Miscellaneous Accounts Receivable	17,670,714	
Government of Canada Securities	22,889,000	
Cash	33,635,855	
		134,376,594
UNADJUSTED DEBITS:		
Insurance Prepaid	$ 80,438	
Unamortized Discount on Bonds	2,787,245	
Other Unadjusted Debits	1,629,937	
		4,497,620
		$1,713,565,416

LIABILITIES

CAPITAL STOCK:		
Ordinary Stock	$ 335,000,000	
Preference Stock—4% Non-cumulative	137,256,921	
		$ 472,256,921
PERPETUAL 4% CONSOLIDATED DEBENTURE STOCK	$ 311,945,729	
Less: Pledged as collateral to bonds and equipment obligations	16,507,500	
		295,438,229
FUNDED DEBT		79,373,000
CURRENT LIABILITIES:		
Pay Rolls	$ 8,117,505	
Audited Vouchers	14,769,474	
Net Traffic Balances	3,974,440	
Miscellaneous Accounts Payable	5,141,369	
Accrued Fixed Charges	651,677	
Unmatured Dividend Declared	1,741,565	
Other Current Liabilities	10,697,532	
		45,093,562
DEFERRED LIABILITIES:		
Government of Canada Unemployment Relief	$ 1,447,223	
Miscellaneous	2,933,789	
		4,386,012
RESERVES AND UNADJUSTED CREDITS:		
Maintenance Reserves	$ 17,850,000	
Depreciation Reserves	464,871,524	
Investment Reserves	3,498,643	
Insurance Reserve	13,183,540	
Contingent Reserves	4,118,819	
Unadjusted Credits	6,714,070	
		510,241,596
PREMIUM ON CAPITAL AND DEBENTURE STOCK		34,453,562
LAND SURPLUS		65,586,757
PROFIT AND LOSS BALANCE		206,730,777
		$1,713,565,416

ERIC A. LESLIE,
Vice-President and Comptroller

TO THE SHAREHOLDERS,
CANADIAN PACIFIC RAILWAY COMPANY:

We have examined the above General Balance Sheet of the Canadian Pacific Railway Company as at December 31, 1949, the Income and Profit and Loss Accounts for the year ending on that date and other related schedules, and have compared them with the books and records of the Company.

The records of the securities owned by the Company at December 31, 1949, were verified by an examination of those securities which were in the custody of its Treasurer and by certificates received from such depositaries as were holding securities in safe custody for the Company.

In our opinion the General Balance Sheet, Income and Profit and Loss Accounts and the other related schedules are properly drawn up so as to present fairly the financial position of the Company at December 31, 1949, and the results of its operations for the year then ended, according to the best of our information and the explanations given to us and as shown by the books of the Company.

PRICE, WATERHOUSE & CO.,
Chartered Accountants

Montreal, March 10, 1950.

Shawinigan Places Bonds Privately in The United States

New $15,000,000 issue completes financing for $96,000,000 expansion program.

Announcement was made April 5 that a group consisting of the Dominion Securities Corp., Harriman Ripley & Co., Inc., White, Weld & Co., and Kidder, Peabody & Co. have arranged the sale, without public offering, of a new issue of $15,000,000 of the Shawinigan Water & Power Co., first mortgage and collateral trust sinking fund bonds, series "Q", 3% due on March 1, 1975. The new bonds have been purchased by 13 institutions at 102.22 and accrued interest. Principal and interest on the bonds are payable in U. S. dollars.

The Shawinigan Water & Power Co. is one of the largest producers and distributors of hydro-electric energy in the world. The system of the company serves a territory extending north and south of the St. Lawrence River, from the vicinity of Quebec City to Lake of Two Mountains, 40 miles west of Montreal, an area of approximately 16,000 square miles containing more than two-thirds of the population of the province. Gross revenues from power sales are derived mainly from the sales of large blocks of power to 32 industrial consumers and five other distributors of electricity. In 1949 sales to residential, commercial, farm and municipal consumers and to small industrial customers accounted for approximately 32% of gross revenue from power sales, and, at the end of 1949, the retail distribution system served about 168,000 customers.

Due to the postwar growth in use of electricity by industrial, commercial and domestic consumers, the company is now engaged in the largest program of expension in its 52-year history. This program began in 1946 and is scheduled for completion later in 1951. Over this six year period, expenditures for additions to generation, transmission and distribution and other facilities are estimated to aggregate approximately $95,900,000, of which over $57,700,000 had been made to the end of 1949.

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

Government securities continue to give ground gradually due to selling by Federal of long-term obligations and the uncertainty over what the Treasury will offer in the near future, to finance the deficit. The restricted issues are under pressure of liquidation by the Central Banks, with the Victory bonds again leading the decline. The bank obligations have given a better performance but they too have been on the defensive, due in some measure, to swaps from these securities into the higher yielding ineligibles.

Although quite a few investors have taken to the sidelines because of the many imponderables in the situation, pension funds and savings institutions have bought large amounts of the tap bonds as prices decline. Some scale buying has also been appearing recently from other institutions, in not too sizable amounts, but it has helped to cushion the decline. Life insurance companies have been in the market also as sellers of certain of the non-bank obligations.

MARKET STILL UNDER PRESSURE

The government market is still under pressure of selling by Federal, and investors and traders alike are more than a little concerned about the amount of liquidation that may have to be done before prices and yields reach levels which the authorities consider right for impending offerings of Treasury obligations. Declining prices and many new yearly lows have not interfered with the disposal of long-term tap issues by the Central Banks, indicating an area of stabilization has not yet been reached. Although the market continues to be on the defensive, it has been very orderly in absorbing the securities that are being let out by the Reserve Banks.

One of the main topics of discussion in money circles is the way in which the tap issues are being taken by investors, despite the general belief that lower prices and higher yields are probably in the cards. Scale buying has been responsible for a great deal of these purchases and there is no doubt this procedure will be continued. Switching has supplied another prop for the restricted issues with bank obligations, mainly shorts, being disposed of, in order to acquire the higher income tap issues.

IMPENDING FINANCING STILL IN SPOTLIGHT

Masterminding Treasury financing is always a hazardous business but guesses have to be made and these still seem to favor the "F" and "G" obligations. These securities could fit into the more flexible money policy the authorities are now operating under, but marketable issues are beyond doubt going to be very prominent in the program also. This probably means longer-term obligations, since the exclusive use of certificates to meet maturities appears to have gone by the boards, when the less rigid monetary policy was worked out between the Reserve Board and the Treasury.

There seems to be a definite element of economic and money market control involved in the kind of security which will be offered by the Treasury in the deficit financing. Accordingly, it is believed the trend of business and employment will be important in determining whether issues will go to bank or non-bank investors.

MARKET EXPECTATIONS

Deficit financing, along with the large refunding operations which must be undertaken this year, most likely means higher coupon obligations will be coming in the picture. Securities will no doubt be offered which will meet the needs of the various holders of the maturing obligations. Since commercial banks are the largest owners of these issues, higher coupon eligible obligations should figure prominently in taking care of securities that will be retired by the Treasury in 1950. While debt cost is still important, it will not be paramount as in the past.

Accordingly, it is believed there are quite likely to be 1¾% and 2% issues available to deposit bank holders of called obligations. This will give the commercial banks an opportunity for greater maturity diversification than has been the case in the past. There was no chance for greater maturity distribution when only certificates were offered for maturing or called bonds. Also, with more intermediate-term eligible obligations available, some of the pressure to acquire the longest bank issue would be lifted, especially from the smaller money center institutions.

HIGHER COUPON BANK ISSUES IN PROSPECT

While it is indicated the impending offering which will be made to finance the deficit will give some clues as to what the authorities intended to accomplish from both the economic as well as the monetary standpoint, business activity will determine whether the initial policy will be continued. Whether funds will be directed into certain channels (that is, away from or into the deposit institutions) will depend upon the future course of economic conditions. With the debt service factor not as important as in the past, it is believed a more realistic and flexible debt management policy will be worked out by the monetary authorities.

The new debt management policy that seems to be unfolding and which many believe will mean greater use of higher coupon bank issues, might take some of the attractiveness away from the 1952 eligible tap bonds. This feeling may be responsible for some of the switching out of the nearer-term eligible restricted issues.

Truman's Proposal to Transfer Currency Comptroller to Treasury Strongly Attacked

Grass-roots banker declares while import of plan for abolishing office of Comptroller of the Currency is not realized by Congress or public, its adoption could have more injurious effect on banking functions than any development since its establishment eighty-six years ago.

The abolition of the Office of the Comptroller of the Currency, and the transfer of its functions to the Secretary of the Treasury, as proposed under so-called Plan 1 of President Truman's pending Reorganization Plan, was criticized by Arthur T. Roth, President of The Franklin National Bank, Franklin Square, N. Y., in a communication distributed to national banks throughout the United States April 4.

Arthur T. Roth

The text of Mr. Roth's communication follows in part:

Under Reorganization Plan No. 1 of 1950 the functions and authority of the Comptroller of the Currency would be transferred to the Secretary of the Treasury.

This proposal could more adversely affect banking functions than any development since the establishment of the Office of the Comptroller of the Currency, 86 years ago.

The Comptroller's Office is about to be abolished through Reorganization Plan No. 1 of 1950, submitted to Congress by the President, pursuant to the Reorganization Act of 1949.

This Plan and the Reorganization Act of 1949 are not to be confused with the so-called "Hoover Report" of the Commission on Organization of the Executive Branch of the Government, which made no recommendations for transferring or interfering in any way with the functions or organization of the Bureau of the Comptroller of the Currency.

The objectives sought by this Plan are listed below:

(1) Economy of operating and administrative costs.

(2) Elimination of duplication and overlapping functions.

(3) Consolidation of activities and services.

(4) Abolishing unnecessary activities and services.

(5) Redefining and limiting executive functions with a view to efficiency of service.

After long and careful study, buttressed by extensive inquiry in many quarters, I, and my associates, cannot conclude that a single one of these desirable objectives would be achieved by the virtual abolition of the demonstrably essential and effective Office of the Comptroller of the Currency. On the contrary we see a genesis of new economic and political hazards from such a move. Herewith is our reasoning for opposing Reorganization Plan No. 1 of 1950:

1. Economy of Operation and Administrative Costs

The Comptroller's Office does not constitute, in any way, a burden upon our Federal budget.

At this time the Comptroller's Office is entirely self-sustaining, dependent in no way upon appropriations made by Congress or funds supplied by the Treasury Department. The expenses of the Office are defrayed exclusively by the assessments on national banks for examinations made by it. Therefore no reduction of Government expenditures would result from the proposed Reorganization Plan No. 1 of 1950.

2. Elimination of Duplication and Overlapping Functions

The prime and essential function of examining national banks is exclusively performed by the Comptroller's Office. Its reports are accepted by both FDIC and the Federal Reserve Board. *There is no duplication or overlapping of functions.* The sheer independence from other government or quasi-government units of this function is, in itself, a valuable "check and balance" factor.

3. Consolidation of Activities and Services

Such consolidation, if carried to conclusions made "logical" by this first step, could easily end up with the elimination of our present autonomous dual banking relationship which forms the keystone of our whole banking system. By contrast, to "consolidate" the functions of the now independent Comptroller's Office under the Secretary of the Treasury would, as we see it, bring about a situation in the banking system akin to the "consolidation" of judge, jury and police functions in their control of our private lives.

4. Abolishing Unnecessary Activities and Services

The present operations of the Comptroller are vitally *NECESSARY* to the banking system. Abolition of an entire entity of such origin, or its transfer to a Cabinet Officer's domain, seems a drastic method of streamlining operating techniques. Such streamlining as is needed could be better done where the work now takes place. We know of no unnecessary functions now being performed by the Comptroller's Office.

5. Redefining and Limiting Executive Functions with a View to Efficiency of Service

There is no need to redefine or limit the present efficient operation of the Comptroller's Office. To transfer this independent office to the Executive Branch of the Government, would only encourage MORE functionaries and LESS functioning.

So much for the *improbabilities* that the drastic remedy proposed will achieve the positive recommended objectives. We are far more disturbed at the *probabilities* that such a move will lead to abuse far more harmful than the alleged inefficiencies or economies which are offered as justification of this proposal. It is the *negative potentialities* of Plan No. 1 which are the most alarming, and I think they can be simply stated thusly:

For the 86 Years of Its Useful Existence the Office of the Comptroller has enjoyed, and still does, a semi-independent status:

Other branches, bureaus or divisions of the Treasury Department do not possess this standing. The Plan therefore primarily would affect the Comptroller.

The Comptroller is appointed by the President with consent and advice of the Senate. He is accountable to Congress through annual reports. He makes recommendations to Congress concerning legislation affecting national banks. He enjoys a position of prestige on the same plane as the other supervisory authorities, such as the FDIC and the Board of Governors of the Federal Reserve System.

The plan would result in the Secretary of the Treasury absorbing all functions of the Office and severing the Comptroller's present direct relationship with Congress.

Among others, the Comptroller is charged with the following specific and important functions which under the reorganization plan would be transferred to the Secretary of the Treasury:

Chartering of national banks.

Approval of branch offices.

Approval of consolidations between national banks or state and national banks.

Approval of conversions of state banks into national banks.

Approval of recapitalizations and reorganizations.

Examinations and supervision of national banks.

Power to examine non-banking affiliates of national banks.

Promulgation of rules and regulations relating to investment securities of national banks. (State member banks are also subject to these regulations.)

Interpretation, application and administration of laws relating to lending and investment powers of national banks.

Power to initiate proceedings to remove officers and directors of national banks for violation of law or continuance of unsafe and unsound banking practices.

Power to initiate court proceedings to forfeit charter of national bank for violation of law.

Power to levy assessments against shareholders of national banks to restore impairment of capital.

Power to assess fees against national banks for the purpose of covering costs of examinations and to determine the amount.

Control over funds of the Comptroller's Office obtained through assessments against national banks for expenses of examination; this would be transferred to the Secretary to be used as he deems appropriate.

Power to determine solvency of national banks and to appoint a receiver therefor.

Power to appoint a conservator of a national bank.

Duty of Comptroller to serve as a director of the Federal Deposit Insurance Corporation.

I hardly think it needs exhaustive analysis or argument to silhouette the hazards of exposing such responsible functions to political manipulation. For this very reason the Comptroller's term of office was set at five years so as to overlap political administrations and to protect the office from the political pressures that invariably bear on the Secretary of the Treasury.

The Secretary of the Treasury could reassign duties which might seriously interfere with the efficient operation of the Comptroller's functions.

The Secretary of the Treasury, under the plan, would have complete direction and control over the duties now performed by the Comptroller's Office. The Secretary could authorize any other officer, agency or employee of the Department to handle any of the functions now performed by the Comptroller's Office. This could lead to serious difficulties in the enforcement of the National Bank Act, as the proper administration of national banking laws requires quick decisions by experienced supervisory authorities, whose decisions are final.

The national banks, at this time, have confidence in and are satisfied with the splendid past performance of the Comptroller's Office and certainly do not desire any change which might in any way jeopardize the same.

Under the plan the Secretary of the Treasury could effect transfers of the Funds of the Comptroller's Office, as well as records, property and personnel.

The sums paid to the Comptroller by national banks therefore would be subject to this provision. The Secretary of the Treasury would have control of these funds and any unused portion thereof could be appropriated and used by him to carry out other functions of the Department.

It would place the Comptroller in an inferior position with relation to the heads of other supervisory bodies, such as the FDIC and the Board of Governors of the Federal Reserve System.

Not only would the prestige and autonomy of the Comptroller be destroyed by the proposed move, but the vital function of the office could be reassigned and dispersed to suit political, as well as fiscal convenience. For example—the Comptroller would be replaced on the Board of the FDIC by the Secretary of the Treasury. Since the Secretary is a Cabinet Officer he would dominate the Board, placing the Comptroller in an inferior position.

An Administrative Secretary would be appointed who would perform such duties as prescribed by the Secretary, particularly in supervising and directing the policies and the program of the department.

This would inject outside interference in the determination and administration of policies and regulations now carried out by the Comptroller and his assistants.

If the Office of the Comptroller of the Currency is abolished what would be the effect upon the State Banks?

The Comptroller of the Currency is now one of the three directors of the FDIC, the other members being the Chairman of the FDIC and a third appointed by the President with the approval of the Senate. If the Office of the Comptroller of the Currency is abolished then the Secretary of the Treasury would sit on the Board of the FDIC. By virtue of the fact that State Banks are members of the FDIC this dominating position of the Secretary of the Treasury would obviously give him great influence over the *STATE BANKS* as well as the National Banks.

The Secretary of the Treasury Fixes interest rates on Government bonds.

If he fixes rates on bonds and is also in control of national banks and indirectly in control of state banks through his directorship on the board of FDIC, he could be accused of establishing an interest rate pattern favoring the banking system. In the past banks have often been accused of being favored in connection with the issuance of government bonds and the interest rates paid on these bonds.

Those people who have tried to cause trouble in the past will have a much stronger argument if the Secretary of the Treasury is placed in the position of controlling banks.

While we are directing this communication to certain National Banks only, we suggest that you alert your State Banks as to the effect the elimination of the Office of the Comptroller of the Currency could have on their institutions.

The Office of the Comptroller enjoys the confidence of the National Banks of the country.

There are approximately 5,000 national banks in this country, representing over 56% of all the commercial banking resources of the United States. These banks look to the Comptroller of the Currency as their sponsor in Washington, a federal official free to speak and act on their behalf and without censor or influence from a superior. While the banks of the country have the highest respect and confidence in our present Secretary of the Treasury, the Hon. John W. Snyder, there is apprehension that some future holder of this office might use his powers and authority in a way not conducive to sound banking or for the general public welfare. Over the long years of its existence the Office of the Comptroller has built up a splendid record. It is our belief that nothing should be done which would in any way disturb the present satisfactory operations of national banks and the public confidence in them.

Indeed, one of the best arguments for preserving the situation, as it now stands, is that the banking functions at stake are matters of law and not of personality or politics. We believe it should remain that way.

It will not remain so if Reorganization Plan No. 1 of 1950 becomes law.

And the Plan will become law on May 11, 1950, if something is not done about it.

But there is something you and I can do about it—even at this late date.

What Has Been Done

Senators H. Willis Robertson, of Virginia (Democrat) and Homer Capehart, of Indiana (Republican), have both introduced resolutions to the Senate Committee of Expenditures in the Executive Departments requesting that this proposal be defeated. These resolutions will be presented before the Committee on Expenditures at a hearing tentatively scheduled for Tuesday, April 11, 1950.

Bank and Insurance Stocks

By H. E. JOHNSON

This Week—Insurance Stocks

Alfred M. Best Company, Inc., 75 Fulton Street, New York, N. Y., is one of the most authoritative sources of information available on insurance operations. They recently summarized in one of their weekly bulletins the operating results of a group of the first stock fire and casualty companies to file complete reports. It is presented below:

"The first 81 stock fire insurance companies to file their complete annual statements write approximately half of the total fire-marine business in their field and their operating results represent a reasonably good cross-section of the over-all experience. These statements fully confirm the optimistic forecasts that the year 1949 broke all records for profitable operation. While many factors were responsible, it was really the unusual coincidence of all of the major classifications being profitable in a single year which boosted profits to record heights. Although premium volume showed signs of definitely leveling off in the last half of the year, the 81 carriers in this study reported a gain of nearly 10% for the year. This is probably somewhat higher than for the industry as a whole but the total increase in stock fire-marine premium volume apparently approached $200 million in 1949. For the last 18 months the average over-all loss ratio of the stock fire-marine companies has ranged in the neighborhood of 44% or 45% with the expense ratio at 38% or 39%. Experience in 1949 was materially better than for the full year 1948 because the unusually good results were present only in the second half of 1948. For the 81 companies there was a drop of six points in loss ratio to 44.5% and better than a point in expense ratio to 38.4% bringing the combined loss and expense ratio down to 82.9% as against 90.2% in 1948. For the industry as a whole, we would hazard a guess that the over-all loss ratio might be a shade lower but the expense ratio a bit higher. The combination of excellent investment gains and record underwriting profits was reflected in a boost of about 25% in policyholders' surplus, while total assets were up 15%. Federal income taxes incurred also showed a sharp rise.

"The 69 stock casualty-surety companies included in this preliminary study write well over half of the business in their field and are representative of the group as a whole. While the underwriting results did not approach the phenomenal records of the fire-marine field in 1948, they were eminently satisfactory with an indicated profit margin of about 8%. Over-all premium volume advanced about 8% in the first half of 1949 but leveled off in the second half so that for the year it rose about 5% to add more than $100 million to annual volume in the stock casualty field. The over-all incurred loss ratio to premiums earned declined about two points to 54.2% but expenses were higher by nearly one point at 38.0% of premiums written so that the combined loss and expense ratio was 92.2%, just one point below the corresponding ratio in 1948. Although 1949 may not have been quite a record year as to an all-time low loss ratio or combined loss and expense ratio, the dollar underwriting profit on the record volume of business was the largest ever reported. As casualty companies do not invest as large a percentage of their assets in common stocks, they did not show so much portfolio appreciation as the fire companies. Nevertheless, it was rather substantial and, together with the very satisfactory underwriting profit, made possible a gain of more than 20% in policyholders' surplus. Assets advanced 13%, loss reserves were up 9% and unearned premiums were nearly 10% higher. Federal income taxes were nearly double the taxes incurred in 1948."

	81 Stock Fire Companies (000 omitted)		69 Stock Casualty Companies—Case Basis	
	1948	1949	1948	1949
Admitted Assets	$2,266,764	$2,611,091	$2,324,146	$2,623,525
Policyholders' Surplus	920,543	1,146,252	712,431	868,422
Unearned Premiums	997,743	1,092,481	668,183	733,678
Net Prems. Written	1,089,102	1,193,720	1,415,746	1,496,008
*Loss Ratio	50.6%	44.5%	56.0%	54.2%
*Expense Ratio	39.6%	38.4%	37.2%	38.0%
*Combined Ratio	90.2%	82.9%	93.2%	92.2%
Underwrit. (P. or L.)	59,567	150,362	53,328	88,089
Net Invest. Income	58,888	65,802	45,806	52,307
Other Invest. (G. or L.)	—11,863	118,369	—6,390	62,147
Fed. Taxes Included	27,561	68,130	21,679	41,191
Dividends Declared	35,965	43,114	37,119	36,221

All operating figures before Federal taxes; policyholders' surplus reflects market value of securities. Last 000 omitted. *Losses and adjusted expenses incurred to earned premiums; expenses incurred to written premiums.

Terms Business Outlook Very Satisfactory

National City Bank of New York maintains coal strike settlement has removed chief obstacle to Spring business, although some curtailment in soft goods and in primary textile production is reported. Construction at record-breaking level. 1949 corporate earnings off, though still satisfactory.

Most industries being well-fortified with orders and inventories being moderate, the settlement of the coal strike renders the short-term outlook for business extremely satisfactory, in the opinion of the April Monthly Bank Letter of the National City Bank of New York.

"The settlement of the coal strike has removed the chief obstacle in the way of spring business," says the letter, "and in general the outlook for the next few months is now very satisfactory. In many respects the first quarter has been an active and promising period. While industrial production indexes were held down by the coal stoppage, the Chrysler strike, steel mill curtailment and the effects of coal and steel shortages on other industries, both consumer and business buying has held at high levels. In the aggregate manufacturers have added to their backlogs of unfilled orders. Many of the heavy industries particularly, including machine tools, are in a better position than they were at the beginning of the year. This is also true of some though not all nondurables. Paper, copper, zinc, and other materials and products widely used through the industries, which are therefore useful measures of general conditions, are in strong demand.

"Department and apparel stores report a disappointing Easter trade in soft goods," the bank observes. "Some curtailment has appeared in primary textile production, especially rayon. However, any inference that overall consumer buying is lagging or purchasing power diminishing would be incorrect. The total of personal incomes, augmented by the veterans' insurance refunds, has reached a new high (using the seasonally adjusted annual rate reported by the Department of Commerce). Total retail sales in both January and February were 3% above a year ago; declines in soft goods were more than offset by increased sales of automobiles and home furnishings. Retail sales of automobiles have broken all records, despite Chysler's inability to supply its dealers. Much was made earlier of reports of sales of new cars at discounts, but the markets have tightened as the season has advanced and used car prices have stiffened.

"All kinds of business related to housing, including building materials, household appliances, carpets and furniture, have had heavy sales and are under pressure to meet demand," the letter continues. "The volume of construction activity and contract awards has exceeded anything ever before known at this season of the year. In January and February some 80,000 housing units were started each month, compared with 50,000 in the same months of 1949, and March seems certain to show a still higher figure. Daily average building contract awards in the first three weeks of the month reached a new alltime peak, according to the Dodge reports, with residential contracts 117% above last year and all others up 26%. Orders for lumber so far this year are ahead of last year by 21%.

Spring Gains in Prospect

"Thus the arrival of spring finds most industries well-fortified with orders, with exceptional support from construction and automobiles, and with coal and steel producers under the necessity of catching up with demand and replenishing stocks. The end of the coal strike has been followed by a sharp rebound in bituminous output to above 13,000,000 tons weekly and in steel mill operations to around 97% of capacity. These industries will hold their high rates for some time. The strength of automobile demand and the possibility of labor troubles will combine to keep automobile output high, and when the Chrysler strike ends the figures are almost certain to break all past records.

"The Federal Reserve Board's index of industrial production, which was 180 in February (1935-39=100) recovered in March to 183 or higher. Further gains in April and May, to the best levels since January or February, 1949, are indicated. Warmer weather will bring the usual opening up of farm and road work and other outdoor activity. Employment should improve and consumer buying power continue large."

Inventory Policies Cautious

Commenting on the inventory situation, the Bank observes:

"What the state of trade will be, and whether the markets will be cleared of all the production in prospect, are questions to which answers necessarily are less certain. As a usual thing upswings are accompanied by accumulation of goods, which eventually leads to a slackening of business buying and turns the trend the other way. Probably as time goes on other industries will find as the rayon weavers have recently found, that stocks are building up between the primary producer and the consumer.

"On the other hand, complaints are heard from manufacturers that mercantile buyers especially are carrying less than their share of the inventories necessary to support trade, and that they are unreasonable in their demands for 'shipment the day before yesterday.' This does not look like overstocking. Reports from purchasing agents do not suggest that they are lengthening their coverage appreciably, nor does the course of industrial prices indicate any considerable speculation, for despite rising wage rates and fringe costs such as pensions, the wholesale price index of non-farm products has hardly varied since last Summer.

"Probably if a large group of purchasing agents were questioned they would say that the situation in industrial materials and supplies is generally such that speculative coverage is not required. In many commodities the relations of supply and demand have changed a good deal since the boom days of 1948. Productive capacity has been increased by expansion and modernization. More labor is available. Of course the situation varies from market to market, but bottlenecks are the rarity rather than the rule and generally prove temporary when they appear. In short, there is in the aggregate a greater cushion of actual or potential output to absorb demands without generating another sharp price rise. The change makes for more conservatism and stability in buying."

Net Income of Leading Corporations for the Years 1948 and 1949

(In Millions of Dollars)

No. of Cos.		Net Income After Taxes 1948	Net Income After Taxes 1949	Per Cent Change	% Margin on Sales 1948	% Margin on Sales 1949
1,710	Manufacturing	$8,172	$6,998	—14	7.5	6.8
109	Mining, quarrying	312	230	—26	14.5	12.3
187	Trade	708	577	—18	3.8	3.3
239	Transportation	743	492	—34	6.9	4.8
284	Public Utilities	934	1,025	+10	11.4	11.9
111	Amusements, services	93	90	— 4	4.7	4.8
682	Finance	842	1,021	+21	---	---
3,322	Total	$11,805	$10,433	—12	7.3	6.6

Corporate Earnings in 1949

A decline in corporate earnings, and in profit margins, was disclosed in the Letter's analysis of 3,300 corporations.

"Annual reports for 1949, now issued by some 3,300 corporations, representing a large majority of all which publish their financial statements and almost half of the total assets of all American corporations, make a somewhat less favorable showing than the preliminary summary given in our Letter last month. The combined net income of all reporting companies in 1949, after taxes and after deducting deficits, amounted to $10.4 billion, compared with $11.8 billion in 1948, a decrease of 12%, but still a good showing compared with earlier years," the bank reports.

"Three out of five, on the average, of all reporting companies showed smaller earnings in 1949 than in 1948, and with some outstanding exceptions the trend was generally downward whether measured by dollar net income, profit margin on sales, or rate of return on net assets."

"Comparison of sales or operating revenues published for 1949 by about nine-tenths of all the reporting nonfinancial companies indicate an average profit margin of 6.6 cents per dollar, compared with 7.3 cents in 1948," the Letter states. "While the total dollar volume of business receded only slightly from the record level of 1948, the high and relatively inflexible operating costs had the effect of shaving profit margins per sales dollar more closely. The public utility group, however, improved both its dollar net income and return on sales, accompanying a continued growth in operating revenues and plant capacity."

A. G. Becker Group Marketing Issue of Lit Bros. Debentures

An underwriting group managed by A. G. Becker & Co. Inc., offered on April 4, at 100 plus accrued interest, a $6,000,000 issue of 20-year 4% sinking fund debentures (subordinated) of Lit Bros., Philadelphia department store. Proceeds are to be used, with treasury funds, to retire an approximate like amount of 6% preferred stock. A sinking fund which begins operation in 1951 is to retire the entire issue of debentures by maturity by equal annual payment.

The Lit Bros. store has been in operation since 1891. In the 11 months ended Dec. 31, 1949, the company reported nearly $60,000,000 in sales, $5,147,000 available for interest (compared to annual requirements of $240,000 on the bonds to be outstanding), and $3,027,000 net income after all charges.

While the new debentures provide for the issuance, subject to specified conditions, of additional obligations which may be of higher rank, no senior debt is presently outstanding. Redemption prices are fixed on a sliding scale starting at 103, with privilege of redeeming the issue as a whole at 101½ prior to March 1, 1953, in the event of consolidation, merger or liquidation.

An Unhappy Past?

"We are on the eve of another test between those who believe as we do and those who would try to lead us back to an unhappy past rather than forward to a glorious future. That test will occur in the Congressional elections of 1950.

President Truman

"We know who is allied on each side for the record is written for all to see in the annals of the 81st Congress. The struggle will not be a minor one. Those who oppose us have large funds and sympathetic assistance from much of the press, and on these they place their main reliance.

"Our greatest strength must lie as it did in 1948 in our ideas and our ideals, and in our trust and faith in the people—all of the people. That trust and faith cannot be counterfeited. It shines like a beacon of truth through the fog of propaganda and misstatements.

"Your meeting will show that the forces of liberalism will be marshaled in full strength in the 1950 campaign, which may well be one of the most crucial tests of liberalism in this century. Your enthusiasm in the liberal cause augurs well for the future, a future which you and I face with confidence as the kind of challenge which always brings out the highest capabilities of the American people."—President Truman to "Americans for Democratic Action" in their recent convention assembled.

"Lead us back to an unhappy past?" Can that be the way the history and the accomplishments of the American people are viewed by the President and the other "liberals"?

It is hard to believe.

Don't Expect Too Much From Point Four: Sproul

Banker notes risks abroad contrasted with substantial rewards at home. Holds nation is making modest progress toward objectives.

While President Truman's Point Four program for technical assistance and investment in underdeveloped areas is an indication of American forward planning, it would be dangerous to expect too much on this score, it is stated by Allan Sproul, President of the Federal Reserve Bank of New York in the Bank's 35th Annual Report.

Allan Sproul

"The President's Point Four program for technical assistance and investment in the underdeveloped areas, announced at the beginning of the year, was received eagerly throughout the world as an indication of forward American planning to this end," says Mr. Sproul. "But it would be dangerous to expect too much on this score. Emphasis is rightly placed, so far as direct investment is concerned, upon the flow of private capital. It will be difficult, however, to enlarge American capital exports above the $1 billion (net) annual rate of 1949 while the rewards to capital are still substantial at home, the political and economic risks of investment abroad are great, and the rewards for such risky investment, when successful, are so largely reduced by taxes. Yet ways must be found, both to raise our imports and to increase the outflow of private capital, if many of the successes thus far achieved in rehabilitating the production and trade of the world are not to shrink away after 1952."

The Bank's report also discusses in some detail the foreign exchange devaluations that took place last September and the progress which countries receiving financial help from the United States have made in reestablishing sound internal economies and in improving their international financial positions. The report finds few definite effects as yet from currency devaluations and it points out that continued anti-inflationary measures are needed in Europe.

The Domestic Scene

Speaking of the domestic situation, the report notes that 1949 constituted a year of modest progress toward most of the nation's objectives.

The price cuts and reductions of inventories which characterized the "mild" recession of 1949 were essentially healthy corrections, the bank says.

The distortions introduced by the war and the postwar reconstruction, although not entirely eliminated, are no longer acute. Moreover, the buoyant strength of the American economy overcame any tendency toward cumulative depression, and by late summer of 1949 recovery was under way, raising the output of goods and services to within 5% of the postwar peak by the end of the year, the report points out.

The Bank attributes five-sixths of the drop in gross national product during the recession to the curtailment in business inventories. It notes that consumer spending remained "remarkably constant" from quarter to quarter during 1949.

It now seems "reasonably clear that the mobility of labor and enterprise during 1949 was a necessary part of the continuous change that produces economic progress," the report says. "To have taken direct action, governmental or otherwise, based on some single fixed indicator of economic conditions might only have slowed down (or perhaps have prevented) the wholesome shifts that were taking place under the guidance of the price system," the Bank explains.

Reserve Policy

As inflationary pressures abated early in 1949, the Federal Reserve System acted to increase the availability of credit by reducing reserve requirements of member banks and by changing the policy governing open market operations so as to increase the supply of funds available in the market to meet the needs of commerce, business and agriculture.

Later, as evidence of business recovery accumulated, the System modified its "easy money" policy and allowed increased demands for credit and currency to exercise a firming effect on the money market. The report states that the operations of the Federal Reserve System during the latter half of 1949 illustrated and clarified the meaning of the statement in the June 28 announcement by the Federal Open Market Committee that it would "be the policy of the Committee to direct purchases, sales, and exchanges of government securities by the Federal Reserve banks with primary regard to the general business and credit situation."

Chas. Weinstein Co. Formed in New York

Chas. Weinstein, Paul J. Engel, member of the New York Curb Exchange, and Leo Gold announce the formation of Chas. Weinstein & Co. The new firm will maintain offices at 135 Broadway. Mr. Gold was formerly with J. L. Schiffman & Co.

Mutual Funds

By ROBERT R. RICH

Pension Plans Discussed by Investment Trusts

The alternative pension plans confronting industries and companies and the advantages of employing investment trusts are still the most important topics in the mutual funds industry.

Calvin Bullock, in its monthly Bulletin, has presented an able comment on the problem. After noting that there can be no "master blue print" pension plan, Calvin Bullock points out the basic types of plans, and states:

"From the point of view of financing there are three general types of pension plans: (1) Pay-as-you-go, (2) Insured and (3) Funded.

"Pay-as-you-go plans require a corporation to pay pension benefits as a current business expense either from current earnings or from reserves built up by charges to earnings.

"In the case of insured plans a company usually purchases deferred annuities from an insurance company to take care of pension benefits. They may be purchased on a group basis or by separate annuity contract for each employee.

"Fully funded programs necessitate putting aside sufficient money to fund the accrued cost of the plan. The money put aside is generally invested by the trustee of a pension trust in accordance with the provisions of a trust agreement.

"Many corporations favor using group annuities to solve the pension problem on the assumption that they are thereby shifting the risk of both mortality and investment loss to the insurance company. However, premium rates on such contracts are usually only guaranteed for the first five years. Such rates may be revised upwards, depending on the experience of the method of financing, insured or funded, the corporation will pay the real cost.

"Independent actuaries are available and are being used by many corporations for estimating reserve needs for a funded program."

Tax Advantages of Pension Trust

Pointing out the tax advantages of a pension trust, the Bulletin states, "Income from investments owned and profits realized on the sale of securities are exempt from Federal income taxes. Considerable obvious advantage is derived from following investment policies which increase the rate of growth of the fund while not taxable.

"Benefits paid to employees are only taxable when received, at which time the recipient's income is usually at a low level, and so his tax is nominal. In certain cases, if the total benefits are paid in one lump sum or in one taxable year, such benefits may be treated for tax purposes as a long-term capital gain.

"From the employer's point of view, contributions to the pension fund are deductible as a business expense provided the amount contributed is reasonable in relation to the employee's salary.

"These tax advantages are enjoyed provided the details of the pension plan and trust agreement are filed with the Federal Government and the provisions of the plan are in keeping with the requirements of the Internal Revenue Code."

United Fruit Retirement Trust

Selected American Shares, in discussing pensions, makes reference to the United Fruit Retirement Trust Fund and comments:

"The United Fruit Company Retirement Trust Fund has been operating 10 years. It has grown to about $25,000,000, taking securities at market last Dec. 31. It has sizable investments in government bonds, in public utility and railroad bonds, in industrial bonds. But its largest investments are in common stocks. Of total investments of a little over $24,000,000 (at market), common stocks were over $18,000,000.

"Of course, a lot of the stock investment was United Fruit common: 199,500 shares, worth $11,097,187.50. But $7,267,863.75 was in a diversified list of common stocks of companies entirely unrelated to United Fruit.

"We do not know why United Fruit chose to put so much of its retirement fund money in stocks, but we do know why many such funds do so: (1) stocks yield more; (2) they offer better protection against inflation; (3) they can grow as living standards rise. Many trustees of profit-sharing and pension funds prefer to use investment company shares rather than the individual stocks for the stock portion of their funds. The reasons are numerous, but two stand out: (1) they get the continuous management needed in stock investments, and (2) the responsibility for the stock selections is shifted to the professional men running the investment companies."

Discounting Common Stock Risk

Apropos of discussions concerning the risk involved in the purchase of common stocks by pension trustees, a prominent official of a life insurance company stated: "If over a 30-year period you are able to invest in bonds at today's average rate of around 2¾%, or ¼% above the required rate, this extra ¼% compounded will enable you to absorb a capital loss of 6%. But if you can invest at an average of 5% (which is well under the going rate on common stocks today), you can absorb out of the extra income a capital loss of nearly 80% at the end of 30 years."

Commonwealth Issues New Sales Booklet

Commonwealth Investment Co., in their booklet, "A Share For You," has told their story in an admirable fashion. The sales copy makes good, hard sense, and the visual presentation combined with a simple layout gives you their complete story in two minutes. Commonwealth has made their shares nigh-on irresistible.

Four Investment Companies File

The following investment companies filed with the Securities and Exchange Commission on March 31, 1950: Aeronautical Securities, Inc., 39,000 shares of capital stock; Fidelity Fund, Inc. (Boston), 400,000 shares of capital stock; Nation-Wide Securities Co., Inc. (New York), 300,000 shares of capital stock; Wisconsin Investment Co. (Milwaukee), 2,100,000 shares of capital stock.

A. C. Allyn & Co. Branch in Spokane

SPOKANE, WASH.—A. C. Allyn & Co., Inc., as of April 1, 1950, opened a branch office in Medical Center Building. This office will be under the supervision of Wm. M. Marshall, a newly elected Vice-President of our corporation. Mr. Marshall was formerly an officer of the Seattle First National Bank.

Bond Club Field Day To Be Held June 2

Plans for the 26th annual Field Day of the Bond Club of New York were announced by Charles L. Morse, Jr., Hemphill, Noyes, Graham, Parsons & Co., President of the Bond Club. The outing will take place this year on Friday, June 2, at the Sleepy Hollow Country Club, Scarborough, N. Y.

J. Emerson Thors

J. Emerson Thors of Kuhn, Loeb & Co. has been named Chairman of the general Field Day Committee. He will be assisted by four Vice-Chairmen: William B. Chappell (The First Boston Corp.), George J. Gillies (A. C. Allyn & Co., Inc.), Robert L. Hatcher, Jr. (The Chase National Bank), and David L. Skinner of Harriman Ripley & Co., Inc.

The theme of competitive bidding will be carried out in an elaborate program of competitive sports and entertainment. New features are being planned this year in addition to the traditional golf and tennis tournaments, trading on the Bond Club Stock Exchange and publication of the "Bawl Street Journal."

J. A. Hogle Admits Howard & Gumes

J. A. Hogle & Co., members of the New York Stock Exchange, announce that Kenneth J. Howard and Harold L. Gumes have been admitted as general partners in the firm.

Mr. Howard has been the manager and now becomes resident partner in the New York office of the firm. Mr. Gumes has been has been admitted as a member of the New York Curb Exchange and will serve the firm as its floor broker on the Curb. Both men will make their offices in the New York office, 61 Broadway.

Admission of the new partners was previously reported in the "Chronicle" of March 16.

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Investment Trust Securities in The American Fiduciary Field

we now somewhat wistfully call free enterprise. England, and more especially the United States, permitted a degree of acquisition of private property, by individual citizens, independent of caste or social status, to a degree which had never before been seen in the history of the world. In those golden days there was no income tax, save briefly during the Civil War; it was forbidden, or so it seemed, by the Constitution. There was no capital levy of any kind; no impost upon testamentary transmission of the sort to which we have now become accustomed. So strongly was the institution of property respected, in contrast to the concept of individual human rights, that our Republic was riven in twain over the question of preservation or abolition of human slavery.

So, we are now told, there grew up, both in this Republic and in England, a vast and increasing differentiation between the great masses of people and the relatively few possessors of property and wealth. Government interfered in the expansion and enjoyment of private fortunes only when, as in the case of obvious public utilities, like the railroads, and eventually, to some degree, when in the case of the exploration of mineral resources and traffic "between the states and among the Indian Tribes," it had become obvious that monopoly and unfettered license would bring certain disaster to the economy.

How remote all this sounds to us today! How distant the age when the small town banker possessed the many turreted mansion, with iron deer and mastiffs on the lawn, and drove in state to church in the shiny Victoria, while the voters of the town lived down by the river in space-heated tenements! In those days, indeed, there were brave buccaneers by hundreds, becoming endlessly more wealthy, with enough property received and retained, and transmitted, without tax, to set up a numerous progeny in lasting luxury. In those days, indeed, you and I could not sensibly have met or talked together; for the art of investment was known and available to only the very few. The ordinary man never thought of possessing a portfolio of his own.

Now comes another era. It is possible that we are leaving behind altogether what may be called the Victorian era of heavy concentration of capital for the benefit of individuals. The great levelling process which we are seeing is unlikely to diminish in strength. Forces are at work which must inevitably increase its power and its speed.

Fortune-Accumulation Now Impossible

We shall continue to see, through your lives and mine, a heavy burden of income taxation. It is not likely that many individual Americans will be able to save a great fortune, or even a substantial fortune, in intangible personal property or securities. There has been much discussion of the rights and wrongs of this clearly established social trend; there are strong arguments, it seems to me, on both sides of this question but I fear that we deal with fact when we say that this trend will continue. It is an established political fact. We are likely to have a varying ceiling, but an effective ceiling, nevertheless, upon what we are able to save from our earnings year after year.

We cannot legitimately believe that there will be a decreasing burden of death duties and estate taxes. Every so-called radical in the world is agreed upon one central idea, at least—that it is sound social policy to restrict the amount which may be left by inheritance to succeeding generations.

If the amount which can be saved out of income is reduced and the burden of death duties is increased, and more especially if the purchasing power of the dollar is depressed; it must inevitably follow that aggregate wealth will be more and more widely spread; that the problem of management of the average modest family capital will be more and more pressing; that diversification of the risk will be more and more and more important; that in consequence all sorts of sound media for collective investment will arise and become more and more valuable; that the accumulated fiduciary accounts of the nation must be managed with increasing imagination and flexibility; that ancient restrictions upon trustees' powers must certainly be removed. Indeed we shall be fortunate if the duty of the trustee of the future is not preponderantly a matter of operating going businesses rather than the management of rich mixed port.olios of the Victorian type.

Slow Reflection in Law

Now, as I have said, the law slowly reflects these changing social and economic conditions. Since the experiences of the depression, for example, we have observed a marked broadening of American fiduciary powers. A number of economic and social forces had, during the thirties, produced shocking declines in investment returns. There were disastrous experiences with prime securities; bond and mortgage foreclosures precipitated open conflicts both in urban and rural areas. Repeated disasters in the market place and prolonged declines in the values of all kinds of certificates of indebtedness served to re-emphasize the folly of legislative designation of investments which are "safe" for a trustee. It was fully demonstrated, indeed, that if "safety" is ever to be attained in the management of property it can be only by the unremitting application of prudence, discretion and intelligence to the variegated problems of a topsy-turvy world.

In February of 1942 I addressed the Annual Midwinter Trust Conference of the American Bankers Association upon the characteristics and virtues of the Massachusetts Trustees' Investment Rule, which was originally pronounced in March 1830, by the Massachusetts Supreme Judicial Court,[1] and which has ever since been the legal basis of the fiduciary tradition in which Massachusetts takes so much pride. In the course of that address, I suggested that the time had come when the considerable block of American states whose laws had been patterned after the ancient English approach, and whose trustees and beneficiaries had consequently been denied the virtues of flexible and modern investment techniques, should study and take steps to adopt the Massachusetts Rule.[2] Such a study was necessary, for while it was generally appreciated that the Boston Trustees had done a steady and reliable job in a difficult field the nation was not thoroughly acquainted with the beneficent and helpful rule under which he operated.

"Prudent Man" vs. "Illegal List"

In the nation-wide discussion of trust investment powers which took place in fiduciary circles after the Midwinter Trust Conference of 1942, the Massachusetts Rule came to be known as the Prudent Man Rule. Its ancient rival, the English Rule, long followed by a number of our pivoted states (including, as diverse geographical examples, New York, Illinois, Texas and California) had always been called the Legal List Rule. The American States, speaking broadly, patterned their law either upon the Prudent Man Rule or the Legal List Rule, and were somewhat unevenly balanced in favor of the latter.[3]

A Committee on Fiduciary Legislation of the American Bankers Association Trust Division, headed by Roy C. Osgood of Chicago, as Chairman, and composed of a number of the outstanding senior trust officers in American banks[4] was requested to consider and report upon the wisdom and feasibility of preparing legislative proposals which would incorporate the Prudent Man Theory. This proposed legislation, if approved, would thereafter be sponsored by the Trust Division in an attempt to bring about the much-needed reform. A Model Trustees' Investment Statute was prepared in due course, was debated at length in various conferences held throughout the

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1 Harvard College v. Amory (1830), 9 Pick. 446.

2 See the Trust Bulletin, May, 1942, Vol. 21, The Massachusetts Trustees' Investment Rule: Its Virtues and Defects. See also Trusts and Estates, Vol. 74, No. 2, February, 1942.

3 The guiding rule, even in legal list jurisdictions, was often stated in terms similar to the language used in Harvard College v. Amory. See, for example, King v. Talbot, 40 N. Y. 76 (1869). But in practice the trustee was limited, under legal list procedures, to an assortment of approved bonds, and a very few stocks of limited catagories.

4 The other members of the Committee, with their then titles, were: Carlysle A. Bethel, Trust Officer, Wachovia Bank and Trust Company, Winston-Salem, North Carolina; Maclin F. Smith, Vice-President & Trust Officer, Birmingham Trust & Savings Co., Birmingham, Alabama; L. H. Roseberry, Vice-President & Manager, Trust Dept., Security-First Nat'l Bank of Los Angeles, Los Angeles, California; Louis S. Headley, Vice-President, First Trust Company of Saint Paul State Bank, St. Paul, Minnesota, and Arthur F. Young, Vice-President and Trust Officer, National City Bank of Cleveland, Cleveland, Ohio.

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United States, and was finally incorporated in a booklet which was widely distributed by the Trust Division.[5]

States Joined in Reform Movement

The reform movement gained immediate and increasing momentum.[6] To the states which had departed to some degree from the Legal List theory before 1942 (as, for example, Connecticut, by Statute, 1939, Missouri, by Court decision, 1940; New Hampshire by Statute, a 50% rule, 1941) there have now been added the following important jurisdictions which have enacted the Model Statute, or something closely approaching it:

Delaware	1943
California	1943
Minnesota	1943
Illinois	1945
Texas	1945
Maine	1945
Nevada	1947
Oregon	1947
Washington	1947
Idaho	1949
Kansas	1949
Oklahoma	1949

Within a few days the New York Assembly has enacted what is informally reported as a 35% Prudent Man Rule.

Debate is continuing in a number of other states and in the District of Columbia. There is no sign of abatement of the trend. The Prudent Man Rule seems destined to emerge as the sole and unchallenged American Trust Investment Rule of the second half of this century.[7]

Trust Function Increasingly Useful

During this same period the trust function has proved increasingly useful. It is employed in myriad forms, e.g., in wills, in living trusts, in various types of agency and custodian accounts, in divers charitable and benevolent funds, in the foundations which characterize endowments of hospitals, churches and schools and in thousands upon thousands of everyday family arrangements. During recent years, moreover, investment complexities and tax burdens have become more formidable and estate planning arrangements, employing the trust device, are very much to the fore. It can be safely predicted that the hard-pressed fiduciaries of this Republic will demand and receive, at the hands of courts, legislatures and draftsmen of trust instruments, an increasing freedom to conduct their affairs as "men of prudence, discretion and intelligence" conduct their own affairs, "not in regard to speculation but in regard to the permanent disposition of their funds, considering the probable income as well as the probable safety of their capital."

In Victorian days, beneficial ownership of a fiduciary portfolio was a hallmark of wealth. The trust was seldom used by men and women of moderate means. So great was the **per capita** disparity in possession of the national wealth that it was freely said, even in comparatively recent times, that Sixty Families controlled the Republic. Such a statement, if ever true, is today patently ridiculous. The aggregate amount of fiduciary funds has increased enormously, to be sure, but the trust has become, in a very real sense, the working tool not only of the "rich man" but of the man of moderate means, both in family and in business affairs. There is every sign, indeed, in our American social economy, that the moderate sized trust will be the very foundation stone of millions of estate planning structures.[8]

There is, also, general agreement among students of trust administration upon the probable continuance of two distinct trends in the forseeable future.

It is expected, **first,** that we shall see more and more fiduciary accounts, involving a constantly greater proportion of the national wealth. Indeed, the aggregate of fiduciary funds is already a matter of first magnitude.

As of Jan. 1, 1947, there were nearly 3,000 corporate trust institutions in this Country, about half of them National Banks, administering more than $36,000,000,000 of property in personal trust accounts, the equivalent of $1 for every $4 of the roughly $157,000,000,000 of bank deposits as of Jan. 1, 1947[9]. That number of billions of dollars is sizable enough but there is to be borne in mind that they do not include any of the very great number of insurance trusts in existence in those banks.[10] Nor is there included in those billions any of the incalculable volume of fiduciary business which is done by **individuals** throughout the United States, as contrasted with banks, notably by members of the investment and legal fraternities. Those billions do not include, either, the very considerable amount of money which is held by charitable corporations throughout the country. The endowments of a dozen leading universities of the nation aggregate more than $500,000,000; it may be imagined that the total endowments of churches, hospitals, fraternal groups and other similar organizations would reach a staggering sum. It is estimated that there are more than five billions of dollars in pension trust funds not financed by insurance; there are enormous sums in Union Treasuries as well. On top of all this one can only speculate upon the number of "special" accounts in insurance companies and financial institutions of all sorts. Yet most of these tremendous capital sums are "fiduciary" in nature, in one sense or another. And because of the extraordinary usefulness and adaptability of the trust device, and the instinctive saving habits of our people the national sum total seems certain to increase by giant strides.

This, then, is the rough size and proportion of the market in the fiduciary field.

In view of these almost astronomical aggregates, it seems strange, though true, that the average size of individual fiduciary accounts is decreasing and is likely to be even lower as time goes on. This is the **second** trend of modern significance. It results from a combination of factors, the first and most hopeful of which is that the average man knows more about trusts than did his ancestors and is, therefore, more likely to use them. A less hopeful factor is the undeniable fact that income and death taxes do not permit the accumulation of great family fortunes in these days; there are few who see reason for hope that tax burdens will be materially decreased. [11]

Trust Trend Toward Low Income Area

"An indication of the second of these trends is revealed by a recent survey among corporate fiduciaries.

"Refuting the commonly accepted idea that trust institutions are the servants exclusively of the wealthy, the survey reveals that 54% of trusts in the care of trust institutions have an annual income of less than $1,200 each, with an average income of $370. The survey further shows that 73.5% of all trusts have an annual income of less than $3,000 each, with an average income of $788."[12]

When trust portfolios are coming into existence, to endure for substantial periods of time, in average sizes of the above order special problems are certain to arise.

The first such problem is concerned with safety of capital. The historic characteristic of the Prudent Man Rule, aside from its injunction of loyalty and its prohibition against speculation, is its emphasis upon the theory and practice of diversification. By diversification is meant nothing more than dispersal of risks. The prudent trustee minimizes his investment risks by a continuing adjustment of his holdings of fixed income bearing securities as contrasted with his participations in ownership equities; by a careful limitation of the aggregate of his purchases in any one field of investments, by spreading his geographical risks, his maturities and all other incidents of ownership in whatever manner seems to him safest according to his honest and best judgment of the circumstances then before him.

The prudent trustee can perform his difficult task of diversification, as history demonstrates, with a fair degree of success if, but only if, his fund is of sufficient size. If the fund is too small, he has no safe way to engage in the great game of capital management as an individual player. His only chance, when all is said and done, of getting into the game, let alone of staying there, is to join with others who have a like problem. The alternative of inactivity, i.e., of staying out of the game altogether, is not permitted to him. He may not avoid all risks by "hiding his talent" in some supposedly safe place. It becomes, therefore, a matter of prime necessity for the trustees of America to be able somehow, to join in an investment program with other fiduciaries of like mind—for only in that manner can a safe diversification be achieved.

The Economy Problem

The second problem arising out of the fiduciary portfolio of smaller size is one of simple economy. Every professional man of experience knows that it is the small matter which is often accompanied by disproportionate expense. Good-hearted persons are often led into costly fiduciary responsibilities by considerations of loyalty and opportunity for service. This is especially true of small family trusts and guardianship accounts. And the economic history of American corporate fiduciaries has proved that a limit must be imposed upon this type of professional generosity. If a corporate or individual fiduciary is charged with the responsibility of conducting, as separate portfolios, a large number of small and variegated trust accounts there is no possibility of breaking even, let alone of making a profit. The only solution, once again, is to devise some method of joint investment.[13]

The Common Trust Fund

These special problems have led, in the American fiduciary field, to the invention of the Common Trust Fund, a device now legal in 30 states by virtue of enabling statute, and in one state by force of court decision, and represented by about seventy Common Trust Funds operated by a somewhat lesser number of metropolitan banks.[14]

Common Trust Funds have produced an opportunity for diversification in the investment of smaller trust funds which was hitherto unavailable and have also served to reduce the cost of fiduciary administration to a marked degree. Trust men are agreed that Common Trust Funds are here to stay. Their growth has been only moderate, to be sure, because they are intricate in structure and somewhat difficult to establish. It may be a long time before they will be currently available to the smaller banks of the nation, and particularly to the rural banks, and it is to be doubted whether individual fiduciaries will ever be able to take advantage of their virtues.[15] There are obstacles, moreover, of marked difficulty in the enjoyment of Common Trust Fund techniques by benevolent and charitable funds and foundations in the nature of hospitals, churches and schools. Yet the principle of collective investment has demonstrated itself in this field to be worthwhile in all respects and the Common Trust Fund, taken together with the widespread enactment of the Prudent Man Rule, have undoubtedly marked very great advances in the field of modern fiduciary administration.[16]

If the American fiduciary to whom the Common Trust Fund is not available can be provided a method of collective investment of his fiduciary funds which does not involve an exorbitant added burden of management expense and which commends itself to "men of prudence, discretion and intelligence" in the conduct of their own investment affairs, he will certainly gain a great advantage over the narrowly limited opportunities of the past. Indeed, it seems clear that individual fiduciaries, of whom there are countless numbers, and the thousands of charitable and benevolent societies and smaller banks which do not have the facilities of the Common Trust Fund ought to be given, in fairness, an unquestionable legal right to obtain the virtues of collective investment which the larger metropolitan fiduciary institutions have succeeded in acquiring by use of the Common Trust Fund device.

There has, therefore, been increasing consideration, throughout the United States, of ways and means of permitting fiduciaries to acquire and retain the shares of reputable and seasoned investment companies and investment trusts.[17] A number of legal developments in this new field seem to point, indeed, to attainment of this goal within a reasonable time.

Not Avoiding Responsibility

In 1940, while considering the future role of investment trusts and investment companies in the modern fiduciary scene, I suggested that the time had arrived when courts should recognize that the ancient legal prohibitions relating to delegation of fiduciary duty and responsibility and mingling of trust assets are entirely inapplicable to discreet purchases by a prudent trustee of properly qualified investment trust and investment company shares.[18] A trustee is not, in fact, **abandoning** or delegating his fiduciary responsibility when he buys such shares but is, rather, **exercising** that responsibility in a manner identical to that adopted by men of prudence, discretion and intelligence in the conduct of their own affairs. Nor is there a mingling in the prohibited sense when a trustee acquires for his trust portfolio a negotiable certificate which is generally recognized as a "security" in financial circles. It seems clear that trustees of prudence, discretion and intelligence who purchase shares of certain types of business and public utility corporations, or banks, or insurance companies, are, in effect, making much the same sort of purchase —they are in fact buying an undivided fraction in investment portfolios of great size. Such acquisitions have been freely permitted to trustees under the Prudent Man Rule for generations, without criticism either upon the ground of improper delegation or of mingling. There is no valid ground of distinction, under modern conditions, between securities of this type and the shares of

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5 The Prudent Man Rule for Trust Investment, Trust Division, American Bankers Association, 22 East 46th St., New York, New York.

6 Examination of the annual indices of Trusts & Estates, The Trust Bulletin and the Annual Proceedings of the Section of Real Property, Trusts and Probate Law of the American Bar Association show the extent and variety of the discussion in all parts of the Country. The last named organization created a special committee to deal with the matter, still in existence and still working to extend the

7 Opinion among professional fiduciaries appears to be unanimous that the Prudent Man Rule works well in practice; certainly the investment return to the income tenant has been substantially increased.

8 Gilbert Stephenson, Esq., Director of Research of the Trust Division, has gone so far as to refer to the trust as the "poor man's tool." See an Estate Planner's Handbook, by the present commentator (Little, Brown & Company, Boston, 1948).

9 See Report of the Comptroller of the Currency for 1947. And see also Report of the Committee on Trust Information of the Trust Division. American Bankers Association—Trust Bulletin May, 1947. The reports of the Comptroller of the Currency, which cover National Banks only (about 1,500 institutions) show growth of "individual trusts," not including corporate and pension trust special accounts from $4,238,000,000 in 1929 to $9,284,000,000 in 1939 and $20,420,000,000 as of the last day of 1947.

10 The characteristic of insurance trusts is that they remain inactive for years, supported by contracts or policies of insurance. When they "ripen," however, they present an immediate need for investment. Bank statistics do not ordinarily include the face amount of policies as held in trust.

11 The difficulty of accumulating a sizable testamentary estate was graphically portrayed in 1943, by Julian S, Myrikch, Second Vice-President of The Mutual Life Insurance Co. of N. Y. and printed in Life Association News, June, 1946, in an article entitled "Catching Up With the 'American Radical'."

12 Report of the Committee on Trust Information of the Trust Division, American Bankers Association, published in the Trust Bulletin for May, 1947.

13 See Article by Robert Cutler, Pres., Old Colony Trust Company of Boston entitled "Program for Profits," Trusts and Estates, April, 1949, p. 204.

14 The states in which Common Trust Funds are legal, as of this writing are: Alabama; Arizona; Arkansas; California; Colorado; Connecticut; Delaware; Florida; Georgia; Idaho; Illinois; Indiana; Kentucky; Louisiana; Maryland; Massachusetts; Michigan; Minnesota; Missouri (by decision); New Jersey; New York; North Carolina; Ohio; Pennsylvania; South Dakota; Texas; Vermont; Virginia; Washington; West Virginia; Wisconsin.

15 The law of at least one jurisdiction, Massachusetts, makes the Common Trust Fund available to individual fiduciaries but it is unlikely that use will be made of the privilege because of practical difficulties.

16 The Trust Division of the American Bankers Association has published an excellent manual upon Common Trust Funds which sets out a sample form, with comments. Common Trust Funds, a Handbook on their Purposes, Establishment, and Operation—Second Edition, The Trust Division American Bankers Association, 12 East 36th Street, New York 16, New York.

17 Inquiries and questionnaires in the corporate trust field reveal both interest and desire upon the part of many trust officers for an advance in the law upon this matter. See editorial in Trust and Estates for July, 1949, entitled Fiduciary Interest in Investment Company Shares, which declares that, "Trustees will find more and more estates or private portfolios coming into their care with investment shares. As court decisions and extensions of the 'prudent man rule' further open the way to their purchase for trust funds, these shares will also be of wider interest for consideration and analysis. Many smaller trust departments, without adequate facilities for invesment beyond the legal list or bonds, may find that investment company shares will offer their managerial facilities needed for better diversification of trust accounts. These shares may also be an answer, as life insurance has frequently proved to be, to the needs of many persons who seek advice of trustmen and bankers in developing their estate plans, especially where a personal trust or management account is not appropriate."

18 Loring, A Trustee's Handbook (Shattuck Revision), Little, Brown & Co., Boston, 1940, Sec. 61. See also for further development of these ideas 29 Boston Univ. L. Rev. 1. (1949).

well-seasoned investment companies and investment trusts.[19] Indeed, it seems certain that the demonstrated virtues of this modern type of investment are destined to compel legal sanction of proper purchases by American fiduciaries. Such a prospect exists, of course, only in states where the prevailing law is based upon the Prudent Man Theory, or, alternatively, where special authorizations are granted to the trustee by the terms of his governing instrument or by the local statutes. But, since the number of States adhering to the Prudent Man Rule is constantly increasing, and the proportion of instruments containing broad investment powers is growing markedly greater, one may properly expect the law to develop rapidly in this particular.

Judicial Development Since 1940

Down to 1940 there was no adjudicated cases of any importance and no established judicial customs in any State of the United States which could provide ground for an accurate prediction as to the probable future.[20] Since 1940, however, there have been interesting developments in this field. In 1948 the issue was squarely raised in a significant Ohio probate case, in the important county in which Cleveland is situated. The Probate Court made it entirely plain, in its decision, that such a purchase was not an improper delegation by the trustee there involved, nor in any other way improper, and thus could not be made the subject of a surcharge. The case was appealed to the intermediate Court of Appeals of Ohio, where the lower judgment was affirmed. The case was appealed again, this time to the highest Court of Ohio, but the appeal was recently withdrawn and while, therefore, the Supreme Court of Ohio has not had occasion to pass upon the merits of this precise case it may be taken as the rule of the County from which the case arose that this sort of investment prudently made and not in violation of any express provision in the instrument is not improper.[21]

A similar situation has recently arisen in Oklahoma with a similar result in the lower court.

In 1948, the Probate Judges in Massachusetts, historic home of the Prudent Man Rule, stated their viewpoint upon this matter in the following letter:

PROBATE COURT
FOR SUFFOLK COUNTY
BOSTON, MASSACHUSETTS

Jan. 16, 1948.

Mayo Adams Shattuck, Esq.
15 State Street,
Boston, Mass.

Dear Mr. Shattuck:

The Probate Judges of the Commonwealth of Massachusetts held their annual meeting in my lobby on Saturday, Jan. 10, 1948, at which meeting, I served as secretary.

I put the question of the proprietary of a trustee purchasing shares of investment companies and investment trusts on the agenda for the meeting and the matter was discussed at length.

Of the twenty regular Probate Judges in this Commonwealth, sixteen were present.

I am now in a position to inform you that none of the Judges present have any objection to a trustee investing in the type of securities mentioned above. It was the unanimous feeling that the Probate Judges of this state, to keep abreast of the times, should recognize the fact that such purchases are not such a delegation of authority on part of a trustee as would warrant an objection on that score alone. The Judges reserve the right, however, to apply the "prudent man" rule in every case, and the trustee will be held to the same rigid standard in the purchase of these securities as he would be in making other investments.

Knowing your keen interest in this matter, and that you had a part in this question being put up to the Judges, I feel that you are at liberty to quote any portion of this letter in your discretion.

Yours very truly,

(s) FREDERICK J. DILLON
First Judge of the Probate Court for Suffolk County

In 1919 the State of New Hampshire enacted the following statute:[22]

STATE OF NEW HAMPSHIRE

In the Year of Our Lord One Thousand Nine Hundred and Forty-nine.

AN ACT relating to investments of trustees.

Be it enacted by the Senate and House of Representatives in General Court convened:

(1) Investment of Trustees. Amend paragraph IV of section 17 of chapter 363 of the Revised Laws by inserting after the word "securities" in the first line the words, including the shares of any open-end or closed-end management type investment company or investment trust which is registered under the Federal Investment Company Act of 1940 as from time to time amended and which may be sold under the rules, regulations, and exemptions of the insurance department of the State of New Hampshire, so that said paragraph IV as amended shall read as follows:

IV. In such bonds or stocks or other securities, including the shares of an open-end or closed-end management type investment company or investment trust which is registered under the Federal Investment Company Act 1940 as from time to time amended and which may be sold under the rules, regulations, and exemptions of the insurance department of the State of New Hampshire, as a prudent man would purchase for his own investment having primarily in view the preservation of the principal and the amount and regularity of the income to be derived therefrom; provided, however, that not less than 50% of the inventory or the cost value of the assets of the trust shall be invested in classes of property which qualify under paragraphs I, II and III of this section.

Trustees shall be accountable for, and may be licensed to sell, stocks, bonds, and other written evidence of debt.

If any provision of the Revised Laws is inconsistent with this Section, the latter shall govern.

(2) Takes Effect. This act shall take effect upon is passage.

(Signed) RICHARD F. UPTON
Speaker of the House of Representatives

(Signed) PERKINS BASS
President of the Senate

(Signed) SHERMAN ADAMS
Governor

Approved April 12, 1949

There has been no reported American case, from a court of last resort, in which a trustee has been criticized or surcharged for the making or retention of investments of this nature. Quite to the contrary, extensive correspondence with men active in the trust field leads me to believe that probate and trust accounts are constantly being allowed in Prudent Man Rule states which contain investments in shares of investment companies and trusts.[23]

There is, in short, accumulating evidence that the tied has turned and is running strongly in favor of making available to American fiduciaries, in common with other men of prudence, discretion and intelligence, this type of modern investment "security."

Now, because of these developments and the needs and virtues to which I have referred, and because it is apparent that there is a growing sense of confidence among prudent men in this type of investment, a responsible and substantial group of the investment trust industry has decided to wage a campaign throughout the country for the enactment of a statute which will legitimize investment company securities for American fiduciary purchase and retention. I am giving a hand in that campaign. A document is being prepared for nationwide distribution which contains much of what I have said today. I believe that this is a step in the right direction for American trusteeship. You, of course, are the persons who will recommend and place those securities. The opportunity seems to me to be a great one. I beseech you to be circumspect and discriminating in that endeavor, for we don't want by excesses to spoil so pleasing a prospect. But I feel certain that the market is there and that the product is needed and I wish you well in your conquest of the business.

19 Certainly the shares of investment companies and investment trusts are "securities" within the accepted meaning of that term. Surrogate Delehanty, writing the decision in Estate of Ella J. Hoagland, Surrogate's Court, New York County, New York, L. J. May 27, 1947, p. 2090, said, "In the investment field shares in investment trusts are currently bought and sold and are regarded in the marketplace as securities. A common trust fund is an investment trust in effect. . . ." The decision declared, upon that reasoning, that investment in a participation in a common trust fund was justified under testamentary language which allowed the trustee "to invest and reinvest in such other securities besides those recognized by law as proper for trustees as my said trustee may deem wise and desirable, it being my wish that said trustee shall not be limited to so-called 'trustees' investments."

20 See Chap. X of Alec Brock Stevenson's interesting book, Shares in Mutual Investment Funds, Vanderbilt Univ. Press, 1946.

21 Lower court citation Probate Court for Cuyahoga County, Ohio; In re Estate of William D. Rees, Probate Court No. 56362, decided June 26, 1948; intermediate Court citation; 85 N. E. (2nd) 563, Court of Appeals, Eighth Judicial District, No. 20864, decided Jan. 26, 1949.

22 It is to be remembered, in reading this statute, that New Hampshire is the only state which operates under the so-called 50% Prudent Man Rule.

23 Instances have been recently reported, for example, of the disposition of probate and surrogate courts to allow guardians to invest moderate sized portfolios entirely in such shares. There is, of course, a particularly pressing need for this sort of participation where a guardian is charged with the retention and investment of a relatively small legacy for a protracted period of years.

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As We See It

lation only an expanding economy can absorb the workers coming into the market; or at least only it can do so without a spread-the-work movement which in the end results inevitably in a similar spreading of the limited fruits of labor and thus in a reduction in the plane of living. And, so the story goes.

The thoughtful citizen, however, will wish to look a little more closely at the facts. Current estimates suggest a growth in what is known as the "labor force" (that is people at work or ready to work) of four or five million during the coming decade. This increase is but a natural consequence of a growing population, but it frightens some of the soothsayers of the day no end. Is such a growth, then, something rare and strange, never before experienced in this or other country? The answer is, of course, that it is absurd to suppose that such growth is without many, many precedents. Precisely comparable figures about these things covering a long period of time are, unfortunately, not in existence, but estimates quite accurate enough for the purpose here in hand are readily available. As against a rise of roughly 7½% expected during the next ten years, the "labor force" rose more than 30% from 1900 to 1910; some 10% from 1910 to 1920; around 17% from 1920 to 1930; and roughly 11% from 1930 to 1940. The increase from 1940 to 1950 was fully 10%.

Then and Now

Now the politicians in 1900 might have worked themselves up into a sweat about what was going to happen during the ensuing decade in which it was easy to see that the labor force was going to expand. Without any doubt, they would have done so had they been indoctrinated with "modern" notions as have those of today. Looking back after the event they would, however, have wondered why they should have suffered so at the prospect—although, being politicians, they would probably have thought of claiming that only their efforts had prevented the development of the dire things apparently in prospect ten years earlier. But, in any event, the fact is that in 1910, unemployment was hardly more than a third what it was at the turn of the century. And neither the New Deal nor the Fair Deal had ever been heard of at that time!

Similarly, with the succeeding decades. Unemployment in 1920 and again in 1929 was about what it was in 1910, although by 1930 it had risen considerably due to the depression which had by that time set in. Of course, unemployment did not remain so stationary from 1900 to 1929 as the figures cited above would suggest, since the number of jobless naturally throughout these years as in other years fluctuated with the state of business, but no long-term upward trend developed during the three decades in question. Unemployment in 1940 was about double what it was in 1930, and was considerably more than double what it was in 1929, thanks to the long and deep depression of the 1930's. Meanwhile, World War II intervened, and for much of the time since the end of that conflict unemployment has been running in the same order of magnitude as 1929.

Explanation Is Simple

The explanation is obvious enough. Without the "benefit" of "planning" or of other New Deal or Fair Deal interferences, business over the sweep of time has during the first half of this century (and, without doubt over previous centuries) grown more than proportionately to the growth in population and the labor force. It was to be expected that it would do so, and it is to be expected that it will do so in the coming years and decades if given the simple opportunity that we have provided in the past. The result of this continued growth is not only that more and more individuals have been taking part in the production of the good things of life, but that more and more of the good things of life have been produced and provided for us all.

Of course, it is true that this habit of viewing the future welfare of the country merely in terms of "job opportunities" (that is job opportunities in the ordinary sense), is a very, very superficial approach to the problem. It seems to rest on the assumption that work is an end in itself, that some inner urge drives man to work and that work serves his ultimate need. The fact is, of course, that work is merely a means to an end. If more work does not bring more of the good things of life, then there is no point in more work. The task would then be merely a better distribution of the work which must be done and of the product which flows from that work. Some such idea appeared to underlie much of the earlier campaigning of the New Deal, but it has since been repeatedly repudiated. What is not realized is the fact that this eternal emphasis on employment derives in part from some such assumptions, whether the fact is understood or not.

What Is Wanted

What is needed in the next decade as in all following decades is more production of the things people really want and are willing to work for. If this is true, then obviously the proper policy for the future is the sort of policy which will result, first, in the production of the right goods, and, second, in an increase in the output per capita. In this connection, let it not be forgotten that these employment and unemployment figures about which so much is being said refer to the man in business for himself as well as to those who are working for others. Because greater activity on the part of those who work for themselves will bring more production and offer greater opportunities to those who prefer to work as employees, the important task is that of creating an atmosphere which does not hinder or discourage the man who initiates business enterprise and keeps its wheels turning.

The way to do that is the way that it has been done throughout our history—provide a fair field and no favor, and let the "drive" of the individual take over from that point.

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Our Paper-ized Economy

the same or another $10 note, or into two $5 notes, or ten $1 certificates (which certify nothing). In any case, one piece of paper "redeems" another. Which amounts to saying that a dollar is exactly one dollar—that it is not convertible into anything.

Leaving aside the mystery aspects of the dollar-is-a-dollar puzzle, the obvious question arises: Why do people accept a piece of paper in lieu of "value received"? In a totalitarian regime they have no other choice (except by escaping into barter deals). Indeed, a full-fledged dictatorship must have a money that is "national," i.e., useless for all but domestic purposes. Nor can it permit any other money than its own to circulate within the realm. Evidently, to control his subjects the dictator has to have unlimited sway over their pocketbooks. And the reverse is true, too; once a government has full control over the currency—once it can determine arbitrarily the kind of money people must use or go without—the groundwork is laid for the acquisition of total power. The road to dictatorship was paved with inconvertible paper money in France during the great revolution, in Russia, Japan and Germany after World War I, in China after World War II and in other instances.

A Totalitarian State has the power to impose on its subjects a unit of currency which should be called Nothing. But what about a "free country" like ours? Why should an American citizen accept an apparently worthless nominal unit in payment for very worth-while goods and services? For one thing, in monetary matters no country stays entirely free if the convertibility of its paper currency into hard money is suspended. As a matter of fact, since 1933, the American citizen enjoys less freedom in this respect than a Frenchman. The latter is permitted at least to buy and sell gold bars and coins as much as he pleases, and on a perfectly free market, except that it is illegal to export or import gold, while you and I may have to go to jail if we commit any such crime. Nor are contracts in gold or foreign currency enforceable in this country, and the gold clause on old contracts has been invalidated. The cold fact is, Americans have lost their freedom of choice in matters of monetary standard.

Capitulation of the Gold Dollar

Yet, with all laws and regulations being as they are, no one could force the American people to "swallow" inconvertible paper dollars if they did not want them. That is the point: the **voluntary consensus** of the public. It might be instructive to pick at random and to question a thousand "men on the street" whether they think there is any difference between the dollar as it was constituted, say, in 1929 or before, and the dollar as it is today. It would be surprising to find more than one in a thousand who would as much as realize that at one time it was convertible into gold and now is not convertible either at home or abroad; and not one in a thousand has any idea at all that this difference has highly significant consequences. To the general public, for all practical purposes and without a shade of doubt, the paper dollar is as good as gold. A minority of the quasi-intelligentsia might even argue that paper is better than gold.

Try, on the other hand, to poll the "dead": the same Americans (or, for that matter, Europeans) of a generation ago. Suppose we would have asked them in 1910 whether they preferred irredeemable currency to gold and convertible notes. Probably 999 out of a thousand would have raised their hands in horror. The very idea! Who would want to be "deceived"? Witness the general practice of hoarding gold, and the important role of the gold clause in long-term contracts and bonds.

The Monetary Revolution

Until very recently the civilized world has been thinking in terms of gold (or silver). The leading nations of that same world think today in terms of a unit which does not represent any "tangible" commodity value. From the golden calf we have progressed to the paper calf.

This is a change in the public's mentality, not just in textbooks or in the ideology of brain trusters. Its revolutionary character is illustrated by the Anglo-American departure from the gold standard. As late as in the Summer of 1931, it was generally assumed that the pound sterling could not stand the shock of a devaluation. It would lose its credit at once. Yet, the British public took the scrapping of the traditional gold standard as calmly as if it had been a perfectly normal procedure. Two years later, in these United States, Messrs. Roosevelt and Morgenthau were given a free hand to confiscate all the gold and to play around with the value of the dollar, drawing the gold price out of their hats, so to speak. Reducing the gold content of the dollar did not cause much excitement and met with no serious resistance. Earlier in this century, to say nothing of the previous, no such manipulation would have been tolerated by either the British or the American public. It would not only have unleashed a financial crisis of unprecedented magnitude—a run on the respective central banks—but its consequences could not have been corrected for a long time.

By 1931-33, even business took the devaluation without showing any sign of losing confidence in the depreciated paper. This was not due merely to a depression-time weakness of the public. What began seemingly as a depression phenomenon became a permanent feature of the financial system.

Why Did People Reject Gold?

What is the rational of this change from gold-to-paper-mindedness? Why did we use to think terms of a universally marketable commodity of a comparatively stable value as the ultimate standard onto which to hold, and ignore it now? One naive way to rationalize is by saying that it is the **legal tender** character of the paper dollars that gives them "value." You may use quite a few of them to pay taxes; also, they are good to pay any private debt incurred in dollars. But that was the case in 1910, too; why, then, did grandpa insist on a gold clause in the bond he was buying? The legal tender character, and whatever economic value flows therefrom, was just as good then as today. Nay, better: there was incomparably less paper money floating around, and the amount of government bonds to "back" the currency was virtually negligible. Nothing has happened in the functions of money or in the quality and wisdom of the government that would explain and justify the **psychological change** about which we are talking.

Evidently, we **rely** presently **on the word of the government** as we would not have dreamed of doing as recently as a generation ago. And that goes for all, or most, Western people (excepting the Latins). It is a **voluntary** reliance on the authorities, mind you; in this country, even such measures restricting personal freedom as the prohibition of gold ownership and the elimination of the gold clause in contracts are more or less spontaneously accepted or at least tolerated. Otherwise, the sad experience with liquor prohibition would be duplicated.

As a nation, we have not "lost" a fundamental freedom — we surrendered and discarded it by our own volition. No use to blame it on Irving Fisher, Lord Keynes or on any other money crank, on individual or organized pressure groups and crackpots. If the silver racket gets away with a huge subsidy, that is a matter of political horse-trading. The driving force behind paper money is not the paper manufacturers. Its rule is a matter of mass psychology; the politicians take advantage of that, while the intelligentsia—itself under the sway of mob mentality—provides the rationalizations and pours its own ideological fuel on the fire of monetary demoralization.

Incidentally, the idea that money is what the omnipotent and omniscient State declares for money first was enunciated by the advocates of the French assignats. It was (of course) a German professor, G. F. Knapp, whose "State Theory of Money" of 1906 gave it the "scientific" formulation. To Knapp, money is a product of the legal and administrative system (**rechtsordnung**), its unit nothing but a name, defined "historically." What matters is its legal tender character: people take it because they can pass it on. The gold standard was a sheer accident; the British adopted it in the 18th Century without knowing what they did. The rest of the world followed in the 19th "not because gold was gold, but because England was England."

Nationalizing Money

No doubt, the change in the psychological climate toward money—from gold to paper—was a gradual process. World War I and its aftermath gave the decisive impetus; the Great Depression was the visible turning point. Ever since, the process is widening and deepening in a self-induced fashion. The shift in mass-psychology opened up the gates for Monetary Management that in turn carries it further, establishes and hardens the new outlook. The longer this lasts, the more the public—including business — takes the new way of economic thinking for granted. Unwittingly, and step by step, it adjusts itself to a way of life in which the fundamental instrument of all economic valuation is a mere fiat of authority in power. **The nationalization of money is followed by the nationalization of the capital market:** Cheap Money in eternity.

Small wonder that the entire financial and economic thinking undergoes a revolution. If money is nothing but a printed name, the principle of its quantitative control — the balanced budget — becomes an irrelevant, antiquated concept. If **currency** can be created at will, with no attachment to a thing that is scarce and costly, why should **credit** be any different in nature? The consequence of the de-throning of gold (i.e., of "nature" as a basis of the monetary system) is the separation of a major part of the credit structure from real market values. As legal money is not limited any longer by a costly and therefore value-creating process of mining, so credit need not be hampered by limitations imposed by self-restraining economic processes. With the sacrifice of the gold principle of the currency, the old-fashioned liquidity rule of credit goes overboard. More precisely: true liquidity in terms of underlying commercial self-reproducing processes is replaced by a paper concept of "shiftability" in terms of legal tender and government promises. Utopia — free, unfetted, unhibited, arbitrary money manipulation—is the final outcome, releasing the something-for-nothing philosophy, the Welfare State.

The Cultural Pattern

Forcibly, the foregoing outline of an analysis had to be very sketchy. The esential point is that the **paper-izing** of the monetary system is due primarily to psychological forces—to the subordination of the individual quest for a standard (and store) of value to the judgment of the authority. The same age that has produced the broadest expansion of democratic freedoms also has brought about an unprecedented surrender of the private "treasure" to the powers that be.

The **"invisible" nationalization of money** is the eruptive symptom of a profound change in the cultural pattern of the Occident. Separation of physical force (the State) and economic power was the unwritten organic law of Liberal, Capitalistic Society. By abandoning gold, a uniquely subtle machinery of uncontrolled and arbitrary rule over production and distribution has been handed to men who already wield the power of Government. That still leaves the door open for ultimately checks by democratic techniques, you may think. In reality, the democratic process is much too clumsy, and its inherent, vested pressures much too strong, to permit as a rule more than holding and delaying action — given the alliance between political forces and the "ivory tower torchbearers of a new Utopia," quoting Joseph Stagg Lawrence.

Evils of Paper Standard

Gold is international money; **paper is** "national"—more precisely, **anti-international.** The one compels adjusting prices and thereby production to the requirements of world-wide competition. The other, by its very nature, fosters the chiseling practices which vitiate the price, wage and production structure, bringing about those artificially supported markets familiar to the current scene, and generating the capital malallocations which eventually will bury the whole House of Paper under the weight of its misconceptions.

One specific product of the global system of Paper Standards — which the abortive Bretton Woods institutions were supposed to combine into a single Paper System—is the virtual cessation of the international flow of private capital (other than capital flight). That this, too, is the outcome of a new cultural pattern is pointed out in a penetrating essay of Alexander Sachs.[1] "Cultural pattern" provides the learned sociologist's frame of reference; what has deteriorated is the moral fiber of society, and new standards of monetary ethics (or the lack of such standards) are the prime denominators of the change, the effects of which permeate the world economy—under our leadership.

Conclusion

The purpose of the foregoing is not to delve in pessimism. As a matter of fact, this country still is infinitely better off in its basic monetary position as in other respects than is the rest of the world. And it is in an infinitely stronger position to reverse the vicious trend which is accidental rather than "historical." But what can the individual do about it? All that can be said this time, and briefly, is that:

It is mandatory that we should endeavor to understand fully this psychological and institutional trend with its economic, social, political, and ethical implications and to **educate** others to a proper understanding;

Institutionally, the most important educational devices are: a **balanced**—nay, overbalanced—national **budget** (by way of reduced Federal expenditures) and the restoration of the **free ownership of gold;**

As citizens, we ought to concentrate our political efforts toward the one overriding issue, namely, the restoration of **thinking in gold** with the **ultimate** objective of the restoration of the automatic gold coin standard;

As individuals who have to take care of our own and trusted interests, we have to learn to realize that **paper liquidity** is at the mercy of political ebbs and flows and therefore, **in itself,** is a very dubious anchor for economic security.

[1] "Restoring the Economic-Cultural Bases on American Foreign Investment," by Alexander Sachs, *The Academy of Political Science*, Columbia University, 1950.

Plant Expenditures to Decline 11%

Each major industry group plans lower capital outlays, according to SEC-Commerce Department survey.

American business in 1950 will spend about 11% less on new plant and equipment than in 1949, according to the latest survey of capital outlays by the Securities and Exchange Commission and the Department of Commerce. Capital outlays are expected to total $16.1 billion in 1950, as compared with $18.1 billion in 1949 and $19.2 billion in the peak year 1948.

Expenditures in the first half of 1950 are expected to fall about 8% below the first half of 1949. A larger decline is expected for the second half of this year, with anticipated outlays about 14% below the corresponding period of 1949. The actual decline in the second half of this year, on the basis of past experience, may be smaller than indicated since there is some tendency for companies to underestimate their plant and equipment expenditures over the longer term.

Each of the major industry groups plans lower capital outlays this year. The largest percentage decline in expenditures for 1950 is anticipated by railroad and other transportation companies, which expect to spend 32% less than last year. On the other hand, electric and gas and manufacturing companies plan capital outlays only 6% and 7%, respectively, below 1949. Expenditures anticipated in 1950 for these industry groups, compared with expenditures in 1949, are as follows: manufacturing down to $6.7 billion from $7.2 billion; mining $650 million from $740 million; railroads $930 million from $1.4 billion; other transportation $350 million from $520 million; electric and gas utilities $2.9 billion from $3.1 billion; and commercial, communication and other industries $4.5 billion from $5.1 billion.

Actual expenditures of $18.1 billion for 1949 were very near the $18.3 billion of anticipated expenditures for the year estimated in this survey early in 1949. Actual outlays in the fourth quarter of 1949 and those now estimated for the first quarter of 1950 were higher than had been initially anticipated. While the upward revision in the fourth quarter is due largely to accounting adjustments, the revision for the first quarter of this year may indicate an increased confidence in the business situation.

Plant construction in 1949 made up about 30% of total expenditures for plant and equipment and little change in the proportion is expected in 1950.

The basic data for the above estimates were derived from reports submitted by corporations registered with the Commission and a large sample of unregistered manufacturing companies, unincorporated as well as corporate, reporting to the Department of Commerce. The data, collected during the first quarter of this year, included actual plant and equipment expenditures for the fourth quarter of 1949 and anticipated expenditures for the first two quarters of 1950 and the year 1950. All figures are estimates for all non-agricultural industry based on the sample data.

Moreland & Co. Adds Hebert to Staff

DETROIT, MICH. — Louis C. Hebert has become associated with Moreland & Co., Penobscot Building, members of the Detroit Stock Exchange, in the trading department. He was previously with Smith, Hague & Co.

Robert L. Snell, formerly on the trading desk, has been transferred to the retail department.

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A Birdseye View of Current World Trade

may extend the scope of their activities, and may finance up to a billion dollars of new foreign investments. We may also expect that private investments abroad will again increase. It would not be surprising to me if at least $500,000,000 would be spent for new ventures abroad, or for additional foreign financing by private corporations or individuals. But these private investments will be concentrated in a few areas or countries, mainly in Canada, Central America, and Southeast Asia. Only small amounts of private capital will go to Western Europe. A few large new investments will be made in the Middle East.

Thus those countries which are in most urgent need of dollars will have to depend on exports and "services" as their chief source of supply. This applies especially to Great Britain, France, Holland, Italy and also to Argentina.

Most forecasters allow for some increase in United States imports, but even the most liberal allowance is small. We probably have not fully felt the effects of the devaluation of sterling and other foreign currencies; but I still do not believe that there will be a big increase in imports. Too many domestic industries are already feeling the damaging effects. Even the Administration is talking about a subsidy to help out industries that experience a dislocation.

Efforts to obtain a drastic reduction of American tariffs will not succeed. Nor will other countries substantially reduce their import barriers.

We are concerned here less with the long-term merits of this controversy than with the probable outcome. The days of U. S. isolationism are supposed to be far behind us. I think that most businessmen realize that we can't export without importing. But it is only human nature that individual industries, and this includes labor as well as management, begin to object when imports cut into their own business.

The main obstacle to a drastic reduction of import barriers is, of course, that such an action cannot be taken by one country, or by a few countries alone, while other countries insist on protective measures for their own industries.

I even visualize additional difficulties arising from subsidies granted by individual governments for domestic industries, and in particular, for exports. This can be done in a hidden form. We shall hear a lot about such export subsidies during this year.

Therefore our Administration will find itself in a very difficult position as the ITO Charter is discussed.

At the same time, Congress is feeling the pressure to economize, is disturbed by the rising trend of unemployment, and is concerned about the effects that such imports are having in such industries as textiles, watches, oil, etc.

Dollar availability in 1950 will be less than last year. Our exports show an even bigger decline, since a few countries may try to build up their gold and dollar reserves. These are plain signs of the growing competition in export markets.

Area Dislocations

Quite frankly, however, I believe that exports to some areas will show a much sharper drop than the total.

In 1949, a substantial part of the ECA dollars was earmarked for off-shore purchases. European countries had dollar help in financing their purchases from Western Hemisphere countries outside the United States.

With the number of ECA dollars going down, the amount earmarked for off-shore purchases will almost completely vanish. Most of the decline, in fact, will come in this category, in order to minimize the decline in direct spending by ECA countries in the United States.

Those of you who do business in Latin America will be badly affected by this trend. The outlook for exports to that area is exceedingly difficult, and many Latin American countries will experience new economic and political crises. We will probably see further changes in governments in Latin America. Any hope that trade or currency restrictions will generally be eased, seems to be utterly unrealistic.

Political Trends

Politics and economics go hand in hand, perhaps more in the export trades than they do in domestic business.

When the two are combined properly, they sometimes lead to great successes. Any student of history is bound to be impressed with the way in which economics and politics helped each other out, as practiced by the British during their great period of expansion. Of course, looking a little farther along in British history, the student will also be impressed with the extent to which the British political position was weakened when her commercial expansion was followed by a cycle of economic retreat and retrenchment.

I am very much afraid that the United States has been somewhat naive in some of its policies. A part of this comes from our geographical isolation from events in Europe and Asia. We know what is going on if we stop to think, or read the information that is available. But we don't actually *see* it going on, or *feel* it going on, to the same extent as most foreigners do.

This country usually has remarkably good intentions. We so much wanted to believe that this last World War would settle basic problems, that an era of peace could be guaranteed by an international organization, that we indulged in a great deal of wishful thinking. We so much wanted to believe that peace would follow prosperity, and that a sufficient supply of U. S. dollars would create a lasting prosperity, that we embarked on some very shortsighted programs.

I find myself in a peculiar position. I want these things to happen just as much as anyone else. Yet I am forced in my business connections to be realistic and hard-headed. Furthermore, I don't believe that I have ever seen any problems solved by wishful thinking. They have to be recognized for what they are and dealt with accordingly.

The foreign political trend is not favorable to the United States position and it is not favorable to the United States exporter.

Take the controversy with Russia. If we look back we will see that the cold war has been in progress for a long time. We will see that the cool periods and the hot periods have come from Russian initiative, not from our own. We will see that the "Truman Doctrine," which had the frank aim of containing Russia, had to be abandoned in the Far East at just about the time when we were congratulating ourselves on its success in Europe. In fact, we must now begin to question whether or not it has been as successful in Europe as we believed. I think it does not take too much foresight to conclude that the real test of our position in Europe still lies ahead, and that the position from which we must meet it, is weaker than it was a year ago or two years ago.

Let me explain this last remark.

First of all, the domestic problems that we have, of maintaining employment and preventing a business recession, are much more pressing now than they were before. Not only do they occupy more of our time, but they influence Congress and they influence our t h i n k i n g about foreign problems. ECA, for example, is being trimmed down, not because the foreign need for dollars has been overcome, but because we are beginning to think differently about the dollars spent at home and the dollars spent abroad.

Secondly, we are not in as secure a position with our potential Western European allies. The cold war has made an impression abroad, perhaps more so than at home. The average American, not too badly off and busy with his own affairs, can sometimes shut his eyes to the risks and dangers of another war. But the European sees war clouds closer at hand geographically if not in time, and is beginning to think more about a position of independence or neutrality.

These changes are traced out in the shifting emphasis on ECA objectives, just as they are in other fields. First c o n c e r n of the Marshall Program was European recovery. This was necessary, we believed, in order to insure peace and to strengthen potential allies.

During the second stage of the program, emphasis shifted to European integration. This was an admission that Europe's economic base had been badly damaged during the war and that the original program of recovery made no allowance for this. Western Europe had lost its Eastern European market. Many countries in Western Europe had lost valuable prewar sources of overseas income, much of which had been paid to them in dollars. Something had to replace these losses, and integration was supposed to be the solution.

But integration turned out to be difficult, if not impossible. Loss of Eastern markets and overseas income sharpened the economic rivalries between Western European countries. Governments in many countries were unstable, inflationary trends had not been stemmed, and it was not possible to abandon controls and restrictions, as would be necessary if integration w a s to be accomplished.

Now we hear a great deal less about integration and much more about European competition. To a very large e x t e n t we have stopped thinking about the problems of Europe and have begun to think of our own problems. And even if this were not the case, there is more and more a tendency in France and in Great Britain, as there was previously in Scandinavia, to hew less closely to the United States line, and to act more independently.

I do not mean that these countries would rather do business with Russia than with the United States, or that they trust Russia and distrust the United States. But it is hard to convince them that Russian occupation could be avoided if another war broke out, and they very naturally do not like this prospect.

This, of course, gives Russia a greater bargaining power than she had before. In addition to trade opportunities, which most of these countries n e e d, she can offer such important intangibles as neutrality in case of another conflict.

Inner Politics Abroad

If inner politics in the United States affect their foreign policies, then certainly the same thing can be expected abroad. And this is indeed the case.

In fact, the situation there is more extreme than it is here, simply because economic conditions at the end of the war were much worse. And, despite all of our dollar aid, they are still worse in most countries than they are in the United States.

These countries in many cases still have problems of internal inflation. They also have problems of e x t e r n a l trade. Currency values enter in the trade question to a much greater extent than they do in the United States. But any manipulation of c u r r e n c y values also affects the internal situation.

The internal inflation, in turn, affects the trade position as well as the stability of the government. To improve the trade balance it is necessary to increase exports, which calls for lower prices. But internal inflation creates labor unrest and irresistible demands for higher wages.

It is plain that these problems are complex, difficult and not subject to immediate solution. They can only be solved by long and strenuous efforts, and by great patience and understanding on the part of the people involved. But populations affected by rising living costs are not likely to be patient and understanding. Thus it is almost impossible for individual governments to take an economically sound line of action without causing their own downfall.

The position in Great Britain is the latest illustration of this difficulty. The outcome of the elections, in many respects, could not have been worse. Both parties recognize that new elections will have to take place shortly, probably within a year. The present government will not be able to follow any strong and consistent line of action. Every one knows that it is acting as a caretaker, and that continuity of policy cannot be expected. The situation in France is much the same.

In practical terms, the Labor Party in England will probably receive Conservative support in relation to the internal budget and in relation to trade controls. In fact, the real differences between the two parties did not relate to foreign trade, or to developments that will affect American exporters. They related more to domestic problems, specifically nationalization. And even on this subject, the Conservatives did not propose to turn back the clock, but merely to stop it for the time being.

Sources of Supply

One of the less dramatic changes has affected sources of supply for finished products. Here there have been two main tendencies.

A very important one has been the revival of Germany and Japan as exporting nations. This has speeded up recently, particularly in the case of Japan, and this trend has by no means ended. In fact, speaking from a political viewpoint, any uncertainties about some of our other allies will probably lend encouragement to a further strengthening of the economy in Germany and Japan; and this, of course, will require a bigger outlet for German and Japanese exports on world markets and in the United States.

Another fundamental but less dramatic development is the nationalist thinking in most countries. All of them want more industry. Many of them cannot finance a very rapid industrialization and at the moment, at least, will not have much success in getting United States backing. The fact remains, however, that machinery is being shipped overseas all the time, and that this to some extent is providing new sources of supply for finished items. Whole plants, too old or too backward to be competitive in the United States, have been packed up and shipped to areas where cheap labor will again make them productive.

I do not say that this development will have early or important effects on exports from the United States; but it is a basic world trend that deserves consideration.

Conclusions

I have not tried to give you a lot of details about exports and foreign trade. On the contrary, I think perhaps that the exporter himself may be so immersed in these details that he may temporarily miss s o m e of the basic trends and developments. Let me sum up briefly:

There is no early prospect that foreign trade will begin again to move in a more normal manner. Import, export and currency restrictions, as you know, are both severe and general. There will be changes, of course, but these will not relieve the present situation; they will merely make it a little different from time to time. One of the important things is to follow these trends, and to try to foresee them.

Another development that deserves your a t t e n t i o n, even though you may be able to do nothing about it as individuals, is the problem of many foreigners who want to buy from the United States, but who have to sell commodities before they can get the dollars to spend.

There should be some sort of a clearing-house which would bring together foreign and United States businessmen in a practical way. Too frequently the American who wants to sell abroad is not able to import. If he could temporarily associate himself with some other American who was importing, he could consummate his foreign sale.

Is there any early prospect that this confused and disturbing foreign situation—and I speak in both the political and economic sense—will clear up? I can see nothing abroad to make me feel optimistic. And I can see nothing in Washington to make me feel optimistic. The State Department is in hot water, which makes the formation and conduct of foreign policy even more difficult than it usually is. At the moment, I fail to see well-developed programs. Rather, there is a tendency to wait and see what will be proposed by Great Britain, or by Argentina, or by this or that other country; or to improvise when conditions make some action unavoidable.

Let me close on an optimistic note. The situation I have described here can hardly be called comforting or encouraging. It quite obviously calls for foresight and intelligenec on the part of exporters, if they are to be successful. Nevertheless, the volume of United States exports, despite recent declines, is still high. And the varied difficulties in this field mean that the individual who *is* intelligent and well-informed, and who *does* have foresight, will be liberally rewarded, even if it is at the expense of others who are less well situated.

The very need of many countries to p r e p a r e for new emergencies stimulates moves and movements which o f t e n mean highly profitable business for those who are alert, who are on the spot, and who have sufficient daring.

William Hobson Joins De Haven Townsend

PHILADELPHIA, PA.—William H. Hobson, Jr., formerly a Vice-President of Blair, Rollins & Co., Philadelphia, has become associated with De Haven & Townsend, Crouter & Bodine, Packard Building, members of the New York Stock Exchange, as manager of the firm's municipal bond department.

Public Utility Securities

By OWEN ELY

Pacific Gas & Electric

Pacific Gas & Electric has been selling recently around 32, while other important utility $2 dividend-payers such as Consumers Power, Ohio Edison, Southern California Edison, Carolina Power & Light, and Dayton Power & Light were quoted between 33 and 35½. Why this differential? The answer seems to be that Pacific Gas is now a "marginal" dividend payer—i.e., earnings do not provide much marginal safety for the dividend. The same is true, of course, of Boston Edison, but that company has a much larger common stock equity base—about 60% compared with 26% for Pacific Gas (excluding intangibles).

Pacific Gas & Electric is the third largest utility in the country, with annual revenues of $217 million ($151 million electric, $65 million natural gas and $1 million miscellaneous). The company has paid dividends on the common stock in each year since 1911 with the exception of 1914 and 1918, and the present $2 rate has been paid since 1937. Many valuable subscription rights were given in the period 1926-31 and again in 1947-50. All other subscription offerings were priced at par (with one exception in 1929) until this year, when a price of $30 (vs. $25 par) was fixed for 1,656,156 common shares. The shares were offered to stockholders of record March 14 on a 1-for-5 basis, with rights expiring April 5. The issue was underwritten by a syndicate headed by Blyth & Co. on a negotiated basis. The new stock brings the total outstanding to 9,936,936 shares.

The company is engaged in the heaviest construction program undertaken by any electric-gas utility company. Expenditures were stepped up from $44 million in 1946 to $100 million in 1947, $158 million in 1948 and $192 million in 1949; 1950-51 expenditures will average about $150 million annually, it is estimated. Thus the company will have spent nearly $800 million by the end of 1951, as compared with a net plant investment of only about $647 million at the end of 1945. Net plant account is now close to the billion-dollar level.

Share earnings have not kept pace with this rapid growth, however. In 1943 share earnings were $2.72, in 1947 $2.45, in 1948 $2.46 and last year only $2.06 (based on outstanding rather than "average" shares). The 1949 earnings were after inclusion of special credits—$4,411,889 interest charged to construction, and $1,719,857 credit arising from adjustment of prior years' special charges for Federal tax provision; omission of these credits would have reduced share earnings by perhaps 74c a share. Interest charged to construction usually assumes that the company can earn 6% on new plant account under construction; Pacific Gas does explain whether it is following this practice, but the inclusion of this credit may be warranted even if it discounts the future to some extent. However, the other credit would seem to belong in profit and loss account, since it reflects an adjustment of prior years' transactions. On this basis earnings would have been reduced by about 21c to $1.85.

If the 1949 earnings were reduced to a "pro forma" basis, with annual interest and dividend requirements based on the currently outstanding securities, share earnings would be further reduced. Thus interest charges are due for an increase of about $1 million (less tax savings) because a large block of bonds were sold last July. Total annual preferred dividend requirements are now $13,355,592, an increase of about $2,300,000 over the amount paid in 1949. Thus adjusted pro forma net income for common in 1949 would approximate $14,300,000. On the basis of present outstanding shares, this would indicate pro forma earnings of only about $1.44.

However, there are also adjustments to be made on the favorable side of the ledger. The California Public Utilities Commission has issued an order effective April 15, increasing the company's electric rates by $8,666,000 on an annual basis, this being the first electric rate increase in 30 years. It followed last November's increase in gas rates, the first in 18 years. After adjusting income taxes, pro forma earnings including these two rate increases (minus tax increase) would gain about 78c a share making the figure $2.22.

Moreover, earnings for the 12 months ended Jan. 31, 1950 (see prospectus) showed remarkable improvement over those for the 12 months ended December—a gain of nearly $2 million in the balance for common, only part of ths reflecting the gas rate increase (since gas revenues increased only about $658,000). These gains appear to have been derived principally from lower costs of oil and gas for January this year compared with last year.

Pacific Gas has had hard luck with its hydro operations for several years, and it also had hard luck with the extremely cold weather in the early months of 1949. Because of the shoratge of hydro power it was necessary to run inefficient steam electric plants during a period when fuel oil prices were very high. During the three months ended February, 1950, rainfall in California was only 83% of normal. However, the company in its annual report dated Feb. 21 stated that "The outlook for hydro electric generation in 1950 is better than for several years. This fact, combined with the completion of new hydro-electric plants and high efficiency of steam-electric generating units, will enable us to place on reserve status a number of smaller and less efficient fuel-burning plants. Substantial economies in this direction are already being realized, and further savings may be anticipated."

Pacific Gas now has an estimated rate base of about $1,074 million, including working capital and new funds. If the company were allowed to earn 6% on this rate base the amount would approximate $64 million which, after allowance for pro forma interest and preferred dividend requirements, would mean earnings of about $3.32 per share on the increased number of shares. While such earnings can probably not be realized under present conditions, 1950 should certainly make an improved showing if the company gets "the breaks" on weather. The $2 dividend seems reasonably ~~secure based on this~~ premise.

Bankers Favor Federal Regulation of Bank Holding Cos., Independent Bankers Ass'n Reports

Early replies to questionnaire distributed by Far West bankers indicate strong endorsement of enactment of legislative curbs in public interest.

Bankers throughout the country are indicating an almost unanimous opinion favoring Federal legislation for the regulation of bank holding companies, according to the results of the mail poll being taken by the Independent Bankers Association of the Twelfth Federal Reserve District. This organization, representing the community - owned and operated banks of Arizona, California, Idaho, Nevada, Oregon, Utah and Washington, has been actively advocating Federal regulation of bank holding company operations for a number of years. Its President, Harry J. Harding, President, First National Bank of Pleasanton, Calif., was one of the bankers who testified in favor of the pending Bank Holding Company Bill (S-2318), at the recent Senate Banking and Currency Subcommittee hearing in Washington.

Harry J. Harding

The Questionnaire

Seeking to determine the attitude of bankers both on the need for this legislation and the specific provisions it should include, the questionnaire asks the following questions:

"(1) Do you believe that a bank holding company should be subject to the same regulations as a bank regarding the expansion of its banking offices, either by the establishment of new branches or by taking over and operating the offices of other banks?

"(2) Do you believe there is a threat to the sound economy of any substantial area if a bank holding company, by continuing to expand and operate without adequate regulation or supervision, is permitted to dominate a major portion of the area's banking resources and facilities?

"(3) Do you believe that bank holding companies should be prohibited from controlling and operating enterprises engaged in non-banking business activities?

"(4) Do you agree with the Secretary of the Treasury, the Board of Governors of the Federal Reserve System, the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the National Association of Supervisors of State Banks, the American Bankers Association and many State banking associations that proper bank holding company legislation is desirable in the public interest?"

"Some 12,000 questionnaires were sent out to banks not affiliated with holding companies and to date we have received approximately 4,500 replies with questionnaires still coming in," Mr. Harding said. "This represents a response of about 37½%, an unusually high figure, and every State of the Union, as well as the District of Columbia and Alaska, is represented. Better than 99% of all the replies are affirmative as to all four questions.

"Naturally, we are highly delighted with the high return received to date and are hopeful that many more bankers will reply," Mr. Harding continued. "As soon as the poll is completed, we propose to file these questionnaires by States with the Senate Banking and Currency Committee for its consideration. We believe that members of Congress will be interested in knowing how the bankers from their area, as well as over the nation as a whole, feel on this subject, which is vital to the preservation of a sound banking economy."

Tripp & Co. Open Branch in Bradenton

BRADENTON, FLA.—Tripp & Co. Inc., announce the opening of a Florida office in Bradenton under the management of Douglas M. Bell to transact a business with institutional and individual investors in tax-free state, municipal and public revenue bonds and mutual fund shares.

Henry Gurney Dead

Henry K. Gurney, Jr., cashier of Bioren & Co., 1508 Walnut Street, Philadelphia, died March 25. He was 44. Prior to his association with Bioren & Co., Mr. Gurney was on the Trading Desk of Herbert H. Blizzard & Co. for many years.

Securities Salesman's Corner

By JOHN DUTTON

The handling of speculative security offerings is a specialized field all to itself. If you are going to serve this market there are certain pitfalls which you will avoid by all means. The demand for speculations by security buyers is sometimes greater than others. This has been well recognized as a phenomenon that usually takes place during the latter phases of bull markets when optimism and emotional enthusiasm for bigger and better days is in the air. There is also a steady demand for radical speculations and outright gambles on the part of many conservative investors. You probably have some accounts that are soundly conceived and where the major portion of the assets are in substantial securities and good bonds; yet these same people every once in a while want to have a little fling at some penny or dollar stock which they buy with their eyes wide open. The main point is to know what your customer is looking for, and that he understands what he is doing when he tosses his money into something where the odds are long both ways. In other words make certain your buyer knows what he is buying and why he can expect to lose his money. Of course, if he doesn't lose it he probably will understand that he might be compensated by a larger than ordinary profit—the less you say about the size of the profit expected however, the better.

The point you must be sure to stress about risk involved when you sell a speculation will not be remembered (even if you sell properly and explain the hazards) if the security does show a total or almost complete loss. Human nature is such that if you recommend a stock that goes to pot (regardless of the fact that your customer bought it with his eyes wide open) he will still have mental reservations about your ability to advise him regarding his other holdings. Stock buyers have short memories when it comes to the profits you helped them make—but the proverbial elephant is a piker compared with the average stock buyer who bought a stock that went sour.

If you have been selling securities for even a short while you are no doubt aware of the foregoing. However, the only reason I thought it pertinent at this time to bring up the subject was a reminder that happened just last week. A friend of mine told me that a customer's broker for a New York Stock Exchange firm called him on the telephone the other day. He said that this fellow told him in an excited tone of voice that one of the New York partners had just visited his office and had said that it was his opinion that the Dow Industrial averages would go to 300. For this reason he suggested buying certain stocks immediately—in fact he intimated that the outlook for profits was so good that the purchase of almost anything would be profitable. My friend asked me what I thought of the conversation. I told him he didn't need my opinion but what did he think. He said, "It sounds like a lot of bunk to me." This customer's man stuck his chin way out. He may be right—but even if he is right his intelligent customer immediately reacted unfavorably to such talk. In selling speculations you certainly don't want to stick your neck, or your chin out—and it is the easiest thing in the world you can do.

Continued from first page

Prevalent Stock Market Misconceptions

the things which the analyst is able to do, the things that he can do. I think that he can identify trends. I think that he can identify values. And I think that he can distinguish sometimes between values and vogues, which is important.

Then I would like to have you think for a moment about some of the things that the analyst cannot do. I am sure that he cannot tell you whether the market is going up or going down. And that is the thing that you expect him to do. A great many times it is embarrassing to those of us who write popular financial literature to see people read into what we write things that we never intended to say.

Expecting the Impossible

You want us to be bullish, and because we want to please you, being perhaps entertainers as well as analysts, we sometimes succumb to your desires.

It has been said that if you take 10 economists and put them end to end, you will find that they will be going in every direction. I have sometimes paraphrased that idea into the thought that if you take one analyst and place him end to end, you will find him going in every direction. I don't want to write "double talk" if I can possibly help it, even though sometimes I may be wrong in being too definite.

We can't tell you what the market is going to do; and we cannot tell you how far vogues and anti-vogues will carry in the stock market. Today you have a vogue in television; and, in my humble opinion, you have a similar vogue in natural gas securities. Securities in vogue sell more or less cum-popularity; they are the securities everyone wants, that everyone is enthusiastic about. We have other securities which are in an anti-vogue, that sell ex-popularity; I think the rails usually are in that classification.

Of course, I don't need to tell you that ordinarily you get the best values in the anti-vogues, and you pay most for the things that are in vogue. But it is difficult, it is impossible, for us to tell you how far a vogue is going or how far an anti-vogue is going. Unfortunately, many of you expect us to do exactly that.

It is impossible, also, for us to tell you what will hapen in the field of international politics, which you young men, above all others, know is a very important field of human knowledge today. We don't know, you don't know, Mr. Truman doesn't know, Mr. Acheson doesn't know, what is going to happen in that particular field. That is one of the insoluble elements which we have to contend with in this, our day and generation.

Reading Market Comment

Then, it is very difficult for us to measure statistically the investment and speculative psychology of the hour. There are no mathematical measurements of this intangible that we are so much concerned with, and of this ever-changing thing that you expect us to talk about, and to have ideas about.

I am going into these details, gentlemen, because I am often much troubled at the manner in which people interpret what I write in Forbes Magazine, in the "Hatton Letter" and in other publications. You expect me to express opinions and you expect my compatriots associated with me in this business of commenting about securities and trends to express opinions. But you must remember that these are opinions, and that we are not infallible. There are certain things that we can do, and certain things that we cannot do.

In this address I am going to attempt to solve some of the stock market's mysteries. I am not going to tell you what the stock market is going to do, because if I did, I would be a faker, and I don't want to prostitute my profession.

I want, rather, to be frank with you and to bring this thing down to earth so that you will have a better idea when you read popular financial literature as to what it may mean and what it may not mean, and as to the sincerity and capabilities of the people who write this stuff. You should be able to judge, intelligently between the sheep and goats.

Pricing Common Stocks

I will try to tell you, in the first place, what I think makes stocks go up and down; and secondly, I will remind you what the public thinks makes stocks go up and down, and how much the public believes in old wives' tales. Then I will comment on some current trends; and finally, I shall lay down what I think are some proper attitudes that one should take toward common stocks.

What Makes Prices

It is important for us to recognize, in the first place, the fundamentals of what makes stocks go up and down. And it is awfully, awfully simple. It is just the operation of the old law of supply and demand. Price is not necessarily established by the values back of a security. It is determined rather what people think the values are back of securities.

If I were to place this in academic language, I would say that the price of a stock is the time incidence of the forces of supply and the forces of demand.

Let's be very clear about it, I am talking about common stocks here tonight and I am not talking about bonds, because I know very little about bonds. I think that few men who know about bonds are competent to talk about stocks; and I am sure few men who know about stocks are competent to talk about bonds.

These are two very diverse fields, and you must have to have a different attitude to be wise in one field than you have to be intelligent in the other. You must have different habits of mind, and you must have a different type of personality.

In judging common stocks, income and dividends are far more important than earnings. It is what a stock is paying, and what a stock is expected to pay, which makes that stock worth a certain amount of money.

Now, please remember that in all of these comments that I am making, I am generalizing. And in the entire field of economics, as those of you who have gone to college and studied economics know, all generalizations are subject to important exceptions. So, if you seem to find exceptions to my generalizations here tonight, like this one that I have just given, you must remember that I do not have time to outline all the exceptions.

Then, of course, another factor in what makes stocks go up and down is the commonly accepted prospect for the economy—not necessarily the actual prospect for the economy, but what people think the prospect for the economy is. The stock market is not always right. In fact, those of you who make commitments in common stocks usually are making a wager that the appraisal of that common stock is not right.

Market Not Omniscient

Don't think that the old idea that my generation was brought up on, that the stock market is omniscient and knows everything, is right. It is wrong. The stock market often is wrong. The stock market, as you know, was tremendously wrong after the election in 1948. The stock market obviously was very wrong at the bottom in 1933. The stock market obviously was very wrong at the top in 1937. The stock market, as some of we older people know to our sorrow, was terribly wrong in 1929. The stock market was wrong at the top of 1946. The stock market was not too right last summer.

So don't think for one moment that the stock market always is right. It makes mistakes, because its judgments often are based, not on what the outlook for the economy is, but what the outlook for the economy is believed to be.

Disaster Thinking

I think you will agree with me that much of the time since 1933 the stock market has been thinking, or a great many people dealing in the stock market have been thinking, in terms of economic disaster. We have never had a time when so many people have been depression-conscious as they have been since 1933.

People have been thinking that our economy was a terribly cyclical economy, when as a matter of fact it has been much less cyclical, in recent times at least, than it was in earlier years. The stock market may have been cyclical, but the economy has been relatively uncyclical, especially since 1937 and 1938.

What the public thinks makes the market go up and go down is another thing, as the public is usually wrong in what it thinks these factors are. I know one of the factors which has been greatly over-stressed in recent years has been the result of elections.

If we are realistic—and I know that in this I am going against many of your prejudices here, but that doesn't worry me particularly—we will recognize that very few economic issues are decided at the ballot box, and that the people who remain in power in government are those who rightly interpret the trends of their times, and those who implement those trends so that public policy is in harmony with them.

I doubt very much, in an economy as large as our economy is and as complicated as our economy is today, whether politicians or statesmen influence economic trends anywhere nearly as much as the older generation of our time has thought that they do. I think that, for the most part, we ought to pay less attention to these political factors in finance than we have paid in recent years.

The second thing that people believe makes the stock market go up and down, which really doesn't, is the trend in the Federal Reserve Board index of production, or the trend in business. If I had a chart here tonight and I could show you what stocks have done and what the Federal Reserve Board index of production has done since about 1941, I would show you that the trend of business has been out of harmony with the trend in stocks, and the trend in stocks has been out of harmony with the trend in business, many more months than business and stocks have been moving in the same direction.

Again you may say, "Well, stocks are affected by the trend in earnings." That may have been true in the good old days. It hasn't been true recently. As a matter of fact, the trend in earnings was upward in 1946 when the market went down, in 1947 when the market wasn't too good, and in 1948. And in 1949, when the market began to go up, the trend in earnings was down. And the trend in earnings today is down, and the market is going up.

The trend in earnings doesn't necessarily result in a trend in stock market prices. Rather, I think it is the trend in dividend payments that counts, because it is vastly important to know how earnings are being employed, and what is being done with them.

One time, back in 1948, in commenting on the huge earnings of the oil industry—you will remember that that was the year when oil earnings were at their peak—I remarked that it seemed to me that those earnings were not worth their face value because they were being reinvested in petroleum industry properties at disadvantageous prices, and at the wrong time to put money into the oil industry.

What has happened since, and the things I anticipate may happen in the future, justify the view that those oil company earnings in 1948 and 1949 were not worth their face value. They were not being used to pay dividends, but they were being reinvested in such a way as to provide a poor return on the reinvestment.

Concerning Charts

Another thing that people think makes the stock market go up and down, which I could talk about for a long time here, is the beautiful little lines that you draw on graph paper. You think that because you have got a line, you have got a trend or a system, or something like that, that the market has to go up or down.

A chart of a stock is like Baptism in the Christian religion; it is nothing but an outward sign of an inward grace. All a chart tells you is what has happened and what is happening. At times charts are useful. They may help you to identify where a supply area on the up-side may be expected to develop. They help you to identify where a demand area on the down-side may be expected to develop.

For some reason I have never been able to establish in my own mind, people often seem to be willing to sell stocks in a considerable volume about where they were not willing to buy any more last time. And they seem to be quite willing to buy stocks at about the point where they were not willing to sell any more of them last time.

You saw that over and over again at the 160 level in the Dow-Jones industrial average during the last two or three years. Stocks went down there five or six times and didn't go through. There was a very clearly defined demand area for stocks down around the 160 area. Then one day, you may remember—last June, I believe it was—all of a sudden stocks went down a little bit through that area, and you had a chart signal that there was a down trend in the market.

Well, it was like most of these chart signals; it was like going to the well too many times. It just simply didn't work.

All markets are different. You never have the same meeting of the same factors twice in the stock market, or even in any individual stock. Every market situation is different. And it is foolish, in my estimation, to believe that history repeats itself. History just does not repeat itself in the stock market.

I am guilty, the same as every other market analyst is guilty at times, of putting together a comparison of what happened in 1901, and 1907, and 1909, and 1914, and 1926, and 1939, and saying, "Well, we have got this kind of a situation here now; therefore, the result will be the same now as it was then." Usually that kind of argument is absolutely worthless.

Some Current Trends

I am going to talk a moment about current trends, and attempt to interpret some of these trends; but I am not going to try to tell you what the market is going to do. I am going to refrain from being a financial alchemist here tonight, because I don't think that is a respectable occupation.

What I am going to try to do is tell you some of the trends that I believe I see gong on here in the market at present.

In the first place, I think there is a terrific pressure for yield. I think people are bothered about the fact that their money is not earning enough.

There are probably a million and a half people who either have saved or have inherited somewhere between $75,000 and $150,000 and are trying to make a living from the earnings of that money. Many of you people service clients in that category. There are many of them. There are more of them than there ever were before.

If you take $100,000 today, for the sake of argument, and try to put it in non-risk securities, the person who owns that capital just simply is not able to derive a living from the income on it. It is impossible to live on an income of $2,500, or even $3,500, a year especially for a person who has been brought up in an atmosphere where he or she has inherited $75,000 or $100,000, or in an atmosphere where he or she has saved that amount of money. You can't live respectably on $2,500 or $3,500 a year.

So you have to find a way to develop more income. And when you do that, you are compelled to do one thing; you must go more into equities. The spread between the yield on equities, common stocks, and the yield on bonds still is very wide, and recently it has been even wider than it is now.

People are going into equities because of the pressure of inflation, because their bonds have been called, and for many other reasons. I think that is why you find the pressure of money today on high quality equities.

Stocks Not So High

This has been a unique market. The Dow-Jones industrial average is up around the highest point in 20 years. But you know, and I know, that stocks as a class are not as high as the issues in the Dow-Jones averages. You know that speculative stocks are neglected. You know that rail stocks are way behind. You know that if you dip only a little under the Dow-Jones average grade, you begin to get into a group of securities which have not done anywhere nearly as well as the Dow-Jones averages. You know that if you dip into really speculative stocks—as one of my friends says, "the kind of stocks that my customers buy"—you find a group of stocks which, in relation to that speculative market we had in 1946 and 1945, has hardly moved at all.

The Dow-Jones averages today are earning at the rate of $23 a share and paying dividends at the rate of around $12.05 a share, and they are selling around 208. At the highs at 1946, those same Dow-Jones averages, or practically the same, were earning $13.60 a share against $23, and were paying $7.50 a share against $12.05.

At that time the Dow-Jones averages were paying out just about the same percentage in dividends that they are paying out today, around 55.1%, today around 54.2%. At that time, the Dow-Jones averages were selling at a yield of about 3½%; the yield today is about 5.9%. At the highs of 1946 the Dow-Jones averages were selling at 15.7 times earnings.

If you interpolate yields and price-earnings ratios against the Dow-Jones averages today on the 1946 basis, you would find that in order to sell as high today as they sold in 1946, they would have to sell somewhere between 340 and 350.

Far be it from me to predict here tonight that the Dow is going to 340 or 350. I don't want anybody to go out and say that I said that. I have mental reservations as to whether that will happen or not. But don't read your paper tomorrow morning, or some morning sometime before long when the Dow-Jones averages sell at about 213, and say that stocks are as high as they were in 1946, because it just simply will not be true.

I think there is an institutional demand for securities which we haven't had in past years. That is important. Not only the straight institutional demand, but also the mutual fund demand for securities.

There is one mutual fund some of you seldom think of, namely, Investors Syndicate in Minneapolis, that I understand has a cash inflow of almost one million dollars a week that has to be invested. The large amounts of new money coming into the stock market today from mutual funds has to be invested, because when you buy a mutual fund you expect your money to be invested. You don't expect the mutual fund you own to go from cash to securities, and from securities to cash. You expect them to invest your funds. That is why you buy the fund; that is why you hold it.

Holding Stocks Longer

I see another trend here in the ownership of equities which I think is vastly important, and that is the trend to own equities longer. When I was a young man the same as you World War II men are today, I remember Mexican Petroleum and Baldwin Locomotive used to be often turned over—the entire capitalization used to be turned over—once a week. I am not kidding you—once a week.

I remember also that back in 1929 we turned over the entire capitalization of American industry once; in other words, we have 100% turnover of listed securities on the New York Stock Exchange.

You know our turnover in recent years has ranged all the way from 8% to, I believe in the top year, I think 1946, something like 22%. I imagine our turnover today is running at the rate of somewhere between 15% and 18% a year. And a great many of our prime stocks are being turned over only once in 25 years.

The ownership of common stocks is more stable than it used to be, partly because of the fact that these shares are being held by people who do not trade in and out of the market. I think probably that is a good thing. So far as our good common stocks are concerned, values, the real genuine investment values, fluctuate much less than the price.

For example, do you think for one minute that the real investment value of Atchison, Topeka & Santa Fe has fluctuated from around 68 to around 124 in recent years? I don't think so. I think the investment value of that stock, the real, true essence of the investment value of that stock, has been pretty stable. I don't think that stock has grown so much worse or so much better in the last few years. I think it is a very good stock. But I think people have looked at that stock, and have thought it is more speculative than it is, because it has moved so much in price.

Equities Are Better

The quality of our equities has improved a great deal in recent years. I remember back in 1921 and 1922, when I was writing about securities here in Boston, almost every big corporation had huge bank loans, almost every corporation was strapped more or less for working capital. I recently had one young man on my staff work out a tabulation for me, listing the companies which have reported since Jan. 1, which in their latest balance sheets had more cash and government securities than their total current liabilities and funded debt. Up until the 20th of March he identified 242 such companies. They are all industrials, because I told him not to pay any attention to the utilities and rails. That is one example of how the quality of our equities has improved.

Another thing, we have had a tendency to avoid debt in recent years. That is vastly important. These equities have become thicker. The debt above them has become smaller. The equity that you own has been made greater; you own more of the corporation unencumbered than you ever did before. That is important in looking at common stock values.

I want to give you a few ideas that are practical to you people that deal in common stocks, and they come out of the book of experience, and from sitting in the seat of the scornful, as it were, for 30 years, watching common stocks go up and go down.

In the first place, I would say that a great many people try to speculate who have no business to speculate. I am not talking about investing; I am talking about speculating. You can invest in common stocks, and when you invest in common stocks you forget something about these price fluctuations. You do not try to be smart enough to master-mind the stock market. Even if you could master-mind the stock market, not very many of you could get in at the bottom or out at the top because you would spoil each other's game. The idea of cyclical investment procedure is fallacious.

I think there are a great many people why try to speculate who have no flair for speculation. You should study yourself and see whether you have a flair for speculation before you do much of it. That flair for speculation doesn't always come with the people that have the most money. Oftentimes the people that have the least money have a good flair for speculation, I find. In this game, no generalization holds; but for goodness' sake, if you are going to speculate, be sure that you have a talent for speculation and that you are naturally a money-maker.

Live Your Generation

I think the second thing you ought to do is recognize that you have got to live your generation. You are not living your father's generation, and you are not living the next generation; you are living your generation here and now, and you must recognize the trends and the environment which exist in your time.

There has been much money lost, and still more money not made, in recent years by people who have kicked against the pricks, against the trends, of their times. They just simply couldn't realize that the economy had changed, the world had changed, but that they hadn't changed. Every one of you people engaged in the securities business knows exactly what I mean, because you have had to contend with it and it has cost you money and cost your clients money year after year.

I think, too, that investors ought to consult more and more the experts in security values, not because I happen to be classified as one, but because I know that this is a very complicated business. Even those of us who are specialists in our fields know little enough about what we are doing. It amazes us to see the confidence with which some laymen, who know so much less than we do, think and act.

Investors ought more and more to consult the analysts, because the analysts' profession has made more progress in these last 20 years than any other profession.

Investors ought to get away from the idea that they can beat cycles. I don't think future cycles are likely to be as severe as 1929 or 1932, although of course there will be cycles, but you are not going to beat them. You are going to find that you will be owning stocks when they are cheap. You are not going to be able to sell all your securities when they are high. You ought to try to hold more and more things that you can be comfortable with in rough times, and to avoid the things that can't stand adversity.

Don't assume, either, that the stock market is a puppet where somebody is pulling the strings. "They" no longer exist. "They" don't make stocks go up and down. Unlike the bond market, the stock market is a free market. The bond market may be a manipuated high market, but the stock market is an unmanipulated free market. Normally, free markets are low markets, and manipulated markets are high markets.

We should try not to follow vogues too far. It is a mighty good thing to ride them while they are going on, but be awfully careful that you recognize the fact that the majority opinion is wrong in these vogues.

Don't think that the stock market and values are something apart. Values and the stock market go more or less together in the long run. Oh, they will get out of line; and they are always out of line at some point. But values and the stock market go more or less together over the years and in the long run.

NEWS ABOUT BANKS AND BANKERS

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED CAPITALIZATIONS

Lewis A. Lapham, President and Director of American-Hawaiian Steamship Company, was elected a member of the **board of directors of Bankers Trust Company of New York** at the April 4, meeting of the board. Mr. Lapham also serves as a Director of the Crocker First National Bank of San Francisco; Federal Insurance Co.; Transportation & Terminal Corp.; Vigilant Insurance Co., and Williams, Dimond & Co., of San Francisco.

* * *

Formation of **Belgian American Banking Corp.**, under the New York Banking Law, was announced on March 30 by the **New York Agency of Banque Belge pour l'Etranger (Overseas) Ltd.** Incorporation of this new organization was approved on March 29 by the New York State Superintendent of Banks and the Banking Board. Belgian American Banking Corp. will begin activity at 67 Wall Street as soon as it receives the required authorization certificate from the Superintendent of Banks. The New Agency of Banque Belge pour l'Etranger (Overseas) Ltd. will shortly cease to operate and all outstanding commitments will be liquidated by Belgian American Banking Corp. Over 65% of the stock of Belgian American Banking Corp. will be owned by **Banque de la Societe Generale de Belgique**, the largest financial institution in Western Europe and the oldest in Belgium. The other stockholders of the new corporation, other than its directors, will be Belgian and Belgian Congo organizations affiliated or associated with Banque de la Societe Generale de Belgique. It is contemplated that the new corporation will begin business with a capital of $3,000,000 (fully paid) and a paid-in surplus of $1,000,000. Pierre Bonvoisin, Vice-Chairman of the Board of Banque de la Societe Generale de Belgique, will be Chairman of the Board of the new organization. Louis Van Damme, managing director of Banque Belge et Internationale en Egypte, will be President, and Maurice J. Smits, Chief Manager of the New York Agency of Banque Belge, will be Executive Vice-President.

* * *

NATIONAL CITY BANK OF NEW YORK

	Mar. 31, '50	Dec. 31, '49
	$	$
Total resources	4,909,931,502	5,051,983,339
Deposits	4,519,348,370	4,663,251,863
Cash and due from banks	1,182,660,092	1,264,319,880
U. S. Govt. security h'ldings	1,769,175,004	1,902,584,205
Loans and bills discounted	1,375,617,474	1,381,156,840
Undiv. profits	52,427,995	50,463,116

CITY BANK FARMERS TRUST CO.

	Mar. 31, '50	Dec. 31, '49
Total resources	$136,122,092	$145,223,923
Deposits	102,662,828	111,945,613
Cash and due from banks	19,497,732	43,740,244
U. S. Govt. security h'ldings	94,547,262	84,171,023
Loans and bills discounted	4,321,670	1,107,443
Undiv. profits	10,261,741	10,033,243

* * *

In making known a change in its annual meeting date, the **Bankers Trust Co. of New York** states that a recent amendment to the New York State Banking Law permits banks and trust companies to hold their annual stockholders' meetings any time during the month of January each year, instead of on or before the third Wednesday in January, and the directors of the trust company on March 21 acted to take advantage of this change. The Bankers Trust Co. was one of the banks that advocated this change, so as to have more time for the preparation and distribution of the annual reports, and thus enable the stockholders to study them in advance of the meeting. The directors voted to amend the company's by-laws so as to provide for holding the annual stockholders' meeting on the fourth Wednesday in January each year instead of the Tuesday before the third Wednesday. It is stated that as far as known, Bankers Trust Co. is the first New York bank to take advantage of this change in the law.

* * *

GUARANTY TRUST CO. OF NEW YORK

	Mar. 31, '50	Dec. 31, '49
	$	$
Total resources	2,616,230,609	2,730,574,954
Deposits	2,189,313,632	2,239,855,939
Cash and due from banks	554,401,349	536,973,445
U. S. Govt. security h'ldings	938,423,396	1,038,072,400
Loans and bills discounted	964,941,424	954,967,571
Undiv. profits	72,695,293	70,568,483

MANUFACTURERS TRUST CO., NEW YORK

	Mar. 31, '50	Dec. 31, '49
	$	$
Total resources	2,293,721,635	2,451,996,774
Deposits	2,123,288,704	2,281,747,791
Cash and due from banks	576,856,443	700,693,983
U. S. Govt. security h'ldings	1,024,818,104	1,078,980,291
Loans and bills discounted	551,655,812	557,375,053
Undiv. profits	33,432,039	31,964,648

CHEMICAL BANK & TRUST CO., NEW YORK

	Mar. 31, '50	Dec. 31, '49
Total resources	1,439,117,043	1,593,278,135
Deposits	1,340,031,776	1,449,655,700
Cash and due from banks	354,347,951	432,295,401
U. S. Govt. security h'ldings	523,922,142	598,546,433
Loans and bills discounted	438,284,513	436,846,222
Undiv. profits	14,409,153	13,623,977

* * *

Prints, watercolors, English engravings, and pictures relating to textiles are being exhibited, courtesy of The Old Print Shop, Inc., of 150 Lexington Avenue, New York City, at the 291 Broadway office of the **East River Savings Bank of New York.** Starting March 31, the collection will continue through to April 30.

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IRVING TRUST CO., NEW YORK

	Mar. 31, '50	Dec. 31, '49
	$	$
Total resources	1,114,242,364	1,137,464,523
Deposits	976,918,624	1,052,443,028
Cash and due from banks	271,217,918	311,035,037
U. S. Govt. security h'ldings	415,149,650	452,413,721
Loans and bills discounted	371,413,652	381,224,232
Undiv. profits	13,553,578	13,005,689

BANK OF THE MANHATTAN CO., NEW YORK

	Mar. 31, '50	Dec. 31, '49
	$	$
Total resources	1,144,373,464	1,232,332,464
Deposits	1,042,607,156	1,127,803,682
Cash and due from banks	278,045,768	338,662,479
U. S. Govt. security h'ldings	323,594,137	320,184,373
Loans and bills discounted	430,003,791	462,758,440
Undiv. profits	14,451,812	13,896,315

CORN EXCHANGE BANK & TRUST CO., NEW YORK

	Mar. 31, '50	Dec. 31, '49
Total resources	$790,307,793	$815,484,764
Deposits	740,469,785	766,806,903
Cash and due from banks	203,759,675	234,791,032
U. S. Govt. security h'ldings	468,003,667	466,541,652
Loans and bills discounted	76,078,440	83,703,839
Undiv. profits	6,927,930	6,529,433

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THE NEW YORK TRUST CO., NEW YORK

	Mar. 31, '50	Dec. 31, '49
Total resources	$663,615,752	$706,360,953
Deposits	592,743,825	627,300,444
Cash and due from banks	153,162,771	188,535,421
U. S. Govt. security h'ldings	253,899,261	267,075,141
Loans & disc'ts	244,608,581	237,058,833
Undiv. profits	12,138,352	11,721,125

J. P. MORGAN & CO., INCORPORATED, NEW YORK

	Mar. 31, '50	Dec. 31, '49
Total resources	$638,051,303	$666,778,009
Deposits	559,784,675	589,603,037
Cash and due from banks	160,048,823	164,459,613
U. S. Govt. security h'ldings	221,440,722	283,545,914
Loans and bills discounted	191,583,733	173,091,294
Undiv. profits	11,038,674	10,900,181

* * *

Arthur S. Kleeman, President and Mario Diez, Vice-President in charge of the International Division of **Colonial Trust Co. of New York,** have announced three promotions of Assistant Managers in that division of the bank. Juan X. Aguirre has been advanced to Downtown Manager of the International Division and will be attached to the Colonial's new office at Ninety Wall Street, when it is opened in May. John Dowling will serve as Midtown Manager of the International Division, and will work in the bank's midtown office at Madison Avenue and 28th Street.

Harold R. Stein's new title is Credit Manager of the International Division. Located at the bank's principal office in Rockefeller Center, he continues his activities in the international credit field.

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UNITED STATES TRUST CO. OF NEW YORK

	Mar. 31, '50	Dec. 31, '49
Total resources	$153,311,250	$163,135,673
Deposits	120,092,699	129,691,370
Cash and due from banks	23,397,312	37,754,115
U. S. Govt. security h'ldings	57,859,034	57,447,460
Loans and bills discounted	55,638,645	51,924,606
Undiv. profits	2,025,239	1,983,442

THE PUBLIC NATIONAL BANK AND TRUST CO., NEW YORK

	Mar. 31, '50	Dec. 31, '49
Total resources	$508,477,336	$544,034,712
Deposits	469,111,610	505,319,220
Cash and due from banks	112,469,741	125,863,055
U. S. Govt. security h'ldings	189,245,531	232,144,322
Loans and bills discounted	175,543,395	156,561,875
Undiv. profits	7,562,402	9,223,080

* * *

James H. Drumm, Vice-President, who has been associated with the foreign service of **The National City Bank of New York** for 32 years, retired on March 31. Since 1918 he has served in branches in Panama, Argentina, Uruguay and Brazil and more recently in charge of the bank's Overseas Industrial and Business Development Division at head office. Mr. Drumm is completing plans for the establishment of an office in New York where he will act as a foreign trade advisor and consultant. Mr. Drumm is a director of the Pan American Society, Counselor in the United States of the U. S. Chamber of Commerce of the Argentine Republic, Vice-President of the Inter-American Commercial Arbitration Commission, etc.

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GRACE NATIONAL BANK, NEW YORK

	Mar. 31, '50	Dec. 31, '49
Total resources	$107,398,673	$110,515,684
Deposits	92,473,750	96,057,893
Cash and due from banks	26,414,665	29,646,078
U. S. Govt. security h'ldings	45,072,683	45,199,277
Loans and bills discounted	25,630,703	26,871,520
Surplus and undivided profits	4,632,379	4,536,238

J. HENRY SCHRODER BANKING CORP., NEW YORK

	Mar. 31, '50	Dec. 31, '49
Total resources	$79,831,852	$95,732,370
Deposits	57,032,043	74,324,818
Cash and due from banks	8,998,917	11,622,029
U. S. Govt. security h'ldings	42,726,034	51,878,803
Loans and bills discounted	7,784,900	11,020,458
Surplus & undivided profits	3,503,573	3,503,022

SCHRODER TRUST CO., NEW YORK

	Mar. 31, '50	Dec. 31, '49
Total resources	$34,611,387	$41,865,394
Deposits	29,062,911	36,392,454
Cash and due from banks	8,224,272	10,626,473
U. S. Govt. security h'ldings	13,808,978	23,873,752
Loans and bills discounted	5,619,962	6,307,617
Surplus & undivided profits	2,757,038	2,752,062

BANKERS TRUST CO. OF NEW YORK

	Mar. 31, '50	Dec. 31, '49
	$	$
Total resources	1,574,824,472	1,624,145,647
Deposits	1,348,036,281	1,431,527,783
Cash and due from banks	404,193,205	435,386,024
U. S. Govt. security h'ldings	512,254,311	532,298,777
Loans and bills discounted	567,711,929	576,710,609
Undiv. profits	37,844,955	37,169,138

THE CHASE NATIONAL BANK OF THE CITY OF NEW YORK

	Mar. 31, '50	Dec. 31, '49
	$	$
Total resources	4,633,437,698	4,779,689,820
Deposits	4,224,989,652	4,384,572,391
Cash and due from banks	1,200,710,221	1,280,491,136
U. S. Govt. security h'ldings	1,655,931,638	1,819,414,477
Loans and bills discounted	1,379,484,665	1,350,507,126
Undiv. profits	47,711,641	45,388,274

CENTRAL HANOVER BANK & TRUST CO., NEW YORK

	Mar. 31, '50	Dec. 31, '49
	$	$
Total resources	1,451,849,592	1,592,385,470
Deposits	1,304,929,541	1,448,101,333
Cash and due from banks	378,710,866	424,355,833
U. S. Govt. security h'ldings	530,960,853	636,351,311
Loans and bills discounted	444,507,199	443,611,932
Capital surp. & undiv. profits	133,718,063	133,192,794

THE MARINE MIDLAND TRUST CO. OF NEW YORK

	Mar. 31, '50	Dec. 31, '49
Total resources	$357,689,162	$390,574,345
Deposits	331,491,908	364,104,524
Cash and due from banks	99,797,468	124,673,600
U. S. Govt. security h'ldings	131,081,769	132,033,461
Loans and bills discounted	111,432,195	121,914,968
Undiv. profits	2,972,084	2,843,980

THE COMMERCIAL NATIONAL BANK & TRUST CO. OF NEW YORK

	Mar. 31, '50	Dec. 31, '49
Total resources	$200,676,123	$205,868,681
Deposits	169,945,131	176,465,525
Cash and due from banks	48,835,100	53,379,166
U. S. Govt. security h'ldings	92,880,490	95,944,234
Loans and bills discounted	41,360,935	43,790,252
Surplus and undivided profits	14,573,997	14,496,162

STERLING NATIONAL BANK & TRUST CO. OF NEW YORK

	Mar. 31, '50	Dec. 31, '49
Total resources	$141,090,401	$153,662,996
Deposits	132,948,212	145,504,842
Cash and due from banks	31,604,958	36,658,049
U. S. Govt. security h'ldings	70,877,530	66,058,357
Loans and bills discounted	36,095,743	43,969,396
Undiv. profits	958,703	935,000

CLINTON TRUST CO., NEW YORK

	Mar. 31, '50	Dec. 31, '49
Total resources	$27,237,569	$24,989,037
Deposits	25,304,894	23,031,852
Cash and due from banks	6,846,874	6,254,737
U. S. Govt. security h'ldings	13,115,370	12,039,125
Loans and bills discounted	5,509,012	5,258,682
Surplus & undivided profits	915,801	900,935

* * *

Manufacturers Trust Co. of New York announces the death of Frederick W. Bruchhauser, one of the bank's senior Vice-Presidents in charge of all Brooklyn and Queens offices. Mr. Bruchhauser was born in Brooklyn in 1884 and began his banking career with the old Broadway Bank in 1902. The Broadway Bank was merged with the Citizens Trust Co. in 1912 which bank in turn was merged with the Manufacturers National Bank in 1915 to form the Manufacturers Trust Co. Mr. Bruchhauser was a member of the Economic Club and Bankers Club of Brooklyn and a trustee of the Lincoln Savings Bank of Brooklyn.

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BROOKLYN TRUST CO., BROOKLYN, NEW YORK

	Mar. 31, '50	Dec. 31, '49
Total resources	$237,205,893	$242,364,115
Deposits	219,503,660	224,602,848
Cash and due from banks	62,292,375	67,006,343
U. S. Govt. security h'ldings	125,071,032	130,552,856
Loans and bills discounted	30,133,005	28,863,855
Undiv. profits	1,965,682	1,786,763

* * *

The main Yonkers, N. Y., office of **The County Trust Co. of White Plains, N. Y.,** moved into its new building at 47 South Broadway, over the week-end, it was announced by S. J. Balassi, Vice-President in charge. The public was invited to inspect the bank's new quarters and "drive-in" facilities on April 1 or on April 3. A feature of the arrangements is the bank's "drive-in" facilities, permitting the customer to bank without leaving his automobile. On a driveway circling the bank building there are two special tellers' windows where the customer can cash a check, make a deposit or loan payment, pick up a payroll, or transact almost any kind of banking business.

* * *

The consolidation has been effected of the **Meadow Brook National Bank of Freeport, N. Y.,** and the **West Hempstead National Bank of West Hempstead, N. Y.** The latter had a capital of $100,000 while the capital of the Meadow Brook National was $750,000. The consolidation was effected under the charter and title of the Meadow Brook National Bank, effective March 17. According to the New York State Banking Department, the initial capital stock of the consolidated bank will be $1,010,000, divided into 50,500 shares of common stock of the par value of $20 each. The initial surplus of the consolidated bank will be $1,010,000, with initial undivided profits of not less than $205,000. The office of the West Hempstead National Bank will be operated as the "West Hempstead Office" of the Meadow National Bank.

* * *

The opening of new offices by the **First National Bank of Boston** at 15 Kneeland Street were announced on March 27. The bank's new service, says the Boston "Herald," are situated near the heart of the city's Chinese district. The officers in charge are: J. Alexander Shelton, Manager, and Edward H. Maloney, Jr., Assistant Manager.

* * *

Land Title Bank and Trust Co. of Philadelphia announces that at a special meeting of its stockholders on April 3, approval was given to an increase in its capital stock in the amount of 10,000 shares, par $25, as well as to a change of its downtown branch office from 517 Chestnut Street to the ground floor of the Lafayette Building at 5th and Chestnut Streets. It is expected that the directors of the bank at their regular meeting on April 17 will declare a stock dividend of 1/15th of a share on each share of $25 par stock, payable on April 27 to shareholders of record on April 24.

* * *

CORN EXCHANGE NATIONAL BANK AND TRUST CO., PHILADELPHIA, PA.

	Mar. 31, '50	Dec. 31, '49
Total resources	$284,659,451	$301,403,567
Deposits	260,158,065	277,472,407
Cash and due from banks	65,435,458	76,706,151
U. S. Govt. security h'ldings	112,259,749	123,407,153
Loans and bills discounted	76,197,928	72,187,766
Undiv. profits	3,104,462	3,002,709

THE PHILADELPHIA NATIONAL BANK, PHILADELPHIA, PA.

	Mar. 31, '50	Dec. 31, '49
Total resources	$739,773,478	$756,058,383
Deposits	670,810,207	687,282,486
Cash and due from banks	222,264,523	228,865,734
U. S. Govt. security h'ldings	284,254,188	298,585,414
Loans and bills discounted	149,994,908	146,405,868
Undiv. profits	11,542,534	11,071,499

* * *

George E. Wierman, who had been associated with the **Norristown-Penn Trust Co. of Norristown, Pa.,** since 1906, died of a heart attack on March 24. At the time of his death Mr. Wierman, who was 68 years of age, was Assistant Treasurer of the company and Manager of one of its branches.

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A sub-branch of the Nakuru office of the **National Bank of India Ltd. of London** was opened at Naivasha, Kenya, on March 17. The sub-branch will be open for business on Tuesdays and Fridays only.

Continued from page 5

The Financial Pages

value, is grossly misleading; and its *raison d'etre* is incomprehensible to me.)

General Articles

In addition to the factual news items, there is considerable material of an editorial nature, most of it contained on the section's first page. The general articles are usually concentrated in the Sunday and Monday issues (the latter being "thin" because of the Sunday stock market closings), and cover such phases as money, credit, taxation, government policies, and comment from special correspondents abroad. Editorial and interpretative comment also enters in the daily story on the stock market's performance, and in the so-called "gossip columns" containing spicy briefs often contributed by various staff members.

More Business Coverage

Notable is the growth in importance of the **business** section and the space devoted to events in the category that is not strictly financial (seemingly resulting in part from the secular "Wall Street" depression and excitement-deflation since 1929). Mr. C. Norman Stabler of the New York "Herald-Tribune" now functions under the title of "Business and Financial Editor," instead of merely "Financial Editor" as he and his predecessors always did.

While the stock market and its fluctuations still, as has been true since newspapers first segregated their financial news into one section, receive the greatest amount of the public's attention, the emphasis has been steadily shifting —and rightly so—from the quotations *per se* to phenomena behind the quotations.

This shift to the more general phases of the news in the commercial world likewise applies to the specialized publications, like the "Wall Street Journal" and the "Journals of Commerce" of New York and Chicago.

The Photographic Age

Notable as a comparative newcomer to the financial section of our dailies is the frequent use of the photograph, which is being ever more generously used. Not merely applicable to events but to individuals figuring in news items or making a speech, pictures are deemed to supply needed pepping-up to normally dry material (in line with the picture-book craze in annual reports). The "Commercial and Financial Chronicle" carries a photo with practically every item, and its "morgue" is thought to be quite a unique publisher's asset. The Chinese proverb "A picture is worth 5,000 words," may be apocryphal, but it assuredly is being followed.

Making Up the Paper

Going into the completed product of the financial-and-business section is the work of as many as 40 or 50 men, ranging from the editor to staff writers specializing in individual industries, in banking, and in general economics, to those clerically tabulating the daily stock market quotations. In addition to the product of their own writers, most editors get the outputs of one or more of the principal wire services.

Split-Second Action

The distribution of market prices, a split-second operation, comprises one of the speediest and most efficient operations in the entire newspaper field. In New York City the "Times," "Tribune," and "Wall Street Journal" take the service supplied far-and-wide throughout the country by the Associated Press. The "World-Telegram and Sun" gets its quotations from its own tabulators, which were the "Sun's" property before the merger.

The United Press distributes the daily quotations, in some cases complete and in some partial, and also both the Dow-Jones and Standard and Poor's Averages to 700 subscribers from coast-to-coast.

It has a particularly full representative clientele in Chicago, including the "Sun-Times," the "Daily News," and the "Journal of Commerce."

Using a crew of 20-30 tabulators with perfect timing and teamwork, and expert teletypists, taking the prices off a battery of tickers coded on a master worksheet; the leading services get into the hands of their members in a matter of **seconds** after the market's close; a complete alphabetical list of every stock traded that day, the volume of sales in each issue, and its high, low, and final price, and net change.

Who Reads?

The answer to the question, "Who reads the financial news?" depends to a very great extent on **when** the question is asked. In the roaring speculation of the late 1920's (with the franchise of a Stock Exchange Seat valued at $625,000) **everybody** was a market expert and, so of course read, and usually as well tried to write, about the market—the entire setting being one of sheer fantasy rather than fact.

During the post 1929 holocaustic collapse in values and the ensuing Depression, financial readership, demoralized as it was, continued. While they were still in the slaughtering process, the lamb read while they ran, but with their final extinction, the public readership became negligible. With the Street's business and the Exchange's activity in the doldrums during most of the 1930's and early 1940's the interest was largely confined to professionals, and the public's readership consequently was very severely restricted. But with the bull market of 1942-1946, marked by a doubling of prices and heavy volume, and the current 1949-1950 upswing with its 2 million share days, the public's interest has been somewhat restored.

A significant symptom of this is the financial advertising, both as to quality and quantity. In fact, the market advertising, and particularly its tipping—concealed and unconcealed — usually constitutes a useful bellwether of the general state of speculation, as well as of the publication's circulation.

A Readership Survey

One of the nation's leading morning newspapers made a survey of its comparative sectional readership two years ago, which is very interesting although probably understating the financial section's circulation as of today. Of the paper's total readers, 35% of the men and 19% of the women said they usually read something on the first financial page, which comprised editorial and news items. The stock market tables were read by 30% of the men and 17% of the women. The business page was perused by 22% of the men, and surprisingly enough, by an almost equal proportion (19%) of the women. On Sundays there was little change from weekdays in the male readership, but in the case of the distaff side there was a halving of interest on Sundays.

Even with the acceleration of reader interest in bull markets, the financial section at its most popular stage still has far to go. According to the survey, the sports page is read by almost twice as many men, and even by 50% more women. The editorial page is perused by twice as many men and 3 times as many women; the society-and-bridge page by an equal number of men, and even the Women's page by half as many *men*.

How The Investor Should Read

(1) Maintain an underlying phlegmatic attitude toward the financial section. Treat it with **equal** importance and unchanged emphasis during varying periods of speculative excitement and activity. Although the financial pages of the dailies may well be read, the paper should not be read *for* its financial sections. Read the general news sections first, irrespective of the state-of-the-market. At least take a "morning" rather than an "evening" attitude; that is, in line with a long-term investment, rather than a short-term, view of the general picture as well as of individual securities. Avoid the super-timely play - by - play baseball account avidity.

(2) Read the financial pages (as well as the non-financial) from the index—when there is one—so as to be sure to get complete and efficient coverage. This applies particularly to the specialized publications, with their detailed indexes—the "Wall Street Journal" including specifications of individual companies, and the "Journal of Commerce" 51 commodities.

(3) Emphasize with careful and complete scrutiny, the factual data, rather than the interpretative. This is the way to maintain a value-appraisal approach to securities rather than to engage in the indoor sport of forecasting of the general market.

(4) "N.B."—Pay particular attention to the clues to the **psychological** factors of the marketplace, as they are continually evidenced. For example:—with the proper perspective and intelligence, one can note the many foibles recurrently and cyclically indulged in by the investment and speculative community; as change of mood from optimism to pessimism and back again, and interpretation of the news, and of forecasting—that **follow** and accord with quotations. There is wholesale **rationalization** of market behavior—on both the up-and-down sides—**after the event**. The news is interpreted, usually by varying the emphasis, *ex post facto* in accordance with the previous market action.

So—from your investing point-of view, keep your perusal of the news as an ancillary function of generally keeping posted as "*background*" (to use the conventional press-relations term); selecting therefrom those items specifically related to valuation of particular companies-as-properties or industries — and, as stated, for taking note of the psychological foibles exhibited. For example, over- or under-valuation of an issue which you may have already detected, get invaluable confirmation if you can note the reason therefor in a general fallacy indulged in by those makers of the price who are responsible for the disparity.

(5) For the determination of the yield of common stocks today, it is necessary to read the tables in several publications, and get a result through a process of *osmosis*. This is due both to the helter-skelter variance between the dividend policies, particularly with regard to extras, of our corporations (the to-be-expected recurring annual dividend is not the same thing from company-to-company); and also due to the different ways in which each financial table reports the same dividend.

(6) Make up your mind on the value of the security you own, or are thinking of owning, without being influenced by its price movement.

(7) Above all:—**DE-EMOTIONALIZE YOURSELF!**

Don't's—How Not to Read the Financial Pages

(1) In line with our previous affirmative caveat (7): — don't look at the market-quotations any more than is absolutely necessary. Possibly even once a month would be enough to look at the movement of the market-as-a-whole. The quotations of individual issues should only be price-checked in a spirit of having considered the value factors **previously**; and only when there is reason to think that a particular security might be over- or underpriced on value bases. Surely, at least, there is no reason to look at its market performance soon after one has made a transaction in it. In fact, such avoidance will keep one out of much trouble, because of one's intense emotional reactions to having been proved either "right" or "wrong" temporarily.

(2) Don't read the stock market advertisements without scrutinizing the motivations of the advertisers; and don't follow them unreservedly. (Rather use them as leads to your conclusions **for** further investigation of particular issues or of the condition **of** the market-as-a-whole.)

(3) Be skeptical about the SEC's periodic reports of transactions of officers, directors and controlling persons—as one should be about the old-time market "tips" based on what the "big shots" or "they" are doing. Bear in mind businessmen make their money from their own company via the salary route —not from speculating or investing in its securities (because of not realizing the anticipatory elements of the market, "confusing the trees for the forest," etc.).

(4) Avoid following the successive **manic-depressive** superoptimistic and pessimistic attitudes toward the market. Instead —look for a little Cassandra-ism during popular bull markets, and be somewhat of a Pollyanna in bear periods.

(5) Be completely cynical about editorial comment or other reading matter harboring forecasting of the stock market-as-a-whole.

Handel, Lundborg & Co.

PORTLAND, ORE. — The firm name of Handel, Lundborg & Patten, Inc., American Building, on April 1 was changed to Handel, Lundborg & Co. Principals are Leonard M. Handel and Hugo F. Lundborg.

Foreigners Must Give Our Capital a Square Deal, Says James H. Drumm

The "Point Four boys" should remember that if private investors are given reasonable assurance of a reasonable return, and relief from tax and other confiscatory attacks, capital will move from the capital to the non - capital areas, was the contention advanced by James H. Drumm, Vice-President of the National City Bank of New York, in an address before the Export Managers Club convention in New York City March 22, 1950.

James H. Drumm

"The question is often asked by some very naive persons why capital is not moving more readily from the capital countries to the non - capital countries or why technology and know-how are not moving out more rapidly," said Mr. Drumm. "The answer is obvious. Capital will only move if it can secure a satisfactory return on its investment and be assured of fair and just treatment. The quickest way for the non-capital countries to attract new capital is to give the capital already invested in the country a square deal. Those countries with a good past performance record have been successful in attracting a certain amount of American Industrial Capital during these recent troublesome years and some foreign licensing agreements have been negotiated and successfully concluded. The pace has been slackened due to the inability in many countries to convert foreign currency profits to U. S. dollars. Unfortunately profits, dividends and royalties have been generally classified by Control Boards in a category after luxury imports instead of enjoying a category right up with essential imports. Double taxation has been an even greater deterrent in the movement of capital and in the assignment of licenses abroad," Mr. Drumm continued. "In the case of the latter, royalties from patents should not even be treated as net income and taxation on royalties earned abroad by American companies should not only be waived by our Government, but also by the government of the recipient. Patents are the result of costly research and commercial development and if royalties are absorbed by taxation the desired movement in this important field will simply not be accomplished. The "Point Four" boys should give this suggestion some real consideration."

FIC Banks Place Debs.

A successful offering of an issue of debentures of the Federal Intermediate Credit Banks was made March 15 by M. G. Newcomb, New York fiscal agent for the banks. The financing consisted of $79,180,000 1.30% consolidated debentures dated April 3, 1950, due Jan. 2, 1951. The issue was placed at par. Of the proceeds, $57,775,000 was used to retire a like amount of debentures maturing April 3, 1950, and $21,405,000 is "new money." As of the close of business April 3, 1950, the total amount of debentures outstanding amounted to $482,885,000.

Two With J. H. Goddard

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS. — John M. Gleason, and Horace C. Thornton have become affiliated with J. H. Goddard & Co. Inc., 85 Devonshire Street, members of the Boston Stock Exchange.

With Elmer Bright

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS.—Thomas J. Ezekiel has become connected with Elmer H. Bright & Co., 84 State Street, members of the New York and Boston Stock Exchanges.

H. C. Wainwright Adds

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS. — Andrew Fiske has joined the staff of H. C. Wainwright & Co., 60 State Street, members of the New York and Boston Stock Exchanges.

Continued from page 3

Wartime Savings Provide Strong Cushion for Continued Prosperity

with an extra 5% of effort applied to sales and production and with a favorable attitude toward business on the part of government and labor, we can have prosperity in 1950 and 1951 instead of depression.

Before becoming too discouraged about the future let's summarize some of the facts about potential purchasing power in 1950.

Summary of Facts About Potential Consumer Purchasing Power In 1950

(1) Non-agricultural employment in January and February, 1950 has exceeded all previous high records for this time of year. February, 1950 non-agricultural employment of 50,730,000 exceeded the previous highest February on record (February, 1949) by 556,000. January, 1950 also was the highest January, exceeding the same month of 1949 by 98,000.

Employment of veterans in February, 1950 reached its highest postwar level for this time of year.

Only 6% of the male veterans have gone into agricultural employment as compared with 17% of non-veteran males employed in February, 1950.

Non-agricultural employment in 1949 averaged 50,684,000 compared with 37,980,000 in 1940, and the average weekly earnings of those employed in non-agricultural industries were more than double the prewar rate.

Total employment in 1949, including those in the Armed Forces, averaged 60,176,000 compared with 47,910,000 in 1940, while unemployment averaged 3,395,000 compared with 8,120,000 in 1940.

The employment level, particularly in the non-agricultural industries is important to watch from the standpoint of consumer purchasing power being generated—and it is holding at a very high level.

(2) 4,000,000 people, mostly women, in excess of normal expectancy have been added to the labor force since 1940. This makes unemployment figures misleading in any analysis of purchasing power since this abnormal increase alone about matches the total unemployment. The total labor force increased by 7,540,000 from 56,030,000 in 1940 to 63,571,000 in 1949, but 4,000,000 of this increase has been abnormal beyond the growth of population. About 2,100,000 of this abnormal increase is accounted for by women between the ages of 35-54 (mostly married women living with husbands) who have entered the labor force in a percentage far greater than prewar. Also, in the age group of 14-19 years old a much larger percentage of both boys and girls have entered the labor force—adding about 1,220,000 workers beyond what the present population in this age group would have added at 1940 participation rates.

(3) Total disposable personal income after taxes in 1949 was $191.2 billion, highest in the history of the nation and 2½ times the 1940 level of $75.7 billion, or over 4 times the depression low level of $45.1 billion in 1933. Disposable income in 1950 could reach $200 billion or 5% over 1949. In January 1950 the total personal income was at the annual rate of $218.4 billion which after Federal, state and local taxes indicated a disposable personal income rate of $200 billion.

	Feb. 1948	Feb. 1949	Feb. 1950
Employed Male Veterans of World War II	12,106,000	12,352,000	12,508,000
Non-Agricultural	11,244,000	11,507,000	11,721,000

(4) *Real* purchasing power in 1949 after correction for taxes and prices was $113.2 billion in terms of 1940 dollars or about 50% over the 1940 level of $75.7 billion. This reflects the increased ability of consumers to buy goods and services as measured in units or improved quality. With $200 billion of disposable income in 1950 *real* purchasing power could exceed 1940 by 60% and 1949 by over 6%.

(5) The surplus income available for discretionary spending or saving in 1949 was at the rate of $97.5 billion or almost four times as great as the prewar level of $26.5 billion in 1940. This is the amount of money available over and above what would be required to maintain a 1940 standard of living for the broad basic items of food, clothing and shelter. This is available at the discretion of the consumer for raising the standard of living over 1940. In 1950 this total of discretionary spending power could reach $107 billion or over four times 1940 and about 9% over 1950.

(6) Consumer debt is unusually low in relation to savings or to disposable income. Debt could be increased 75% before reaching the 1940 ratio to savings—it could be increased 40% without exceeding the 1940 ratio to disposable income.

(7) The backlog of accumulated savings of individuals totalled about $220 billion at the end of 1949 or over three times the 1940 level of $68.4 billion and has a real purchasing power at today's prices about double the purchasing power of the savings that existed in 1940. Liquid assets of cash and government securities owned by individuals is 3½ times the 1940 total — $175 billion as compared with $52 billion in 1940.

(8) Maturities of U. S. Savings Bonds will play an increasingly important part in sustaining and stabilizing consumer purchasing power. One billion mature in 1950 and over $28 billion in the next five years after 1950.

Year	Amount (Billions)
1950	$1.0
1951	1.6
1952	4.0
1953	6.8
1954	8.8
1955	7.6

After 1955 between $5 billion and $6 billion mature annually. These savings bonds are widely held in small denominations by all income classes with approximately half of all consumer spending units having some bonds. They were not transferable and were not to be used as a basis of loans, hence they represent unencumbered cash when they mature and will require a decision on the part of each holder as to whether to reinvest or to spend for something over and above what might have been purchased out of current income. These funds differ from other forms of savings such as savings accounts in that they do mature and do require a decision.

Even if amounts of new savings bonds are sold each year equalizing the maturities, the effect is a revolving fund of over $5 billion annually in the hands of consumers adding to the turnover of current purchasing power—consider what effect this might have had if over $5 billion had matured in such depression years as 1933 when total retail sales were about $24 billion.

(9) Personal consumption expenditures for all goods and services in 1949 were at the all time high annual rate of $179.4 billion compared with $178.8 billion in 1948. The average consumer price index in 1949 was 169.1 compared with 171.2 in 1948 indicating an even greater physical volume in 1949.

1950 has started out with consumer expenditures exceeding the same period of 1949. Total retail sales in January, 1950 were 2% ahead of January, 1949 while February, 1950 was 3% ahead of February, 1949 in spite of the retarding effects of a national coal strike and a strike in the automotive field.

1950 markets for goods and services with $200 billion of disposable income could be about $10 billion greater than 1949 and could reach over $188 billion.

(10) The rate of savings by individuals in 1950 even after increased expenditures for goods and services can be over $12 billion, or four times the $3.7 billion saved in 1940. This would be at the rate of 6% of disposable income compared with 4.9% in 1940. Prewar, the net savings never reached higher than a ratio of 5.5% of disposable income.

(11) There have been some really startling shifts upwards in the distribution of families by income groups. Over 21 million families (or consumer spending units) have moved up to the level above $2,000 since 1941 with an increase in this group from 14,000,000 to 35,280,000 in February, 1949. The 1949 figure even represents an increase of about 4,000,000 since the spring of 1948 in the group over $2,000. When families move up from one income group to the next as rapidly as this there is a substantial increase in discretionary spending power, even after applying the present increased costs of living to the basic items that made up the family's former standard of living.

Real opportunities for improved standards of living are indicated by these shifts in family income groups—changes that can mean increased markets and increased employment.

(12) The birth rate has continued high. Births in 1949 exceeded 1948 by 1.3% and the total of 3,729,000 born in 1949 was 47% greater than the 2,538,000 births in 1940.

The rapid increase of our population—2,553,000 from Jan. 1, 1949 to Jan. 1, 1950, to reach a total of 150,604,000—has brought continued pressure on new housing requirements. The number of new non-farm dwelling units started in the last six months of 1949 of 574,300 was 27% greater than in the last six months of 1948 while in January-February, 1950 the 160,000 new homes started exceeded the same two months of 1949 by 60%. It is expected that our population will total about 152 million by July, 1950—an increase of 15½% since 1940.

(13) Significant changes have taken place in the age distribution of our population since 1940. Estimates for 1950 indicate:

45% more children under 10 (9.5 million more)
—8% fewer 10 to 19 (1.8 million fewer)
9% more 20 to 39 (3.8 million more)
16% more 40 to 59 (4.9 million more)
30% more 60 and over (4.1 million more)
15½% more total population (20.5 million more total)

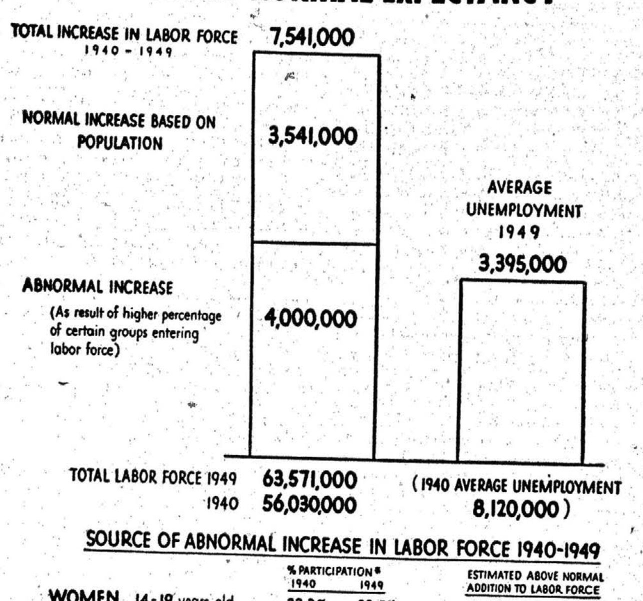
This change in age groups will have significant effects on needs for school facilities, foods, housing and household equipment as well as on savings plans for education, etc.

(14) Migration of our population within the United States is large—Americans are on the move. Nearly 28 million persons lived in a different place on April 1, 1949 than on the same date a year earlier:

Different home in same county	18,792,000
Migrant—	
Within a state	3,992,000
Bet. contiguous states	1,782,000
Bet. non-contig. states	2,562,000
Abroad on Apr. 1, 1948	476,000
Total Moving	27,604,000

(15) Our standard of living could still improve by a third

4 MILLION ADDED TO LABOR FORCE SINCE 1940 BEYOND NORMAL EXPECTANCY

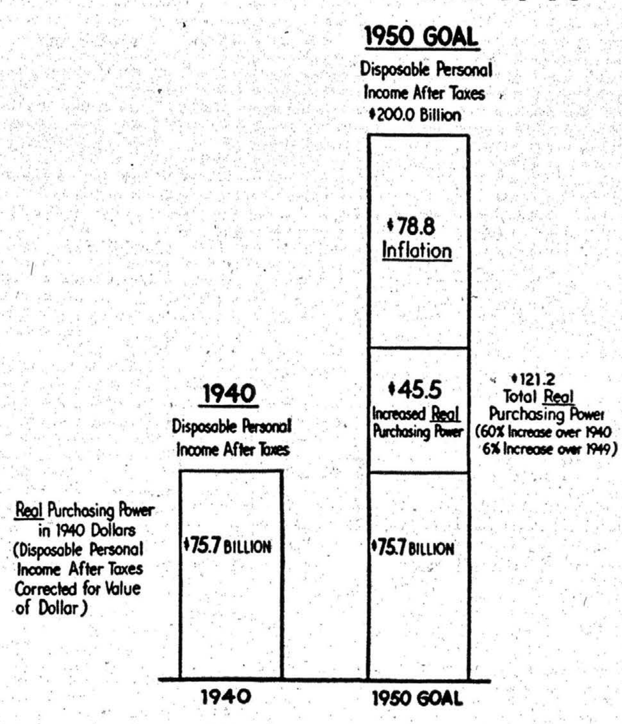


SOURCE OF ABNORMAL INCREASE IN LABOR FORCE 1940-1949

		% PARTICIPATION* 1940	% PARTICIPATION* 1949	ESTIMATED ABOVE NORMAL ADDITION TO LABOR FORCE
WOMEN	14-19 years old	23.3%	32.5%	590,000
	35-44	28.8	38.1	1,050,000
	45-54	24.3	35.9	1,050,000
	55-64	18.7	25.3	450,000
	65 and over	7.4	9.6	130,000
			TOTAL WOMEN ADDED	3,270,000
MEN	14-19	44.2	53.6	630,000
	65 and over	45.0	46.9	100,000
			TOTAL MEN ADDED	730,000
			TOTAL ADDED	4,000,000

*With the non institutional population in each age group as 100%, the per cent participation shows the proportion of the group in the labor force.

1950 REAL CONSUMER PURCHASING POWER CAN BE 60% ABOVE 1940



	1940	1950 GOAL
Consumer Price Index	100	165
Population	131,970,000	151,800,000 (July 1, 1950)
Real Purchasing Power Per-Capita (Disposable Income After Taxes in Terms of 1940 Dollars)	$574	$800 (39% increase over 1940)

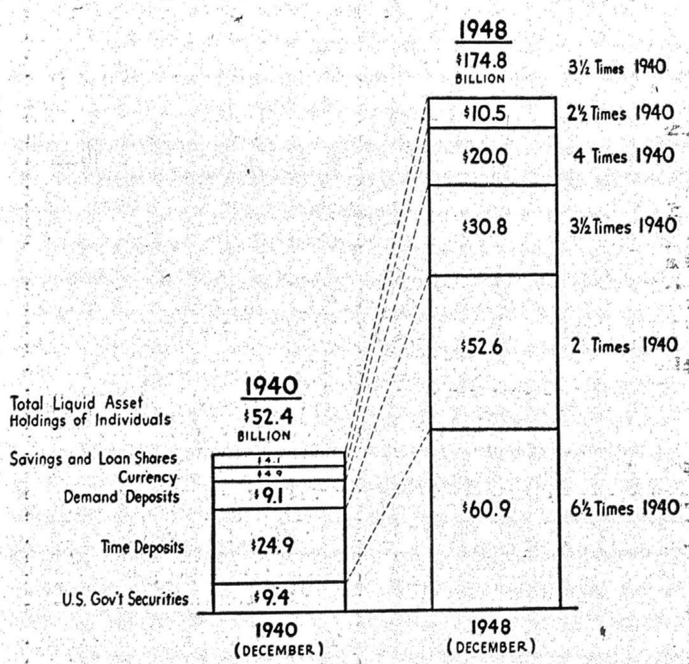
over the present level before reaching an economy that would be typified by the level of living of the $50 a week families in 1940. In 1940 our economy and standard of living was typified by the family with a $25 per week total income. Our wartime performance in production indicated we were capable of supporting a standard of living about double or one typified by a $50 per week income (at 1940 prices). While average family income now exceeds $50, inflation has limited the increase in real purchasing power so that we would need to expand living standards another third to reach the $50 a week level in terms of 1940 dollars.

All of this indicates that we have a high level of purchasing power from current income plus potentially powerful increments to purchasing power through the huge backlog of savings and the low ratio of consumer debt if consumers should choose to utilize savings or debt expansion in changing their standard of living.

We have the additional new influence of a large volume of savings bonds maturing each month, and in increasing amounts over the next five years.

Since the war our economy has operated on a very high level. It must be kept high because "break-even points" are, in most businesses, so much higher than prewar that any major recession in consumer demand would quickly make production unprofitable and lead to heavy unemployment. There is no need, however, for this serious drop in demand if the public is educated to accept and insist on the higher standards of living made possible by our productivity and by the increased real purchasing power resulting from increased productivity.

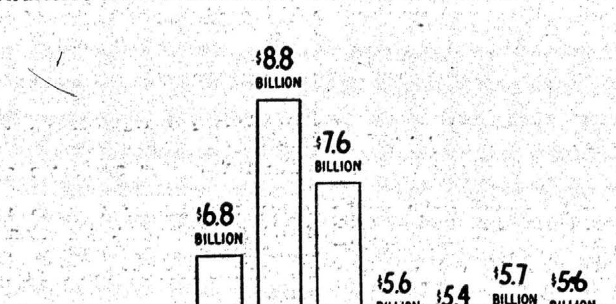
CONSUMER HOLDINGS OF LIQUID ASSETS 3½ TIMES 1940, WITH DOUBLE THE PURCHASING POWER



	1940	1948
Consumer Price Index	100	171
Purchasing Power of Liquid Assets (in 1940 Dollars)	$52.4 Billion	$102.2 Billion (Approximately Double)
Short Term Consumer Debt	$9.1 Billion	$16.3 Billion
% Of Liquid Assets	17%	9%

Short term debt could double before reaching 1940 ratio to liquid assets!

U.S. SAVINGS BONDS MATURITIES OF GROWING IMPORTANCE SUSTAINING AND STABILIZING CONSUMER PURCHASING POWER



MATURITIES AND AMOUNTS OUTSTANDING AS OF DECEMBER 31, 1949

The Will to Buy—A Factor in Changing Standards of Living

There are three basic factors that make markets—these are:

(1) People.

(2) Purchasing power.

(3) The will to buy.

The marketing man looks first to his statistics on people because that is the starting point of all markets. He will know that the U. S. population has grown by over 20 million from 131,669,275 in 1940 to about 152,000,000 by July, 1950, or an increase of over 15%; that about 9 million people have moved from rural areas to cities where the pattern and standard of living is quite different; that by 1950 the farm population will have decreased by about 3 million from 1940 while the non-farm population will have increased by 23 million; that the abnormally high birth rate since 1940 continued through 1949 and has resulted in about 33 million births which soon will have an increasing influence on school facilities, housing requirements, food requirements, and the general level of living; that some 17½ million marriages since 1940 have brought new families into existence representing over 40% of all our families; and that the educational level of our adults is now considerably higher than in 1940.

All of these are factors that point to increased market potentials.

The second major factor in marketing — purchasing power — has been covered in detail and is shown to be at a very high level.

This leaves the third important factor — the will to buy — as the field in which marketing men have their greatest opportunity. We will have, in 1950, a market of about 152,000,000 people with proven high purchasing power but with a standard of living which has lagged behind that purchasing power. This then is the challenge —for education and selling to create the demands that will raise the American standard of living and keep our income at high levels.

New York Stock Exch. Weekly Firm Changes

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

Transfer of the exchange membership of H. Lyman Stebbins to Norman K. Toerge, Jr., will be considered on April 13. It is understood that Mr. Toerge will act as an individual floor broker.

Hugh A. Johnson retired from partnership in George D. B. Bonbright & Co. on April 1.

CORRECTION

In the March 23 issue of the "Financial Chronicle" is was reported that Sherman Shiels Hoelscher had become associated with Kaiser & Co., San Francisco, and that Mr. Hoelscher had formerly been a partner in Sherman Hoelscher & Co. This was incorrect. Sherman Hoelscher is continuing his own firm of Sherman Hoelscher & Co., members of the San Francisco Stock Exchange. His son, S. Shiels Hoelscher, has become associated with Kaiser & Co.

Continued from page 5

The State of Trade and Industry

tinues the Treasury's receipts for the current fiscal year would be at least $1,000,000,000 below the estimate of $37,763,000,000 made by President Truman in January. The drop in receipts may have a dampening effect on Congress' plans for cutting excise taxes by $1,000,000,000 or more.

* * *

STEEL OUTPUT EDGES HIGHER TO 96.8% OF CAPACITY IN CURRENT WEEK

Steel demand this week is cracking crystal balls all over the country. Every major mill in the country is booked to capacity for months ahead on every major product, according to "The Iron Age," national metalworking weekly, in its current summary of the steel trade. Steel is moving to customers on the allocation system developed during the hectic postwar period. Mills are being swamped with requests for steel faster than it can be turned out.

Some of the smartest men in the steel business are sure it can't last long at this level—that the second half will see a drop in demand.

There is no real evidence this week that there will be any serious drop in steel demand before the end of the third quarter. A careful check by "Iron Age" editors in major market areas throughout the country revealed no cracks in front line demand for steel. On the contrary, most of those who had been predicting a slump at the end of the first half are extending their predictions to the end of the third quarter—and they aren't so sure it will come then.

This means a very good year for steel. Operations this week are scheduled at 97% of rated capacity, up half a point from last week. On an annual basis this is equal to 96,000,000 ingot tons of steel production. Last year, 77,868,353 tons of ingots and steel for castings were produced. The all-time record was set in 1944, when a wartime peak of 89,641,575 tons were turned out. Biggest peacetime output was in 1948, when the industry made 88,640,470 tons of steel.

No one expects steel output this year to break these records, but judged on its outlook today, total steel production this year could amount to between 80,000,000 and 85,000,000 tons when the last ingots are counted, this trade paper observes.

The Detroit labor situation remains the biggest roadblock barring smooth progress toward this goal. Negotiations at Chrysler are still stalled on dead center. Meanwhile, the second round in the auto-labor tussle got underway last week when General Motors launched serious conversations with the United Auto Workers.

But a drop in auto production, always a fearsome thought to steel people, is not feared as much now as it has been—because demand in other industries seems high enough to absorb a good share of Detroit tonnage if it should become available. There is continuing evidence, for instance, that some appliance makers are holding back expansion plans or new models for lack of the extra steel required.

Conversion deals are still going strong, indicating that buyers are just as anxious as ever to obtain steel. Orders for sheet and strip are booked through June with some even being taken for July delivery, although the mills aren't anxious for commitments more than three months in advance, "The Iron Age" concludes.

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 96.8% of capacity for the week beginning April 3, 1950. This is an advance of 0.1 point from last week's rate of 96.7%.

Output for the current week will be the greatest since the week of Mar. 21, 1949, when production reached 1,863,800 tons.

This week's operating rate is equivalent to 1,845,300 tons of steel ingots and castings for the entire industry compared to 1,843,400 tons one week ago. A month ago the rate was 73.5% and production amounted to 1,401,100 tons; a year ago it stood at 98.8% and 1,821,400 tons, and for the average week in 1940, highest prewar year, at 1,281,210 tons.

ELECTRIC OUTPUT RECEDES FURTHER FROM PREVIOUS WEEK

The amount of electrical energy distributed by the electric light and power industry for the week ended April 1, was estimated at 5,911,936,000 kwh., according to the Edison Electric Institute.

It was 81,126,000 kwh. lower than the figure reported for the previous week, 534,274,000 kwh., or 9.9%, above the total output for the week ended April 2, 1949, and 875,148,000 kwh. in excess of the output reported for the corresponding period two years ago.

CARLOADINGS TURN DOWNWARD IN LATEST WEEK

Loadings of revenue freight for the week ended March 25, 1950, totaled 717,233 cars, according to the Association of American Railroads. This was a decrease of 8,337 cars, or 1.1% below the preceding week.

Coal loading amounted to 175,874 cars, an increase of 138,705 cars above the corresponding week a year ago, but a decrease of 15,360 cars below the preceding week this year.

The week's total represented an increase of 120,904 cars, or 20.3% above the corresponding week in 1949 and 53,570 cars, or 8.1%, above the comparable period in 1948, in both of which years loadings were cut by work stoppages at coal mines.

AUTO OUTPUT DIPS IN LATEST WEEK

According to "Ward's Automotive Reports" for the past week, motor vehicle production in the United States and Canada expanded to an estimated 139,260 units compared with the previous week's total of 140,196 (revised) units.

The total output for the current week was made up of 108,437 cars and 24,440 trucks built in the United States and a total of 4,688 cars and 1,695 trucks built in Canada.

The auto industry yesterday finished its second highest production quarter since 1929, with no let-up in sight, Ward's

Continued on page 40

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The State of Trade and Industry

said. Although Chrysler Corp. plants are still shut by a strike of the CIO United Auto Workers, auto manufacturers' monthly schedules for the next quarter are 10% higher than in March, the report added.

The week's total compares with 119,088 units produced in the like 1949 week.

So far this year, 1,350,529 cars and 297,885 trucks have been assembled in this country and 65,277 cars and 23,640 trucks in Canada.

BUSINESS FAILURES VEER UPWARD

Commercial and industrial failures rose to 198 in the week ended March 30 from 186 in the preceding week, Dun & Bradstreet, Inc., reports. Despite this increase, casualties were not as numerous as a year ago when 216 occurred, but they remained considerably above the 91 in the comparable 1948 week. Failures were 40% below the prewar level of 310 which occurred in the similar 1939 week.

Casualties involving liabilities of $5,000 or more increased to 166 from 141 in the preceding week and exceeded by a narrow margin the 162 of last year. Small failures, those with liabilities under $5,000, declined to 32 from 45 in the previous week. For the first time since January, 1949, casualties of this size were less numerous than in the similar week of the preceding year.

Wholesale trade was the only line in which more failures occurred than a year ago. The week's increase was concentrated in the Pacific and in the South Atlantic states. Failures in the Middle Atlantic and Pacific states continued to be moderately above a year ago, but a mild decline from the 1949 level prevailed in most areas.

WHOLESALE FOOD PRICE INDEX ARRESTS DECLINES OF PRECEDING WEEKS

The wholesale food price index, compiled by Dun & Bradstreet, Inc., remained unchanged last week as advances and declines in individual commodities balanced each other. The March 28 figure at $5.79 is slightly above the $5.77 of a year ago, but it shows a drop of 14.2% from the $5.75 recorded on the corresponding date two years ago.

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 IN MILD UPWARD SWING ESTABLISHED NEW HIGH FOR YEAR

Continuing its mild upward movement, the daily wholesale commodity price index, compiled by Dun & Bradstreet, Inc., advanced to a new high for the year at 250.59 on March 27. The index closed at 250.47 on March 28, comparing with 249.48 a week earlier, and with 255.53 on the corresponding date a year ago.

Grain markets continued to strengthen the past week with all deliveries of wheat and corn touching new high levels for the season.

The advance in wheat reflected a lack of pressure in the cash market together with reports of damage to the winter wheat crop in parts of Kansas, Texas and Oklahoma as the result of dry weather and green bug infestation. Export demand for wheat was fairly good.

The outlook for grain exports in the new crop year, however, is regarded as very poor because of the marked improvement in crop prospects abroad. Corn prices continued to rise, aided by light country offerings and substantial sales for export to be shipped during the next few months. Cocoa was in somewhat better demand as the week closed; prices were steady compared with a week ago. Coffee futures advanced quite sharply, aided by improved demand for actuals at steady to rising prices. The domestic flour marekt remained quiet with hand-to-mouth buying still the rule. Lard prices were stronger in the week.

Trading in lard futures on the Chicago Board of Trade broadened considerably with all deliveries selling at new seasonal highs.

Lending support to the market was the strength shown in vegetable oils which more than offset continued easiness in live hogs which sold below government support levels throughout the week.

Cotton prices in the domestic market finished slightly lower last week after fluctuating irregularly over a narrow range during the period. Inquiries were fairly numerous, but domestic mill demand continued slow with buying support lacking owing largely to legislative uncertainties at Washington.

Reported sales in the 10 spot markets decreased slightly to 87,700 bales last week, from 95,100 bales the previous week and compared with 121,200 bales in the like week a year ago.

The export outlook remained favorable.

Foreign shipments of lint cotton, according to the New York Cotton Exchange, for the season through March 27 approximated 3,365,000 bales, as compared with 2,838,000 in the like period of last season. Cotton ginnings from the 1949 crop, as reported by the Bureau of the Census, totaled 15,900,502 bales, compared with 14,580,279 bales the previous season, and 11,557,138 two years ago.

Entries of cotton into the government loan stock in the week ended March 16 were placed at 12,100 bales, as against repayments of 92,300 bales, leaving a net stock of about 2,558,500 bales unredeemed on March 16. The cotton gray goods market continued quiet with some constructions showing further easiness under pressure of resale offerings of goods at lower prices than those quoted by mills.

RETAIL TRADE DROPS UNDER SEASONAL EXPECTATIONS—WHOLESALE TRADE ORDER VOLUME FRACTIONALLY BELOW 1949 WEEK

In the wake of vigorous promotions consumer spending rose slightly in the period ended on Wednesday of last week; the increase was below seasonal expectations, however. Total dollar volume was slightly below that for the comparable week a year ago, Dun & Bradstreet, Inc., reports in its current summary of trade.

A slightly larger volume of apparel was purchased last week than during the week earlier; noticeable increases in pre-Easter buying in specialty and department stores were reported in scattered areas.

While millinery was especially popular, women sought increasing quantities of coats, suits and washable dresses. Interest in accessories dipped slightly, while the buying of fur-goods remained limited. Slightly more men's suits were sold in the week with the sale of shirts and haberdashery steady with the volume of the previous week.

Shoppers bought slightly more food than a week ago. The purchasing of fresh fruits increased somewhat, while the demand for vegetables generally declined. Moderately more meat was sold than formerly; a price drop kept dollar volume at a slight increase. The interest in dairy products declined slightly from its previously high level.

Retail volume increased in some lines of durable goods and was sustained at a high level in others.

Housewares and many electrical appliances were in slightly increased demand; spring promotions were reflected in a moderately high interest in kitchenware and china in some localities. There was generally a steady demand for television sets, radios and wooden furniture. Slightly less lamps were sold than during the week earlier.

Total retail dollar volume for the period ended on Wednesday of last week was estimated to be from unchanged to 4% below that of a year ago. Regional estimates varied from the levels of a year ago by these percentages:

New England +2 to —2; East and South 0 to —4; Midwest and Northwest —1 to —5; and Southwest and Pacific Coast + 1 to —3.

The spot re-ordering of wholesale goods was accelerated in the week and helped to raise total dollar volume slightly above the previous week's level. Order volume for the country was fractionally below the moderately high level for the similar week in 1949. There was a dip in the number of buyers attending wholesale centers during the week, being somewhat less than in the comparable 1949 period.

Department store sales on a country-wide basis, as taken from the Federal Reserve Board's index for the week ended March 25, 1950, showed no change from the like period of last year. In the preceding week an advance of 1% was registered from the like week of 1949. For the four weeks ended March 25, 1950, sales reflected no change from the corresponding period a year ago, but for the year to date show a drop of 3%.

With Easter shopping providing an incentive toward increased sales, retail trade in New York the past week failed to come up to previous expectations. As a consequence, department store volume dropped an estimated 3% below the like period of a year ago.

According to the Federal Reserve Board's index, department store sales in New York City for the weekly period to March 25, 1950, fell 4% from the like period last year. In the preceding week an advance of 1% (revised) was registered from the similar week of 1949. For the four weeks ended March 25, 1950, a decrease of 1% was reported from the like week of last year. For the year to date volume decreased by 6%.

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Corporate Management And Director-Trustee

disadvantage in being subjected to the decisions of business management as to what he shall be offered, where and when he can get it, and how much he will have to pay for it. The business management can make its rules and back them up with administrative organization, physical plant and equipment, money in the bank, and propaganda.

But the inequality is not so great as it appears—in fact, the strength may be with David Consumer if he does not have to buy, or can postpone his buying, or can find something else that will do, or some other place to get it. Then the imposing property and organization and resources of the Goliath Corporation become clumsy handicaps before David's power of choice. The company and its rule-making managers find themselves faced with a debilitating condition called "idle plant expense." Idle plant expense will slowly but surely force the business rule-makers to modify their rules to meet the views of the governed.

Does this mean that the customers make the rules? Not at all. It only means that when the customers have the power of choice, the rules that are made will be acceptable to them. Business management will still decide what will be offered and when and where and for how much. Neither individually nor collectively do customers have the ability to make rules or to enforce them. But collectively the customers determine what rules shall in the end survive.

When there is no choice to the customer, when a single company is the only source of supply, as is true of telephone service or electricity or sometimes transportation, the customer is helpless if the product or service is indispensable for health and comfort. In these cases of natural or artificial monopoly, the more important rules of the company affecting the customer are regulated by public government.

The Employees

The fourth group of people governed by private business are the employees, all of them. The President of the company, the Vice-Presidents, the Deputies and Assistants, the Superintendents and Managers, Foreman, bosses, and workers—male and female, part-time and full-time, employed or unemployed—all are governed by the rule-making of private business. Some of these governed are themselves subordinate rule-makers, promulgating codes and issuing instructions with the authority of the business-state by which they are employed.

For most people, the rules that most intimately affect their lives are made by their employers.

These rules determine for the individual where he shall work, when he shall work, what he shall do, who will give him orders, who will take orders from him, his promotion and discipline, the amount he gets paid, and the time and duration of his holidays and vacations.

The employees, all of them, are weak as compared with the company that makes the rules and enforces them. To compensate for this weakness, we must look to three offsetting balances. The first is the labor laws of public government, the second is the trade-union or other private organization of employees, and the third is the chance of getting a job working for some other company or of getting by without doing any work at all.

But neither labor laws nor trade-unions can do more than give the broad framework of conditions of employment and occasional protection to the individual in extreme cases of maladministration. Just as the true strength of the customer in the apparently unequal negotiation with the business company was found in the ability of the customer to go elsewhere to do his business, so too the strength of the employee lies in his ability, when he has it, to get another job from another employer or to get along without doing any work. The laws and the unions may help provide a basic setting for private business rule-making, but they can never do enough to give to the employee a real feeling that in conforming to the rules affecting him he has exercised responsible free choice. Even for the executive, the ability to get a job elsewhere and the courage to do it are the only conditions under which subjection to business rule-making is supportable by free men. It is obvious that under the large-scale unemployment of the 1930's, the reality of freedom, guaranteed politically under the Constitution, was actually lost under the economic exigencies of the period.

Thus we see that tolerable freedom of the governed under the private rule-making of business, of the stockholders, of the vendors, of the customers, and of the employees of all rank comes from the opportunity to say, "No! I will do my business with another business." When the governed can say "No" they have powers as great as those of the strongest business.

A business gets done the things that business exists to do by means of rule-making activities which are both necessary and desirable. Because of them, business is private government in more than name only. Let us look at the structure of a business and see how it is put together on the inside.

From whatever angle we approach a business, as we rise higher and higher through the levels of authority, we finally come to a chief executive who is usually the President of the company.

President the Boss

In most things in a business the president is the boss. Working through his subordinates, he gets done the things that have to be done. In many cases he also decides on the policies that will be followed in doing them. He can buy and sell, hire and fire, construct or tear down. Among the few things he cannot do by himself are to declare a dividend, open a bank account for the company, sell its securities to the public, or dissolve the business. One other thing he cannot do as president is to appoint himself to his own job.

Sometimes a company has an officer who is called Chairman of the board. The powers and duties of a chairman do not follow a consistent pattern. In general, the powers over policy that are reserved from the president, and are not reserved to the board of directors, are exercised by the chairman. The chairman has particular supervisory responsibilities including observation of the work of the president. It is doubtful if the chairman would give instructions to the president as to how he should operate the company even if he had the power to do so. If he did give such instructions, he would himself be the chief administrative officer under another name, and the president would then be his assistant.

Long- and Short-Term Policies

The titles of the officers holding top company authority are by no means uniform in business, and are unimportant for this discussion. What is important is to realize that there are two related, separable, top functions: (1) that of long-time policy planning with broad consideration of the company's relations to trends within the industry, in other industries, in the government, and in international affairs, and (2) that of day-to-day central coordination of operating decisions covering every phase of doing efficiently the things that it is the business of the company to do.

The powers that are withheld from the president and chairman, or chief executive officer under whatever title, are held by the board of directors.

Election of Directors

The directors of a company are persons of considerable importance in rule-making powers of a business. Consequently, it is a matter of some interest how the members of a board of directors are chosen and how they are continued in office. At this point the form and the substance of the location of power in business are far apart.

The form of election of directors is a quasi-democratic procedure for the affirmation of the delegation of power to candidates for election and re-election. The procedure accepts on principle the assumption that the final power over business rule-making resides in the owners of the property, and that the larger the relative ownership the larger the right to express preference for the individuals to whom delegated powers should be assigned.

Without raising questions as to these assumptions, it is fair to note that in substance the selection of directors does not conform to the intention that the election procedure implies.

Electing versus Choosing Directors

The fact is that the stockholders *elect* the directors but they do not *choose* them. They are *chosen* by the board of directors itself, which makes the nominations.

The reason for this lack of correspondence of form and substance rests on two practical considerations: (1) The stockholders cannot choose directors because they are not organized as a political body in a way to make their franchise effective. (2) Real choice of directors by stockholders would be an extremely costly and disruptive procedure, damaging to efficient management, to business profits, and to the interests of the stockholders themselves.

The stockholders have invested their savings in a business to make profits and income, not to assert rights in the delegation of power. They do not want to be organized politically as stockholders; they want to be let alone. In this the management agrees with them. The occasional crisis situation can be ignored, since the political organization of stockholders to oust a management is generally so crude as a technique of obtaining stockholder consensus that it is little more than a caricature of the "democratic" procedure it purports to be.

Within the circle of directors and principal officers, the locus of power differs in different companies and in the same company from time to time. Sometimes it changes even in the same meeting on different issues. If the chairman or president is an extremely strong or self-willed individual, he holds the reins in a firm hand. He may use the members of his board of directors as a sounding board, as a source of advice, as a means of access to influence in quarters outside his own company. But the most dominating governor is likely to pause if three or more directors differ audibly with his decision. The next time it may be three other directors who differ, and the time after that another three. Minorities are helpless alone, but several minorities may mean a revolt. Whenever ownership and management are held by different people, it can never be said that the board of directors does not matter.

The locus of power may, for a moment or on a particular issue, be held by a single director. Generally this occurs when a strong will holds a negative opinion. It is rare that a single individual on a Board of Directors can get positive action taken contrary to the wishes of the officers.

The Executive Committee

The decisions that must be made by a company require that a final source of authority be instantly available. Accordingly, an executive committee, with power to act for the board of directors between meetings is set up; and in this committee, the details of questions of policy and operations are examined. Many decisions are made by the executive committee that need only be referred to the board for information and ratification. Included in the membership of the executive committee, there will be one or more of the executive officers of the company.

Shifting Power

The power element in a company is more nearly an area than a point, a pattern within the Executive Committee. It shifts within the boundaries of the Board of Directors, the Executive Committee, and senior officers. Sometimes the focus is sharp, sometimes it is blurred. It may include on combination of personalities at one time, another at another. Power in a company, within this area, seems to go to him who wants it and is able to exercise it. For the effectiveness of the company in doing the things that a company is supposed to do, this shifting character of the locus of power is desirable. It keeps an administration from becoming too brittle. It creates a narrow circle where there is a normal and healthy competition for internal status and recognition. Carried too far, such competition can be destructive to united efforts, but ordinarily the influence of the Board as a whole moderates the intensity of personal ambitions and divisive tendencies. When the Board itself divides, and continues a division over a period of time, again a pathological condition exists that is harmful to the business.

The locus of supreme power in a company lies within the circle of the Board of Directors, including the two principal officers, the Chairman and the President. From this source come the rules, the instructions, and the delegation of specific responsibility, the provision of means and the outlines of ways. Here is found the co-ordination of the parts and of partial efforts. Within this circle, the character of the company takes form. Into this circle come experience, inspiration, and criticism from the organization as a whole, and from this circle flow judgments which give back to the organization direction and discipline.

Directors Inadequate Institution

Considering the central position of the Board of Directors as an institution, not only in the government of a single business, but in the government of business generally, it is in its present form an inadequate instrument of power. It is a vestigial remain of a time when investors paid attention to their businesses and when offensive and defensive alliances in business were the order of the day. The most that can be said for the Board of Directors as it exists today is that it provides an arena in which the ablest, most powerful, and most persistent members of the Board can generally have their way. Such men have the traits that make businesses successful, and their survival in the shifting locus of power in a company means that they survive not only for their own good, but for the good of the company too. The Board of Directors tends to screen the fit from the unfit, and to that extent to provide the rule of the fit for the conduct of the business.

Need anything be done? If the Board of Directors is a vestigial and obsolete institution, sooner or later it will disappear in its present form. This disappearance may come by transformation or it may come by collapse. Collapse is a clumsy and uncertain way of moving from yesterday into tomorrow. Transformation gives an opportunity to consider the question of what is wanted and to choose a preferred method of getting from here to there.

What is it that we want in a Board of Directors? First, we want a rule-making body superior to the executive officers that will contribute to the efficiency of the business. Second, we want a rule-making body that is sensitive to the interests of all who are affected by the company as a private government.

When we examine these interests, a curious fact appears. The interests of the four parties at interest are in part identical in that each of them benefits by an efficient, well-managed, growing business. For the stockholders this means the possibility of larger dividends and a higher market price for their stock. For the vendors it means a better outlet and prompt payment for the things they supply. For the customer it means better service, better quality, and a wider range of products from which to choose. For the employee it means steadier employment, higher pay, and better conditions of work.

The Conflict

But at any given level of activity and efficiency of a business the interests of the four groups of the governed are in conflict. At a given level of activity, higher dividends can come only from lower prices to vendors, higher prices to customers, or lower labor costs. Vendors can get better consideration only at the expense of stockholders, customers, or employees. Customers must pay higher prices if the desires of stockholders, vendors, and employees are to be met, and the employees can improve their earnings only at the expense of the other three parties at interest. A Board of Directors, therefore, has a double task, first, to provide the company with an efficient, aggressive management, and second, to make sure that at any given level of activity and efficiency, the groups at interest, whose interests are necessarily in conflict get a square deal.

The Current Suggestions

There have been two suggestions as to how the several parties at interest in the operations of a company might be effectively heard. One suggestion is that each of these groups should be represented by directors of their own choosing. The other is that there should be a "public" director on the Directing Board, an appointee of the Securities and Exchange Commission or of some other public agency. Neither suggestion meets the requirements of the situation in more than a formal way, and both should be rejected as unrealistic and undesirable.

If we reject these two methods for broadening the composition of a corporate Board of Directors, what suggestion can be proposed?

A New Suggestion

My suggestion is this: As a first step, one director be elected or re-elected and he be asked to act as "trustee" for one of the three parties at interest, other than the stockholders. Such a director-trustee might be assigned the interests of either the customers, or the vendors, or the employees, depending on the nature of the company's business. He would be the nominee of the management and of the existing Board of Directors and would be elected in the usual way by the owners of the company, the stockholders. During the experimental period of whatever length, no public announcement would need to be made that such a policy had been adopted.

In a formal sense little is changed, but an important difference would occur in the deliberations of the Board. Let us suppose that this first director-trustee has been asked to act for the customers of the company. Although he owes his nomination to his fellow directors, and his election to the stockholders, nevertheless he has accepted a trusteeship—a trusteeship which has been created voluntarily by those choosing him so to act as trustee. Now as he sits on the Board, the interests of the customers of the company are his single interest. It is his duty to know what these interests are and to see to it that they are considered when matters affecting them are decided upon. Such a director-trustee should be chosen for his ability to make another's case his own.

The director-trustee should have time to work on his job and to think about it. His duties would not require his full time, but they would involve more application of effort than does the conventional directorship. Such a director should be properly compensated for the service he performs.

Other Director-Trustees

If the first director-trustee works out usefully, the next step would be a director-trustee for each of the other interests—all depending on the nature of the company and whether the groups are important enough in the particular case to warrant specialized consideration. In this way, three of the four parties at interest will have someone designated to speak for them. Presumably the stockholders, the fourth party, will be the concern of the remaining directors. But to make sure that equally thoughtful attention will be given to all the stockholders, one director should be explicitly charged with responsibility for **all** ownership interests and be paid for taking the time required in doing so.

The Board of Directors would then consist of four paid director-trustees, the Chairman and the President, and such other officers and Directors as the needs and traditions of the company dictated. Under such a Directing Board, the interests of the governed will be at least represented and the actions of the company's administrative officers will take place in a frame of reference where the interests of all will have been heard.

The four director-trustees would sit, not as "representatives" of the interest for which they speak, but as designees of their fellow directors to give particular attention to their trustee assignments. Since in any case these four special directors would be interested, even from the standpoint of their special interest, in the growth and prosperity of the corporation, and would be individually and collectively only a minority of the Board as a whole, it seems improbable that the divisive interest thus deliberately built into the Board at a low level of power but at a high level of articulate responsibility would be harmful in any way to a clear-cut and effective corporate program.

The question will arise, need anything be done at all? Granted that the customers, the vendors, and the employees do have an interest in the kind of business rules to which they are asked to conform, they have no present rights in the matter. The stockholders have the rights; if they do not choose to exercise them, that is their right as well. Meanwhile, the business goes on meeting on every side the test of competition, and preserving its authority as long as the governed consent to the rules that are imposed.

In considering whether business should do anything to give a voice to interests other than those who have rights to express themselves, we must remember that each business derives its power and its form from public government in which all these "interests" do have "rights." If these interests someday want new rights in the government of business, they can be acquired through orderly public legislative processes.

Today the obvious interests of the several parties subject to business government are not properly safeguarded under the present form of control of business power. Since they are not, someone will someday, perhaps at a most inconvenient time, make it his crusade to turn these interests into rights. If, before this happens, the interests of all parties are protected by business itself, it is unlikely that formal intervention would occur on grounds of abstract political theory.

Reasons for Modernizing Boards

The reasons for taking steps to modernize the Boards of Directors of companies are reasons of efficiency, prudence, and justice. Fortunately, there is no critical situation that presses for action, but unfortunately there is, under such circumstances, an understandable hesitancy about altering existing and known power relationships. However, the mere passing of time brings with it the necessity for specific changes in the personnel of a Board of Directors. These occasions, if used to a purpose, may lead to the transformation of the central agency of corporate power so that it represents more nearly the interests of those whom business governs.

Because business has become one of the most pervasive facts of life, the operations of business have acquired a political as well as an economic significance in the lives of ordinary citizens. The locus of this political and economic power is in corporate management. We have depended on enterprise and competition as our methods of placing business powers where they are presently found. These methods have proved on the whole successful as far as economic development is concerned, but they alone are inadequate to meet the newer responsibilities of business. Corporate management, being the locus of business rule-making, has the opportunity to initiate the transformations that will conserve the successes of private business government and that at the same time will safeguard the community from abuses in the exercise of private power.

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The Earnings Outlook For Commercial Banks

such as resumption of note financing and a slight improvement in yields, point toward greater flexibility in Treasury operations and a spacing-out of new maturities; a new 2½% bond issue may be in the offing. The scarcity of eligible bond supplies would be even more serious for commercial banks were it not for the supply of housing bonds, which will take care of part of the banks' investment needs.

The Future of Interest Rates

There is no need to explain here in any detail why the Fed, together with the Treasury, now exert a vast measure of control over longer-term rates as well as over short-term rates; the magnitude of the Federal debt now outstanding, as compared to all other high-grade bonds outstanding, lends tremendous weight to the Fed's open market operations and the Treasury's ways of debt management.

On the other hand, the very importance that U. S. obligations have acquired as a medium for investment and as a pacemaker for key interest rates has brought about conflicting objectives in our monetary policies. While minimizing the business cycle calls for the orthodox policies of raising interest rates and contracting credit during an incipient boom, and the reverse during a business downswing, drastic action of this type would result in wide swings in the market for "government's," with their adverse implications for both investors and the Treasurer; moreover, any pronounced instability in this highly important market may, in itself tend to defeat efforts to stabilize the economy.

Faced with this dilemma and with the Treasury's resolute opposition to higher interest rates, the Federal Reserve, up to mid-1949, optioned for stability in the Government bond market in preference to a counter-cyclical manipulation of interest rates, relying for anti-inflationary measures primarily upon the Treasury's management of debt retirements. It was only during the 1949 business downswing that the Federal Reserve decided to shift the emphasis in its operations from a stabilization of the Government security markets to a moderate counter-cyclical adjustment in credit conditions.

While the President's Council of Economic Advisers has come out flatly in favor of rigidly pegged low rates, even during periods of inflation, the Douglas Subcommittee of the House-Senate Economic Committee has recommended restoration of a more flexible credit policy, in line with orthodox central bank policies.

The Federal Reserve probably will continue the middle-of-the-road policy started last June, permitting very moderate cyclical fluctuations in interest rates, without allowing any major upset in the Government security market to take place.

This policy will permit the natural forces on the capital markets to assert themselves, though within rather narrow limits.

During the current year, a fairly close balance in available and needed funds appears likely, and the indicated net demand of $2.5 to $3.5 billion for new funds from commercial banks is relatively small.

The recent slight stiffening in interest rates makes for greater flexibility in the Treasury's debt management, and will give the Fed more leeway to move into the opposite direction later when a slowdown in economic activities sets in. At that time interest rates will undoubtedly trend down, once more, and may be permitted to decline by an average of 10% to 15% in the years ahead. In other words, from a longer-range viewpoint, the current 1¼% rate on a 15-months note seems likely to come down to 1⅛%, and so forth along the line, with the 2.20% rate on long-term Government bonds declining eventually to a 2% level.

Wide Dispersion Likely in Future Earnings Decline

In trying to project the future earnings trend of commercial banks one has to bear in mind that the operating income of banks naturally lags somewhat behind the general trend in interest rates, as current yields on loans and investments are largely the result of transactions concluded months, or even years, before. Thus, any decline in interest rates and loan volume that may develop later this year will be reflected only gradually in the income accounts of banks. How fast, and to what extent, changing economic conditions are mirrored in income accounts will, of course, depend upon the lending and investment policies of each individual bank. The wide differences in these policies, as illustrated in the following part, promise to result in a wide dispersion in the prospective earnings downtrend, as between individual banks.

Prospective Income from Loans

For several months demand for business credit should continue well sustained, thereafter it is likely to decline in line with business activities. During the brief 1948/49 recession, commercial, industrial and agricultural loans outstanding went down in about the same proportion as the Federal Reserve Board's industrial production index while the rise in other important lending activities continued; this is borne out by the following comparison between loans outstanding at the peak of the postwar boom in October, 1948, and those in June 1949, when the low point was reached in the 1948/49 recession:

Table 1

LOANS OUTSTANDING—WEEKLY REPORTING MEMBER BANKS
(Millions of Dollars)

	—Monthly Average— Oct. 1948	June, 1949	Percent Change
Federal Reserve Board industrial production index (seasonally adjusted)	195	169	—13.3%
Commercial, industrial and agricultural	$15,388	$13,349	—13.2
For purchasing or carrying securities	1,384	2,191	+58.0
Real estate	3,993	4,106	+ 2.8
Consumer installment credit	3,504	3,852	+10.0

Source: Compiled from Federal Reserve Bulletins.

It seems unlikely that the conflicting lending trends which characterized the last recession will again be present in the next business downswing because consumer's credit now has reached a relatively high level and backlog demand for private construction has been reduced appreciably. Thus, the next cyclical decline in commercial bank lending will probably spread to all lending activities. Barring some unforeseen major events, we would expect only a slight net decline in lending volume this year, but, possibly a 10% to 15% decline spread over the year 1951.

How fast a downtrend in lending volume and interest rates would affect the actual income from loans greatly depends upon the length of loan maturities of every individual bank. Business loans average 3-6 months, consumers loans 6-8 months, while real estate loans may run from about 5-7 years. Obviously, a bank that has a big part of its total loaned-out funds committed in real estate loans, will feel the effect of declining loan demand and rates much more slowly than a bank whose loans are mostly short-term. Taking this distribution of loaned-out funds as a rough indication for average loan maturities, here are a few illustrations to show the wide divergencies that existed in that respect at the end of 1949.

Table 2

LOANS—COMPOSITION AND YIELDS, END OF 1949

	—Percentage of Total Loans— Business	Consumers	Real Estate	Average Loan Yields Business & Consumers	Real Estate
New York City—					
Bank of Manhattan	— 91.1% —		8.9%	2.67%	†4.00%
Chase Nat'l Bank	97.9		2.1	2.34	*
National City Bank	99.6		0.4	2.68	*
Guaranty Trust	99.4		0.6	2.06	*
California—					
American Trust Co.	35.5%	12.0%	‡52.5%	4.24%	*
Anglo-California	43.3	26.0	30.7	*	*
Bank of America	27.3	21.2	§51.5	*	*
Crocker First Nat'l	58.5	4.5	37.0	¶3.09	4.33†

*Not available. †On F.H.A. insured mortgages, which were over 92% of total real estate mortgages. ‡71% of real estate loans are fully insured under the provisions of the National Housing Act or carry a guarantee under the Servicemen's Readjustment Act. §About 44% of real estate loans guaranteed under G. I. Bill, another 31% is fully insured under National Housing Act. ¶On commercial loans only.

Published information regarding average yields on the various loan types is very incomplete, but it seems a reasonable assumption that the average yield on real estate loans (the bulk of which is guaranteed) is between 4% and 4.4%; yield on consumers' credit averages roughly between 6% and over 8%, while yield on commercial loans averages between 2% and 3%, depending on the importance of term loans, etc.; in the West, yields on commercial loans are generally somewhat higher in New York City.

A glance at table No. 2 shows that real estate loans bulk heavily in total loaned-out funds of representative Western banks, while they are insignificant for most of the big New York City banks; to a lesser degree the same holds true for consumers' loans.

This relationship is, of course, mirrored in the composition of income from loans, as illustrated by the following rough estimates:

Table 3

ESTIMATED 1949 INCOME FROM LOANS

	—Percentage of Total Income From Loans— Commercial Loans	Consumers' Loans	Real Estate Loans
Bank of America	24%	32%	44.0%
National City Bank	——99.4%——		0.6

In view of average maturities and yields of the various loan types, it must be concluded that for the next few years, the income from loans of the big Western banks will be much less vulnerable to the prospective decline in lending volume and interest rates than that of the big Eastern banks; this should hold particularly true for American Trust Co. of San Francisco, with its high percentage of real estate loans, and its relatively moderate commitments in consumers' loans. The combined effect of a decline in the demand for credit, and in interest rates would hit the big New York banks within a few months with full force. On the other hand, some 40% to 50% of the current loan income of leading Western banks would be exempt from such rapid deteriorations, and it would take 4 years or more until the aggregate loan income of the big Western banks would have gone through a complete downward adjustment; by that time the general trend may well be reversed once more. In the meantime, the cushioning effect of the high-yield, longer-term real estate loans would permit those banks to carry out the necessary adjustments in operating cost.

What a decline in income from loans will mean for total operating income depends upon the relative importance of loan income in every single case; in that respect, the 1949 income accounts point up significant differences among individual banks which have been widening in the past few years.

Table 4

RELATIVE IMPORTANCE OF OPERATING INCOME SOURCES
1949

(Percentage of Total 1949 Operating Income)

	From Loans	From Investment	Other
New York Banks—			
Bankers Trust	38.2%	27.2%	34.6%
Bank of Manhattan	55.5	26.9	17.6
Chase National Bank	47.3	36.4	16.3
Corn Exchange	15.5	65.3	19.2
Guaranty Trust	43.0	31.1	25.9
Irving Trust	47.7	32.2	20.1
Manufacturer's Trust	38.9	43.3	17.8
National City Bank	33.3	38.3	28.4
San Francisco Banks—			
American Trust Co.	61.4	21.7	16.9
Anglo California National Bank	62.0	23.2	11.8
Bank of America	69.3	16.3	14.4

The operating income of those banks which are now deriving a high percentage of that income from interest on short-term loans seems most vulnerable. While Table 4 shows that the big Western banks derive a bigger percentage of their operating income from total loans than do New York City banks, one has to recall again that a very large part of Western loans are not in the short-term category.

The following illustration is to give a rough idea of the extent to which a decline in the income derived from short-term loans might affect the total operating income of some individual banks. The following simplified assumptions have been made:

(1) Lending volume for all loans other than real estate will be 15% below current levels throughout the country; (2) volume of real estate loans dip 2% below current levels during the initial period of the general credit shrinkage; (3) interest rates on all but real estate loans will be 10% below current levels.

On these simplified premises, the bank now deriving the smallest percentage of operating income from loans other than real estate would fare best.

Table 5

	Composition of 1949 Operating Income (Partly Estimated) —From Loans— Real Estate	Other	From Invest. & Other Sources	Depressive Effect of Assumed Factors on Annual Rate of Oper. Income (Decline from '49 Level)
National City	0.2%	33.1%	66.7%	—8.6%
American Trust	32.5	28.9	38.6	—7.4
Bank of America	30.5	38.5	30.7	—9.7

Prospective Income from Investments

Presumably a decline in demand for credit would entail the shifting of bank resources from loans into security investments. While an increasing volume of such investments would tend to enhance the income derived from them, the assumed 10% decline in average yields will tend to have the opposite effect. Moreover, in many cases, average yields obtained on investments in 1949 would not be renewable, even without any further decline in interest rates, as can be seen from this table:

Table 6

	Average 1949 Yield on U.S. Govt. Sec.	U.S. Govt. Securities, Dec. 31, '49, Due or Callable Within 1 Year	1 to 5 Years	Over 5 Years	Av. Matur. Yrs.-Mos.
American Trust Co.	†1.45%	‡30.6%	‡54.3%	‡15.1%	* – *
Bankers Trust	§1.55	——84.0——		16.0	4 – 3
Bank of Manhattan	1.73	18.3	81.7	---	3 – 9
Chase Nat'l Bank	1.27	50.0	*	*	2 – 11
Corn Exchange	1.91	9.0	33.0	58.0	6 – 2
Guaranty Trust	1.19	47.7	51.4	0.9	2 – 8
Manufacturers Trust	1.58	——73.7——		26.3	2 – 8
National City, N. Y.	1.46	——94.0——		6.0	3 – 4
Bank of America	§1.54	39.3	48.6	12.1	* – *

*Not available. †On all bond holdings. ‡Maturity. §On all investments.

RECENT YIELDS ON U. S. GOVERNMENT SECURITIES

Three Months	One Year	3 to 5 Years	7 to 9 Years	15 Years and Over
1.13%	1.22%	1.46%	1.73%	2.22%

On the other hand, there seems to be leeway, in numerous cases, for a shift toward longer average maturities. What the management will do in each individual case is a matter of conjecture.

In accordance with our previous hypotheses, in the next year or two, we assume that (1) 15% of short funds, and 2% of real estate funds loaned out at the end of 1949 will be shifted into investments; (2) in addition, lower reserve requirements and Government deficit spending will be responsible for raising investments by, say 5% above the 1949 average; and (3) most banks, with the aid of changes in maturities, will be able to hold the average decline in yields down to 10%, which is the general rate decline assumed earlier in this discussion.

On these premises, it is obvious from the figures set forth below that the investment income of those banks will tend to show up best which now have a relatively big part of their resources committed in loans, especially short-term loans, and a relatively small part in investments. On the other hand, the effect of any change in investment income upon total operating income will tend to be in proportion to the importance of investment income as a part of operating income. (See also Table 4.)

Table 7

*POTENTIAL SHIFTS IN INVESTMENT INCOME

	Loans As Percentage of Tot. Resources, Dec. 31, '49 Total Loans	Business & Commercial	Real Estate	U.S. Govt. Sec. Held 12-31-49 As % of of Total Resources	Estimated Effect of Assumed Changes on Income from U.S. Govt. Securities	Total Oper. Income
Chase Nat'l Bank	29.3%	28.7%	0.6%	38.0%	+6.2%	+2.5%
National City Bank	27.9	27.8	0.1	38.0	+4.6	+1.8
American Trust	37.7	18.0	19.7	35.8	+2.2	+0.5
Bank of America	44.6	21.6	23.0	28.6	+7.8	+1.3

*For underlying assumptions see text above.

These illustrations are not to be taken as actual forecasts; their purpose is to explore the approximate magnitude of income changes from 1949, which may be brought about in the next year or two under a set of reasonable, though simplified, assumptions.

Prospective income from other sources could decline by 5%—10% from 1949 in the next year or two.

Prospective Total Operating Income

The probable increase in income from investment will partly offset the decline in income from loans and other sources which seems to be in the cards. To what extent this will be the case will depend on the individual policies of commercial banks. Combining the estimates made in Tables 5 and 7, here is how our set of assumptions would work out for three prominent banks, showing substantial differences in their loan and investment policies. (See also Tables 3, 4 and 6.)

Table 8

APPROXIMATE EFFECT OF ASSUMED CHANGES IN EARNINGS ASSETS AND RATES UPON ANNUAL RATE OF TOTAL OPERATING INCOME

	Result of Assumed Change in Loan Income	Result of Assumed Change in Invest. Inc.	Result of 5% Decline in Other Inc.	Net Effect of All Assumed Changes on Oper. Inc.
American Trust, S. F.	—7.4%	+0.5%	—0.9%	—7.8%
Bank of America	—9.7	+1.3	—0.7	—9.1
National City, N. Y.	—8.6	+1.8	—1.4	—8.2

Considering the underlying assumption of a 15% decline in short-term loan volume, a 2% initial decline in real estate loan volume, and a 10% decrease in average interest rates, and a 5% decline in income other than from loans or investment, the estimated net effect upon operating income is reassuringly moderate, which is due to the cushioning effect of longer-term loans and of rising investment volume; in order to appreciate this, one only has to think of what happens to the operating revenues of most industrial enterprises if volume shrinks by 10% to 15%, and prices decline 10%.

On the cost side, salaries now absorb between 30% and 36% of operating income. No significant change in salary rates seems likely for the next year or two, but as loan volume shrinks, it should be possible to reduce the size of the staff to some extent.

A bill recently passed by the Senate to raise the FDIC insurance ceiling to $10,000 also carries a provision which, according to an estimate by the Senate Banking Committee, would result in a reduction of about 55% in the net amount member banks will have to pay for deposit insurance. With the annual assessment rate standing at 1/12th of 1% of deposits, the banks would economize considerable amounts of money under the new bill.

On the unfavorable side, there is the recent stiffening in interest rates paid on time deposits; a number of California banks are now paying 1½% on savings deposits (which constitute the major part of time deposits), as against 1% paid formerly. While in the case of the average bank in New York City, time deposits represent 3% to 8% of total deposits, that ratio runs to an average of 40% for banks in San Francisco.

In 1949, interest paid on deposits absorbed 15% of operating income of the American Trust Co. of San Francisco, and 16.8% of the Bank of America; the latter had the 1½% rate in effect for some months in 1949, while the former made that rate effective Jan. 1, 1950. Obviously those California banks which recently raised the time deposit rate by 50% will have to materially improve their income and efficiency in order to offset the effect of that step. If the forecast of generally lower interest rates in the coming year proves correct, the recent increase in the time deposit rate may eventually be reversed, and thus may cease to be an adverse factor in the longer-term earnings outlook of some Californian banks. (The high ratio of time deposits enables these banks to invest a large part of their funds in high-yield real estate loans.)

Generally speaking, the differences in lending and investment policies and in managerial efficiency are reflected in greatly divergent performance ratios, as illustrated by these figures:

Table 9

1949 PERFORMANCE RATIOS

	Oper. Expenses to Oper. Income	Percent Earned on Deposits
Bank of America	69%	0.89%
Bank of Manhattan	78	0.47
Chase Nat'l Bank	57	0.41
National City Bank	73	0.43

Anybody trying to chart the **future course of net operating earnings** has to take these pronounced differences into account. In some cases it would seem to be up to management to improve income prospects by adopting a somewhat less conservative policy, in others there seems to be room for squeezing some water out of operating expenses. Where such potentialities exist they may, if used, serve as an important cushion against the prospective downtrend in earnings and could reduce the strong leverage effect of high current operating ratios.

This discussion should have brought out the principal reasons why net operating earnings performance of individual banks can be expected to vary widely in the next year or two, despite the general assumptions made regarding future lending trends and interest rates. Table 10 is designed to give an approximate idea of what the percentage decline in the annual rate of net operating earnings from 1949 levels might be in the case of a decrease in the rate of operating income ranging from 7.5% to 12% (see also Table 8). These calculations have been made separately for institutions whose 1949 operating ratios stood around 80%, 75%, 70%, or 60% (see Table 9); in each case the table shows the approximate percentage decline in the rate of net operating earnings (1) if the dollar amount of total 1949 operating expenses is not lowered, and (2) if that dollar amount is reduced by 5%.

Table 10

PROSPECTIVE LONGER-TERM DECLINE IN NET OPERATING EARNINGS FROM 1949, IN PERCENT

1949 Operating Ratio, and Change in Dollar Operating Expense	Decline in Operating Income from 1949 % 7.5	% 9.0	% 10.0	% 12.0
1949 Operating Ratio Approx. 60%—				
1. Dollar expense remains unchanged	—18.8	—22.5	—25.0	—30.0
2. Dollar expense cut by 5%	—11.2	—15.0	—17.5	—22.5
1949 Operating Ratio Approx. 70%—				
1. Dollar expense remains unchanged	—25.0	—30.0	—33.3	—39.9
2. Dollar expense cut by 5%	—13.3	—18.3	—21.6	—28.2
1949 Operating Ratio Approx. 75%—				
1. Dollar expense remains unchanged	—30.0	—36.0	—40.0	—48.0
2. Dollar expense cut by 5%	—15.0	—21.0	—25.0	—33.0
1949 Operating Ratio Approx. 80%—				
1. Dollar expense remains unchanged	—37.5	—45.0	—50.0	—60.0
2. Dollar expense cut by 5%	—17.5	—25.0	—30.0	—40.0

Conclusions reached earlier make it likely that the decline in operating income from 1949, in many cases, may not exceed about 7.5% to 10%. If 1949 operating expenses can be cut by about 5% —which should be feasible in many cases—the percentage decline in the annual rate of net operating earnings in the next year or two may vary between about 11% and 30%, depending on the recent operating ratio and the expected decline in operating income (7.5% to 10%); in cases where 1949 operating expenses remain about unchanged, the earnings decline could vary between some 19% and 50%. In a case where the operating income declines by as much as 12% from 1949, net earnings could dip between 23% and 60%, depending upon 1949 expense ratios and future cost control, as shown in Table 10.

Thus, applying the projections in Table 10 and Table 8 (last column) to the National City Bank, whose 1949 operating ratio was 73% (see Table 9), that bank's annual rate of net operating earnings might decline by about 15% to 16%, provided operating expenses will be reduced some 5% from 1949; under similar circumstances, the operating earnings rate of the Bank of America could drop about 18%—19%.

While, for each bank, pertinent data have to be studied individually, these general observations and model-projections should make it easier to gauge the potential earnings trend of individual banks within the indicated range.

If one compares the price-earnings ratios at which bank stocks are currently selling, with the ratios prevailing among good-grade industrial stocks, it becomes obvious that the market already reflects the general feeling that the prospective decline in bank earnings promises to be comparatively moderate.

In these prognostications, based upon certain general economic premises, an attempt has been made to estimate the course of annual operating income and earnings rates of commercial banks over the next year or two. Beyond that span of time, the "visibility" on the political and economic horizon is far too poor to permit worthwhile income projections.

Railroad Securities

New York Central

Late last week the railroad stock market again turned strong, with some of the highly speculative issues in the forefront in point of activity and in percentage gains. New York Central was one of the leaders, pushing ahead on Saturday to the best levels seen since 1948. Most railroad analysts were hard pressed to find any justification for the particular strength in this issue, except possibly the mere fact that it has long traditionally been a boardroom favorite. Certainly there is nothing in the operating performance of the road, or in its reported earnings, that would justify bullishness.

Last year New York Central reported earnings of $1.51 a share on its stock, compared with $2.28 in 1948 and $0.36 in 1947. Naturally with coal an important item the road has been off to a particularly poor start in the current year. In January a small operating deficit was sustained compared with a net operating profit of $1,694,000 a year earlier. Only by virtue of substantial non-operating income from subsidiaries was the company able to show net income of $702,000 in January, down from January, 1949. February was even worse, with a net operating deficit of $3,341,000 and a net loss of over $5.3 million. A year ago in February there had been a net profit of $1,355,000.

For the first two months of 1950 the company had a net loss of $4,625,288, a deterioration of $6,775,550, or more than $1.00 a share, from the net income of $2,150,262 realized in the opening 1949 periods. It may be taken for granted, with the coal strike ended and such industries as steel and automobiles operating at a high rate, that March results will reveal considerable improvement. The same should be true for some months to come. Nevertheless, it is difficult to visualize earnings over the balance of the year sufficient to bring the full year 1950 earnings results much, if any, above the $1.51 a share reached in 1949.

New York Central has long been a high cost operation. Its margin of profit has consistently been among the lowest in the industry. Last year the road was able to carry only 4.9% of gross through to net operating income before Federal income taxes. Admittedly 1949 was a particularly hard year on major eastern carriers that have an important stake in the coal and steel industries. This does not, however, explain away the pretax profit margins of 5.0% in 1948 and only 2.6% in 1947. In the first postwar year, 1946, the road sustained a net operating deficit before tax credits. Naturally with such a narrow profit margin the company is particularly vulnerable to rising costs.

One of the important factors in the New York Central picture is the large passenger business. Last year about 18% of its gross came from this source. Passenger business is normally unprofitable, at least based on ICC accounting practices. This is particularly true of short haul and commuter business which makes up a substantial proportion of the whole for New York Central. Short haul freight traffic is also expensive to handle and New York Central handles quite a large tonnage in this category. With all its mileage, and with through routes from the western gateways all the way to the Atlantic coast, its average freight haul in 1948 was only 227 miles. This was shorter than that of the much smaller Nickel Plate which comes east only as far as Buffalo.

The road's operating problems are reflected in a particularly high transportation ratio. Such expenses last year absorbed 45.8 cents out of every revenue dollar. This was six cents more than for the industry as a whole. This represents the actual cost of handling and moving the traffic and is not, like maintenance, subject to year-by-year management whim. Unless, and until, the management is able, through capital expenditures or operational changes, to bring these all-important costs under greater control, it is difficult to forecast any really substantial earning power for the stock.

Trad Television Stock Offered by Tellier

Offering of 600,000 shares of common stock of Trad Television Corp. is being made by Tellier & Co. at 35 cents per share.

The proceeds from the sale of these shares will be used to purchase component parts and for working capital to meet the requirements of increased business.

The Trad firm is engaged in the business of manufacturing and selling theatre size television receivers under the name "Tradiovision," designed primarily for use in hotels, restaurants, hospitals, schools, military installations and other places where large groups gather. The majority of these sets have a picture four-by-three feet in size.

Hughes Secretary Of Blair Holdings

The election of Joseph F. Hughes as Secretary and Treasurer of Blair Holdings Corp. to succeed John J. de Boisaubin was announced by V. D. Dardi, President. Mr. de Boisaubin, who will continue as a consultant on financial and tax matters, has been with the corporation and its predecessors for more than thirty years.

Mr. Hughes, who has been affiliated with the Blair interests for some thirty-seven years, will continue as Assistant Secretary and Assistant Treasurer of Blair, Rollins & Co., Inc., 44 Wall Street, New York City, and an officer of other subsidiary companies of Blair Holdings Corp.

Continued from page 6

Thank God for American Business!

an end-product which is the marvel of the world.

Thank God for American Business

We should all thank God for American business. What would we face if we did not have it? Either millions of our people would be starving, or our factories would be run by the government. That odious prospect should make it easier to think clearly on this subject. If the government ran business what would become of the millions of small shareholders who live on their income from business? And what would take the place of the money they now spend to buy the products which keep our factories going? Who would pay the taxes now paid by business? What would become of the bargaining power of labor If labor couldn't strike against the government, what power would it have? If it could strike, what power would the government have?

Nine years ago, at Hot Springs, from which many of you have come tonight, and before the very two groups which are assembled here now, a great advertising man made an historic speech. James Webb Young was talking about the place and problems of advertising, and I am talking about business in general; but the approach which we suggested is as sound tonight as it was in November, 1941. He listed the groups of critics — among them those who think "trade" is secondary, if not vulgar, and a group sincerely convinced that our whole free enterprise system needs to be overhauled, to be greatly modified, or to be completely replaced; and convinced also that they knew how to do it! As he saw it, the problem was "to bring about in this country a new faith in the possibilities of the dynamic economy," and "to give the whole of business a new faith in our destiny"—"to create an atmosphere in which business can hope and plan and dream again."

As a result of that speech, the Advertising Council came into being. Its purpose was "to serve the public interest by marshalling the forces of advertising to help solve national problems and to make democracy work." Our purpose should be to marshal the forces of all American business for this task. This opens up a fascinating prospect. American business, and especially the leaders of American business, should abandon any air of detachment and indifference or hostility to other segments of our life—including the government—and ask what they can do to help solve national problems and make democracy work.

One of the fascinating chapters of the history and folklore of United States business deals with things which happened during that booming generation which followed the Civil War—a period of unbridled, ruthless business warfare when so-called "robber barons" fought each other for great business stakes, and created at least the beginnings of great fortunes which have lasted until recent years. Mark Twain referred to this, or at least its latter phase, as the "Gilded Age." That era has gone forever. Many of our citizens, and unfortunately, many of the young people in our colleges, hear of the way some great American fortunes were built and assume that nothing has changed between 1900 and 1950.

It is of the greatest importance to bring home the fact that time marches on. Radicals and reactionaries alike should realize this. The day is gone when a rampaging, dictatorial giant of business or finance could monopolize an industry, ignore his employees, and say, "the public be damned." There are a few large fortunes, left over from that colorful and riotous era—but they are vanishing; today the giant corporations of this country are owned, not by one or two individuals but by millions of American shareholders whose unit holdings are very small.

Not only the ownership, but the power of business has been dissipated. Both politically and economically, but chiefly politically, its power has dwindled. Agriculture and labor exercise the great political power. They have made tremendous gains — to view our American scene and not admit these great changes is a dishonest approach to a consideration of our situation and our problems. In my judgment, business should regain some of that lost influence —so that business, as well as agriculture and labor, becomes a major concern of government and the public at large.

Other changes have occurred. Most businessmen now realize that they cannot conduct their businesses in disregard of the interest or wishes of their workers. That disregard still survives in some segments of American business, but it is not representative, and those American businessmen who voice it render a disservice to business itself.

I am not devoting this speech to the related subject of the responsibilities of labor, but it might be well to point out that it is necessary for labor to recognize changes which have taken place. As I stated previously, the actual and relative power of labor unions has grown mightily. Intelligent and public spirited union leadership will recognize the great responsibility which goes with this power. It is also to be hoped that labor will recognize that its greatest benefits will come from prosperous and not from weakened American business.

The question remains, "What is there for American business to do?" First of all, it should continue to do its fundamental job —that is, to produce the goods and services which the people want at prices which they can afford to pay. The distinguishing and outstanding characteristics of American business are big volume, good wages, and low prices, and a substantial profit for the shareholder. These should continue to be the chief objectives of business. No activity by business in a larger field should prevent its operating effectively within its own field.

Action Not Words

Stepping out of the strictly business field and into the larger field, business should do things—not talk about things, but do things — for the benefit of the public at large. There has been a belief, in some cases justifiable, that every suggestion for improvement in the lives or well-being of our people has met the instant and vigorous opposition of business. Business cannot hope to be well regarded by the public if the public thinks that every suggestion for its welfare will meet with instant and automatic objection from business.

I can illustrate the point with social security. We are faced today with increased longevity and a constantly growing group of our population who have reached the age when they no longer work but cannot be left to starve. Even many years before "social security" was taken seriously, some progressive business concerns undertook to meet this problem for their own employees. There were not many of them, however, and the country has come to adopt the idea that the solution of this problem is fundamentally the responsibility of the government.

An adequate social security program is not only of benefit to the particular individuals involved but gives them a purchasing power which is needed to keep the wheels of commerce turning.

Government should not, however, pay out benefits regardless of the taxpayer. It should immediately or as soon as possible eliminate grants in aid to the States which have tended to become more and more of a burden on the Federal Government, with less and less incentive upon the State to make the conditions of payment reasonable. The income tax laws should be changed to permit deductions of contributions by employees to pension funds. Social security should be extended to all non-covered groups of gainfully employed people. Private pension plans should be encouraged. There are now over 12,000 individual company pension plans covering between four and five million persons, most of which have been adopted since the enactment of the Social Security Law in 1935. The government benefits should provide only a minimum protection to prevent dependency, and private pension plans should be encouraged to give whatever benefits in addition thereto a private enterprise feels to be just and desirable.

Business should approach this complicated and difficult problem with an attitude of helpfulness and not opposition. Many businessmen, of course, have done just that. Others should join them, and the public should know that business is trying to help rather than oppose sensible social security.

This brings us to the second needful undertaking of American business—to acquaint the American people with the extent and value of business contribution to their lives. At this point advertising, more than any other activity, can do the most effective work. I believe in more, not less, effective advertising. General statements lauding the American way of life are not too convincing and largely wasted, but there are many facts about business which are, or could be, very convincing. Advertisers should not only display the products and services of American business to the people. They should tell clearly and honestly how these products are designed, produced, and distributed. They should explain the contributions of science, the skills of industrial craftsmen, contributions of managerial ability, and the need for money to keep business going.

Of course, the most exciting news which business can release to the public is the announcement of a better product at a lower price. In recent weeks, advertisements have announced price reductions in several 1950 automobiles. In no one of them have I seen a real explanation as to how these price reductions were achieved. Was it through improved techniques in the plant, improved labor relations and higher productivity, better sources of supply, better management, or was it taken out of the pockets of the stockholders? Advertising can take advantage of the average man's absorbing curiosity to explain the fascinating processes of our advanced business civilization.

In selling itself to the American public, business of course cannot rely upon one avenue alone. Advertising must be helped by education. Our public schools and colleges have never given enough attention to teaching the facts of American business. If American business has been discussed, it has been largely from an analytical or economic viewpoint, mostly theoretical; but the full fascinating story of American business in action—how it operates—what is required—the interrelated functions of capital, labor, and management—has not been taught. How many high school graduates or how many college graduates know the rudimentary facts about money or credit? How do businessmen or business corporations raise money? What has to be done to raise money? How is business managed? What taxes does a businessman pay? What forms must he fill out? What must he do to carry on proper and effective labor relations? What part of the cost of an article is involved in distribution, transportation, packaging? What are the relationships between domestic production and distribution and foreign trade? How many know anything at all about the government's efforts to control monopoly and unfair trade practices? How does a buyer for a department store operate? What is the number of individual shareholders of our large corporations? What are their average holdings? How many know that the managers of these big corporations own practically none of their stocks? In other words, how many know anything of the real facts about American business operation today? Many of the younger generation have been taught the theory of communism, capitalism, socialism, and abstract theories of economics, but have not been taught much about the application of economics or the relationship of capitalism to their own daily lives.

Employees Must Be Sold

Above all, of course, a sale must be made to the millions of employees of American business. The way they are treated, the extent of their participation in the discussion of business problems, the conditions under which they work, and a constructive approach to labor negotiations will have a profound effect upon their views and those of their families.

We are now pioneering the frontier of labor-management relations and the slow progress is sometimes discouraging. Progress has been made. In case after case, management has taken labor into its confidence and has established better relations and greater productivity. When labor has contributed effectively, it should be given credit for that contribution. In a speech I made to the Iron and Steel Institute in May, 1949, I pointed out that inadequate applause had gone to labor leaders in this country who had risked their positions and sometimes their lives in their fight against communism within the ranks of organized labor.

The most important task confronting America is to persuade its various groups that their salvation depends upon working together. I am greatly disturbed when I see in a labor dispute indications that the employer thinks his interests will be served by the destruction or crippling of organized labor, or that the workingman thinks his interests will be served by the crippling or destruction of business. We must convince each side that this attitude is wrong and can lead to disaster. A dying or an unprofitable business does not give increasing employment at good wages to its employees. When a plant is destroyed or damaged by employees or their sympathizers on the theory that the owner is their enemy, they are pursuing a suicidal course. On the other hand, when the employer acts as if he had no responsibility for or interest in his workmen, he encourages just such an attitude. If business can take the initiative to bring about a mutual understanding of this fundamental fact, it will have made an inestimable contribution to our economic progress.

Businessmen must take time to study and reflect upon their place in American civilization. We know they are busy; but they must not be too busy to do this. They must find time to talk with their employees, with government officials; they must establish closer relations with teachers and professors; and discuss with one another matters of general concern outside the scope of the immediate business operation. Above all, what they do must be calculated to convince the American people that business is a friend.

Today, we stand at the halfway point of the Twentieth Century. Behind us are five decades of amazing progress. We enjoy the highest standard of living mankind has ever known. We are rich in knowledge and resources, we are blessed with democratic traditions and institutions, and we are strong enough to provide aid and leadership to a troubled world. The question is—will we remain prosperous and grow in strength and wisdom in the years ahead? As we look into the future, mystery enshrouds the far distant prospect of the year 2000. If we work together, if we exercise the restraint necessary to achieve a dynamic balance of our interests and our energies, our nation will be stronger and richer at the end of the century than the America we know today.

I we are not realistic—if we magnify our differences, and if each group guards jealously its prerogatives and withholds from others its good will and its assistance — America may go down in ruins; a traveler in the year 2000 who searches for the Washington Monument — that symbol of our unity and strength — may find only a pile of charred and broken marble.

We are, or should be, a happy people. We should also be a grateful people. We should thank God for the bounty we have received and pray for the wisdom to cherish it and for guidance in its use.

La Pointe Director

Alex. E. La Pointe

At the annual meeting of Bush Terminal Buildings Company, Alexander E. La Pointe, Vice-President of Title Guarantee and Trust Company, was elected to the board of directors.

Mr. La Pointe joined the investment department of the bank in 1933 and was successively assistant trust officer, trust officer and Vice-President in charge of the trust department.

With Hamilton Managem't

(Special to THE FINANCIAL CHRONICLE)

DENVER, COLO. — Hamilton Management Corp., Boston Building, has added to its staff, Chester C. Cook, Charles J. Lamothe, Vincent L. Snyder, Robert F. Tutton, and Walter A. Wolfe.

With Bache & Co.

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, OHIO—Howard C. Linsz has become associated with Bache & Co., National City East Sixth Building. He was formerly with Lawrence Cook & Co. and Ball, Burge & Kraus.

Continued from page 2

The Security I Like Best

agement in this direction is modern although not as advanced as managements such as Minnesota Mining, J. C. Penney or Sun Oil. Directors and connections are substantial owners of the stock which is always an important consideration. The stock has a reasonably satisfactory market on the New York Stock Exchange.

If stocks ever again command a reasonable ratio to reported earnings and dividends, purchase of Masonite at present levels should work out very well.

WINFRIED H. OPPENHEIMER
Partner, Oppenheimer, Vanden Broeck & Co., Members of New York Stock Exchange, New York City
(New York, New Haven & Hartford Series A Convertible 4½s of 2022)

We particularly like the New York, New Haven & Hartford General Mortgage Series "A" Convertible Income 4½s of 2022.


W. H. Oppenheimer

This income bond, if purchased at the current price of 50, will pay on May 1, $45 per bond, thus, giving a current yield of 9% payable in advance.

This well-managed railway has started a program of divesting itself of all possible real estate holdings, including its stations, and is reported to even consider the sale of its New York City real estate in the Grand Central area which it holds together with the New York Central. The New Haven has all together 165 stations, many of which have adjacent real estate—such sales have the following advantages for the company:

(1) With the cash received the railroad can retire some of its mortgage bonds;

(2) The local tax savings should amount to substantial sums annually.

(3) Expenses for the upkeep of the stations and other real estate sold are eliminated.

The execution of this program should materially change the outlook for the railroad's bondholders. Let us assume that within a certain time, the New Haven RR. will sell properties for $10 million. This would mean that under present prevailing prices the railroad could retire approximately $15 million nominal value of its 1st Mortgage Bonds, thus saving annually $600,000 in interest. Furthermore, savings on taxes and upkeep on such properties sold could be estimated to amount to at least another $500,000. Thus, on a $10 million sale, annual savings could easily reach a figure of $1 million to $1.25 million. This alone could provide for about one-third of the yearly interest requiremnts of the outstanding income bonds. As a $10 million figure is a conservative estimate, the benefit of this new policy to the railroad's bondholders is obvious.

The railroad has covered its fixed interest charges 2.33 times in 1948 and 2.0 times in 1949. Fixed and contingent charges were covered 1.59 times in 1948 and 1.30 times in 1949. The fact that a large part of the road is operated by electricity and the remainder almost completely dieselized, makes the operation of this road practically independent from the coal situation. Recent operating figures compare very favorably with those of 1949 and earnings are substantially higher than last year.

The Income Bonds should be very attractive to those who are seeking a high yield and good possibilities for capital appreciation.

ROBERT L. SCHEINMAN
Ralph E. Samuel & Co., New York City
(Madison Square Garden)

As a speculative vehicle I consider Madison Square Garden to be a carefully calculated risk based on future development of the television industry.


Robt. L. Scheinman

At present the stock market is reflecting the current speculation in television production equities and many of these stocks have more than doubled in price. At the end of last year about 4½ million sets were in use and some 5 million additional sets are expected to be sold this year. Current estimates by some industry authorities indicate that by the middle 1950's some 25 million sets may be in use. This rapid growth has far-reaching implications for those companies which have something to sell to this new market.

Madison Square Garden at present is earning about $1 per share (compared to $1.12 the previous year) and is selling within a few points of a 5-year low (1946-50 range 8½-21). Earnings in the last three quarters of the fiscal year ending May 31st, 1950 are expected to run slightly ahead of the previous year. The 660,400 shares of common stock are preceded by nominal debt ($400,000) and the book value works out to $9 per share. Based on the various television packages prepared for sale by the management in the 1950-51 fiscal year, it is expected that television revenues will increase very sharply. Revenues from this source should continue to grow rapidly for many years as the number of sets in use increases and the quality of reception improves.

The company management is alert to the tremendous potentialities of this new medium and has had under consideration the possibilities of televising various events of national interest, such as championship boxing matches, national basketball championship games, exhibitions, etc., on a "specialized" basis.

(Mr. Samuel Goldwyn of movie fame, in a recent newspaper article, stressed the great possibilities for movie theatres in obtaining **exclusive** telecasting privileges for sports events.)

The management also is presently engaged in discussing with the Triborough Bridge and Tunnel Authority the proposed construction of a new "Garden" by the Authority, which "MAQ" would lease, if and when it is constructed. Earnings from this source could be very substantial.

The company's Board of Directors is composed of prominent individuals who own directly, or represent, about 16% of the company's shares.

I consider MAQ, because of its dominant position in sports suitable for telecasting, a very attractive speculative opportunity. The company should increasingly benefit as each new television set is sold. The stock's present level reflects none of the real promise which I believe the future holds.

GEORGE F. SHASKAN, JR.
Partner, Shaskan & Co., New York City
United Carbon Company

Selecting *"the* security I like best" is a bit like that delightful game of choosing the world's greatest picture or the one book one would best like to have if marooned on a desert island. It is good mental exercise, particularly if it does not warp one's appreciation of other contenders in the field. However, there are important differences. A painting or a book is generally selected for the pleasure it will afford, and this being a matter of taste, one is not likely to be taken to task for this choice. A security, on the other hand, is chosen for profit of one sort or another and the man who is rash enough to nominate *one* security for this honor must look forward to the dismal prospects of having this choice plague him at any time during the uncertain future. An early American humorist put it well when he said. "Don't never provesy yung man, for if you provesy wrong nobody will forgit it, and if you provesy right nobody will remember it." And, of course, the prophet Isaiah held out an even worse fate for "the astrologers, the stargazers, and the monthly prognosticators." So the following is by no means a "provesy" but simply the fitting of a security to some of the more important criteria of sound investment selection.


Geo. F. Shaskan, Jr.

First, what are some of these criteria? A company whose security we are examining should have a favorable record of earning power and have demonstrated that this earning power can be maintained during the temporary downward swings in the business cycle. It should have a strong financial position. Its record of distributions to security holders should also be a favorable one. These are important tests of past performance. Perhaps even more important are some of the signposts to future performance. Is the company going ahead?—for in the writer's experience companies cannot stand still—they must either progress or fall behind. Is the management capable?—possibly the most important single question we might ask in reviewing a company.

The security which to me handsomely passes these tests is the common stock of the **United Carbon Company,** which is this year celebrating its twenty-fifth year of operations. **United Carbon** is one of two principal maufacturers in the country of carbon black, an important ingredient of automobile tires and other rubber products, printing inks and paints. The demand for carbon black has shown an almost uninterrupted increase each year during the past quarter century and its place as a major product in the economy seems assured.

However, it is chiefly as a natural gas producer rather than as a carbon black manufacturer that **United Carbon** appears particularly attractive for the future to the writer. Since natural gas is the basis for carbon black **United Carbon** took an early interest in and became closely associated with natural gas—at a period long before the tremendous fuel potentialities of this product were recognized. It acquired considerable amounts of natural gas acreage and—more important—it acquired the important know-how of locating, drilling for and producing natural gas. Today, it owns, leases or has a royalty interest in more than 1,000,000 acres of potential oil and gas properties and is producing natural gas from such important and widely scattered fields as the Hugoton Gas Field, the Panhandle Gas Field, the Monroe Gas Field, the West Virginia Gas Fields, and the Eastern Kentucky Gas Fields. Its oil producing properties include important acreage in the Bonnie View Oil Field in Texas, the Lovington Oil Field in New Mexico, the Elk City Field in Oklahoma, and the Johnsonville Oil Field in Illinois. At the end of 1949 it had a total of 1450 producing oil and natural gas wells and last year produced and purchased some 138 billion cubic feet of gas, more than half of which was used by the Company in its own carbon black manufacture. For the 58 billion cubic feet of gas sold last year to others, including many of the country's major pipe lines, **United Carbon** received $6.6 million or more than 11c per MCF, a favorable price.

The writer believes that the Company's considerable holdings and experience in the natural gas field will enable it to play an important role in the vast expansion anticipated for this product. Although **United Carbon** does not publish figures for natural gas reserves, it is the writer's opinion that proven reserves of the Company are considerably in excess of one trillion cubic feet, which at conservative in-the-ground valuation would be equal to almost twice the entire present market price for the Company's shares. A potential natural gas development possibly foreshadowing the discovery of a new gas field that might prove of tremendous importance to **United Carbon** is the company's recent announcement of a series of successful gas drillings in Virginia. Should commercially important gas be found in this area, proximity to markets and the absence of previous long-term contracts at unfavorable prices will combine to give the gas from this area a much higher sales value than for most other sections of the country. During the past three years the able and far-sighted management of **United Carbon** has acquired oil and gas rights on more than 170,000 acres in this area.

On past performance, **United Carbon** also meets the tests with flying colors. During the Company's twenty-five year history it has suffered a loss in only one year. Earnings per share for 1949 were $3.60, which figure was also the average earnings per share over the past five years. During the past ten years, earnings per share averaged almost $3 per share and for the Company's entire twenty-five year operations per share earnings have averaged almost $2. These earnings moreover are after extensive charge-offs for depletion, depreciation, exploring and drilling expenses which in recent years have averaged approximately $4 per share. For the past three years the Company has paid dividends of $2 per share and dividends have been paid in twenty of the Company's twenty-five years of operation.

The Company's financial position is particularly sound. Capitalization consists solely of 795,770 shares of common stock. The Company has not had to raise any new money since 1929 despite the fact that plant outlays have been heavy. Current assets are more than three times current liabilities, while cash and Government bonds alone are almost twice current liabilities.

Business Man's Bookshelf

Aid to Timing, An—Method of measuring the time and duration of price trends, including a daily index of prices from 1861 to 1884—George Lindsay, 19 East Grand Avenue, Chicago 11, Ill.—Paper—60c.

American Economic System, The—Frank D. Newbury—McGraw-Hill Book Co., 330 West 42nd Street, New York 18, N. Y.—Cloth—$5.

Economic Survey for 1950—British Information Services, 30 Rockefeller Plaza, New York 20, N. Y.—Paper—1 s.

Investment Facts About Common Stocks and Cash Dividends—Third edition of 17 page booklet—New York Stock Exchange, New York 5, N. Y.—Paper.

Reorganization of the German Coal Industry and Its International Aspects—An Essay in the Application of the Antitrust Idea to Europe—Frederick Haussmann—C. H. Beck'sche Verlagsbuchhandlung, Munich and Berlin, Germany—Paper. English translation from the author, Prof. Frederick Haussmann, Hotel Sonnenberg, Zurich, Switzerland.

Predict Your Own Future—How to Use Cycles, trends, projections, physical rhythms, heredity, and other known scientific factors to make easy and reasonable predictions about your life—Donald G. Cooley — Wilfred Funk, Inc., 227 East 44th Street, New York 17, N. Y.—Cloth—$2.95.

Joins Eastman, Dillon

(Special to The Financial Chronicle)

CHICAGO, ILL. — William G. Budinger has become associated with Eastman, Dillon & Co., 135 South La Salle Street. He was formerly with Harris, Hall & Co. and prior to serving in the U. S. Army was with the Chicago office of Lazard Freres & Co.

With Baldwin, White

(Special to The Financial Chronicle)

PORTLAND, MAINE—Rex W. Dodge and F. W. Bernard Hardwick have become associated with Baldwin, White & Co., Chapman Building. Both were formerly with A. C. Allyn & Co. and Bond & Goodwin, Inc.

With Amott, Baker

(Special to The Financial Chronicle)

BOSTON, MASS. — Ralph F. Mallozzi and John B. Wade, Jr. have become affiliated with Amott, Baker & Co., Inc., 10 Post Office Square.

Rejoins R. H. Johnson

(Special to The Financial Chronicle)

PORTLAND, MAINE — George C. Weeks has rejoined the staff of R. H. Johnson & Co. He was recently with Board, Freeman & Co., Inc.

With Merrill Lynch

(Special to The Financial Chronicle)

NEW ORLEANS, LA.—John F. Clark III, Luke S. Elliott, and Edwin C. Minor are with Merrill Lynch, Pierce, Fenner & Beane, 818 Gravier Street.

J. A. Porter Resigns

J. Arthur Porter has resigned as Secretary and Director of Bramhall, Barbour & Co., Inc., New York City, it is announced.

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

It looks like we're going into another one of those dull periods where nothing happens and what does happen takes days, or even weeks, to get started. It won't make for a market that will win friends and influence people. But markets are annoying enough not to care about good public relations.

* * *

All this brings us down to the question and answer period, the most important being what to buy, or sell, and when. I don't know why I get off on these intriguing subjects when I don't know the answers. A number of weeks ago I recommended Cooper Bessemer and Mead Corp., at prices which then seemed attractive. Together with other stocks and the rest of the market, they went up, though they weren't exactly world beaters. During the ups and downs of the past few weeks, these stocks were more or less steady, which is some kind of virtue, I suppose, that should be commended.

* * *

At various times I have gone on record that I'm not married to any single stock or any group of stocks. I buy them, and recommend they be bought because I think they can be sold for more than they cost. When that hope becomes watered down for any reason, it's time to get out.

* * *

Cooper Bessemer is now about 24, after making better than 25 last week. The buying level was 24, so a get-out now would mean a loss. You have an old stop at 22. Raise it to 24 and let it ride. On the up-side make 27 or better your profit taking figure.

* * *

Mead came in at 16, is now about 16 and was better than 18 last week. The old stop of 14½ now seems archaic. Change it to 16 and make the profit-taking point 18½ or better.

* * *

Last week I wrote that I thought the market would still get up to about 215 in the Dow Averages. Better make it 211 to 215. When that will happen is something else. Present day markets are a law unto themselves. They act with no precedent. An example was witnessed last week when the Television stocks went up and scared other stocks so much they went down. Conversely, it may mean that no move worth the name can start unless the leaders are in the forefront.

[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.]

Halsey, Stuart Offers Georgia Power Bonds

Halsey, Stuart & Co. Inc. and associates are offering today (April 6) $15,000,000 Georgia Power Co. first mortgage bonds, 2⅞% series due 1980, at 102⅛% and accrued interest. The bonds were awarded to the group at competitive sale April 4 on its bid of 101.63999%.

The company proposes to use the proceeds from the sale of these bonds to provide a portion of the funds required for construction or acquisition of permanent improvements, extensions and additions to its utility plant or to reimburse its treasury in part for expenditures made for such purposes. The company contemplates making expenditures of approximately $93,500,000 during 1950, 1951 and 1952 for the construction or acquisition of property.

Regular redemption of the bonds may be made at prices ranging from 105⅝% to 100%. Special redemptions run from 102⅛% to 100%.

With Blyth & Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Lewis J. Caulk has been added to the staff of Blyth & Co., Inc., 215 West Sixth Street.

With First Securities

(Special to THE FINANCIAL CHRONICLE)

MADISON, WIS. — Walter E. Murray is with First Securities Co. of Chicago.

Continued from page 11

Bank Holding Companies' Control Should Be Tightened

of control over banks. Of like importance is the combining under the same management of large segments of our banking structure with miscellaneous nonbanking businesses. Basically, our view is that bank holding companies should be regulated in much the same manner as banks themselves are regulated.

A bank holding company is most likely to be a State-chartered corporation organized to own a majority of the stock of a group of banks and to manage or supervise these banks. However, there is a great variety of factual situations in which, by one method or another, organized groups of persons control banks. A holding company is not necessarily a corporation; it may be a business trust, partnership, or some other organized group. In addition to controlling banks, a holding company may be engaged in other businesses, or in the ownership and control of other businesses, unrelated to banking. Holding companies may themselves be banks, including national banks as well as State institutions.

In some instances, there are two or more holding companies controlling the same banks, directly or indirectly. The simplest example of this is where one company owns the controlling stock of another company which, in turn, owns control of a group of banks; but there also are other methods which have been used to establish indirect control. In this connection, it should be mentioned that, without owning any of the stock of the banks, a company may indirectly, or even directly, control a group of banks, as in the case of trust arrangements, as well as in other situations.

Ordinarily, of course, control is based upon stock ownership, but this does not necessarily mean majority ownership; holding companies can and do exercise a controlling influence over banks through the ownership of lesser amounts of stock.

The banks controlled by a bank holding company may include national banks, State member banks and State nonmember banks, whether or not insured; and the major holding company groups usually include more than one class of banks.

Bank holding companies range in size from small organizations to large, nationally known organizations controlling a large number of banks in numerous States. Such companies are to be found in almost every section of the country. The proposed legislation, therefore, deals with a problem nationwide in scope.

Inadequacy of Present Law

A discussion of the major provisions of the proposed legislation will be assisted by some explanation of the present, inadequate law concerning bank holding companies.

As part of the Banking Act of 1933, Section 5144 of the Revised Statutes was amended by adding several new paragraphs applying exclusively to bank holding companies (called "holding company affiliates") and placing limitations and restrictions upon the right of such companies to vote the stock which they owned in member banks of the Federal Reserve System. This section provides that a holding company, before it may vote its stock of a member bank, must first obtain a permit to do so from the Board. The Board is authorized in its discretion to grant or deny such a permit. As a condition to the granting of the permit, the holding company, on behalf of itself and its controlled banks, is required to agree to submit to examinations, to establish a reserve fund, and to dispose of all interests in securities companies.

Present law is optional. The amendments to Section 5144 provided a means for bringing some bank holding companies under regulation, but left others, even though meeting the same definitions, free from regulation. This is because the law is based solely upon the voting permit. A holding company becomes subject to the law only if a voting permit is issued. But there is no mandatory requirement in the law that a holding company obtain such a permit. Undoubtedly it was believed that all would do so. Not all have done so, however. This is because in many instances holding companies, as a practical matter, can control the operations of banks whether or not they vote their shares in such banks.

Whenever the Board receives an application for a voting permit, it makes a thorough examination of the holding company and its affiliated nonbanking organizations and reviews reports of examinations of the affiliated banks to determine what corrections, if any, are necessary to meet basic standards. If such corrections appear necessary, they are made a condition to the granting of the voting permit. In one important case, however, when advised of the need for such corrections, the applying company simply abandoned its application for a voting permit. It was able to control its banks without voting the shares which it owned in these banks, and thus was able to avoid regulation.

Clearly the law should apply to all bank holding companies alike. This cannot be accomplished by a law which permits a holding company to elect ~~not~~ to subject itself to regulation. The law must be mandatory to be effective. The present bill provides that all bank holding companies meeting the prescribed definition shall register and shall be subject automatically to all of the regulatory provisions of the statute.

Present definition of holding company is inadequate. Not only does the present law fail to reach those companies which elect not to apply for a voting permit, but it also fails to reach others because of inadequacies in the definition of a "holding company affiliate." The definition in the existing law embraces only those holding companies which control *member* banks. This excludes from any regulation those companies which operate in all respects as bank holding companies, but which control only nonmember banks, even though the latter include insured banks.

Another and more important defect is in that portion of the definition in the existing law which defines a bank holding company as any company "which owns or controls, directly or indirectly, either a majority of the shares of capital stock of a member bank or more than 50% of the number of shares voted for the election of directors of any one bank at the preceding election, . . ."

The purpose underlying this part of the statute is to reach those companies which control the management and policies of banks, and with this basic premise we are in agreement. However, as previously pointed out and as Congress and the courts have long recognized, effective control of one company by another does not depend upon the ownership or control of a majority of the voting shares. Thus, the present law in this respect does not cover cases where control is exercised through the ownership of a smaller proportion of the total shares outstanding, or where control is maintained without the ownership of any shares.

Similarly, the number of shares owned or controlled, as compared with the number of shares voted for the election of directors at the preceding election, is an unsatisfactory basis for determining whether a holding company relationship exists. Such a restricted test puts it within the power of the holding company to establish an absence of control when, in fact, it is at the same time exercising most effective control. The case in which regulation is most necessary may very well be the case in which the attempt is made to take advantage of a deficient definition to escape regulation.

The definition of a bank holding company in Section 2(a) of the bill conforms more nearly to the practical realities of intercorporate relationships. The first part of the definition extends automatic coverage to all companies which own 15% or more of the voting shares of two or more banks, or of one bank operating four or more branches, or of one or more other banks in the case of a company which is a bank. However, provision is made for the exemption of such institutions which would be covered under the definition automatically, if they can demonstrate that they do not exercise a controlling influence over the management or policies of their subsidiary banks. Subsequent provisions of the definition permit the Board to declare an institution to be a bank holding company even though it does not own the 15% of bank stock requisite to automatic coverage under the definition, provided the Board finds, after hearing, that it does in fact control the specified number of banks. This definition we believe is practical, just, and essential in view of the prevailing situations. All institutions similarly situated are affected alike. Each has a ready procedure for escaping regulation by demonstrating that it does not in fact exert the kind of influence upon banks which requires that it be subject to regulation.

Some question has been raised as to that part of the definition of "bank holding company" in the bill which authorizes the Board, after notice and opportunity for hearing, to determine that an institution is a bank holding company even though it does not own 15% of the stock of a bank. I may say that we have studied this point very carefully and have tried to develop a formula which would constitute a satisfactory definition of the term without giving the Board any discretionary authority. We have approached this problem sympathetically but we have been unable to find a definition based solely upon an arithmetical formula which would do the job adequately. We have also asked those who had some question about this in their minds to suggest a satisfactory substitute for the present definition but no one has brought forward a suggestion which seemed to us to meet the situation. The discretionary authority for the determination of a bank holding company is patterned after similar authority which is contained in the Public Utility Holding Company Act and which has been in operation over a period of some 15 years. The rights of all parties will be adequately protected under the provisions of the bill, since the Board can determine that a company is a bank holding company only after notice and hearing and any action taken by the Board is subject under the bill to judicial review.

Nonbanking Activities of Bank Holding Companies

One of the most salutary requirements of the bill is contained in Section 4 and is designed to limit the non-banking activities of bank holding companies. To that end, a holding company would be required to divest itself of any securities except those in companies which are incidental to its banking operations, those which are eligible for investment by national banks, or those which represent investments of a relatively unsubstantial nature. Such divestment must be accomplished within a period of two years, or within a maximum period of five years if additional time should be deemed necessary to avoid undue hardship.

The reasons underlying this requirement are simple. Accepted rules of law confine the business of banks to banking and prohibit them from engaging in extraneous business, such as owning and operating industrial and manufacturing concerns. The lender and borrower or potential borrower should not be dominated or controlled by the same management. As indicated earlier, however, the holding company device has been used to gather under one management enterprises wholly unrelated to the conduct of a banking business.

In keeping with sound banking principles, it is necessary that a bank holding company should be required by law to divest itself of any substantial interests in nonbanking ventures. The exception in the bill which permits a holding company to own not over 5% of the voting securities of another company directly or through the instrumentality of an investment company, is not incompatible, we believe, with these principles. If, however, this exception should be used to evade the purposes of the law, the bill provides that the holding company may be required to dispose of any such securities.

Where, pursuant to the requirements of Section 4, a holding company distributes its non-banking assets, such a transaction is given appropriate tax exemption under a provision of the bill prepared with the assistance of the Treasury tax experts. (Sec. 12(f).)

Bank Holding Company Expansion

The problem of how far bank holding company systems should be permitted to expand has long been of serious concern. It is in this area that one of the greatest potential evils of bank holding company operations exist.

Under existing law, a chartered bank may be prevented by the regulatory agency to which it is subject from expanding its banking offices either by the establishment of new branches or by taking over and operating the offices of other banks as branches. In order to establish branches, national banks must first obtain permission from the Comptroller of the Currency, State member banks from the Board, and non-member insured banks from the Federal Deposit Insurance Corporation. But a bank holding company is not limited by any such requirements. Through the acquisition by the holding company of the stock of an existing bank which thereafter may be operated, for all practical purposes, as a branch of the holding company system, the denial of a branch application of a controlled bank may become almost meaningless. The holding company device lends itself readily to the amassing of vast resources obtained largely from the public, which can be controlled and used by the relatively few who comprise the management of the holding company, giving them a decided advantage in acquiring additional properties and in carrying out a program of expansion. Such power can be used to acquire independent banks by measures which leave the local management and minority stockholders little with which to defend themselves except their own protests.

Under Section 5 of the bill, this situation would be remedied by preventing bank acquisitions without first obtaining the approval of some agency of the Federal Government. Under this section, any acquisition of the stock or assets of banks by a bank holding company would have to be approved by the Board. If one of the banks in a holding company group wished to acquire the assets of a bank, the acquiring bank, if a national bank, would have to secure the approval of the Comptroller; if a State member bank, it would have to obtain the approval of the Board; if a nonmember bank, it would have to obtain the approval of the Federal Deposit Insurance Corporation.

Section 5(d) of the bill enumerates the standards which would guide the banking agencies in deciding whether to approve any such expansion. First, they would have to consider the financial history and condition of the applicant and the banks concerned; their prospects; character of their management, and the needs of the communities involved. As this Committee pointed out in favorably reporting upon this legislation in 1947, these are in general the considerations now specified in the law as the basis for administrative action in connection with the admission of State banks to membership in the Federal Reserve System and the granting of deposit insurance coverage. However, under the bill the agency concerned would also have to consider whether the proposed expansion of a bank holding company or of any banking subsidiary in a bank holding company group would extend the operation of the holding company group beyond limits consistent with adequate and sound banking and the public interest. In this connection, I should point out that this represents a difference in language from that contained in the bill previously acted upon by this Committee. The earlier bill contained language which was objected to by a number of groups, including non-banking groups with whom I have met, on the ground that the language was so broad as to present serious difficulties in interpretation. The language which has been inserted in the present bill I believe meets these objections without in any way narrowing the considerations which the supervisory agency may take into account in passing upon questions of holding company expansion. Chief among these considerations, as this Committee pointed out in 1947, is the antimonopoly principle enunciated in the Sherman and Clayton Acts.

In the discussions which we have had on this bill with the interested groups, the suggestion was made, particularly by the State bank supervisors, that it would be well for the Comptroller, the Federal Deposit Insurance Corporation, or the Board, in considering any proposal for the acquisition of banks or the establishment of branches under this bill, to consult with the appropriate State bank supervisory authority and get his consent before approving the transaction. We discussed this at great length with various groups and among ourselves and with others and we did not feel that it would be practicable to go so far as to give to the State supervisor what in effect would be a veto in the matter. We have included in the bill a provision which requires that in any such case the bank supervisor in a State must be notified and given 30 days in which to submit his views and recommendations. (Sec. 5(e).) As a practical matter, in emergency cases the State supervisor would, of course, be expected to submit his views very promptly. These must be taken into account by the Federal agency in acting upon the matter and they become a part of the record in the case. The views of the State authorities will thus be fully considered in each instance and a decision will be reached only in the light of their recommendations.

S. 2318, like S. 829 in the last Congress, provides that the Federal Reserve Board shall be the administering agency, because the Board is named as the administering agency in the existing law enacted in 1933 relating to holding company affiliates. However, we are more concerned in this bill with the principles which would be established by it than we are with the question of what agency administers it. It is our view that, regardless of what agency is selected for the purpose, only one agency should be charged with the responsibility for administering it. We are unalterably opposed to the administration of this Act by a board made up of various supervisory agencies for the obvious reasons of efficiency and economy as well as time saving on the part of the executives of the different agencies. Only by naming one agency can there be effective administration of the legislation and responsibility clearly fixed for the carrying out of the Congressional purpose.

Section 3(c) of the bill authorizes the Board to make such examinations of a holding company and of its subsidiaries, including bank subsidiaries, as shall be necessary to disclose fully the relations between the holding company and its subsidiaries, but it also provides that the Board may use reports of examination made by the Comptroller of the Currency, the Federal Deposit Insurance Corporation, or the appropriate State bank supervisory authority to the extent that the information contained therein is adequate. As a matter of practice, of course, so far as banks are concerned, we would expect to rely almost wholly upon reports of examinations made by these agencies, instead of making the examinations ourselves. Accordingly, if the Committee should consider it advisable, the Board would have no objection to putting a provision in the bill which would require that the Board obtain the consent of the Federal Deposit Insurance Corporation before it makes an examination of any nonmember insured bank that is a subsidiary of a bank holding company, and the consent of the appropriate State supervisory authority for an examination of a subsidiary nonmember uninsured bank. As to national banks, the examination practice and the relationship between the Comptroller of the Currency and the Board in that regard have been long established under existing provisions of the law; this has worked very satisfactorily and the present provisions of the bill would not change the effect of existing law.

Other Aspects of Proposed Legislation

Under the present law, the only provision which implies a degree of administrative supervision of bank holding companies relates to such examinations "as shall be necessary to disclose fully the relations between" the holding company and its controlled banks, and the further provision that, for violation of the statute or of its agreement with the Board prerequisite to its obtaining a voting permit, such permit of a holding company may be revoked. In that event, certain penalties affecting the banks in the holding company system may be applied. When considered in the light of the voluntary aspects of the existing law, such provision falls far short of providing effective regulation. In the first place, the Board's right to examine a holding company is not coupled with the specific power to require corrections. Secondly, the penalties for violation of the statute or of a holding company's agreement with the Board are directed principally at the controlled banks, rather than at the bank holding company.

The provisions of the present bill, as previously indicated, would require registration of all bank holding companies (Sec. 3(a)). A bank holding company would be required to file periodic reports. (Sec. 3(b)). It, as each of its subsidiaries, would be subject to examination. (Sec. 3(c)). The more important requirements of the present statute regarding reserve funds of bank holding companies are included as a part of the bill (Sec. 8). Investments by a subsidiary bank in the capital stock of its bank holding company would be forbidden and loans by such a bank to its holding company or its other subsidiaries would be regulated (Sec. 6(a) and 6(c)). The terms of any management or service contracts between a holding company and its bank would be open to surveillance (Sec. 7). Finally, the Board would be authorized to make such rules, regulations, and orders as might be necessary to enable it to administer and carry out the purposes of the Act. (Sec. 9.)

With respect to its effective administration, the bill provides certain sanctions believed to be necessary to assure compliance with its provisions. Thus, if it is found, after notice and hearing, that a bank holding company has willfully violated the Act or any rules, regulations, or orders issued thereunder, the holding company may be forbidden to pay the salary of its officials who participated in the violation, to receive dividends or management or service fees from its subsidiary banks, or to participate in any way in the management or control of any subsidiary bank (Sec. 11(a)). In addition, the bill provides for the criminal prosecution of willful violators (Sec. 11(b)).

The bill extends a statutory right of judicial review to anyone aggrieved by any action of the Board taken under any of the various regulatory provisions of the bill (Sec. 10(d)). This provision is similar to that contained in comparable legislation in other fields.

At this time I would like to suggest for the consideration of the Committee two proposed amendments to the bill which we believe are desirable changes. These amendments, which are of a technical nature and consistent with the general purposes of the bill, reflect the results of further consultation with interested parties.

Under the first proposed amendment, a bank would not be a "bank holding company" merely because it may have a subsidiary trust company located in the same city or town. In such a situation, the subsidiary stands in much the same position as a bank's own trust department.

The second proposed amendment would exclude from the definition of "bank," those organizations which are engaged principally in international or foreign banking and in whose shares national banks invest with the Board's permission. This proposal is merely a clarification of the provision already in the bill excluding banks which do not do business within the United States.

I ask that these two proposed amendments which I now submit be included in the record.

Before concluding this statement, I would personaly like to express my deep appreciation to the various banking groups and individuals who have given so much of their time and attention to the consideration of the various points in connection with this proposed legislation and have united with us in trying to bring forth a sound and effective bill which would meet the views of as many varying interests as possible. They have all been most helpful in the discussions of the matter and in submitting constructive suggestions. We are also most appreciative of the helpful consideration which we have had from the Attorney General's office, the Bureau of the Budget, and other Government agencies. We have felt free to call upon any and all of these groups and agencies at any time for their points of view. Their assistance has been most generously given and our discussions have been carried on in a most cordial atmosphere.

As I said at the commencement of this statement, the bank holding company problem first came forcibly to my attention when I was before this Committee nearly two years ago. In view of the intense interest of this Committee in the subject, I have made an extensive and what I consider a completely objective and fresh approach to the problem without personal prejudice in the subject, and have reached the conclusion on my own that legislation on this subject is highly desirable from the standpoint of the public interest. It is also desirable in my judgment in order to give the bank holding companies a sort of yardstick by which they can operate, so that they will know what they are lawfully permitted to do and what they may not do. The necessity for appropriate legislation in the field is generally recognized and on behalf of the Board, therefore, I respectfully urge upon your Committee the desirability of prompt and favorable action.

Waddell & Reed Adds

(Special to THE FINANCIAL CHRONICLE)

INDIAPOLIS, IND. — Hugh O. Foster & Bradley T. Ross are with Waddell & Reed, Inc., Merchants Bank Building.

With Merrill Lynch

(Special to THE FINANCIAL CHRONICLE)

INDIANAPOLIS, IND. — James E. Smith is with Merrill Lynch, Pierce, Fenner & Beane, Circle Tower.

With J. Arthur Warner

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS. — George R. West is now affiliated with J. Arthur Warner & Co., Inc., 89 Devonshire Street.

With A. M. Kidder Co.

(Special to THE FINANCIAL CHRONICLE)

DETROIT, MICH. — Milton J. Foley is now with A. M. Kidder & Co., 600 Griswold Street.

Indications of Current Business Activity

The following statistical tabulations cover production and other figures for the latest week or month available. Dates shown in first column are either for the week or month ended on that date, or, in cases of quotations, are as of that date:

		Latest Week	Previous Week	Month Ago	Year Ago
AMERICAN IRON AND STEEL INSTITUTE:					
Indicated steel operations (percent of capacity)	April 9	96.8	96.7	73.5	98.8
Equivalent to—					
Steel ingots and castings (net tons)	April 9	1,845,300	1,843,400	1,401,100	1,821,400
AMERICAN PETROLEUM INSTITUTE:					
Crude oil and condensate output — daily average (bbls. of 42 gallons each)	Mar. 25	4,848,100	4,844,000	5,000,000	5,187,800
Crude runs to stills — daily average (bbls.)	Mar. 25	§5,469,000	5,381,000	5,277,000	5,353,000
Gasoline output (bbls.)	Mar. 25	17,839,000	17,936,000	17,703,000	17,417,000
Kerosene output (bbls.)	Mar. 25	2,338,000	2,129,000	2,484,000	2,014,000
Gas, oil, and distillate fuel oil output (bbls.)	Mar. 25	6,870,000	6,663,000	6,890,000	6,167,000
Residual fuel oil output (bbls.)	Mar. 25	8,171,000	8,014,000	7,855,000	8,305,000
Stocks at refineries, at bulk terminals, in transit and in pipe lines—					
Finished and unfinished gasoline (bbls.) at	Mar. 25	135,406,000	135,052,000	133,388,000	128,087,000
Kerosene (bbls.) at	Mar. 25	12,950,000	13,592,000	16,227,000	17,700,000
Gas, oil, and distillate fuel oil (bbls.) at	Mar. 25	40,577,000	43,102,000	56,050,000	48,721,000
Residual fuel oil (bbls.) at	Mar. 25	42,546,000	41,966,000	43,663,000	58,202,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	Mar. 25	§717,233	§725,570	§546,791	596,329
Revenue freight received from connections (number of cars)	Mar. 25	§672,898	*§671,004	§503,502	547,733
CIVIL ENGINEERING CONSTRUCTION — ENGINEERING NEWS-RECORD:					
Total U. S. construction	Mar. 30	$258,901,000	$177,330,000	$133,448,000	$132,174,000
Private construction	Mar. 30	155,521,000	111,584,000	87,578,000	85,088,000
Public construction	Mar. 30	103,380,000	65,746,000	45,870,000	47,086,000
State and municipal	Mar. 30	71,419,000	49,363,000	38,455,000	39,331,000
Federal	Mar. 30	31,961,000	16,383,000	7,415,000	7,755,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	Mar. 25	12,370,000	13,400,000	2,620,000	2,423,000
Pennsylvania anthracite (tons)	Mar. 25	1,136,000	1,215,000	620,000	[illegible]
Beehive coke (tons)	Mar. 25	78,300	*55,500	2,900	38,500
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100	Mar. 25	273	*264	221	277
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	April 1	5,911,936	5,993,062	5,878,788	5,377,662
FAILURES (COMMERCIAL AND INDUSTRIAL) — DUN & BRADSTREET INC.	Mar. 30	198	186	179	216
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	Mar. 28	‡3.837c	3.837c	3.837c	3.752c
Pig iron (per gross ton)	Mar. 28	$46.38	$46.38	$46.38	$46.74
Scrap steel (per gross ton)	Mar. 28	$25.58	$28.42	$27.08	$31.17
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	Mar. 29	18.200c	18.200c	18.200c	23.200c
Export refinery at	Mar. 29	18.425c	18.425c	18.425c	23.425c
Straits tin (New York) at	Mar. 29	76.000c	77.375c	74.125c	103.000c
Lead (New York) at	Mar. 29	10.500c	10.500c	12.000c	17.000c
Lead (St. Louis) at	Mar. 29	10.300c	10.300c	11.800c	16.850c
Zinc (East St. Louis) at	Mar. 29	10.250c	10.000c	9.750c	16.000c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Government Bonds	Apr. 4	103.01	103.17	103.39	101.71
Average corporate	Apr. 4	116.22	116.22	116.41	113.12
Aaa	Apr. 4	121.25	121.25	121.46	119.00
Aa	Apr. 4	119.82	119.82	120.02	117.20
A	Apr. 4	115.82	115.82	116.02	112.37
Baa	Apr. 4	108.88	108.83	108.70	104.83
Railroad Group	Apr. 4	111.62	111.62	111.62	108.16
Public Utilities Group	Apr. 4	117.40	117.40	117.40	114.08
Industrials Group	Apr. 4	120.22	120.22	120.22	117.40
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Government Bonds	Apr. 4	2.28	2.26	2.25	2.38
Average corporate	Apr. 4	2.84	2.84	2.83	3.00
Aaa	Apr. 4	2.59	2.59	2.58	2.70
Aa	Apr. 4	2.66	2.66	2.65	2.79
A	Apr. 4	2.86	2.86	2.85	3.04
Baa	Apr. 4	3.23	3.23	3.24	3.46
Railroad Group	Apr. 4	3.08	3.08	3.08	3.27
Public Utilities Group	Apr. 4	2.78	2.78	2.78	2.95
Industrials Group	Apr. 4	2.64	2.64	2.64	2.78
MOODY'S COMMODITY INDEX	Apr. 4	356.0	357.6	357.2	363.1
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	Mar. 25	186,128	194,402	172,503	135,542
Production (tons)	Mar. 25	210,897	205,932	200,998	164,620
Percentage of activity	Mar. 25	95	92	90	80
Unfilled orders (tons) at	Mar. 25	355,062	382,008	314,640	267,685
OIL, PAINT AND DRUG REPORTER PRICE INDEX—1926-36 AVERAGE=100	Mar. 31	121.7	121.9	121.7	135.0
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	Mar. 18	28,413	28,120	26,406	18,174
Number of shares	Mar. 18	830,869	830,839	813,684	499,529
Dollar value	Mar. 18	$35,514,604	$29,257,620	$29,843,368	$19,661,564
Odd-lot purchases by dealers (customers' sales)—					
Number of orders—Customers' total sales	Mar. 18	31,491	27,676	28,864	16,316
Customers' short sales	Mar. 18	181	213	245	196
Customers' other sales	Mar. 18	31,310	27,463	28,619	16,120
Number of shares—Customers' total sales	Mar. 18	870,826	776,288	815,590	434,590
Customers' short sales	Mar. 18	6,677	8,235	9,363	7,821
Customers' other sales	Mar. 18	864,149	768,053	806,227	426,769
Dollar value	Mar. 18	$32,497,863	$28,150,205	$28,179,563	$14,820,472
Round-lot sales by dealers—					
Number of shares—Total sales	Mar. 18	262,550	258,730	288,140	140,670
Short sales	Mar. 18				
Other sales	Mar. 18	262,550	258,730	288,140	140,670
Round-lot purchases by dealers—					
Number of shares	Mar. 18	267,600	278,640	248,130	196,380
WHOLESALE PRICES NEW SERIES — U. S. DEPT. OF LABOR—1926=100:					
All commodities	Mar. 28	152.1	151.7	152.6	158.1
Farm products	Mar. 28	158.5	157.4	159.4	171.1
Grains	Mar. 28	167.3	164.6	162.9	161.7
Livestock	Mar. 28	199.2	196.6	200.6	211.2
Foods	Mar. 28	155.9	155.2	157.8	162.3
Meats	Mar. 28	214.5	212.5	219.7	224.7
All commodities other than farm and foods	Mar. 28	145.6	145.4	145.4	150.6
Textile products	Mar. 28	136.1	136.2	136.9	142.3
Fuel and lighting materials	Mar. 28	130.5	130.1	130.4	134.3
Metals and metal products	Mar. 28	169.6	169.6	169.2	173.8
Building materials	Mar. 28	192.9	192.9	192.5	198.9
Chemicals and allied products	Mar. 28	116.7	116.5	115.5	116.9

*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
ALUMINUM WROUGHT PRODUCTS (DEPT. OF COMMERCE)—Month of January:			
Total shipments (thousands of pounds)	100,727	93,061	139,588
AMERICAN TRUCKING ASSOCIATION—Month of January:			
Number of motor carriers reporting	312	312	312
Volume of freight transported (tons)	3,147,259	*3,088,151	2,602,980
BANKERS' DOLLAR ACCEPTANCES OUTSTANDING — FEDERAL RESERVE BANK OF NEW YORK—As of Feb. 28:			
Imports	$175,129,000	$189,899,000	$134,178,000
Exports	44,893,000	48,832,000	51,495,000
Domestic shipments	9,125,000	9,630,000	10,305,000
Domestic warehouse credits	15,687,000	21,956,000	13,096,000
Dollar exchange	25,000	475,000	5,605,000
Based on goods stored and shipped between foreign countries	10,903,000	9,477,000	13,550,000
Total	$255,762,000	$280,269,000	$228,229,000
BUILDING CONSTRUCTION PERMIT VALUATION IN URBAN AREAS OF THE U. S. —U. S. DEPT. OF LABOR — Month of January (000's omitted):			
All building construction	$555,655	*$559,540	$434,493
New residential	324,254	*291,839	177,497
New nonresidential	166,014	*212,214	196,325
Additions, alterations, etc.	65,387	*55,487	60,676
BUILDING PERMIT VALUATION — DUN & BRADSTREET, INC.—215 CITIES—Month of February:			
New England	$8,163,678	$14,450,634	$8,129,918
Middle Atlantic	92,900,340	80,823,437	73,570,480
South Atlantic	33,068,782	40,226,495	23,598,851
East Central	53,699,662	64,612,554	35,260,200
South Central	76,003,349	60,940,028	39,980,726
West Central	13,780,829	11,762,911	10,925,903
Mountain	9,393,887	6,783,809	4,576,587
Pacific	54,111,051	55,399,293	48,152,886
Total United States	$343,121,578	$334,999,161	$244,195,551
New York City	67,454,496	41,873,234	51,217,797
Outside of New York City	275,667,082	293,125,927	192,977,754
BUSINESS FAILURES—DUN & BRADSTREET INC.—Month of February:			
Manufacturing number	170	225	170
Wholesale number	100	110	90
Retail number	399	403	318
Construction number	73	65	63
Commercial service number	69	61	44
Total number	811	864	685
Manufacturing liabilities	$7,905,000	$10,928,000	$15,009,000
Wholesale liabilities	4,166,000	4,440,000	3,458,000
Retail liabilities	6,386,000	7,355,000	5,728,000
Construction liabilities	1,824,000	1,884,000	2,476,000
Commercial service liabilities	1,875,000	1,829,000	896,000
Total liabilities	$22,156,000	$26,436,000	$27,567,000
COMMERCIAL STEEL FORGING (DEPT. OF COMMERCE)—Month of January:			
Shipments (short tons)	92,994	78,266	*124,383
Unfilled orders at end of month (short tons)	327,035	307,656	*569,727
COPPER INSTITUTE—For month of February:			
Copper production in U. S. A.—			
Crude (tons of 2,000 lbs.)	81,216	85,612	76,594
Refined (tons of 2,000 lbs.)	94,036	95,229	80,275
Deliveries to customers—			
In U. S. A. (tons of 2,000 lbs.)	112,773	111,668	98,611
Refined copper stocks at end of period (tons of 2,000 lbs.)	77,472	101,070	83,841
COTTON GINNING (DEPT. OF COMMERCE):			
Running bales (excl. of linters final)	15,900,502	------	14,580,279
COTTON SPINNING (DEPT. OF COMMERCE):			
Spinning spindles in place on Feb. 25	23,264,000	23,286,000	23,741,000
Spinning spindles active on Feb. 25	20,417,000	20,217,000	20,758,000
Active spindle hours (000's omitted) Feb.	9,181,000	9,091,000	7,966,000
Active spindle hrs. per spindle in place Feb.	496	496	355
DEPARTMENT STORE SALES (FEDERAL RESERVE SYSTEM)—(1935-39 Average=100 Month of February:			
Adjusted for seasonal variation	282	282	283
Without seasonal adjustment	226	216	227
FABRICATED STRUCTURAL STEEL (AMERICAN INSTITUTE OF STEEL CONSTRUCTION)—Month of February:			
Contracts closed (tonnage) estimated	110,528	*117,834	108,764
Shipments (tonnage)—estimated	122,614	*133,430	145,879
GRAY IRON CASTINGS (DEPT. OF COMMERCE)—Month of January:			
Shipments (short tons)	913,321	862,172	1,040,343
For sale (short tons)	449,577	440,409	573,511
For producers' own use (short tons)	463,744	421,763	466,832
Unfilled orders for sale at end of month (short tons)	914,185	892,458	2,064,861
HOUSEHOLD VACUUM CLEANERS — STANDARD SIZE (VACUUM CLEANER MANUFACTURERS ASSN.)—Month of February:			
Factory sales (number of units)	263,515	249,150	241,574
HOUSEHOLD WASHERS AND IRONERS — STANDARD SIZE (AMERICAN HOME LAUNDRY MANUFACTURERS' ASSOCIATION)—Month of February:			
Factory sales of washers (units)	342,967	275,576	201,300
Factory sales of ironers (units)	27,600	20,300	28,250
MAGNESIUM WROUGHT PRODUCTS (DEPT. OF COMMERCE) — Month of January:			
Shipments (in pounds)	952,000	772,000	581,000
SOFTWOOD PLYWOOD (DEPT. OF COMMERCE)—Month of January:			
Production (M sq. ft. 3/8-in. equivalent)	†168,257	*179,876	118,284
Shipments and consumption (M sq. feet, 3/8-in. equivalent)	†161,996	*186,030	107,837
Stocks (M sq. ft. 3/8-in. equivalent) at end of month	†52,835	*44,941	75,894
Consumption of logs (M ft. log scale)	†74,583	*77,661	58,011
Stocks (M ft. log scale) at end of month	176,885	†*218,613	314,369
STEEL CASTINGS (DEPT. OF COMMERCE)—Month of January:			
Shipments (short tons)	88,821	84,508	140,577
For sale (short tons)	57,996	53,079	103,503
For producers' own use (short tons)	30,825	31,429	37,074
Unfilled orders for sale at end of month (short tons)	142,484	122,887	338,889

*Revised. †Proportion estimated, 11 to 19%.

Continued from page 14

Increase Imports, or Else—

ing agreements and treaties with friendly nations for the safeguarding of American investments abroad. I am happy to say that the negotiation of such treaties is being actively pursued by our State Department as a matter of national policy. Our government can also lend its good offices, in cooperation with the foreign government, in the settlement of any dispute or misunderstanding that arises between the American investor and the recipient country.

Inducements by Foreign Governments

But, in the final analysis, it is the foreign government that should supply the inducements to attract American private investments. It should give the investor a fair chance to earn profit commensurate with his risk. This fair chance to profit has been basic in developing the resources of the United States.

Just about a year ago now, the National Association of Manufacturers laid before the Economic and Social Council of the United Nations a study of our capital export potential. That study estimated that under conditions about as I have just outlined, something in the neighborhood of $2 billion per year of American capital could be expected to be available for investment abroad. That estimate has been widely accepted as an approximation of what may be expected from the United States. I am encouraged to think that as the result of the wide and fruitful discussion throughout the world of the principles of foreign investment and economic development stimulated by the Point 4 concept, conditions will be created which make this $2 billion estimate good.

However, we must recognize that foreign investment can be only a partial solution to the problem of the foreign trade gap. Investment will have to be serviced. Additional dollars will be required for this purpose. When the flow of new American investments is broken off, at any time in the future, the dollar exchange problem of the recipients will be aggravated—unless the investments already made have substantially increased their production and their capacity to export for dollars, and unless the American people are then willing and able to supply the dollars to service those investments by increasing their purchases of foreign goods and services.

As our nation adds to its creditor position, it is crystal clear that we commit ourselves increasingly to the eventual acceptance of an import balance if we expect to get paid for our exports and get a dollar return on our investments.

This brings us to our final alternative in the matter of permitting the foreigner to earn dollars to pay us for goods we ship him, i.e., for bridging our foreign trade gap. It is by purchases of his goods and services either as imports delivered on our shores or delivered to us abroad as tourists. I underline tourist services because no one seems to object to any level of tourist expenditures that can be accommodated by present or projected travel facilities.

Tourist Expenditures

To the extent that tourists spend dollars abroad we seem to have a painless partial solution of the problem. Yet essentially there is no difference between an expenditure for goods and services abroad by a touring citizen and an equivalent expenditure for imports by that same citizen or a less fortunate one who can't afford to travel.

In either case foreign offerings are bought for dollars. Only the point of delivery is changed. It would seem as logical to me to restrict the freedom of our citizens to spend their vacation dollars abroad as to restrict them in the expenditure of dollars for foreign goods of their choice delivered here.

During my business life, and particularly during the past ten years, there has been a great change in the attitudes of the American public and American businessmen in reference to imports. Imports were once regarded, at best, as a necessary evil. At worst, they were regarded as an unwanted stepchild that took the bread from the mouths of American workmen and the profits from the pockets of American businessmen.

Imports now are widely recognized for what they are. They are a means for drawing upon the productivity of other lands and other peoples. They are a necessity for assuring our national defense. And they are a ready means for increasing the quality and variety of goods available for our use and enjoyment.

Last year the Fletcher School of Law and Diplomacy prepared for the National Association of Manufacturers a report which I commend to your careful study. In this report it was suggested that we should be able to import about $14 billion worth of goods and services annually. This suggestion was based upon a gross national product of $270 billion per year, which certainly is not out of reach. It was based on an annual importation of goods and services, including investment income, of slightly over 5% of our gross national product. This ratio has previously been attained in prosperous years. $14 billion of imports is well above our present annual rate of about $10 billion per year (again including investment income). But, if it can be attained, we shall be within reach of a realistic balance in our international payments.

I have no desire, I assure you, to minimize what we ourselves may be able to do to increase our purchase of foreign goods and services. I believe we should carefully examine our stockpiling program. We should see whether it is adequate to assure a ready supply of strategic materials—for our national defense and to bolster depleted reserves of minerals required to keep our industrial economy functioning in high gear. I believe there are numerous unexplored possibilities for increasing our purchases of foreign handicraft articles, and certain manufactured goods in the production of which other countries may possess a real competitive advantage. However, I cannot emphasize too strongly that, as in the case of foreign investments, the major job in promoting an increase in our imports must be done by the nations who wish to earn our dollars.

During recent years, we have followed a consistent policy of tariff reduction, until now our average (note I say average) rate of duty on dutiable imports is the lowest in our history. Furthermore, 60% by value of our imports, mostly raw materials, now come in duty free. Nevertheless, our general imports in 1949 averaged 2.6% of our gross national product against 3.4% in 1937, 4.2% in 1929 and 6.1% in 1920.

Loss of Productive Capacity

Part of the reason for this, of course, is the loss of productive capacity and the large domestic needs of foreign countries. These factors have created a local demand for goods which might otherwise be exported to us. Part of the reason, also, is the existence of blocked currency balances that tend to divert European exports into easy markets where the competition and the selling effort are not so great.

I believe that the major reason has been the failure of other nations to produce, at competitive prices, the quantity, the quality, and the variety of goods in demand in the American market. Other nations have neglected to improve productive efficiency and outmoded merchandising techniques. They have failed to study the American market carefully, and to merchandise their products aggressively in this country.

These, then, are the three major alternatives for bridging the foreign trade gap: First, a substantial reduction in exports which might create serious problems for the United States as well as for our foreign customers. Second, a material increase in our private foreign investments which, at best, would be a temporary solution, and one that will not materialize unless investment conditions become more attractive in the recipient countries. And, finally, although it must be recognized that this solution may adversely affect some elements of industry and agriculture at home, the solution most compatible with our world role as a great creditor nation is a large-scale expansion in our purchases of foreign goods and services.

As I have said several times recently, the United States, in its new role in the world economy, is an international creditor with new responsibilities. It is still the most efficient and productive nation on earth. But we will not forget, and our international neighbors must remember, that our first and greatest responsibility is to safeguard and preserve this great land of opportunity. Here, free men have reached new heights of achievement, under the system of free, private, competitive enterprise which is part of the fabric of our American way of life.

The false prophets of the socialist millenium have no message for us. We have given, and will give freely of our substance, to help anyone in trouble. But we will never abandon freedom and opportunity in exchange for regimentation and the promise of regimented security.

In this time of social ferment, when the old political and economic landmarks have become blurred and indistinct, we must remain true to the traditions that have led our land to greatness. At the same time, we should cooperate with other nations to develop and to maintain sounder world trade. It is one of the roads of progress that free men must keep open.

As we succeed, we shall have more, and sounder, dollars at home. And, what is even more important, we shall have more and sounder friends abroad.

Continued from page 13

The World's Insomnia

announced by Sir Stafford Cripps, hoping that it will be acceptable to all.

Formation of the Council of Europe

A number of members of various parliaments — Churchill was one of them—brought about, two years ago, the meeting of the European congress of the Hague. From this, developed a surge of public opinion which compelled the governments of Great Britain, France and the three Benelux countries to convoke, in Paris, in December, '48, a conference of these five nations. I was one of the French delegates. After one month of work, France and the three Benelux countries had agreed upon the main lines for the creation of a Council of Europe, including a Committee of Ministers and a Consultative Assembly. The British delegation received instructions from its government, obliging it to sponsor an entirely different plan. Under this plan, each national delegation would have had a cabinet minister at its head, voting for all its members. Finally, the British Government accepted the proposal of France and of the Benelux countries. The Council of Europe was created on the 5th of May, 1949.

In August, the consultative assembly met in Strasbourg. This assembly has no power. It can only talk, and, in addition, it cannot talk about everything. For example, it cannot discuss the defense of Western Europe. Its recommendations were, in brief, put aside by the Committee of Ministers. In my opinion, this Assembly will only achieve real power when its members are elected by the votes of the French, the English, etc., voting, not as Frenchmen or Englishmen, but as Europeans.

I had proposed this, at the Hague Congress, but I received only six votes. One of my opponents, a French Socialist leader, answered me: "You are ahead of your time." I replied that those who had been behind their time before the war, had cost France and the world so much that I was delighted to be ahead. One month ago, the French Socialist Party came out in favor of my proposal. Which proves that you must never despair, even with Socialists.

But to give it its due, the creation and the meeting of the Assembly was an important step toward European unity. A European spirit reigned among the delegates of Strasbourg.

People have said to me since I came to America, "What can be done to speed this union?" They have further said to me, "What are *you* going to do?"

For my own part, I have opposed with all my strength the attempts of the Committee of Ministers to silence the Assembly by ignoring its recommendations. I offered to my colleagues in the Permanent Committe of the Assembly my own resignation rather than submit to the attitude of the Ministers—and I am glad to say that my colleagues were with me.

Immediately after this meeting I demanded in the French Parliament a full debate on the attitude of our own government toward the action of the Ministers, and this debate ended in a resolution urging the government toward speedier action toward union. The French Government has accepted this resolution.

In their own Parliaments through Europe many of my colleagues have been carrying on a similar fight.

We must go on telling our own people of the urgency of union. We must continue to press for elections to the Assembly on a European basis by education, by speeches, and by our deeds. We must continue pressing our governments forward so that the Committee of Ministers may become an active force rather than an obstacle squatting in the path of union.

Churchill's Proposal of a Franco-British Union

During my speaking tour in your country, people have asked me, "Why did your government in June, 1940, refuse the Churchill proposal of a Franco-British union? Would it not have been the cornerstone of the United Europe you are at work to create?" The answer is history which may have some interest for you. On the 16th of June, 1940, the French Government over which I was presiding being at Bordeaux, Winston Churchill telephoned to me and made me that offer. I answered him that I accepted it and that I would sustain it before the Council of the Ministers. So I did. But I was alone. Other ministers were certainly in favor of it but they did not support me. Most of them were opposed to Churchill's proposal because they were in favor of an armistice. To accept Churchill's offer would have meant the continuation of the war in North Africa. They had been told by Marshall Petain and General Weygand that England would be defeated in three weeks and being politicians, they were afraid of having to return to France after a few weeks, to be called deserters. You must remember that, during the long history of France, there never was a government which left the country as I wanted to do it, to continue fighting in North Africa. That is the reason why Churchill's proposal was not accepted. I have always thought that the union then proposed might have been the beginning of the effort in which we are now engaged. It was not to be. You know the rest of the story.

Germany and Britain Necessary to a United Europe

Western Germany must be admitted to the Strasbourg Assembly. She must become part of the European union for there is no Europe without Germany. But Britain must equally become a part of the union, because without her, Germany with its economic strength would dominate the union. I do not close my eyes to the difficulty posed by the fact that Britain is now under a Socialist regime with a State directed economy. For example, £480 million have been drawn from the taxpayers' pockets in order artificially to lower the cost of living. Perhaps, you can remember the cartoon of the London "Punch." A father asks his little son: "What do you want to be, later on: doctor, a lawyer, an architect?" The boy answers: "No, I want to be a consumer." Can you imagine prices artificially lowered in one of your American states and not in the others?

As you see, the difficulties are great but we are many and we are determined to solve them at any cost.

The French Struggle in Indo China

It is too late, now to speak at length of Asia. In China, the triumph of communism is complete. We must remember that it is in South-East Asia that can be found all the raw materials China needs: rice, oil, rubber, coal, tin, zinc. You see the danger. If the French were to give up the fight against communism in Indo China, the communist wave would spread over Siam, British Malaya, Burma and perhaps other lands. Ours is the only country which for the last five years has been shedding her blood for the common cause, against communism. Our losses are heavy. But France is well accustomed to suffer. She will carry on her fight in Asia and continue, in the forefront, her efforts for a United Europe.

I have come to ask you: Are we right? Shall we go on? Will you help us further in this struggle for western civilization? I am confident of your answer.

With Hayden, Miller

(Special to THE FINANCIAL CHRONICLE)

TOLEDO, OHIO — William Retherford has become associated with the Cleveland investment firm of Hayden, Miller & Co.

Securities Now in Registration

• INDICATES ADDITIONS SINCE PREVIOUS ISSUE

• Aeronautical Securities, Inc., New York City
March 31 filed 39,000 shares of capital stock. **Underwriter**—Calvin Bullock, New York City. **Business**—Investment company.

• Aelus Wing Co. (4/8)
March 29 (letter of notification) 295,000 shares of capital stock at par ($1 per share). No underwriter. Proceeds to working capital. **Office**—505 Perry Street, Trenton, N. J. Expected about April 8.

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. Statement effective March 24.

• American Cladmetals Co., Carnegie, Pa.
March 31 filed 480,000 shares of common stock (par $1). **Price**—$1.50 per share. **Underwriter**—Graham & Co., Pittsburgh and New York. **Proceeds**—To install additional facilities and for working capital.

• American Gas & Electric Co. (5/1)
March 31 filed $27,000,000 of serial notes, due serially between 1952 and 1965 inclusive. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Union Securities Corp.; Salomon Bros. & Hutzler; First Boston Corp.; Harriman Ripley & Co., Inc. **Proceeds** — To redeem $15,162,300 outstanding 4¾% cumulative preferred stock at $110 a share, to pay $10,300,000 of 2% serial bank loan notes and the balance, if any, added to treasury funds. Expected in May.

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.

• American Lloyds, Dallas, Tex.
March 31 (letter of notification) 450 underwriting units or certificates at $650 each. No underwriter. Proceeds to increase guaranty fund and surplus. **Office**—1524 Irwin-Keasler Bldg., Dallas, Tex.

• American Petroleum Corp. (4/15)
March 27 (letter of notification) up to 250,000 shares of common stock to be offered at par ($1 per share), the net proceeds to be used to acquire oil and gas leases, and for working capital. No underwriter. **Office**—Grant Bldg., Pittsburgh, Pa.

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) now 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.

Boston Edison Co. (4/10)
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.

NEW ISSUE CALENDAR

April 6, 1950

Southwestern States Telephone Co.	Common

April 8, 1950

Aelus Wing Co.	Capital

April 10, 1950

Boston Edison Co. noon (EST)	Bonds
Crescent Corset Co., Inc.	Preferred
Inter-Mountain Telephone Co.	Common
Utah Fuel Co. 11 a.m. (EST)	Common

April 11, 1950

Hytron Radio & Electronics Corp.	Pfd. & Com.
Mississippi River Fuel Corp.	Common
Pennsylvania RR. noon (EST)	Equip. Trust Ctfs.
State Loan & Finance Corp.	Debentures

April 12, 1950

Central Arizona Light & Power Co.	Common
Great Plains Development Co. of Canada, Ltd.	Notes & Stock
Illinois Power Co.	Bonds
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.
Security Insurance Co. of New Haven	Capital

April 15, 1950

American Petroleum Corp.	Common

April 17, 1950

Norwich Pharmacal Co.	Preferred

April 18, 1950

Pacific Power & Light Co.	Bonds
South Carolina Electric & Gas Co.	Bonds

April 19, 1950

Public Service Electric & Gas Co.	Bonds
White (S. S.) Dental Mfg. Co.	Capital

May 1, 1950

American Gas & Electric Co.	Notes
Idaho Power Co.	Preferred

May 22, 1950

Iowa Public Service Co.	Preferred

Bids — Will be received at office of James V. Toner, President, 12th floor, 182 Tremont St., Boston, Mass., up to 12 noon (EST) on April 10, 1950.

• Canadian Admiral Corp., Ltd., Malton, Ont., Canada
March 30 filed 28,458 shares of $1 par value common stock to be offered to shareholders at the rate of one-half share for each share held. **Underwriter**—None. **Price**—$5 per share. **Proceeds**—To purchase plant site, erect and equip plant, and for working capital. **Business**—Manufacture and distribution of radios, television sets and electric home appliances.

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 Airlines, Inc.
March 28 (letter of notification) 1,500 shares of 5% cumulative non-convertible preferred stock (par $100) and 3,000 shares of class B non-voting common stock (par $1). **Price**—At par. **Underwriter**—None. **Proceeds**—To retire indebtedness and for operations. **Office** — 6109 Camp Bowie Blvd., Fort Worth, Tex.

Central Arizona Light & Power Co. (4/12)
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 April 12.

• Central Vermont Public Service Corp., Rutland, Vermont
March 30 filed $2,000,000 of series F first mortgage bonds, due 1980, and 8,000 shares of $100 par value preferred stock. **Underwriter**—To be determined by competitive bidding for the bonds; to be filed by amendment for the preferred stock. **Proceeds**—For construction and payment of bank loans.

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.

• Crescent Corset Co., Inc. (4/10)
March 24 (letter of notification) 3,000 shares of preferred stock to be offered to employees at par ($100) through officers of company. Proceeds to retire $200,000 short-term bank loans and to increase operating capital. **Office**—163 S. Main St., Cortland, N. Y. Expected about April 10.

• Crise Manufacturing Co., Columbus, Ohio
March 29 (letter of notification) $250,000 of 4½% sinking fund debentures due 1962. **Underwriter**—The Ohio Co. **Proceeds**—To retire outstanding debentures and notes and balance of price for assets of MU Switch Division of Chase-Shawmut Corp.

• Dairy Dream Farms, Inc.
March 29 (letter of notification) $249,500 of 5-to-12 year 5% debentures (face value $100 each) and 24,950 shares of common stock (par 10c.) in units of $100 of debentures and ten shares of stock. **Underwriter**—To be supplied by amendment. **Price**—$101 per unit. **Proceeds**—To pay off current debts and for expansion. **Office**—110 East 42nd Street, New York, N. Y.

Delaware Power & Light Co.
March 8 filed 232,520 shares of common stock (par $13.50) now 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) W. C. Langley & Co. and Union Securities Corp. (jointly). **Price**—$21 per share. **Proceeds**—To finance construction for the company and two subsidiaries.

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.

• Dorchester Fabrics, Inc., Summerville, S. C.
April 3 (letter of notification) 1,000 shares of preferred stock. **Price**—At par ($100 per share). **Underwriter**—None. **Proceeds.** To buy additional machinery and expand plant facilities.

• (Allen B.) Du Mont Laboratories, Inc., East Paterson, N. J.
March 31 filed 250,000 shares of class A 10-cent par value common stock. **Underwriters**—Kuhn, Loeb & Co. and Van Alstyne Noel Corp., New York. **Price**—To be filed by amendment. **Proceeds**—For additional facilities and corporate purposes.

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 divi-

dend rate. **Proceeds**—To pay for construction of new San Juan pipe line. Expected in April.

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.

● **Evans-Vance, Inc.**
March 31 (letter of notification) 5,000 shares of preferred stock (par $10) and 8,400 shares of common stock (par $1). **Price**—At par. **Underwriter**—None. **Proceeds**—For working capital. **Office**—37 East 67th Street, New York, N. Y.

● **Fidelity Fund, Inc., Boston, Mass.**
March 30 filed 400,000 shares of capital stock. **Distributors** — Paul H. Davis & Co., Chicago, and The Crosby Corp., Boston. **Business**—Investment company.

● **Forest Products, Inc., Attica, Ind.**
March 28 (letter of notification) 3,000 shares of common stock (no par) at $10 per share and $30,000 of 4½% first mortgage bonds, due 1960, at face value. No underwriter. Proceeds to cancel debts and for working capital. **Office**—West Main Street, Attica, Ind.

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.

● **Fox Metal Products Corp., Littleton, Colo.**
March 30 (letter of notification) 30,000 shares of common stock (par $1) to be sold at the market place, but not less than $2.50 per share, by Mary E. Fox, Denver, Colo., Secretary of the company. **Underwriter**—Ward & Co., New York.

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.

● **Glatfelter (P. H.) Co., Spring Grove, Pa.**
March 31 filed 20,000 shares of 4½% cumulative preferred stock (par $50) and 70,000 shares of common stock (par $10) to be offered to holders of 20,000 shares of outstanding 5% cumulative first preferred stock (par $100) in exchange for their holdings, at the rate of one new share of preferred and 3½ shares of common for each share surrendered. **Underwriters**—Union Securities Corp., New York, and Stroud & Co., Inc., Philadelphia. **Price**—$50 and $15 per share respectively. **Proceeds**—To redeem the 5% preferred not surrendered in the exchange.

● **Grant (W. T.) Co., New York City**
April 3 filed 118,935 shares of common stock (par $5). No underwriter. These shares will be sold to employees from time to time under terms of an Employees Stock Purchase Plan to be voted on April 18. **Proceeds**—To be added to general funds for corporate purposes. **Price**—Not less than $22 a share.

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.

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. **Proceeds**—For development of model, etc. **Office**—80 Wall Street, New York City.

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.

Helio Aircraft Corp., Norwood, Mass.
March 22 (letter of notification) 9,000 shares of preferred stock (par $20) and 9,000 shares of common stock (par $1) to be sold in units of one preferred share and one common share for $25 per unit. No underwriter. Proceeds to build a four-engine helioplane prototype. **Office**—Boston Metropolitan Airport, Norwood, Mass.

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.

Hytron Radio & Electronics Corp. (4/11)
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 April 11.

● **Idaho Power Co. (5/1)**
April 3 filed 20,000 shares of 4% preferred stock. **Underwriter** — Wegener & Daly Corp., Boise. **Price**—At par ($100 per share). **Proceeds**—To expand production, transmission and distribution facilities. Expected to be issued on or after May 1, 1950.

Illinois Power Co. (4/12)
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 $51 per share and accrued dividends. **Proceeds**—To pay short-term bank loans made for construction. Bonds expected about April 12.

● **Innes Shoe Co., Los Angeles, Calif.**
March 31 (letter of notification) 12,500 shares of common stock (par $1) to be offered at $4 per share; and 12,500 shares to be issued to William Innes in exchange for 600 shares of common capital stock (no par) of Innes, Inc. No underwriter. Proceeds to pay indebtedness and for working capital. **Office**—436 W. 7th Street, Los Angeles, Calif.

● **Insurance Securities Inc., Oakland, Calif.**
March 23 filed 3,657 single payment plan investment units, series U, of $1,000 each, and 5,286 accumulative plan investment units, series E, of $1,200 each, issued in connection with participating agreements covering these plans. The proceeds are for investment.

Inter-Mountain Telephone Co. (4/10)
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 at $10 per share; rights to expire April 26 (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. **Proceeds**—To be used to reduce short-term bank borrowings outstanding. Expected about April 10.

Iowa Electric Light & Power Corp.
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, were on March 31 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 are offered publicly with a 10-day standby to expire April 12. **Price**—The preferred at $50.25 and the common at $13.75 per share. **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.

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.

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 22 on the basis of three shares of Kansas City stock for each five shares of United stock held. Rights are to expire April 19. **Underwriters**—None. If unsubscribed stock exceeds 1% of the total, United Light may consider competitive bids on this balance. Statement effective March 22.

● **Kern Mutual Telephone Co., Taft, Calif.**
March 31 (letter of notification) 15,000 shares of common stock to be offered pro rata to present stockholders. **Price**—At par ($10 per share.) **Underwriter**—Bailey & Davidson, San Francisco Calif. **Proceeds**—To retire $33,000 of outstanding debentures and pay for construction.

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. Rights expire on April 11. **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.

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) an undetermined amount 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.

● **Macco Corp., Paramount, Calif.**
March 28 (letter of notification) 1,000 shares of common stock (par $1) to be sold at between $8 and $9.50 per share (market price) by Edward A. Pellegrin, Vice-President of company. No underwriter. **Office**—14409 S. Paramount Blvd., Paramount, Calif.

● **Mid-South Oil Corp., Union Springs, Ala.**
March 24 (letter of notification) 50,000 shares of 5% participating preferred stock (par $1) and 20,000 shares common stock (par $1) at the rate of five shares of preferred and two of common to be sold for $7 a unit. No underwriter. Proceeds to drill additional wells. **Office**—Moseley Bldg., Union Springs, Ala.

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. Expected this month.

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.

● **Molybdenum Corp. of America**
March 30 (letter of notification) 1,400 shares of common stock (par $1) to be issued in exchange for an option to acquire an undivided one-third interest in certain mining claims located in California. In event that option is ultimately exercised, the company is to deliver to the present owner an additional 8,600 shares of its common stock. No underwriter. **Office**—500 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. Statement effective March 27.

● **Nalco, Inc. (N. Y.)**
March 31 (letter of notification) 650 shares of 6% cumulative preferred stock at par ($100 per share) and 4,875 shares of common stock (par $1), the latter issued by selling stockholders. **Price**—$1,000 per unit, each unit consisting of 10 shares of preferred and 75 shares of common stock. **Proceeds**—For machinery and working capital. **Office**—203 East 18th Street, New York, N. Y.

● **Nation-Wide Securities Co., Inc., New York City**
March 31 filed 300,000 shares of capital stock. **Underwriter**—Calvin Bullock, New York. **Business**—An investment company.

● **National Homes Corp., Lafayette, Ind.**
March 27 (letter of notification) 500 shares of common stock to be sold at $18.75 per share by Frank A. Tedford, Secretary of the company. **Underwriter**—Kiser, Cohn & Shumaker, Inc., Indianapolis, Ind.

● **National Sugar Mfg. 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. [This was erroneously published under National Sugar Refining Co. in last Thursday's "Chronicle."—Ed.]

Norlina Oil Development Co., Washington, D. C.
March 28 filed 600 shares of capital stock (no par.) To offer only sufficient shares to raise $1,000,000 at $5,000 per share. No underwriter. Proceeds to be used to explore and develop oil and mineral leases.

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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. (4/17)
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 about April 17, rights to expire about May 3. **Underwriter**—Hornblower & Weeks, New York. **Price**—To be filed by amendment. **Proceeds**—To build a $500,000 chemical plan 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 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 Refiners, Ltd., Honolulu, Hawaii**
March 29 filed $750,000 of 6% 15-year sinking fund debentures, due 1965 and 500,000 shares of common stock (par $1) to be offered in units of $3 principal amount of debentures and two shares of common stock at $5 per unit to common stockholders of record April 14 at the rate of one unit for each share. No underwriter. Proceeds for construction expenditures. Company refines and markets crude oil.

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. **Underwriter**—Daniel Reeves & Co., Beverly Hills, Calif. **Proceeds**—For working capital. **Office**—12333 W. Olympic Blvd.

● **Pennsylvania & Southern Gas Co.**
March 28 (letter of notification) 8,500 shares of common stock for account of Mark Anton, President. **Price**—$4 per share. **Underwriter**—Bioren & Co.

Pennsylvania & Southern Gas Co., Westfield, New Jersey
March 17 (letter of notification) 15,761 shares of common stock (including 9,500 shares under offer of recission) at the market (estimated at $4 per share) for account of R. Gould Morehead, Treasurer. **Underwriter** Bioren & Co., Philadelphia. No general public offering planned.

● **Phillips Petroleum Co., Bartlesville, Okla.**
March 31 filed $75,637,900 of debentures, due 1975, convertible into common stock until May 1, 1960, to be offered to present stockholders at the rate of $100 of debentures for each eight shares held. **Underwriter**—The First Boston Corp., New York. **Price** — To be filed by amendment, along with interest rate. **Proceeds**—To pay off indebtedness incurred for expansion of the company and a wholly-owned subsidiary, Phillips Chemical Co.

● **Pioneer Telephone Co., Waconia, Minn.**
March 30 (letter of notification) 1,000 shares of 5% cumulative preferred stock, series B. **Price**—At par ($100 per share). **Underwriter**—H. M. Bishop & Co., Minneapolis, Minn. **Proceeds**—To expand service.

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.

● **Rochester (N. Y.) Gas & Electric Corp.**
April 5 filed 80,000 shares of 4% cumulative preferred stock, series H (par $100), of which 50,000 shares will be offered, along with an unspecified amount of cash, in exchange for outstanding 4¾% preferred stock, series G, on a share for share basis. **Underwriter**—The First Boston Corp. and eight other New York and Rochester firms. **Proceeds**—To redeem unexchanged 4¾% preferred stock, reimburse the company for construction expenditures and for additional construction.

● **Scudder, Stevens & Clark Common Stock Fund, Inc., Boston**
March 29 filed 50,000 shares of stock. **Underwriter**—Scudder, Stevens & Clark, Boston. **Business** — Investment company.

Security Insurance Co. of New Haven (4/13)
March 22 filed 50,000 shares of capital stock (par $10) and warrants enabling stockholders to purchase these shares at $30 per share on the basis of one share for each five held about April 13. **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.

Shawmut Association, Boston, Mass.
Feb. 27 (letter of notification) 700 shares of common stock (no par) to be sold at $16 per share by the National Shawmut Bank of Boston. **Underwriter**—Paine, Webber, Jackson & Curtis, Boston.

● **Sierra Nevada Oil Co., Las Vegas, Nev.**
March 30 (letter of notification) 100,000 shares of 6% cumulative preferred stock to be offered at par ($1 per share). No underwriter. Proceeds to drill well and for working capital. **Office**—130 S. 4th St., Las Vegas, Nev.

Slick Airways, Inc., San Antonio, Texas
Feb. 10 (letter of notification) $194,000 of 4% convertible income debentures, due 1957 (non-interest bearing until March 1, 1952), and 19,400 shares of common stock (par $10), into which the debentures will be convertible. **Underwriter**—Fridley & Hess, Houston. **Proceeds**—For general corporate purposes.

Sinclair Oil Corp.
Jan. 27 filed 598,700 shares of common stock (no par) to be offered to officers and employees of the company and subsidiaries under a stock purchase plan. These shares are either held in the treasury or will be reacquired. The maximum number of shares which can be sold under this plan in a five-year period is 598,700, or 5% of the outstanding shares. **Proceeds**—For general funds.

South Carolina Electric & Gas Co. (4/18)
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 3⅜% and 3⅝% bonds. Expected about April 18.

● **Southeastern RR. Co., Inc., Statesboro, Ga.**
March 29 (letter of notification) subscriptions to 6,000 shares of common stock at $50 per share, the subscriptions to be exchanged for shares after company begins to function as a corporation. No underwriter. Proceeds to build a railroad from Monticello to Atlanta, Ga.

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 Associated Telephone Co., Dallas, Tex.**
March 30 filed 16,500 shares of $5.50 cumulative preferred stock (no par). **Underwriters**—Rauscher, Pierce & Co., Inc., Dallas; Paine, Webber, Jackson & Curtis and Stone & Webster Securities Corp., New York. **Price**—To be filed by amendment. **Proceeds**—To pay indebtedness and finance purchase of Two States Telephone Co.

Southwestern States Telephone Co. (4/6)
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 6.

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.

● **Sterling Oil of California, Inc., Tulsa, Okla.**
March 30 (letter of notification) 1,000,000 shares of capital stock to be offered to stockholders at 22½¢ per share at rate of one new share for each old one held. No underwriter. Proceeds to expand properties. **Office**—Howard Bldg., Tulsa, Okla.

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.

● **Tar Heel Finance Co., Inc., Charlotte, N. C.**
March 27 (letter of notification) 1,500 shares 6% cumulative preferred stock (par $50) and 25,000 shares of common stock (par $1) at their respective par values. No underwriter. Proceeds for additional working funds. **Office**—404½ S. Tryon St., Charlotte, N. C.

Teco, Inc., Chicago
Nov. 21 filed 100,000 shares ($10 par) common stock. **Offering**—These shares are to be offered to holders of common stock in Zenith Radio Corp. 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.

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.

● **Tonopah North Star Tunnel & Development Co.**
March 27 (letter of notification) 900,000 shares of common stock (par $1), with 300,000 shares to be issued at 10 cents a share to cancel indebtedness and 600,000 shares sold to the public at 10 cents. No underwriters. Proceeds for mine, mill and incidental financing. **Offices**—1150 Union St., San Francisco, Calif., and 139 N. Virginia St., Reno, Nevada.

● **Treasure Mountain Gold Mining Co., Denver, Colorado**
March 28 (letter of notification) 100,000 shares of 25 cents par value common stock (par 25 cents) at 50 cents per share. No underwriter. Proceeds for additional machinery, payment of debts and exploration. **Office**—Midland Savings Bldg., Denver, Colo.

Turner Airlines, Inc., Indianapolis, Ind.
March 10 (letter of notification) 60,000 shares of common stock (no par). **Price**—$4 per share. **Underwriter**—None. **Proceeds**—To buy planes, pay overhaul and for working capital and general corporate purposes. **Office** — Weir Cook Municipal Airport, Indianapolis, Ind.

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.

U. S. Oil & Development Corp., Denver, Colo.
March 10 (letter of notification) 160,000 shares of 6% preferred stock (par 10 cents). **Price**—25 cents per share. **Underwriter**—R. L. Hughes & Co., Denver. **Proceeds**—To drill and rehabilitate wells. **Office**—429 C. A. Johnson Bldg., Denver, Colo.

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.

● **Washington-Idaho Mining Co., Spokane, Wash.**
March 27 (letter of notification) 750,000 shares of 10 cents par value common stock at 40 cents per share. No underwriter. Proceeds to pay indebtedness, for machinery, equipment and mine development near Kellogg, Idaho. **Office**—711 Hutton Bldg., Spokane 8, Wash.

Weisfield's, Inc., Seattle, Wash.
March 14 (letter of notification) 6,000 shares of capital stock at $47.50 per share. No underwriters. Proceeds to be used in setting up additional branch stores in Washington and Oregon to sell retail jewelry. **Office**—Ranke Building, Seattle, Wash.

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.

● **Western Wood Sugar & Chemical Co.**
March 27 (letter of notification) 5,555 shares of preferred stock (par $50) and 22,220 shares of common stock (no par) to be offered in units of one share of preferred and four of common stock for $50 a unit. No underwriter. Proceeds to build and operate a wood sugar molasses plant. **Office**—409 Atlas Bldg., Salt Lake City, Utah.

Westinghouse Electric Corp.
March 2 filed 500,000 shares of common stock (par $12.50), offered to employees under company's employee stock plan. **Underwriter**—None. **Proceeds**—For general corporate purposes. Registration statement effective March 21.

● **White (S. S.) Dental Mfg. Co. (4/19)**
April 3 filed 49,891 shares of capital stock (par $20). **Underwriter**—Drexel & Co., Philadelphia. (Of the total shares, 29,891 will be offered to stockholders at the rate of one new share for each 10 held and employees of the company and its subsidiaries will be given the right to buy the additional 20,000 shares plus any remaining from the stockholders' offering.) **Price**—To be filed by amendment. **Proceeds**—For additional working capital. Expected April 19.

● **Wisconsin Investment Co., Milwaukee, Wis.**
March 31 filed 2,100,000 shares of capital stock. **Underwriter**—Loewi & Co., Milwaukee. **Business**—Investment company.

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.

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 first mtge. bonds and sell 186,341 shares of convertible preferred stock which will 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.

● **California Electric Power Co.**
March 30 company announced that it plans to raise $2,000,000 through issuance of new securities about mid-year to finance construction requirements in 1950. If market conditions are favorable the management will consider raising at the same time the new money which will be required in 1951. Probable underwriters of preferred stock: William R. Staats Co.; Pacific Co. of California; Walston, Hoffman & Goodwin. Probable underwriters of bonds: Halsey, Stuart & Co. Inc.; Shields & Co.; Kidder, Peabody & Co.

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.

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.

Consolidated Edison Co. of New York, Inc.
Jan. 13 company officials estimated at $96,000,000 new money financing required through 1953. Indications were that short-term bank loans of $12,000,000, plus treasury funds, will be sufficient to carry construction program through until next fall before permanent financing will be necessary. Refunding of $5 preferred stock (1,915,319 shares outstanding) is also reported to be under study.

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.).

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.

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.

Hamilton Watch Co.
Feb. 20 announced that stockholders on April 20 will vote on a proposal to authorize the directors to incur up to $3,500,000 of indebtedness on a long-term basis, so as to place the company in a position to do such financing when deemed necessary.

Indiana & Michigan Electric Co.
Feb. 27 company was reported to be contemplating the issuance and sale of $20,000,000 first mortgage bonds in June or July, the proceeds to finance construction program. Probable bidders: Halsey, Stuart & Co. Inc.; First Boston Corp.; Union Securities Corp.; Harriman Ripley & Co., Inc. Possible refunding of privately held $22,500,000 3¼% first mortgage bonds is also said to be under consideration.

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.

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.**
April 12 stockholders will vote on authorizing 200,000 shares of first preferred stock, issuable in series (par $25) of which it is planned to initially issue 100,000 shares designated as 5.6% series. Under an exchange offer (which will be underwritten) each present preferred share would be exchanged for five new preferred shares and cash equal to the call price (including accrued dividends to May 1, 1950) of the old preferred over the initial offering price of the new preferred stock. Coffin & Burr, Inc., will probably manage the group of underwriters.

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 (in addition to 30,000 shares by selling stockholders). Proceeds will be used to reimburse treasury for capital expenditures already made and to increase working capital. Expected this month.

● **Lone Star Gas Co.**
March 23 announced that the company plans long-term borrowings in order to retire two short-term bank notes amounting to $5,000,000 and other loans which were the result of new construction expenditures during 1949; viz: $47,500,000 in instalment notes (including $2,500,000 current maturities) outstanding at the close of last year.

Montana Power Co.
Dec. 20 reported company may sell in 1950 and 1951 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.

● **Muntz (T. V.), Inc.**
March 31 it was said that early registration with the SEC is expected of about 400,000 shares of common stock. **Underwriter**—Kebbon, McCormick & Co.

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.

Niagara Mohawk Power Corp.
Jan. 19 announced that construction program will necessitate in 1950 not more than $25,000,000 of additional debt or equity financing, including short-term bank loans. Probable bidders for bonds: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co.; The First Boston Corp.; Kuhn, Loeb & Co.

● **Northern Natural Gas Co.**
April 4 requested SEC approval to issue 304,500 additional shares of common stock to common stockholders of record May 3, 1950, on the basis of one new share for each eight shares held; rights to expire May 22. Unsubscribed shares will be offered to company employees. **Price**—To be supplied by amendment. **Proceeds**—To be used for construction.

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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. The net proceeds, together with other funds, will be used to finance the company's construction program. Probable bidders: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc; The First Boston Corp.; Kidder, Peabody & Co. Offering expected in June.

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 and Blyth & Co., Inc. (jointly); Equitable Securities Corp.; Harriman Ripley & Co.

● **Oswego Falls Corp.**
March 20 stockholders approved $500,000 additional first mortgage bonds, which are expected to be issued about May 15.

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).

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.

● **Potomac Electric Power Co.**
March 23 reported company plans long-term financing later this year, the proceeds to be used to repay $5,000,000 borrowed in January from banks, the funds being used to pay for new construction.

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. Probable bidders: Halsey, Stuart & Co. Inc.; Morgan, Stanley & Co. and Drexel & Co. (jointly); Kuhn, Loeb & Co. and Lehman Brothers (jointly); First Boston Corp.

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.).

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) 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.

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 Edison Co.**
March 30 company applied to the California P. U. Commission for exemption from competitive bidding on 1,000,000 shares of cumulative preferred stock. Probable underwriters: First Boston Corp. and Harris, Hall & Co. (Inc.). Proceeds to be used for construction costs.

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.

● **Sunray Oil Corp.**
March 31 reported the registration statement may be filed this month involving about $80,000,000 financing in connection with proposed merger of Sunray with Barnsdall Oil Co., which is still in formative stages. Eastman Dillon & Co. are bankers for Sunray.

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 financir acquisition of property and other puroses. No immedia financing planned. Probable underwriter: Smith, Ba ney & Co.

Transcontinental Gas Pipe Line Corp.
March 27 it was announced that the company will s $32,000,000 additional first mortgage pipe line bon (which may be placed privately) and will borrow $1(000,000 from banks. Proceeds will be used to expa operations.

Utah Fuel Co. (4/10)
The referee will offer at public auction at 11 a.m. c April 10 all of the 100,000 outstanding shares of stock this corporation at the Guaranty Trust Co. of New Yor 140 Broadway, New York. **Business**—Mining of coal i Utah and Colorado and manufacturing of coke in Uta and sale of said products.

Utah Power & Light Co.
March 28 G. M. Gadsby, President, reports compan plans late this year to sell $10,000,000 of bonds, plus a additional like amount in 1951, together with 150,0C additional common shares in the latter year and 165,0C shares in 1952, the proceeds to meet construction cost Probable bidders for bonds: Halsey, Stuart & Co. Inc Drexel & Co.; Harriman Ripley & Co., Inc. and Unio Securities Corp. (jointly); Kidder, Peabody & Co White, Weld & Co.; Lehman Brothers; Carl M. Loel Rhoades & Co.

Virginia Electric & Power Co.
March 27 it was reported that company may issue nex fall $20,000,000 of "new money bonds." Probable bidders Halsey, Stuart & Co. Inc.; Union Securities Corp.; Kuhr Loeb & Co.; White, Weld & Co.; Stone & Webster Se curities Corp.; Salomon Bros. & Hutzler.

West Coast Transmission Co., Ltd.
Feb. 10 reported that Eastman, Dillon & Co. and the Firs Boston Corp. were ready to underwrite the financin of the 1,400 mile pipe line proposed by the West Coas Transmission Corp., along with Nesbitt, Thomson & Co. Ltd., of Montreal, Canada, and Wood, Gundy & Co. o Toronto, Canada. The financing would be divided 75% to bonds and the remainder to preferred and commo stock. A large amount of the bonds are expected t be taken by life insurance companies. Arrangements wil be made to place in Canada part of the securities. It i expected an American corporation will be formed t construct and operate the American end of the line i Washington, Oregon and California. The completed line it was announced, will cost about $175,000,000.

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.

● **Wisconsin Power & Light Co.**
March 24 reported company plans to raise about $16,000,000 in new money to finance construction costs, etc. This may include $10,000,000 of bonds. Probable bidders: Halsey, Stuart & Co. Inc.; First Boston Corp.; Salomon Bros. & Hutzler; Equitable Securities Corp.; Lehman Brothers; Glore, Forgan & Co.; Harriman Ripley & Co. and Harris, Hall & Co. (Inc.) (jointly); White, Weld & Co. and Kidder, Peabody & Co.

Our Reporter's Report

Southern Pacific Co.'s big convertible debenture offering, $37,727,800 in all, which raised considerable commotion a month or so back, has been wrapped up and tucked away as a decidedly successful operation.

Four groups had been set up to bid for the "standby" contract, when the financing was first announced, but two of these dissolved and withdrew when they looked over the provisions of the deal as set up by the railroad. These were adjusted somewhat later.

When bids of the remaining groups were opened even these proved a bit confusing to the investment banking minds, since the successful group took up the debentures as 3s with an underwriting compensation of $785,688 while the runner-up bid for 3¾s and a fee of $464,049.

The underwriting fraternity naturally watched the operation with more than customary interest. And while the bond market itself was a bit on the disappointing side during the standby interval, the sponsoring group was aided by a strong stock market which naturally added to the weight of the conversion feature attaching to the debentures.

When the offering to Southern Pacific's stockholders expired at the month-end, bankers found they had only $3,317,000 or thereabouts to take down. Sales against this block are reported to have run around $1,300,000, leaving a net balance of only about $1,900,000 actually unsubscribed or unsold. And these were placed readily by the group.

So ends another of those interesting episodes which crop up from time to time in the investment banking business.

Demand Seems Brisk

Natural gas securities appear to strike a responsive chord with investors these days judging by the celerity with which Tennessee Gas Transmission Co.'s 100,000 shares of new 4.6% preferred stock was snapped up this week.

Priced at $105 a share and backed by a sinking fund designed to retire the entire issue by April 1, 1980 the stock moved out quickly.

The same held true of the Georgia Power Co.'s $15,000,000 of first mortgage 30-year bonds, due on the market today. This issue drew eight competing bids on Tuesday, the highest 101.63999 for a 2⅞% coupon. At the reoffering price of 102⅛ to yield 2.77%, preliminary inquiry assured quick resale.

Bits and Pieces Around

Institutional investors have been in no particular rush, it appears, to clean up a few deals which have been hanging fire for a long time now.

As a matter of fact insurance companies, as an example, have been rather slow in general and, according to observers, have been doing little in the market since the turn of the year.

Accordingly, there are still bonds around from such deals as Appalachian Power, Detroit Edison Co., New Jersey Bell Telephone, Pennsylvania Power and Missisipi River Power Co. even though several have been turned loose to take care of themselves.

Two Issues Near Offering

Two more utility issues were set definitely on the road to public offering with the filing of the necessary registrations by Public Service Electric & Gas Co., and American Gas & Electric Co.

The first mentioned plans to issue $26,000,000 of new 30-year bonds through competitive bidding, the purpose being to retire currently outstanding issues.

American Gas filed for $27,000,000 of serial notes to mature from 1952 to the close of 1965. The interest rates here will be determined also by competitive bidding.

Proceeds will place the company in funds to redeem 151,623 shares of 4¾% preferred at $110 a share and dividends, and to liquidate $10,300,000 of 2% serial bank notes.

With Barret Herrick

(Special to The Financial Chronicle)

CHICAGO, ILL. — Oakley E. Patton is now with Barret Herrick & Co., Inc.

Joins Thomson McKinnon

(Special to The Financial Chronicle)

ANDERSON, IND.—Edgar W. Adkins is with Thomson & McKinnon, Citizens Bank Building.

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Closing the Dollar Gap

cussion and solution of trade problems.

One of our great needs is agreement among nations on principles to guide international trade and an organization of nations to help apply them. You men who are experienced in international trade know that economic warfare leads to less trade and less prosperity. We in the State Department know that it leads to more political frictions. We know that it is easier for each country to follow agreed principles of international trade if it can be reasonably sure of three things. These are, that most other countries are living up to the agreed principles so they will not be undercut; that they will be consulted before other countries do things that may affect their interests; and that each has an impartial forum before which it may bring any complaints or special problems.

That is also why we have been working so hard with negotiations under the trade agreements program. You know the record and I shall not repeat it. One illustration will show you the magnitude of the results accomplished. We participated actively at Annecy in France last year in negotiations to extend the scope of the General Agreement on Tariffs and Trade which was signed in Geneva in 1947. The negotiations at Geneva and Annecy resulted in liberalizing tariff barriers on about two-thirds of the total import trade of the 33 participating countries. This amounts to about $30 billion, or about one-half of the total import trade of the world. To do this, the participating countries reached agreement on almost 50,000 different tariff rates. This was a process that involved a great deal of give-and-take. No country was able to have its own way about every item. But the over-all results of this agreement are of such great consequence that every country will benefit from it in the long run.

Further negotiations are scheduled for September at Torquay, England. And we are confident that several new countries will join with the 33 who are now participating in the General Agreement.

As Mr. Calder has pointed out, our average rate of tariff on dutiable imports has now reached the lowest point in our history. But averages are not what matter in tariffs: it is the rate on the particular product in which the importer and the exporter are interested. And anyone who takes a look at our present tariff schedules can see that we still have a lot of pretty high rates.

The ad valorem duty on surgical needles is 40%. On victrola needles it is 54.9%. If you wanted to import imitation pearls you would have to pay a 60% duty on them. On most kinds of kitchen utensils you would pay 40%, and on some kinds of artificial flowers you would pay 71%. On wool blankets the rate is 60.6%. On cigarettes it is 104.4%.

So, by the reduction of tariffs around the world, we and other nations have already made it easier for countries to trade with each other. By further selecting reductions of our own tariffs, we can go far to make it easier for other countries to trade with us. Both of these contribute to the closing of the dollar gap.

To take the steps which will be necessary to close this dollar gap will not be easy. It will require important decisions by the people of the United States. It will require constant attention and effort by individuals and by government. It will, without a doubt, require in the national interest a subordination of certain particular benefits which certain particular groups of citizens would like to enjoy. The closing of the dollar gap at a high level is the most important single step that could be taken toward the economic and political stability and strength of the free nations of the world. It is therefore a problem which should require the same kind of coordinated effort that the nation puts forward when it is at war. A reconciliation and careful integration of domestic and foreign economic policy is essential. Surely, building the peace is just as important as winning the war.

The economic strength of the free nations of the world, and the preservation of their hope for economic progress, are among the strongest forces that can be brought to bear against Soviet aggression. Our present economic policies are designed **in the long run** to build this strength and provide this hope.

Let us continue these measures **for the long run.** But I am convinced we must also make the difficult decisions and take the actions needed for the **short run,** much along the lines you have heard discussed tonight.

You, each of you, can powerfully affect the solution of this problem. Let me suggest that each of you, and men like you throughout the country, have a vital interest in seeing the Marshall Plan carried through to a successful conclusion; the President's Point IV Plan put in operation; the ITO ratified; imports increased; and a sound program of increased foreign investments launched.

The United States is today the economic center of the world. With 7% of the world's population, we account for 20% of its agricultural production and 50% of its industrial production. We are the world's largest single market. We are the greatest single producer and consumer of many products. We have the highest per capita income of any country. Our exports and imports make up more than one-fifth of the world's international trade.

We must be wise in the exercise of leadership, and it is of great importance that men like you are spending your time on problems like the dollar gap. In the free enterprise system, people and business and government, joined in a common purpose, can resolve this—and all our other questions. I can assure you that in the State Department we welcome your efforts and will do our part.

Extension of ERP Seen As Key to Avoid Major World Depres'n

Earl I. McClintock, Executive Vice-President of Sterling Drug Inc., urges continuance of Marshall aid beyond 1952, particularly to Great Britain.

CHICAGO, ILL.—Extension of dollar aid, either in loans or continuance of the Marshall Plan beyond 1952, was pictured here March 27 as the "key to avoiding a major world depression."

Earl I. McClintock, Vice-President of Sterling Drug, Inc., declared that aid might be discontinued by 1952 in some countries that have reached "sound economic and political footing." The story in Great Britain, however, is different, he declared.

Mr. McClintock spoke in the Chicago Bar Association Building before a joint dinner meeting of the foreign departments of the Chicago Association of Commerce and Industry and the Illinois Manufacturers Association, the Export Managers Club and the Business and Professional Women of Chicago.

While Marshall aid offers the necessary time, Mr. McClintock said, "American business can accept the challenge it offers to the exporter" and "with hard work, intelligence, ingenuity and integrity overcome every obstacle and build a more substantial and profitable world trade than ever before."

Pointing out that the total sum of loans and gifts through the Export Bank, the World Bank and the Economic Cooperation Administration is "staggering," Mr. McClintock maintained that the benefits achieved, often made possible only through Marshall aid, have proved to be the salvation of Europe and of American exports.

"A severe decline in exports will weaken our whole industrial set-up," Mr. McClintock said. "In these days when the slightest economic tremors throughout the world are recorded on the business seismographs, such a decline could cause such a world depression as we have never seen."

Mr. McClintock maintained that the "increasing interdependence of nations and peoples had been heightened by World War II. He said that "pegging" the British pound" had furnished "time to ponder effective remedies for the world's economic ills. In the world in which we live today," he said, "we cannot afford to let the British Commonwealth down."

In stressing the importance of continued aid to Great Britain—either by exporting dollars or by importing goods—Mr. McClintock reviewed briefly the past 25 years of British history. In that period, he pointed out, Britain had lost millions of men, a great part of its foreign investments, and had changed from the world's greatest creditor to the world's greatest debtor nation.

"Our loan and the later ECA aid revived British industry and trade," Mr. McClintock said. "The people have worked hard. They have produced more and exported more than ever before. But some of the debts incurred in the sterling area during the war had to be paid.

"Great Britain may need some assistance after 1952. The United States cannot afford to see Great Britain fail. The effects on our own economy would be calamitous. The sterling area must remain solvent."

Mr. McClintock expressed the opinion that, in the face of a shortage of dollars in the sterling area to purchase American goods, "there will be only one way to maintain and develop trade there, and that is by doing business through subsidiaries domiciled in that area.

"For the past 10 years," Mr. McClintock concluded, "we have gone out and done a magnificent selling job for American goods. And now it looks as if we were on the threshold of another phase, manufacturing abroad.

"By introducing American methods of manufacture and merchandising, we can increase the national income of many populous countries. We can develop untouched natural resources, thus providing materials we ourselves need here. Such materials will furnish dollars to the exporting countries for imports from us.

"This is not a dream. Two world wars have depleted many of our natural resources. Who could have thought 35 years ago that we should be importing copper and iron ore today?

"The changed world offers a challenge to the exporter. I am convinced that by hard work, intelligence, ingenuity and integrity American business can overcome every obstacle and build a more substantial and profitable export trade than ever before."

Washington... And You

Behind-the-Scene Interpretations from the Nation's Capital

WASHINGTON, D. C.—All is going very poorly for what was once thought would be the smooth little plan to hawk the "civil rights" political wares for about three weeks to a month in the Senate, getting it ready for the political "sale" next November.

The filibuster on the Fair Employment Practices bill is overdue. Originally it was to have started in March. Maybe anyday, even by now, the Administration leadership in the Senate has decided to take the cold plunge, but at the beginning of the week they were most reluctant.

Of course the Administration does not openly "schedule a filibuster." Theoretically, it schedules consideration of the FEPC bill in the Senate. Everybody knows in advance, however, that (1) no FEPC bill with any enforceable provisions will pass, and probably not even a bill with "harmless" gestures will either; and (2) that scheduling consideration will inevitably precipitate a filibuster which will last three weeks to a month.

In theory, however, the filibuster is a good thing for the Truman Administration. It will permit the Administration to get credit with minority groups for pressing for this legislation. At the same time it will not pass and so will not create the intra-party havoc its enactment would cause. So the three or four weeks' filibuster would be blatant advertising to the minority groups that Truman was on their side, for minority voters to note next November.

Theory does not always work out. For one thing, it has been made clear to the Truman leadership that they do not have the necessary votes to enforce cloture, and hence to end the filibuster. So once the Administration takes the plunge it must realize that the filibuster will crowd out all other legislation while it lasts, or the Administration will have to give up.

Even though the Truman Administration had given up long ago any serious drive to get any appreciable proportion of its Fair Deal program enacted this year, a long-term filibuster would be embarrassing to the Administration. It would embarrass the Administration because social security, still to come up in the Senate, tax legislation, appropriations, foreign aid, and other more or less necessitous legislation, would be blocked.

So the price of an advertising campaign to show that the Administration is OK with the minority groups may well work out to be a terrific snarl-up of legislation at the beginning of the summer. A legislative jam would mean that the Administration's conservative opponents would be able to grab a lot more of their own way.

There is still another explanation for the Administration's delay thus far in taking the plunge. Two Fair Deal Democrats are hostages to civil rights. One is Senator Claude Pepper of Florida, who, although he made eyes at the Wallace crowd, is still more desirable to the Administration as a "forward looking" Senator than his conservative opponent in the Florida primary, Rep. George A. Smathers.

If the filibuster starts before the May 2 Florida primary (and it would seem difficult to delay it that long), the old line Democrats in Florida would not be backward about urging Mr. Pepper to drop his primary campaign back in Florida and go to Washington to show which side of the issue he favored.

Incidentally, Senator Frank P. Graham of North Carolina, another Fair Dealer who is the darling of the White House, is facing a tough primary fight in North Carolina from a conservative "white supremacy" Democrat.

On the other hand, the Administration is on the spot with the minority groups if it does not take up the FEPC bill. It cannot very well skip that one and make any forceful appeal to those large voting groups.

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There was a great deal of interest in what the President would do with the Kerr bill when it was presented to him.

It cannot be confirmed, of course, but the report is prevalent that the President promised key southwest Democrats that he would allow the bill to become law.

Few reporters have ever heard it charged that Mr. Truman, unlike his late predecessor, has broken his private word to politicians.

On the other hand, the "liberals" have built a terrific fire up against this bill, which is only for the purpose of guaranteeing that the Federal Power Commission cannot assert jurisdiction, if indeed it attempted to do so, to regulate the "arms length" production and sale of natural gas. The "liberals" have built up a fire against the bill alleging that its purpose is to boost "by billions" the cost of natural gas to consumers.

While it could not possibly raise gas bills by a fraction of the boost in the cost of coal, raised with the blessing of the Administration, it is easier to "go along" with a demagogic proposition of this sort than it is to argue the merits. That is the same sort of complaint that "liberals" have raised when the technique is employed in another sector against them, as is now happening on foreign affairs.

In the process of building up the Kerr bill as a steal against consumers, the "liberals" having failed to kill the bill, put the President in a real hole, now that it has passed.

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The proposal to investigate the "sick coal industry," incidentally, is bogging down. As of now it looks as though the chances are slim that this proposition will be approved by Congress.

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In the eyes of the big government boys, civil servants are conscientious individuals who put country above party or any other consideration. This ideal picture seldom is found in real life. However, there occasionally is one who will speak out for or against government policy, even when it is against a current political trend or a piece of legislation that might extend his powers and perquisites.

One of these is J. L. Robertson Deputy Comptroller of the Currency, second in command of the agency which supervises national banks. The current rage both in Congress and the Administration is to set up flowering government guarantees and loans to "small business," because theoretically small business cannot get adequate accommodation at commercial banks.

In a recent speech before a group of bankers, Mr. Robertson observed that "I have been unable to pin down facts which show that American banking is falling down on this phase of its job. Undoubtedly there are would-be borrowers here and there who would like to have more credit to work with, but who can't get credit because they are not credit-worthy. Perhaps it would be nice for them to have it—but not out of depositors' funds; and I personally doubt that it would be in the public interest for them to be financed from any other source," Mr. Robertson declared.

He declared that there was nothing to the assertion that banks do not make loans to small business for fear of examiner criticism.

"At the risk of appearing self-annointed, let me say that if you hear any banker state that he does not make small business loans for fear of examiner criticism, you can be pretty sure that you are listening to one who is misinformed, weak, or incompetent. He may have been misinformed by subordinates who have been criticized by examiners for unsound practices.

"I would not be overly concerned about such allegations—if it were not for the structure which some would build thereon," Mr. Robertson continued. "I refer to the proposals to extend government-guarantee procedure to enable an uncredit-worthy business to borrow from banks in order to compete with its credit-worthy neighbor. I cannot bring myself to believe that any good economic purpose would be served thereby. It would not transform unsound businesses into sound ones, but it might lead to reckless and chaotic competition which could drag down all concerns in the field, weak and strong alike."

While the Deputy Comptroller of the Currency was so speaking, the White House was putting the finishing touches upon its small business financing aid program, for government-sponsored guarantees, more liberal government lending to small business, and a system of government-wet-nursed "capital banks."

Mr. Robertson is the same "bureaucrat" who amazed Senator Paul H. Douglas of Illinois by advocating legislation to allow national banks under his supervision, if they chose to do so, to convert freely to state banks. The Senator, however, likes one big banking system throughout the U. S., to be controlled closely by the political arm of the government.

It is the Comptroller of the Currency's office which the Budget Bureau, using the office of the President, would reorganize into a nonentity under political control.

(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

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