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EDITORIAL

As We See It

A Belated but Still Rather Unrealistic Analysis

Indications are that the President, as well as his ECA Administrator, has rather belatedly come to some sort of realization that restoration of enduring world order cannot be achieved by alms. This, so far as it goes, is, of course, encouraging. It is perhaps particularly heartening to hear someone in a position of influence and responsibility talk as plainly about the economics of importing foreign goods as Mr. Hoffman has on some recent occasions — presumably with the blessings of the President. And the President himself apparently has included in his thinking some recognition of the economic necessity of balance in the dealings among the countries of the world. Too often, it has appeared that the politicians have confined their attention to the encouragement of exports, and have indulged in sham and balderdash when the subject has turned to how exports were to be paid for.

But when full credit is given for all this, the present status of the thinking, even as thus enlarged and amended, particularly the indicated thinking of the Chief Executive, leaves a good deal to to be desired. It leaves so much to be desired that real optimism finds little nourishment. It is still essential that current conceptions be brought down to this very real world in which we all live and in which such plans as are set on foot must, of necessity, operate. The shortcomings of official thought become readily apparent as soon as glittering generalities are left to one side and the more specific and concrete elements of the discussion are considered.

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The Business Outlook And the Security Markets

By DR. MARCUS NADLER*
Graduate School of Business Administration, New York University

Dr. Nadler predicts high business level will continue for at least six months, with subsequent developments unclear. States Treasury's policies in imminent refunding operations will have important bearing on price of tax-exempts and other high grade bonds. Regarding stock market, he cites both favorable and unfavorable elements and advises exercise of maximum selectivity.

I thought that you might be interested primarily in those developments which have a direct bearing on business activity and on the security markets.

Dr. Marcus Nadler

I say "business activity" because the security markets, both stocks and bonds, are influenced at least in part by business activity. Therefore, if we analyze, first, business conditions as they are at present, what the outlook for business is, it will be possible to understand better the forces operating in the money market as well as the forces operating in the equity market.

I will tell you right now, for the benefit of those who have to catch a train or want to leave early, I do not know what the stock market will do, and if I did know I wouldn't tell you; I would act accordingly and my profession would be one of gentleman farmer and not teacher.

Business activity today is at a high level. We measure business activity by the index of industrial activity as presented by the Board of Governors of the Federal Reserve System. In February it was about 180; in March, in all likelihood, it will be between 182 and 185; and in April it ought to be

*Special transcript for the "Chronicle" of an address by Dr. Nadler before the Association of Customers' Brokers, New York City, April 6, 1950.

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The Meaning of Government Interference

By F. A. HAYEK
Author "The Road to Serfdom," etc.

Internationally prominent economist maintains equality before the law, and the distinction between government by laws and government by men, constitute crucial tests in fixing proper degree of government interference. States limiting of government activities to fixed rules announced in advance, together with genuine equality before the law, are indispensable to preservation of free economy; and would prevent us from unwittingly sliding into collectivism.

The case for a free economy would be so much more effective if it were in general stated in less question-begging terms. In the way in which it is usually stated it is only too easy to distort it into a caricature and expose it to ridicule. Especially the time-honored phrase about "non-interference" of government with business can only too easily be misrepresented as a demand for complete inaction of government in economic matters. The advocates of a free economy of course have never meant this in a literal sense. They all count and must count, on the government enforcing some laws. Although it is really ridiculous that it should be necessary to state this again and again, the opponent of government "interference" is not an anarchist. The question is not really whether government should ever concern itself with economic matters at all, but what kind of government action is legitimate, what should be its range and how it should be limited.

Friedrich A. Hayek

Letting in the Wedge

The instinctive aversion which every believer in a free economy feels about admitting this, is only too understandable. It seems as if, once one abandons the opposi-

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PICTURES taken during the course of the Fourteenth Annual Conference of the Central States Group of the Investment Bankers Association appear on pages 25, 26, 27 and 28.

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

International Business Machines Corp.—John S. Borg, Partner, May, Borg & Co., N. Y. City.

Grand Union Company—Jacob S. Eisinger, Partner, Cohen, Simonson & Co., N. Y. City.

Selected Issues—Col. William Freiday, Partner, J. Robinson-Duff & Co., N. Y. City.

Columbia Gas System, Inc.—J. W. Jackson, Edward A. Purcell & Co., N. Y. City.

Southern Pacific Co. Convertible Debentures 3s of 1960—Henry Oetjen, Partner, McGinnis & Co., N. Y. City.

JOHN S. BORG

May, Borg & Co., Members, New York Curb Exchange

(International Business Machines Corp.)

To name one security as the one I like best requires some definition of terms, since it is clear that everyone likes certain securities better than others for particular purposes, and none is best for all. I have chosen International Business Machines as the security which I believe most nearly fulfills the requirements for long-term holding.

John S. Borg

My reasons are first, that I believe in growth equities, and secondly, that I think this company's record and prospects, its management, its capitalization, its industry, and its position within the industry, all point to continued sound profits expansion.

Last year's sales and service rentals were about 4½ times the 1939 figure and net income has risen from about $9,000,000 in 1939 to more than $32,000,000 in 1949, or about 3½ times. The percentage of sales improvement is greater than that of such another leading growth company as du Pont, and only a little short of the sales growth of General Electric; whereas earnings increases exceeded those of either of these outstanding enterprises during the same years. In a period of rising expenses and labor costs, devices which are labor savers find a particularly ready market. Since this basic trend is apt to continue for the foreseeable future, the demand for products of IBM should be very strong. Among other favorable features is the steadying effect of rental income which is the principal source of revenue, and fluctuates less than sales of new equipment. Furthermore the large sale of cards for use in its machines is an important sustaining factor. The fact that large users of IBM equipment include government and public agencies, banks, and insurance companies, all of whose activities fluctuate less than volatile industry, acts as yet another support for volume in periods of declining general business.

The growth of IBM has been almost without interruption, there having been only three years since 1925 (namely, 1932, 1933 and 1942) that the net profit did not exceed that of the previous year. This outstanding record resulted both from the factors already mentioned and from the development of new and improved products created by the large research and engineering laboratories. Not only are more and more large corporations installing additional IBM equipment, but smaller concerns as well are becoming customers in large numbers. The domestic market is still growing, and foreign markets offer almost unlimited new fields. To quote from the last annual report "The growth of IBM's business abroad resulted in the formation of the IBM World Trading Corporation, a wholly owned, but independently operated subsidiary company, for the purpose of conducting all IBM business outside the U. S. and its territories and possessions."

So consistent has the company's growth been that its annual stock dividends of recent years may reasonably be considered as income supplementing the modest cash distributions. Since 1937 the custom of a 5% annual stock distribution was pretty well established, with more important splits in 1946 (5 for 4) and 1948 (¾ share additional for each share held). One hundred shares bought at the 1939 average price of 170⅝ (half way between the high and low) and before that year's stock dividend, would today have increased to roughly 339 shares. With the current price about 233, the initial investment of $17,075.50 would be worth almost $79,000.00 exclusive of cash dividends received to a total of something like $10,100 additional. During these years, total assets shown on the balance sheet increased from just under $79,000,000 to over $267,000,000 financed largely by retained earnings reflected by the stock dividends. Debt increased by only $71,000,000 during this expansion period and now consists of three low interest bearing issues totalling $85,000,000. Balance of capitalization is comprised solely of the 2,632,007 shares of capital stock outstanding.

While I know of no sensational immediate development or prospect, I feel that confidence is warranted for continuance of the capital gains which have accrued in the past to stockholders of this well-managed and progressive company which stands virtually alone at the head of its special field of operations.

JACOB S. EISINGER

Partner, Cohen, Simonson & Co., New York City

Members, N. Y. Stock Exchange

(Grand Union Company)

The security I like best must, in addition to meeting certain statistical tests, possess elements of enduring merit, which perhaps do not appear in the balance sheet, but are even of greater importance than earnings, book value, etc.

Jacob S. Eisinger

The Grand Union Company operates a chain of 288 retail food stores, of which 200 are super markets; 813 wagon routes going out to serve rural customers lend a measure of marked stability to the operation. These latter radiate from 47 warehouses in 36 states, and offer tea, coffee, spices and other groceries, as well as premium household products to rural customers.

The most attractive feature to me about this company is the quasi-public utility nature of the service it renders. It offers the housewife savings of 15% to 20%, as contrasted with the cost of purchases at the corner grocer. An inspection of one of the modern super markets offers a revealing object lesson in the kind and quality of service available at an extremely attractive price level. Here, in a well lighted area, one sees spread out a vast variety of clean, fresh food products. Many of them are prepackaged in sanitary containers. This is true of cheese, meat products, some vegetables and, of course, many conventional items.

The meat counter illustrates the cleanliness and efficiency of new methods; long, low refrigerated show cases contain a great variety of meats, each item wrapped in cellophane and bearing clearly a legend showing weight, price per pound and total price. Thus, the housewife may go directly to the section that interests her. There she need neither engage in conversation nor wait in line. She merely reaches down and picks up the beef steak, liver, lamb chops, hamburger, or whatever else might fit her needs. She sees all, including weight and price at a single glance. She can complete her purchases within a few seconds, saving time, energy and a substantial amount of money. If she should be in the rare category of persons having a special requirement, which is not fully met in the wellstocked cases, she can speak to an attendant who will see that a special order is made up for her. Other than this attendant, no workers are visible. The butchers work in a rear room quietly and without strain, in almost a studio environment. The wrapping and sealing are done by junior employees. As is obvious, this method results in substantial economy, which is passed on to the customer.

Food-O-Mat, which displays hundreds of packaged items, again is a saver of time and energy. Always well lighted and orderly, it shows the customer, at a glance, where can be found the jello, mayonnaise, cereal, puddings, flour, sugar, ketchup, and a host of other prepackaged items. She reaches up and removes the one that interests her. By force of gravity, another package slides into the vacant place, readily available to the next shopper.

Vegetable and fruit counters offer a bountiful display of beautiful products of the soil at attractive prices. The clerks in charge of these items know and love the product they handle.

The second important element to me is the price structure maintained in these stores. The savings of large scale buying, efficiency in distribution and selling are passed on to the consumer. In 1948, on sales of $116 million, the net profit was $1,780,000, a profit ratio of a trifle over 1.5%. In other words, on a sale of $10 of groceries to a housewife, (which might seem like a pretty substantial transaction), the net profit to the company is approximately 15c. This is really passing on the benefits of an efficient, farseeing operation to the consumer! It seems to me that an enterprise so conceived and so managed rests on bed rock. Its future is clear and assured, because of the nature of the service it is in position to render.

The third element that strikes me as being particularly interesting is the fact that this company has very wisely retained a large proportion of its earnings, instead

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A Warning to Commercial Bankers on Consumer Credit

By J. L. ROBERTSON*

Deputy Comptroller of the Currency

Stating commercial banks felt obliged to get on the consumer-credit bandwagon, Deputy Comptroller of the Currency urges them to equip themselves properly. Warns satisfactory loss record of past is no guide to future, citing alleged carelessness in current lending on television sets and automobiles. Reports 40% of instalment credit held by banks, who are handling delinquencies with growing laxity.

I would like to take a few moments to speak about some possible misconceptions of the attitude of bank supervisors toward certain kinds of banking business.

J. L. Robertson

All of us have heard that bank supervisors look unkindly — to understate it —on consumer credit. We who represent the Office of the Comptroller of the Currency firmly believe that one of the fundamental duties of banks is to meet the credit needs of the people—all of the people. Hence, we could not look askance at consumer credit, as long as it satisfies a legitimate demand in a constructive manner.

It is an accepted and recognized economic fact that consumer credit has served as a stimulant to production, which in turn has led to increased employment, thereby creating additional purchasing power. In short, it has become a very definite part of our economy. Its importance is manifest from its rapid expansion, and today its position is so strategic that it can serve as an economic stabilizer or lead to economic instability, depending upon the way it is handled and whether it expands and contracts at the right or the wrong times.

For years some of us wondered at the slowness of banks to enter the consumer credit field. For a long time the field was relatively untouched by commercial banks. Small loan companies and finance companies stepped into the breach —sometimes charging unconscionable rates of interest, and sometimes operating on bank funds borrowed at extremely low rates. Finally, a few banks saw the light, and then almost overnight most banks felt obliged to get aboard the bandwagon, irrespective of whether they were equipped to do so. Today, a large portion of the consumer credit paper of the country is in our banks. But consumer credit is still a relatively new field for commercial banks — the ABA's Consumer Credit Department is only 10 years old.

A Fruitful Source of Bank Profits

Consumer credit has been a fruitful source of bank profit. The loss record has been good — as well it might, in view of the upward trend of the times — even though in many banks this type of paper has been handled by unskilled employees. But the times will not always be trending upwards, and the fact that an individual has functioned satisfactorily in the recent past is no proof that he has either the ability or the understanding to operate a successful department during less favorable times.

Too many of us have drugged ourselves with the statistics of "historical experience" in the consumer credit field. It cannot too often be emphasized that most of these statistics are based on experience of the past fifteen years, in an economic climate which made even bad paper good! I hope that none of us expects this easy state of affairs to continue forever, and I hope that we are all avoiding the unsound and slipshod practices that have gone "unpunished" in recent years. After the cream is off the sellers' market, competition among retail dealers can result in a crop of consumer paper of very doubtful quality, and if banks with inexperienced or over-eager consumer credit departments are holding such paper when an economic downturn occurs, these banks are in for some painful education.

Competent Personnel Needed

Consequently, every bank which engages in this business must recognize that it requires competent personnel — men and women who possess both technical training and credit sense, who are more interested in soundly meeting actual needs of the public than in "selling" credit for the sake of volume, profit, or self-aggrandizement; men and women who realize the effect of consumer credit on the economy of the nation, and hence keep an eye focused on the probable future—knowing the dire results of sudden changes of attitudes at the wrong times; who realize that unsound relaxation of standards by even a few institutions may make the difference between government control and self-control.

I look forward to the day when greater emphasis will be placed on increasing the number of direct bank-to-individual consumer loans, rather than on the acquisi-

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*Part of address by Mr. Robertson before American Bankers Association Consumer Credit Conference, Chicago, March 28, 1950.

For a complete record of potential corporate financing consult our "Securities in Registration" section.

The O'Mahoney Steel Report —A Political Grab for Control!

By ROBERT S. BYFIELD

Member, N. Y. Stock Exchange

Mr. Byfield likens O'Mahoney Committee hearings on the steel industry to the totalitarian "demonstration trials" in which verdict is prejudged and objective is to propagandize ideology of those in power. Declares Committee Majority's views constitute a blueprint for enfeeblement of U. S. heavy industry to degree where State finds easy excuse to take over.

The American sector of the world-wide assault upon invested capital will soon enter its third decade of activity. Carrying the ball just now and prominent in the public prints is the Joint Committee on the Economic Report of the 81st Congress generally known as the O'Mahoney Committee. On March 27 last it issued its report on price increases in the steel industry accompanied by a violently dissenting minority report which, together with appendices and certain individual comments, comprise in all a printed pamphlet of 66 pages. The hearings themselves, upon which the report was based, were held on Jan. 24 to 27, inclusive, and, with exhibits, fill a volume of 567 pages. The principal findings of the majority, including the Chairman, Senator Joseph O'Mahoney of Wyoming, were, in brief, that the steel price increases of last December were untimely and unwarranted, that a new Congressional investigation of the steel industry be launched with subpoena powers to force the submission of requested data and that steel producers be required in the future to file with the Federal Trade Commission schedules of any proposed price increases 30 days before they went into effect.

Robert S. Byfield

"Must" Reading

The blow-by-blow story of the investigation, if such it can be called, should be required reading for security analysts, investors, businessmen and serious students of the great socio-economic struggle of our time, namely, the redistribution of wealth and income in the United States by political action. It would serve no purpose to superimpose our own factual and statistical analysis upon the opinions of the majority and minority. To do so would require a brief too lengthy to find a place in these columns and too technical to appeal to any but a small segment of our readership. We do feel, however, that some purpose may be served by pointing out the significance of what has already happened in the battle of Big Government and Big Labor vs. the steel industry and where it may lead not only that industry but all American business as well. In the interest of clarity we therefore offer a half dozen observations at this time:

(1) The O'Mahoney onslaught is only a single localized engagement in a larger and more inclusive war against business.

The current hearings brought out comparatively few new facts about the steel industry or the conduct of its operations. This is the third, not the first time, the Joint Committee on the Economic Report has investigated price increases in steel since V-J Day. There was a hearing in March, 1948, and the Subcommittee on Profits of which Senator Flanders was Chairman examined prices and profits of the steel, automotive and other industries in December, 1948. Besides these three there were the hearings before the Presidential Steel Fact-Finding Board in July and August, 1949, and the report of that board in September. There was the Nathan Report to the CIO on the Economic Position of the Steel Industry 1949 and the well documented 287 page reply of Dr. Jules Backman entitled the Economics of a Fourth Round Wage Increase. For years the steel companies have lived in a statistical goldfish bowl.

Yet, in a large measure, steel while having attracted to itself more rough handling than perhaps any other industry, has nevertheless shared the arena with other important industries. In the Flanders hearings of 1948 the food processing, automotive, oil, textile and electrical goods people were called in to testify regarding their profits.

Recent Anti-Trust Actions

The anti-trust front has again been active in recent months. There are the actions against DuPont, General Motors, U. S. Rubber, Western Electric and the A. & P. by way of example. Such suits are not the old-style simple attacks such as were characteristic of enforcement of the Sherman Act prior to 1938 which ushered in the Thurman Arnold era. They involve new concepts and patterns which go far beyond the simpler, one firm monopoly prosecutions exemplified in the Standard Oil, Tobacco Trust, Pullman and Alcoa cases. Just before Labor Day 1949 it became clear that the 1948-1949 style of attack against business would be replaced by a new tactic. Pre-empting the style of the late George Orwell in his novel "1984" we would say that in 1948-1949 the chant of the business baiters was "Profit Equals Sin." In 1949-1950 it is "Business Equals Badness." While the following are merely coincidences we recall that Congressman Emanuel Celler, Chairman of the House Judiciary Committee and of the Subcommittee on Monopoly Powers who had been investigating monopolies all summer became very active. The report of the Federal Trade Commission on the Concentration of Productive Facilities was published. In an article on Aug. 22 the "New Republic" took a sharp crack at the war-time activities of large corporations. Interviews and articles about business size began to multiply in the press. In its October, 1949, issue the CIO "Economic Outlook" in one of its characteristically uninhibited and emotional outbursts handled the subject under the title "Big Business is Getting Bigger." The tomtoms were beating, the heat was on, the neo-liberals and their auxiliaries were now officially alerted.

(2) The case against the steel companies was completely prejudged.

It needed no clairvoyance last December to predict almost exactly the type of bludgeoning the steel companies received at the hands of the majority members of the committee in their March 27 report. One was warned in advance by the vigorous denunciations which issued from Washington when the call for the investigation was made. Chairman O'Mahoney baldly stated on Dec. 15 that "the steel industry is not justified in levying an increased tax upon the whole economy of the United States." The same charges and epithets were hurled at steel in December, 1949, as in December, 1948, at the time of the Flanders hearings on corporate profits. Example after example of bias on the part of the majority was given in the minority report which cites such rhetorical trickery as implications, selectivity in quoting witnesses, distortion of facts and the manufacturing of prejudice. If the majority members of the committee were really the conscientious and vigilant guardians of the consumers of steel, why did they remain silent while wage and pension costs were being raised?

(3) There is a frightening misunderstanding as to the function and importance of adequate depreciation charges.

The colloquy between Mr. A. B. Homer, President of Bethlehem Steel Co. and Messrs. O'Mahoney and Patman of the majority is a classic demonstration that, if translated into law, Welfare State economics might make it impossible for American industry to expand except by selling new securities or borrowing. The majority, in brief, questions the propriety or fairness on the part of a business to use reinvested profits for expansion or replacement. It does not or will not understand that whereas plant, equipment and facilities are, as a matter of accounting convention, stated on its books at cost and depreciated annually on an original cost rather than a cost of replacement basis, in an era of rising prices additional amounts of money must be found merely to replace physical assets as they wear out. They will not acknowledge the truism or basic principle that the more business is "affected with a public interest," to use a neo-liberal cliché, the greater its primary duty to stay in business as a going concern, maintain its plant and equipment and improve its technology. Congressman Patman flatly accused Bethlehem of asking the "consumers of America to subsidize it" because the funds for replacement at present day costs and expansion came out of "sales revenues." If not out of the proceeds of the sales of goods they produce or services they render, where would American business obtain funds to operate, provide jobs and grow? Borrowing or selling securities cannot be the answer, because they would lead to excessive indebtedness and overcapitalization. We therefore assume the majority believes that American industry has been wrong all these years in the methods by which it grew and maintained itself.

(4) Inference that the steel industry may have developed technological and economic similarity to public utilities may be the opening gun in a campaign for quasi-nationalization of all basic industries in the United States.

We have maintained for many years that nationalization of American industry in the British fashion would be repugnant to the electorate. We find it difficult to conceive that owners of steel equities would be forced to exchange their stock certificates for government bonds, but an almost equivalent result might be brought about by a series of events calculated to reduce the shareholders to the status of landlords or lessors. Title would remain as now but returns would bear a relationship to investment at cost or to net worth and would be fixed by a government approved formula. All gains through growth, technology or efficiency would accrue to labor, consumers and

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Understanding the Balance Sheet

By GEORGE F. SHASKAN, JR.*

Partner, Shaskan & Co., Members N. Y. Stock Exchange

Mr. Shaskan explains the fundamental principles and details of the company financial statement. Details the various categories of assets and liabilities, and elaborates on the functioning of corporate reserves, analyzing in detail a typical balance sheet.

Turning now from last week's pleasant and easy-to-take discussion of "How to Read (and How Not to Read) the Financial Section," so capably handled by our guest lecturer Mr. A. Wilfred May, we come to one of the more difficult parts of the course—"Understanding the Balance Sheet." The balance sheet and its close associate the **Profit & Loss Statement** are so important to sound investment, that if we can really make these understandable and usable to you this series of lectures will have served its purpose.

Geo. F. Shaskan, Jr.

In brief, the balance sheet is the financial statement stating the condition of business as of a specified date. It is so important to the investor because it provides the basis for determining salient features of a company's financial condition. For example, Professor Prime lists five major facts which are derived from the balance sheet. These are: the amount of capital invested; the working capital position; capital structure; income-providing assets; and adequacy of reported earnings. We will study the application of a balance sheet in a later lecture, devoting this lecture to seeing just what it contains.

Principal Sections

The balance sheet is generally divided into two principal sections—**Assets and Liabilities.** Each of these main sections, in turn, is divided into sub-groupings which we shall examine in a few moments. In terms of its make-up, for most American corporations assets are shown on the left side of the page and liabilities on the right side of the page, although you will occasionally find the assets stated at the top of the page with liabilities listed below.

Taken as a whole the balance sheet shows what a corporation owns—its assets, and what it owes—its liabilities. For any corporation that is not bankrupt these two figures—assets and liabilities—must always be equal. This may be a difficult concept to grasp since you are likely to protest that if liabilities are always as great as assets, the corporation on balance has no worth. However, this will not be a problem as soon as you realize that included in its liabilities is not only what is "owed" to creditors but also what the corporation "owes" to its stockholders, that is the stockholders' equity in the corporation's assets. I think this will become clearer as we examine the balance sheet in greater detail.

The Current Assets

Turning now to the asset side of the balance sheet we will find a number of categories. The first category is usually **Current Assets** which are generally described as those assets which in the normal course of business operations provide the means of meeting the claims of current creditors. They generally include such items as cash, marketable securities, accounts and notes receivable and **inventories.** I think we all know what cash is. Marketable securities would include those securities which the corporation could readily turn into cash and which it might possibly in the course of its operations turn into cash. Accounts and notes receivable are what others owe the corporation and which are expected to be realized in the course of normal operations. Inventories are the raw materials, work in process and finished goods that a corporation uses in its normal operations.

Fixed Assets

The assets listed next are generally **Fixed Assets.** Fixed assets consist of land, plant, equipment and machinery. You will usually find that most corporations list the gross or total value of the land, plant, equipment and machinery and then deduct from this gross figure an amount to allow for the wear, tear and obsolescence of such assets to provide a corrected or net figure. This allowance is described as "Reserve for Depreciation, Amortization and Depletion" and we will be reviewing this account in greater detail somewhat later. At this point, however, it is important to know that occasionally the Reserve for Depreciation, Amortization and Depletion is sometimes carried on the liabilities side of the balance sheet.

If the corporation owns any investments which it intends to retain on a more or less permanent basis these will generally be shown next among the assets. Such investments might represent the securities of a subsidiary or they may be securities of other companies. In the latter event, particularly, they may be as fully marketable as the securities listed among Current Assets but the fact that the corporation has no intention of turning them into cash will dictate that they be listed as

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*Transcript of the sixth lecture of a series on "Investment Planning for Women," given under the auspices of Shaskan & Co., at the Hotel Barbizon, New York City.

The State of Trade and Industry

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

Total industrial production for the country as a whole declined fractionally from the previous week's high level the past week. However, it managed to hold moderately above the level for the corresponding week a year ago. Unemployment insurance claims, both continued and initial, in the week ended March 25 reveal fractional declines.

Steel production for the present week is scheduled at 97.8% of capacity, or an increase of 1% above the previous week. The current rate is understood to represent the greatest production since the record output attained in the week of March 14, 1949, when the industry's capacity was lower and operations were at 102% of that capacity.

* * *

The steel supply situation the current week shows signs of tightening and demand booming, according to "Steel" magazine. Seasonal expansion in requirements is adding to stringency resulting from tonnage lost in the coal and steel strikes. Demand-supply conditions, especially in the light, flat-rolled products, are reminiscent of the immediate postwar scarcity period. Conversion deals are increasing, gray market offerings are more numerous at some points and more rigid distribution controls are being applied even on such products as bars, plates and shapes. Sales of imported steel are also making headway, the magazine notes.

Despite the accelerated demand, a note of caution persists for the last half of the year. Leveling off in activity is expected once consumer inventories are replenished. Possible serious automotive labor trouble is cause for some apprehension. Nevertheless, market opinion today overwhelmingly anticipates no summer slackening in pressure. Vacation shutdowns in July and accompanying production losses, are thought likely to extend supply-demand imbalance to Labor Day at least. By that time normal seasonal upturn may be under way to assure continuance of high-level steel production through remainder of the year, this trade paper observes.

With regard to what effect foreign imports play in our nation's steel supply, it was revealed on Tuesday of this week that the largest amount of foreign iron ore ever brought to the United States in a single year arrived during 1949, with receipts of 8,300,000 net tons from 18 countries, according to the American Iron and Steel Institute. That was an increase of 22% from 1948, when imports totaled 6,800,000 net tons. In 1947 about 5,492,000 tons were delivered and in 1946 the imports totaled 3,085,000 tons. The largest supplies came from Sweden, Chile and Canada.

Simultaneously, the Institute pointed out, steel companies were active in exploring and developing large iron ore deposits in South America, in exploring the Quebec-Labrador iron range and in constructing facilities for shipment of ore from Liberia.

Encouraging indeed was the statement made by Ward's the past week which stated that so far in 1950, an estimated 1,460,000 cars and 320,000 trucks have been turned out in the United States, and 69,400 cars and 25,300 trucks in Canada. This compares with 1,181,000 cars and 362,000 trucks in the United States and 38,700 cars and 26,400 trucks in Canada in like period of 1949.

* * *

Secretary Sawyer of the United States Department of Commerce predicted business in the second half of 1950 will be "excellent." In a previous statement he said that business would be good during the first six months this year, but had avoided making any forecast about the second half. Mr. Sawyer declared the United States should increase imports to help foreign nations earn dollars to pay for their purchases here. However, he advocated careful study before any action is taken or policy adopted.

STEEL OUTPUT SCHEDULED AT HIGHEST LEVEL SINCE WEEK OF MARCH 14, 1949

The 1949 earnings of the nation's steel companies fell only 2.3% below the 1948 level despite the strike that crippled most of the industry last fall. This is one of the salient conclusions obtained from a financial analysis of the industry just completed by "The Iron Age," national metalworking weekly. Total income for the industry was $554 million on sales of about $7.7 billion.

The decline in earnings, less proportionately than the 9.2% slump in net sales and operating revenue; reflected the industry's ability to shake off the depressing effect of a month-long shutdown, and increased operating efficiency through modernization and better production planning, states this trade authority. The

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COMING EVENTS

In Investment Field

APRIL 20, 1950 (N. Y. 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 (N. Y. 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 8, 1950 (Boston, Mass.)
Boston Securities Traders Association Thirty-first Annual Outing at New Ocean House, Swampscott, Mass., with golf at the Tedesco Country Club nearby.

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.

With Woolfolk & Shober

(Special to THE FINANCIAL CHRONICLE)

NEW ORLEANS, LA.—James A. Lindsay is with Woolfolk & Shober, 839 Gravier Street.

"OBSERVATIONS"

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

Tax Problems Involved In Pension Plans

By HERMAN C. BIEGEL*
Attorney-at-Law, Washington, D. C.

Mr. Biegel cites following elements, disregard of which constitutes potential pitfalls in qualifying union-negotiated plans under tax laws: (1) permanence; (2) actuarial soundness; (3) keeping unrelated general welfare benefits away from pension purposes; (4) devotion of plan to benefit of employees of a particular employer; and (5) non-discrimination in coverage and benefits.

I
Introduction

One would hardly expect to find material for a literary plot in the tax laws—least of all in the pension provisions. But anyone who has followed the development of the pension provisions and their relation to union negotiated plans can discern immediately the O'Henry-like turn that the plot has taken.

Herman C. Biegel

Prior to the Revenue Act of 1942, the provisions applicable to pension plans were general in scope and simple in detail. The Treasury Department's regulations and rulings were equally broad. With the advent of the excess profits tax, many taxpayers had recourse to pension plans so as to defer high profits earned during the war years to a later and perhaps lower tax period.

Accordingly, the Treasury Department recommended and Congress adopted an entirely new statutory scheme relating to the type of plan which would qualify taxwise, and the extent to which deductions would be allowable. The statute contained very precise statutory criteria on both phases of the problem. The Treasury implemented this with an even more detailed set of regulations and has since promulgated scores of rulings and mimeographs, a bulletin, and instructions on the subject.

Running through all of this was the Treasury's desire to make certain that plans did not discriminate in favor of highly paid employees; that plans were adopted not as a temporary expedient to avoid high taxes, but as a long-range retirement program; that plans covered only those who were employees in the strict sense of the word; that plans were actuarially sound and not mere depositaries for excess funds; and that plans provided true retirement benefits and not a "Rube Goldberg" conglomeration of unrelated benefits such as health, death, accident, vacation and dismissal pay.

Ironically, some of these restrictions have now "kicked back" so that they cast doubt on the ability of many union negotiated plans to qualify as exempt. Moreover, the provisions dealing with the applicable limits of allowable deductions also present tax obstacles to the union negotiated plan. I shall attempt to discuss both phases of this problem.

II
Qualification Aspects

There are at least five points which may give rise to difficulty in qualifying a union negotiated pension plan under the pension provisions of the law:

(1) **Permanence:** The statute refers to plans for the exclusive benefit of employees. (§165(a), IRC.) The Treasury Department has stated that the term "plan" implies a permanent, as distinguished from a temporary, program; and that while the employ-

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*An address by Mr. Biegel before the Pension Conference of the Chamber of Commerce of the United States, Cincinnati, Ohio, March 29, 1950. Mr. Biegel is associated with Messrs. Alvord & Alvord, Washington, D. C.

Britain's Overemphasis of Individual Security Obstructing Competition and Economic Progress

By GEOFFREY CROWTHER*
Editor-in-Chief, "The Economist" of London

British publicist elaborates on long-range decline of competition in England, resulting in material sluggishness and halting technical progress. Notes individual's passion for security, and asserts it is blocking material productivity and thus enhancing his country's critical difficulties as the dollar gap.

The British view of competition has changed very considerably in the 50 years that we are now celebrating. My own direct observation of public affairs only goes back to about half of that 50 years, but the records are there in ample volume, and the Britain of 1900 took a very different view of competition in business from that of the Great Britain of 1950.


Geoffrey Crowther

In 1900—and, indeed, right up to the outbreak of the first World War, in 1914, Great Britain was still, in the most literal sense of the word, a free trade country with a competitive economy. It still professed and followed, more fully than any other nation in the world, the doctrines of Adam Smith and, in particular, paid attention to that favorite paragraph of mine from the "Wealth of Nations" which I will take the liberty of reading: "People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices. It is impossible, indeed, to prevent such meetings by any law which either could be executed or would be consistent with liberty and justice. But though the law can not hinder people of the same trade from sometimes assembling together, it ought to do nothing to facilitate such assemblies, much less to render them necessary."

Just exactly what Adam Smith would have thought of a school of Commerce, Accounts and Finance, or a Jubilee Convocation such as this, I will not pause to inquire.

Britain a Half-Century Ago

Britain, 50 years ago, was still, in the main, an economy of small independent business and many industries, where almost perfect competition prevailed—and I am using the classical definition of "perfect competition" as being a state in which the market is so large, relative to the operations of any one seller that nothing that one sells can affect the price, and that was a definition which would still be used with quite a considerable approach to reality 15 years ago.

It is true that the old common law against combinations, and restraint of trade had, in practice, lapsed, but it had lapsed because there was no need to apply it. Indeed, as one looks back and reads the literature of that period that now seems so remote, you will see that in England monopoly and the restriction of competition were regarded as being American ideas, that both trusts and trust busting were American ideas which had no application in England.

And as a small and interesting sidelight on that, the movement towards combination in the tobacco trade in Britain, which has now brought the tobacco industry to be a highly organized industry, was originally started as a movement of protection, of resistance against a threatened situation of the British market by the American tobacco trust of those days.

Indeed, there was a certain slight selfrighteousness in British comments in those days about conditions in the United States, pointing out how the existence of a protective tariff made it possible for restrictions upon competition to arise and that a country which had the common sense to work a free trade system need not bother its head about the existence of such evils.

Well, that was the picture of 50 and, indeed, of 40 years ago, and the picture today could not be more different. Even before the outbreak of the recent war, the really competitive industry in Great Britain had become a rarity. There were very few industries that could really be regarded as working in a competitive market and even those industries which were not in themselves competitive found that their ability to cut their costs and to enlarge their market was very severely limited by the lack of competition elsewhere.

Automobile Industry

For example, if I may give you an industry, the British automobile industry was, and still is, in itself, a competitive industry. There is no sort of agreement upon prices or production between the British automobile companies. Nevertheless, they find their room for competitive maneuver is very considerably restricted by the lack of competition in the industries from which they draw many of their supplies.

In other industries in Britain where competition still exists in service, in quality—I am thinking in particular of the retail trade—even there you will find that prices, selling prices, are arranged, are managed, are coordinated to a degree which you in this country would find quite astonishing.

Those tendencies were clearly visible, and reached a high point even before the outbreak of the recent war, and they have been very greatly intensified by ten years of war from which we have hardly yet fully emerged.

Now, why has this happened? What has produced this really quite astonishing change of practice and opinion in so short a time of human experience? The major point that I want to submit to you this morning is that it is not due to a species of softening of the brain or congenital idiocy; human foolishness and mistakes of policy have played their part in it, yes, but they have done so only by interaction with the complex play of external circumstances, and the conditions that exist in Britain now with respect to competition are not correctible by some blinding flash of conversion to true doctrine.

They are not due to—not in the main — to ideological differences, but to the force of circumstances. Now, I think that ought to be of considerable interest to an American audience, because in spite of all the manifold and great differences between the American economy and the British economy, our two countries are still the two that are nearest similar to each other in the world, not only because we share the same general approach to political and social and human problems, not only because we operate within a framework of human freedom and representative institutions, but also because economically we are, both of us, highly-developed, mature industrial economies, and if it is possible for circumstances to produce a complete somersault, a complete overturn of the approach towards this general subject of competition in industry in a period as short as 40 years, pershaps one should not dismiss wholly from one's mind the possibility that something of the same sort might conceivably happen elsewhere.

Factors in Change

Therefore, I think perhaps the most useful thing that I can do for you this morning is to set before you that—in a very summarized way—some of the factors that seem to me, looking back, to have been responsible for this great change in the British approach towards competition, so that I won't attempt to draw any conclusions from them, but it will enable you, perhaps, to form some opinion in your own minds as to whether any of these things could happen here.

Well, in trying to think what were the major causes, I put down seven, and my time doesn't permit me to do more than put them before you, very quickly, with a minimum of comment on each:

War Effects

The first—and you must put it first in anything that you are trying to explain that has happened in Europe in the past 40 years—the first one is the effect of two devastating wars. Now, wars compel organization. It is impossible for any country to fight a war on a basis of free trade and *laissez faire*. It is necessary to have organization to produce the maximum work and the minimum waste, and I need hardly labor that point, because the last ten years have produced plenty of evidence to prove it, within this country.

But that general proposition is quite especially true in the case of a country which depends for so much of its life upon imports brought by ship, because of submarine infested waters—whatever organization for a war economy is necessary in a continental country like this is far more necessary in a beleaguered island such as Great Britain, and the two essential elements of production, materials and labor, were and had to be much more tightly controlled by the Government in Great Britain in wartime than would ever be necessary in the United States.

Now, when you set up wartime controls of that sort they are difficult to dismantle after the war, partly because the war conditions last—and a minute or two ago I said—I suggested to you that we in England are still living in what amounts to a war economy, though the blockading power now is not German submarines so much as financial difficulties.

Government Officials Hang On

For another reason, Government officials, even the best of them. have a certain natural retentiveness of power which it is not always very easy to overcome and also when your war economy goes on for as long as ours has

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*An address by Mr. Crowther before a convocation to commemorate the Golden Anniversary of the School of Commerce, Accounts, and Finance of New York University, April 11, 1950.

From Washington Ahead of the News

By CARLISLE BARGERON


Carlisle Bargeron

The steel industry is likely to be very much to the fore in Washington during the next few weeks. First, there is a group, the most articulate spokesman of which is Senator O'Mahoney, who would like to make the industry, particularly U. S. Steel, sort of a semi-public utility, making periodical reports to the government and posting any planned price increases for 30 days in advance so the Congress could shoot at them.

Because of this, U. S. Steel and Bethlehem, too, wouldn't mind it at all if Washington forgot all about them, but in this atmosphere, other and less wary companies are walking right in to get the Washington embrace.

One group of smaller companies wants Congress to authorize the long pending St. Lawrence waterway so they can bring in more cheaply the ore which they plan to develop in Quebec and Labrador. Heretofore, they have been against the waterway as wasteful spending and socialistic but now, with their investments in Canadian ore, they think it would be in the national interest.

Still another group, in the scramble for new sources of ore, wants money from the RFC to develop taconite and low grade ores in the Mesabi range in inexhaustible supply. Congressional authorization is needed for the loan because the RFC can't now extend loans beyond ten years. These gentlemen want 15 years and between $50 and $100 million. They promise to get taconites and low grade ores into commercial production before the Canadian ore can be brought out and also to be able to sell them cheaper.

As compared with the loan which they want, the promoters of the Labrador-Quebec project must spend upwards of $200 million themselves and then they say the St. Lawrence waterway, the eventual costs of which are estimated at more than a billion, is essential for them to compete in the Mid-West markets.

The two groups insist there is no conflict between them: the taconite low-grade ore developers say all they want is their loan and they are not afraid of the competition via the subsidized St. Lawrence waterway, and the developers of the Labrador-Quebec ore have no objection to the other group getting assistance in the development of their ores.

But what is interesting is that at a time when the government, or strong elements in it, are looking enviously at the steel industry, a large segment of it is coming to Washington asking for government assistance. Borrowing from the RFC in these days and times, of course, is a perfectly business-like procedure, or at least on the face of things, it is. Some loans granted by that organization have not been business-like at all. Some companies are financing foreign ore ventures with loans from the Export-Import Bank.

What is bound to happen though is that Congress' and political Washington's interest in the steel industry is going to be considerably whetted. U. S. Steel and Bethlehem have no worries about their future ore supplies. In the first place they are well heeled in the Mesabi range for many years to come and they have made arrangements to augment their supplies from foreign sources, notably Venezuela. The other companies, some of which have gotten ore from U. S. Steel in the past, are not in such good shape.

Manifestly, if this country is to continue to have its own ore supply and not be dependent upon Canada, Venezuela, Liberia, Brazil, or any other foreign country, the so-called new ore of the Mesabi, that is, the taconites and low-grade ores, must be developed and undoubtedly this will require RFC assistance. But the seekers of the RFC loan are bound to run into the argument, long advanced by the leftists in the government, that Mesabi should be taken over by the government and sealed off for an ore supply in time of war. Taking this together with the attitude in some quarters that steel should be sort of a semi-public utility, you can imagine what sort of a political stew seems to be ahead.

Certainly the situation isn't made any calmer by the agitation by another group for the St. Lawrence waterway to protect their investments. They are claiming, indeed, that if the waterway isn't built the Mid-West will lose its steel industry and that the farmers of Nebraska, for example, will have to pay higher prices for their farm implements. Years ago the Nebraska farmer's interest in the waterway was sought to be aroused by the argument he could ship his grain to Europe cheaper.

One thing seems to be crystal clear and that is there is no need for the government, through the RFC, to finance the new ore development of the Mesabi and at the same time, spend a billion dollars for a waterway to help another steel group. The RFC loan is much the cheaper of the two propositions and the only one designed to insure our own ore supply.

Joins Merrill Lynch

(Special to THE FINANCIAL CHRONICLE)

COLUMBUS, GA.—John W. Williams has become associated with Merrill Lynch, Pierce, Fenner & Beane, 101 12th Street. He was formerly with the Rome, Ga., office of Courts & Co.

With J. H. Goddard

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS.—John R. MacDonald has become affiliated with J. H. Goddard & Co., Inc., 85 Devonshire Street, members of the Boston Stock Exchange.

With John R. Schermer

(Special to THE FINANCIAL CHRONICLE)

GRAND RAPIDS, MICH.—James D. MacGregor has become associated with John R. Schermer & Co., Grand Rapids National Bank Bldg. He was formerly with the Northern Trust Co. of Chicago.

With Chace, Whiteside

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS.—Whitman M. Chandler, Jr., is with Chace, Whiteside, Warren & Sears, Inc., 24 Federal Street.

Misconceptions About Reserve System's Management Policies

By HAROLD V. ROELSE*

Vice-President, Federal Reserve Bank of New York

Reserve Bank official declares that, contrary to widespread impression, Reserve System operations since the end-of-the-war financing have held up and raised interest rates, excepting during last year's business recession. Mr. Roelse states System's proper pursuit of alternating programs of restraint, "neutrality," and ease, might generate risks for investors wanting long-term rates for short-term holdings or seeking trading profits, but need not worry genuine long-term holders of long-term bonds.

The relations between the monetary policies of the Federal Reserve System and the debt management policies have been the subject of almost continuous discussion in recent years, as you know. A frequent type of comment has been that the policies of the Reserve System have been made completely subservient to Treasury debt management policies; that the result has been to hold interest rates down to artificially low levels at the expense of any effective restraint on monetary expansion during the postwar inflationary period. The most vigorous attack from some quarters was on the system's support of the Government bond market at the end of 1947 and in 1948, which it was contended had the effect of adding fuel to the fires of inflation.

Harold V. Roelse

The fact of the matter is that the general effect of the operations of the Federal Reserve System since the end of the war financing has been to *hold up* interest rates and even to raise them moderately, except during the period of business recession last year, to which I shall refer later. To verify this conclusion one need only consider what would have happened if the Reserve System had done nothing at all during the past four years. Let us suppose that the Reserve Banks had neither bought nor sold securities, but had merely exchanged or replaced their holdings of maturing issues, and that they had neither raised nor lowered their discount rates. A review of the factors affecting the monetary and credit situation during that period will make it clear, I think, that interest rates would have gone considerably lower, or that there would have been a much greater credit-financed inflation, or both.

Interest Rates in 1946

You may remember that the main question concerning interest rates that was under discussion early in 1946 was whether the certificate rate would be reduced to ¾ of 1% (and perhaps eventually even lower), and whether the rate for any subsequent long-term Treasury financing would be reduced from 2½ to 2¼%. Following that, in the three years 1946-48, there was a gold inflow of nearly $5 billion, plus smaller additions to bank reserves from other sources. In other words, if the Reserve System had done nothing, a tremendous growth in the already high level of member bank reserves would have occurred, and competition for available loans and investments would have increased greatly as a result. The effects on interest rates can easily be imagined.

What, then, did the Federal Reserve System actually do in these circumstances? The most important single fact is that the system reduced its holdings of Government securities by nearly $4 billion in less than two and a half years, from $24 billion at the end of 1945 to a little more than $20 billion at the low point in the spring of 1948 — the period of heaviest gold inflow—and that it has reduced its security holdings subsequently by an additional $2.5 billion. This reduction in Reserve Bank holdings of Government securities can hardly be regarded otherwise than as an anti-inflationary influence in the monetary field.

A False Impression

Why, then, did the impression develop that the Reserve System was mainly engaged during the inflationary period in making huge purchases of Government securities to hold up their prices and to hold down interest rates? Undoubtedly that impression is based on the fact that the Reserve Banks did buy a total of about $10 billion of Treasury bonds between November, 1947, and November, 1948—nearly half of that amount during the three months, December, 1947, through February, 1948. But the second fact that tends to be overlooked or forgotten is that in those three months of heaviest support buying in the Government bond market, the Reserve Banks sold or redeemed about $6 billion of the short-term Government securities, so that its total holdings were actually reduced by about $1 billion. Over the whole period from November, 1947, to November, 1948, total Reserve Bank holdings of Government securities increased by about $1 billion, but in the same period the reserve requirements of member banks were increased by approximately $3 billion through action taken by the Board of Governors of the Federal Reserve System. Undoubtedly the effect of the system's purchases of Treasury bonds during that period was to prevent a further fall in bond prices and a corresponding rise in long-term interest rates. There was great uncertainty at that time concerning the prospective trend of interest rates and widespread disposition on the part of investors, and especially institutional investors, to shift out of long-term Government bonds.

Anti-Inflationary Activity

But so far as bank reserves and the availability of credit were concerned, the over-all effect of the system's security operations during the period from the end of the war financing to the early part of 1949 was clearly (if only mildly) anti-inflationary. Not only the effect of the system's operations on the volume of bank reserves, but also the uncertainties which were created concerning interest rate prospects, had some restraining influence on extensions of credit and on financing in the security and mortgage markets. I do not mean to imply by that statement that the Reserve System did at that time, or does now, regard the record of its operations during the postwar inflationary period with complete satisfaction or complacency, by any means.

Unquestionably the Reserve System would have preferred to have taken more vigorous measures in the monetary and credit field, even though many of the most important factors tending to produce or accentuate inflationary pressures during the early postwar period were nonmonetary in character. But the system was faced with a most difficult dilemma—a dilemma involving not merely a choice between maintaining the market value of Government securities and facilitating the financing of the Government at low cost, on the one hand, and an anti-inflationary policy on the other, but something much more complicated. The dilemma arose primarily out of the fact that there was so much to do in so little time. At the close of the war, we faced: a huge backlog of consumer demand for all kinds of goods, not only in this country but all over the world; a severe shortage of housing; needs of war-devastated areas for materials and equipment for reconstruction, which were accentuated by the disruption of prewar channels of trade; a program of veterans' benefits which involved supporting not only disabled veterans, but those out of work or wishing to complete their education; the need for a bigger military establishment than had been anticipated because of the "cold war"; demands from the more backward countries for materials and equipment for their economic development; and, to meet all these demands, the urgent need, first for reconversion, and then for expansion and modernization of our industrial plants. The fact that this huge aggregate of demands was, to a considerable extent, backed by an accumulation of savings as well as high current income in this country and, to some extent, abroad, and the impossibility of meeting all the demands within a short time, gave rise to strong inflationary pressures. The problem for the system, then, was that of exerting such restraint as it could on inflationary tendencies without interfering with the growth of production which was so badly needed.

I think it is fair to say that the predominant feeling in the Federal Reserve System at that time was that it was too risky to take measures that would have produced as great effects on interest rates as were common in the 1920's, because of the great magnitude of the public debt, the fact that much of it had not settled into firm hands, and its pervasive influence throughout the economy. Nevertheless, the belief was prevalent throughout the Reserve System at the end of the war that we should move as rapidly as possible to eliminate the special wartime arrangements which made Federal Reserve credit available to the banking system at its option and initiative, and at exceptionally low rates—the preferential discount rate on loans to member banks secured by short-term Treasury obligations; the fixed buying rate for Treasury bills; and the general maintenance of a "pattern of rates" within narrow limits, which, in practice, became virtually a ceiling on interest rates for the various maturities, without a definite floor.

The War-Time Obstacle

The reluctance of the Treasury to see an abandonment of these arrangements, which had made the financing of the war so much easier, is quite understandable, but it was unquestionably an obstacle to the prompt adoption of an effective anti-inflationary policy by the Reserve System. The preferential discount rate was eliminated in the spring of 1946, several months after the action had first been proposed; the fixed buying rate for Treasury bills was eliminated in July, 1947, a year and a half after the end of the war financing. Shortly afterward

Continued on page 38

*Remarks by Mr. Roelse before the Savings Bank Bond Men of the State of New York, April 12, 1950.

Twin City Bond Club 29th Annual Picnic

MINNEAPOLIS, MINN.—The Twin City Bond Club is holding its 29th annual picnic at White Bear Yacht Club on Wednesday, June 14. On Tuesday, June 13, a cocktail party will be given at the Casino Room of the Hotel St. Paul. Charles R. Bennett, J. M. Dain & Co., President of the Club, and the Board of Governors are extending a cordial invitation for all to attend.

The program will include breakfast, golf tournament, swimming in the pool and in the lake, sailing and boat rides, luncheon and dinner. The tariff is $25 for guests.

Oscar M. Bergman, Allison-Williams Co., is general chairman of the picnic. Arthur H. Rand, Woodard-Elwood & Co., is in charge of the cocktail party, Charles C. Rieger, Jamieson & Co., is in charge of entertainment; Mortimer H. Stanford, Caldwell-Phillips Co., St. Paul, golf; Robert S. McNaghten, Williams-McNaghten Co., prizes; R. K. Pillsbury, First National Bank of Minneapolis, publicity; Fred Goth, Irving J. Rice & Co., St. Paul, special prizes; Leo Quist, Harold E. Wood & Co., St. Paul, registration; Willard Jones, Jamieson & Co., St. Paul, tennis; and James E. Klingel, Juran & Moody, St. Paul, transportation.

Robbin Operating Co.

Robbin Operating Co., Inc., has formed with offices at 200 West 57th Street, New York City, to engage in the securities business. Officers are Jos. J. Robbins, President, and George G. Wynne, Vice-President. Mr. Wynne was formerly with Bache & Co.

Ralph Langley Opens

WASHINGTON, D.C.—Ralph S Langley is engaging in a securities business from offices at 2460 16th Street, N. W.

Measures Needed to Forestall a Depression

By HAROLD G. MOULTON*
President, Brookings Institution

Dr. Moulton states with the postwar boom waning, our future prosperity depends on the expansibility of consumer goods markets, which is only limited by availability of purchasing power among the masses. Holds increasing productivity requires constantly broadening distribution of national purchasing power through improved ratio of prices to wages. Warns government must desist from managerial functions.

The striking fact about American business since the war has been the very high and well-sustained level of production and employment. The striking fact about business forecasting has been the well-sustained expectation of an early business recession. At the end of the war the pessimism was widespread and deep-seated. At the end of 1946 and again in 1947 some observers conceded the possibility of a year or more of good business; but still the keynote was one of confidence that depression was near at hand. With the coming of readjustments at the end of 1948 the view again became widespread that "this is it." Yet after a mild recession lasting little more than six months business recovered, and it is still strong.

Harold G. Moulton

To understand this business phenomenon it is necessary to review very briefly the nature of the factors and forces which are operating in this particular postwar era. Some of them resembled the forces present after former wars but others were essentially different.

First Stimulus

The first stimulus, as after former wars, came from the replenishment of depleted stocks of consumer goods—in homes, in retail and wholesale trade channels, and in the inventories of producing corporations. This time, however, the void to be filled was much greater than after former wars because of the much greater enforced curtailment of normal peacetime production which this war had necessitated.

This first phase of the process is commonly referred to as filling up the pipelines. It may be recalled that the view was widely held that the slump would occur as soon as these pipelines had been filled. It turned out that they were not only filled once but continuously refilled.

A vast replacement or rehabilitation program occurred in the realm of industry. The deterioration of plant and equipment, resulting both from the passage of time and intense use, had to be made good promptly. In addition, large business outlays were involved in the readaptation of plant and equipment as production was shifted from war goods to peace goods. Here again the situation was like that after other wars only more so.

The world-wide and devastating character of the conflict and the preeminent position of the United States made it imperative that foreign aid be extended on a much vaster scale than was the case in 1919. Moreover, economic and political conditions combined to make it necessary to continue such aid for many years.

*An address by Dr. Moulton before a convocation to commemorate the Golden Anniversary of the School of Commerce, Accounts, and Finance of New York University, New York City, April 11, 1950.

Following hard upon the replacement of depreciated and obsolete industrial plant equipment came a great expansion of new capital construction. This capital expansion movement marked what may be called the second stage in postwar business development. In nearly every line of American industry productive capacity was increased and in many lines very sharply, notably in the heavy industries. A substantial part of this increase in capacity represented the substitution of new and more efficient plant and equipment for old and obsolete types. This was especially true in the railroad industry, where the need for cost reduction was so exigent that rapid dieselization, for example, was regarded as an imperative necessity. Great expansion also occurred in such basic industries as iron and steel, the lighter metals, automobiles, electricity, and the electrical public utilities. New industries also came over the horizon and helped to crowd the industrial stage. Finally, residential construction held in abeyance by the depression as well as the war, had to be rapidly expanded to provide living accommodations for a greatly increased number of families. In this field the financing of the expansion was facilitated by what amounted to Government underwriting of home mortgages. Finally, the Government expanded its program of public construction.

The factor of paramount and continuing importance in the postwar situation has been the vast increase in the buying power of the masses of American families. During the war period and continuing into the postwar years there was an extraordinary increase in the real standards of living of the American people. Despite the persistent agitation over the high cost of living, the position of working class families has shown a remarkable improvement since 1939. This has been due in part to the increased number of workers per family, and in part to the extraordinary rise in wage rates. Aggregate wages have nearly tripled. The cost of living rose roughly 70% during the decade; but weekly wages increased more than 120%. As a result of these developments there has been a vast upthrust of families to successively higher levels of income.

It was this rapidly rising level of family incomes which provided the basis for the expanded and sustained demand for consumer goods. The effects of this enhanced buying power in the hands of millions of families were felt all along the line—notably in better quality meats and other foods, in household furnishings and supplies, in textiles, in a wide range of luxury goods and services, and even in high-priced durable consumer goods. This in turn furnished the stimulus required for a great increase in plant capacity.

As already noted, the recession of last year did not degenerate into a full-fledged depression, the tide turning strongly in mid-summer. The decline in industrial production was only about 12%, while employment was off less than 4%, and wages and salaries less than 3%.

The readjustments of 1949 resembled those which had occurred in previous years in special lines, notably the textiles and certain types of household utilities. The chief difference was in the much greater number of industries affected. The recession was characterized by heavy liquidation of inventories, which proceeded rapidly in consequence of the well-sustained level of sales at the retail end.

In sharp contrast to the declines in numerous lines was the expansion in two major sectors of the economy—automobiles and housing. The very high level of activity in these two basic industries served, in my view, to arrest the general downward movement, to mitigate the prevailing pessimism, and to tide the economy as a whole over a precarious period.

Automobiles Down, Housing Up

I do not possess any special knowledge with reference to the near future of these basic industries. I gather that those expert in these matters believe that the automobile industry is near the period when downward readjustments in production schedules will occur, but that the housing boom may be expected to continue for another year or so. In any case, it would seem that the general support provided by these two industries will wane in the not distant future.

Over the Crest

In the light of this story we may now look forward for a few moments. It will be noted at once that some of the factors which have accounted for our postwar prosperity are of the disappearing variety. First, the deficiencies in consumer supplies have been almost wholly if not completely made good. Second, we are over the crest with respect to the bulge in expenditures for capital expansion to catch up with the enlarged market possibilities. Third, the export of American products to foreign countries should decline as European conditions improve or, for that matter, as they grow worse. A high level of armament expenditures will prove a sustaining factor for some lines of production; but short of actual war such expenditures must be counted as a minor factor in the situation.

Thus our future prosperity appears to depend upon the expansibility of additional markets for consumers goods. Potential future demands can come from two sources: (1) an expanding population and (2) the unfulfilled desires of the existing population. We have recently had a sharp increase in the birth rate. In the decade of the '40's there were 30 million births in the United States and a net increase of 18 million, as compared with only 9 million in the '30's. Thus for a long period of years we are now assured of enlarged requirements for the necessities, conveniences, and luxuries of life for a rapidly growing population.

The magnitude of the unfulfilled desires of the existing population is revealed by studies of family exenditures at different levels of income. All such studies indicate that as the level of income rises expenditures for all classes of consumer goods increase, though in varying proportions. For example, if the plane of living were eight times as high as at present expenditures for the major categories of consumption goods would be increased as follows: Food and nutrition, four times; shelter and home maintenance, eight times; attire and personal care. ten times; health and education, 15 times; recreation and travel, 16 times. These are, of course, rough approximations but they are in line with present expenditure patterns. In aggregate terms the expansibility of consumption is very great—being limited only by the availability of

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Informing the Investor

By EDWARD T. McCORMICK*
Member, Securities and Exchange Commission

Commissioner McCormick outlines the main provisions of our existing Federal securities legislation. Cites need for revising and improving the prospectus provisions of the Securities Act. Defends necessity of delivering prospectuses to buyer in advance of committing him to the sale. Stresses need for simplifying and streamlining form and content of prospectuses, and expresses confidence in investor's ability to digest and comprehend them.

Your present interest in the Securities ad Exchange Commission is likely to be that of the student. But as citizens and as future business men and lawyers, you will find the Commission of more than academic interest. Its importance in finance and in corporate practices is now firmly established. If I can help to give you some insight into the general nature and importance of the statutes we administer my effort will be more than justified.

E. T. McCormick

These statutes rarely present clear-cut problems either of law or of economic policy. Our best lawyers at the SEC are keen financial analysts and our best financial analysts are adept at legal interpretation. It makes sense, therefore, that I should be talking to a combined group of law and business students.

*An address by Commissioner McCormick at Cornell University, Ithaca, N. Y., April 6, 1950.

It is no accident that the work of the Commission requires a combination of legal and business talent. The statutes under which the Commission works set out broad objectives in the regulation of finance and corporate practices and were intended to provide to an expert body the working room it needed in order to achieve those objectives. That does not mean that the Commission improvises business policy. It does mean that the Commission must take seriously the command of these statutes that their provisions shall be construed in order to carry out their stated purposes. Those purposes are basic to our economic welfare and, in the course of this talk, I hope to show how we must constantly keep those broad purposes in mind and view them in historical perspective.

I can't hope to give you any more than a sketchy picture of the Commission's work. The separate pieces of complex legislation under which we operate range over the field of investor protection and call into play a wide diversity of regulatory techniques. The names of these laws

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Dealer-Broker Investment Recommendations and Literature

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

Leverage in Railroad Stocks—Bulletin—Smith, Barney & Co., 14 Wall Street, New York 5, N. Y. Also available is a circular on **Southern Pacific Co.**

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.**

Preliminary New York Bank Earnings for first quarter—New York Hanseatic Corp., 120 Broadway, New York 5, N. Y.

Rayon — Analysis of common stocks of **American Viscose Co.**, **Celanese Corp.**, and **Industrial Rayon Corp.**—E. F. Hutton & Co., 61 Broadway, New York 6, N. Y.

Securities Acts: Guides for use in complying with requirements of Securities Act of 1933; Securities Exchange Act of 1934; Public Utility Holding Company Act of 1935; Investment Company Act of 1940, and Investment Advisers Act of 1940—Ebasco Services, Incorporated, 2 Rector Street, New York 6, N. Y.

State and Municipal Securities—1950 edition of reference book for investors in tax exempt securities—D. J. Devine & Co., 48 Wall Street, New York 5, N. Y.

Steel Industry — Analysis — H. Hentz & Co., 60 Beaver Street, New York 4, N. Y.

Stock Market Appraisal—Leaflet—Ira Haupt & Co., 111 Broadway, New York 6, N. Y. Also available is an analysis of changes in portfolio of the **Lehman Corp.**

Utilities — Bulletin on current developments—Eastman, Dillon & Co., 15 Broad Street, New York 5, N. Y.

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

Arden Farms Company—Study—Cohu & Co., 1 Wall Street, New York 5, N. Y. Also available are studies of **Dean Phipps Stores, Inc.** and **Suburban Propane Gas Corporation.**

California Water Service Company—Detailed analysis — Brush, Slocumb & Co., 1 Montgomery Street, San Francisco 4, Calif.

Caterpillar Tractor Co.—Circular—Shearson, Hammill & Co., 14 Wall Street, New York 5, N. Y. Also available is a circular on **Grumann Aircraft Engineering Corp.** and **Kansas City Power & Light Co.**

Central Hudson Gas & Electric—Analysis—Bache & Co., 36 Wall Street, New York 5, N. Y.

Central Public Utility 5½s of 1952—Recent Moody's opinion available—New York Hanseatic Corp., 120 Broadway, New York 5, N. Y.

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

Allen B. DuMont Laboratories, Inc.—Study—Tyson & Co., Inc., Lewis Tower Building, Philadelphia 2, Pa.

Electrolux Corporation—Analysis—Kiser, Cohn & Shumaker, Inc., Circle Tower, Indianapolis 4, Ind.

Kaiser Aluminum & Chemical Corp.—Circular—Walston, Hoffman & Goodwin, 265 Montgomery Street, San Francisco 4, Calif.

Also available is a circular on **Western Air Lines, Inc.**

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.

Philadelphia Suburban Transportation Co.—Circular—Brooke & Co., 15th & Locust Streets, Philadelphia 2, Pa.

Puget Sound Power & Light Co.—Circular—Shields & Co., 44 Wall Street, New York 5, N. Y.

Richfield Oil Corporation—Memorandum—Newburger & Co., 1342 Walnut Street, Philadelphia 7, Pa.

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

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

Sanger Bros.—Circular—Dempsey-Tegeler & Co., 407 North Eighth Street, St. Louis 1, Mo.

Seaboard Air Line Railroad—Circular on Equipment Trust Series G—Harriman Ripley & Co., 63 Wall Street, New York 5, N. Y.

Southern Pacific 3s of 1960—Study of them as a convertible investment opportunity—Theodore Prince, 30 Broad Street, New York 4, N. Y.

Also available are reprints of Mr. Prince's article on **Inept America and the Russian Menace.**

Travelers Insurance Company—Analysis—The First Boston Corp., 100 Broadway, New York 5, N. Y.

Warner Company—Analysis—H. M. Byllesby & Co., Inc., Stock Exchange Building, Philadelphia 2, Pa.

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

W. E. Darnell Opens

SAN ANTONIO, TEX.—W. E. Darnell is engaging in a securities business from offices at 1528 Contour Drive. He was formerly associated with John G. George in Tyler, Tex.

Davis Bros. in Tulsa

TULSA, OKLA.—Elliott and Leon Davis have formed Davis Bros. with offices at 14 East 3d Street to engage in a securities business.

Now a Corporation

INDIANAPOLIS, IND.—Thomas D. Sheerin & Co., Fletcher Trust Bldg., is now doing business as a corporation.

Joins Barrett Herrick

(Special to THE FINANCIAL CHRONICLE)

BLOOMINGTON, ILL.—Elmer F. Messman is with Barrett Herrick & Co., Inc.

Small Business Group Opposes Frear Bill

Urging that Congress not confer additional powers on the SEC, and instead order major study of the adequacy and shortcomings of existing securities legislation, the Conference of American Small Business Organizations passed the following resolution in Washington, D. C., March 29, 1950:

"The Frear Bill would extend and expand the powers of the SEC beyond the intent of the lawmakers when they enacted the so-called 'truth-in-securities' legislation in 1933. It would bring within the scope of control and operations of the SEC thousands of small businesses and industries which formerly have not been subject to SEC control. The Bill would extend SEC authority over all such enterprises having $3,000,000 in assets and 300 or more *security holders, even though such securities were not transacted on the national securities exchanges.*

"I brief, the SEC would invade the intrastate field of control. The SEC would have the power of life and death over such small enterprises through dictating cf information required in proxy forms. It would require detailed reports from small firms at great expense and great burden to them.

"One of the greatest dangers implicit in this legislation is the threat it holds to level competition among competing smaller businesses and between small and large enterprises. Small companies falling within the scope of the proposed legislation and control of the SEC would be required to furnish quarterly, annual and supplementary financial reports and to file registration statements. They would be required to give out detailed information on sales, costs, working capital and other financial matters, in a general public statement. Competitors would be able to use this information against each other in a constant war among small business. Larger enterprises, constantly on watch to buy up small prosperous enterprises, would be in a position to evaluate the smaller ones on the basis of these reports, up to now unavailable to them, and to buy them out or to pressure them into selling.

"The main purpose in the conception of this legislation is to extend and expand the control of SEC regulations beyond interstate commerce and beyond Wall Street to 'Main Street.' It is an invasion of State control of questionable value and doubtful constitutionality.

"This is either a brazen and unwarranted, or naive, attempt to extend and expand the jurisdiction of the SEC to control of all business, interstate and intrastate alike.

"We recommend Congress not vote any additional legislation to increase the powers of the SEC. We believe Congress should direct a study and authorize hearings to determine the adequacy or inadequacy of present securities acts, especially as affecting raising of equity capital and the development of small and localized industry. We believe changes should be made in the present acts, and small business, which is the backbone of the nation's economy, should be given every incentive and encouragement by the Congress and all governmental agencies."

Westerlic Corp.

(Special to THE FINANCIAL CHRONICLE)

SACRAMENTO, CALIF.—Westerlic Corporation, Ltd. is engaging in a securities business from offices at 926 J Street. Officers are O. J. Lacy, President; Paul C. Wright, Vice-President and Treasurer; H. Harold Leavey and Peter Cook, Jr., Vice-Presidents.

Harris, Upham Adds

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS.—Joseph B. Amerena has been added to the staff of Harris, Upham & Co., 30 State Street.

Slayton & Co. Adds

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—William B. Gramlich has been added to the staff of Slayton & Co., Inc., 135 South La Salle Street.

Many Railroad Securities Are Attractive

By JAMES B. TANNAHILL

Rail Analyst, Eastman, Dillon & Co., New York City

Analyst maintains rails are generally behind market, and will join any further general upward market rise. Holding carriers constitute one of few industries likely to improve earnings in 1950, he recommends specified selected bond, preferred and common stock issues.

I believe selected railroad securities are attractive for purchase at this time. The rail list generally is behind the market and there are sound reasons for believing that any further upward move in the general market may be spearheaded by the carrier list. Investment money can purchase more dollars of profit and more dollars of income per dollar invested in the railroad field than in most other industries that I can think of and it is one industry that can improve on its 1949 showing in 1950, barring any unforeseen economic developments. On the favorable side is the belief that business activity in 1950 is not expected to change much from 1949 levels; freight rates are moderately higher than in 1949; great quantities of grain are stored in producing areas; outlook for crops is favorable; prospects for the steel, automobile and building industries are favorable and large savings are possible from the operation of new equipment and expenditures for roadway improvements. Furthermore, selective freight rate cuts and improved service by railroads and rate increases by motor carriers have changed the competitive picture. The carriers are winning back a substantial volume of business and stand to make additional gains if the absorption of freight rates by manufacturers is again made legal under pending legislation.

The Unfavorable Side

On the unfavorable side is the prospect of a 1950 increase in wages for operating workers, their total payroll said to constitute only about one-third of the industry's total wage cost. However, since the cost to the industry of a wage increase and a 40-hour week for non-operating workers as of Sept. 1, 1949 was considerably less than originally estimated, the cost of an increase to operating workers may also be considerably less than presently anticipated and taken in stride by the industry. On balance despite the poor start resulting from strikes in the coal and automobile industries and the consequent slow-down in industry in general, net income in 1950 could easily approach $500 million as against $436 million in 1949. Over near months earnings comparisons are likely to be particularly favorable. Last year carrier operations were upset by declining business in the spring, a mild winter and a fall off in demand for coal, soft coal miners' absence from work on 110 days and a prolonged steel strike.

Specific Bond Selections

As to specific selections in speculative bonds I would suggest Central 4½s, 2013 (63½); Mop 4s, 1975 (73), and Florida East Coast 5s, 1974 (66). In periods of rising earnings and markets **Central junior** bonds always make a good showing. Although consummation of any reorganization may be delayed by efforts to have present plan changed, **Mop 4s, 1975,** scheduled to receive approximately 16 shares of new preferred, have a current when issued value of about 86 and under favorable conditions the workout could approximate par.

Under a commission approved reorganization plan, the **Florida East Coast** would become part of the Atlantic Coast Line. This plan has been rejected by the lower courts and the case is now before the Supreme Court for review. Final reorganization may be long delayed but additional interest payments on the 5s, 1974 are possible in the interim. Meantime based on the present proposal, bonds could work out around 90. Values would probably be increased under any revised proposal.

Among income bonds, I like **Rio Grande 4½s, 2018 (75); Frisco, 4½s, 2022 (63),** and **New Haven 4½s, 2022 (50).** Interest protection on these bonds in 1949 was ample and a favorable showing is again anticipated in 1950. A tax feature of income bonds selling flat is that interest is taxable as income only from the date of purchase. Interest accrued prior to purchase is a return of capital and used to reduce original costs. All three bonds now carrying 4½ points in interest for 1949 payable on April or May 1, appear attractive for income and appreciation.

Lower Grade Preferreds

In the **lower grade preferred** group, I would call attention to the senior equities of **Rio Grande** (48); **Frisco (46),** and **Gulf, Mobile & Ohio (55).** Dividends ($5) were earned by fair margins in 1949 and better coverage is possible in each instance in 1950. Issues of this type are quick to respond to improved prospects and rising markets.

Common Stocks

Good grade common stocks that can be placed in any investment portfolio include Union Pacific (85); Atchison (108), and Kansas City Southern (54). Despite a poor start because of bad weather **Union Pacific** earned better than $10 a share in 1949. Results this year may approach $13 a share. This would allow continuation of the regular $5 dividend rate plus possibly a $1 extra. Earnings from oil and gas operations which were equal to over $6 a share in 1949, add strength to the situation. The **Atchison,** now paying dividends of $6 regular and $2 extra, earned better than $18 a share in 1949. This could be lifted to better than $20 a share in 1950. Through a wholly owned subsidiary, the road is also in the oil business. On a consolidated basis results were better than $21 a share last year. A stock split-up is always possible. The highly efficient **Kansas City Southern,** one of the few owner managed rail properties, earned over $12.50 a share in 1949 and if results of the wholly owned Louisiana & Arkansas are included, consolidated net exceeded $18 a share. Another favorable showing is likely in 1950. There is also talk of a possible increase in the dividend rate from the present $4 to $5 a share.

In medium grade commons I would pick Southern Pacific (52); Rock Island (41), and Northern Pacific (20). **Southern Pacific** earned over $8 a share in 1949 and could show around $10 in 1950. Earnings on the new money gained in the current bond sale should go far to offset any dilution of the common stock due to bond conversions. No early change in the current $5 annual dividend rate is anticipated. The **Rock Island,** another efficient owner operated property, showed profits of close to $10 a share in 1949 and should again do well in 1950. The present $3 dividend rate may be increased to $4 later in the year. This year the **Northern Pacific** could improve on its 1949 showing of approximately $4 a share.

The road has large outside investments and efforts may soon be made to modernize accounting methods to give consideration to the much larger consolidated results which have averaged well over $8 a share annually in the past 10 years as against results of less than $5 a share annually actually reported. There is also the possibility of dividends being placed on a regular quarterly basis, perhaps 50 cents, as compared to the single payment of $1.50 made from 1949 profits.

Speculative Commons

My more speculative situations include Western Maryland (18); Nickel Plate (100); Northwestern (14); Chicago, Great Western preferred (26) and common (17), and New York Central (13). Full details on the **Western Maryland** and **Nickel Plate** are available in our recent studies of these properties. I am not overly fond of the **Northwestern** which barely covered income bond interest in 1949. However, earnings could make sharp gains in 1950 and generous dividend treatment would appear likely if past policy is followed. Capital gains could be rather substantial under the best of conditions. The **Chicago, Great Western** equities have considerable longer term attraction. Debt has been substantially reduced in recent years and operating efficiency greatly improved by heavy expenditures on property and large scale dieselization. Another strong point is the close relationship between the management of the Kansas City Southern and the Chicago Great Western which may some day lead to a merger of the properties. Earnings have been showing sharp gains in recent months and the trend is likely to continue. Dividends are being paid on the preferred stock from time to time and arrears now amount to $7.50 a share on the $2.50 preferred stock. Highly leveraged **Central shares** have been market favorites in recent sessions. Based on improving efficiency and prospects of well sustained revenues, earnings could mount sharply this year to possibly $3 a share from about $1.50 a share in 1949. Dividend resumption is a possibility late in the year.

Charles Livingstone With Crowell, Weedon

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Charles R. Livingstone has rejoined Crowell, Weedon & Co.,

C. R. Livingstone

650 South Spring Street, members of the Los Angeles Stock Exchange. Mr. Livingstone was recently an officer of Livingstone & Co.

American Securities To Open Chicago Br.

American Securities Corporation, 25 Broad Street, New York City, will open a branch office in Chicago May 1.

The Pitfalls of Formula Timing

By BRADBURY K. THURLOW

Analyst, Minsch, Monell & Co., Members New York Stock Exchange

Analyst likens market-beating systems, whose main use is merely to keep the investor from emotionally misleading himself, to the patent medicine. Cites historical record of stock market price ranges to show how dogmatic assumptions based on preceding range of price fluctuation go completely awry. Concludes "a few parallel lines on a sheet of paper" are no substitute for individual judgment and intelligence.

As we look back over the fashionable financial theories of earlier periods (the New Era, Technocracy, the Dow Theory, are classic examples), we see in them a fairly consistent combination of logic and illogic, of plausibility and impossibility, of looking backwards and forecasting. As of 1950 the imperfections of past systems for "beating the market" are

B. K. Thurlow

so manifest that those who would propound new and similar systems must preface their sales talk with vigorous denials that their method has any such object in mind. Before we begin our present attack we must first make the admission that every system for "playing-beating the market" or its more respectable synonym of "investing scientifically" has the real advantage of preventing the investor from following the dictates of his own emotions. This has usually accounted for whatever success such systems have had. Their function in the investment world, historically and psychologically, is paralleled by that of patent remedies in the world of medicine.

Now, to present applications. Perhaps the most fashionable of today's systems is the theory of "unemotional investment through formula timing." The principle behind formula timing is the age-old precept of "buying cheap and selling dear"—certainly a very basic axiom for investment success. The typical formula plan provides that at certain historically low levels of the Dow-Jones Industrials the investor should have most of his capital in common stocks, while at historically high levels he should be mostly in cash or bonds. High and low are determined empirically by what has been high and low for a reasonable period in the past—perhaps the last full market cycle.

Hindsight Logic

Like all empirical systems, formula timing sounds very logical when it can be worked back successfully over the past 10 or more years. The fact that the Dow-Jones Industrials are approximately at the highest levels since 1930 and the devotees of formula timing are mostly invested in cash, imparts a certain degree of respectability to their system among those millions of investors who are dubious on the market's outlook because of deteriorating business conditions. Let us suppose, however, that we apply formula plan technique not to the customary past 10 years, but to the stock market as of two years after the top of the commodity boom following World War I (about two years have passed now since the top of the commodity boom following World War II). As of 1921, the preceding 10-year range of the Dow-Jones Industrials was 53.17 to 119.62. It seems a reasonable assumption, therefore, that typical formula plan investors in 1921 would have advocated a fully invested position at 55 and a fully cash position at 115, with an evenly balanced position at 85 (today we are led to believe that the comparable figures for formula plans might be 105, 195 and 155). A brief look at the fluctuations of the market between 1897 and 1921 will convince the reader how eminently reasonable such a formula plan would have appeared in 1921.

The Historical Experience

Now let us consider what happened. Assuming that our investor succeeded in becoming 75% invested in 1921 (the averages did not quite reach 65 in their decline), he would have sold a third of his stocks in early 1922 when the averages reached 85 and another third in late 1922 at 100. The rest of his stocks would have been sold in December, 1924, when the averages made an all-time high at 120 (just prior to beginning a further five-year tripling of prices which was the biggest bull market in history). So far, since the end of World War II, the stock market has shown a tendency to imitate the pattern which followed World War I. It is not inconceivable that in the presence of visible inflation and fear of the dollar the Dow-Jones averages could some day rise to 300. It is certain that few who were formula plan investors or anything else ever thought before 1926 that the Dow-Jones Industrials could rise above 150. Yet this didn't keep them from reaching 381. Today the dollar is manifestly worth less than it was then and those who dogmatically assume that 200 marks the upper limit of this bull market may be just as short-sighted as their fathers who preferred cash to stocks in 1926.

The real warning in all this is not against missing a bull market, but against putting one's faith in an empirical system which may go drastically wrong at the crucial moment, depriving the investor of his emotional equilibrium and subjecting him to the well-known speculative danger of buying stocks when they are much too high in price. There is not, and never has been, any substitute in investing money for individual judgment and intelligence as the investor who allows his judgment to be superseded by a few parallel lines on a sheet of paper may one day discover, to his great sorrow and expense.

Childs Co. Announces New York Promotions

At the fiscal year-end meeting of C. F. Childs and Company, Inc., Government security dealers, the following promotions affecting the firm's New York office, 1 Wall Street, were made:

Formerly assistant vice-presidents, T. F. Cantwell, D. B. Fraser, J. A. Latimer, and M. S. Smith were name Vice-Presidents. Mr. Latimer was designated manager of the New York Sales Department, and Mr. Smith, manager of the Trading Department. J. K. Condict was appointed New York Office Manager, with the rank of Assistant Vice-President. All these changes are effective immediately.

Point Four—Foreign Aid Forever

By JOSEPH STAGG LAWRENCE
Vice-President, Empire Trust Company

Terming enormous outflow of American means an acute case of "Financial Hemophilia," Mr. Lawrence estimates our financial bleeding at $102 billion. States as realistic conclusions: (1) Our most reliable anti-Kremlin allies have had negligible aid; (2) The weakest links in democratic defense have been greatest beneficiaries; and (3) Point Four is kin of, and will be unsuccessful as, previous hand-out techniques as Bretton Woods, UNRRA, British Loan, and ECA. Insists it is only necessary to abide by well-known rules to attract private capital, American Government intervention being unnecessary.

Some one has described the huge outward flow of American means as an extreme case of financial hemophilia. Since 1914 the difference between what we have sent abroad and what we have received in return has reached the staggering total of $102 billion. Two-thirds of this total represents a clear donation. It accounts for a little less than 3% of the total national income during a period of 35 years.

Jos. Stagg Lawrence

In the earlier stages this flow of American material did not involve any considerations as broad—and as vague — as those which have been applied to our current foreign aid program. We actually expected to collect the loans made to our allies during the First World War. The investments during the interwar period were made for us by bankers. However disappointing they may have proved ultimately, the fact is they were made originally for the purpose of profit and were in no sense eleemosynary or political.

Lend lease amounting to $50 billion was frankly a subsidy to wartime allies. It was followed or accompanied by other devices —UNRRA, GARIOA (relief in occupied areas), ECA, loans and subscriptions to the Bretton Woods institutions. In the aggregate these devices were used to separate American citizens from their own wealth for purposes which their government believed to be desirable. The variety of these devices and the originality of some, indicated difficulty in selling to those citizens a program of permanent aid to less prosperous members of the international family.

This difficulty is understandable. It is not easy to explain why, having won a war, it is necessary for us to reconstitute, economically, allies whose sovereignty was preserved by our intervention. It is not easy to explain to the American public that the war imposed upon this country an obligation to promote among our allies an increase in production and economic power comparable to that which we gained during the war. Said the 16-nation Paris report in the summer of 1947: "The production expansion, which is envisaged by 1951, is similar in general scale to that achieved by the United States in the mobilization years 1940 to 1944." i.e., 88%.

Nor can the layman readily understand why, having licked the Japs and Germans in a war which they planned and started, it becomes the American taxpayer's duty to underwrite their economies until they again become viable entities. No conqueror in history has ever displayed such solicitude—if that is the word—for the vanquished.

With rare exceptions the great conquests of history have contributed to the power and wealth of the victor. The end of the Second World War was not followed by triumphal processions, the distribution of spoils, the creation of new orders of nobility, the expansion of territory. Although the foe was completely defeated and his capitulation unconditional, it is a reasonable question five years later whether we actually won the war. The wreath of victory has become a chain of thorns.

How do we explain this astonishing metamorphosis of the victor? It is due in part to a change in our concept of war and in part to a grave miscalculation of the character of one of our "allies." To engage in war for the purpose of territorial aggrandizement is repugnant to the American people. They believed—and still do—that the war was fought to preserve our form of society against the threats posed by the dictators. To retain the territory seized by force of arms—even though such a title has always been clearly recognized as valid—would constitute a violation of faith and purpose. The same may be said of a conqueror's right in ravishing the defeated. Victory, therefore, becomes a liability. It denies the privilege of spoliation and entails the liability to support, rehabilitate, and protect the conquered.

Miscalculation of Communist Character

The miscalculation of communist character led to the shocking discovery, after the Germans and Japs had laid down their arms, that we had merely helped to clear the field for a foe more formidable in many respects than those we had just defeated. It is this tardy discovery by a State Department, plagued by a profound internal schism, which provides a clue to Point Four and Foreign Air Forever.

It is reasonably clear now that sometime in 1943 the Soviet decided that the Germans and the Japs were on the way to defeat; that the next task of communism was to weaken and then destroy their current allies—particularly the United States. The mutiny of sailors in the Greek fleet in Alexandria was the first skirmish in the new struggle. This was communist-led and was no more spontaneous than the recent strike of coal miners in this country.

It was not until the late spring of 1947 that our government became aware of this new war and understood its implications. By that time the armored columns, the airfleets, and the magnificent navy which had brought our recent foes to their knees had been demobilized. Their reconstitution was politically impossible. Our diplomats discovered that their voices carried less and less weight at conference tables.

It was then that Marshall made his famous Harvard speech in which he revealed that "Europe's requirements for the next three or four years . . . are so much greater than her present ability to pay that she must have additional help or face economic, social and political deterioration of a very grave character. . . ."

This language constituted both an invitation to European statesmen to formulate a request and an explanation to the American public of continued dollar therapy to compensate for the error of American diplomacy. The real reason for the Marshall Plan is hardly open to dispute. It was a move dictated by weakness. It was necessary to have allies—particularly buffers between ourselves and Russia which might act as temporary roadblocks, if and when the legions of the hammer and the sickle erupted into Western Europe.

Need for a New Formula

The Marshall Plan terminates in 1952. The behavior of some of the beneficiaries, notably England, and the mood of Congress indicate that any attempt to extend this aid beyond the terminal date will encounter rough going. Elaborate projections of minimum future needs indicate a continuing deficit in dollars beyond 1952.

Obviously a new formula is necessary. This is where Point Four comes in. Said the President:

". . . we must embark on a bold new program for making the benefits of our scientific advances and industrial progress available for the improvement and growth of underdeveloped areas.

"More than half the people of the world are living in conditions approaching misery. Their food is inadequate. They are victims of disease. Their economic life is primitive and stagnant. Their poverty is a handicap and a threat both to them and to more prosperous areas.

"I believe that we should make available to peace-loving peoples the benefits of our store of technical knowledge in order to help them realize their aspirations for a better life. . . . we should foster capital investment in areas needing development.

"With the cooperation of business, private capital, agriculture, and labor in this country, this program can greatly increase the industrial activity in other nations and can raise substantially their standards of living."

Bait in Heaven

This sounds like a sermon on the brotherhood of man. It will make an immediate appeal to thousands of sincere citizens who believe in the Christian duty to share with the less fortunate. The note is a note of high minded idealism. Yet the Kee Bill embodying the ideas of the Administration has a preamble which starts as follows: "To promote the foreign policy of the United States. . . ." Evidently Congress would not nibble at bait that dangled in heaven. The real purpose had to be disclosed. The proposed statute, in its preamble at least, gets an "A" for candor. The difference between Presidential rhetoric and statutory preamble is the difference between horse-feathers and solid masonry.

What are the merits and the faults of Point Four? Can it be rationalized in terms of American interest? Are there gains sufficiently tangible, assured, and valuable so that the American taxpayer, confronted with a tab of several billion a year, can say: "It was better to spend these billions to accelerate the material progress of underdeveloped areas than to retain them as personal income or devote them to projects nearer home."

Or have we reached a stage in our moral sublimation where, mounted on the white chargers of idealism, we joust for the good, the true and the beautiful, raising calorie intakes in areas subject to famine, providing plumbing where none now exists, and improving living standards until "the last Hottentot has a Rolls Royce"?

Under conditions of free choice and free movement the owner of capital could take it where he pleased without the prior consent of a foreign exchange control board. An essential condition was a stable and honest currency. The sovereign of the area to which the capital moved had to give reasonable assurance that domestic laws would not be rigged to discriminate against the foreigner; that he would not be subject to vicious and inspired "anti-gringo" propaganda; that foreign investments would be given adequate protection against domestic violence; that the alien owner could withdraw his funds with the same freedom with which he brought them in. It meant that this owner in the event of real or contrived nationalization would receive prompt and adequate compensation.

Generally speaking, governments did not attempt to influence this movement of capital. At times the great powers found it necessary to use a "big stick" to insure "fair" treatment for their nationals who had committed careers and fortunes to "'underdeveloped areas."

Volume of Capital Movement

During the century between the end of the Napoleonic Wars and the First World War approximately twenty billions of British capital was invested overseas. On the whole in this movement was constructive, with tangible, beneficial results for the British investor as well as for the area in which English capital was committed.

Starting in the last decades of the 19th century a similar movement of American capital developed. By the end of 1949 this had reached an approximate total of $16 billion, about a quarter of which has been invested during the last four years.

What the ultimate results of this vast volume of private investment abroad may be remains

Continued on page 40

Needed Changes in Our Tax System

By J. CAMERON THOMSON*

President, Northwest Bancorporation, Minneapolis
Chairman, Subcommittee on Fiscal and Monetary Policy, CED

Mr. Thomson outlines tax program of the Committee for Economic Development, which rejects the so-called managed compensatory budget policy, but proposes elimination of taxes that penalize individual segments of the economy and stifle business growth, incentive and productivity. Says present tax structure is a mass of jumbled measures passed merely to provide revenue and without regard to their adverse effects on nation's economy. Contends Federal expenditures in fiscal 1951 could be reduced $3.7 billion, and thus make possible $2 billion tax reduction.

I am honored to be here today to talk to you about the biggest figures of all. Taxes and the budget have grown steadily more important as the Federal Government has grown. With the Federal Government's expenditures equal to about a fifth of the national income, the impact of government spending on the economy is extremely important. The government has a definite responsibility to handle the budget in ways which will not upset the economy and to provide adequate taxes without stifling the growth of our free economy.

J. C. Thomson

The Committee for Economic Development recently issued a policy statement called "Tax and Expenditure Policy for 1950." This is the latest in a series of policy statements on fiscal policy. In it we have recommended a net tax reduction of about $2¼ billion and cash expenditure cuts totaling $3.7 billion below the President's recommendations for the 1951 fiscal year. We of CED believe that this is a feasible program, and is consistent with sound fiscal principles. It is the latest expression of a CED philosophy on fiscal policy that has been developing for about eight years.

These figures mean very little by themselves, and before we go into them I want to outline for you the principles under which CED looks at taxes and the budget. In passing I would like to say that we use the cash-consolidated budget because this is the budget for the whole Federal Government, including the trust funds, and because it shows only cash expenditures. For this reason, only the cash-consolidated budget gives a reasonably accurate measurement of the impact of Federal financial operations on the economy.

A Stabilizing Budget Policy

We call the budget policy of CED the stabilizing budget policy. CED's first concern since its establishment has been with the problem of economic stability. We have as our main goal the development of public and private policies designed to flatten out the business cycle as much as possible, to strengthen the free economy, to maintain a high level of employment, to continue the dynamic growth of the economy and through rising productivity to bring on a continued trend toward higher living standards.

The stabilizing budget policy was set up in 1947 as one part of a broad CED program by which the government can help to promote greater economic stability. It is the fiscal side of a program which relies largely, as far as the government is concerned, on fiscal policy, monetary policy and debt management policy. The reason we believe these policies to be the best governmental means toward the end of greater stability is that they involve no new powers of government, they do not fall back on direct controls over prices and production and they allow the free market system to carry on its function of allocating goods and services in the most efficient possible way.

The stabilizing budget policy consists basically of setting tax rates to balance the budget and provide a surplus in times of high employment. Once set, these rates are left alone except under unusual circumstances. I'll go into this in a moment. First, I want to talk about other ways of managing the Federal budget.

The CED considers the old policy of annual budget balancing to be impractical and to make the economy more unstable than it need be. This does not mean that we subscribe to eternal deficit financing; our program provides for long-term reduction of the national debt. But we must all be aware by now that balancing the budget in a depression takes money out of the nation's spending stream at a time when business activity should be stimulated rather than constricted. Actually, the pressure for deficits in depressions is so strong that the annually-balanced budget theory does not work. And in inflation, the system gives away the potential surpluses of prosperity, leaving more money in the public's pockets with which to bid for a limited stock of goods. In short, the annually-balanced budget policy tends to feed both inflation and deflation.

Rejects Compensatory Budgeting

Because the CED believes that economic science is still too imperfect for us to make reliable forecasts of the economic future, we also reject the so-called managed compensatory budget policy. I think you gentlemen are as well acquainted with the perils of economic forecasting as anyone could be. And we can't afford to take the risks with the whole economy that an individual can take with a common stock. In the managed-compensatory budget policy tax rates are changed when there is a forecast of change in the national income. For example, if a depression is foreseen, tax rates would be reduced in order to prevent the depression from materializing. Of course, if the forecast proves wrong the government will have stimulated the forces of inflation. In practice, this policy's dependence on impossibly accurate forecasting and frequent changes in tax rates makes it unreliable.

Our stabilizing budget policy was set up with the failings of other budget policies in mind. It was designed to meet four objectives, which incidentally should be the objectives of any budget policy. First, it contributes to greater economic stability. Second, it promotes economy in government. Third, it provides for debt reduction. And fourth, it avoids frequent changes in tax rates, which are upsetting to business and individuals.

The best way to explain the stabilizing budget policy is to start with the sort of reasoning we used when we set it up. We looked at the budget as it would appear at a time of high employment. When roughly 4% of the civilian labor force is unemployed, we said, we will consider the country to be enjoying high employment. (Today this would mean unemployment of about 2½ million persons.) Then we computed what the level of national income would be when 4% of the labor force is unemployed. At that level, we said, we should have a cash surplus of moderate size which would be earmarked for debt retirement, and we decided that three billion dollars would be a suitable amount of debt to retire under that set of conditions. Substantially more debt retirement than that might bring on deflation or restrain economic growth.

Before I go on to describe the stabilizing budget policy I want to make it clear that the CED is not forecasting such a situation of high employment. We merely use it as a standard on which to base our policy. When you set up a formula timing plan in which you will sell common stocks at a certain point, you don't predict that that point will be reached; you merely say that when and if those conditions materialize you will sell stocks. That is the way this policy of ours works.

Tax Rates Set to Balance Budget

The next step in the stabilizing budget policy is to set tax rates to meet this standard condition. Here is the way we expressed it: "Set tax rates to balance the budget and provide a surplus for debt retirement at an agreed high level of employment and national income."

Then we go on, and this is where the policy takes on its stabilizing aspect: "Having set those rates," we said, "leave them alone unless there is some major change in national policy or condition of national life."

Everything revolves around the setting of tax rates and expenditures at levels that will produce the desired surplus at such times as we enjoy high employment. When tax rates are left unchanged, while the national income fluctuates, it is obvious that the government's revenues will also fluctuate. In this way the government will lose revenues when there is a depression. Meanwhile, government expenditures would not be increased, except under such programs as unemployment compensation, which are automatically operating devices that help to sustain private incomes. In a depression, the surplus will dwindle, there will be a momentary balance of the budget, and then a deficit will appear. This will leave additional funds in the hands of the public at a time when the public should be kept in a position to buy as many goods and services as possible.

In a time of inflation, we will pile up a surplus and that surplus will be earmarked for debt retirement. The public will pay more revenues into the Treasury than are needed for the day-to-day operation of the government. This drawing-off of purchasing power and the retirement of debt are both anti-inflationary.

There is a "safety valve" in this policy. If we should get into a depression or an inflation that cannot be kept in check sufficiently by the combination of fiscal, monetary and debt management policy, we would make a temporary change in tax rates. The tax burden would be eased to counteract a depression and tax rates would be raised to work against inflation. Once the need for them had passed, these temporary rates would be abandoned. And we expect the need for using this safety valve to occur only at rare intervals.

This policy, then, will promote stability, taking money out of the spending stream in inflation and leaving it in depression.

The stabilizing budget policy also promotes economy in government. If a new expenditure program were desired by the public at any stage of the business cycle, this policy would call for a tax increase or curtailment of other expenditures to cover the cost of the new program. This is necessary in order to produce the desired surplus at a high-employment level of national income. Because every new expenditure program will mean higher taxes or curtailment of other expenditures, the public will have to weigh the advantages of the new program against the burden of higher taxes. In this way the stabilizing budget policy puts a price tag on every government activity. After all, every single thing the government does is paid for by the public.

Debt Reduction Imperative in Good Times

The stabilizing budget policy, as I have pointed out, makes debt reduction imperative in good times. The surpluses of good years will be used to erase the deficits of bad years. As long as we have a healthy economy, with reasonably high employment on the average, there will be a definite trend toward the reduction of the national debt.

The policy also avoids the frequent changes in tax rates that are so unsettling to business and individuals alike.

Now let's take a look at the situation this year and see how our policy would deal with it.

First, let me remind you that when we look at the Federal budget to see what the impact of the government's taxing and spending will be on the economy we should look at the cash-consolidated budget. This is the budget which is buried in the official budget document under the forbidding title "Payments to and Receipts from the Public." As I said earlier, the cash-consolidated budget shows only actual cash expenditures and receipts in the fiscal year in question; no merely internal transactions between different government agencies are included. And it is a budget which covers the whole Federal Government, including the trust funds.

When we use the cash-consolidated budget we can see the approximate effect the budget will have on the economy. It follows that when we determine how high taxes should be we should do so on the basis of the impact these taxes will have on the economy, and the impact of government expenditures. We should, accordingly, use the cash-consolidated budget.

The traditional budget is the administrative-control budget. It, too, is a necessary budget. It is useful, in this day of huge government expenditures, as a tool for government officials in administering and controlling their agencies. But the administrative-control budget is not a satisfactory economic tool, and we should break away from its use as an overall budget for all purposes.

President Truman submitted a budget in which he plans for cash-consolidated expenditures of $45.8 billion in the fiscal year beginning on July 1. He foresees cash receipts of $43.1 billion. This would leave a deficit of $2.7 billion in the cash-consolidated budget, as compared with the $5.1 billion in the administrative-control budget. The President believes that there should be a net tax increase of about $1 billion. The CED agrees with some of the points in the President's recommendations. But there are these two big differences: instead of the tax increase he asks for we recommend a net tax reduction of about $2¼ billion dollars. And we also believe that the budget can be cut. Behind our recommendations is the philosophy I have outlined for you.

Let's apply our test of budget policy. What amount of deficit or surplus would the President's recommended budget produce if we had unemployment of about 2½ million persons; that is, if we had what we have defined as high employment?

President Truman calculated his budget estimates on the basis of an assumption of what the condition of the economy would be in the fiscal year 1951. This assumption happens to be based on economic activity at the level which prevailed in the latter part of 1949. Obviously, the actual deficit might well be far different from the deficit shown in the budget.

If we use the CED definition of high employment, and apply it to the President's budget estimates, revenues will prove to be about $3.1 billion higher than those shown in the budget estimates. They would be about $46.2 billion instead of $43.1 billion in the budget estimates, because personal and corporate incomes would be higher under our high employment definition. Unemployment compensation payments would be about $400 million lower, because there would be less unemployment. So there would actually be a surplus in the cash-consolidated budget presented in the President's Budget Message of $800 million at high employment. That is far less than the $3 billion which we of CED think is desirable under those conditions.

The Problem

The problem boils down to this: How can we get this $3 billion surplus at high employment? One way would be through a tax increase. But the CED believes that our tax burden is already nearing the danger point beyond which economic progress will be seriously menaced. Rather than increase taxes, we think they should be lower. If our present tax system is long maintained in force it would, I think, slow down the growth of our national output and make it harder and harder for business to provide sufficient new jobs for a constantly rising labor force.

CED has also concluded, after much study, that the Federal Government is trying to do too much at one time. I don't want to spend too much time on the expenditure side of the budget, because you gentlemen asked me here to talk about taxes. But I don't think it is possible to decide how high taxes should be without knowing how high expenditures should be.

I am going to quote a few words the President himself used in his Tax Message. He said, "Our general objective should be a tax system which will yield sufficient revenue in times of high employment, production and national income to meet the necessary expenditures of the government and leave some surplus for debt reduction."

The CED would certainly agree with that statement. But we do not agree that the expenditures recommended by the President are all necessary. The impression is sometimes given that our Federal Budget is so dominated by postwar and defense expenditures that its size is absolutely determined by necessity for survival. That is not the way I see the situation. The President's budget calls for $45.8 billion of expenditures, on a cash-consolidated basis, in fiscal 1951. In fiscal 1948, we spent $36.5 billion. The President's 1951 proposal is $9.3 billion higher than actual 1948 expenditures. How much of this increase is in what Secretary Snyder calls "war-or-peace" items—national defense, international affairs, veterans, interest? Only

*An address by Mr. Thomson before the New York Society of Security Analysts, New York City, March 23, 1950.

$1.1 billion, or 12% is in these war-or-peace categories. The rest, $3.2 billion, is an increase in domestic peacetime programs. If we leave out the new social insurance program on the ground that they are self-financing we find that 85% of the increase is still in domestic peacetime programs. This by itself does not prove that the budget can be cut. But it does show shat the size of the budget is not rigidly determined by the costs of waging the war with the Axis or waging the peace with Russia.

Cuts in Expenditures Recommended

In view of the small amount of time available, I shall discuss our recommendations for expenditure cuts briefly. We have concluded that expenditures can and should be cut $3.7 billion below the President's recommendation. In National Defense we believe that expenditures can be reduced below the 1950 level without reducing the effective strength of the armed forces. Our recommendation for 1951 is about $1 billion below the President's. We believe that Veterans Readjustment Programs can decline more rapidly than the budgete envisages—to the extent of almost $500 million—without sacrificing the basic purposes of the program. RFC purchases of guaranteed home mortgages have gone far beyond the original intention to provide a secondary market. These expenditures, we think, can be reduced about $340 million below the President's figure without creating stringency in the supply of credit for housing. Our figure for unemployment insurance is $370 million lower than the President's because we base our calculations on a lower level of unemployment. We also consider it prudent to allow a substantial reserve for unforeseeable emergency expenditures; this reserve should not be used unless absolutely necessary. We have also recommended deferring or eliminating the increase of public works, we have advised against rapid expansion of new programs until old ones decline or the national income grows further, and we believe the Hoover Commission has demonstrated that all programs can be more efficiently operated. Furthermore, we think that additional revenues of $300 million can and should be obtained by stricter enforcement of the tax laws. When these recommendations for 1951 are added up, the total cut comes to $3.7 billion.

I don't argue that this is all we can cut out of the President's budget. There is undoubtedly a still greater saving possible. But I do think our recommendation is a practicable first step that can be taken **this year.**

When you add it all up, the CED recommendation, so far, looks like this; under conditions of high employment, the cash-consolidated budget for fiscal 1951 **should** call for expenditures of about $40.3 billion and receipts of $45 billion. This would leave a surplus of $4.7 billion.

This is too big a surplus to meet the conditions of CED's policy. Accordingly, there is room for a tax cut which would bring the high-employment surplus down to $3 billion. We have recommended a tax reduction that would amount to $2¼ billion in a full year. If this cut were applied to fiscal 1951, it would result in a net loss of revenue of only $1.7 billion, because of the lag in tax collections. This would leave the desired surplus of $3 billion at high employment. Obviously, if we don't get to a high level of employment, we won't have a $3 billion surplus. But if we don't have high employment a $3 billion surplus is not desirable.

Present Tax Structure Is Jumbled

Now I'd like to get back to taxes. Our tax structure is a mass of jumbled measures passed from time to time in an effort to provide revenues for a growing government. There is little rhyme or reason to many of the taxes we are now paying. What we should work toward is a better tax system; we should use every opportunity for tax reform and tax reduction to reduce tax burdens in such a way that the growth of the economy will be fostered. There are two basic things to do. First, we should eliminate taxes that penalize individual segments of the economy. There are so many inequities in our present tax structure that I don't feel that I have time to go into all of them here. Besides, you gentlemen are familiar with them. These inequities work for both sides: some of them protect one part of the economy while others discriminate against another part. We should strive for removing the hidden subsidies to some taxpayers just as much as we should try to remove the burdens of unfair taxes on other groups.

Second, there are a number of taxes that are bad in themselves. These taxes are bad because they tend to stifle the growth of the economy. They put obstacles in the way of increasing employment and productivity, and they kill incentives to develop new industries and to allow existing enterprise to grow.

But there is a high hurdle in the process of tax reform. Many tax reforms will cost the government revenues. I think our tax burden today is heavier than it should be. But the government does need adequate revenues to support its essential functions. The best we can hope for is a gradual lightening of the tax burden. Every time there is an opportunity for reducing taxes, we should reduce them in such a way that the tax structure will be improved as the burden is lightened. We should also take steps to plug up the loopholes in the structure which enable some people and companies to escape their fair share of taxes.

One of these opportunities for an approach to overall tax reform is present today, and the CED has recommended a series of reforms that we think should be made this year. As I have said, we think there is room this year for a net tax reduction of $2¼ billion. We have proposed reforms that will effect this reduction to the benefit of economic growth. And we have also proposed some reforms that will cost the government little or nothing in lost revenue.

Repeal Wartime Excises

First, we have recommended reduction or repeal of wartime excise tax rates to the extent of about $1 billion of net revenue loss. These taxes were imposed or increased to provide additional revenues for the war effort and also to discourage the production of goods that were not essential to a war production economy. Today output of these goods is still being discouraged, yet the war has been over for over four years. This is discrimination of the worst sort. It has caused hardship to employees (or would-be employees), and to the owners of companies making goods that are subject to these excise taxes. And it has hurt the consumers of these industries by adding to the price of their products.

The CED does not believe that we can afford complete repeal of the wartime excise rates this year; other reforms are also desirable with the limited amount of feasible tax reduction. Accordingly, we lean strongly toward reduction particularly of those excises which enter into the cost of production and thus hurt the people with low incomes, such as the taxes on transportation and communication. And we should look toward eventual repeal of all excise taxes save those on liquor, gasoline and tobacco.

Question of Double Taxation

Next we come to the vital question of double taxation of dividends. You are all aware of the patent unfairness of double taxation, and the way in which it impedes industrial growth. I think the myth that corporation income can be taxed is one of the worst possible distortions of fact. Corporations no more pay taxes on their own income than luggage pays the excise tax on luggage. **People** pay corporation taxes and it's time they realized it. CED believes that the corporate income tax is a basically bad tax and we think that any further increase in the corporate income tax would be a step in the wrong direction.

There are several ways to attack double taxation, but whatever way is used will increase the incentive of investors to invest and will encourage equity financing. CED has proposed a step toward removal of double taxation in which the first 16.6% of the corporate income tax would be considered a withholding tax on distributed income. This 16.6% is the rate applied to the first bracket of income under the present individual income tax. When the stockholder computes his income tax liability, he would include in his income his cash income plus the tax withheld by the corporation. The amount of the tax he pays would then be the tax on his income, calculated in the ordinary way, less the amount of tax withheld.

This plan is a step toward eventual removal of double taxation, and would cost about $1 billion in a full year at high employment. It is discussed more fully in our policy statement.

These two measures are the ones which would cost the government considerable revenue. CED also proposed several other steps toward a sensible and fair tax system that we think should be taken this year, and that would cost the government little.

High on the list is the removal of the tax exemption from future issues of state and local bonds. Briefly we see this controversial subject in this light: the exemption, because it benefits primarily the wealthy investor, tends to keep him out of the stock market, although the wealthy man is just the man who is most able to take the risks of common stock ownership. These risks must be taken if our economic system is to survive. There is also the question of inequity; the exemption enables investors to escape their full share of taxes under legal sanction.

A second relatively costless reform we advocate is the revision of the treatment of business losses by both corporate and non-corporate business. We recommend the revision of the present two-year carry-back and two-year carry-forward of business losses. In its place we want a five-year carry-forward against subsequent earnings and a one-year carry-back. This would greatly benefit a new business which faces losses in its early years. It would encourage the development of small business and also give encouragement to the risk-taker.

Present limitations on depreciation allowances may prevent the reduction in the value of capital assets from being fully charged off against taxable earnings, or from being charged off in a reasonable period. As a result, tax may be imposed when a company has no net earnings. This is unfair, and a deterrent to investment. Present revenue requirements will probably not permit any basic change in depreciation policy, but we believe that the administration of the present policy could be improved to make its application more reasonable and clear. This could be done without significant loss of revenue.

Other Tax Reforms

Other reforms we recommend for this year include the amendment of the law on penalty taxes for accumulation of earnings (Section 102) to put the burden of proof on the government rather than on the corporation in the case of operating companies. The law as it now stands has caused uncertainty and confusion.

We have also recommended elimination of the notch rate of 53% on corporate incomes between $25,000 and $50,000. This rate does not increase total corporate tax liability in that bracket beyond 38%, but it does work hardship on the small business. We suggest instead the application of a gradually rising scale of tax rates to the first $50,000 of income.

These reforms are suggested only as a step toward eventual achievement of the kind of tax structure we would all like to have. The reforms that can be achieved in any one year are limited by the revenue requirements of the government. But if we seize each opportunity for reform we can eventually reach our goal.

You gentlemen are concerned with the growth of our economy within the limits of the free enterprise system that has made our nation the wealthiest and strongest in the world. I am sure you also share the deep-rooted desire of the public at large for a more stable economy in which we can avoid the disastrous depressions and inflations we have endured throughout our history. You are strong advocates and useful representatives of the free enterprise, capitalist system. The CED program, of which I've described only a small part, is designed to strengthen this system, and I think it is constructive. We have published a number of policy statements on national problems, and I would be delighted to send you as much of our material as you want. And because I have had to be so brief today, I would like particularly to send you a copy of our latest policy statement "Tax and Expenditure Policy for 1950." That is the place where you will find, in greater detail, the recommendations and thinking I have summarized for you today.

Geo. B. Gibbons Co. In New Quarters

Geo. B. Gibbons & Co., Inc., since 1914 underwriters, dealers and distributors in state and general market municipal bonds, announce the removal of the firm's office to new and commodious quarters at 20 Pine Street, New York City.

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Ray Allen will service Philadelphia and surrounding territory.

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Boyce & Co. has been formed with offices at 40 Exchange Place, New York City, to act as dealers and brokers in railroad, public utility and industrial bonds and stocks. Principals of the firm are Frank Boyce, who will be in charge of the stock trading department, and John A. Singler, who will be manager of the bond trading department. Mr. Boyce was formely a partner in L. H. Rothchild & Co. Mr. Singler in the past was head of Singler & Co., Inc., of Minneapolis.

Contribution of Imports to Business Activity and Full Employment

By MAURICE HEYNE*
Belgian Minister and Commercial Counselor

Belgian trade official states as long as imports are considered poison and exports a country's meat, world trade cannot recover. Declares in a world of full employment, specialized production, and a high standard of living, imports are benefits, not dangers to the economy.

I do not know how many of you have ever picked that prickly weed, the nettle. There is an old saying that if you stroke it tender-hearted it stings you for your pains. Grasp it firmly, and it soft as silk remains.

Maurice Heyne

In dealing with the highly controversial question of imports, we are inclined to approach it gingerly, and suffer the stings. Today, I am going to follow the advice of the old adage and tackle the subject boldly, in the hope of achieving the desired results.

Now we might as well face the fact that there is considerable resistance to imports here in your country, and abroad. In fact, in almost every country, exports are considered its meat, imports its poison. As long as this situation exists, world trade will continue to be jeopardized.

In the hope of narrowing the dollar gap, some countries have adopted policies to restrict imports from hard currency areas. Traditionally, however, and rightly or wrongly, restrictions on imports stem from a desire to safeguard domestic employment and standards of living.

This is amply supported by current economic theory that imported goods absorb domestic purchasing power, and therefore exercise a negative effect on domestic income and employment.

The shift from agricultural to industrial economies, in the progress of the Industrial Revolution, brought forward new economic theories. Today, when emphasis is rapidly moving from the problems of production to the problems of distribution, our economic viewpoints need to be revised in the light of new conditions.

By reason of their interdependence one upon the other, imports and exports alike, contribute to the well-being within a country. It can hardly be said that one creates business activity and employment, and that the other detracts from it. A high level of domestic activity and full employment is always accompanied by a similar level in world trade. The opposite is also true.

I am taking the opportunity afforded in addressing this professional organization to elaborate on this broad aspect of international marketing. Your acceptance of a high level of imports is to your advantage. It is also of worldwide importance.

Imports and exports—in terms of physical commodities and merchandise—fall into several categories. They are: raw or crude materials—such as cotton, hides and skins, oilseeds, iron ore, aluminum. Semi-manufactures — steel ingots, iron and steel rods, wood pulp, coal tar products, and so on.

Then there are finished manufactures. Part are for industrial use — such things as machinery, window glass, textile equipment, certain steel products. Other finished manufactures, in wide variety, plus fresh and processed foods, may be classed as consumer goods.

Consumer goods of foreign origin are of two kinds — those which are in competition with domestic products, and those which complement them — in effect, **competing** and **completing** merchandise. The **completing** items are for the most part luxury goods, or merchandise which is not made in the importing country.

It is important that we make these distinctions, because it is the competing and completing products of other countries which constitute the real bone of contention with respect to imports.

In your country, a double-barreled effect lends force to the resistance to imports. It must seem to the American people as if it should be enough to pay the bill for ECA in an all-out effort to put Marshall Plan countries back on their feet. They are now being asked to turn around and buy what they have helped other countries to produce, in order to keep the ball rolling. Why, they ask, should they be required to accept foreign merchandise, which may be in competition with domestic products, or which may be imported in such quantities as to cause dislocation in certain industries?

This is important, because the attitude toward imports is a major factor in selling them. The very publicity necessary to develop a market is likely to increase resistance in proportion to the aggressiveness with which imports are promoted.

Yours is a country which has built an enormous and dynamic productive machine. It accounts for half the world's output. Because of the dominant position of the United States, what happens here, and the policies you adopt, penetrate every nook and cranny of world trade.

The world needs what America produces. It does not have enough dollars to pay for it, however, unless you, in turn, buy enough of what the world has to sell. Despite the eminent success of the Marshall Plan and the able administration of ECA, the dollar gap is still of such proportions that items such as shipping, tourism, investments and loans that help to make up the international balance sheet, cannot possibly be expanded to achieve the necessary trade balance. This can be accomplished only by closing what Mr. Radcliffe has called the merchandise gap.

Thus, the attention of almost every country is focused on the United States as a market.

In spite of the rich bounty with which your country is blessed, imports are important to you. You recognize that fact. For in 1948, 60% of your imports were free of duty. Only 40% were considered in protection of American industry.

The major share of duty-free imports is, of course, in raw materials and commodities. These are either not available in the United States, or supplement domestic supply. Your country uses about half of the raw materials which enter into international trade.

The automotive and allied industries, a source of employment in many centers in the United States, import materials from all over the world. "Thirty countries furnished this room" was the caption of a recent advertisement in your magazines.

Almost half of your imports in 1948 were in crude foods and materials. Another quarter was in semi-manufacturers, a total of over 70% imported for further fabrication. Without such imports, many of your industries would have to close down entirely, or greatly restrict production.

Exports Provide 5 Million Jobs

Let us turn this over and look at the export picture. It is estimated that the rate of your current exports provides some five million jobs. In 1947, according to the Bureau of Labor Statistics, nearly half of these were engaged directly or indirectly in non-agricultural industries in the production of goods for export. In the durable goods industries, in mining, and especially in capital goods, export workers accounted for 14% of the employment.

This is borne out when we consider the character of your exports. In 1948, only 22% of all United States exports were in crude foods and materials; 11% in semi-manufacturers, and 67% in manufactured foodstuffs and finished goods. In other words, two-thirds of your exports were the product of a high content of American labor. If we include semi-manufacturers, the proportion rises to over 75%.

Normally, 7 to 10% of your output is exported. Averages, however, fail to reveal the degree of dependence of the American economy on its export trade.

American cotton represents 45% of the international trade in this commodity; American tobacco 42%. Although your production of rice is only a small percentage of world production, your exports since the war have accounted for almost 16% of all rice moving in international trade.

In 1948, 25% of your production of machine tools, 20% of agricultural machinery, 15% of motor trucks were exported. These percentages are not out of line with the proportion of production exported before the war.

Because your economy is geared to your mass-production industry, any sharp cut-backs in exports of these industries would be felt, not only in the labor market directly affected, but in the entire economy. A considerable drop in production would mean higher unit costs, less profit to industry, price fluctuations at the consumer level, and unemployment in both agriculture and industry.

Moreover, the size and complexity of American industry and production, and its importance in world trade, are such that repercussions from any curtailment are felt all over the world. We are all too familiar with the effect of the comparatively mild recession in 1949 for me to enlarge on this point.

But I do want to call your attention to a report published by the O.E.E.C. early in March. The New York "Times" had this to say: "Decisive measures to narrow the dollar gap are apparently being taken on the dollar side, where drastic cuts in exports from the United States and Canada are expected to account for more than 57% of the anticipated reduction of the deficit." . . . As the flow of the Marshall Plan aid diminishes, the report continues, exports from these two countries will be confined to the rigid requirements of basic foods and raw materials.

The significant point here is that decreases in your exports are

Continued on page 51

*An address by Mr. Heyne before the American Marketing Association, Washington, D. C., March 28, 1950.

A British Taxpayers' Revolt?

By PAUL EINZIG

Noting that taxation is much higher in Britain than any other country, Dr. Einzig criticizes public's willingness to put up with it. Regards a possible savers' strike as best means of compelling government to resort to long-overdue economies.

LONDON, ENG. — Taxation is much higher in Britain than in any other country. About 40% of the nation's earning is absorbed by various forms of taxation collected by the government and by local authorities. It is doubtful whether any other nation would be prepared to put up with a perpetual burden of that magnitude in time of peace. And it is doubtful whether the willingness of the British taxpayer to put up with it is an unmixed blessing, or even a good thing on balance. For the ease with which the government can collect the billions tends to reduce the inducement to cut down expenditure which is maintained at top level. It is too tempting to take the line of least resistance and allow expenditure to remain high, and even to yield to pressure for further increases, so long as the money is flowing in for meeting the inflated expenditure.

Dr. Paul Einzig

Lax Parliamentary Control

The British Parliament originated and developed mainly because the British people was unwilling to allow its Kings free hand in matters of public finance. Yet British Parliamentary control over expenditure is amazingly lax. The House of Commons, having fought hard for centuries to secure control over expenditure, exercises its control very casually. It is true, it goes through the gestures of checking expenditure estimates with the utmost care. Each item of the civil estimates is checked, in theory, not less than twenty-three times by Parliament, by means of a highly elaborate procedure. In practice the overwhelming majority of items is never checked at all. What happens is that on days which are allotted by the government for the Opposition in order that the latter should fulfil its traditional role as the guardian of the nation's purse, criticisms of a general nature are voiced against various government policies instead of examining details of expenditure. On most "Supply days" the debate is on general grounds all day, and in the last minute expenditure running into billions of dollars is passed formally in matters of minutes.

Scandal Gets Attention

Occasionally some outstanding scandal of extravagance receives due attention in Parliament as a result of investigation by the Select Committee on Estimates or by the Public Accounts Committee. But the overwhelming majority of expenditure is passed without adequate control. It is no wonder the government is not in an undue haste to resort to drastic economies. Things would be otherwise if the Treasury encountered difficulties in raising the large sums needed for the present level of expenditure. A budgetary deficit would not be tolerated for any length of time during a period of peace, and public opinion would force the government to cut down expenditure if it is incapable of raising revenue. As it is, such efforts at economies as are made are more than offset by increases of expenditure in other directions.

Patience Ending

There are, however, some indications that the British taxpayer's patience is coming to an end. A recent incident pointing in that direction received much publicity. The well-known playwright, R. C. Sheriff, was offered by Hollywood £15,000 for the film rights of one his plays. Owing to his high income, however, he pays a very high rate of surtax, so that the net proceeds of the arrangement would only have amounted to a negligible amount. He approached the Treasury with the suggestion that the amount taken away in taxes should be spent on archaeological research in the district of his residence, failing which he would refuse to sell the American film rights of his play. The Treasury refused to agree, for fear that the precendent might be followed by many taxpayers. Accordingly, Mr. Sheriff decided not to sign the agreement.

Needless to say, this is an isolated instance. Nevertheless, there are indications that other categories of taxpayers are growing tired of paying taxes at the present rate. For instance, there seems to be a strike of beer consumers. Owing to the high level of the beer duty, the amount consumed declined sharply during the past 12 months, and the Treasury suffered a loss of revenue.

A Savers' Strike

Nor are taxpayers alone who are inclined to revolt against the unduly high expenditures. There has been, during the past year, a noteworthy fall in savings. Indeed the weekly figures showed in many instances an excess of withdrawals over new savings. Hitherto the government found it very easy not only to collect revenue but also to raise funds for capital investment. But a savers' strike, together with a taxpayers' strike, might easily compel it to resort to much-needed and long-overdue economies. It is, of course, a long way from the present sypmtoms to a fully-developed effective movement. But the possibility of it cannot be ruled out altogether.

Henry Milner With R. S. Dickson & Co.

R. S. Dickson & Co., Inc., 30 Broad Street, New York City, announce that Henry Milner has become associated with the firm in its Municipal Bond Department. Mr. Milner was formerly with the New York office of the Mercantile Commerce Bank & Trust Co. of St. Louis.

Hugh Johnson & Co. Formed in Buffalo

BUFFALO, N. Y.—Hugh A. Johnson announces the formation of Hugh Johnson & Co., Inc. with offices in the Rand Building. The new firm will assume the Buffalo office of George D. B. Bonbright & Co., members of the New York Stock Exchange, of which Mr. Johnson was a partner.

Two With Stephenson Co.

(Special to THE FINANCIAL CHRONICLE)

OAKLAND, CALIF. — Howard L. Hardy and Norman D. Nordstrom have become affiliated with Stephenson, Leydecker & Co., 1404 Franklin Street.

NSTA Notes

SECURITY TRADERS ASSOCIATION OF NEW YORK

The Security Traders Association of New York, Inc., announces it will hold its Fourteenth Annual Dinner on Friday, April 21, 1950, at the Waldorf Astoria Hotel. All indications point to a capacity crowd.

Charles O'B. Murphy

Nat Krumholz

John M. Mayer

Arrangements Committee is headed by Charles O'Brien Murphy of Merrill Lynch, Pierce, Fenner & Beane as Chairman and Nat Krumholz of Siegel & Co. as Vice-Chairman. John M. Mayer of Merrill Lynch, Pierce, Fenner & Beane, President of STANY, will preside.

THE NATIONAL SECURITY TRADERS ASSOCIATION, INC.

The National Security Traders Association announces the following Standing Committees for 1950:

Advertising Committee: Harold B. Smith, Chairman, Pershing & Co., New York.

Constitution Committee: Wm. Perry Brown, Chairman, Newman, Brown & Co., New Orleans; Stanley Roggenburg, Roggenburg & Co., New York.

Convention Committee: Edward H. Welch, Chairman, Sincere & Co., Chicago; Herbert H. Blizzard, Blizzard & Co., Philadelphia.

Legislative Committee: Jay L. Quigley, Chairman, Quigley & Co., Inc., Cleveland; R. Victor Mosley, Stroud & Co., Inc., Philadelphia; Thomas Graham, Bankers Bond Co., Louisville.

Membership Committee: Alonso H. Lee, Chairman; Sterne, Agee & Leach, Birmingham, Ala.; Ernest E. Blum, Brush, Slocumb & Co., San Francisco; Walter G. Mason, Scott, Horner & Mason, Inc., Lynchburg, Va.; Charles A. Richards, Field, Richards & Co., Cincinnati, Ohio.

Municipal Committee: John G. Heimerdinger, Chairman, Walter, Woods & Heimerdinger, Cincinnati, Ohio; Thomas Graham, Vice-Chairman, Bankers Bond Co., Louisville, Ky.; Herbert Petty, Vice-Chairman, Equitable Securities Corp., Nashville, Tenn.; Oscar M. Bergman, Allison, Williams & Co., Minneapolis, Minn.; Russell M. Ergood, Jr., Stroud & Co., Philadelphia; Landon A. Freear, Wm. N. Edwards & Co., Ft. Worth, Texas; Henry L. Harris, Goldman, Sachs & Co., New York; Gilbert Hattier, Jr., White, Hattier & Sanford, New Orleans, La.; Harold B. Mayes, Hendrix & Mayes, Birmingham, Ala.; Don A. Meyer, Foster & Marshall, Seattle, Wash.; Frank P. Meyer, First Michigan Corp., Detroit, Mich.; Edw. V. Vallely, John Nuveen & Co., Chicago, Ill.

Public Relations Committee: John M. Hudson, Chairman; Thayer, Baker & Co., Philadelphia, Pa.; Frank Bowyer, Schwabacher & Co., San Francisco; George J. Elder, George A. McDowell & Co., Detroit, Mich.; John F. Glenn, Courts & Co., Atlanta, Ga.; John E. Graham, Brainard-Judd & Co., Hartford, Conn.; E. T. Parry, Atkinson-Jones & Co., Portland, Oregon.

Publicity Committee: Milton J. Isaacs, Chairman, Straus & Blosser, Chicago, Ill.

NSTA ADVERTISING COMMITTEE

The National Security Traders Association, Inc. announces the membership of the Advertising Committee for 1950:

Chairman: Harold B. Smith, Pershing & Co., New York City.

Vice-Chairmen: John F. Egan, First California Co., San Francisco, Calif.; John L. Canavan, Rauscher, Pierce & Co., Dallas, Tex.; John Latshaw, Uhlmann & Latshaw, Kansas City, Mo.; Donald C. Sloan, Donald C. Sloan & Co., Portland, Ore.; Glen A. Darfler, Kneeland & Co., Chicago, Ill.

Local Affiliate Chairmen: Lex Jolley, Johnson, Lane, Space & Co., Inc., Atlanta, Ga.; George Placky, L. J. Schultz & Co., Cleveland, Ohio; Henry J. Blackford, A. M. Law & Co., Spartanburg, S. C.; Clair S. Hall, Clair S. Hall & Co., Cincinnati, Ohio; Hubert Bernard Jr., Schirmer, Atherton & Co., Boston, Mass.; Everett W. Snyder, E. W. Snyder & Co., Syracuse, N. Y.; John W. Bunn, Stifel, Nicolaus & Co., Inc., St. Louis, Mo.; Joseph W. Weil, Weil & Arnold, New Orleans, La.; Chas.B. Murphy, Merrill Lynch, Pierce, Fenner & Beane, New York City; Sidney J. Sanders, Foster & Marshall, Seattle, Wash.; Orville C. Neely, Merrill Lynch, Pierce, Fenner & Beane, Denver, Colo.; John M. O'Neill, Stein Bros. & Boyce, Baltimore, Md.; Paul Moreland, Moreland & Co., Detroit, Mich.; Henry G. Isaacs, Virginia Securities Co., Norfolk, Va.; Fred K. Kirkland, Hermitage Securities Co., Nashville, Tenn.; Albert W. McCready, Geyer & Co., Inc., Los Angeles, Calif.; E. C. Hawkins, Rauscher, Pierce & Co., Inc., Houston, Tex.; Clyde C. Pierce, Clyde C. Pierce Corp., Jacksonville, Fla.; Chas. C. King, The Bankers Bond Co. Inc., Louisville, Ky.; Leslie B. Swan, Chas. W. Scranton & Co., New Haven, Conn.; Early F. Mitchell, First National Bank, Memphis, Tenn.; Oscar M. Bergman, Allison-Williams Co., Minneapolis, Minn.; Herbert H. Blizzard, Herbert H. Blizzard & Co., Philadelphia, Pa.; Harry J. Steele, Fauset, Steele & Co., Pittsburgh, Pa.

BOSTON SECURITIES TRADERS ASSOCIATION

Albert G. Woglom

The Boston Securities Traders Association will hold its 31st Annual Outing at the New Ocean House in Swampscott, Mass., on June 8, 1950, with golf at the Tedesco Country Club nearby.

The BSTA Golf Cup will be up for competition again, between picked teams from New York, Philadelphia and Boston, starting at 1:00 p.m., as will the Walter J. Connolly Trophy. Only BSTA members are eligible to compete for the latter, but there will be additional prizes for all winning players, guests as well as members. Softball, tennis, quoits, swimming, etc., will also be available, with contests and prizes.

Six dollars is the tariff, for both guests and members.

Albert G. Woglom, A. G. Woglom & Co., is Chairman of the Outing Committee.

TWIN CITY SECURITY TRADERS ASSOCIATION

The program for the annual meeting of the Twin City Security Traders Association, to be held June 16 through June 18 at the Grand View Lodge, has been announced. The cost of the outing is $30, which includes transportation, green fees, food, lodging, boats, and beer.

Friday, June 16, those attending will leave Minneapolis via bus at 10 a.m.; they will lunch at Blue Goose on Lake Mille Lacs at noon, and arrival at Grand View Lodge is scheduled for 2 p.m. Buffet supper will be held at 7 p.m.

Saturday, June 17, following breakfast, there will be a golf tournament, fishing by launch or small boat, with lunch on board (noon lunch at lodge for golfers) and sightseeing trips by boat and car. Arrangements have also been made for tennis, pool, ping-pong, swimming, etc. At 5 p.m. there will be a cocktail party, with dinner at 7 p.m. and a program of entertainment to start at 9 p.m.

Sunday, June 18, transportation has been arranged to various churches. Dinner will be at noon with the return to Minneapolis scheduled for 2 p.m.

As reservations are limited to 125, those planning to attend should contact R. K. Pillsbury, First National Bank of Minneapolis.

Joins Revel Miller

(Special to The Financial Chronicle)

SAN DIEGO, CALIF.—Glen E. Gilpin has become associated with Revel Miller & Co., 530 South Broadway. He was formerly with Walston, Hoffman & Goodwin and Buckley Brothers.

With Paine, Webber Co.

(Special to The Financial Chronicle)

LOS ANGELES, CALIF.—Arthur V. Ullman has become associated with Paine, Webber, Jackson & Curtis, 626 South Spring Street. He was formerly with Dean Witter & Co.

Maine Investors Serv.

(Special to The Financial Chronicle)

WATERVILLE, MAINE — Arthur B. Levine has formed Maine Investors Service with offices at 76 Maine Street to engage in the securities business.

Fairman Co. Adds

(Special to The Financial Chronicle)

LOS ANGELES, CALIF.—Walter W. White has been added to the staff of Fairman & Co., 210 West Seventh Street, members of Los Angeles Stock Exchange.

$19,500,000 Bonds Of City of Baltimore Offered to Investors

Offering of $19,500,000 City of Baltimore, Md., 5%, 1½% and 1¾% bonds maturing $10,000,000 serially Sept. 1, 1952 to 1976, inclusive, and $9,500,000 serially from Dec. 1, 1955 to 1979, inclusive, is being made by a group headed jointly by Halsey, Stuart & Co. Inc., The First Boston Corporation and the First National Bank of Chicago. The bonds are priced to yield from .60% to 1.90%, according to maturity, and are interest exempt, in the opinion of counsel, from all present Federal income taxes. They are legal investment in the opinion of the bankers for savings banks and trust funds in New York and Connecticut.

Other members of the offering group are: Blair, Rollins & Co. Incorporated; C. J. Devine & Co.; Union Securities Corp.; Harris, Hall & Co. (Inc.); Eastman, Dillon & Co.; Hallgarten & Co.; L. F. Rothschild & Co.; Shields & Co.; Bear, Stearns & Co.; White, Weld & Co.; Coffin & Burr, Inc.; Hemphill, Noyes, Graham, Parsons & Co.; Adams, McEntee & Co., Inc.; Hornblower & Weeks; Fidelity Union Trust Co. (Newark); Roosevelt, & Cross, Inc.; Geo. B. Gibbons & Co., Inc.; Laidlaw & Co.; Schoellkopf, Hutton & Pomeroy, Inc.

Otis & Co., Inc.; American Trust Co.; Francis I. duPont & Co.; A. G. Becker & Co., Inc.; G. H. Walker & Co.; Eldredge & Co., Inc.; Wm. E. Pollock & Co., Inc.; Stroud & Co., Inc.; The First National Bank of Memphis; Julien Collins & Co.; A. Webster Dougherty & Co.; National State Bank, Newark; The Milwaukee Co.; Boland, Saffin & Co.; Weeden & Co. Inc.; The National City Bank of Cleveland; The National City Bank of Minneapolis; The First National Bank of St. Paul; City National Bank & Trust Co., Kansas City; The Peoples National Bank of Charlottesville; Hirsch & Co.; Thomas & Co.; G. C. Haas & Co.; The Illinois Co.; Glover & MacGregor, Inc.; Moore, Leonard & Lynch; Singer; Deane & Scribner; George K. Baum & Co.; William R. Compton & Co.; Dolphin & Co.; Ellis & Co.; Robert Garrett & Sons; Gordon Graves & Co.; Robert Hawkins & Co., Inc.; Martin, Burns & Corbett, Inc.; Minsch, Monell & Co.; Newburger, Loeb & Co., and Tilney and Co.

J. C. Markey Will Join Defense Council

J. C. Markey, President of The Aro Equipment Corp., Bryan, Ohio, has been invited to Washington by Secretary of Defense Louis Johnson to participate in the Joint Civilian Orientation Conference as a member from April 17th to 24th. Mr. Markey will join other representative leaders of industry, labor, publicity media, finance and the professions in the discussion of problems of national defense.

The program for the group includes a two-day conference in Washington with top government officials, followed by visits to Army, Navy, Marine Corps, and Air Force installations in the field.

The conference group will be joined in the field by President Truman and his Cabinet, the Secretaries of the Army, Navy, and Air Force, Congressional leaders, and the Joint Chiefs of Staff.

With John G. Sessler

(Special to The Financial Chronicle)

BOSTON, MASS.—Joseph R. Sparrow is with John G. Sessler & Co., 10 Post Office Square.

On Teaching Factory Workers

By ROGER W. BABSON

Mr. Babson charges management with responsibility for workers' great illusions about profits and treatment of labor, and urges that they be told the real facts of the free enterprise system.

Private ownership has lost the support of millions of workers. Why? Because Management has never taken the time to bridge the gap between the front office and the shop with the romantic story of the American free enterprise system.

Roger W. Babson

We have assumed that the schools have been giving our youth an understanding of various economic systems pointing out the advantages of American free enterprise. The schools have not done the job. Ask a few simple questions of any one in your own family and you will see what I mean. They have failed in this as in teaching spelling and arithmetic.

Get your ear to the ground in your own shop and I will warrant you will be plain scared when you find how many workers believe management is just raking in the dough. They will even quote you figures: "The boss gets 75c of each dollar and we poor suckers get a miserable 25c!" And wait until you hear what they think about profit reserves! They are convinced that stockholders have only one interest: to grow rich by exploiting the workers. Down with all stockholders! Talk about advertising—that is a foolish waste of money. If the company was really interested in the worker, it would give him the money it spends for advertising! In short, too many wage workers honestly believe that stockholders rob them of a rightful living; they think that the government should take over and do away with profits.

Management's Attitude

Can responsible free business survive with an antagonistic working force? The answer to this question is an emphatic "No." Management has too often looked upon the worker as a "hired man." With this attitude, management must defend its prerogatives, or "good-bye" to American supremacy.

I wonder how many businessmen have recognized the significance of what General Eisenhower said about the "inseparability of all the freedoms." If you really believe that some of our freedoms cannot be kept while others are flung to the winds, then you believe that all our personal, political, and social freedoms can survive only with the survival of our economic freedom — which includes freedom to work, to own, to save, to sell, to buy, to compete, and to bargin *honestly* without the use of force by either side.

Sell America

If you are really enthusiastic about the American way, a system that enables 6% of the world's population to out-produce the other 94%, why have you kept it a secret? Why haven't our employees learned that the American system provides more goods and services for the wage workers themselves than any other system in the world—in spite of its imperfections.

The time is *now* to sell America. Dig up the facts. Toss out some comparative statistics. Bring in D.P.'s who have lived under Communism and Socialism to tell how they fared as workers. Use your PA system, house organ, posters, supervisors to give the worker information he wants and needs. Let him know what it costs to own and maintain a factory, repair and replace equipment, provide power, labor and materials, the cost of waste—and don't forget taxes!

What About Profits?

There has been a lot of loose talk about profits. We should show wage workers how company reserves mean protection for their jobs, how they should encourage venture capital. A few statistics on advertising should be helpful reminding workers that the fellow on the next machine got his job as the result of the company spending more on advertising.

It won't be hard to prove that the fellow who thinks it is OK to soak the employer with taxes is just soaking himself in the long run. Every employee should know how much capital it takes to provide him with his job. I have faith in the intelligence of our employees; but management must build a friendly bridge between the front office and the back shop. The free enterprise system succeeds when the white and blue collars work together.

First Boston & Blyth Groups Offering Cent. Ariz. Stock

The First Boston Corporation and Blyth & Co., Inc., are joint managers of two investment banking groups which on April 12 offered publicly a new issue of 40,000 shares of $2.36 cumulative preferred stock, $50 par value, and 125,000 additional shares of common stock $5 par value, of Central Arizona Light & Power Co. The preferred stock is priced at $50.50 per share plus accrued dividends from March 1, 1950, and the common stock is priced at $13 25 per share.

Dividends have been paid on the company's common stock in each year since 1920 and dividends on the preferred stock, of which there will be three series outstanding, have never been in arrears. In 1949, dividends totaling 72½ cents per share were paid on the common stock. A dividend of 20 cents per share was paid on March 1, 1950.

Mutual Funds

By ROBERT R. RICH

The Value of Professional Management

Broad Street Investing, in examining its own record, indicates the value of professional management.

The Fund states: "Obviously the investor does not obtain management supervision for nothing. There is an annual recurring cost and there are some who claim that such expense can be saved by dispensing with management, buying a sound list of stocks and holding them intact for a period of time. The table below shows the experience for four different periods from Jan. 1, 1930 through Dec. 31, 1949 of two "static" holdings: (1) the Broad Street Investing Jan. 1, 1930 portfolio held unchanged for 20 years and (2) the Dow-Jones Industrial Average which consists of 30 representative well-known stocks. These are compared with the Broad Street Investing actual results for the same periods to see if the Broad Street Investing management costs for the past 20 years have been justified.

TWENTY YEARS' EXPERIENCE

	First 5 Years 1/1/30-12/31/34	First 15 Years 1/1/30-12/31/44	First 20 Years 1/1/30-12/31/49
Dow-Jones Industrial Avge.	—58%	—39%	—19%
Original Broad Street Investing Portfolio, unchanged	—45%	—31%	—18%
*Broad Street Investing Actual Management Results	—30%	+15%	+44%

*Based on changes in liquidating value, after adding back profits distributions.

"Except for the added emphasis on investment income in recent years, Broad Street Investing Corporation has had the same investment objectives, and the same flexible policies as regards the different classes of securities used to achieve them, throughout its 20-year history. Its management has made investment research and portfolio supervision its full-time job since 1929. Thus, the results shown serve as concrete evidence of the value of professional management and supervision during the period."

Gas Fund Cites Increased Reserves

Gas Industries Fund, often asked, "How do you know that the supply of natural gas will not run out in a few years?" cites the latest figures just published by the American Gas Association for the year ended Dec. 31, 1949.

	Trillion Cubic ft.
Total proved res. as of 12/31/48	173.87
Additions to res. during 1949	12.76
	186.63
Withdrawals during 1949	6.25
Total proved res. as of 12/31/49	180.38

"Thus," Gas Industries Fund comments, "additions to natural gas reserves during 1949 were **more than double** withdrawals, and the known supply at the year end was **nearly 30 times** 1949 withdrawals.

"The search for oil has resulted in larger known reserves today than in the early days of the industry in spite of the huge withdrawals that have been made. The skeptics of the early days of the oil industry have thus been answered.

"Recent years have brought on the search for gas for its own sake. Because it is no longer just a useless substance having no market, the search for it is being conducted at least as aggressively as for oil.

"As this trend increases, additions to natural gas reserves should more than keep pace with ever-growing withdrawals, assuring an ample natural gas supply for many years."

Bump, Cabot and Shelley On Boston Fund Board

At their annual meeting stockholders of Boston Fund added three members to the board of directors increasing the number to nine.

The newly elected members are Boardman Bump, Treasurer of Mount Holyoke College; Powell M. Cabot, Business Manager of Harvard University Laboratory of Physical Chemistry Related to Medicine and Public Health, and William F. Shelley, President of the Bond Fund of Boston, Inc. Directors re-elected were O. Kelley Anderson, Charles F. Eaton, Jr., Robert L. Osgood, Mayo Adams Shattuck, Robert S. Swain, and Henry T. Vance.

O. Kelley Anderson, President, announced that the Fund now has nearly 14,000 shareholders and that net assets total $51,000,000 of which about 60% is in high-grade common stocks and 40% in fixed-income securities.

Wellington Fund Has Record Quarter Sales

Record first quarter sales of Wellington Fund were reported by A. J. Wilkins, Vice-President, W. L. Morgan & Co., national distributors. New money invested by the public in the Fund in the three months ended March 31, 1950, amounted to $14,477,000, an increase of 110% over the like three months a year ago and largest quarterly sales in the Fund's 21-year history.

Keystone Custodian Funds Reach New High

Combined net assets of the ten Keystone Custodian Funds on Feb. 28, 1950, reached a new high of $205,731,800, it is disclosed by the semi-annual report of Keystone Fund K1, made public April 4. This total represents an increase of $38,240,300 over the combined assets of $167,491,500 on Feb. 28 of last year. Total shareholders also reached a new high of 53,073.

Eaton & Howard Issues Stock Fund Booklet

Eaton & Howard, Inc., Boston, Mass., investment managers, following the publication and distribution of the Eaton & Howard Balanced Fund 1950 Yearbook, have produced a similar type booklet containing a brief description of Eaton & Howard Stock Fund including informative data relative to the objectives, policies, management, and record of the Fund. Charts graphically depict the growth and development of the Fund.

Gordon Wallace Joins Staff of Bache & Co.

Bache & Co., 36 Wall Street, New York City, members of the New York Stock Exchange, announce that Gordon T. Wallace, former chief of the Fats and Oil Section of OPA, has been employed by the firm to organize and direct Bache's new Fats and Oils Division. Mr. Wallace has 20 years' experience in this field and will direct the firm's activities in these commodities.

Dip In Consumers' Prices

National Industrial Conference Board Survey shows slight decline from January to February; with purchasing power up 1½% in last twelve months.

Consumers' prices dipped (0.3%) from January, 1950 to February, 1950, according to the National Industrial Conference Board. Over the past 12 months (February, 1949—February, 1950), consumers' prices dropped 1.4%, the Board found.

Decreases in the index were noted in 38 of the 59 cities surveyed monthly. The index remained unchanged over the month in four cities (Cleveland, Ohio; St. Louis, Missouri; Spokane, Washington and Toledo, Ohio), while increases were recorded in 17 cities. The greatest increase was noted in Huntington, West Virginia, where the index was up 0.6%. The sharpest decrease occurred in San Francisco-Oakland, California, where the index dipped 0.9%.

Purchasing Value of the Dollar

The purchasing value of the consumer dollar (January, 1939 as 100 cents) was 62.9 cents in February, 1950. This represents an increase of 1.5% over its level of February, 1949, when it stood at 62.0 cents.

Index Number Changes

The Board's index for February, 1950 stood at 158.9 for the weighted average of all items. A year ago (February, 1949) the index was 161.2. Base date of the series is January, 1939 as 100.

Changes by Index Component—January, 1950-February, 1950

From January, 1950, to February, 1950, the food component, most heavily weighted item in the indexes, dipped 0.6%. Other decreases were noted in clothing down 0.3%, and sundries, down 0.1%. Increases were noted in housefurnishings (up 0.3%) and fuel* (up 0.2%). Housing remains unchanged.

Changes from February, 1949 to February, 1950

Consumers' food prices declined 3.4% from February, 1949 to February, 1950. Other declines over the year were noted in clothing (down 6.2%) and housefurnishings (down 5.3%). During the same period rises were recorded for housing* (up 2.4%), sundries (up 1.6%) and fuel** (up 1.0%). The base date of the Board's index is January, 1939 as 100.

The Conference Board's "Consumers' Price Index of Quoted Retail Prices for Consumers' Goods and Services Purchased by Moderate Income Families" is compiled monthly.

Footnotes — ***Retail Food Prices*** were those of Jan. 16, 1950, and Feb. 15, 1950; ****Rents surveyed*** quarterly: Jan. 15, April 15, July 15, and Oct. 15; *****Fuel*** includes electricity and gas.

Martin I. King With Sutro Bros. & Co.

Martin I. King has become associated with Sutro Bros. & Co., 120 Broadway, New York City, members of the New York Stock Exchange, as Manager of their out-of-town dealer department. Mr. King has been in Wall Street since 1920 when he formed the firm of King & King from which he retired a short time ago. Mr. King is widely known throughout the country through his arbitrage and situations in which he has specialized and now will devote his time to placing the facilities of Sutro Bros. & Co. at the disposal of his dealer friends.

Martin I. King

Spencer Trask to Admit

Spencer Trask & Co., 25 Broad Street, New York City, members of the New York Stock Exchange, will admit Acosta Nichols and Adele Brittin Eustis to limited partnership on May 1.

Devine Issues Study Of Tax Exempt Secs.

A new comprehensive study of tax-exempt state and municipal securities prepared by C. J. Devine & Co., 48 Wall Street, New York City, nationally known specialists in United States Government, state and municipal securities is now being distributed. Designed principally to aid investors interested in this field, the 32-page compendium contains material obtained for the most part directly from government officials and agencies.

The new study marks another original contribution in the securities information field by C. J. Devine & Co. Sixteen years ago, the firm began issuing annually a comprehensive report of U. S. Government securities.

Major topics in the new booklet are an analysis of the salient features of state and municipal obligations with a description of their types, tax status, maturities and form; a monthly summary of the state and municipal bond market in 1949; a description of major Federal, state, and city-assisted public housing programs in effect early in 1950 and a summary of special types of tax-exempt securities.

In addition, the booklet contains 21 pages of statistics in tabular form, including annual volume of state and municipal financing for the past 15 years; estimated state and municipal debt outstanding; major bond flotations in 1949; trend of the municipal bond market from 1940 to 1949 in chart form, tax status of state and municipal obligations, by states, and state commercial bank investment limitations.

Graduates of Central Group IBA Course

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

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

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

Members of the graduating class were:

Fred E. Adams, Jr., Hornblower & Weeks; Roger O. Brown, A. G. Becker & Co. Inc.; William S. Church, Paine, Webber, Jackson & Curtis; James W. Ewing, Harris, Hall & Co.; Donald Truman Fletcher, William Blair & Co.; Leo F. Garrity, Shields & Co.; Robert C. Hawley, Harris Trust and Savings Bank; Frank G. Herman, The First National Bank of Chicago; Jack J. Korff, Paine, Webber, Jackson & Curtis; James Thomas Lundberg, Merrill Lynch, Pierce, Fenner & Beane; Mrs. Saralyn Bailey Marcum, Coffin & Burr, Inc.; Willis Martin, Kidder, Peabody & Co.; James Edgar David Miller, Hornblower & Weeks; Gilbert H. Osgood, Blunt Ellis & Simmons; William F. A. Palmer, Mullaney, Wells & Co.; John H. Perkins, Continental Illinois National Bank & Trust Co.; Joseph Robert Prezorski, Central Republic Co.; William Edward Strasser, Kebbon, McCormick & Co.; Deane R. Tubbs, Kidder, Peabody & Co.; Frank S. Whiting, Jr., Hornblower & Weeks; Charles M. Whitmore, Jr., Paine, Webber, Jackson & Curtis.

Midwest Exchange Member

CHICAGO, ILL.—The Executive Committee of the Midwest Stock Exchange has elected to membership W. Grammer McLeish of Slade & McLeish, Evansville, Ind.

Otis & Co. Ordered to New Hearing by SEC

As an aftermath of the abortive offering of Kaiser-Frazer Corporation stock in February, 1948, Otis & Co., investment banking firm of Cleveland, Ohio, was on April 7 ordered by the SEC to appear at a new hearing. This hearing is scheduled to take place May 22, and will determine whether the firm's broker-dealer registration should be revoked.

The SEC will also decide then whether Otis is to be suspended or expelled from the National Association of Securities Dealers, Inc.

The SEC has been insistent that Otis & Co. supply it with information in connection with a stockholder's lawsuit that was the basis for the withdrawal of Otis & Co. from its contract to underwrite an issue of Kaiser-Frazer Corp. common stock in February, 1948. Otis & Co. declined to comply with the SEC's demand on the ground that the disclosure of such information would violate the confidence of attorney-client relationship. If the courts were to agree with the SEC's dictum in this respect, it would mean, in effect, that a person would be obliged to testify against himself.

It is assumed that revocation of the firm's NASD membership will seriously cripple the firm's activities, if not completely put it out of business.

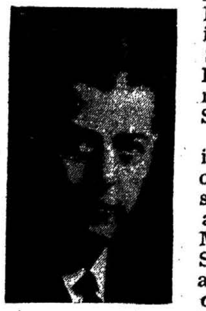
The SEC, in issuing the hearing order, denied several motions by Otis counsel. One motion asked that the proceedings be dismissed on the grounds that SEC Chairman Harry McDonald and Commissioners Richard B. McEntire, Paul R. Rowen and Edward T. McCormick were disqualified to sit on the case.

Manning, Shanley Co. To Admit Partners

NEWARK, N. J.—On April 20, Manning, Shanley & Co., 11 Commerce Street, members of the New York Stock Exchange, will admit Maurice J. Ferris, William J. Lange, Jr. and Otto J. Fink to general partnership, and Elizabeth O'Neill Shanley to limited partnership. Mr. Lange will acquire the Exchange membership held by the late F. Sheppard Shanley.

Alvin Berndt Joins Lord, Abbett on Coast

Alvin H. Berndt has become associated with Lord, Abbett & Co. on the Pacific Coast, in the wholesale distribution of Affiliated Fund, Inc. and American Business Shares, Inc. He will be resident in San Francisco.



Alvin H. Berndt

Mr. Berndt is a graduate of the University of Illinois and The John Marshall Law School. He is also a member of the Illinois Bar. He was recently associated with the City National Bank and Trust Co. of Chicago as a representative of the Trust Department specializing in personal estate planning and estate taxation.

Nominees for Election Of NY Stock Exchange

The following nominations have been made for the annual election of the New York Stock Exchange to be held May 8:

Chairman of the Board of Governors: Robert P. Boylan, for a term of one year.

Fourteen members of the Board of Governors: (three year term) Sherburn M. Becker, Jr., Fahnestock & Co.; David S. Foster, Pershing & Co.; James C. Kellogg, 3rd, Spear & Leeds; H. Van Brunt McKeever, Goodbody & Co.; Otto A. Schreiber, Haydock, Schreiber & Co.; Hugh B. Baker, Baker, Weeks & Harden; Joseph Klingenstein, Wertheim & Co.; James E. Hogle, J. A. Hogle & Co. Salt Lake City; C. Palmer Jaffray, Piper, Jaffray & Hopwood, Minneapolis; Chapin S. Newhard, Newhard, Cook & Co., St. Louis; (two year term) J. Marshall Booker, Corlies & Booker, and Jay N. Whipple, Bacon, Whipple & Co., Chicago; (one year term) William E. Hutton, W. E. Hutton & Co.; William Bayne, F. S. Moseley & Co.

Trustees of the Gratuity Fund: (three year term) Thatcher M. Brown, Brown Brothers Harriman & Co., and John M. Young, Morgan Stanley & Co.

Nine members of Nominating Committee (one year term); Adams Batcheller Jr., Dominick & Dominick; Robert Bennett Berman, Neuberger & Berman; William J. Denman, Shearson, Hammill & Co.; John C. Henderson, Charles F. Henderson & Sons; Emil J. Roth, E. J. Roth & Co.; Charles H. Wisner, Wisner & deClairville; Walter F. Blaine, Goldman, Sachs & Co; F. Malbone Blodget, Spencer Trask & Co.; George H. Walker, Jr., G. H. Walker & Co.

Los Angeles Exch. Member

LOS ANGELES, CALIF.—Membership of L. Gibson Lee to represent the firm of M. S. Walker & Co. on the Los Angeles Stock Exchange was announced by Exchange President W. G. Paul.

Mr. Lee's membership was effected through the intra-firm transfer of the membership of M. S. Walker.

Partnership Change

William Post Haring, limited partner in Lawrence Turnure & Co.-Blyth & Bonner, 50 Broadway, New York City, members of the New York Stock Exchange, will become a general partner effective May 1.

New York Act to Broaden Trustee Investing Signed

Modified "Prudent Man" law enlarges investment powers of trustees to invest 35% of fund in stocks and bonds not presently on legal list. Important impact on stock market foreseen. Text of bill presented.

The so-called McGovern-Demo bill to modify the restrictions surrounding the investing powers of fiduciaries in New York State was signed by Governor Thomas E. Dewey on April 5. It will become effective as a law on July 1, 1950.

The legislation is the result of a study covering nearly four years by a special committee of the Trust Division of the New York State Bankers Association. It has two main purposes:

(1) To disassociate fiduciary investments from those of savings banks and to cover all fiduciaries in one section of the law.

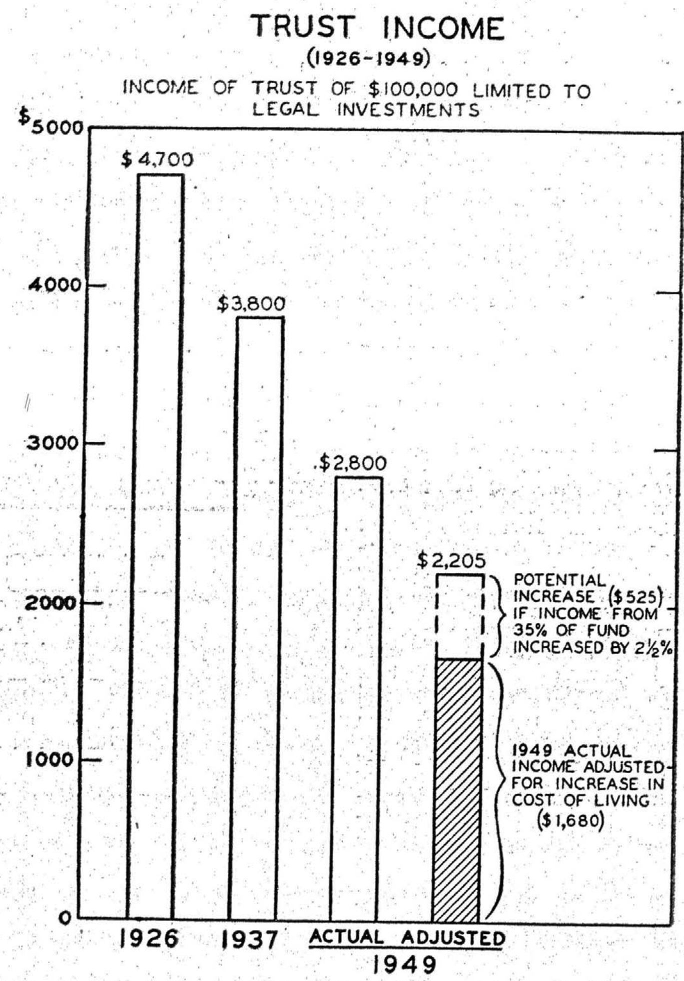
(2) To authorize a fiduciary under the Rule of Prudence to invest 65% of the fund in stated investments; that is, roughly those which are the equivalent of the present legal list; and to invest the remaining 35% in listed stocks and bonds not otherwise eligible.

The Act provides that investments must be made "only in such securities as would be acquired by prudent men of discretion and intelligence in such matters who are seeking a reasonable income and the preservation of their capital." It has long been settled under the law of New York that a trustee confining its investments to the legal list was nevertheless subject to this rule of prudence which is similar to that now effective in 20 other states.

Investment experts estimate that at least a billion dollars of trust funds will, as a result of the new provisions, eventually find their way into listed common and preferred stocks.

The Chart shows the typical course of trust fund income since 1926, with the increased income derivable from the new law.

The full text of the Act, as signed by Gov. Dewey, follows:



AN ACT

To amend the personal property law, the domestic relations law, the decedent estate law and the banking law, in relation to the investment powers of fiduciaries

EXPLANATION—Matter in *italics* is new; matter in brackets [ ] is old law to be omitted.

The People of the State of New York, represented in Senate and Assembly, do enact as follows:

Section 1. Subdivision one of section twenty-one of the personal property law, as last amended by chapters six hundred eight, six hundred twenty-five and seven hundred forty-four of the laws of nineteen hundred forty-eight, is hereby repealed and a new subdivision one is added in place thereof, to read as follows:

1. A fiduciary holding funds for investment may invest the same in the kinds and classes of securities described in the succeeding paragraphs of this subdivision, provided that investment is made only in such securities as would be acquired by prudent men of discretion and intelligence in such matters who are seeking a reasonable income and the preservation of their capital:

(a) Obligations of the United States or those for which the faith of the United States is pledged to provide for the payment of the interest and principal.

(b) Farm loan bonds, including consolidated bonds issued by federal land banks; federal intermediate credit bank debentures including consolidated debentures issued by federal intermediate credit banks; and bonds, debentures, consolidated debentures or other obligations of any federal home loan bank or banks.

(c) Obligations of this state issued pursuant to the authority of any law of the state, and obligations of any city, county, town, village, school district, poor district, or fire district in this state, provided that they were issued pursuant to law and the faith and credit of such issuing municipal corporation or district is pledged for their payment.

(d) Obligations, excluding, however, non-negotiable warrants, of any state or territory of the United States or of any city, county or other political subdivision of any state of the United States, provided (1) that such obligations were issued pursuant to law, (2) that the faith and credit of the issuing city, county or political subdivision is pledged for their payment, (3) that the issuing state, territory, city, county or political subdivision has a population as shown by the last federal census next preceding such investment of not less than ten thousand inhabitants, (4) that no obligation issued after the year nineteen hundred thirty-eight by any city, county, school district or other municipality of any state other than New York shall be an authorized investment hereunder unless such city, county, school district or other municipality shall have power to levy taxes on the taxable real property therein for the payment of such obligation without limitation of rate or amount; and obligations of any revenue or tax supported authority, commission, department or district, including, but not by way of limitation, any sewer authority, bridge authority, sanitary district, water department, electric power, highway or port improvement project created under the laws of any state or states of the United States. The term "city" as used in this paragraph shall include any city, town, borough, village, township or other incorporated municipality.

(e) Obligations issued or guaranteed by the international bank for reconstruction and development.

(f) Obligations of the Dominion of Canada or those for which the faith of the Dominion of Canada is pledged to provide for the payment of interest and principal, provided that the principal and interest of such obligations are payable in United States funds.

(g) Obligations of any province of the Dominion of Canada, provided that within ten years immediately preceding the investment such province has not been in default for more than ninety days in the payment of any part of principal or interest of any debt duly authorized by the legislature of such province, and provided that the principal and interest of such obligations are payable in United States funds; and obligations of any city in the Dominion of Canada, provided that said city has a population as shown by the last official census of the Dominion of Canada next preceding said investment of not less than one hundred fifty thousand inhabitants and has not within twenty-five years preceding said investment defaulted for more than one hundred twenty days in the payment of any part either of principal or interest of any bond, note, or other evidence of indebtedness, and provided further than the principal and interest of such obligations are payable in United States funds. No obligations of any such city shall be an authorized investment under this statute unless such city shall have power to levy taxes on the taxable real property therein for the payment of such obligation without limitation of rate or amount.

(h) Bonds and mortgages and notes and mortgages on unencumbered real property in this state worth fifty per cent more than the amount loaned thereon, provided that such restrictions as to location and percentage of value of the real property shall not apply to bonds and mortgages or notes and mortgages insured by the federal housing commissioner; bonds and mortgages and notes and mortgages on unencumbered real property in this state provided that such bonds and mortgages and notes and mortgages are guaranteed to the extent of fifty per cent thereof under title III of the servicemen's readjustment act of nineteen hundred forty-four and provided further that such real property is improved by a completed dwelling constructed for use by not more than four family units; mortgage bonds and notes insured by the federal housing commissioner, or any part of an issue thereof; and first lien bonds, or any part of an issue thereof, of housing companies organized pursuant to the public housing law, when secured by a mortgage not exceeding two-thirds of the appraised value or actual cost of the housing company project, whichever shall be less, as certified by the state commissioner of housing.

(i) Deposits in the special interest or thrift department of national banks located in this state or of banks defined in subdivision one of section two of the banking law, or trust companies organized under the laws of this state, provided, however, that the full amount of any such deposit shall be insured by the federal deposit insurance corporation; or deposits in savings banks incorporated under the laws of this state.

(j) Shares of a federal savings and loan association organized under the home owners' loan act of nineteen hundred thirty-three and having an accumulated capital of one hundred thousand dollars or more, and in the shares of a savings and loan association having an accumulated capital of one hundred thousand dollars or more, organized under the laws of this state, provided, however, that no such investment for any one fund in any one association shall exceed ten thousand dollars.

(k) Bonds, notes and other obligations of a public housing authority or agency located in the state of New York when such obligations are (1) secured by a pledge of the revenues of a project and additionally secured by a pledge of periodic subsidies or of annual contributions to be paid to an authority by a government, or (2) secured by a first mortgage lien not exceeding sixty-six and two-thirds per cent of the value of the property covered, or (3) guaranteed by a municipality as to principal and interest; and in bonds, notes and other obligations issued by any public housing authority or agency in the United States when such obligations are secured by a pledge of the revenues of the housing project or projects for which the obligations are issued and additionally secured by a pledge of annual contributions to be paid by the United States government or any agency thereof.

(l) All investments authorized by or pursuant to subdivisions seven, thirteen, fourteen and nineteen of section two hundred thirty-five of the banking law.

(m) In addition to those investments made eligible by the preceding paragraphs of this subdivision, other securities of corpo-

rations organized and existing under the laws of the United States or of the District of Columbia or of any state of the United States including, but not by way of limitation, bonds, debentures, notes, equipment trust obligations or other evidences of indebtedness, and shares of common and preferred stocks of such corporations, subject to the following: (1) no investment shall be made pursuant to the provisions of this paragraph (m) which, at the time such investment shall be made, will cause the aggregate market value of the investments not made eligible by the preceding paragraphs of this subdivision to exceed thirty-five per cent of the aggregate market value at that time of all of the property of the fund held by such fiduciary; (2) no bonds, debentures, notes, equipment trust obligations or other evidences of indebtedness of such corporations shall be purchased under authority of this paragraph (n) unless such obligations, if other than issues of a common carrier subject to the provisions of section twenty-a of the interstate commerce act as amended, shall be obligations issued, guaranteed or assumed by corporations which have any securities currently registered with the securities and exchange commission; and (3) no common or preferred stocks, other than bank and insurance company stocks, shall be purchased under authority of this paragraph (m) unless currently fully listed and registered upon an exchange registered with the securities and exchange commission as a national securities exchange. No sale or other liquidation of any investment shall be required solely because of any change in the relative market value of those investments made eligible by this paragraph (m) and those made eligible by the preceding paragraphs of this subdivision. In determining the aggregate market value of the property of a fund and the percentage of a fund to be invested under the provisions of this paragraph, a fiduciary may rely upon published market quotations as to those investments for which such quotations are available, and upon such valuations of other investments as in his best judgment seem fair and reasonable according to available information.

(n) Nothing in this subdivision shall be deemed to limit the effect of any will, agreement, court order or other instrument creating or defining the investment powers of a fiduciary, or to restrict the authority of a court of proper jurisdiction to instruct the fiduciary in the interpretation or administration of the expressed terms of any will, agreement or other instrument or in the administration of the property under the fiduciary's care.

§ 2. Subdivision six of section twenty-one of the personal property law, as amended by chapter seven hundred fifteen of the laws of nineteen hundred forty-five, is hereby amended to read as follows:

6. No *fiduciary* [trustee, or other person] holding [trust] funds for investment shall be liable for any loss incurred with respect to any investment not eligible by law for the investment of trust funds if such ineligible investment was received by such fiduciary pursuant to the terms of the will, deed, decree of court, or other instrument creating the fiduciary relationship or if such ineligible investment was eligible when received[,] or when the investment was made by the fiduciary; provided such fiduciary exercises due care and prudence in the disposition or retention of any such ineligible investment.

§ 3. Subdivision seven of section twenty-one of the personal property law, as added by chapter seven hundred fifteen of the laws of ninteen hundred forty-five, is hereby amended to read as follows:

7. As used in this section, the words "person holding trust funds" and the [term] *terms* "fiduciary" *and "trustee"* shall include [a] *an executor, administrator, trustee, guardian and* committee of the property [or estate] of an incompetent person.

§ 4. Section eighty-five of the domestic relations law, as last amended by chapter eight hundred forty-eight of the laws of nineteen hundred thirty-six, is hereby amended to read as follows:

§ 85. Investment of trust funds by guardians. A guardian holding [trust] funds for investment has the powers provided by section [one hundred and eleven] *twenty-one* of the [decedent estate] *personal property* law [for an executor or administrator,] and must not invest the funds in any other securities *or manner.*

§ 5. Section one hundred eleven of the decedent estate law, as last amended by chapters six hundred eight, six hundred twenty-five and seven hundred forty-four of the laws of nineteen hundred forty-eight, is hereby repealed.

§ 6. Subdivision three of section one hundred-c of the banking law, as amended by chapter six hundred two of the laws of nineteen hundred forty-three, is hereby amended to read as follows:

3. Each common trust fund shall be known either as a legal common trust fund or a discretionary common trust fund. A trust company maintaining a legal common trust fund may invest therein the moneys of any estate, trust or fund which is eligible for investment in any common trust fund pursuant to subdivision one of this section. A trust company maintaining a discretionary common trust fund may invest therein the moneys of any estate, trust or fund where the instrument or order of court under which such estate, trust or fund is held shall authorize the investment of moneys of said estate, trust or fund in any of the following: (a) in a discretionary common trust fund; (b) in such investments as the fiduciary thereof may select in the discretion of such fiduciary; (c) generally in investments other than those in which trustees are by law authorized to invest trust funds. Except for uninvested cash balances awaiting investment or kept for the purpose of meeting cash requirements [legal common trust funds shall be invested solely in the same kind of securities as those in which savings banks in this state are authorized to invest by subdivisions one, two, three, four, five, seven, ten, eleven, twelve, thirteen, fourteen, fifteen and nineteen of section two hundred thirty-five of the banking law as such section existed upon the first day of January, nineteen hundred forty-three provided that if any investment authorized by any of said subdivisions of said section two hundred thirty-five as the same existed on such date shall cease to be authorized for investment by savings banks any such investment shall thereafter be ineligible as an investment for such common trust funds.] *a trust company maintaining a legal common trust fund shall invest the same in the manner in which fiduciaries are authorized to invest by section twenty-one of the personal property law.* A trust company maintaining a discretionary common trust fund may invest the same in such investments as it may select in its discretion.

§ 7. This act shall take effect July first, nineteen hundred fifty.

Vogell Co., Inc. Is Formed in New York

Frederick W. Vogell

Frederick W. Vogell announces formation of Vogell & Co., Inc. to transact a general over-the-counter business, specializing in public utility common stocks. The new firm will maintain offices at 37 Wall Street, New York City.

Mr. Vogell formerly was with Geyer & Co. Inc., in that firm's public utility trading department.

NYSE Appoints Three Officers

Robert P. Boylan, Chairman of the Board of Governors and President, pro tem., has announced that Frank J. Coyle and Phillip L. West have been appointed Vice-Presidents and Edwin B. Peterson Secretary of the Exchange.

Mr. Coyle, who is director of the Department of Member Firms and will continue in that capacity, has been an Assistant Vice-President since March, 1949. He has been with the Exchange since 1922, has served as Manager of the divisions of Member offices, Commissions and Quotations, and assistant director of the department. He was born in New York and lives in Hasbrouck Heights, N. J.

Mr. West is director of the Department of Stock List, which office he will continue, and has been an Assistant Vice-President since February, 1948. His 25-year service with the Exchange has been in that department, first as a clerk, and then as statistician, chief statistician, assistant director and acting director. Mr. West was born in New Jersey and resides in Plainfield, N. J.

Mr. Peterson has been Assistant Secretary of the Exchange for four years. He was first employed in 1933 as a messenger, and entered the Office of the Secretary as a clerk the following year. Born in Brooklyn 34 years ago, he lives in Rockville Centre, Long Island.

Other promotions that have been made, Mr. Boylan announced, include George F. Muller, Vice-President of the Stock Clearing Corp., to active Executive Officer of the corporation, Francis W. Curran, to Assistant General Manager of the corporation; W. K. Vanderbeck, to director of the Department of Floor Procedure, J. W. O'Reilly, to assistant director of that department; Albert B. Stranahan, to director of the Department of Research and Statistics; and A. D. Stone, arbitration director.

Exchange to Close Sat. June Through September

Following consideration of responses from members and member firms to a questionnaire, the Board of Governors of the New York Stock Exchange has decided that the Exchange will be closed on Saturdays during June, July, August and September.

The Special Committee, appointed on March 9 to review the whole subject of the days and hours which the Exchange should be open for business, will, upon completion of its study, report its recommendations to the Board of Governors.

Bank and Insurance Stocks

By H. E. JOHNSON

This Week—Bank Stocks

Last week the major banks in New York City issued their quarterly statements for the period ended March 31. In general, the balance sheet figures and results were favorable and about in line with previous expectations.

Indicated earnings were in most cases higher than for the same period a year ago and in some instances the changes were fairly significant. The showing was not uniform, however, and a few institutions showed earnings unchanged or slightly lower than last year.

For comparative purposes the indicated earnings per share, making allowance for dividends paid, of the various New York City banks for the first quarter of 1950 compared with those for the same period of 1949 are presented below. Also shown are the deposits at the end of the respective periods.

	Per Share Indicated Earnings First Quarter		Deposits (000s Omitted) —As of March 31—	
	1950	1949	1950	1949
Bank of Manhattan	$0.52	$0.44	$1,042,607	$1,080,920
Bankers Trust	0.73	0.63	1,348,036	1,360,714
Bank of N. Y. & 5th Ave.	5.19	4.47	369,523	376,725
Brooklyn Trust	2.18	2.39	219,507	210,628
Central Hanover	1.50	1.50	1,304,930	1,325,645
Chase National	0.71	0.63	4,224,990	4,067,177
Chemical Bank	0.76	0.75	1,340,032	1,326,728
Commercial National	0.72	0.81	169,945	165,922
Corn Exchange	1.28	1.24	740,470	750,858
Empire Trust	2.16	2.04	136,252	121,053
First National	17.72	17.00	575,531	511,379
Guaranty Trust	5.13	5.41	2,189,814	2,309,540
Irving Trust	0.31	0.30	976,919	1,037,114
Manufacturers Trust	1.25	1.16	2,128,289	2,111,308
Morgan, J. P. & Co.	3.44	3.34	559,785	554,198
*National City	0.80	0.66	4,622,011	4,534,193
New York Trust	1.70	1.55	592,744	566,423
Public National	1.06	0.99	469,112	484,018
U. S. Trust	9.79	10.15	120,093	127,620

*Includes City Bank Farmers Trust Company.

The trend of deposits for the quarter was generally down reflecting seasonal influences. In a number of cases, however, totals at the end of March were higher than they were a year previous, although the changes from year to year were not particularly significant.

A lower level of reserve requirements allowed an increase in earning assets. The additional funds were invested primarily in U. S. Government securities and, in some instances, loan totals were higher.

The totals of loans and discounts and U. S. Government securities as of March 31, 1950 and 1949 were as follows:

	Loans and Discounts —As of March 31—		U. S. Government Securities —As of March 31—	
	1950	1949	1950	1949
	(000s Omitted)			
Bank of Manhattan	$430,004	$416,811	$323,594	$343,284
Bankers Trust	567,712	563,849	512,254	485,731
Bk. of N. Y. & 5th Av.	113,850	95,725	165,861	161,115
Brooklyn Trust	30,133	28,896	125,071	125,662
Central Hanover	444,507	477,488	530,961	491,795
Chase National	1,379,485	1,524,426	1,655,932	1,334,139
Chemical Bank	468,285	540,439	528,922	386,884
Commercial National	41,361	46,034	92,880	95,602
Corn Exchange	76,078	70,140	468,004	462,675
Empire Trust	25,073	24,719	73,848	65,455
First National	136,495	104,344	315,801	317,343
Guaranty Trust	964,941	1,012,290	938,423	920,758
Irving Trust	371,414	419,701	420,134	370,705
Manufacturers Trust	551,656	572,764	1,061,247	939,831
Morgan, J. P. & Co.	191,584	183,076	221,441	217,636
*National City	1,379,939	1,397,011	1,898,480	1,676,405
New York Trust	244,609	263,255	253,899	174,310
Public National	175,543	152,972	189,246	213,330
U. S. Trust	55,639	38,703	57,859	76,614

*Includes figures of City Bank Farmers Trust Company.

Most of the above banks were able to show gains in holdings of U. S. Government securities. Among the institutions to report an increase in loans and discounts over the totals of a year ago were: Bank of Manhattan, Bankers Trust, Bank of New York & 5th Ave., Brooklyn Trust, Corn Exchange, Empire Trust, First National, J. P. Morgan & Co., Public National, and United States Trust. The other banks showed only small declines.

Considering the sharp adjustment in business which took place in the second and third quarters of last year and the resulting liquidation of inventories and bank loans, the above loan totals compared with those of a year ago are relatively favorable.

Canadian Securities

By WILLIAM J. McKAY

The growing realization of the vulnerability to military attack of the Territory of Alaska emphasizes once more the importance of Canada's vast but neglected Northern Empire. It is now recognized that the Arctic top of the world is likely to figure prominently in world military, economic, and political developments of the future. Russia has long recognized the value of her extensive Arctic territories and intensive efforts have been directed to their development over the past few decades. Control of this area in the air-age of the future can perhaps be compared with previous domination of the vital searoutes and its history-making influences in the past.

With the exception of Russia, Canada has the most extensive holdings of Arctic territory which cover about 1½ million square miles. Whereas only a few years ago this area was largely overlooked as an economic asset there is now a growing belief that the opening up to civilization of Canada's Northern frontier will mark the beginning of the Dominion's greatest era of development. So far only small strides have been made towards the establishment of lines of communication between the cities of the South and the frigid Northland wilderness. The Alberta Highway indirectly connects Edmonton, Alberta, with Fairbanks, Alaska, and several new roads are in the course of construction which are designed to link Northern Alberta with the Mackenzie Valley and the Great Slave Lake area of the North West Territories. There are also a series of airfields strung along the Alaska Highway which constituted the wartime North West Staging Route to Alaska.

Much, however, remains to be accomplished before the Canadian Arctic can be considered an adequate bulwark against aggression directed along the convenient air routes over the northern top of the world. Canada alone can not hope to achieve this herculean task. Although this country was largely responsible for the construction of the Alaska Highway and is cooperating in military maneuvers in the Far North, future efforts must be planned on a vastly more ambitious scale to match the progress made on the Russian side of the Arctic Ocean The first necessity is a northern railroad system linking Alaska, the northern Peace River District, the Mackenzie Valley, and the Great Slave and the Great Bear Lakes areas with the existing railroads of Alberta and British Columbia.

Even in the absence of the impulsion of military necessity the opening up of Canada's great Empire of the North offers tremendous economic opportunities that alone justify the utmost possible endeavor. There is now little question that the Canadian Pre-Cambrian Shield is the world's greatest repository of mineral wealth of every description. Owing to the lack of means of transportation only the fringes of this fabulous 2 million square-mile area have been exploited. Despite this fact Canada is already the world's leading producer of base and precious metals, but the pitchblende deposits of the Great Bear Lake and the base-metal and gold discoveries in the neighborhood of the Great Slave Lake point to the necessity of more intensive development in the Far North.

In addition to the mineral wealth of the Laurentian Shield the upper Mackenzie Valley possesses strategically situated oil resources that would provide a convenient northern source of fuel and power supplies. Within the Peace River district and the northern valleys of British Columbia are extensive fertile areas for agricultural production. Furthermore the vast northern lakes constitute fishing grounds of incalculable value and the forest areas of the Canadian North could be turned to commercial account following the establishment of means of communication with the South.

Recent developments both in Russia and Canada, moreover, have shattered previous misconceptions concerning the difficulties of human survival in the frigid regions of the Far North. It would appear therefore that no insuperable obstacles now stand in the path of the northward advance of civilization and the possible realization of the prophecy of the late Stephen Leacock that Canada would one day support a population of 200 millions.

During the week the external section of the bond market was dull and slightly easier. The internal Dominions on the other hand were firmer following a resumption of institutional investment demand. Free funds weakened to 9⅞% but the corporate-arbitrage rate rallied to 14½%-13¾% on strong U. S. demand for Canadian stocks. Western oils were heavily traded in a generally firmer stock market. Royalite, Anglo-Canadian, Pacific Petroleum, and Federated Petroleum, were especially prominent in this group. Imperial Oil also touched a new 1950 high. Among the industrials Standard Paving, Canadian Industrial Alcohol, and Algoma Steel and Steep Rock Iron were notably active. The base-metals were likewise in demand with East Sullivan again reaching a new high. The golds were steady to firmer among which McIntyre, Teck-Hughes, and Norseman figured prominently.

Davis & Barnett, Inv. Counsel Firm

SAN FRANCISCO, CALIF.—John L. Davis and Hamilton Barnett have announced the formation of a partnership under the firm name of Davis & Barnett, investment counsellors, with offices in the Russ Building.

Consumers' Buying Expectations Surveyed

Poll taken under supervision of Reserve Board reveals nation's consumers plan to buy houses, automobiles, and other selected durables on 1949 scale. Strong demand for lower-priced houses noted. Generally lower prices expected.

The following are highlights from the Fifth Annual Survey of Consumer Finances sponsored by the Board of Governors of the Federal Reserve System and conducted by the Survey Research Center at the University of Michigan.

These preliminary findings are based on simplified tabulations from approximately 3,000 interviews made during January and February in 66 sampling areas throughout the country, including the 12 largest metropolitan areas.

Consumers were queried regarding their opinions about their own financial positions at the beginning of 1950, and on economic matters in general. They were asked also about their plans to buy houses, automobiles, and other major durable goods during 1950.

In sponsoring the Survey of Consumer Finances, the Board of Governors emphasizes the experimental nature of this relatively new development in the field of economic research. The methodology and techniques being used are believed to be among the most adequate known at the present time. Considerable further experience, however, derived from surveys repeated under varying economic conditions, together with careful statistical and analytical testing of results, will be needed before this type of research can be of maximum usefulness.

The survey information represents only one body of data indicative of tendencies in economic prospects. Survey findings should always be viewed along with a wealth of other statistics reported currently through various government, private, and nonprofit organizations.

Conclusions

(1) Consumer plans to purchase houses, automobiles, and other selected durable goods in 1950 appear, on the whole, to be at least equal in early 1950 to those expressed at the beginning of 1949 and again in midsummer.

(2) Personal income expectations for 1950 were generally as optimistic as a year earlier despite some increased frequency of lower current incomes than a year ago.

(3) With regard to the general business outlook for the next 12 months, consumers evidenced greater uncertainty than at the beginning of 1949. However, they were somewhat more optimistic than last July following a series of business adjustments in the first half of the year.

(4) A belief that prices will fall in the coming year is widely held, especially with regard to automobiles and large household items, but the number expressing this belief is down sharply from six months and a year ago.

Consumer Plans to Buy Houses and Durable Goods

(1) Consumer plans to buy houses in the current year—newly built and existing houses combined—were slightly larger in early 1950 than in early 1949. Plans to purchase newly constructed homes were the same or somewhat greater than in 1949 while there was no change or a slight decline in reported intentions to purchase existing homes.

Preliminary survey data justify an estimate of over one million consumers having "definite" plans to buy new houses in 1950. Compared with a year ago, a somewhat stronger demand was evident for units priced below $10,000 while little change in purchasing intentions was noted for homes priced above this level.

About as many consumers indicated intentions to buy new homes in 1951 as reported such intentions for 1950. Purchase plans for 1951 were more frequently uncertain than those pertaining to 1950, reflecting in part at least the remoteness of the time period.

(2) Considerably more than twice as many consumers intended buying television sets during 1950 as reported similar intentions for 1949. Buying plans for other selected durable goods (furniture, refrigerators, and other large appliances) were not very different from those expressed in early 1949, with some showing small increases and others showing no change or small decreases.

(3) Preliminary data on consumer intentions to buy new automobiles in 1950 indicate no substantial change in number of units from 1949, a year of record sales. There is also some preliminary evidence that middle and low income consumers comprise a larger part of the prospective demand in 1950.

Financial Position of Consumers

(1) Approximately three of every 10 consumer spending units expected their total 1950 incomes to be larger than in 1949; less than two in 10 expected them to be smaller. There was little change in these proportions from the survey in early 1949.

(2) With regard to current rate of earnings, about three in every 10 nonfarm spending units reported a higher rate in early 1950 than a year earlier while almost the same proportion received a lesser rate. In the two previous annual surveys, approximately twice as many units reported higher as reported lower current earnings. However, it should be noted that in these earlier periods increases also occurred in prices and the cost of living.

(3) In their own opinions, the financial position of consumers in early 1950 was similar to what it had been a year earlier. About as many currently said they were better off than in early 1949 as said they were worse off. In the two surveys conducted at the beginning of 1950 and 1949, a higher proportion of consumers reported their current financial situation to be better compared with 12 months earlier than in some previous postwar surveys in which consumers had complained about increases in the cost of living.

Consumer Attitudes on the General Economic Outlook

(1) Consumer attitudes on the general economic outlook for the year might be characterized as being somewhat less optimistic early in 1950 than at the beginning of 1949, but at the same time there was also somewhat less outright pessimism. Many more persons seemed uncertain or unwilling to hazard an opinion as to which way the economic wind might blow during the coming 12 months. The proportion of those expressing a favorable opinion regarding the business outlook (four of every 10 units) was the smallest for any of the annual surveys since early 1946, but about the same as it was in mid-July of last year.

(2) Nearly half of those interviewed thought times were good at present—about the same proportion as in July, 1949, but somewhat less than gave that answer a year earlier. About two in every 10 considered present conditions were unfavorable, and three in 10 held to a middle position or could not decide whether times were good or bad. As in previous surveys, those in high income groups tended to be more optimistic in their appraisal of current conditions than did those in lower income groups. On the whole, there was little change in consumer evaluations of current economic conditions from midsummer 1949 to the beginning of 1950.

(3) Many consumers thought that while times were good at present, they were less favorable than a year earlier. Nearly five units in 10 believed that business conditions were worse than in early 1949 while two in 10 thought they were better and three in 10 believed that general conditions were about the same. In mid-July, 1949, in answer to a similar question, only one in 10 believed times were better and six in 10 thought they were worse. The entrepreneurial group—farm operators and self-employed persons—had the largest proportion of units that believed times were less favorable in early 1950 than a year earlier.

(4) Somewhat more than half of all employees thought it would be difficult, if not impossible, to get another job paying about the same amount of money if, for any reason, they were to lose the job which they had at the beginning of the year. About two in every 10 felt absolutely certain that they could get a job with equal pay, but a slightly larger proportion were equally certain it would be impossible to get another job without some sacrifice in their current income. Data on this point, on a comparable basis, were not obtained in previous years.

(5) Consumers were not quite as uniform in their expectation of lower prices in the following 12-month period as they had been at the beginning of 1949 or at the midpoint of last year. The proportion of those looking for price declines dropped from about one-half to one-third of those interviewed. On the other hand, there seemed to be a slight increase in the group who thought prices would probably rise in the coming months.

(6) There continued to be a sharp divergence between consumer expectations for prices in general and for prices of automobiles and other durable goods. Although only a third of the spending units were looking for prices in general to decline, more than half were of the opinion that reductions would take place in the hard goods lines.

Business Man's Bookshelf

Business Cycles in Los Angeles—Philip Neff and Annette Weifenbach—The Haynes Foundation, Los Angeles, Calif.—Paper—25c.

Doctrine for Economic Freedom—Franzy Eakin—Economic Accounting, Inc., Citizens Building, Decatur, Ill.—Paper—50c.

Federal Reserve Policy-Making—A Study in Government Economic Policy Formation—G. L. Bach—Alfred A. Knopf, Inc., 501 Madison Avenue, New York 22, N. Y.—Cloth—$3.

Local Tax Legislation in 1949—March issue of "Tax Policy"—Tax Institute, Inc., 150 Nassau Street, New York 7, N. Y.—Paper—25c.

Preparation and Certification of Financial Statements—B. Bernard Greidinger—The Ronald Press Company, 15 East 26th Street, New York 10, N. Y.—Cloth—$6.

Savings and Loan Annals, 1949—United States Savings and Loan League, 221 North La Salle Street, Chicago 1, Ill.—Cloth—$5.00.

Tax Institute Bookshelf—Bibliographical Classification of Recent Literature on Various Phases of Public Finance—Tax Institute, Inc., 150 Nassau Street, New York 7, N. Y.—Paper.

Better Forecasting the Key to Good Business

Frank D. Newbury points out various ways in which successful forecasting can reduce avoidable risks, and stabilize production and employment. Cites four forecasting elements.

Better business forecasting is the key to better business in the future, according to a study just completed by Controllership Foundation, Inc., research arm of the Controllers Institute of America, New York, and based on an analysis of the forecasting practices and methods of 38 selected corporations in a wide cross-section of industry. The results of the survey, embodied in a report prepared for the research body by Frank D. Newbury, former director, Vice-President and economist of the Westinghouse Electric Company, emphasize that forecasting is the starting point of intelligent business planning, and is essential to successful budgeting and control of expenses, costs and profits.

F. D. Newbury

"Successful forecasting obviously reduces the area of avoidable risks connected with every business," the report declares. "It helps stabilize production and employment by ironing out seasonal variations of sales. Satisfactory control of inventories of raw materials, of work-in-process and of finished goods is dependent upon satisfactory forecasts of future sales, raw materials and parts requirements, as well as of raw material and parts prices. Successful planning of long-term construction programs and of the corresponding new capital requirements depends on reasonably accurate long-term forecasting, which also makes possible the selection of a good normal level of output for use in applying standard costs to cost control and to logical pricing of products."

An advisory panel Controllers Institute members supervised the project from first start to final manuscript—A. A. Buzzi, Assistant Controller, Shell Oil Company, New York; Edmond S. LaRose, Controller, Bausch & Lomb Optical Co., Rochester; W. C. Marks, Controller, General Foods Corp., New York; Allen Ottman, Vice-President and director, American Hard Rubber, New York; Keith Powlison, Vice-President and Controller, Armstrong Cork Co., Lancaster, Pa., and H. H. Scaff, Vice-President, Ebasco Services, Inc., New York.

The Need for Forecasting

The need for organized forecasting varies from industry to industry and from company to company, the report points out—the practice becoming more necessary as a company increases in size, in variety of products, in the number of marketing channels or in degree of decentralization. Organized forecasting, the survey findings show, is more necessary in companies in which seasonal and cyclical fluctuations are violent, while even the smallest manufacturing companies find it desirable if there is a seasonal factor in sales, and if production and employment can be stabilized over the year by transferring the fluctuations in sales from production to finished goods inventory.

"The need for business forecasting arises from many specific situations in which an appraisal of the future is necessary before an informed decision can be made," the report declares. "Organized forecasting is a part of that broad movement in American industrial management in the direction of more and better planning, analysis and control of company operations of which the chief financial officer is logically the initiating and administrative center. The quality of planning will improve as the quality of forecasting is improved — and forecasting will improve in some proportion to the number of progressive companies that take it up."

The Foundation's report, entitled "Business Forecasting," includes detailed case histories on the business forecasting methods of small single-unit companies, complex single operating unit corporations and multi-unit corporations in a variety of fields. plus tables revealing the practices of the 38 studied corporations in regard to the kinds of forecasting undertaken; whether external forecasting is done by each company's own staff or by outside service; to whom reports are made; the primary function of the research staff; the field of research activity — economic, commercial or financial; the method preferred by the company; the status of general business forecasts; the extent of outside service; who initiates, reviews and approves the sales forecast; how the latter is based, and whether it is used as a basis for financial forecasts and budgets, etc.

For those who wish to know more about the tools of general business forecasting, the report includes an explanation based on Mr. Newbury's own experience, which he prefaces with the observation that forecasting is not an exact science, save to the extent that it can be based on generalized economic relationships.

Pointing out that forecasting should be based on total business measures, as compared with partial or isolated factors, the author cites gross national products (GNP) as the most inclusive measure of business activity. "It includes the production of the entire labor force," he explains, "—in farming, in manufacturing and in the service industries and occupations. By contrast, the Federal Reserve Board Index of Industrial Production covers less than one-third of the labor force, since it omits farming, construction labor on the site, and all the service industries. Because GNP measures production in money units it includes the effects of year-to-year price changes.

"Because this measure of activity is so comprehensive, it is much more stable than measures of business activity that are based on manufacturing, mining or construction, or on durable goods production contrasted with semi-durable or perishable goods."

Four Important Factors

According to Mr. Newbury, an adequate forecast of general business conditions should give consideration to four closely related factors that affect the total business situation: (1) the forward looking plans of private business that result in private investment spending; (2) government policies and plans that will lead to government spending of an investment nature; (3) current consumer demand and expenditure for both investment goods and consumption goods and services, and (4) the money and credit and government fiscal conditions that affect the execution of investment plans and that make consumer demand effective.

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

Uncertainty still hangs heavy over the government market, and prices of long Treasuries continue to decline in an orderly way. The authorities and life insurance companies have jointly been supplying the pressure that is keeping the market on the defensive. Pressure by the money authorities is not likely to abate very much as long as economic conditions and inflation psychology are as strong as they are now and are likely to be for some time yet. Liquidation of long-term obligations by the Central Banks now will put them in a good position to buy back these and other issues in the future if unfavorable conditions should develop. Nonetheless, the greater part of the price decline is believed to be over and sizable scale buying is appearing in many of the depressed issues. The beginning of deficit financing through increased offerings of Treasury bills is according to expectations.

The 2½s of June and December 1967/72 continue to hold the spotlight, despite fairly sizable selling in the other 2½% tap issues. The 2¼s due 1959/62 give ground grudgingly, indicating the buying is of good quality. The long bank issues declined moderately with the 2½s of September 1967/72 still giving a good performance.

GOOD BUSINESS FOR DEALERS

Although the market continues to be on the defensive, business as a whole has not been unfavorable for operators in Treasury securities. The declining price trend has had its compensating features because it has made it possible for many owners of government securities to consummate switches and swops which could and would not have been made at higher levels of prices. The market seems to be divided into about four segments, the shorts, the longs, the eligibles and the taps, when it comes to these exchange operations. The eligible shorts are being moved about, almost like checkers. In some instances, those that are looking for certain yields and maturities are going from bills and certificates into the 1950/52s, the 1951/53s, and the 1952/54s.

On the other hand, there are others that are selling the near maturity bonds and are putting the proceeds into bills and certificates. It seems as though the uncertainty which is overhanging the money markets has resulted in considerable activity in the near-term securities. It is quite evident that nearly everyone who is interested in governments wants to be in a good position to take advantage of any changes which may come soon in the financing policy of the monetary authorities.

MARKET ACTIVITY

Intermediate maturities have shown much activity, probably less than the shorts, but sizable enough to account for contiderable volume. This activity has been mainly in the 2¼s of 1959/62 because it appears as though there are a large number of money market followers that have ideas about both sides of this obligation. Some believe this issue should now be bought in place of the 2½s of 1956/59, because of the difference in the price spread between these two securities. Also the fact that the 1959/62s are bank-eligible in 1952, has brought buyers into both of these issues with the Junes apparently the most favored obligation for the eligibility buyings.

Then on the other side there are those who believe the 1959/62s should be sold and the proceeds invested in the Victory bonds. Also the 2½s that become bank-eligible in 1952 are being switched for the 2½s of June and December 1967/72. There has been some swopping from the September 1967/72s into the longest tap issues, but not in sizable volume. It is not so easy to get holders of the most distant eligible obligation to part with their small amounts of this bond in order to take on the Vics. This is in spite of the favorable price spread which the 2½s of June and December 1967/72 have over the longest bank obligation.

LONG 2½s IN DEMAND

The September 2½s of 1967/72 have plenty of takers when they come into the market and as a result of this the price action of this obligation has been better than the market action of all the other long-term bonds. The smaller commercial banks continue to be the leading buyers of the longest-term eligible issue but even the sophisticated large money center deposit institutions have not exactly been spectators as far as the 2½s of September 1967/72 are concerned. While it is no doubt realized there is price risk involved in purchasing the most distant eligible at currently prevailing quotations, the feeling seems to be that if prices should give some ground, larger amounts of this bond would be bought.

The 1¾s of 1954 at present levels do not appear to be entirely unattractive to many of the commercial banks, because some fairly sizable blocks of this issue have been taken out of the market by these institutions. In a not dissimilar way the 1½s of 1955 have also been moving into strong hands, although there are at this time quite a few holders of the 1½s that appear to be willing to take their funds out of this obligation, while it is at a slight premium. There has been switching in the partials, with the 2⅞s favored by some, although the 1960/65s are still being very well bought.

McCurdy Pres. of Thayer, Baker & Co.

PHILADELPHIA, PA.—Thayer, Baker & Co., Commercial Trust Building, announce the retirement of Albert R. Thayer, one of the firm's founders, as President and the election of Wallace M. McCurdy, formerly Executive Vice-President, as President.

Mr. Thayer will continue his association with Thayer, Baker & Co. as a registered representative.

Stanley Heller Co. ARO Exposition

Stanley Heller & Co., 30 Pine Street, New York City, members of the New York Stock Exchange, will have an exhibit of the products manufactured by the Aro Equipment Corp. to be held April 19 and 20 at 87 Wall Street on the Main Banking Floor. This exhibit is the first of its kind to be held in Wall Street.

A. J. Martin Director

Augustus J. Martin, Vice-President of United States Trust Co. of New York, has been elected a director of the following companies in the Commercial Union-Ocean Group of fire and casualty insurance companies according to Harry W. Miller, United States Manager of the fire companies, and Laurence S. Jones, United States Manager of the casualty companies: Commercial Union Assurance Co., Ltd.; The Ocean Accident and Guarantee Corp., Ltd.; The Commercial Union Fire Insurance Co. of New York; Columbia Casualty Co.; The Palatine Insurance Co., Ltd.; Union Assurance Society, Ltd.; and The British General Insurance Co., Ltd.

Augustus J. Martin

Mr. Martin has been associated with United States Trust Co. of New York since 1928 and at present has general supervision of the company's investment functions. He is a director, and member of the Finance Committee of the New York Heart Association.

Bawl Street Journal Invites Contributions

The Bawl Street Journal, which will make its 1950 appearance on June 2 as a feature of the Bond Club Field Day, has issued its annual invitation for editorial contributions.

Bankers and bond men who wish to write, in fun, about themselves, their firms, customers or competitors are urged to send "news" items, advertising or cartoon ideas to David B. McElroy at J. P. Morgan & Co. Inc., Chairman of this year's publication committee, or to John A. Straley, at Hugh W. Long & Co., now celebrating his twentieth year as editor.

Working with Mr. McElroy and Mr. Straley to turn out the 1950 Bawl Street Journal are L. Walter Dempsey, B. J. Van Ingen & Co., Inc.; J. Raymond Smith, Weeden & Co., Inc.; Edwin H. Herzog, Lazard Freres & Co.; F. Kenneth Stephenson, Goldman, Sachs & Co.; and Walt Thomas of Hornblower & Weeks.

Railroad Securities

It is widely recognized, and has consistently been stressed in this column, that the answer to the level of earnings of the individual railroad carrier lies to a large extent in the degree of operating efficiency. We have from time to time run comparisons of the transportation ratios and profit margins (per cent of gross carried to net operating income before Federal income taxes) of the major carriers. It has also been pointed out that the relative efficiency of the individual carriers may change over a period of years, influenced by the type of traffic, the nature of the business, terrain over which it operates, status of motive power, etc.

In connection with the great importance of the efficiency factor in the analysis of railroad securities there were some interesting figures contained in a recent bulletin released by Goodbody & Co., New York City, on gross ton miles per freight train hour. In the introductory statement to the tabulation they said, in part:

"In our opinion, the gross ton miles per train hour figures provide as good a basis as is available for ascertaining quickly the relative efficiency with which freight traffic is handled. The gross ton mile per train hour figures combine both the train load and train speed factors. The Bureau of Transport Economics and Statistics ICC had this to say about gross ton miles per train hour in its August, 1949, edition of the 'Monthly Comment on Transportation Statistics': 'Gross ton miles per train hour is frequently referred to as the best single measure of railway freight transportation efficiency since it combines the speed factor with the total weight of the train behind the locomotive and tender and reflects the average performance for each hour of train operation.'

"In the tabulation below we present the gross ton miles per train hour figures for Class I Railroads and various of the larger individual railroads for the years 1939, 1947, 1948 and 1949. We have also tabulated the percentage increase between 1939 and 1949 as well as 1947 and 1949."

GROSS TON MILES PER FREIGHT TRAIN HOUR

	1939	1947	1948	1949	% Increase 1939-1949	% Increase 1947-1949
Class I Railroads	32,808	38,462	39,905	42,343	29.12	10.09
Atchison, Topeka & Santa Fe	35,741	47,643	49,126	52,053	45.64	9.26
Atlantic Coast Line	23,100	27,428	27,769	29,846	29.20	8.81
Baltimore & Ohio	30,044	31,785	32,933	36,291	20.79	6.61
Boston & Maine	27,186	34,393	35,105	37,064	36.33	7.77
Central of Georgia	23,489	29,529	30,078	30.000	27.76	1.63
Chesapeake & Ohio	54,855	54,555	53,546	55,616	1.39	1.94
Chicago, Burlington & Quincy	32,145	44.290	48,377	48,840	51.93	10.27
Chicago & Eastern Illinois	28,545	34,996	37,150	39,089	36.94	11.69
Chicago Great Western	33,479	35,600	44,036	54,317	62,24	52,57
Chicago, Indianapolis & Louisville	22,468	29,528	34,230	37,378	66.36	26 53
Chicago, Milwaukee, St. Paul & Pacific	29,770	34,474	34,645	37,054	24.47	7.46
Chicago & North Western	29,642	31,879	33,772	34,825	17.48	9 24
Chicago, Rock Island & Pacific	28,131	37,107	38,767	40,915	45.44	10.26
Delaware & Hudson	32,628	54,719	54,576	53,257	63.22	—2.67
Delaware, Lackawanna & Western	37,264	42,760	42.034	43.972	18.00	2.83
Denver & Rio Grande Western	28,359	35,229	37,848	40,606	43.18	15.26
Erie	45,742	52,046	55,205	55,973	22.37	7.54
Great Northern	35,462	42,019	43,861	43,561	22.84	3.67
Gulf, Mobile & Ohio	*35,715	48,586	54,855	57,076	59.81	17.47
Illinois Central	29,934	43,154	43,705	44,056	47.18	2.09
Kansas City Southern	41,925	54,785	63,641	62,516	49.11	14.11
Lehigh Valley	47,175	52,536	52,182	59,598	26.33	13.44
Louisville & Nashville	27,185	28,003	28,845	30,756	13.13	9.83
Missouri-Kansas & Texas	30,350	36,387	38,886	40,221	32.52	10.54
Missouri Pacific	33,356	40,216	43,429	45,389	36.07	12.86
New York Central	37,184	38,928	38,475	41,361	11.23	6.25
N. Y., Chicago & St. Louis	40,801	48,696	49,922	50,276	23.22	3.24
N. Y., New Haven & Hartford	28,605	31,621	32,601	36,186	26.50	14.43
Norfolk & Western	54,638	63,490	63,118	62,718	14.79	1.22
Northern Pacific	32,408	43,344	43,645	44,526	37.39	2.73
Pennsylvania	39,290	36,882	38,217	43,090	9.67	16.83
Reading	27,251	34,974	35,314	35,794	31.35	2.34
St. Louis-San Francisco	25,820	33,139	36,432	37,930	46.90	14.46
St. Louis South Western	32,745	45,653	45,208	45,395	38.63	—0.57
Seaboard Air Line	26,168	33,234	35,563	37,599	43.68	13.13
Southern Pacific	36,364	41,584	44,920	46,088	26.74	10.83
Southern Railway	23,619	27,912	29,577	34,077	44.28	22.09
Texas & Pacific	35,667	42,070	42,539	48,954	37.25	16.36
Union Pacific	43,006	51,063	58,085	59,062	37.33	15.67
Wabash	38,882	44,994	45,094	47,116	21.18	4.72
Western Maryland	31,144	30,575	31,424	39,450	26.67	29.03
Western Pacific	44,326	54,392	55,710	57,127	28.88	5.03

*1941. Previous years unavailable.

CPA's Recommend Important Tax Reforms

American Institute of Accountants suggests corrections for inequities in tax laws and for better accounting for tax purposes

Twenty-eight recommendations designed to correct inequities in the tax laws and provide better accounting for tax purposes were submitted to the House Ways and Means Committee on April 4 by the Committee on Federal Taxation of the American Institute of Accountants, national professional society of certified public accountants.

One of the glaring inequities cited by the committee is the provision that an individual who sells his home to buy another must pay a capital gains tax on the sale, even though he puts all of the money immediately into the new home.

Pointing out that most of the recommendations would have little effect on the revenues, the committee urged consideration and action at the present session of Congress.

In submitting the recommendations, Mark E. Richardson of Washington, Committee Chairman, and Thomas J. Green of New York, Chairman of the Sub-committee on Current Tax Legislation, wrote: "The accounting profession is becoming increasingly concerned with variations between rules imposed upon taxpayers for the determination of taxable income and principles developed by the accounting profession for the business community, in many cases with the cooperation and approval (and sometimes under the mandate) of Federal and State governmental agencies . . . Controversies on accounting matters, so frequently concerned merely with the fiscal period for recognition of income or deductions, have little long-range revenue significance directly, but they impose an enormous burden on the community and on the Treasury in time, manpower, and irritation. With the tax burden so heavy, as it must be, such 'overhead' wastes are of vital concern."

Among the other recommendations submitted by the committee are the following:

The principle of non-recognition of gains on involuntary conversions should also cover replacements made in anticipation of insurance or condemnation receipts.

The definition of "fiscal year" should be extended to include annual accounting periods consisting of weeks instead of months (e. g., 13 four-week periods, etc.).

The taxpayer should be given a wider option in treating research and development costs.

Sec. 102, which levies a surtax on undistributed corporate profits, should be liberalized and revised to grant the taxpayer additional alternatives.

The basis of property should not be reduced by excessive depreciation that resulted in no tax benefit.

Deductions for unpaid expenses and interest by a taxpayer on an accrual basis should be allowed to a related taxpayer on a cash basis if consented to be reported by such related taxpayer on a consent basis.

Retailers should have the right to use LIFO inventory retroactively to Jan. 1, 1941.

Bad Debts

Bad debts arising in the course of an individual taxpayer's business or representing loans or advances to business organizations in which the taxpayer has a financial interest should in all instances be recognized as business bad debts.

The method of taxing annuities should be revived to allow credit for cost and levy tax on income computed on an actuarial basis.

Partners or individual proprietors should have the same participation privileges in pension plans as stockholder-employees.

The provisions of the Internal Revenue Code with respect to interest on deficiencies and refunds should be amended to provide for consistent treatment between such deficiencies and refunds.

The provision with respect to extension of time for a refund claim when a waiver is involved should be clarified to remove the present inequity against the taxpayer who gives a waiver.

The basis of property acquired by gift, but subjected to estate tax in the estate of the donor, should be the same as in the case of property passing by death and not previously made the subject of a gift.

If a loss on the sale of property is disallowed because the parties are closely related, the price in such a sale should not be used later as a basis for taxing gain.

Employees' Stock Options

In the case of employees' stock purchase options, compensation income, if any, should be limited to the spread between the option price and market value at the time the option right becomes the property of the employee, at the time he exercises the right, or at the time he sells the option—whichever is the lesser.

Recognition should be given in the computation of net operating loss to deduction of losses on disposal of assets used in a trade or business by a non-corporate taxpayer.

Dual taxation of corporate income should be alleviated by the allowance of a credit to individual recipients of dividends.

The tax on inter-corporate dividends should be eliminated.

The "notch" provision for corporate income from $25,000 to $50,000 should be eliminated and a straight graduated scale to $50,000 substituted.

Carry-over, carry-back and deduction privileges should be extended to successor corporations.

Public Utility Securities

By OWEN ELY

Central Hudson Gas & Electric Corp.

Central Hudson Gas & Electric supplies gas and electricity to the cities of Poughkeepsie, Newburgh, Beacon and Kingston, and to adjacent areas in the Hudson River Valley. The company's service area begins about 40 miles from New York and extends 85 miles along the Hudson to within about 10 miles of Albany; the strip is about 25-40 miles east and west from the river. Population served with electricity is about 267,000, and about half that number are served with gas.

This area is not important for manufacturing activity, but industrial customers include North American Cement, International Business Machines, Alpha Portland Cement, Schatz Manufacturing, New York Trap Rock, DeLaval Separator, Firth Carpet, DuPont, etc.

The Company's revenues in 1949 were 82% electric and 18% gas, with a small amount for steam heating. The gas business has been a problem because of high costs, but operations in 1949 were more normal and the advent of natural gas later this year will prove very helpful. The following ratios picture the Company's history over the past decade, with reference to the common stock:

	Percentage Oper. Ratios Elec.	Percentage Oper. Ratios Gas	% of Rev. Avail. for Com. Stk.	Com. Share *Earns.	Com. Divid. Rate	Avge. Mkt. Price	Price-Earns. Ratio	% Avge. Yield	% Divid. Payout
1949	84	94	7	65¢	52¢	8	13	6.3	80
1948	82	110	6	53	52	8	14	6.8	99
1947	81	112	7	55	52	9	16	5.7	94
1946	81	94	8	59	52	11	20	4.5	88
1945	81	94	7	48	48	11	22	4.5	99
1944	81	93	8	49	48	8	17	5.7	99
1943	76	92	11	68	68	8	12	8.5	100
1942	75	92	12	72	68	7	9	10.2	94
1941	74	93	12	77	71	10	12	7.5	93
1940	73	91	14	87	80	15	17	5.4	92

*After reservation of income.

The company expects to do bond and preferred stock financing during 1950-52 to finance construction, and does not plan any further equity financing except as the $6 million convertible debentures are converted into common stock. The present capital structure, and the estimated projection for 1952, are as follows:

	Dec. 31, 1949	Dec. 31, 1952 Without Conversion	Dec. 31, 1952 With Full Conversion
Mortgage Bonds and Notes	35%	50%	50%
Convertible Debentures	13	9	—
Preferred Stock	20	19	19
Common Stock Equity	32	22	31
Total	100%	100%	100%

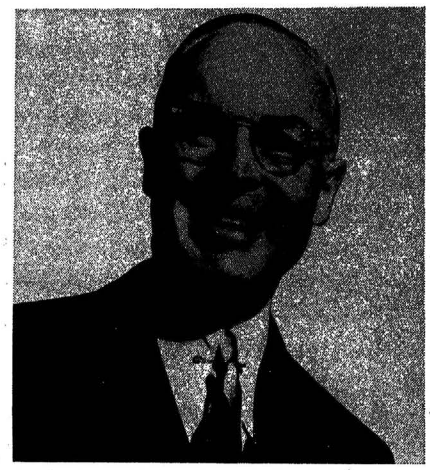
The company expects in 1951 to have a 4% return on the investment in its natural gas service plant, after an 11% rate reduction. Assuming a 6% rate of return from electric operations and a 5% return from gas in 1952, and with full conversion of the debentures, the company expects to earn about 90¢ on the then outstanding 2,100,000 shares of common stock. Assuming a 6% return on both electricity and gas, it might earn about 95¢ per share.

The stock is currently selling at 10¾ to yield 4.85%. President Acker recently stated that an increase in the dividend rate would be considered later this year if earnings continue to improve as anticipated.

Central States Group of I. B. A.

Murray Hansen, Washington, D. C., General Counsel for the I.B.A.

Louis Mudge, *International Bank*, Washington, D. C.; Dr. Edwin G. Nourse, Washington, D. C.; Mayburn F. Landgraf, *Indianapolis Bond & Share Corp.*, Indianapolis; Hempstead Washburne, *Harris, Hall & Co.*



George W. Davis, *Davis, Skaggs & Co.*, San Francisco

George L. Martin, *International Bank*, Washington, D.C.; Frank L. Reissner, *Indianapolis Bond & Share Corp.*, Indianapolis, Ind.

Joseph T. Johnson, *Milwaukee Co.*, Milwaukee; Alfred S. Wiltberger, *Blyth & Co., Inc.*

Albert T. Armitage, *Coffin & Burr, Inc.*, Boston, Mass., President of the I.B.A.; Julien H. Collins, *Julien Collins & Co.*, a former President of the I.B.A.

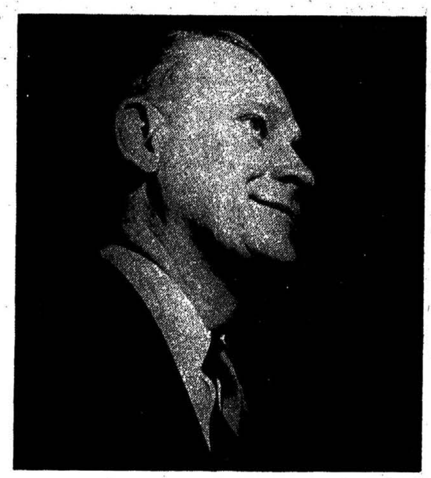
John L. Kenower, *Miller, Kenower & Co., Detroit;* Russell J. Olderman, *Olderman, Asbeck & Co.*, Cleveland

Arthur E. Farrell, *H. M. Byllesby & Co., Inc.*; James Day, President of the Midwest Stock Exchange

Robert L. Holt, *Blair, Rollins & Co.*; William D. Kerr, *Bacon, Whipple & Co.*

DeWitt Davis, *Welsh, Davis & Co.*

Graduating Class of Eighth Training Course in Investment Banking offered by the Central States Group



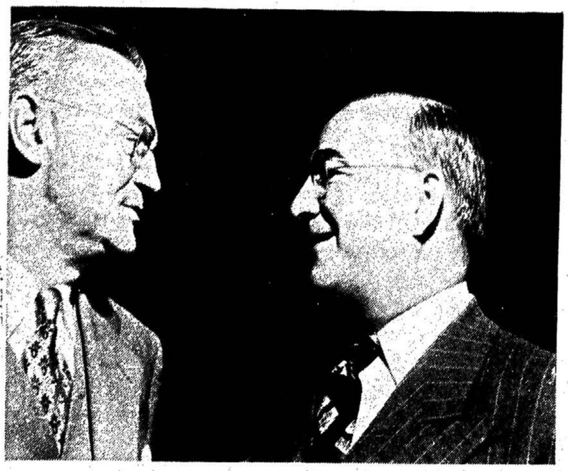
Charles R. Perrigo, *Hornblower & Weeks*

Holds Fourteenth Annual Conference

Phillip Collins, *Hemphill, Noyes, Graham, Parsons & Co.*

Hempstead Washburne, *Harris, Hall & Co.*, Chairman of the Central States Group Conference; Dr. Edwin G. Nourse, Washington, D. C.

Sanford C. Miller, *A. C. Allyn & Company, Inc.*



Pat G. Morris, *Northern Trust Company;* Harry R. Greenway, *Central Republic Co.*, Omaha, Neb.

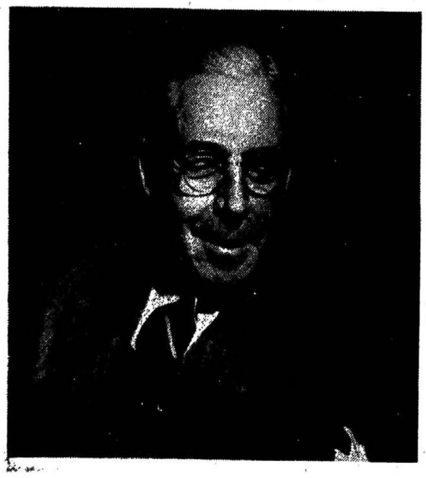
Frank Osborn Elliot, *Harris, Hall & Company;* Lore W. Alford, *Harris, Hall & Company*

W. S. Gilbreath, Jr., *First of Michigan Corp.*, Detroit; E. Cummings Parker, *Glore, Forgan & Co.*

Gilbert H. Osgood, *Blunt Ellis & Simmons;* Robert L. Osgood, *Boston Fund*, Boston, Mass.

Blair A. Phillips, Sr., *The White-Phillips Co., Inc.*, Davenport, Iowa; Albert T. Armitage, *Coffin & Burr, Inc.*, Boston, President of the I.B.A.

George S. Channer, Jr., *Channer Securities Company;* Hale V. Sattley, *H. V. Sattley & Co.*, Detroit

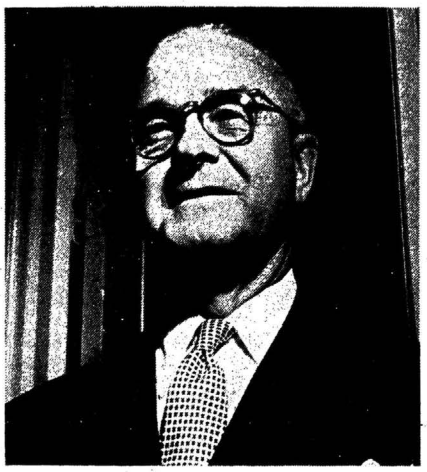


Emmett F. Connely, *American Securities Corp.*, New York City

Albert T. Armitage, *Coffin & Burr, Inc.*, Boston, President of the I.B.A.; Mayo Adams Shattuck, Boston

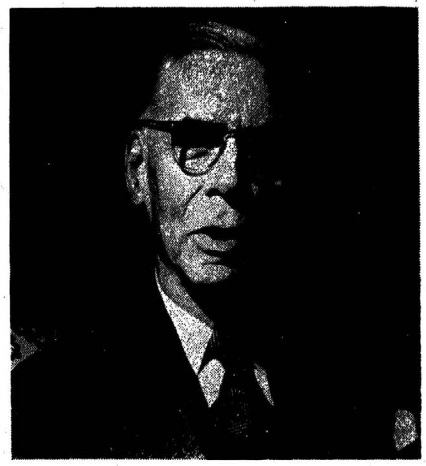
Robert L. John, *Woodard-Elwood Co.*, Minneapolis

At Drake Hotel, Chicago



John F. Bolger, *Shillinglaw, Bolger & Co.*

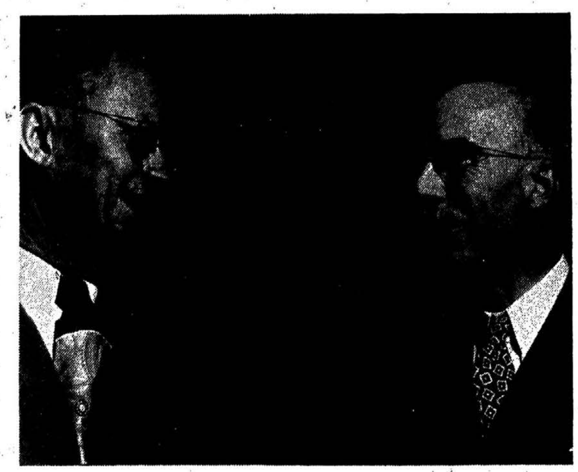
Robert P. Walker, *Eastman, Dillon & Co.*, Chicago; Charles Frye, *Chicago Journal of Commerce;* Wm. J. Lawlor, Jr., *Hornblower & Weeks*



Dr. Edwin G. Nourse, Washington, D. C.

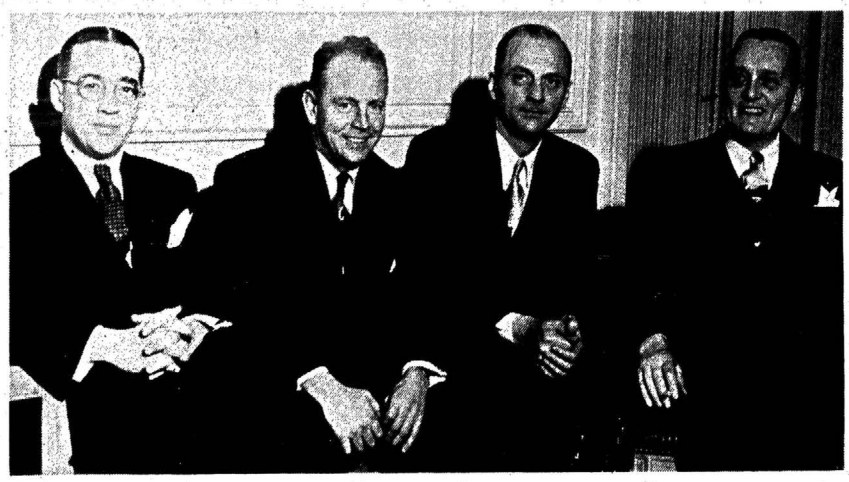
Mayo Adams Shattuck, Boston, Mass.; Mark L. Baxter, *Vance, Sanders & Company*

Newton P. Frye, *Central Republic Company;* Charles Frye, *Chicago Journal of Commerce*

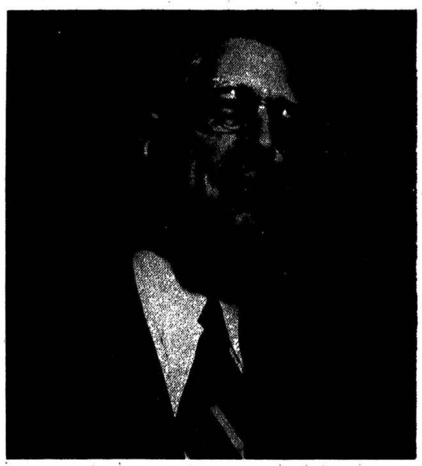


George G. Harrison, *Harrison & Austin, Inc.*, South Bend, Ind.; Hubert S. Conover, *F. S. Yantis & Co.*

William M. Rex, *Clark, Dodge & Co.*, New York City



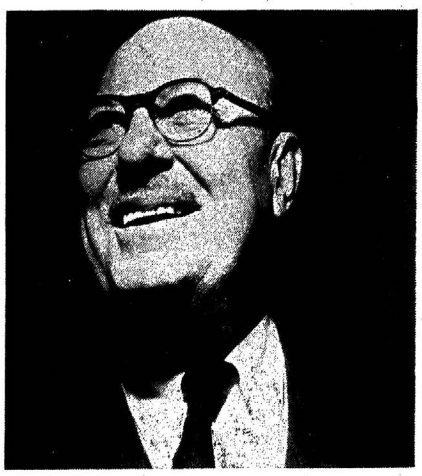
Wm. J. Sennott, Jr., *Shields & Company;* Donald B. Sherwood, *Stifel, Nicolaus & Co.;* Jerome F. Marquardt, *Wm. A. Fuller & Co.;* Harry L. Nelson, *Blyth & Co., Inc.*



Robert Mason, *Merrill Lynch, Pierce, Fenner & Beane*

John S. Loomis, *The Illincis Company*

Jack R. Dempsey, *Dempsey & Company;* James V. Sullivan, *Reynolds & Co.;* John G. White, *Reynolds & Co.*



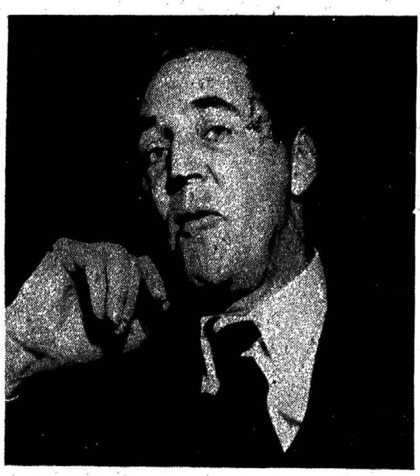
Ralph S. Longstaff, *Rogers & Tracy, Inc.*, Chicago

March 29th-30th, 1950

Hempstead Washburne, *Harris, Hall & Company,* Chairman of the Central States Group Conference

Manning E. Handler, *Stern Bros. & Co.*, Omaha, Neb.; Gordon B. Duval, *Guaranty Trust Company*, New York City; C. W. Laing, *John Nuveen & Co.*, Chicago; Pat G. Morris, *Northern Trust Company*

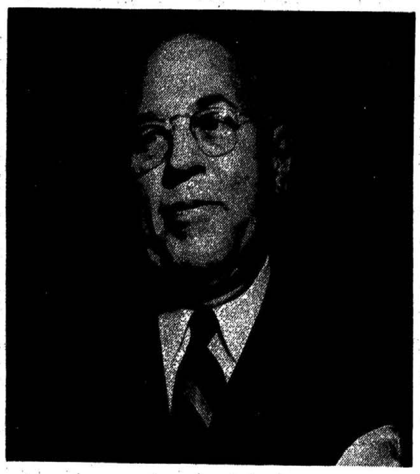
William C. Gibson, *W. C. Gibson & Co.*, Chicago; Henry D. MacFarlane, *First Securities Company of Chicago*



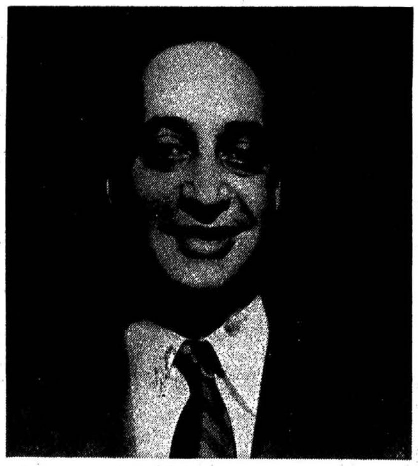
Paul A. Just, *Television Shares Management Co.*

Clarence F. Davis, *First Cleveland Corp.*, Cleveland; Walter C. Cleave, *Blyth & Co., Inc.;* Dana F. Baxter, *Hayden, Miller & Co.*, Cleveland

David J. Harris, *Sills, Fairman & Harris, Inc.;* Lee Ostrander, *Wm. Blair & Co.*

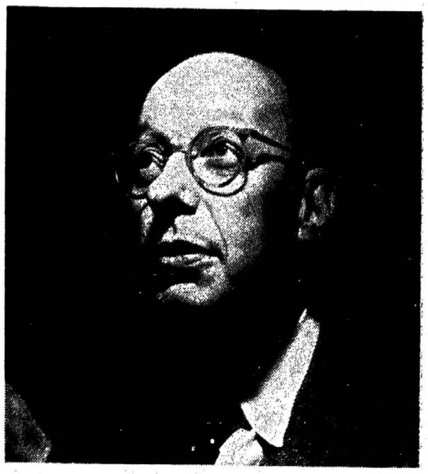


Edgar A. Peck, *W. C. Gibson & Co.*

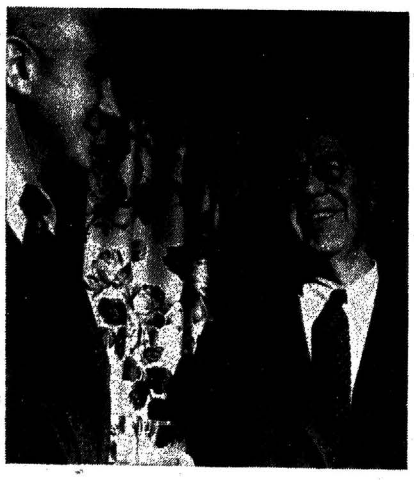


Arthur C. Sacco, *Detmer & Co.*

Rowland H. Murray, *Ketcham & Nongard*



Cecil O. Condit, *F. S. Yantis & Co.*



Sampson Rogers, Jr., *McMaster Hutchinson & Co.;* Donald E. Nichols, *Ames, Emerich & Co., Inc.*

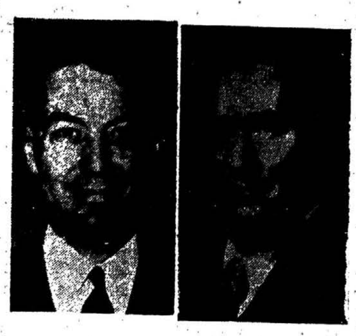
Paul Shroeder, *Merrill Lynch, Pierce, Fenner & Beane;* Robert Hunaker, *Merrill Lynch, Pierce, Fenner & Beane;* Robert L. Myers, *Coffin & Burr, Inc.*, Chicago

Charles W. Ritter and Andrew M. Baird, *A. G. Becker & Co., Incorporated*

NEWS ABOUT BANKS AND BANKERS

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED
CAPITALIZATIONS

Henry G. Diefenbach has been appointed Vice-President and Comptroller and Ferdinand G. von Kummer has been appointed



Henry G. Diefenbach F. G. Von Kummer

Vice-President of the **United States Trust Co. of New York**, it is announced by Benjamin Strong, President. Mr. Diefenbach joined the trust company in 1917, was appointed Assistant Comptroller in 1933, Assistant Vice-President in 1940, and Comptroller in 1946. He is on the Research Committee of the National Association of Bank Auditors and Comptrollers and was formerly Chairman of the Direct Verification Committee of that association. He is also a member of the Executive Committee of the New York City Conference of Bank Comptrollers and Auditors.

Mr. von Kummer became associated with the trust company in 1936, was appointed an Assistant Secretary in 1938, and Assistant Vice-President in 1943. Mr. von Kummer is a graduate of the U. S. Military Academy, Class of 1917, and is a member of the West Point Society of New York.

* * *

At the regular meeting of the directors of the **National City Bank of New York**, held on April 11, Daniel J. Walsh was appointed Assistant Cashier. He is associated with the Caribbean District.

* * *

The choice of a Vice-President for the **American Institute of Banking** will be the highlight of the election of officers to be held next June 16 at the AIB Golden Anniversary Convention in Minneapolis, Minn. Although the convention will elect a national President and four members to the Institute Executive Council, the only contested office thus far is Vice-President. The two candidates for the office are: Alton P. Barr, Vice-President, Security Commercial Bank, Birmingham, Ala.; and Edward J. Damstra, Assistant Vice-President, Chicago City Bank and Trust Co., Chicago, Ill.

J. Kaye Ewart, Vice-President of the National Bank of Washington, Tacoma, Wash., has been nominated for the Presidency. Mr. Ewart is now Vice-President of the Institute. The four candidates for Executive Council are: Maurice Allendoerfer, Federal Reserve Bank, Kansas City, Mo.; Edward H. Fowler, First National Bank & Trust Co., New Haven, Conn.; Paul E. Jones, Indiana Trust Co., Indianapolis, Ind.; and Bernard J. Lunt, The Fort Worth National Bank, Fort Worth, Tex.

Mr. Barr received his AIB Standard Certificate in 1931. He has served as Treasurer and Vice-President of Birmingham Chapter, AIB, and was elected to the Presidency in 1937. Mr. Barr was elected to the AIB Executive Council in 1946 for a three-year term. He has been a member of several AIB national and chapter Committees.

Mr. Damstra has been associated with the AIB since 1923. He received his Standard Certificate in 1928 and his Graduate Certificate in 1940. He served on the board of directors of Chicago Chapter, AIB, in 1938, and as Treasurer in 1944, Vice-President in 1945, and President in 1946. Mr. Damstra this year completes a three-year term on the Executive Council of the AIB. He has served on numerous committees of both national and chapter organizations.

* * *

Harvey D. Gibson, President of **Manufacturers Trust Co. of New York**, announces that Tristan E. Beplat, Far Eastern Representative of the company, has established a representative's office for the Manufacturers Trust at 305 Naka 7 Building, 3-chome, Marunouchi, Tokyo, Japan. The representative's office is not a branch and will not engage in banking business in Japan. Its function will be primarily to maintain liaison with correspondent banks in the Far East and Southeast Asia, and to assist in the development of trade between the United States and the countries in that area.

* * *

BROWN BROTHERS, HARRIMAN & CO., NEW YORK

	March 31, '50	Dec. 31, '49
Total resources	$229,419,356	$233,501,099
Deposits	193,464,337	199,742,262
Cash and due from banks	46,323,909	56,072,647
U. S. Govt. security holdings	54,249,516	60,253,435
Loans and bills discounted	55,005,124	49,564,592
Cap. & surplus	14,025,284	14,005,284

* * *

Dr. Joseph W. Barker, President of the **Research Corporation in New York**, has been appointed a member of the Advisory Committee of the Grand Central Branch of the **Chase National Bank of New York**. Dr. Barker was formerly a member of the faculties of Massachusetts Institute of Technology and Lehigh University, and from 1930 to 1946 was Dean of Faculty Engineering at Columbia University. On leave to serve as special assistant to the Secretary of the Navy from 1941 to 1945, he received the U. S. Navy Distinguished Civilian Service award. Since 1945 he has been President and Chairman of the Executive Committee of the Research Corporation, a non-profit institution which administers patents, extends research grants, and manufactures electrical apparatus for smoke abatement and raw material conservation.

* * *

The election of Gerald N. B. Watkins as Vice-President in charge of the foreign department of the **American Trust Co. of New York** was announced on April 11 by Harvey L. Schwamm, President. Mr. Watkins has been in retirement since Jan. 1, 1949, after 15 years with **Barclays Bank, Ltd. of London**, the last 10 years of which he served as New York representative. Mr. Watkins, who was born in England, came to New York in 1920 and became Manager of the foreign exchange department of the Anglo South American Bank. He travelled in Europe during the early 1930s as an American bank representative and in 1932 became associated with the Bankers Trust Co. in London. He later returned to New York to direct that bank's foreign exchange department. In 1934 he joined Barclays Bank (Canada) in Montreal, returning to New York in 1936.

The election of Baldwin Maull, Vice-President of **The Marine Midland Trust Co. of New York**, to the board of directors of the **Marine Midland Trust Co. of Binghamton, N. Y.**, was announced on April 10 by Thomas A. Wilson, President. Mr. Maull is a director of Lehigh Valley RR. Co., Indeco Corp., and Fidelity Safe Deposit Co., and is Chairman of the board of The National Varnished Products Corp. He is also a member of the Advisory Committee of Wall Street Investing Corp.

* * *

Irving Trust Co. of New York has announced the promotion of George J. DeNike from Assistant Vice-President to Vice-President. Mr. DeNike has been closely identified with the activities of the company's branches. He is at present a senior officer in the branch at Rockefeller Plaza and 48th Street.

* * *

The Emigrant Industrial Savings Bank of New York, with main offices at 51 Chambers Street, observed on April 10 the 100th anniversary of the granting of its charter, according to John T. Madden, President. Mr. Madden indicated that the bank, as part of its anniversary observances, would publish in metropolitan newspapers a series of historical advertisements dealing with the important local and national events that have occurred during the last 100 years. The Emigrant Savings Bank came into being a century ago as a result of the concern felt by the Irish Emigrant Society for the welfare of the thousands of emigrants coming into the city. The society, founded in 1841, was a focal point to which the emigrants had come for advice, financial aid, and frequently for the safekeeping of savings. The bank was a natural outgrowth of this society when, early in 1950, 18 merchants in New York, most of them active in the society, joined to discuss further means of protecting the savings of these emigrants, and to afford them a safe method to send some of their savings to the country from which they had come. Five months after the bank received its charter, it opened its doors in rented quarters at the site of its present office on Chambers Street. Today the Emigrant Savings Bank has a midtown office at 5 East 42nd Street to serve the Grand Central area, and the number of its depositors has increased to more than 305,000 and its deposits to over $585,000,000.

* * *

Harry H. Pond, Chairman of the Board of **The Plainfield Trust Co. of Plainfield, N. J.**, celebrated his 40th anniversary as an officer of the bank on April 1. Now in his 63rd year as a banker, Mr. Pond came to Plainfield from Vineland, N. J., to succeed J. Herbert Case as Secretary and Treasurer of The Plainfield Trust Co. on April 1, 1910. He was elected a director in 1912 and in 1913 he became a Vice-President. On June 21, 1923, Mr. Pond was elected President succeeding the late Orville T. Waring, thereby becoming the second man in the history of the bank to hold that office. He was elevated to Chairmanship of the Board of Directors on Jan. 15, 1946. Mr. Pond was one of the organizers of the New Jersey Bankers Association and held the Presidency of that organization for the year 1911-1912. Since that time he has been an honorary Vice-President and member of the Executive Committee and has served on various other committees. In 1913 he was elected a Vice-President of the **Mechanics and Metals National Bank of New York**, and when the **Chase National Bank of New York** absorbed that bank in 1926, Mr. Pond continued as Vice-President of the larger institution. On April 1, 1930, he resigned from that office in order to devote more time to The Plainfield Trust Co. Since 1928 he has been a director of The Plainfield National Bank.

* * *

FIDELITY-PHILADELPHIA TRUST CO., PHILADELPHIA, PA.

	March 31, '50	Dec. 31, '49
Total resources	$248,545,895	$242,045,689
Deposits	220,160,578	215,978,152
Cash and due from banks	48,150,547	58,117,141
U. S. Govt. security holdings	83,393,865	67,400,081
Loans and bills discounted	70,297,291	70,575,619
Undiv. profits	5,441,386	5,251,447

* * *

Effective April 10, the two former branches of **The Charter Bank of Philadelphia** became part of the **Central-Penn National Bank of Philadelphia**. This announcement was made by C. A. Sienkiewicz, President of the Central-Penn, upon completion of the final step in the purchase agreement announced on March 13. The branches are located at 21 South 12th Street and 1716 Arch Street. Four other Central-Penn offices are located at Seventh and Chestnut Streets (main office), Fifteenth and Sansom Streets, Broad Street and Passyunk Avenue, and Broad and Cambria Streets. The Central-Penn National Bank, it is stated, is the fourth in size among Philadelphia's national banks. It now has assets of more than $140,000,000 and deposits of about $124,000,000 with capital funds of more than $14,500,000. President Sienkiewicz has made known that Ralph W. Pitman, former President of The Charter Bank, is now a Vice-President of the Central-Penn, and that Mr. Pitman's entire staff is now part of the enlarged personnel. Reference to the plans incident to the purchase agreement appeared in our issue of March 16, page 1112.

* * *

Plans have been completed by the **Pennsylvania Company for Banking and Trusts of Philadelphia** for the construction of a new bank building at Sixth and Chestnut Streets. This, it is stated, will be the first privately owned structure designed to conform with the specifications of the proposed mall, which will eventually extend north from Independence Hall to the Delaware River Bridge. Ground for the new building will be broken by William Fulton Kurtz, President of The Pennsylvania Company, at a ceremony today (April 13). Construction will be started immediately and will be completed next March. The building will be a red-brick, colonial Georgian style structure, three stories high, conforming in architecture with Independence Hall and Congress Hall. It was in 1783 that the Continental Congress, meeting diagonally across the street from this site in Congress Hall, granted a charter to the Bank of North America, making it the first bank founded on this continent. This old financial institution was merged with The Pennsylvania Company in 1929 and thus, in a sense, is returning to the scene of its origin. The proposed building was designed by Sydney E. Martin, Philadelphia architect, and will be erected by the Turner Construction Co. When completed, it will replace the Independence Hall offices of The Pennsylvania Company now located at 511 Chestnut Street.

* * *

The Board of Governors of the Federal Reserve System announces that effective March 27 the **Turtle Creek Bank & Trust Co. at Turtle Creek, Pa.**, a State member, has been absorbed by the **Mellon National Bank and Trust Co. of Pittsburgh**. In connection with the absorption, a branch was established by the Mellon bank at Turtle Creek, to be known as Turtle Creek Branch.

* * *

The **Lincoln National Bank of Washington, D. C.**, announced on March 24 the appointment of two new trust officers, it was made known in the Washington "**Post**" of March 25 by S. Oliver Goodman, who stated:

"They are James P. Benfer, **Jr.**, formerly a National Bank Examiner in this district, and J. Frank Rice, promoted from Assistant Trust Officer and Assistant Cashier. Mr. Benfer will assume his new post on April 17. Mr. Rice has been associated with Lincoln National for 41 years."

* * *

The capital of the **Florida National Bank at Coral Gables, Fla.**, has been increased from $100,000 to $200,000 by the sale of $100,000 of new stock, effective March 16.

* * *

The **American Trust Co. of San Francisco, Calif.**, a State member of the Federal Reserve System, has absorbed the **Bank of Woodland, National Association, of Woodland, Cal.**, and **Yolo County Savings Bank**, also of **Woodland**, an insured non-member. In connection with the absorption, which became effective March 27, a branch was established by the American Trust at Woodland to be known as the Woodland office.

* * *

Fred S. Hanson, Vice-President of the **California Bank of Los Angeles**, was elected Chairman of Group 5, California Bankers Association, at the spring meeting April 1. Other officers elected were F. D. LeBold, Vice-President, Citizens National Trust & Savings Bank of Los Angeles, who was named First Vice-Chairman; Paul E. Neuschaefer, Vice-President, Union Bank & Trust Co. of Los Angeles, Second Vice-Chairman; B. W. McPheeters, Assistant Vice-President, Security-First National Bank of Los Angeles, Secretary; Charles H. Landis, Assistant Cashier, Union Bank & Trust Co. of Los Angeles, Assistant Secretary. Following established custom, retiring Chairman G. A. Walker, President of the Farmers & Merchants Bank of Long Beach, was elected Treasurer.

* * *

Robert M. Alton, Vice-President and head of the trust department of the **United States National Bank of Portland, Oregon**, was elected a director of the bank on March 27. Announcement was made by E. C. Sammons, President of the bank. In 1948 Mr. Alton served as President of the Trust Division of the American Bankers Association. He is at present a member of the Executive Committee of that group. He joined the staff of the United States National Bank in 1922, becoming an Assistant Trust Officer in 1925 and Trust Officer in 1933. Four years later he was named a Vice-President. He has headed the bank's trust department since 1933.

An open house marked the opening of the new home of The United States National Bank's branch at Athena on March 18. Last September the United States National purchased the Preston-Shaffer building in Athena and since then has completely remodeled the one-story structure.

Wm. Lohrman, Jr. Is Admitted as Partner

William E. Lohrman, Jr., has been admitted to partnership in Wm. E. Lohrman & Co., 76 Beaver Street, New York City.

Paul C. Rudolph Adds

(Special to THE FINANCIAL CHRONICLE)

SAN JOSE, CALIF.—Paul C. Rudolph & Co., 40-D South First Street, have added to their staff E. Earle Barney, Guido E. Cerasoli, Lyman Dyson, Dwight Gray, Alfred E. Holter, Ray E. Hummel, and Fred M. Senkpiel.

Continued from page 3

A Warning to Commercial Bankers on Consumer Credit

tion of large batches of paper from dealers or retailers, executed by persons concerning whom the bank has no information whatsoever. The safe course from a long-term point of view is for the bank to know the borrower, his financial status and his needs. This is especially true today, when high-pressure advertising and salesmanship have made many people so credit-conscious that they have heavily mortgaged their future earning power—have committed to credit obligations all but a trifle of their probable future income.

Banks Carrying the Ball

The extent of this development is impressed on every train rider who sees on either side of the tracks the vast number of television aerials on top of hovels apparently devoid even of indoor plumbing! The chances are that the sellers of these television sets care not whether the purchasers ever pay their notes, because they are now in the hands of a bank which has no one but the buyer to look to for payment. Oh, the bank may have the moral but legally unenforceable obligation of the dealer, and it may have insisted on a "dealer's reserve"; but believe me, those reserves can evaporate at the most inopportune times, and we have seen a number of cases where dealers—not only television dealers!—have flagrantly failed to live up to oral "understandings."

Turn to "floor-plan" loans to dealers. In the last few years alert bankers have been conscious of the hazards involved in such financing, but turn-overs were so rapid that they refrained from exercising stringent control and supervision. Present-day trends warn us, however, that the "bloom" of the seller's market is withering, and that the buyer is rapidly getting his choice of merchandise—even in the automobile field. And from here out, failure to prescribe suitable conditions and exercise rigid and intelligent supervision may prove costly.

The other day I noticed a too frequently seen comment in a Report of Examination. It related to a loan secured by a number of cars which were to be "floored," and not used as demonstrators. A check by the examiner revealed that only a few of the cars were on display; the remainder were being driven as demonstrators by the dealer's employees, or used for pleasure driving by their wives. This sort of trifling with security reflects discredit not only on the dealer, but also on the bank's management. Lack of knowledge on the part of a bank officer is often as reprehensible as misuse of knowledge—in view of the fact that the bank is using depositors' funds, the people's money, for profit.

The Installment Aspect

I should mention at this time another aspect of concern in the consumer credit field—the installment payment aspect. During the last four years the amount of installment credit—the major element in consumer credit—has increased at an average rate of more than $2 billion per year, 40% of which is held by banks— a volume of assets which cannot be dismissed by a bank supervisor as negligible. I regret to say that our examinations of this phase of bank operations have revealed a growing laxity in dealing with delinquencies. The hazards involved in this laxity are obvious. A prerequisite of safety in installment lending is timely collection of every installment.

Another aspect of consumer credit deserving most careful consideration is one on which our views are perhaps farthest apart. All of you are familiar with the procedure whereby a bank buys the "accounts" of a retailer, representing balances due on goods sold. More frequently than not those accounts, dressed up as "obligations," remain in the possession of the retailer, the bank receiving only a schedule of them. Often, the bank does not even examine the "paper" in the seller's possession. The rate of interest charged by the bank is sometimes too small to permit it to spend anything for supervision and still make a profit. Certainly, the bank doesn't know the purchasers, i.e., the obligors. And as a general rule, the retailer is exclusively interested in selling his appliances or gadgets, and is not interested in whether the purchaser is entitled to credit. Why should he be, if the banks are willing to undertake most of the financing risk? What started out as a fairly sound venture may come to be extremely unsound, and if it does it will be the banks rather than the sellers that suffer.

Past Practice

Twenty years ago the seller gave the bank his own note, secured by the accounts; a little later he endorsed the obligations with recourse and thus assumed a full secondary liability. Now, in many instances, the seller doesn't even do that—ostensibly in order to avoid showing the liability on its balance sheet. When this practice first started, it was confined almost exclusively to businesses which themselves employed the most careful credit practices, but little by little paper is being acquired from concerns of more doubtful efficiency and reliability — and the practice is justified by some banks on the ground that if they get a sufficient volume, the profit will more than offset the losses.

This type of banking is a far cry from the time-honored bank-to-individual credit relationship. In essence, camouflage them as you will, such transactions more nearly resemble loans to the seller, for which he should be fully obligated and which should be subject to statutory limitations; or, if the seller is not so obligated, they resemble unwarranted delegations by the bank to the seller of its responsibility in lending bank funds; and I prophesy that either by law or supervisory action, they will be so considered eventually.

"Controls" in Banks' Hands

Finally, let me say that the "controls" on consumer credit are now in your hands. If you are to retain them, and it is to your advantage to do so, you must police your policies and exercise the degree of control and supervision necessary to the maintenance of continuous sound consumer credit business. Banks must insist—more so than at present—upon competent, well-paid personnel, working closely with top management, fully informed concerning the general economic picture, and those employees must be required to establish adequate standards and procedures for (1) originating loans, (2) supervising outstanding credits, and (3) collecting them—in bad times as well as good.

Small Business Loans

I would like to turn now, for just a moment, to a related aspect of the banking business: small business loans. I do so because statements have been bandied about that banks are not meeting the credit needs of the "small businessman," and that the reason is bankers' fear of examiner criticism. I repeat that it is the duty of banks to meet the legitimate credit needs of their communities. A bank is not measuring up to its responsibilities if it fails to do so. However, a banker is at least equally remiss if he promiscuously hands out depositors' funds to every applicant who happens to fall within the current definition of "small businessman."

An important part of my job is to observe whether national banks are fulfilling their responsibilities to the public, and notwithstanding all the brickbats that are being thrown, 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 it from banks because they are not creditworthy. 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.

However, let me stick to the bank end of the problem, and say as emphatically as I know how that bank supervisors are not predisposed unfavorably toward small business loans. We do insist, however, that they be set up soundly and supervised intelligently, just as in the case of consumer loans.

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. But if not, he is either too weak to say "No" to a borrower without throwing the onus on the examiners, or he is incompetent and has been criticized as such. Possibly he doesn't know how to set up such a loan or how to supervise it, or he is operating on a capital structure which is too small to warrant hazarding greater amounts of depositors' funds in loans of any description, in view of the calibre of the bank's management and the local economy.

I would not be overly concerned about such allegations if it were not for the structure which some would build thereon. I refer to the proposals to extend the government-guarantee procedure to enable an uncreditworthy business to borrow from banks in order to compete with its creditworthy 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 the concerns in the field—weak and strong alike. The mortality rate of small businesses would probably increase. Enterprises that lack essential "know-how" will always fail. Others will fail because of too much credit—more than they have the capacity to handle. In addition, there would be unnecessary failures among those presently sound businesses which would be undermined by subsidized and unprincipled competition built on sand.

There may very well be a need for a new system or for better machinery for providing equity capital for meritorious small businesses. But that certainly is not a general field for commercial banks.

Government Guarantee

Let me conclude by saying that if the government credit-guarantee procedure is so extended into the small business field, you will find that in too many cases loans will be made under it by those banks whose exclusive incentive is and will continue to be volume for the sake of profit, rather than any genuine concern for the economy of the individual, the community, or the nation.

Never forget that the more government is called upon to participate in your business, the nearer we come to an end of banking as a vital part of our private enterprise system. If government is to assume the risks of banking, to do what it is your duty to do, banks should not be permitted to profit out of the use of depositors' funds —the public whose funds are being used should get the profit, and you should be paid for your services like any other civil servant.

It was exactly four score and seven years ago, come November —just half the lifetime of our nation—that Abraham Lincoln dedicated us to the task of seeing that "government of the people, by the people, and for the people shall not perish from the earth." Today the task is even greater than it seemed then, and the perpetuation of the effort to which he referred is your job and mine. We dare not shirk.

Farm Subsidy Surplus Deplored by Heimann

Credit leader maintains farm subsidies for the wastage of food is morally indefensible. Calls Brannan Plan a temporary camouflage.

Henry H. Heimann

Farm subsidies and the piling up of huge stores of surplus crops present tragic consequences for the destruction, spoilage, or wastage of food is morally indefensible, Henry H. Heimann, Executive Manager of the National Association of Credit Men says in the current issue of his Monthly Business Review. The farmers are themselves now quite concerned about this problem as most of them do not want the kind of help which in the end will hurt them and bring about a chaotic state in their normal markets, he says in outlining this condition in our national economy.

"Many people find it difficult to understand the present farm program in our own country as they can see neither the end nor the consequences of it, nor understand its objective other than as a political policy," continues Mr. Heimann.

"Presently our government is holding about 25 million bushels of barley, 100 million pounds of butter, 20 million pounds of cheese. It also has under loan and in possession a combined total of approximately 500 million bushels of corn, 6 million bales of cotton, 500 million pounds of beans. The government has 75 million pounds of dried eggs and about 500 million bushels of wheat in inventory or under loan. The potato situation has been on the front page so long that it needs no comment.

"Consider the confusion generated by the present farm program. The government has bought potatoes at an average cost of $2 a hundred pounds. It now disposes of these surplus potatoes for limited use—namely as feed for animals—at one cent a hundred pounds. The farmer, let us assume, feeds these potatoes to hogs, but then he does not have to feed the hogs so much corn. This means he has more corn to sell to the government. The question then arises: what is the government going to do with the corn? Is it going to sell it back to the farmer for animal feed? If it disposes of some of the corn in this fashion then what happens? The old price ratio of pork to feed is well known by every farmer.

"The purchase of feed at token prices can only do one thing and this is increase the supply of hogs. When the hog supply increases then the government has to go in and buy the surplus pork. If the government distributes these products to the so-called under-privileged then some of these groups, who at least occasionally buy meat at regular prices, will be practically out of the retail market. This means then that the retail business and normal farm markets are affected. In the end, is the government going to turn back some of the pork to the farmer?

The Brannan Plan

"Now assume we adopt the Brannan Plan. It does not change anything except the manner and method of payment. What is worse, it camouflages the real measure of payment, that is for a while. In the end it cannot be continuously camouflaged. People holding government bonds are not going to sit idly by and see debts accumulate year after year due to subsidies and other debatable appropriations. Their consumer dollar is now worth about 60 cents, their raw material dollar about 50 cents, their building dollar 46 cents and their labor dollar about 43 cents. That is the measure of value they get in terms of the present dollar compared to the prewar value of the dollar. How much longer are those holding receivable investments going to sit by and see their investments deteriorate?"

The great lessen from the recent coal strike is that the failure to obey the law presents a trend that may be very dangerous, the head of the nation-wide organization of credit and financial officers declares.

"It is a well-established axiom in business, in the armed services and in almost every other undertaking, that when a group works together, each expresses his or her views, but once the policies are set by top management or leadership, arguments over policy cease," Mr. Heimann says. "From the time the policy is set, it becomes the duty of everyone to execute it. When a law is enacted, whether it is good or bad, we must respect it. We dare not ignore it. We can work for its change, but while it is on the books it is the law of the land and should be enforced. The vicious criticism of the Taft-Hartley Act was wholly unjustified but officials from top to bottom directed propaganda against the Act. This naturally brought disrespect for the law. The failure of people to abide by law is due in this instance to the lack of respect for law by those who are charged constitutionally with its enforcement.

"One of the net results of the strike is to leave the coal industry with excess capacity. It may be possible that here on three-days-a-week work in coal production will be all that the country can absorb. Many mines, however, cannot economically operate on a three-day week basis. Fuel oil and natural gas have definitely and for all time, so far as is foreseeable, taken over much of the market for coal."

Continued from page 4

Understanding the Balance Sheet

investments rather than as part of current assets.

Miscellaneous Assets

Several other types of assets may be grouped together under the heading "miscellaneous assets" although in practice any or all of these may be shown as separate classifications on the balance sheet. Such miscellaneous assets, generally include **deferred assets, intangible assets,** and **special funds.**

Deferred assets include all expenditures the benefits of which are not entirely obtained in the period in which they are made but which, in the regular course of operations, will be charged as expenses of subsequent periods. For example, assuming a corporation at the beginning of 1949 had paid a premium covering a 3-year fire insurance policy, at the end of the year there would still be two years' coverage. If the corporation had originally paid $600 for the policy, at the end of the year it would show $400 as a deferred asset—in this case labelled as prepaid insurance. Other deferred assets might include stationery, postage stamps, etc. Intangible assets usually include patents, copyrights, trade marks, franchise rights and goodwill. As you can see, it would be difficult to assign a specific value to these items which are of an intangible nature—although they may be extremely valuable. Conservative accounting practice will frequently suggest that because of their intangible nature a nominal figure of $1 be assigned to them, which, for example, is what General Electric does despite the obvious tremendous value of the company's intangible assets. Where a company assigns a large value to these items it is important to determine that this is not simply a "padding" of assets. Finally, special funds consist of cash or securities that have been segregated to meet a specific purpose. You will recall, for example, from our discussion of types of securities that many bonds and preferred stocks require sinking funds and such a fund would be an example of a special fund.

Liabilities

Turning now to the liabilities side of the balance sheet we find a comparable classification of the various types of liabilities. First, we will usually find **Current Liabilities** which include all those creditors' claims that will mature within 12 months from the date of the balance sheet and for which no special provision for liquidation has been made. Current liabilities will include the accounts and notes payable by the corporation to others. It also includes accrued liabilities, that is other financial obligations which the corporation has already contracted but which will not actually be paid until sometime later. For example, if a corporation's net income during the year were $1,000,000 at the close of the year it would owe Uncle Sam some $400,000 in taxes but these would not be payable until the following year. On its balance sheet, therefore, it would set up an account for Federal income taxes, a current liability to the amount of $400,000.

Funded Debt

The next item generally found among the liabilities is the **Funded Debt,** which is the corporation's long-term debt. For example, if a corporation had outstanding an issue of $5,000,000 of first mortgage 6% bonds due in 1960, this amount would be shown in this section of the balance sheet. Generally speaking, all of a corporation's bonds will be part of its funded debt except for those bonds due during the next 12 months, which then become a current liability.

Reserves

Any Reserves will generally be listed next. Reserves represent the allocation of a corporation's income for specific purposes. The concept of reserves is a difficult one and we had best stop here a moment to review it carefully. We saw a few moments ago that a corporation will deduct from its fixed assets an amount representing the depreciation and wear and tear on those assets in order to arrive at a net figure for them. We mentioned at that time that instead of showing this deduction on the assets side of the balance sheet, it might be shown on the liability side. In either case, as you can see, the net result will be the same for it makes no difference whether we show an asset of $1,000,000 less depreciation of $200,000 for a net asset figure of $800,000 or whether we keep the figure of $1,000,000 on the asset side and show a reserve of $200,000 on the liability side of the ledger. In this case such a reserve is described as a **valuation reserve.** We may also have other types of reserves. We might have a **liability reserve** which may have been established to provide for taking care of a specific liability. For example, assuming that we knew that we would need a new machine during the coming year, we might set up a reserve to provide for this expected expenditure. We might also have a **surplus reserve** which is not designed for any specific purpose but simply to act as a buffer in poor years and emergencies.

Significance of Reserve

Reserves, as we have said, are an allocation of income so that to the extent that there are reserves there will be less income available for distribution to the stockholders. Thus, for example, if a corporation had a particularly profitable year last year but possibly expected poorer earnings this year it might set up the surplus reserve described above and that would in effect reduce its income for the current year and the amount of dividends it might pay out. Next year, if its expectations of poorer business were realized it might then draw upon the reserve already established to provide it a better earnings picture.

Bookkeeping Transaction

As if this were not confusing enough we must now introduce a further complication into the picture. Establishing a reserve is simply a bookkeeping transaction and no funds or other monies may actually be involved. Thus, when we reduced our equipment from $1,000,000 to $800,000 by setting up a reserve of $200,000 we did not necessarily set aside any money. We simply reduced our income by this amount and had this much less available from which to pay dividends. If we actually followed the sound practice of setting aside the $200,000 for future replenishment of our fixed assets we would then be setting up a **fund** which would appear on the asset side of the balance sheet, either as a current asset, as an investment, or as we have previously mentioned as a special fund. This is an important distinction to the investor because the existence of reserves does not by and of itself assure that a corporation actually has the reserves in a monetary sense. In our example above, assuming our corporation during the year had no net income it would still have charged $200,000 to depreciation. Well, we shall return to this rather confusing section of the balance sheet again.

Miscellaneous liabilities, if any, will be the next item shown. These are liabilities which do not appropriately fall into any of the other classifications and for the most part arise out of somewhat technical problems related to the issuance of a corporation's securities at a premium and need not stop us here.

Capital Stock and Surplus

The next principal category on the liability side is **Capital Stock and Surplus.** Together these represent the net worth of the corporation—the difference between what the corporation owns and what it owes to anyone other than its own stockholders. We can therefore perhaps see a bit more clearly why assets and liabilities must always be equal for a solvent corporation since the value of capital stock and surplus is always the difference between assets and liabilities to others than stockholders. Although it may be confusing that the net worth of a corporation is shown on the liability side, this net worth is in fact what the stockholders collectively own or, put another way, what the corporation owes to the stockholders.

The capital stock account represents the stock that has been issued and is outstanding shown at either par or stated value. Thus, if a corporation has issued 400,000 shares of $5 par value stock the capital stock account will total $2,000,000. However, if only 300,000 shares are outstanding its capital stock account will total only $1,500,000.

Surplus

Surplus is the excess of aggregate value of assets over the stated value of liabilities, reserves, and capital stock. In other words, it is the lever to bring the balance sheet into balance. If, for example, our assets were $1,000,000, our liabilities to others $500,000 and we had 100,000 shares of capital stock with a par value or stated value of $2 per share (or a total capital stock account of $200,000) surplus, by definition, would total $300,000 and the balance sheet would be "balanced." It would be pleasant if we could leave it go at that, but, unfortunately, surplus is a complicated item and for a proper understanding of the balance we must have this item well defined.

Definition of Surplus

First, we must distinguish between two principal types of surplus because their meaning for investment analysis is so different. **Earned surplus,** the first of these, consists of the earnings which the management has retained and accumulated and from which dividends may be paid to stockholders. Except in liquidation, partial or complete, this is the **only** source from which dividends may be paid. Like our friend, the reserve, however, the existence of earned surplus does not mean that there are actually funds available—in this case from which to pay dividends. The management may have previously used such earnings for expansion or some other purpose. Even if there are monies available, the existence of earned surplus does not mean that the management will elect to pay dividends. As we saw in the second lecture the payment of dividends is purely a prerogative for the management.

Capital surplus, the second principal type of surplus, is surplus arising from sources other than earnings. For example, if a corporation sells its $5 par value stock for $20 a share (and you will recall that the par and stated value is a purely arbitrary figure so that this is quite possible) it would create a capital surplus of $15 for every share sold. Similarly if a corporation has outstanding 100,000 shares of $10 par value stock and it reduces the par value to $5, it will create a capital surplus of $500,000. A corporation may also create capital surplus by purchasing its own stock below the par or stated value, by purchasing assets for less than book value, by retiring its debt at less than book value or by reappraisal of its assets at a higher than book value. Like earned surplus, capital surplus is a bookkeeping transaction and it does not mean that there is any surplus in the common use of the word available for the stockholder. As a matter of fact, dividends may not be paid out of capital surplus. A company might have a large capital surplus but still have no earnings or available funds from which to pay dividends.

Both earned surplus and capital surplus can, of course, be minus figures in which case they are usually referred to as earned deficit or capital deficit. Just as a surplus added to the capital stock account represents the net worth of the corporation, if there is a deficit this would be subtracted from the capital stock account to arrive at net worth. For example, assuming a corporation with 100,000 shares of $5 par value stock and a capital deficit of $200,000, the net worth would then be $500,000 less $200,000, or $300,000. An earned deficit occurs where a corporation has lost more money than it has made. A capital deficit may occur where a corporation sells its stock for less than the par or stated value, where it purchases its stock for above the par or stated value, or from a reappraisal of assets below their book value.

Analysis of a Balance Sheet

Let us now turn to some actual balance sheets. We have here the consolidated balance sheet as of Oct. 31, 1949 of the Emerson Radio & Phonograph Corporation and its subsidiaries. This is a convenient balance sheet to examine because it is relatively simple. On the left hand side of the page we find the assets and the first group of assets listed are the current assets, consisting of:

(1) Cash on band and in the banks, $5,980,705.58.

(2) U. S. Gov't Securities at cost, $1,650,059.54 (although in parentheses we are told that these government securities have a market value of $1,651,485. With both securities and inventories it is common practice to list them at either cost or market whichever is lower.)

(3) Accounts and notes receivable (less a reserve for doubtful accounts of $81,436.93) $3,321,854.06. You will recall that we discussed the possibility that this and other reserves might have been placed on the liability side instead of treated as a deduction from an asset.

(4) Inventories, broken down as to raw materials and work in process on the one hand, and finished goods on the other and totaling $3,585,984. This inventory breakdown is usually made since finished products have a more ready market than work in process and the overall figure would not describe the inventory position as accurately as the slightly more detailed presentation. Total current assets amounted to $14,538,603.49.

(5) The balance sheet next lists accounts receivable from officers and employees of the company for stock purchased by them from the company. This is an unusual transaction and will not generally be found in balance sheets. One of the reasons for stating this account separately from accounts receivable is to draw attention to a transaction with which stockholders should be familiar. Also, these accounts may not be due within the near future.

(6) Then follows fixed assets shown at cost of $657,242.72 (less reserves for depreciation and amortization of $393,996.99) for a net figure of $262,245.73.

(7) Trade marks and patents although undoubtedly valuable are then shown at the conservative accounting practice of $1.

(8) Cash surrender value of life insurance policies are shown and a small item not otherwise identified totalling some $30,180.69.

(9) The last item on the asset side is deferred charges and prepaid expenses consisting of expenditures on tools and other equipment and for insurance against which charges will be made in future periods as they are used up.

(10) Total assets amount to $15,012,000.53.

Turning now to the right hand page we find the liabilities, and first the current liabilities consisting of accounts payable to the amounts of $2,193,224.72, and accrued liabilities, that is other obligations of the company currently owed but which will be paid out in the future. Total current liabilities amount to $4,896,986.16.

The company has no funded debt so there are no figures shown for funded debt. It does show a liability for deferred income of $80,639.53 which in our general discussion we included as miscellaneous liabilities and which in this case consists of fees which the company has received but for which the company will continue to provide some service or product in the future. In other words, the company still owes some service or product for which it has already been paid.

Capital stock of Emerson consists of 800,000 shares outstanding of $5 par value so that as we might expect the capital stock account totals $4,000,000. Surplus is shown separately as capital surplus consisting of capital stock acquisitions, donations, etc., to the amount of $456,247.50; and earned surplus, that is the retained earnings of the company, of $5,578,127.31.

You will notice that the total liabilities, including capital stock and surplus, amount to $15,012,000.53, which is the same as the figure shown for total assets. The book value of each share of Emerson stock would be determined by dividing the total capital stock and surplus of $10,034,374.81 by the number of shares outstanding, 800,000, for a book value or equity of about $12.50 per share. The lack of relationship between par or stated value, book value and market value for a security is well illustrated in this case. Par value as we have seen is $5 per share, book value $12.50 per share, but the market currently appraises the stock at some $27 per share. However, this is the subject for a later lecture.

In almost every case, balance sheets will be accompanied by a series of notes. These are an integral part of the financial statement and should not be overlooked simply because they are written in fine print. For example in this Emerson report, we find a note telling us that a stock dividend of 10% was given during the years which amount was charged against earned surplus.

* * *

Next week we shall have our second guest lecturer, John Dalenz of Calvin Bullock, noted authority on mutual funds, who will review the subject of mutual funds for us.

Greater Jobless Benefits Recommended by Truman

President asks Congress to cover six million more workers and, to raise amount and duration of benefits. Such changes would have amounted to $850 million rise last year. Mr. Truman declares while this would mean greater payroll taxes, it would not necessarily entail an increase in tax rates in all States.

President Truman called for a major expansion of the present unemployment compensation program in a special message sent to the Congress April 6. A bill to carry out the President's proposals was introduced in the House by Representative John W. McCormack of Massachusetts Democratic leader in the House.

President Truman

The text of the President's message to the Congress follows:

To the Congress of the United States:

One of the great advances in economic legislation made during the Nineteen-Forties was to establish the Federal-State system of employment security. This system has two parts—first, a nation-wide employment service to help workers find jobs and employers find job-seekers; and, second, a nation-wide system of unemployment insurance to help tide workers over periods of unemployment.

Finding a job is of more importance to an unemployed worker, of course, than receiving unemployment insurance benefits. Consequently, great emphasis has always been placed on strengthening and improving the employment service.

We cannot, however, completely eliminate unemployment even in times of high employment, there will be turnover of jobs and numerous shifts and changes in job opportunities. Consequently, we must have a strong and steadily improving system of unemployment insurance.

Under our Federal-State unemployment insurance system, benefits are paid, in accordance with state laws, to workers who, while able and seeking to work, are unemployed through no fault of their own. These benefits are paid from the proceeds of state payroll taxes which are deposited in reserve accounts—one for each state—in the Unemployment Trust Fund in the United States Treasury.

1949 Payments Set Record

In the past 12 years, unemployment insurance has proved its worth, not only as an invaluable source of support to unemployed workers and their families, but also as a means of maintaining purchasing power of great value to the entire economy. In 1949, for example, $1,700,000,000 in benefits were paid to more than 7,000,000 individuals, the largest amount for any year in the history of the system. This was a significant factor in preventing serious dislocations during last year's period of economic readjustment.

Our experience with unemployment insurance has revealed weaknesses as well as strengths in the existing system. While many improvements have been made in the state laws since the program began, the system is far from adequate today.

Workers Not Covered

Over 15,000,000 workers—about one-third of all employees—are not protected by unemployment insurance. In 1940, only about one-fifth of the purchasing power lost through unemployment was replaced by unemployment insurance benefits. In 1949, weekly benefits average only about $20—not enough to preserve a minimum standard of living. Nearly 2,000,000 workers used up their benefits entirely—showing that benefits were not available for a long enough period. While the unemployment reserve funds of the states have so far proved to be adequate, a few states may soon face financial difficulties because of local concentration of unemployment.

On several occasions in recent years, I have recommended that the system be improved, to extend protection to many workers not now covered; to provide, in every state, benefits for 26 weeks, ranging up to $30 a week for single persons, with additional benefits for dependents; and to increase the financial stability of the system.

Action on these proposals has become more urgent as unemployment has increased somewhat, in spite of the continuing high levels of business activity. While unemployment dropped over 500,000 between February and March, on the average nearly 4,500,000 persons were looking for work during the first three months of this year, as compared to 3,000,000 in the same months of 1949, and nearly 2,500,000 in 1948. Furthermore, the length of time it takes people to find jobs is becoming longer. One million people—about one out of every four unemployed—have been out of work for 15 weeks or more. A year ago, only 420,000 were without jobs that long and, in 1948, only 330,000.

This gradual growth in unemployment over the last two years is not because there are fewer jobs. Employment has remained at high levels, along with industrial production, consumer incomes and other indicators of the health of our economy.

Additions to Labor Force

But there are more people looking for work. In recent years, up to 1,000,000 more persons have come into the labor market each year, looking for work, than have left the labor market. Part of the new group entering the labor market this year will be the largest number of college graduates in our history—some 500,000 young persons, including about 250,000 veterans. In addition, of course, a large number of high school graduates will also be looking for jobs.

Furthermore, as new plants and equipment have been added and supplies of raw materials have become more ample, businessmen have been able to produce more with the same number of workers.

Thus, our labor force has increased, our productivity has increased, but the number of jobs has not kept pace. This emphasizes the importance of expanding our economy so that new jobs will be created to use skills and energies that are now being wasted. It also emphasizes the importance of making better provision for those who are temporarily out of work.

Six Million Wider Coverage

The Congress now is well along toward completing action on legislation to improve the old-age and survivors' insurance and public assistance programs. Like those programs, the unemployment insurance system needs to be improved in the light of experience. Accordingly, I recommend that the Congress turn its attention as soon as possible to strengthening our Federal-State unemployment insurance system.

First, I recommend that coverage be extended to about 6,000,000 workers not now covered. The first major deficiency in the present Federal-State system of unemployment insurance is that it excludes large numbers of workers.

Coverage should be extended to employees of small firms—those employing one to seven workers. Workers in firms employing fewer than eight workers were originally left out of the Federal law because of expected administrative difficulties. In fact, however, such employees have been satisfactorily covered for years under the Federal old-age and survivors' insurance system, and 17 states have already extended their unemployment compensation systems to cover them, without encountering any serious administrative difficulties. Many other states are waiting for the Federal Government to act and have provisions in their laws which would cover these employees automatically when the coverage of the Federal Act is extended. No reason exists for discriminating longer in the Federal law against such workers.

Coverage should also be extended to Federal Government civilian employees. Although the Federal Government took the leadership in establishing a system of unemployment insurance for workers in private industry, it has not assumed the same obligation toward its own employees. Yet the rate at which Federal workers—especially manual workers—are separated from their jobs is approximately as high as in private industry. Federal workers should no longer be denied the protection of unemployment insurance.

I also propose extensions of coverage to about 500,000 persons who are employed on a commission basis, and about 200,000 workers in occupations of an industrial nature connected with agriculture, all of whom are excluded at present. Moreover, the Federal unemployment insurance legislation should be extended to Puerto Rico, subject to its acceptance by the Territorial Legislature.

Benefits Inadequate

Second, I recommend the establishment of nation-wide minimum levels for amounts and duration of unemployment benefits, in order to correct the second major deficiency in the present unemployment insurance system—the inadequacy of benefits.

At present, while the Federal law includes a number of standards which the states are required to meet, it does not establish minimum levels for benefit amounts or duration. Maximum weekly benefits in the various states now range from $15 to $27 for single persons; benefits are somewhat larger for persons with dependents in the 11 states providing dependents' allowances. With these maximum levels, average weekly benefits for the nation as a whole were just over $20 in 1949.

The variations among states create serious inequities. They mean that workers who lose their jobs in identical circumstances are treated very differently because of the accident of geographical location. They mean that businessmen in some states suffer a greater loss in markets when unemployment occurs than do those in other states.

Furthermore, while the states generally have increased benefits in recent years, so that the situation is not nearly so bad as in the case of old-age and survivors' benefits, in most states the increases in benefits have lagged considerably behind increases in wages and costs of living. Thus, unemployment benefits today replace a smaller proportion of a worker's regular wages than was the case when the system was started.

National Minimum Asked

For these reasons, I believe that nation-wide minimums should be established by law which will assure adequate benefits in all states. The standards proposed are these: Benefits for single persons should approximate 50% of normal earnings, up to a maximum of at least $30 a week. Additional allowances should be granted for individuals with dependents. The proportion of previous earnings replaced would vary with the number of dependents, up to a maximum of 70% of wages, or $42, whichever is lower, for an individual with three or more dependents.

These standards are not high. If they had been in effect, the national average weekly benefits in 1949 would have been just over $24. But this would be a substantial improvement in an income level which, at best, is intended to provide only for subsistence expenses. Furthermore, uniform standards would reduce present inequities in benefit levels among different states. Some variation in benefit amounts would and should remain, reflecting the differences in wage levels and costs of living in different parts of the country.

At present, the maximum duration of benefits varies among the states from 12 to 26 weeks. Like the variation in size of benefits, this is inequitable, and in many states simply represents a lag in reaching what was considered from the beginning to be a desirable standard, but which was originally set low because of actuarial uncertainties. With this wide range, the average duration of benefits in 1949 was less than 13 weeks. Because of the short duration of benefits, nearly 2,000,000 workers exhausted their rights to benefits before finding another job.

Benefits should be available for at least 26 weeks in a year to all workers who are out of work that long. Experience in the states which have increased the duration of benefits is that while average duration does not rise very much, because most workers find a new job before using up benefits, the number who use up their benefits entirely is markedly decreased. It is estimated that, under my proposal, the number of workers who exhausted their benefits in 1949 would have been only half as large as it was.

The combined effect of my recommendations for extended coverage, higher benefits and longer duration would have resulted in about $850,000,000 more in benefits—and in consumer demand—in 1949. The cost of these improvements would be moderate.

At the same time that weekly benefits are raised the upper limit to the amount of wages taxed should be raised from $3,000 to $4,800 per worker, in line with the increases in wage levels. On this basis, the combined cost of all benefits for all states under these proposals would have been about 1.2% of taxable payrolls in 1948 and 2.5% in 1949—compared with actual costs (on the basis of the present $3,000 wage limit) of 0.9% of taxable payrolls in 1948 and 2.2% in 1949.

Tax Rates Still Low

In most states the rate of tax has been extremely low in recent years—many employers have had to pay no tax whatever. Some states have had to increase rates somewhat last year or this year, but in all but a few cases, taxes are still well below the rate of 2.7% contemplated when the system was started. Under my proposals many states would not have to increase tax rates to cover all the increased costs, since they still have excess reserves. Most, if not all, states would find no trouble meeting the additional costs within the 2.7% tax rate.

Consequently, I believe that the standards I propose will achieve substantial improvement in the unemployment insurance system, benefiting both workers and businessmen, at very reasonable costs. As is the case at present with respect to coverage, the Federal law should not prevent the states from exceeding the minimum standards if they wish to do so.

Would Cover Interstate Workers

Third, I recommend that adequate methods should be required to provide benefits for workers who move from one State to another.

Clearly, a worker who is employed in two different States during a year is as entitled to unemployment insurance benefits when out of work as a worker who is employed in only one. The States have generally recognized this, and have attempted voluntarily to work out methods for paying benefits in such interstate cases. They have, however, been only partially successful. Interstate workers generally must wait much longer to receive benefits than intrastate workers. Furthermore, the benefits of many interstate workers are lower than if they had worked in only one State.

It is a difficult problem to develop adequate methods for paying benefits promptly and equitably to interstate workers in our Federal-State unemployment insurance system. Nevertheless, it is in the national interest to encourage the mobility of labor, since that is indispensable to economic expansion in a free society like ours. Consequently, I believe that the States should be required to adopt such methods as are necessary to provide fair and adequate protection for interstate workers.

Plans to Bar Fraud

Fourth, I recommend that both Federal and State laws concerning fraud and disqualifications should be revised and improved.

It was a weakness in the original Federal legislation that it did not clearly require the States to deal adequately with the question of fraud. Some States—without going to uneconomical extremes in inspection and policing—have instituted effective methods for preventing or detecting fraudulent claims. I believe, however, that the Federal law should be clarified so that all States can be required to have adequate means for dealing with those few individuals who attempt to obtain benefits through misrepresentation.

During the last few years some States have considerably enlarged the number of reasons for disqualifying workers who seek unemployment benefits and have increased the severity of penalties for disqualification. These excessive disqualifications have operated to prevent persons who are genuinely out of work through no fault of their own from receiving benefits. These over-severe disqualification provisions, which penalize the innocent along with the guilty, should be corrected.

Fifth, I recommend, at this time, two improvements in the financing arrangements for unemployment insurance.

Since the beginning of the program, a small part of the unemployment tax has been collected by the Federal Government and included in general Federal revenues. The administrative costs of the program—both Federal and

State—have been paid out of general Federal revenues, and have never been as large as the Federal unemployment tax collections. I propose that the Federal unemployment tax be paid into a special Federal unemployment account in the Unemployment Trust Fund (which now includes the separate State reserve accounts for the payment of benefits). This account would be used exclusively to pay the cost of State and Federal administration of the employment security program, and the cost of reinsurance grants, to be available to States who encounter temporarily severe financial difficulties.

To Brace Up Poorer States

Experience has demonstrated that the cost of unemployment insurance varies widely among the different States. This is mainly due to differences in each State's economic structure and in the incidence of unemployment in certain industries, which are beyond the control of the individual State. It has become evident that a few States, while able to finance an adequate system of unemployment insurance in normal periods, may not be able to maintain the solvency of their unemployment funds in a period of severe unemployment under the present financial provisions provided in the Federal legislation. So that these States will not be forced to increase their tax rates unduly during periods of declining employment and payrolls, the legislation should be amended to provide assistance to such States through reinsurance grants when their funds approach exhaustion. This will be a major step toward strengthening our Federal-State system of unemployment insurance, since it will, without detracting from the independence of State action, gain some of the advantages of pooled reserves.

A strengthened unemployment insurance system not only will furnish more adequate aid to those who become unemployed, but also will do more to maintain the high volume of consumer purchasing power so necessary to the welfare of the entire economy. Thus it is a strong element in our program to support growth and expansion in the economy.

Our essential economic problem is to put to sound, productive use our increasing technical knowledge and our growing labor force. To this end, we need imaginative and enterprising investment—in plant capacity, in new equipment, in basic resource development. To this end, we need vigorous competition and a growing number of new businesses. To this end, we need a stable agriculture, sensible wage-price-profit decisions, and mature labor-management relations. To this end, we need an expanding world economy, with a productive flow of international trade and investment.

Both private and public policies must be directed to these purposes, and I have recommended a series of measures to the Congress for Federal action. My present proposal to strengthen our unemployment insurance system is one of these measures.

I am particularly urging action at this session of Congress on unemployment insurance because State legislation must follow the Federal amendments. Action by the Congress this year would clear the way for State action in 1951, when practically all of the State Legislatures will be meeting in regular session.

But the primary reason for Congressional action is the real need of those who are unemployed. The unemployment insurance system is a tried and proven means of assisting them. That system urgently needs strengthening.

I therefore request favorable consideration of these recommendations at this session of Congress.

Continued from page 5

The State of Trade and Industry

price increase of last December was scarcely felt. Net income was 7.2% of sales for 1949, 6.7% for 1948, an increase of 7.5%.

Indicating the industry's increased awareness that stockholders must receive a good return on their investment if more equity capital is to be attracted to the business, common dividends declared were up 10.3% in the face of the decline in earnings. This is in contrast to 1948 when common dividends rose only 7.1% despite a 32.4% increase in earnings over 1947.

Steel shipments declined about 11%. Surplus accounts of the 26 companies were up an average of 13.1%, while invested capital rose 7.0%, and working capital 8.3%. Invested capital per ton of ingot capacity was up 4.9%.

Steel executives believe, "The Iron Age" declares, that reported net earnings of the companies are overstated, and do not reflect a true picture. They are carrying on a running battle with the Treasury Department over allowance for depreciation. They say it reflects cost of replacement, not original cost as the law is now interpreted. They are hopeful of winning the battle, but prospects for Congressional action this year are gloomy at the moment.

This week steel sales executives told "The Iron Age" the level of business is good—much better than they thought it was going to be a few months ago. But even this high level of business is not enough to support the extraordinary rate of steel production we are now witnessing.

They point out that some of the steel now being made is going into depleted inventories. And when these inventories are built up to desired levels there will be a drop in demand—even if industrial activity remains at current levels.

This week, the magazine notes, there are still no signs of a slowing of demand. Cancellations are almost unknown, except for some in long range line pipe orders. Some orders for pipe to be delivered as far ahead as 1952 have been cancelled and placed with new units which have recently been brought into production. Line pipe making capacity is still filled practically through 1951.

Past reluctance to make third quarter conversion commitments is melting fast. Conversion seems definitely with us in the third quarter, probably in sizable volume. This forecasts a very healthy market—at least up to that point, "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 97.8% of capacity for the week beginning April 10, 1950. This is an advance of one point from last week's rate of 96.8%.

The scheduled rate of output this week represents the greatest production since the record output of 1,880,400 tons during the week of March 14, 1949, when the industry's capacity was lower and operations were at 102% of that capacity.

This week's operating rate is equivalent to 1,864,300 tons of steel ingots and castings for the entire industry compared to 1,845,300 tons one week ago. A month ago the rate was 89.8% and production amounted to 1,711,800 tons; a year ago it stood at 99.2% and 1,828,800 tons, and for the average week in 1940, highest prewar year, at 1,281,210 tons.

ELECTRIC OUTPUT LOWER DUE TO SEASONAL FACTORS

The amount of electrical energy distributed by the electric light and power industry for the week ended April 8, was estimated at 5,897,831,000 kwh., according to the Edison Electric Institute.

It was 14,105,000 kwh. lower than the figure reported for the previous week, 537,870,000 kwh., or 10.0%, above the total output for the week ended April 9, 1949, and 864,952,000 kwh. in excess of the output reported for the corresponding period two years ago.

CARLOADINGS SHOW MILD GAIN IN LATEST WEEK

Loadings of revenue freight for the week ended April 1, 1950, totaled 720,353 cars, according to the Association of American Railroads. This was an increase of 3,120 cars, or 0.4% above preceding week.

The week's total represented a decrease of 5,270 cars, or 0.7% below the corresponding week in 1949 but an increase of 59,722 cars, or 9%, above the comparable period in 1948, when loadings were reduced by labor troubles.

AUTO OUTPUT REFLECTS MILD CONTRACTION IN LATEST WEEK—RECORD OUTPUT FOR APRIL PREDICTED

According to "Ward's Automotive Reports" for the past week, motor vehicle production in the United States and Canada dropped slightly to an estimated 139,600 units compared with the previous week's total of 139,821 (revised) units.

The total output for the current week was made up of 108,734 cars and 24,767 trucks built in the United States and a total of 4,532 cars and 1,567 trucks built in Canada.

Ward's predicted that 615,200 passenger cars and trucks would be produced in the United States this month, to set a new monthly record. In estimating the April production, "Ward's" allowed for the resumption of Chrysler production by April 17.

The week's total compares with 132,240 units produced in the like 1949 week.

BUSINESS FAILURES CONTINUE SLIGHT RISE

Commercial and industrial failures increased to 203 in the week ended April 6 from 198 in the preceding week, Dun & Bradstreet, Inc., reveal. Casualties continued below the 1949 level for the second consecutive week; they compared with 230 in the similar week last year but were over twice as numerous as in 1948 when 79 occurred. Failures remained well below the prewar level, falling 31% short of the total of 295 in the corresponding 1939 week.

Construction accounted for the week's increase in failures. However, a moderate decline from 1949 prevailed in all industry and trade groups except construction which had over three times as many casualties as last year.

The Middle Atlantic and East North Central States reported a rise in failures for the week, while the Pacific and South Atlantic States reported a decline. Although a decrease occurred in total casualties from the 1949 level, failures remained above last year in three regions, the Middle Atlantic, Pacific, and New England States.

WHOLESALE FOOD PRICE INDEX DROPS SHARPLY IN LATEST WEEK

A drop of almost 1% last week in the Dun & Bradstreet wholesale food price index brought the April 4 figure to $5.74, from $5.79 a week previous. The current index represents the lowest level since Jan. 3, 1950, when it stood at $5.73. It compares with $5.78 recorded a this time a year ago, or a decrease of 0.7%.

WHOLESALE COMMODITY PRICE INDEX ATTAINS NEW HIGH LEVEL FOR YEAR

Commodity trends were mixed last week with the daily wholesale commodity price index, compiled by Dun & Bradstreet, Inc., holding in a narrow range. The April 4 figure at 251.49 represents a new high for the year and compares with 250.47 a week previous, and with 255.89 recorded on the corresponding date of last year.

Leading grain markets displayed a steady to firm undertone during the past week. Trading in grain futures on the Chicago Board of Trade broadened considerably, particularly in wheat and soybeans.

Increasing concern over possible drought and insect damage in Winter wheat areas of the Southwest was the dominating influence in that grain.

New crop deliveries of wheat sold at new highs for the season. Cash wheat, however, was inclined to drag at times due to slow milling and export demand. Corn and oats were firm along with wheat and limited offerings of both grains were easily absorbed.

Buying of hard wheat bakers' flours continued on a hand-to-mouth basis. Trading in family flours was somewhat better but activity in the export market remained at a low ebb. Cocoa demand was fairly brisk with prices edging slightly higher.

Volume of trading in lard expanded sharply last week. After touching new seasonal highs early in the period, lard prices developed an easier trend due to failure of the government to act on the hog support program, which expired on March 31.

Closing hog quotations were lower than a week ago but the market developed a steady to firmer trend in the first market in nine years without either price supports or price ceilings.

Increased supplies of lambs left the market 75 cents to $1.50 a hundredweight lower for the week. Steers sold moderately lower with receipts about the same as a week ago.

Cotton markets developed a steadier undertone last week with closing prices up slightly from a week ago. Supporting factors included reports of possible heavy insect damage this year together with a decrease in acreage and an unexpected rise of 13 points in the mid-March parity price. Export sales were somewhat slower but prospects for the season continued bright.

RETAIL TRADE STIMULATED BY LATE BUYING COMPARES FAVORABLY WITH COMPARABLE WEEK IN 1949—WHOLESALE TRADE POINTS UPWARD IN WEEK

Last-minute Easter shopping in the period ended on Wednesday of last week accompanied a moderate rise in consumer buying. Dollar volume for the nation was practically steady with the level in the comparable week in 1949, states Dun & Bradstreet, Inc., in its latest summary of trade. Easter was a week earlier this year than in 1949.

The seasonal impetus to the demand for apparel last week brought about a moderate increase in volume with dollar sales holding slightly under the level for the similar 1949 week.

In women's wear, interest in many dress and suit lines was slight; millinery and toppers were noticeably popular, while among accessories handbags were frequently requested. There was little perceptible change in the quantity of men's suits sold.

The retail buying of food increased slightly the past week in anticipation of the end of Lent.

There was a noticeable rise in demand for many types of house-furnishings during the week.

Total retail dollar volume for the period ended on Wednesday of last week was estimated to be from 2% above to 2% below the level of a year ago. Regional estimates varied from the levels of a year ago by these percentages:

New England and Northwest +2 to —2; East and South 0 to —4; Midwest +3 to —1; Southwest 0 to +4; and Pacific Coast +1 to —3.

Ordering for late Summer in some wholesale lines, combined with general reordering for immediate delivery, helped to raise dollar volume slightly in the week.

Department store sales on a country-wide basis, as taken from the Federal Reserve Board's index for the week ended April 1, 1950, showed no change from the like period of last year. In the preceding week an advance of 1% (revised figure) was registered from the like week of 1949. For the four weeks ended April 1, 1950, sales reflected no change from the corresponding period a year ago, but for the year to date show a drop of 3%.

Handicapped by unfavorable weather conditions, department store sales in New York the past week declined about 7% compared with the like week of 1949.

According to the Federal Reserve Board's index, department store sales in New York City for the weekly period to April 1, 1950, fell 4% from the like period last year. In the preceding week a decline of 4% was also registered from the similar week of 1949. For the four weeks ended April 1, 1950, a decrease of 2% was reported from the like week of last year. For the year to date volume decreased by 5%.

Continued from first page

The Business Outlook and The Security Markets

between 185 and 190; and in May the previous postwar peak reached in November, 1948, may be reached again.

Business Outlook Good

The immediate outlook for business is good. "Immediate" is a hedge word, so that I can interpret it later on any way I want. However, in any event, the outlook for business during the next six months is assured to be good.

The principal reasons for that statement are these:

(1) Building activity will be at a high level, and in all probability the number of homes constructed in 1950 will be larger than in 1949. Naturally, building activity creates a demand for raw material, manufactured goods and labor. Building activity will be propped up in addition by the large volume of public works.

(2) The outlook for the automobile industry during the next six months certainly is good. The demand for cars is strong, and apparently the people have the money or the credit to buy their cars.

(3) The demand for home furnishings is, in its broadest term, very strong. Home building and the demand for home furnishings go hand in hand.

Add to that the fact that the deficit of the government is large, that in all probability during the present fiscal year the deficit of the government will exceed $5½ billion. The deficit financing not merely adds to the purchasing power of the country, but particularly, if the bonds are sold to the commercial banks, also creates an inflationary psychology.

A number of people are realizing that the budget is operating on a deficit in a period of good business activity, and ask themselves the question, "When will the budget have been balanced?" If we are to have an unbalanced budget for an indefinite period of time, it is inflationary. Naturally, this has an effect on the equity market.

If you add to this the fact that the total volume of liquid savings in the hands of the people is very large—estimated at over $200 billion—if you add the fact that wages are high, that real income is high, that the standard of living of most people is constantly increasing, you get a number of very powerful forces which indicate good business.

To this should be added that should the farm-support policy be continued, the income of the farmer is bound to remain high.

Not All Is Well

Now, that does not mean that everything is well with the United States, or that we can overlook all the weaknesses that have crept into our economy. In the first place, we must realize that farm income is being maintained by the government. How long this can last, what the ultimate outcome will be, nobody can tell. Neither can we overlook the fact that budgetary deficits in periods of good business, to say the least, do not augur well for the future.

Moreover, we know that our economy has become more rigid. It is more brittle than ever before, a fact which, I believe, security analysts ought to consider more carefully than has been done hitherto.

What I mean is this, that costs of production have become more or less fixed and a decline in money wages is out of the question. On the contrary, the cost of production, as far as labor is concerned, is constantly increasing.

Too, prices of farm products are fixed because they are supported by the government.

What does it mean? So long as the demand for commodities is very strong, we don't feel the full impact of this development. Once, however, that demand for a given product goes down, what happens? First, prices go down. Profits go down. Profits can go down only to a certain point. Since the cost of production cannot be materially reduced, it leads to the closing of the factory and increase of unemployment. We witnessed it very clearly last year in some of the soft-goods industries, notably the textile industry, where there was a decline in prices and a sharp decline in profits, and an increase in unemployment.

Hence, even though the immediate outlook for business is good, the careful security analyst who endeavors to project himself into the future, has also to consider the fact that the economy has become more brittle and that a brittle economy can become an unstable economy.

To this should be added the fact that, at least for the moment—it may be changed later on—it looks as if capital expenditures by corporations in 1950 will be lower than in 1949, and 1949 was lower than 1948. Capital expenditures by corporations have a far greater impact on business activity and employment than consumer expenditures.

The careful security analyst, or the man working with securities, will not overlook the highly abnormal international political situation which can exercise any moment, without any advance notice, a strong psychological effect on the movement of prices of equities.

So much for business.

The Money Market

As far as the money market is concerned, the proposition is much simpler. Here we do not have to grope in the dark. We know that our money market is influenced by three forces:

(1) The supply and demand, which is basic.

(2) The policies of the Reserve authorities.

(3) The policies of the Treasury.

The demand for high-grade securities is very strong. The supply is particularly large as regards tax-exempt securities. The policy of the Reserve authorities is quite clear. They follow the policy laid down last June of having more flexible short-term and long-term rates.

Briefly, the policy is this: in periods of good business, as we are enjoying at the present time, to somewhat tighten money markets, to bring about a minor increase in short-term rates and a minor increase in long-term rates. Since business is good, one may expect with a fair degree of certainty, in the not distant future, the certificate rate may go up to 1¼. By the same token, one may expect that the return on the long-term—2½s to '62-'72—not eligible for purchase by commercial banks, may go, let us say, in round figures, to yield 2.40.

Basically, the money-rate policy has not undergone a change. The reason for a tightening of money now is, if the increase in business activity should later on decline, it will give the Reserve authorities the ability or the possibility to lower money rates, and therefore influence, if not business activity directly, at least business sentiment.

The present policy of the Reserve authorities is, therefore, briefly this: to obtain more elbow room. That means greater flexibility in contrast to the rigidity which existed up to about June of 1949.

The policy of the Treasury is of considerable importance, not merely to those interested in government bonds, but also to those who deal in bonds in general, and particularly to those who deal in tax-exempt securities.

So long as the supply of medium-term government obligations was very limited, the banks were more or less forced to seek an outlet for part of their funds in tax-exempt securities with a maturity of, let us say, from 10 to 12 years. In that category, therefore, the demand for these securities on the part of the banks was very strong.

Policy Regarding Tax-Exempts

Ask yourself this question: "What will happen to medium-term, tax-exempt securities, medium-term corporate securities, if next month the Treasury offers 7- to-9-year securities with a coupon of 1⅝ or 1¾%?" If that should take place—whether it will take place or not, I don't know—immediately the supply of medium-term securities eligible for purchase by commercial banks will increase. Tax-exempt securities will encounter for the first time in many months keen competition, and the effect on the market can readily be foreseen or foretold. Hence, I believe, those of you gentlemen who operate in a tax-exempt market or those who operate in medium-term corporate securities should pay careful attention to the policy of the Treasury: (a) as regards money which the Treasury will borrow in a not too distant future, and (b) as regards the refunding policies of the Treasury, which will be particularly important in September. There is, in my opinion, a direct relationship between the government market and all other high-grade bonds, including tax-exempt securities.

The Equity Market

And now we come to the equity market, and I am quite sure that 99.9% of the audience came here merely expecting me to tell you what the market will do. I am afraid that in this respect I will have to disappoint you. I don't know, and that is the honest truth.

But while I do not know what the market will do, or may do, I do know the forces that operate in the market. The forces that operate in the equity market are primarily (1) psychological, and (2) economic.

You notice that I put the psychological forces first, and the economic forces second, and I did that for the simple reason that, in the equity market, what is, is not what actually is, but what the people believe to be, and I will prove my point in a minute.

If somebody had gone by the economic forces alone, all his forecasts of the market from 1946 to the middle of 1948 would have been wrong. There a man who lays stress primarily on the economic forces could have said to himself: "There is a tremendous pent-up demand for all commodities in the United States. We are in the midst of the strongest sellers' market that we ever had before." There was a great pent-up supply of money in the hands of the people. The standard of living of the people was higher than ever before. People had money. They were eager to spend it. Under these circumstances, therefore, the man looking at a market exclusively from the economic point of view would have said: "Business is bound to be good. Profits of corporations are bound to be good, and if profits of corporations are good, then the equity market ought to be higher."

Yet what happened to the equity market? You know it far better than I do.

Memories of 1920

Why? In the equity market, what is, is not what actually is, but rather what the people believe to be. The people remember that after 1920 there was a sharp break in prices of commodities, a sharper decline in business activity, accompanied by sharp decline in prices of equities. They said to themselves, "What happened after May, 1920, is bound to happen after World War II."

They did not take into account all the changed conditions that existed. They did not take into account the great difference between 1946 and 1920, and the result was the highest level of business activity in peacetime, the highest profits in history and the stock market went down. Is that true?

Now, is there anyone in this room who can foretell what the actions and reactions of the multitude of people will be? If there is one such man in the room, then he doesn't belong here. He ought to be associated with a psychologist or psychoanalyst or psychiatrist.

What does it prove? You cannot predict the market, because you cannot predict the psychology of the individual, and in the market, and particularly the equity market, psychology plays a more important role than economics.

We leave the field of psychology, which is a *terra incognita* to me, which means an unknown land. That is in Latin.

We come to the field of economics, and we see a number of conflicting forces, and because of these conflicting forces you have all kinds of views of the market.

Last night I was reading an article in "Barron's" of the early part of March, in which one man makes a prediction that we are headed for a decline as great as in the '30s. On the one hand, I picked up a service which was as bullish as can be, and this afternoon I picked up another service which was as bearish as can be.

Favorable Economic Forces

Now, then, the following are the favorable forces operating in the equity market:

(1) A fear of inflation and the desire to hedge against inflation. That I mention first because it has a direct bearing on the psychology of the investors.

(2) The return on equities compared with the return on bonds is very high, and because of this, quietly, slowly, there is a shift from bonds into equities. More and more people are becoming equity-minded because of the high return.

(3) Open-end investment trusts are growing very fast. They make an appeal to many individuals who hitherto were not in the equity market and therefore enable a number of individuals of small means to enter the market indirectly.

(4) There is the opinion that a considerable portion of pension funds will go into equities. Whether this will take place or not you don't know and I don't know. Talk is one thing; action is another thing. It is easy to advise; it is difficult to take the responsibility.

You are familiar with the old prayer of the colored preacher. He went down on his knees and he prayed: "Use me, Lord; use me, Lord—preferably in an advisory capacity!"

It is so easy to advise. It is easy to advise the administrator of a pension fund to buy equities and to obtain a safe return of 5%. It is an entirely different proposition to take the responsibility of investing pension funds in equities. But, be that as it may, there is a great deal of talk that pension funds will go into equities, and since psychology plays such an important role in the market, the mere talk is sufficient to have an effect on the market.

(5) The New York State Legislature passed a law permitting trust companies to invest in equities up to 35%. Immediately talk developed that this will cause a huge demand for equities on the part of trust companies. Whether it will or not, we don't know. It is sufficient, as rumors spread, that one trust company alone has $200 million for that purpose, and another has $150 million, and another has $75 million, as I have heard during the last week or so, to give an indication that here is a new source of demand for equities.

Whether this will take place or not, we don't know. Again, it is one thing to advise, and it is an entirely different thing to take the responsibility and to face the possibility of a recession soon.

(6) You know that business activity is at a high level. What will happen later on in the year, nobody can tell. It will depend upon capital expenditures. It will depend upon private construction. It will depend upon whether or not the automobile companies will come out with a new low-priced car. If this should develop, then we know that there are still a large number of old cars which have to be replaced. It will depend upon the international political situation abroad, which will determine the expenditures of the Federal Government.

But the fact of the matter is, business activity right now is high, and will remain high for several months, and that again plays an important role.

Adverse Factors

As against that, you have these factors:

(1) I have already mentioned to you that the economy is very brittle. Our economy is not any more as flexible as it was before. A brittle economy can lead to large-scale unemployment.

(2) There are many maladjustments in the wage structure.

(3) The unions are very powerful, and whenever they see a corporation or an industry doing well, they make their demands, and as a general rule, obtain them. But while they are willing to take an increase, they will not be willing to take reductions when profits of corporations are going down.

(4) Profits of a large number of corporations in the first quarter of the year are lower than they were a year ago. The cost of business is increasing and becoming more rigid.

If you take all these factors into account, you will say to yourselves: "Now, there are a large number of favorable factors, and there are a large number of unfavorable factors, but above all, we don't know what the psychology of the people will be."

The Middle Ground

Under these circumstances, I believe it is not wise to come out and say we are headed for another great bull market, and it certainly is not wise to come out and say that we are headed for a collapse. I believe that the adoption of a middle ground is much more advisable.

To be specific, perhaps more than ever before selectivity becomes important. By "selectivity" I do not mean selecting merely the blue chips. Anybody can do that. It is rather interesting to me in looking over the portfolios of investment trusts and other large institutional investors who buy equities, that all have practically the same securities.

By "selectivity" I mean this: Now is the time for a good security analyst to sit down and ask himself the question: "Which industries have already gone through the readjustment, and their prices already reflect it?"

They must consider what lies ahead of these given industries, bearing in mind the higher standard of living and the larger savings in the hands of people, and the policy of the government.

Second, bear in mind the question that profits of today may not be the profits of tomorrow, and therefore an analysis of the breaking point today, while it is not a fixed point, becomes more important than ever.

And after you make this analysis, and after you have done it as carefully as you are capable of doing, prepare for an alibi in case you are wrong. You must remember that all economic analyses are of little value if the psychology of the people does not favor them, as I demonstrated by the experience of 1947 and 1948.

Summary

To sum up, then, business activity is at a high level, the outlook for the next six months certainly is good, and there is nothing that can outdo it. What follows thereafter is not year clear.

What is clear is that in all probability the year 1950, as a whole, will go down as a year of good business. In part, good business is being supported by measures taken by the government, not all of them sound.

The money market in the immediate future will be influenced by the policy of the Reserve authorities, which is unfolding itself, and, more important, by the policy of the Treasury. The method by which the Treasury raises new money or refunds the securities, as they are called later in the year, will have an important bearing on prices of all high-grade bonds.

As far as the equity market is concerned, if you are one of the very few who can find out what the psychology of the people will be, you have discovered the stone of wisdom. You can discard all our other theories. Go by it, and you will do well. If you have not, then feel your way slowly. There are both favorable and unfavorable forces operating in the economy.

* * *

Chairman N. F. Novak: Thank you, Doctor.

I would like to mention at this time that this talk will be published in the "Chronicle" of April 13.

I know, Dr. Nadler, that our audience has a lot of questions for you. Where are they, gentlemen?

Questions and Answers

Question: I would like to ask Dr. Nadler whether it would be the thing to buy stocks at high prices, or the stocks which are depressed marketwise, where, for the last three years earnings have still been good, where earnings are still very high?

Dr. Nadler: The question, if I understand it correctly, is this: Is it desirable to buy stocks which have already been deflated pricewise, and the earnings are good, or to buy stocks where the earnings are still good and the prices are high? It is a very good question.

To me, what is more important is, to the best of one's ability, to prognosticate what the future holds in store for the earnings, because Wall Street gives very little for the past. It gives everything for the future. Should you find that the earnings of the stocks that are deflated pricewise will hold up well, and you have your reasons for it, then, obviously, those are the stocks to buy.

On the other hand, if you should find that the outlook for the stocks that are selling high today —what we call high—that their earnings are good for another 18 months or two years, then they are a good buy too. The trick is to find out what earnings will do in the future. That is the trick.

Question: Dr. Nadler, do you feel that the government's policy in trying to restrict or put a little pressure here on government bond prices—do you feel that a lot of carry-over will have any effect on the equity market? Will the high-grade bond market decline enough to effect in any way the equity market?

Dr. Nadler: The question is whether the moderate decline in prices of some long-term government bonds will have any effect on the equity market. Is that the question?

Questioner: Yes.

Dr. Nadler: I don't think so, because, for the time being, money rates play no role in the equity market. It was different in 1928 and 1929, when money rates were high. Whether the return on long-term government securities is 2.30 or 2.35 or 2.40 has very little effect on the equity market.

Question: Dr. Nadler, I know as a deep student of economics you also studied the trends of business and industry. You may not be willing to pick out individual stocks, but in those studies would you care to comment on a few industries that you feel are better situated than the general run; where, if the market goes up, they would do better than the average, and if the market goes down you might have better protection than the rest of the group?

Dr. Nadler: The reason I am not going to answer that question is that I tried it out in my own investments, with no result. [Laughter and applause.]

Question: I would like to ask the Doctor a question. I am very much in favor of what you have said. Would you care to comment on the effect that an analyst should give to the depreciated dollar on earnings? Specifically, let us say that there was a well-known company which had been earning, before this inflationary period, at the rate of perhaps $2 a share. Would you consider that the reported earnings, under our present conditions, of $3 a share really represented any increase of earning power at all? That is my thought.

Dr. Nadler: Let us look at it from a broader angle, because, after all, the broader angle is always more important than the specific angle.

If I understand your question correctly, sir, it is this: To what extent does the decline in the purchasing power of the dollar influence the equity market?

Obviously, the decline in the purchasing power of the dollar is bound to have an effect on prices of equities. Why? In the first place, we know that because the dollar buys so much less than it did 10 years ago, if a company were to do the same volume of business as it did 10 years ago, the actual amount of business expressed in terms of dollars would be larger. Is that true?

Questioner: Yes, sir.

Dr. Nadler: That means that the profits ought to be larger, assuming everything else remains the same.

Secondly, a great many companies have machinery and equipment which they bought prior to 1946, and the replacement value today is about two or three times as high. That means that those companies will be in a position to earn more than they did before.

The fact that a dollar has depreciated has to be taken into account in earnings and in the outlook for profits, and therefore any going back to what happened prior to 1946, when the decline in the purchasing power of the dollar set in, is not of as great importance as many people think it to be.

Does that answer the question?

Questioner: Thank you.

Question: First of all, I want to thank Dr. Nadler for the style with which he has put this over and put the problems before us, and I only want to ask him one question.

In my opinion, management has a barometer, which is, in this country, as in every other country, the stock market, which is the barometer of economic conditions. Don't you think the Dow-Jones average is a good barometer? Today we don't see any clouds that might come along. Don't you think that is a point which has to be taken into consideration seriously?

Dr. Nadler: The answer is this: The Dow-Jones average went down in 1946, and no depression occurred. 1947 and 1948 were the best peace years we ever had. Even the recession in 1949 was nothing to brag about. The index didn't go down below 161.

And if anybody tells me that everything today is fine, that there isn't a cloud in the sky as big as the palm of your hand, I just say, "Yes, sir!" I have indicated to you a number of uncertainties which are vital, and which can have an important bearing on the equity market, and if anybody tells me that there are new forces in the market, well, I am an old man, and I remember very well 1929. We were all in the midst of a new deal. It couldn't happen. I remember one day I was traveling with the late Dr. Friday. Some of you probably remember him. It was around June, 1929.

I said, "Dr. Friday, what do you make of the market?"

He said, "Enjoy it while you can." [Laughter] He didn't say a word more.

Well, you know what happened. "Look at the huge investment trusts that have been formed to take up all the slack," they said. The people were really interested in the market at that time. I remember I took a trip in my automobile, and no matter where I came to buy gas, the first question the man asked me was, "What is the stock market going to do?"

And it happened! You never can tell when you deal with the stock market, where, to a very large extent, you deal with intangibles, with human psychology, and who can predict what human psychology is.

Moreover, even in business, everything is not so hunky-dory. We saw last February the total number of unemployed—a million and a half larger than a year ago. Fortunately, that went down in March. Should, however, the total number of employed not increase, and rather rapidly, in April and in May, I think the security analyst will begin to pull in his horns in spite of all the new factors entering into the market.

If forecasting the security market was as easy as to watch the Dow-Jones averages and see whether a top is formed, there are many people who would not be working; they would be making money on the market and spending their time in Florida. It is not so easy! [Applause]

Bank Stocks

Question: Dr. Nadler, what is your opinion on bank stocks?

Dr. Nadler: I believe you can analyze bank stocks as carefully as you want to, more carefully than any other security, because, in the case of bank stocks, the earnings of the bank can be determined by the management. You can't say that about any other industry.

Why? The business is good and the volume of loans increases. Right! And the bank has its earnings. If business is bad, that means the government operates with a deficit, the supply of government securities is larger and the bank is in a position to obtain its income from securities.

It depends upon whether the individual bank prides itself that its maturity distribution is three hours, six minutes, and four seconds, or whether it is based on a solid analysis of the monetary market.

Second, a large number of banks can be bought at substantially below their book value.

Thirdly, I believe that the stock of a well-managed bank offers the hedge against an increase of money rates, and in other regards this is what I mean: Where an institution has a large volume of bonds, high-grade bonds, it can be adversely affected only if money rates go up, and the bond prices will then go down. If the business pursues promotion of business loans, then it hedges against a change in interest rates. If interest rates go up, the management will make more money; therefore, I believe, bank shares are easier to analyze than anything else. The only difficult problem is management, and past performance tells you the story of management.

Question: Do you think there is any chance of this nationalization, such as the nationalization of the railroads, as the President of Westinghouse stated yesterday?

Dr. Nadler: Nationalization of what?

Questioner: Railroads.

Dr. Nadler: No. It is nice to talk about it, particularly on the 15th of March or the 15th of June, when you feel very blue, and you have to let off some steam by saying, "This will be nationalized, and that will be nationalized."

Who wants nationalization? Management doesn't and labor certainly doesn't want it, because you can't strike against the government. On the other hand, if you work for a private company and you belong to a strong union, you can ask for higher wages. If they don't give it to you, you strike, and ultimately you get it. Management doesn't want it; labor doesn't want it; government doesn't want it. It is nice conversation when you feel blue.

Question: Dr. Nadler, I recall that in the '30s, very correctly, you predicted a continuing low interest rate for some years to come. Would you be willing to predict what you think of the future over the next three or four years?

Dr. Nadler: That is the easiest question I have been asked all afternoon. Money rates, within the fluctuations of course—whether the government bonds go up two points or down three points is immaterial—as far as is humanly possible, I can see, will remain low. And I go you a step further, and say there isn't a single man or woman in this room young enough to see a 3% government bond. That answers your question! [Applause]

Securities Salesman's Corner

By JOHN DUTTON

One of the smaller dealers has kindly turned over to me, the results of a recent advertising campaign which has been under way for about six months in a city of about eighty thousand population. The circulation of the paper used is approximately fifty thousand.

The surprising thing about this advertising is that the expense involved was so small compared with the actual profits received, that it completely belies the accepted premise concerning such advertising, which is, that immediate profits cannot be expected from most advertisements; but it is the long range result that proves its value. After the first month the sales of securities to new customers alone paid the bill, and now the repeat business and sales to old accounts, is providing a profit far in excess of the costs involved.

There is an observation which seems to be very general among securities dealers, that newspaper advertisements are so hidebound by SEC rules and other unknown impediments, that any serious effort along these lines cannot be directed toward a specific target. For instance, many dealers shy away from going into print and selling hard. They are afraid to do so. They don't know what they can say and still not run afoul of criticism from the bureaucrats. They haven't got the funds to hire expert lawyers to tell them what the SEC will allow. There are a lot of cities and towns in this country outside of New York, Chicago and Los Angeles where there are security dealers who would like to do some advertising in their local paper. They don't know what the SEC is going to be up to next. Just recently some lawyer of the Commission released another viewpoint regarding the advertising of mutual funds. I understand that lately the NASD has also been interesting itself in what and why and how ads should be written by retail dealers.

It is a disgrace that after almost 18 years the Securities and Exchange Commission has left the securities business in complete bewilderment concerning limitations which supposedly surround the advertisements it places before the public. If there is a program—if there is a set of understandable rules—if there are dealers who know just how far they can go in an ad—and how much they are circumscribed by nebulous interpretations that constantly keep dribbling out of the Commission—I don't know of them.

But let us get back to this dealer who is finding new accounts through his advertising and who is making it pay. He has done it in the same way that people in other lines of business make a success out of their advertising. He has used **repetition**. Every day in the week including Sundays he inserts **the same ad**. He used the same type, same layout, same stock. The ad is small, about two inches double column. He selects a medium priced stock. It is a dividend payer and a company well known in his territory. He hits the highlights and invites further inquiries. The leads are then followed by salesmen. Day after day the same ad appears. People begin to believe the stock attractive the longer the ad appears in the paper. Those who don't buy at first, later on do so. They don't know it, but the ad has been silently selling them. When a situation gets stale after about two or three months it is changed—but the style of type and the size of the ad remain the same. Repetition—that is the secret of success here.

I am sure that the SEC could find no fault with these ads. But I am also sure that my good friend doesn't know this. He is just taking a chance that they would pass muster—they are honestly and carefully written and that is the best he can do. I asked him why he didn't check them with the Commission. "Good heavens no," he replied. "First of all, the less I see of them the better, and secondly they would be weeks telling me what I could or couldn't do, and probably they would mess it up so that I would just be throwing my money away on the ad after they got through with it."

Continued from first page

As We See It

The Basic Weakness

The basic weakness of all official discussion is found in what must be termed the "managed economy" approach. Implicit in virtually everything that is being said is the notion that somehow the channels of trade and the flow of goods and services from country to country must be directed by some sort of collective agency. If in their infinite wisdom—and if they are to be successful in such gigantic tasks their wisdom must be infinite—the powers that be conclude that more of this class of goods should flow from country A to country B or that less buying by country C in country D is desirable, then the managers of the universe must so pull the strings that such a change is effective. Of course, this implication does not always lie on the surface of what is said; it probably is not always fully realized or understood by those who give voice to the notions recently expressed, but all or most of what is being said rests directly or indirectly upon it.

Impediments to Free Trade

We well understand that there are elements in this situation quite beyond our control, the effect of which is to limit the application of well-tested and well-proved basic doctrines governing such matters as these. The existence of the Soviet Union and its satellite periphery, constituting a very large portion of the globe, harboring an extraordinarily large portion of the peoples of the world, producing a substantial part of the goods of the world, and all operating under close control and central direction, obviously precludes world-wide application of the principle of even relatively free trade. It would be futile to advocate even the freedom of international trade on a world-wide basis that existed during most of the latter part of the nineteenth century and the earlier years of the twentieth. The aggressiveness of this immense bloc of the Kremlin, and the definite possibility that we may be required to defend ourselves against the political aggression of it, renders it difficult at some points to suggest complete *laissez faire* in international economic relations even as an ultimate goal under current conditions.

But even when all such aspects of the situation are taken into full account, it is still true that a very much larger degree of freedom in the international flow of goods and services, as well as in the production of such goods and in the management of the economies which bring them into being, is essential. Indeed, we are convinced that if a much larger element of freedom cannot be injected into this situation, then it is all but hopeless. There are not only elements of direct control as such, but all those other interferences of government which have of late years been so much in evidence, including, of course, tariff rates and tariff procedures, but also many other things such as quotas, restrictions on the movement of goods on trumped on grounds of public health, and all the rest. Also to be included are financial and currency manipulation, bad in itself, but often effected for the express purpose of controlling the movement of goods across boundaries.

An Impossible Balance

The difficulties which any control agency must encounter in directing the international flow of goods may be easily indicated. It is a truism that very rarely, if ever, have there existed two countries or even two groups of countries which are so reciprocal in their production and in their needs that the direct flow of goods and services between them may be counted upon to balance out year after year and still leave the economies of both countries or both groups of countries at maximum efficiency or even near it. In brief, the problem of the master minds who undertake to control the international flow of goods and services is virtually never that of creating simple balance between two countries, but is that of so directing the flow of goods and services—and, let it not be forgotten the flow of investment funds and the earnings from past investments are also involved—among a large number of countries in such a way that a general balance is achieved.

The President and the others occasionally pay lip service to what they call "triangular trade," but what they appear not to realize is that the trade of the world is normally not "triangular" at all, but many-sided. That is to say, that the balancing of accounts among three countries alone rarely occurs. What happens is that the flow of goods and funds ordinarily passes through many countries in such a way that what each country needs from the other is obtained, and all is well if at the end a balance of each with the remainder of the world is achieved. Obviously, such an involved pattern as this is too much for any one brain to direct successfully. Only nature itself is equal to such a task.

Then the President and his advisers appear to have very strange ideas about the role of investment in the balancing of such accounts. And so Point IV is trotted out. But if investment is to be investment and not charity, then further complications are introduced. It would be well if the President and the others refrained from usurping the functions of Mother Nature.

Continued from page 5

Tax Problems Involved In Pension Plans

er may reserve the right to change or terminate the plan and to discontinue contributions to it, if the plan is abandoned within a few years after its inception, this will be evidence that the plan from the beginning was not a bona fide program for the exclusive benefit of employees. (§29.165-1, Regs. 111.) That requirement was adopted primarily to guard against the employer adopting a plan, fully funding the pensions for the highly paid employees, and then abandoning it soon after the pensions for such favored employees had been provided.

In the **Lincoln Electric Co.** case this rule was extended to a situation where other than the highly compensated employees were involved. The company put $1,000,000 into a trust fund in 1941 to provide annuities for its regular employees. It did not plan to make any further payments into the fund. The employees were to draw benefits after 10 years. The Commissioner of Internal Revenue is now asserting a tax against the fund on its income for the year 1944. His theory is that the trust is not exempt since the law contemplates a permanent long-range program rather than a "one shot" proposition.

In view of this extension of the "permanence" doctrine, it is conceivable that the rule may prove to be a serious obstacle to qualifying the union negotiated plan under the tax laws. As you know, union contracts are negotiated for relatively short periods of time. Few extend for as long as five years; most are limited to one or two years in duration. The pension provision is but one of the terms of that contract. Its continuance depends on the negotiations between the parties when the union contract comes up for renewal.

Accordingly, there is the distinct possibility that at the end of the contract term the union may decide it prefers to have an increase in direct wages or in other immediate benefits rather than in a deferred pension plan. An example of this occurred recently in the case of the New York City Omnibus Plan. This was adopted as a result of an arbitration award made in July of 1947. It was discontinued in 1948 because the union no longer wanted the Plan.

It must also be recognized that the union's desire for company pensions will vary in inverse ratio to the size of the Social Security benefits. One union leader has stated that if the Social Security benefits are raised to about $130 per month, the U. A. W. would give up its pension demands. Certainly, if Social Security is increased to what the unions consider an adequate level, it is quite possible they will demand wage increases in lieu of a continuation of the pension benefits.

Moreover, whether or not the union negotiated plan is actually terminated at the end of the contract period, the fact that it is adopted in the first instance for a limited term violates the concept of "permanence" required by the Bureau's regulations. The Bureau has been vitally concerned with this problem. Thus far, it has not come up with an answer.

(2) Actuarially Sound Plans: Another requirement for a qualified pension plan is that the plan must be established and maintained on an actuarially sound basis. The regulations state:

"A plan designed to provide benefits for employees or their beneficiaries to be paid upon retirement or over a period of years after retirement will, for the purposes of section 165(a), be considered a pension plan if under the plan either the benefits payable to the employee or the required contributions by the employer can be determined actuarially." (§29.165-1(a), Regs. 111.)

Many union negotiated plans will fail to meet this requirement. Some union negotiated plans require that the employer contribute to a pension fund either a flat amount per employee, or a flat percentage of a payroll, or a certain amount per ton, or a specified amount per unit of production, etc. If these amounts are used merely to provide such benefits as could be purchased with them, no difficulty will be encountered under the tax law since the plan could qualify as a "money purchase" arrangement. But most of the plans provide for pensions in a fixed amount, regardless of the adequacy of the employer's contributions provide that amount of pension.

For instance, the plan might require the employer to contribute 20c or 30c a ton to a pension fund and might guarantee the employees $100 a month pension at age 65. It is self-evident that there is no necessary correlation between these contributions on the one hand and the specifed benefits on the other. According to the Bureau's present attitude on the subject, the plan would not qualify as an actuarially sound plan within the meaning of the above-quoted regulations.

Again, the Bureau is confronted with a difficult problem in view of its own regulations. It is, of course, anxious not to place any obstacle in the way of qualifying a union negotiated plan. Nevertheless, it finds itself in the awkward position of having adopted a requirement at least eight years ago designed to weed out unsound pension plans adopted perhaps for a limited group during the war years. Now that rule stands in the way of its approving plans having a much broader application in coverage. Unless the Bureau reverses itself on this relatively well-established rule, the only solution to this problem may be in legislation. In the meantime, employers should be cautious in acceding to union demands for plans which may require an unsound actuarial method of funding.

(3) Welfare Plans: To qualify a pension plan it is also necessary that the plan be designed primarily for pension purposes and not to provide a combination of benefits unrelated to that purpose. In that respect, the regulations state that the statute does not apply to a plan—

". . . which is primarily a dismissal wage, or unemployment benefit plan or a sickness, accident, hospitalization, medical expense, recreational, welfare, or similar benefit plan, or a combination thereof." (§29.23(p)-1, Regs. 111.)

The Taft-Hartley Act also requires that the contributions for retirement benefits and for other social insurance benefits be segregated; and that the funds designated for pensions not be used for any other purpose.

No problem is encountered in that respect with certain of the union negotiated plans—like the Amalagamated Clothing Workers, the International Ladies Garment Workers and the International Brotherhood of Electrical Workers. They maintain separate and distinct funds for providing the retirement and the social insurance benefits. In fact, the contracts themselves specifically provide for the percentage of gross payroll which shall be contributed to each fund. However, in spite of the provisions of the Taft-Hartley Act and the Treasury's regulations, there is a drive by some unions to obtain a "single package" type of plan in which various welfare and insurance benefits, as well as strict retirement benefits, are included.

I understand that recently the American Federation of Musicians has received an opinion from the Attorney General of the United States, permitting it to avoid safely the separate trust requirements of the Taft-Hartley Act. The United Mine Workers is another case in point. The union agreement itself provides that, "The . . . trustees shall designate a portion . . . of the payments herein provided, based upon proper actuarial computations, as a separate fund to be administered by the said trustees herein described and to be used for providing pensions or annuities for the members of the United Mine Workers of America or their families or dependents and such other persons as may be properly included as beneficiaries thereunder." This was undoubtedly inserted to satisfy the requirements of the Taft-Hartley Act. But in actual practice, I am advised, no such segregation of funds was made, nor has any action been taken to compel such a segregation.

Regardless of whether the provisions of the Taft-Hartley Act can be circumvented, it is clear that such a single package plan will violate the requirements of the Treasury Department's regulations in this respect. Taxwise, it means the employer will lose his deduction for amounts contributed to such a fund. As late as November, 1949, a spokesman for the coal operators stated that he knew of no coal operator who had been permitted a deduction for his contribution to the United Mine Workers Welfare Fund. The Bureau of Internal Revenue has confirmed, informally, that statement. The failure of the Fund to qualify in this respect may, therefore, subject the coal operators to a tax of approximately $42,000,000 in addition to the tremendous sums they have already contributed to the Fund itself.

(4) Plan Must Be Limited to Employees: Still another requirement for qualifying a plan is that it must be for the exclusive benefit of the employees of that particular employer. In other words, an employer cannot provide benefits for persons who are not, strictly speaking, his employees—e.g., for the employees of a subsidiary company or of an unrelated company, or for people who are on a retainer or consulting basis. The failure to so limit the plan to employees does not result merely in the loss of a tax deduction for the contributions made on behalf of those who are not employees. Rather, it may result in disqualifying the entire plan and losing the deduction for contributions made on behalf of even those who are clearly employees.

At first blush, this requirement, would hardly seem to have any possible application to the union negotiated plan. Yet it has. There has been a growing tendency to negotiate plans on an industry-wide, or a geographical, basis, rather than on an individual employer basis. The reason for this is obvious. The unions want to preserve an employee's pension benefits so long as he is an active union member — regardless of whether he works for one employer or many employers during the course of his period of active service.

Notable examples of retirement plans negotiated on an industry-wide basis are those of the Amalgamated Clothing Workers of America (CIO), the International Ladies Garment Workers Union (AFL), the International Brotherhood of Electrical Workers of America (AFL), and the United Mine Workers of America. I understand the so-called Toledo Plan is one negotiated on a geographical basis.

In those cases, the employer makes his contributions to a common fund. They are then used to pay benefits not only to his own employees but to employees of other employers in the industry or in the particular geographical area.

Thus far, the Bureau has been rather strict in its application of the rule that the plan must be for the exclusive benefit of the employer's **own** employees. Now it is confronted with the union demand for an exception to the rule where plans are negotiated on an industry-wide or geographical basis. The Bureau is inclined to "soft pedal" this requirement in some of the cases that have come before it thus far. Whether it can continue to do so is questionable in view of the fact that the requirement is not one imposed merely by regulation or ruling, but is in the statute itself and has been in the statute for many years even prior to the amendments made by the Revenue Act of 1942. If the trend for industry-wide union plans continues, it may, therefore, become necessary for the Bureau to request appropriate remedial legislation in order not to affect its long-standing application of the present statutory provisions in that regard.

(5) **Discrimination in Coverage and Benefits:** One of the basic requirements of the statute since 1942—and the one which has been emphasized most in the Bureau's administration of the pension plan provisions—is that the plan must not discriminate either as to coverage or benefits in favor of highly compensated employees. The statutory provisions are quite detailed in this respect; and several tests are set forth to guide the Bureau. (§165(a) (3) (B); §165(a) (4); §165(a) (5), IRC.) The regulations are even more precise and many rulings have been promulgated "spelling out" the Bureau's attitude on this very important aspect of the law.

The Bureau's effort along these lines was to make sure not only that a plan did not discriminate in favor of the highly compensated employees and against the lower paid employees who were actually covered by the plan, but also that the plan did not discriminate as between the employees covered and those not covered. It would hardly seem possible that a union negotiated plan could result in discrimination in favor of highly compensated employees. Yet it may.

For purposes of determining discrimination either as to coverage or benefits, the Bureau has classified employees earning in excess of $3,000 a year as highly compensated employees. Some unions are composed of specialists and craftsmen who would be regarded as highly compensated under the foregoing test. For instance, motion picture projectionists and certain of the other crafts in the movie industry are extremely well paid. Their unions are pressing for industry-wide or company sponsored plans. A plan limited to those union employees might cover only employees whose compensation exceeds $3,000 per annum. Under the Bureau's rule, such a plan could not provide benefits on the first $3,000 of earnings without resulting in discrimination against the employees excluded. Yet it is hardly conceivable the union would agree to excluding such earnings for purposes of the union negotiated plan. Even if it did, there is still the possibility that a plan so limited might be discriminatory against the employees excluded from the plan. It is true that unions for such highly compensated employees are not too common. However, where they exist, they do provide a rather serious problem in qualifying a plan resulting from union negotiations on behalf of those employees. The Bureau is not quite as limited in making exceptions to this rule as it is in some of the other requirements. While the statute itself does contain the non-discrimination rule, most of the precise delineations of that rule have been imposed by Bureau regulations and rulings which were prepared under entirely different economic circumstances. The law would seem to be sufficiently flexible in this regard to permit the Bureau to change its fundamental concept of discrimination so as to qualify union negotiated plans of this character.

* * *

The foregoing discussion indicates some pitfalls in qualifying a union negotiated plan. The seriousness of the situation will be appreciated if the tax consequences of failing to so qualify the plan are noted: (1) The employer may lose his deduction **with retroactive effect** if the employees' rights are forfeitable; (2) the employees may be regarded as taxable on the amounts **previously** contributed to the plan if their rights are non-forfeitable; and (3) the fund itself may be taxed on any income earned by it while it was not exempt. Any of these results would be highly unsatisfactory taxwise. Accordingly, both the employer and the employee have a stake in attempting to have this problem resolved satisfactorily with the revenue authorities.

III

Deduction Aspects

Even if the plan should overcome the obstacles noted above and qualify as exempt under §165 of the Code, the employer can get a deduction only for amounts contributed within the statutory limits set forth in the Code. In other words, the employer will have a **right** to take a deduction for his contributions, but the amount and timing of that deduction will be controlled by other provisions of the law.

Prior to the Revenue Act of 1942, deductions to pension plans were allowable either under §23(p), which was specifically applicable to pension trusts, or under §23(a), which was general in scope and related to ordinary and necessary business expenses. Since the Revenue Act of 1942, however, contributions to a funded pension plan are deductible, if at all, only under §23(p) of the Code (which has been expanded considerably). And the failure to meet the requirements of that section foreclose the taxpayer from making the claim for the deduction under §23(a) as an ordinary and necessary business expense.

The provisions of §23(p) are, of course, extremely complicated. For purposes of this discussion, it is sufficient to point out three main limitations:

(1) The employer may deduct an amount not in excess of 5% of the compensation of the employees covered by the plan (§23(p) (1) (A)(i), IRC); or

(2) If benefits are funded by spreading the pension cost over a particular employee's remaining period of active service, the employer may deduct the amount required to fund annually the cost for all the employees computed on that basis (§23(p)(1)(A)(ii), IRC); or

(3) The employer may deduct annually the pension cost attributable to that year's service (i.e., the so-called future service benefit) plus one-tenth of the total cost for years of service prior to the inception of the plan (i.e., the so-called past service benefit) (§23(p)(1)(A)(iii), IRC).

The Bureau has supplemented the detailed provisions of §23(p) with a very comprehensive Bulletin designed to indicate the "trend of official opinion on the administration of the provisions" of that section. (See Foreword to the Bulletin, dated June 1, 1945, by the Commissioner of Internal Revenue.)

Even though the alternate provisions of §23(p) would seem to indicate there was a certain amount of flexibility available to the employer in funding pension benefits, it is anomalous that none of them quite fits the pattern taken by the recent trend in union negotiated plans. The funding provisions in negotiated plans vary, of course. But one method which is popular at the present time consists of having the employer pay into a trust each year an amount which will fund the benefits for those employees who retire in that year. (The Bethlehem Plan is typical of this method.) Or the employer can fund the pensions for those employees who will retire in a given year over the next five years. (See the Jones & Laughlin and the Republic Steel Plans.)

The Bureau's Bulletin states that—

"Where no costs are determined with respect to an employee until his retirement (or until benefits on his behalf are first payable), all the costs determined represent supplementary [i.e., past service] costs." (See Part III, Subpart G, Par. 61.)

It could be argued, therefore, that where the full reserve is paid in at retirement (as under the Bethlehem type of funding), such an amount represents supplementary or past service costs and that, therefore, the deduction must be limited to 10% of the amount actually contributed in a given year. This would be extremely expensive, taxwise, for the employer—especially in the early years—since the deduction would be allowed for only a **part** of his contribution. If the plan is carried on indefinitely, the deduction would tend to even out because in the tenth and subsequent years the employer would be getting, as a deduction, the sum of one-tenth of the contributions made in each of the ten preceding years.

It is also arguable that under such a method of funding the deductibility of the contributions is governed by the first provision noted above—namely, that based on 5% of the compensation of the employees covered by the plan. (§23(p)(1)(A)(i), IRC.) The question in that connection is: "Who are the employees covered by the plan?"—so as to determine the compensation on which the 5% is to be based. If **all** the employees who are **prospective** beneficiaries under the pension plan are regarded as covered by the plan, then the amount contributed each year, based on that year's retirants, will generally be less than 5% of the payroll of all the active and retired employees. However, if the Bureau construes this provision narrowly and regards only the **actually retired** employees as covered by the plan, then the 5% rule will be of little help in granting the employer a full deduction for his annual contributions.

The Bureau has not, at this date, resolved this issue. Until it does, the employer is confronted with a serious problem in considering how far he can go in acceding to the union's wishes as to methods of funding the union negotiated plan.

IV

Effect on Non-Union Plans

There is a side reaction to the union negotiated pension plan that might be explored profitably at this point. Suppose an employer is considering the adoption of a plan which covers non-union as well as union employees. That plan may not in the future prove satisfactory to the union negotiators who prefer to have a separate deal applicable to their particular members. Moreover, the employer will, under the **Inland Steel** case, be required to negotiate with the union on the adoption of the plan or on any attempted modification of it. Furthermore, such a plan may be adversely affected by the withdrawal of the union employees at some subsequent stage, or their demand for a substantial change in it applicable to them. This is true not only with respect to the union employees but also to those classes of employees who may be unionized in the future. The employer may thus hesitate to adopt a plan covering union or potential union members at this stage.

The question then arises: Is it possible for an employer to find some classification of employees which would satisfy the Bureau's rule as to non-discriminatory coverage (§165(a)(3)(B), IRC) and at the same time exclude those classes of employees which now are, or in the future may be, subject to collective bargaining? Until recently, no such solution seemed possible under the Bureau's interpretation of the applicable revenue provisions. It took the position that a plan could qualify if it related only to salaried employees or, in some instances, only to salaried employees earning over $3,000 per annum. But it frowned on any additional limitations which might further cut down that coverage.

Recently one of the large steel companies was confronted with the problem described above. It proposed a classification which would limit the plan to salaried employees of the company earning over $3,000 per annum, other than those employees who are represented by a collective bargaining arrangement, and other than those who are entitled by law, contract or custom to compensation for overtime services. In a ruling issued in February, 1950, the Bureau held that such a classification would meet the non-discrimination requirements of §165(a)(3)(B) of the Code.

The possibility of adopting a plan, similarly limited in coverage, should be kept in mind by employers who have a large number of actual and potential union employees. It offers a method by which a plan can be set up **now** which would not be subject to constant attrition by progressive union raids in the future. And, by excluding actual and potential union employees in the first instance, it avoids the problem of bargaining with the union on a plan before the union has raised the issue on its own behalf.

V

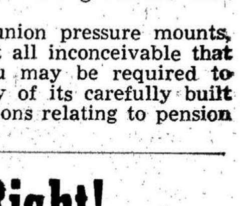
Conclusion

The foregoing discussion is not designed to paint a hopeless picture of the tax situation confronting the employer in connection with union negotiated pension plans. It is designed to present certain of the practical obstacles arising under the tax laws as now construed by the Bureau. With all fairness to the Bureau, it should be stated that the Bureau is approaching these problems with a fine sense of cooperation. It appreciates the dilemma confronting the employer: If he agrees to the demands of the union, he may find he has contributed to a plan which cannot qualify and, therefore, he has lost his right to a deduction. On the other hand, if he attempts to qualify his plan first so as to be certain of the deductibility of his contribution, he may not be able to conclude his negotiations with the union.

As the union pressure mounts, it is not at all inconceivable that the Bureau may be required to relax many of its carefully built up restrictions relating to pension plans.

The Senator Is Right!

Formation of a nonpartisian commission to make "a completely impartial" study of the whole problem of Federal spending has been recently suggested by Senator Robert A. Taft.



Robert A. Taft

The commission, he said, should consist of leading citizens, who would be named by the President and Congress "to report on the long-range spending programs of the Federal Government with reference to their relative importance, and also on the burden of taxation which a free economy can stand and still exist."

"The function of such a commission, as I have suggested," the Senator added, "is much broader than the Hoover Commission. Substantial savings can be made if the Hoover Report is accepted, but that report after all deals only with the reorganization rather than with changes in policy, and the matter so far submitted by the President, except in the case of the armed forces, hardly promises any financial saving."

The Senator is right. Much more than mere reorganization is essential.

And the sooner we come to our senses the less costly current blunders will be.

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Misconceptions About Reserve System's Management Policies

the Treasury consented to a gradual rise in the rates paid on its short-term borrowing. Meanwhile, however, the maintenance of a fixed level of short-term rates forced the system to absorb whatever securities were offered in the market at those rates for which other buyers were not available; consequently the system was unable to take the initiative in determining the amount of Federal Reserve credit to be made available. This obstacle to action by the Reserve System along "traditional" lines was, I believe, largely responsible for the increased emphasis on changes in member bank reserve requirements as an instrument of credit policy, over which so much heated debate and such strong feelings developed.

Treasury Cooperation

On the other hand, to give credit where credit is due, the system did have full cooperation of the Treasury in bringing some pressure to bear on the reserve position of the banks, through the use of surplus Treasury revenues (which fortunately were available at that time) for the redemption of maturing securities held by the banks, and especially by the Federal Reserve Banks. In this way, the Reserve Banks were able to absorb substantial amounts of reserve funds through security redemptions. In addition, the system sold short-term Government securities whenever market conditions permitted and, together, the redemptions and sales went a long way toward offsetting the additions to bank reserves resulting from the gold inflow and other factors, including the system's purchases of Treasury bonds.

Thus, although the scope of action open to the system was limited, it was sufficient to enable the system to keep member bank reserve positions under recurrent pressure and thus to exert some restraint on the availability of credit. In addition, the gradual rise in short-term rates, small though it was, caused widespread uncertainty as to the prospective course of interest rates generally. The effects were reflected in the greater caution displayed by the banks in making mortgage loans and term loans to business, and in a more cautious attitude of investors generally toward investments in corporate and "municipal" securities and mortgages.

1949 Policy Reversal

The reversal of Federal Reserve policy in the spring of 1949, which involved a relaxation of restraints on the availability of credit and an easing of money market conditions, was not related to debt management problems or, more specifically, to the financing of the prospective budget deficit, as was suggested by some commentators at the time. It was, of course, related to the business recession during the first seven months of the year. This was confirmed by the public statement of the Federal Open Market Committee issued on June 28. However, there was some confusion as to the proper interpretations to place on that statement, especially with respect to the sections stating 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, and that the policy of maintaining orderly conditions in the Government security market would be continued. The question at issue was whether these statements were to be taken to imply that a firmer money policy would be adopted in appropriate circumstances, as well as an easy money policy in periods of business recession, and whether sales of Treasury securities, as well as purchases, would be made in maintaining orderly market conditions.

Any doubts that prevailed at that time should by this time be resolved as a result of the various statements of Federal Reserve officials in reply to the questionnaires of the Douglas Subcommittee of the Joint Committee on the Economic Report, and in testimony before that subcommittee, and also by the actual operations of the Reserve System since the middle of last year. The essential point with respect to Federal Reserve policy was made clearly in a few sentences by Mr. Sproul in his testimony when he said:

"There cannot be a purposeful monetary policy unless the Federal Reserve System is able to pursue alternating programs of restraint, 'neutrality,' and ease, in a roughly contracyclical pattern. Such programs must, as they accomplish an increase or contraction in the volume of credit and a tightening or loosening in the availability of credit, affect interest rates, not only for private credit, but for Gorvernment securities."

Translated into action, this interpretation of Federal Reserve policy has been demonstrated during the past year, not only in the steps taken to ease the availability of credit during the brief business recession, but also in the steps taken subsequently to move toward a position of "neutrality," as business recovery proceeded. An answer to the question of whether the Reserve System would sell Treasury bonds in appropriate circumstances has been given by the Federal Open Market Committee in the form of action during recent months.

Flexibility Endorsed

Senator Douglas' subcommittee, after completing its extensive inquiries, reached conclusions in its report to Congress early this year which in general strongly endorsed the idea of a flexible monetary policy adusted to changing economic conditions. The report of the subcommittee, among other things, stated that "timely flexibility toward easy credit at some times and credit restriction at other times is an essential characteristic of a monetary policy that will promote economic stability rather than instability." It went on to suggest that "the advantages of avoiding inflation are so great and a restrictive monetary policy can contribute so much to this end that the freedom of the Federal Reserve to restrict credit and raise interest rates for general stabilization purposes should be restored even if the cost should prove to be a significant increase in service charges on the Federal debt and a greater inconvenience to the Treasury in its sale of securities for new financing and refunding purposes."

As for the relationships between monetary policy and debt management policy, the subcommittee took the position that both should be "guided primarily by considerations relating to their effects on employment, production, purchasing power, and price levels . . . ," and recommended that Congress adopt a joint resolution giving "general instructions to the Federal Reserve and the Treasury regarding the objectives of monetary and debt-management policies and the division of authority over those policies" and expressing it to be the will of Congress "that the primary power and responsibility for regulating the supply, availability, and cost of credit in general shall be vested in the duly constituted authorities of the Federal Reserve System, and that Treasury actions relative to money, credit, and transactions in the Federal debt shall be made consistent with the policies of the Federal Reserve."

While there has been wide support for this point of view among economists, businessmen, and others, it would be an exaggeration to say that it had gained anything approaching unanimous acceptance. For example, the President's Council of Economic Advisers, in a statement to the Joint Committee on the Economic Report concerning the report of the Douglas subcommittee, came to the conclusions that "low interest rates are always desirable"; that even in inflationary periods the Council "would not abandon the advantages of cheap money and use central bank operations to cause an anti-inflationary increase in interest rates." The Council "would retain the advantages of cheap money and adopt other measures to curb the inflationary forces." That goes much farther in the direction of a bias toward low interest rates than can fairly be attributed to the Treasury. As I mentioned earlier, the Treasury did go along with the Reserve System (after some delay, it is true) on a policy of gradually rising short-term rates in 1947-48, and in recent months has adjusted the terms of its refunding issues to market conditions resulting from changes in the supply-demand situation in the money market and the system's gradual withdrawal from its easy money policy of the middle of last year.

Another and more surprising source of sentiment favoring stable low rates on Government securities rather than fluctuating interest rates (expressed in the form of favoring the maintenance of stable bond prices) has been some of the commercial banks. This attitude was reflected in replies to one of the questionnaires of the Douglas subcommittee. In several instances commercial banks' replies gave the impression that, in their view, one of the most important—perhaps the most important—function of the Federal Reserve System was to support the prices of Government bonds at par or higher. Any such idea, of course, reflects a complete misunderstanding of the functions and responsibilities of the Reserve System. It probably had its origin in the fact that during the war, and for several years previous, banks and other investors had become unaccustomed to the fluctuations in prices of Government and other high-grade bonds, in response to changing economic conditions, that were regarded as quite normal in earlier periods.

Old vs. New Bondholdings

It appears that many people become unhappy when they see the appreciation in their bond accounts melting away as bond prices turn down, and do not give adequate consideration to what substantial premiums mean in terms of the yields they are able to get on new investments. As we said in reply to a letter from one of our member banks concerning this general subject, it seems to us that banks and other investing institutions can safely regard fluctuations of a couple of points (or even more) in prices of long-term bonds without concern, provided the distribution of securities in their portfolios is appropriate to the character of their business. It is a comfortable feeling to have a nice margin of market value over cost, but such a margin usually means that new investments can be made only at less advantageous yields.

If we accept the proposition stated by Mr. Sproul, to which I referred earlier, that there cannot be a purposeful monetary policy unless the Federal Reserve System is able to pursue alternating programs of restraint, "neutrality," and ease, and that such changes of policy must be reflected in interest rates, we cannot expect to avoid some fluctuations in prices of Government and other bonds. The long-term holder of long-term bonds need not be concerned, but the investor who attempts to get a long-term rate for short-term holding—and perhaps a trading profit as well — must assume the risks of such a policy.

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The Security I Like Best

of paying big dividends. In 1946 the per share earnings were \$3.04, and the cash dividend paid was \$.80; in 1947 the earnings were \$3.05, and the dividend was (after allowing for capitalization changes) \$.889; in 1948 the earnings were \$3.55, and the dividend was \$.972. In 1949 estimates are that earnings will be approximately \$4, and the dividend was \$1. This may seem to some like a niggardly dividend policy, but it is, in fact, an extremely sound policy, in the light of the special circumstances that exist. Bearing in mind that the average stockholder, of every dividend dollar received by him, must pay out to State and Federal authorities 25c to 60c at present tax rates, we find that he really can retain only between 40c and 75c, depending upon his tax bracket. On the other hand, the evidence is overwhelming that the company has been putting these retained earnings to most constructive uses.

The growth in sales volume is eloquent testimony on this point. In 1945 sales were \$55 million; in 1946, \$83 million; in 1947, \$99 million; in 1948, \$116 million; in 1949 just a trifle over \$135 million. The payment of large dividends would have meant a curtailment of the sound expansion program, in which the company has engaged, or embracing the alternative of new financing, which in many instances, is cumbersome and costly. The stockholder has not gone completely unrewarded, however. In 1949, in addition to the cash dividend, there was declared a stock dividend of 5%, and in 1950 a stock dividend of 10% has been declared; thus, the overall return is more than satisfactory.

In a sense, the company has been "lifting itself by its boot straps," but this has been done in a very constructive and forward looking manner. Instead of expending the "seed corn," of which the tax collector would garner a large proportion, the company has put the cash to most constructive uses.

The capitalization is extremely simple—long-term debt \$3,500,000, common stock 525,582 shares (\$10 par).

The effects of constructive, forward looking management policies are apparent in the results achieved. At a time when the bulk of the grocery chains are showing small losses in sales volume, compared to a year ago, this company has been running consistently ahead of last year's totals. The last report showed its sales were runing 14.7% ahead of a year ago. No other grocery chain has been able to show such results.

This ability to lead the industry in sales growth is not accidental. It is due to vision and hard work. The best part of it, from my point of view, is the fact that the service rendered has an element of permanence, grounded on the simple truth that the customer is being exceedingly well served. A net profit margin of 1½% eloquently tells its own story. The housewife may not understand the complicated statistics involved, but she unerringly senses the values available to her. This is the best and broadest basis for any enterprise—making more and better products available to the large mass of the people at the lowest available price.

This company seems to me to have a clear prospect of continued growth for two reasons:

(a) It is engaged in a public service of substantial proportions.

(b) The nature of that service and the way in which it is rendered is bound to meet the approval of its customers, with resulting assurance of substantial progress and continued growth.

COL. WILLIAM FREIDAY
Partner, J. Robinson-Duff & Co.
Members N. Y. Stock Exchange
(Selected Issues)

If one wishes to confine his selection of a security to what might be called "investment" stocks irrespective of present market price but providing wide diversification and predicated on a constant earning power and dividend record, the seeker does not have to look further than four common stocks listed on the New York Curb Exchange which have paid dividends to their shareholders every year since before Civil War times.

Col. William Freiday

Providing wide diversification, these four "world beaters" (in my estimation) are: (1) the Pepperell Manufacturing Co. which has paid dividends for 97 years; (2) the Scovill Manufacturing Co. which has made dividend payments for 93 years; (3) the Fire Association of Philadelphia with a dividend record of 91 years; and (4) the Singer Manufacturing Co. which has 86 years of dividends to its credit.

Now the seeker for marketable stocks with earning power need not stop here for there are four comparable "world beaters" in dividend annuals which are listed on the "Big Board." These New York Stock Exchange stocks are: (1) the Pennsylvania RR. Co. which has paid dividends uninterruptedly since 1848 or 101 years; (2) the Washington Gas Light Co. since 1852 or 97 years; (3) the Cincinnati Gas & Electric Co. since 1853 or 96 years; and (4) the Continental Insurance Co. since 1854 or 95 years.

In the unlisted or Over-the-Counter class, there is one company which enjoys the enviable dividend record of 136 years of continuous payments and that concern is the Pennslyvania Co. for Banking and Trusts of Philadelphia.

The "one" investment security I like best is a selection of say five of these nine incomparable dividend payers yielding safety of principal, income, marketability and diversification.

J. W. JACKSON
Investment Research Dept., Edward A. Purcell & Co., New York City
(The Columbia Gas System, Inc.)

Fundamentally, selection of a "best-liked" security naturally first demands the establishment of investment objectives. For the average investor, the ideal security, as we know, holds promise of continuity of income, safety of principal and sound growth prospects—all familiar and desirable attributes. While the ideal in theory is difficult to attain in fact, I consider the common stock of the Columbia Gas System approaches this ideal and is definitely deserving of a prominent position in the portfolio of not only the average investor but also the more sophisticated buyer of securities.


J. W. Jackson

Prior to picking the individual company and security to conform with our objectives, it was first necessary to select the field of operations. What industry can reasonably be expected to provide continuity of income? Which promises greater relative safety of capital? The general answer to these questions is, I believe, the public utilities field. Among various types of utilities, which indicates the most dynamic growth possibilities? I think the answer is natural gas. Finally, at today's market levels, what security meets our requirements and may nevertheless be considered a good "buy" as to value and in relation to future earnings and dividends? In my opinion, Columbia Gas System common stock fills the bill.

Space will permit but a brief description of the system. Columbia is a holding entity which supplies, through its subsidiary companies, natural gas to 1,214 Middle Eastern communities with a population of 7 million. Over 1 million customers are served directly and an additional 800,000 are supplied through the sale of gas at wholesale to other distributing utilities. Natural gas revenues comprise 92.5% of income, and sales are admirably diversified as to type of customer. For example, residential and commercial sales run around 53% of total, industrial around 23% and wholesale 21%. This diversification, with the emphasis on stable residential and commercial sales, indicates stability of earnings leading to continuity of dividend income, one of the objectives we have in mind.

Now the question—What is the long-term outlook for the system earnings-wise? To answer this, let us look back a few years to 1946 when the management's construction program was put into high gear. Since January, 1946, $168 million has been expended on expansion of facilities. It is anticipated that this year about $27 million of new money will be raised in order to further increase the system's capacity to deliver. Now, however, the major part of the expansion is virtually completed. Translating from financial terms of $168 million into physical terms, what has been accomplished? Briefly, the system's enlarged capacity has enabled it to tap new markets. Demand for this clean, low-cost and convenient fuel is enormous and growing. Now the system is able to lift restrictions and satisfy the demand, thereby realizing substantial earnings on its present tremendously larger plant capacity.

Gas reserves have been expanded to a total of 8.27 trillion cubic feet—the highest in the system's history. Underground and above-ground storage facilities to meet peak loads have been enlarged to the point that delivery of 2 billion cubic feet per day is possible. To supply new markets, new pipe lines have been built. Increased deliveries are now available for New York markets, and Washington, D. C., Hagerstown, Baltimore, Roanoke, Allentown, Bethlehem are only a few of the additional areas which will be supplied this year. A prominent source estimates that gas deliveries in 1951 will be increased by 40% over those of 1949 through the coverage of additional markets. Truly a growth situation—meeting another of our objectives!

The ultimate combined effect on earnings of the tremendous demand for natural gas coupled with the system's enlarged capacity to deliver is obvious. Wider coverage for the $0.75 annual dividend is inherent in this situation, and I believe the future will show 1949 earnings of $0.84 per share to be the low point earnings-wise. In 1949 new facilities had not yet begun to contribute to earnings to a marked extent. This, coupled with unusually mild weather, acted to hold earnings down on a per share basis. With anticipated broader coverage, therefore, the current rate of $0.75 seems assured. A return of over 5½% is provided — thus satisfying our requirement of generous income. It is my opinion that a more liberal dividend will be eventually forthcoming as soon as the system's conservative policy permits. In the meantime, ploughed-back profits strengthen the equity position and work for the stockholders.

In conclusion, management in which the stockholders place their confidence is of primary import in evaluating any security. Columbia's alert management has demonstrated its ability in carrying out its forward-looking expansion program. Present stockholders may confidently expect to reap benefits of sound management in the future through dividend income and long-term price appreciation — as they rightly should!

HENRY OETJEN
Partner, McGinnis & Co., N. Y. C.
(Southern Pacific Co. Convertible Debenture 3s of 1960)

I believe that an unusual investment and speculative opportunity exists in the new Southern Pacific convertible debenture 3s of 1960. The company has offered to the holders of its outstanding 3,772,763 shares of common stock, $37,727,600 principal amount of 3% convertible debentures, due April 1, 1960. Under this offer, stockholders have the right to subscribe to $100 principal amount of debentures for each 10 shares of stock. The subscription offer expired on March 31, 1950.


Henry Oetjen

At the present time the new debentures are listed on the New York Stock Exchange and are selling at 104. They will be redeemable in part in 1952, or any date thereafter, through operation of the sinking fund. The bonds will be convertible into common stock at a conversion price of $55 per share. The number of shares of common stock to be issued upon conversion will not exceed 754,552 shares which have been reserved for that purpose. Thus, the maximum dilution of the common stock would not exceed 20%.

The new bond issue will have the earliest maturity date among Southern Pacific bonds, except equipment obligations. The next maturity will be the Southern Pacific first mortgage 2¼s of 1961. They are selling at the present time around 96, with a yield to maturity of 2.67%. The combination of the early maturity date and the unsecured character of the new bond issue seems to justify a 3.60% yield to maturity basis for this security, giving no consideration to the convertibility feature. On this basis, the bonds should be worth about 95. They are selling at the present time around 104. The premium of 9 points gives the holder a 10-year call on the Southern Pacific common stock. This stock, selling at the present time around 54, sold as high as 62 in 1948, and as high as 70 in 1946. A rise to 60 or 70 in the present bull market would not come as a surprise, especially, since the future outlook for the Southern Pacific is very good. Each five-point rise of the common stock would result in a ten-point rise of the convertible bonds. If the common stock rose to 60, the bonds would be worth 110. If the common stock rose to 70, the bonds would be worth 130.

Southern Pacific's service area is the fastest growing territory in the United States. The population of this area increased 65.3% between 1920 and 1940, compared with an increase of 21.2% for the rest of the country. This favorable trend has continued at an accelerated rate from 1940 to 1950. The territory shows a good balance between agricultural and industrial areas. The continuing industrialization of the territory augurs well for the future. Many new industries have been established, and further expansion, especially in the steel, chemical, and other basic industries, can be expected in the near future.

The road's property is in excellent physical condition, in fact the best in its history. In the last decade, over $103 million have been spent for the physical improvement of the road, such as heavier rails, installation of numerous sidings, straightening of lines, elimination of grades, yard improvements, etc. At the same time, 580 miles of unprofitable branch lines were abandoned.

The organization has been streamlined to achieve maximum economies. A cost reduction program of the first order has been carried out. In the last decade about $264 million were spent for new equipment and improvements of existing equipment. Well over 20,000 freight cars, 200 passenger cars, and over 400 diesel locomotives were bought. This new equipment made it possible to improve service and to retire uneconomical units. The break-even point has been considerably lowered in the last few years. A further cost reduction program is under way. Thirty-six new diesels have been ordered at a cost of $17½ million. Savings will also result from lower fuel prices. Further economies will result from yard improvements, elimination of steam servicing facilities, instalment of more mechanical equipment, streamlining of office procedures, and other economy moves.

The personnel and management of the road are excellent.

Southern Pacific's financial position is strong. The working capital at the end of 1949 amounted to more than $85 million to which capital and other reserve funds of about $17 million must be added. The road's debt has been reduced from more than $716 million in 1939 to less than $463 million in 1949, excluding equipment obligations. This net reduction of $253 million amounts to about 35.4% of the originally outstanding debt. At the same time, annual interest charges were reduced from about $31 million in 1939 to $20 million in 1949. The net reduction of over $11 million amounted to 35.8% of 1939 fixed charges.

Assuming a 20% dilution of the common stock, the $5 dividend now being paid would have been earned in all years except 1940. The earnings outlook for 1950 is very good. The extremely poor weather conditions in the first quarter of 1949, which were mainly responsible for the somewhat poorer showing last year, were of an exceptional nature. With the return of more normal weather, the road was able to show a net income of $321,000 in January 1950, which compared very favorably with a deficit of $1,727,000 in January 1940. Earnings for the year 1950 should be in excess of $10 per common share.

The fact that Southern Pacific was able to resort to convertible bonds for new financing indicated that a considerable improvement in railroad credit in general, and Southern Pacific's credit in particular, has taken place during the last few years. It was only due to the strong earnings position of the road that such an undertaking was ventured. The success of the new bond issue speaks for itself. Although convertible bond issues have been rather common in other industries, as for instance in public utilities, no convertible bond issues in the railroad industry have been available to the public since 1937. Since railroads have shown sharper price movements than public utilities, the conversion feature is much more attractive in a railroad security than in a public utility security. For an investor who would like to have an excellent call on the future earnings of one of America's best railroads, which covers the fastest growing region, and who at the same time, is also interested in safety of principal, no better opportunity has existed for a long time.

Atlantic Coast Line Makes Exchange Offer

Atlantic Coast Line RR. Co. is offering to holders of its $50,724,000 non-callable first consolidated mortgage 4% bonds due July 1, 1952, the right to exchange these bonds for an equal principal amount of new general mortgage, series A bonds, due March 1, 1980, bearing interest at the rate of 4½% to Sept. 1, 1952, and at 4% thereafter to maturity. The offer was announced on April 10 by C. McD. Davis, President.

The offer of exchange will remain open at least until the close of business on May 10, 1950 and may be terminated at any time thereafter by the board of Directors. Acceptance of the offer is voluntary, and bondholders who do not accept will retain their present rights. A number of institutional holders of the bonds of 1952 have indicated their intention of accepting the offer of exchange but the consummation of the plan is dependent upon the voluntary exchange of a larger proportion of the bonds and upon the offer being declared operative by the directors on or before June 1, 1950. The offer is also subject to authorization of the new general mortgage by the stockholders, who meet April 18, and to authorization of the issuance of the new series A bonds by the Interstate Commerce Commission.

Morgan Stanley & Co. has been employed to organize and manage the solicitation of exchanges on behalf of the company. Compensation equal to $2.50 per $1,000 bonds exchanged will be paid by the company to banks and brokers for their services in arranging exchanges of bonds of 1952.

Finals of Inter-City Bankers Basketball

The second and final of the inter-city bankers basketball games between National City Bank of New York and First National Bank of Chicago will be played Friday evening at 8 o'clock in the Columbia University gymnasium, 116th Street and Broadway. The first game, on March 28 in Chicago, resulted in a victory for the Windy City cagers, 41-31. National City, fourth year undefeated champs of the Bankers Athletic League, and First National, holders of the Chicago American Institute of Banking crown, are renewing an inter-city series that had its origin 25 years ago.

City Bank Club, employees' organization of National City, has invited its members to be its guests on Friday night. The Chicago team will arrive today and will be quartered at the New York Athletic Club. Its captain, Earl Abraham, received the Lou Boudreau "most valuable player" award for 1950. Jim Zeravich, 6 foot 8 inches, center, was a member of the American Gears, Illinois State AAU champions. Matty Begovich will referee the coming game.

Trad Tv. Stock Sold

Tellier & Co. announce that their offering of 600,000 shares of common stock of Trad Television Corp. at 35 cents per share has been oversubscribed and the books closed.

L. C. Crawford With Stern, Frank & Meyer

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Loyal C. Crawford has become associated with Stern, Frank & Meyer, 325 West Eighth Street, members of the New York and Los Angeles Stock Exchanges. Mr. Crawford was formerly with Bogardus, Frost & Banning and in the past was with Cavanaugh, Morgan & Co.

With State Inv. Co.

(Special to THE FINANCIAL CHRONICLE)

PORTLAND, MAINE—John M. McGorrill is with The State Investment Co., Bank of Commerce Bldg.

Joins F. L. Putnam

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS.—Lloyd B. Haworth has joined the staff of F. L. Putnam & Co., Inc., 77 Franklin Street.

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Point Four—Foreign Aid Forever

to be seen. For during these years the premises on which capital had moved in the previous era deteriorated. Until the State Department discovered Point Four, this movement of private American capital proceeded under the complete indifference of the American government.

Failure of Containment Policy

The theory of communist containment, predicated on the doubtful physical principle that a bucket can be kept water-tight if all the holes on one side are plugged, has induced earnest second thoughts. The Soviet eruption in Asia demonstrates that the contents of the bucket can flow through the holes on the other side to which the policy of containment did not apply.

The opening statement in the preamble of the Kee Bill, i.e., "To promote the foreign policy of the United States," indicates clearly a determination by our government to continue foreign aid on a substantial scale in the hope that American billions may compensate for atrocious errors in policy and for the lack of armored divisions and air power to which General Eisenhower has just called attention. Point Four is a blood brother of UNRRA, the Bretton Woods institution, the loan to Britain, and ECA. An added element of illegitimacy arises from the imputation of parenthood to Earl Browder.

How effective can Point Four be as a barrier to communism? We can be certain that Browder did not suggest the idea for this reason. If American billions have had any success in building roadblocks against communist advances the evidence must be discovered in the anti-communist postures of the leading beneficiaries and in their reliability as prospective allies in the event of open conflict with the Russians.

Two questions should be raised. In the event of open war, who are most likely to be on our side, willing and able to commit themselves against the communists? Is it possible to impute to American billions any measurable hardening of an anti-communist attitude among the beneficiaries?

Counting Our Allies

The first question may be restated in the form of a direction. Name, in the order of their alignment, the countries which, in the event of war, can be counted on our side. In the following this direction the order of alignment must not be based on affection for or gratitude to the U. S. but rather on the fear that they will become the first and the most certain victims of Soviet "liberation."

On the basis of this test—the only realistic test—our most certain opponent of the Kremlin in the event of war will be Tito. His assured belligerency on our side will obviously have nothing to do with ECA aid or prospective benefit under Point Four.

The second country on the schedule of Soviet "liberation" will probably be Turkey. The Turks have been very effective in suppressing fifth columns, attempts at infiltration, the subversion of native officials, and communist propaganda. Turkish communists — presumably there are some—do not throw their weight around as they do in England, France, Italy, and the U. S. American aid here has been on a moderate scale. Dollar for dollar we probably show better returns in Turkey in the form of assured opposition to Stalin's legions than anywhere else.

The third area of positive resistance to communism in Western Europe is to be found in the Iberian Peninsula. There can be no doubt that Franco and Salazar will fight. Their survival depends on successful resistance and they can have no illusions of compromise, appeasement or deals.

How much aid have we given Spain and Portugal?

Unwanted Stepchildren

Actually Spain has been excluded from the company of nations largely on the insistence of left-wing groups in this country and elsewhere who have never been able to forgive the Spanish dictator for having ejected the communists. He was the first to demonstrate the only method for handling certain types of treason which has so far proven effective. He defeated and destroyed the communist-led Spanish Republican Army. Nor did he make room in his foreign service for veterans of this army who had formerly obeyed the commands of the Kremlin. Divided loyalty has not been among the idiosyncracies tolerated by the Caudillo.

The only other country which can be counted on beyond any reasonable doubt to fight the Reds is Switzerland. Here is a real democracy without any of the degenerative stigmati which have developed like malignant tumors in the socialist countries of Western Europe. We cannot offhand recall any kind words by our State Department for Swizerland nor any suggestion that she participate in the handouts going elsewhere.

Yugoslavia, Turkey, Spain, Portugal and Switzerland—these are the points of certain resistance to communist aggression, probably in the order named. With the exception of Turkey and more recently Yugoslavia, none has been favored by the generous attention of the State Department. In no case is the assurance of resistance or belligerence, on our side, caused or measured by our our aid.

On the other side of the world our only tested ally against communism, Chiang Kai-shek, has been abandoned by our heavyweights in statecraft. He long ago learned, what some of our leaders still have not grasped, that a compromise with communism is impossible.

Logically, if the expenditure of American billions was made for the purpose of promoting effective opposition to Stalin, our most reliable prospective allies should be the most conspicuous beneficiaries of our aid. The record reveals that these allies, with one possible exception, have been treated like unwanted stepchildren.

Billions and Belligerence

If the theory of making friends and influencing enemies of communism, implicit in our various foreign aid programs, possesses any validity, then those countries which have been treated most liberally should be our stalwart and faithful allies.

In terms of billions in benefactions England stands at the head of the list. An important leftwing element in the Labor Party holds that the tension between Moscow and Washington is merely a phase of rivalry between two world powers, that England has no real interest in this struggle and should not permit itself to be used as a field of battle in which these two giants measure their strength.

There is a conviction—probably a minority conviction — that any differences between England and Russia can be accommodated without resort to war. Britain has already made a bilateral trade agreement with the Kremlin, the full terms of which are not publicly known on this side of the Atlantic. To be sure, this is the only way in which collectivist economies, whether socialist or communist or fascist, can trade.

An Illusion

The notion that American billions are erecting bulwarks against communism and winning friends for us is largely an illusion. Even the shipment of military equipment under the Atlantic Pact has been the signal for outbreaks of violence in France and Italy which have had all the marks of organized insurrection. It is extremely doubtful that the countries of Western Europe have the capacity to commit themselves in any struggle with the Kremlin —or the inclination. Norway and Denmark voted with Great Britain to place Czechoslovakia on the Security Council. Sweden persists in meticulously "correct" conduct and has refused to participate with her neighbors in any arrangements for mutual defense. All these countries get American aid.

A realistic survey of the situation in the spring of 1950 shows:

(1) The countries which are most likely to prove our reliable allies in any conflict with the Kremlin have had little or no American aid.

(2) The weakest links in the chain of democratic defense are precisely those countries which have been the most conspicuous beneficiaries of American aid.

(3) Point Four is the undeniable kin of all previous forms of American aid. With its mixture of politics, banking, and charity, Point Four aid, dedicated to the promotion of "the foreign policy of the United States" is as little likely to be successful as the Bretton Woods adventure, UNRRA, the loan to Britain, and ECA.

Misery and Ideology

In the voluminous pro-Point Four propaganda a theory closely related to support of American foreign policy emerges. Describing the inhabitants of underdeveloped areas, for whose ostensible benefit Point Four has been officially promulgated, the State Department says:

"The United States and other free nations of the world have a common concern for the material progress of these people, both as a humanitarian end in itself and because such progress will further the advance of human freedom, the secure growth of democratic ways of life, the expansion of mutually beneficial commerce, and the development of international understanding and good will. . . .

"They aspire toward a higher standard of living and better health and physical well-being. Under present circumstances their poverty is not merely a handicap to themselves. By leaving them unable to fulfill their reasonable aspirations, their misery makes them fertile ground for any ideology which will hold out to them promise, however false, of means toward a better life."

Here is a pervasive fallacy which has distorted the thinking of many sincere liberals, namely, that discontent and susceptibility to radical doctrine are the result of material circumstances. Give those exposed to the spurious rewards of communism three square meals a day, adequate clothing and shelter, and you kill the hope of communist conversion. A fully belly and Marxist theology can no more mix in the same vessel than oil and water. This theory has never been subjected to a fair inductive test. There is much evidence to suggest that it is completely fallacious.

Psychology and Communism

If this theory were correct there should be discoverable an approximate correlation between poverty and surrender to communism. Hollywood, California, is a flamboyantly wealthy community. Yet it is probable that the percentage of communists, fellow-tarvellers and soft-boiled liberals is higher in this center of lavish living than in any other community of comparable size in the United States. Communism and treason are much more likely to be problems in psychology than in economics. Professor Sidney Hook of New York University has made a study of the fellow-traveller. He presents the following description of the economic status of a hundred leading fellow-travellers:

"To identify the fellow-travellers, a study has been made of members of organizations that are clearly communist fronts, many of them actually labelled subversive by the Department of Justice. For purposes of identification anyone who was a member of at least twenty such fronts was considered a fellow-traveller. It was discovered that of the leading hundred fellow-travellers twenty-four were college professors, twenty-one writers and editors, nine actors and producers, eight clergymen, eight lawyers. Six were millionaires."

If these fellows were suffering from any "misery" it was certainly not the misery of poverty. Nor can it be said of any avowed communists that they embraced the faith of Marx because they were undernourished. This is particularly true of the infamous eleven recently tried in Judge Medina's court. None of them looked underfed. The naive theory of the State Department that you destroy a communist prospect by giving him three square meals a day does not stand up. To commit the American taxpayer to the "investment" of added billions in underdeveloped areas to secure vague, remote benefits resting on an unproven and untenable hypothesis is neither good statesmanship nor good economics. Certainly it is a most doubtful use of our limited resources in the cold war with the Kremlin.

An Outlet for Surpluses

There is a third explanation of "foreign aid forever." This is that the American economy, suffering from an incurable tendency to overproduce, must find an outlet for its excess output. The attempt last month of a Congressional Committee to substitute a billion in potatoes and peanuts and prunes for an equivalent amount of cash in the ECA program was a legislative attempt to apply this theory. Professor Seymour E. Harris of Harvard stated this motive for foreign aid in a recent address before the Academy of Political Science:

"Perhaps the strongest case for continued financing of the rest of the world through gifts and, better, loans arises from the serious difficulties of the transition of this country from a net exporting to a net importing nation. For example, it may be necessary for this country, with an excess of exports of $11.3 billion in 1947, eventually to countenance an excess of imports to cover payment for financing past loans by this country. *The vast change would reflect the effects not only of Europe's attempts to balance accounts but also those of the rest of the world.* The brunt of the adjustment would have to be borne by the manufacturers who account for $200 billion worth of goods, and the amount involved may be 6% of sales. By continuing the ERP on a reduced level for the years 1952 to 1956 and preparing a large loan program, this country might stretch out the transition from the five years now required to 20 to 50 years; but, with the longer period, the ultimate reduction of exports would have to be $2 billion more than in the absence of continued foreign aid or (and) loans."

Another Subsidy

In effect the foregoing proposes a subsidy for American goods in the form of artificially induced foreign purchases until such time as the American economy can absorb a sufficient volume of foreign products to balance the trade account. This is a proposal to do for industry what the American taxpayer and consumer are already doing for the farmer. It is a proposal to prevent the price mechanism of open, free markets, responding to consumer interest, from forcing those adjustments which are necessary to balance the trade account.

It proposes the substitution of hothouse economics, characteristic of all regimented communities, for the automatic coercion of free markets. If the American mousetrap industry is producing more mousetraps than the American market can absorb at the offered price the solution lies not in "loans" to foreign buyers, who cannot afford to buy them otherwise, but in cost reduction to expand the purchase of mousetraps or the conversion of surplus manufacturing facilities to other products.

Point Four is a special form of foreign aid. It is designed to prolong the period during which American dollars may be used to promote the foreign policy of this country. The results of other forms of aid have been so unconvincing that Congress is reluctant to extend them. It is in particular revolt against the ECA. Point Four was not conceived to aid surplus American capital to find profitable investment abroad. It was not conceived to take advantage of attractive investment opportunities in underdeveloped areas. There was no demand for such aid either from American capital or from the underdeveloped areas.

Orthodox Formula for Foreign Investment

If the sovereigns of retarded areas wish to attract American capital it is not necessary for the State Department to intervene. The formula has been tested and proven over the last century and a half. Provide such capital with the right of entry and exit. Supply a currency which is stable and honest. Levy reasonable taxes on a non-discriminatory basis. Afford protection against local violence. Remove the fear of nationalization or competition with the sovereign. Give the foreign owner of capital the same right of management as is accorded to domestic capital. Permit that management to use the best combination of raw materials, labor, production and distribution techniques, to turn out the best product at the lowest cost.

Where these principles are applied today, as they are in Canada, Venezuela and South Africa, American capital will move freely and willingly in response to economic opportunity. Where these principles are not recognized, as is the case in Mexico and Great Britain, American capital is reluctant to enter.

There is no magic by which living standards in other areas can be lifted. Such higher standards are the result of hard work, patience, and a careful utilization of resources, both human and natural. Above all, such progress, if the sovereign sincerely wishes it, can be attained only in an atmosphere of freedom and the right of the industrious to win—and retain—the rewards of success.

Continued from first page

The Meaning of Government Interference

tion against all government interference, one has let in the thin end of the wedge and there is no way of stopping its spread. But such an indiscriminate opposition to all government action, or even the appearance of such a rigid attitude, can only weaken the case for a free economy. It makes it seem as if in fact those who advocate a free economy were merely opposing those acts of government which are harmful to them personally while approving those which benefit them. This, of course, is not the case. But in such a position it is essential that a clear principle be stated by which we can distinguish between the objectionable kind of government "interference" and the kind of government action which, though it may be wise or unwise, harmful or beneficial, is not subject to that objection in principle which applies to all interference in this specific sense.

Is there such a principle which would enable us to distinguish between government measures which are *a limine* objectionable and others which will have to be examined for their individual merits; between a type of government action which can be ruled out in all circumstances and another type which may be foolish or wise in the particular instance, but which is not subject to the same objection of principle which applies to "government interference" proper?

I believe there is one very important distinction of the kind, a very old distinction, but one which urgently needs to be revived and to be made again the fundamental touchstone by which we judge the justice or injustice of all laws. This is the old principle of *equality before the law.*

Distinction Between Laws and Men

It is closely connected with another distinction which used to be sacred to the tradition of Western Liberalism, but which tends to be forgotten: the distinction between government by law and government by men. I believe that if we once again succeeded to limit the activities of government to what can be decided by fixed rules announced in advance, we would eliminate a great deal of those activities which the believer in a free economy thinks objectionable. We would still be far from positively defining the kind of action which was desirable. But we should have erected one important safeguard against that piecemeal encroachment which seems almost inevitable if the opposition against *all* government action is abandoned and no other principle put in its place.

It is significant that during the last 50 or 60 years this "merely formal" equality before the law has been the subject of constant attack from all people who regarded themselves as "progressives." I believe it was Anatole France who invented the cliche about "the law which, with majestic impartiality, prohibits rich and poor alike to sleep under haystacks or on park benches." The constant ridicule which has since been poured on this fundamental and indispensable maxim of a free society had done much to undermine the belief in the possibility of any impartial law. Yet there can be little doubt that it is precisely this majestic impartiality of the law, which applies the same principles irrespective of the different circumstances of different people, which constitutes the only barrier against arbitrariness of government action.

Exceptions from Equality

It also deserves emphasis that exceptions from the equality before the law is the only true meaning of privilege. So long as government action is guided and restricted by abstract rules which apply equally to all people, it would be nonsense to speak of privilege. But if with regard to one person government acts on principles which it is not willing to apply to others, even if it does so to protect weakness or to compensate for misfortune, this is undoubtedly the granting of privilege. The only meaning which can be attached to "privilege" is exception from a general rule in view of personal circumstances.

Meaning of Arbitrariness

Similarly, the only meaning of arbitrariness is action which is not in conformity with a general rule which applies equally to all. Whether any action is arbitrary or not can be decided only if there exists a recognized rule which should guide such action. Wherever any authority is given discretion, its action within the limits of this discretion is necessarily arbitrary, and in particular can never be controlled by any judicial revision. A court, by applying a rule may decide whether an authority has acted within the limits of its discretion or not. But if the decision of the authority has been within the limits fixed by the law, an administrative decision cannot be impugned, however arbitrary in the true sense it may be.

Preventing Excessive Interference

How far would a strict application of the principle of the equality before the law prevent an excessive growth of governmental powers? How many of those acts which are loosely described as "government interference" would become impossible if the principle were fully adhered to? I believe so large a part that I should like to propose that we should regard the infringement of the equality before the law as the best *definition* of "government interference." Whether particular government actions which can be carried out by laying down a general rule applying to all people and all times are desirable or not seems to me a matter of expediency. But that government measures which involve discrimination between different people, the application of different rules to different people, are objectionable at all times and should be ruled out altogether, appears to me a matter of general principle. It is a principle which, if adopted, would admittedly also preclude government action, the immediate effect of which might be only beneficial. But this will often also be true of prohibiting lying or even of murder.

Unless we are willing to restrict the power of government even in respects where it might be used for good purposes, we shall not succeed in preventing an indefinite growth of governmental powers. To allow everything which seems expedient for the achievement of a desirable end is to dispense with all moral principles. The submission to rules which must be observed irrespective of whether in the particular instance their infringement is harmful or not, is the main condition for the possibility of order in a free society. And to these rules the state should be no less subject than the individual.

Would Curtail "Planning"

It is fairly obvious that most of the controls of economic life which are nowadays employed in the service of government "planning" could not be enforced if the powers of government were restricted to carrying out fixed general rules. Where the aim of government policy is that other things should be produced than those which would be produced in a free economy, or that the things produced should go to people other than those who would buy them on a free market, it is evidently necessary that the government should discriminate between different people: it will have to allow some people to do things which others are prevented from doing, or compel some people to do things which others need not do. Such discrimination can evidently not be laid down in the form of those general rules which are alone justly called laws. They must take the form of specific orders which usually will have to be made in the light of the particular circumstances of the moment and for that reason must be left to the executive authorities. These agencies must be given power to do what at a given moment is necessary to achieve a given result; but what specific action in the given circumstances will be most appropriate to achieve that result must be left to their decision.

It is a familiar fact, confirmed everywhere where the growth of government control of economic life has proceeded very far, that the discretionary powers of the executive authorities are constantly extended. At first the legislature usually tries to keep these powers within limits by laying down general principles by which their exercise is to be guided. But these limits become constantly wider and wider. In one recent British instance, the Town and Country Planning Act of 1947, Parliament has gone so far as even to provide that the "general principles" be fixed by ministerial order, on which one of the most far-reaching tools of control, the so-called "development charges," are to be levied.

Not Accidental

All this is not an accident. If the government by its action wants to achieve specific results, it must direct particular people to do what it wants done. Direct control however means discrimination. If the government is not allowed to discriminate, it cannot exercise direct controls. It can at most create conditions which will make it attractive to some people by their own choice to do what the government wants done. I do not want to say that these indirect controls are desirable. In most instances quite the contrary. But they are less pernicious than the direct controls. And they interfere of necessity less with the planning of private business. This is so because their effectiveness depends on private business being able to adjust itself to the altered conditions created by the government. With direct controls the decision is taken entirely out of the hands of business. With indirect controls the government merely changes the conditions of the choice to be made by business, but still leaves the choice to business management.

The Results of Equality

Let us briefly survey the kind of government controls which would be precluded if the powers of government were limited to enforcing general rules applying equally to all people. All forms of licenses, permits, allocations and price-fixing would become impossible since all these methods imply that the government has to decide who is to get what. They *ipso facto* involve discrimination. Most forms of quotas or subsidies would become equally difficult; it is true, they would not become impossible. It would still be possible, by proclaiming a general rule, to fix a global quota, say of the amount of a commodity to be produced or imported, and then to sell these quotas by auction to highest bidder. Or to offer the same kind of subsidy to anybody who is willing to produce a certain commodity. As I said before, I believe that these things are almost always undesirable. But they not only give the government less power than the direct controls. They also "interfere" less, in a very real sense, with the private planning of business activities. And what is even more important, they differ only in degree from some other kind of action, such as taxation, which any government must take. I can therefore see no *general* principle on which they can be objected to *in toto*. In so far as they are concerned, every particular measure must be examined on its merit. I shall later try to show that there is still a strong presumption against most actions of this kind undertaken in the service of economic planning. But they cannot be, as far as I can see, objected to simply on the ground that they are government "interference," that they are of a general types of action which is in all circumstances undesirable.

It is highly important not to employ this argument where it cannot be defended. Nothing destroys the force of an argument more certainly than when it is often used in cases where it is not legitimate. I think direct controls of the kind I have mentioned, controls which necessarily involve discrimination between persons, should be ruled out of court once and for all. At least in a peace-time economy, and perhaps apart from temporary local crises due to natural catastrophes, nothing should be regarded as justifying them.

Not All a Matter of Degree

To enforce rigidly the principle of equality before the law would thus eliminate a large group of government activities as absolutely inadmissible in normal times. Much would be gained if it were generally realized that it is not all a matter of degree, but that there is such a class of government actions which are just incompatible with a free society. But we must also face the fact that there is another region where we have no such absolute criteria and where the decision about what is admissible and what is not must be in some measure a matter of degree. What can we say about them?

Rules Must Be Specified in Advance

I believe that in practice adherence to the same, or at least to a very similar principle will also provide the solution in most cases. It is true that indirect controls, aiming at influencing the direction of economic activity, can be exercised by the application of general rules. Tariffs and taxes, global quotas sold by auction, and many kinds of subsidies, could be provided for by law in a way that these rules might formally seem to apply equally to all people. But in fact they would of course do so only if they were laid down in advance for long periods and not continuously adjusted to the circumstances of time and the needs of particular people. But legislation, fortunately, is a cumbersome process. At least, a great many of the influences which theoretically could be exercised by indirect controls could become effective only if it were possible to alter the terms of these controls at short intervals. A tariff or a tax or a subsidy which could be changed monthly would in fact be almost as powerful a means of control as direct controls. It would be, if alterations could be determined by an administrative authority with discretionary powers. It can be much less so if its alteration depends on legislative action. The main safeguard here, therefore, is to prevent delegation of power by the legislature. Legislatures might still erect a great many obstacles to the growth of human productivity. But the wisdom of our governors would have much less chance to thwart the wishes of the consumers and to prevent industry from taking that direction which their wishes indicate.

If, beyond this, it were possible to persuade legislatures that the norms they are laying down should be intended not only for the day, but for long periods, that the criterion for them to apply, when deciding whether a bill ought to go on the statute book, was whether in the light of our present knowledge it ought to be accepted as a permanent rule, we should probably have achieved as much as one could ever hope to achieve in this world. But this is probably already too much to hope for. We ought to be well content if we could succeed in erecting that wall against the further encroachment of overall control by the government which agreed opposition against the kind of interference here defined would represent. It would at least prevent us from sliding by imperceptible steps into a condition which nobody wants, but which so many well-intentioned people daily help to create.

Byam Whitney With Proctor, Cook & Co.

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS.—Byam Whitney has become associated with Proctor, Cook & Co., 35 Congress Street, members of the New York and Boston Stock Exchanges. Mr. Whitney, a member of the Boston Exchange, was formerly proprietor of Byam Whitney & Co.

Equitable Securities Adds Douglas Bartow

Equitable Securities Corp., 2 Wall Street, New York City, announces that Douglas E. Bartow has become associated with the company's sales department. He was formerly with Central Republic Co.

William Leib Adds

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF.—Philip B. Taylor has become associated with William Leib & Co., Russ Building, members of the San Francisco Stock Exchange. Mr. Taylor was formerly with Hannaford & Talbot, Sutro & Co., and Wulff, Hanson & Co. In the past he was with Bacon & Co., in charge of the bank and insurance stock department.

Herman With King Merritt

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF.—Jules D. Herman has become associated with King Merritt & Co., Russ Building. He was formerly with C. L. Vertin Co. and was a partner in Herman, Hampton & Co. of Salinas.

With Waddell & Reed

(Special to THE FINANCIAL CHRONICLE)

BEVERLY HILLS, CALIF.—Henry W. Barbour has been added to the staff of Waddell & Reed, Inc., 8943 Wilshire Boulevard.

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

The swift up and down so frequently characteristic of present day markets was in evidence most of last week. It makes for confusion and confusion in turn makes for uncertainty. The two combined make for hypoed fears among traders and investors so that everything good is exaggerated and everything bad is intensified.

* * *

At this point I should drag out a crystal ball and then come up with some ponderous forecasts that would immediately place me in a position where I would be regarded with awe. Unfortunately for both of us I don't have a crystal ball, and if I did I probably wouldn't know how to use it. Hold it just a minute! . . . I just found something! Well, it's not exactly a crystal ball. It's more like a fish bowl. In fact it's occupied by some tropical fish; fascinating things that eat like gluttons and stare out in baleful fashion. You know, it's occurred to me that a fish bowl (occupied—naturally) can be more rewarding than a plain ordinary crystal ball. One can watch the fish weaving patterns which can be translated into all kinds of fascinating lines. The effect can be applied to the stock market with only minor changes.

* * *

For example, if the majority of the fish scoot down when someone gives the bowl a smart rap, the market's going down. If they go up the market's due for a rise. If they go round and round . . . well, you see how simple the whole thing is? I wonder I didn't think of it before. I've even discovered how to make the little beggars go up. I feed them. Trouble is that so far I haven't been able to make any connection with the market. But I'm working on that. In any event this new method (I've yet to find a name for it) isn't any different from many others I've seen.

* * *

Seriously, however, I have no set convictions about the market one way or another. Despite the sharp drops of last week and the equally rapid recovery, I don't think we are as close to a collapse as generally feared. I still believe the familiar averages will go up to about 211 to 215 before any real break will come. This doesn't mean that the 211-215 range will be an automatic stop. There are no such things in the market.

* * *

You still have Cooper-Bessemer and Mead. The former has a stop at 24, with a profit taking level at 27 or better. The latter's stop remains at 16, with profit taking suggested at 18½ or better.

[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.]

Eastern Harness Stk. Offering Effective

Tellier & Co. announce that more than 200,000 shares of common stock of Eastern Harness Racing Club, Inc., have been subscribed and paid for, making effective the public offering of 1,000,000 shares at $1 per share.

The offering was made on Feb. 15 with the proviso that it would not become effective unless a minimum of 200,000 shares had been sold by April 10.

Eastern Harness Racing Club owns all the outstanding stock of Fort Steuben Raceway Corp., which occupies and operates the Fort Steuben Raceway in Steubenville, Ohio, under a lease. Eastern Harness Racing Club conducts night harness racing meets at the track and proposes to use the proceeds from the sale of the stock to pay off existing indebtedness of Fort Steuben Raceway Corp., to purchase the raceway and to finance an improvement program.

TransContinental Secs.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — TransContinental Securities Corporation has been formed to engage in a securities business from offices at 623 West Sixty-ninth Street. Officers are William S. Sheppley, President and Treasurer; Geneva E. Sheppley, Vice-President; and Caroline E. Duncan, Secretary.

Continued from page 8

Informing the Investor

will give you some notion of their scope: The Securities Act of 1933, the Securities Exchange Act of 1934, the Public Utility Holding Company Act of 1935, Chapter X of the amended Bankruptcy Act of 1938, the Trust Indenture Act of 1939, the Investment Company and Investment Advisers Act of 1940.

The 1933 Act

The first statute in this roster is the Securities Act of 1933. Its dual purposes are to make available reliable and adequate information about newly distributed securities and to prevent fraud in securities transactions generally. Unless exempted, securities cannot be publicly offered until they are effectively registered with the Commission. While the Commission has the power to apply sanctions in cases of materially false or inadequate registration statements these powers are seldom used. Instead, the Commission places great reliance on careful examination of registration statements before they become effective and on informal and voluntary methods of correcting them before the securities are sold.

This statute goes further than merely requiring the central filing of information. It aims at bringing information directly to the investor by providing for the receipt of prospectuses by purchasers of recently registered securities. I will return to a discussion of the prospectus requirement, for it is one of the keystones of the Act and poses some of the most basic legislative problems which the Commission faces today.

The 1934 Act

The Securities Exchange Act of 1934 contains a natural extension of the Securities Act. The Congress recognized that it was important to provide current, reliable information about securities being traded on our exchanges as well as to require information about new issues. The 1934 Act requires the filing of initial and current information about listed securities, prohibits fraud and the manipulation of securities prices, and extends the disclosure principle to the proxy procedure and to management and insider trading in the issuer's securities. In addition it deters abuse of inside information by members of management and large stockholders by providing for civil suits to recapture profits made by such persons in short-term trading.

These laws are essentially "disclosure" statutes. They do not penetrate into the financial operations of the companies whose securities are covered by their provisions. In contrast, the Commission has been given the duty of fairly intimate regulation of the financial practices and operations of public utility holding company systems and to a lesser extent of investment companies.

The Holding Co. Act

The Public Utility Holding Company Act of 1935 affects all the major holding company systems that have been built up in centralizing control of electric and gas utility properties. The dramatic collapse in values of these paper structures was one of the marked features of the crash and depression following 1929. Utility holding company systems were the subject of one of the most exhaustive studies ever made of a single industry. In that study the Federal Trade Commission laid bare the sordid stories of many of these empires: control, by small cliques, of vast and unrelated operating properties acquired with other people's money; complex financial monstrosities created in order to increase speculative values and to assure control without investment; utility operating and financial policies dominated by holding companies thirsty for the earnings they could siphon out of the operating properties; huge profits arising from transfers of assets to controlled companies at inflated prices bearing no relation to underlying values; useless services performed by affiliates at huge profits to the service companies.

Point by point, these evils have been spotted in the Holding Company Act. The statute has two main features: first, regulation of the normal financial operations of system companies and second, a directive to the Commission to undo, through fair and equitable reorganizations, the tangles created in the building of these empires—to bring about simple and integrated system patterns and, whenever necessary, to abolish holding company systems. We are particularly proud of the fact that since we began actively to administer these requirements, we have processed companies controlling about $12 billion of assets through the reorganization machinery.

The Investment Company Act

Of parallel interest is our function under the Investment Company Act of 1940. While this law does not penetrate as deeply into the financial operations of investment companies, it is based on a somewhat similar philosophy as that underlying the Holding Company Act.

The investment company attracts public capital by representing, essentially, that it can provide better investment management of the investor's funds than he can himself. As a matter of morals it follows that the investment company stands in a special fiduciary relation to those who have committed to its hands the management of their investments. Unfortunately many investment companies did not live up to this fiduciary standard and, as a result, the SEC was directed by Congress to make a study of the investment company field.

The Investment Company Act of 1940 grew out of that study. The aim of that statute is to embody in our Federal law some of the minimum standards which should apply to the management and operation of investment companies and to correct the abuses disclosed in the study. Abuse of investment company control for business advantage by brokers, security dealers and bankers; radical changes in investment policy which could transform the nature of the company overnight without security-holders' consent; discrimination in favor of insiders; ruthless switching of investors in and out of different companies—each time at extensive loads (or initial charges)—were some of the practices disclosed in the study made by the Commission.

The Investment Company Act itself was worked out in full cooperation with the investment company industry and it had the distinction of being passed in both Houses of Congress without a dissenting vote.

While both the Holding Company and Investment Company Acts are, in a broad sense, products of the depression, they were based on the *special* problems presented by *special* segments of the corporate community. However, it was the purpose of the information requirements of both the Securities Act of 1933 and the Securities Exchange Act of 1934 to correct evils growing out of *general* customs in securities distribution and trading. These were not isolated customs but applied to the financing of all segments of industry and to trading in all types of securities. In order to appraise the effectiveness of the prospectus requirements of the Securities Act the subject I particularly wish to discuss this evening, we must therefore lay a somewhat broader background.

Few of you are likely to remember the crash of 1929. From a human point of view the suicides, the despair, the utter collapse of values were real. When it became clear that we were in a steep incline to depression rather than in a temporary crisis from which we would rebound quickly, we found ourselves doubting the very premises of our economic and social organization. Pools of capital dried up, the machines lay idle and many of you are personally familiar with the story from there on.

Economists are still searching for the key to understanding of business cycles, and I don't pretend that our securities laws alone are any guarantee of permanent economic stability. But if we look back at the facts it becomes clear that the practices which our present statutory information requirements are designed to correct had a good deal to do with the collapse.

Scrambling for New Issues

Underwriters and dealers scrambled for new issues of securities, often knowing little and caring less about the business of the issuer as long as a gullible public could be induced to take the issue at high prices. Having unloaded at inflated prices the temptation was ever present to maintain those prices by manipulation of the market. Uninformed buyers were ready to pay fantastic prices created purely by manipulation. The usefulness of the securities markets as measures of value and as indices of economic activity was destroyed. The crash was inevitable.

The main staple of this illusory banquet of prosperity was ignorance. Even the dealers had no opportunity to defend themselves against pressure to take new issues by resort to current reliable information. The customers were utterly helpless. With a market cut from its tie to reality (and that tie is information, pure and simple) and without the information they needed they were easy victims of the current hysteria.

Disclosure is a small word; but I hope I have indicated that it has a big purpose. Now, how do the disclosure requirements of the Securities Act work? Section 5 of the Securities Act requires that a registration statement be effective before the securities are offered. (Let me caution you at this point to bear in mind that the Commission does not pass on the merits of securities, that registration with the Commission does not reflect the merits of the security in any way, nor does it guarantee the accuracy of the registration statement.)

Central filing of the registration statement makes the information publicly available. But it was obvious to Congress that mere central filing of information would not meet the needs which were demonstrated in 1929. It was recognized that dealers and customers must be provided with the facts directly if they are to be in a position to make their investment decisions intelligently. The Securities Act was intended to provide for this through the prospectus requirements of Section 5.

The Lost Objective of the Prospectus

However, through an unfortunate choice of language the main objective of the prospectus has been lost, and it has been possible to avoid the clear Congressional intent that the full information outlined in the statute be the basis for the sale of new issues. This results from two factors: first, the distinction in the law between talking and writing, and second, the provision of the statute that prospectuses may be withheld under certain circumstances until the securities are delivered pursuant to sale.

The Securities Act is so worded that substantially any offering in written or radio broadcast form is deemed a prospectus, and unless it conforms to the statute and rules governing the contents of prospectuses its use violates the statute. Other written material may be used only if it accompanies or follows a prospectus conforming with the Act. These provisions add up to the requirement that the first *written* offer of a security must contain the full complement of prescribed information. Clearly the statute aims at giving the investor a shield against selling pressure by giving him the full story in advance. You will note however that the statute does not require the prospectus to accompany or precede *oral* as distinguished from written or broadcast, offering. Those who proposed that permission be granted for oral discussion of forthcoming securities offerings argued that it would be unrealistic to make it unlawful to talk about pending issues when friends met on the golf course or at cocktails. No reasonable person would object to a provision permitting oral discussion under proper safeguards. But without those safeguards reasonable lee-way has become an unreasonable loophole. Today most securities transactions are conducted by word of mouth, including the interstate use of the telephone so that the legal requirement to use prospectuses as a primary offering vehicle is avoided. As a result, the customer generally sees the prospectus for the first time after he is either psychologically or financially committed to the sale.

Improvement of Section 5

It has been obvious to many of us at the Commission that project number 1 in any program of improving this law is to eliminate this dilemma. It is for this reason that I consider it worthwhile to spend a few minutes on a problem that has become a Commission classic—the revision of Section 5 of the Securities Act. How to improve the Act has been the subject of serious differences of opinion not only within the financial community but within the Commission itself.

It has always seemed to me to be a logical answer to amend the law to provide for delivery of prospectuses to the buyer in advance of committing him to the sale. Other proposals, such as that to permit securities to be offered before effectiveness of the registration statement, cannot to my mind be considered separately from this major project. And the major project is, to my way of thinking, of more importance than other proposals which have created considerable dispute. At one time I recommended, together with members of the staff, that prospectuses be delivered before sale, or—in the alternative—if the seller wished to withhold the prospectus until delivery of the securities (as is usually done today) that the buyer have a short period within which he could, after getting the prospectus, rescind the transaction — that is, elect not to go through with it. This election to rescind (or "the out clause" as it has been called) was widely misunderstood and criticized; it generated more rancor than it was worth. Thus, since it is only incidental to what I regard as our major purpose, advance delivery of simple and useful prospectuses, I would be willing to forego it if doing so will help to get the important job done.

The proposal of advance delivery of prospectuses has been criticized. But in patient and arduous sessions with representatives of the underwriting fraternity we have shown how fairly simple adjustments in practice could be adopted to overcome the alleged difficulties. Opposition has developed from those who have questioned the basic principle that every buyer should get a prospectus and who would adopt a system of "prospectus on request." I have been opposed to that abandonment of one of the cardinal features of the Act. Our stake in the disclosure principle is too great to leave it to the uniformed customer to decide, after a session of oral salesmanship, that he does not need full information; or to subject investors who ask for prospectuses to the risk that they will be by-passed in the distribution of an issue of securities in favor of buyers who will take their securities sight unseen.

Nor do I agree with the contention that investors will not read prospectuses. Under our present system the prospectus is delivered so late in the course of the sale that it is a token to the average investor, not a selling document. The average investor has not therefore had the chance to develop the habit of self-protection by advance reading of the pertinent information. It is true that the length and complexity of many prospectuses has deterred the average investor from using them. But it does not follow that the prospectus should be abandoned. It does follow that we should continue our efforts (which have had considerable success in the recent past) to get those responsible for the preparation of prospectuses—(the issuers' and underwriters' lawyers predominantly) to simplify them.

Over-Cramming the Prospectus

The very corporate executives who argue that investors will not read the prospectus are likely to go to great effort and expense in preparation and mailing of annual reports to stockholders which contain detailed facts but which set the facts out in a way designed to invite reading. It is hard to believe that these pains would be taken unless managements really believed that their efforts resulted in actual reading of the reports by stockholders. However, in many cases, instead of taking similar pains in preparing prospectuses to make them useful selling documents the tendency has been to make of avoiding sellers' liability by cramming it with every conceivable representation that some court might deem material.

That tendency I am glad to say is on the way out. We have gotten prospectuses in recent months that have been models of brevity and clarity — that have so well told their story that they could be regarded as prime pieces of selling literature. There is no reason why this trend should not continue. Neither the Commission nor its staff insists on a ritual of conformance in the preparation of prospectuses. Within the framework of adequate disclosure a good deal of flexibility is possible to cut out unnecessary detail. With some skill and imagination the lawyers' prescription of material information can be organized and presented in the prospectus in such a way as to make it a piece of selling literature of real interest rather than an exculpatory document. There are many cases in which a building by building description of the issuer's plant may be unnecessary. Even such technical matters as descriptions of preferred stock and the terms of the offering can be reduced, without sacrifice of materiality, to simple statements that people of ordinary intelligence can understand.

Two polar forces operate in this field: Rigid and universal requirements of detailed facts on the one hand, and complete flexibility in a case-by-case approach on the other. Each has its merits and dangers. As usual, the best formula lies somewhere in between. Revision of our forms toward simplicity and flexibility is constantly going forward; and our staff is at this moment making a special study of this problem. As our experience grows we discover new areas in which condensation, deletion, simplification help to make individual prospectuses more useful and readable.

I wish to make a point of the fact that I do not participate in the dim view that some people take of the intelligence or digestive capacity for facts of the average investor. Those who have had working experience with our complaint files and have dealt with investors' inquiries can tell you that a great many investors are alert, and that they want and can use reliable information. However, I recognize that the average investor is not a trained analyst and that it would be fatuous to base a scheme of regulation on the assumption that he is any more than a man of ordinary intelligence.

Because of that fact I believe that we should continue our efforts to simplify and streamline prospectuses. Recently it was proposed to write into the law a provision which would have given the Commission power to order deletion and condensation in prospectuses on a case-by-case basis and to give immunity from legal action based on required omissions. This met with considerable controversy. Some felt that registrants might abuse this procedure by filing over-long prospectuses in order to prod the Commission into requiring condensation and thus giving immunity. Others felt that this provision would project the Commission into the undesirable role of prospectus drafting. Still others felt that it was an undue burden on the Commission to take case by case responsibility for dispensing legal immunity for material left out of prospectuses. I don't want to appraise these criticisms; there are many arguments on both sides. But I am willing, on the basis of our experience to forego this proposal and and to continue our present efforts to get voluntary cooperation in improving prospectuses.

It has been my feeling, throughout the controversies over amendment of the Act, that disputes about mechanics and principles, as diverse as they may have appeared on their face, are really rooted in doubts about the efficacy of the prospectus. The arguments about the practical difficulties of making advance delivery (which were never impressive to me in themselves) lose a considerable amount of their force in the face of prospectuses that are clear, informative, and useful documents *worth* delivering in advance. To diminish the role of the prospectus in the scheme for protecting investors is to strike a blow at the foundation of the Securities Act.

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Measures Needed to Forestall a Depression

purchasing power among the masses.

The realization of these possibilities depends, of course, upon our capacity to place in the hands of the masses ever-increasing amounts of real buying power. This requires, of course, an intensification of technological progress, for increasing man-hour output constitutes the only foundation for higher standards of living. Maximum increase in productivity necessitates: (1) a constant expansion of scientific research and engineering experimentation; (2) an ever-broadening mechanization of every type of economic activity; (3) the rapid replacement of obsolete plant and equipment; (4) the further improvement of internal organization and management policies; and (5) the co-operation of labor.

Influences of Progress

The achievement of economic progress everywhere has been dependent upon the combined influence of: (1) natural and human resources; (2) scientific discoveries and inventions; (3) engineering applications; (4) business organization and management; (5) the economic system; and (6) the governmental system. Scientific discoveries would not yield practical results if we did not have invention; patented technological devices would be impotent without engineering applications to productive processes; engineering can function in a private enterprise system only in conjunction with a business organization able to appraise the commercial feasibility of new developments; individual business enterprise in turn will be thwarted if the economic system is defective; and finally the functioning of the economic system is dependent upon the character and the administration of the governmental system. Thus scientists, inventors, engineers, business managers, and professional students of economics and government co-operate in a common objective — that of increasing the capacity of the people to satisfy their wants.

The Natural Sciences

A factor of major importance has been the ability of the so-called natural sciences, especially chemistry and physics, to unlock the secrets of nature and create in effect vast new productive resources. These developments, together with the growth of large-scale business organizations, operating under a private enterprise system, which provided incentives and furnished the driving power for expansion, made possible the great century which lies behind us. They overcame the limitations of nature and engulfed the law of diminishing returns with a law of increasing returns. They transformed the expected static society into a highly dynamic one, providing goods and services for the satisfaction of human wants in ever-increasing abundance.

This increasing productivity must be accompanied by a constantly broadening distribution of national purchasing power through the medium of an ever-improving ratio of prices to wages. Unless the buying power of the masses, whose wants create markets, is progressively expanding business management will have to be content with a virtually static situation. There is scant future in trying to sell more goods to the shrinking rich and middle classes; and net foreign outlets will shrink as export subsidies decline and imports increase.

Financial Stability

Another condition essential for continued economic expansion is the maintenance of general financial stability. There have been only two years since 1930 in which the Treasury has had a surplus of revenues over expenditures. Only in the super-boom years 1947 and 1948 have we fully carried the load. Because of the highly sensitive character of our tax system even a 20% decline in production for a full year would involve a drop in tax receipts of something like 16 or 18 billions of dollars. Even so moderate a decline as that of the current year has served to create a substantial deficit.

In this situation plans are being pressed for a great increase in public expenditures for education, for social security, for health insurance, etc. Granted the objectives may be good, the question still remains, can the economy carry the accumulating load? If not, the continuance of fiscal uncertainty and instability will surely, if perhaps slowly, undermine the system of private enterprise by killing the incentives to take the risks essential to a dynamic, expanding economy.

Impossibility of Over-All Control

Close observation of government over a long period of years has convinced me of the impracticability of developing a coherent, consistent, comprehensive program of control over economic life. The difficulties pertain, on the one hand, to the inherent nature of democratic government and processes, and on the other to the highly complex and baffling character of the control problem. First, the United States Government itself is not a unified law-making body. Second, there is divided responsibility — between the major divisions of government and state and local governments. Fourth, government economic policies inevitably reflect the power and influence of the many special interest groups that strive perpetually for government favor or protection. A program resulting from the pressures of economic blocs cannot be internally consistent, since such policies are formulated and executed by political maxim that it is sometimes necessary to accept or promote unsound policies because of the exigencies of the situation.

The Government's Role

That the government has a role of great importance to play in helping to preserve and foster competition is unquestionable. This has been our basic national policy for more than 60 years. The question at issue pertains to the place at which the line is drawn. In recent years the tendency has gone far beyond that of establishing rules of the game and punishing violations of law and proscribed abuse of power.

The purpose is not only to prevent and punish monopolistic practices but to curb "incipient tendencies" which in the judgment of government administrators might eventually develop into restraints of trade. It is even contended that the mere power to control the price of a product is illegal even though such power is not exercised. The size of an enterprise, it is contended, should be subject to government control irrespective of the policies pursued and the results accomplished.

Time does not here permit elaboration or citation of cases. I can only state my view that government regulation of trade and industry should stop short of the usurpation of managerial functions and be confined to the checking of collusive efforts to eliminate competition. Any attempt on the part of government officials to prevent one company from growing at the expense of others is a negation of the very object of competition. A policy which places in the hands of government the power to limit size, to curb "incipient tendencies," or to check the evolution of industry can only result in seriously retarding economic progress.

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 16	97.8	96.8	89.8	99.2
Equivalent to—					
Steel ingots and castings (net tons)	April 16	1,864,300	1,845,300	1,711,800	1,828,800
AMERICAN PETROLEUM INSTITUTE:					
Crude oil and condensate output — daily average (bbls. of 42 gallons each)	April 1	4,872,950	4,848,100	4,909,250	5,129,800
Crude runs to stills — daily average (bbls.)	April 1	¶5,470,000	5,469,000	5,316,000	5,269,000
Gasoline output (bbls.)	April 1	18,432,000	17,839,000	17,707,000	17,635,000
Kerosene output (bbls.)	April 1	2,301,000	2,338,000	2,184,000	1,959,000
Gas, oil, and distillate fuel oil output (bbls.)	April 1	6,501,000	6,870,000	7,048,000	6,658,000
Residual fuel oil output (bbls.)	April 1	7,922,000	8,171,000	8,140,000	8,351,000
Stocks at refineries, at bulk terminals, in transit and in pipe lines—					
Finished and unfinished gasoline (bbls.) at	April 1	135,586,000	135,406,000	134,208,000	127,769,000
Kerosene (bbls.) at	April 1	12,425,000	12,950,000	15,466,000	17,915,000
Gas, oil, and distillate fuel oil (bbls.) at	April 1	38,532,000	*40,086,000	51,670,000	48,556,000
Residual fuel oil (bbls.) at	April 1	41,041,000	42,546,000	46,036,000	58,120,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	April 1	§720,353	§717,233	§574,395	725,623
Revenue freight received from connections (number of cars)	April 1	§670,256	*§672,695	§518,611	581,137
CIVIL ENGINEERING CONSTRUCTION — ENGINEERING NEWS-RECORD:					
Total U. S. construction	April 6	$304,439,000	$258,901,000	$210,567,000	$178,242,000
Private construction	April 6	216,615,000	155,521,000	122,135,000	89,664,000
Public construction	April 6	87,824,000	103,380,000	88,432,000	88,578,000
State and municipal	April 6	65,831,000	71,419,000	76,547,000	71,977,000
Federal	April 6	21,993,000	31,961,000	11,885,000	16,601,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	April 1	11,910,000	*12,510,000	3,075,000	9,933,000
Pennsylvania anthracite (tons)	April 1	1,031,000	*1,138,000	662,000	960,000
Beehive coke (tons)	April 1	88,600	*93,600	2,800	114,200
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100	April 1	301	*279	244	301
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	April 8	5,897,831	5,911,936	8,936,586	5,359,961
FAILURES (COMMERCIAL AND INDUSTRIAL) — DUN & BRADSTREET INC.	April 6	203	193	221	230
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	April 4	‡3.837c	3.837c	3.837c	3.752c
Pig iron (per gross ton)	April 4	$46.38	$46.38	$46.38	$46.74
Scrap steel (per gross ton)	April 4	$28.83	**$28.42	$27.42	$26.17
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	April 5	18.200c	18.200c	18.200c	22.950c
Export refinery at	April 5	18.425c	18.425c	18.425c	23.425c
Straits tin (New York) at	April 5	75.375c	76.000c	74.500c	103.000c
Lead (New York) at	April 5	10.500c	10.500c	12.000c	16.000c
Lead (St. Louis) at	April 5	10.300c	10.300c	11.800c	15.800c
Zinc (East St. Louis) at	April 5	10.500c	10.250c	9.750c	15.000c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Government Bonds	April 11	102.83	103.01	103.27	101.62
Average corporate	April 11	116.41	116.22	116.41	113.12
Aaa	April 11	121.25	121.25	121.46	119.00
Aa	April 11	119.82	119.82	120.02	117.20
A	April 11	115.82	115.82	115.82	112.19
Baa	April 11	109.06	108.88	108.70	104.83
Railroad Group	April 11	111.81	111.62	111.62	108.16
Public Utilities Group	April 11	117.20	117.40	117.40	113.89
Industrials Group	April 11	120.22	120.22	120.22	117.40
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Government Bonds	April 11	2.29	2.28	2.26	2.38
Average corporate	April 11	2.83	2.84	2.83	3.00
Aaa	April 11	2.59	2.59	2.58	2.70
Aa	April 11	2.66	2.66	2.65	2.79
A	April 11	2.86	2.86	2.86	3.05
Baa	April 11	3.22	3.23	3.24	3.46
Railroad Group	April 11	3.07	3.08	3.08	3.27
Public Utilities Group	April 11	2.79	2.78	2.78	2.96
Industrials Group	April 11	2.64	2.64	2.64	2.78
MOODY'S COMMODITY INDEX	April 11	360.2	357.6	356.3	354.7
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	April 1	223,429	186,128	249,542	178,967
Production (tons)	April 1	203,668	210,897	195,468	149,318
Percentage of activity	April 1	92	95	88	75
Unfilled orders (tons) at	April 1	371,805	355,062	371,003	271,986
OIL, PAINT AND DRUG REPORTER PRICE INDEX—1926-36 AVERAGE=100	April 7	121.2	*121.6	121.8	134.1
STOCK TRANSACTIONS FOR THE ODD-LOT ACCOUNT OF ODD-LOT DEALERS AND SPECIALISTS ON THE N. Y. STOCK EXCHANGE—SECURITIES EXCHANGE COMMISSION:					
Odd-lot sales by dealers (customers' purchases)—					
Number of orders	Mar. 25	30,362	28,413	21,774	20,370
Number of shares	Mar. 25	921,896	830,869	650,791	563,395
Dollar value	Mar. 25	$39,296,060	$35,514,604	$26,303,809	$21,337,880
Odd-lot purchases by dealers (customers' sales)—					
Number of orders—Customers' total sales	Mar. 25	35,434	31,491	23,960	17,748
Customers' short sales	Mar. 25	294	181	141	171
Customers' other sales	Mar. 25	35,140	31,310	23,819	17,577
Number of shares—Customers' total sales	Mar. 25	996,888	870,826	660,535	472,042
Customers' short sales	Mar. 25	10,932	6,677	5,464	7,200
Customers' other sales	Mar. 25	985,956	864,149	655,071	464,842
Dollar value	Mar. 25	$36,845,440	$32,497,863	$23,227,829	$16,070,418
Round-lot sales by dealers—					
Number of shares—Total sales	Mar. 25	342,150	262,550	204,980	132,850
Short sales	Mar. 25				
Other sales	Mar. 25	342,150	262,550	204,980	132,850
Round-lot purchases by dealers—					
Number of shares	Mar. 25	275,030	267,600	206,280	226,570
WHOLESALE PRICES NEW SERIES — U. S. DEPT. OF LABOR—1926=100:					
All commodities	April 4	152.0	152.1	152.0	156.0
Farm products	April 4	157.6	158.5	158.0	172.6
Grains	April 4	168.0	167.3	164.0	164.1
Livestock	April 4	193.8	199.2	201.8	205.1
Foods	April 4	155.7	155.9	156.0	164.4
Meats	April 4	213.9	214.5	215.8	225.9
All commodities other than farm and foods	April 4	145.6	145.6	145.4	149.6
Textile products	April 4	135.8	136.1	136.8	142.5
Fuel and lighting materials	April 4	130.3	130.5	130.1	133.1
Metals and metal products	April 4	169.6	169.6	169.3	173.3
Building materials	April 4	193.0	192.9	193.2	197.6
Chemicals and allied products	April 4	117.3	*116.6	115.9	116.9

*Revised figure. ¶Includes 499,000 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. **Corrected.

	Latest Month	Previous Month	Year Ago
AMERICAN GAS ASSOCIATION — For Month of February:			
Total gas (M therms)	4,084,481	4,325,231	3,517,414
Natural gas sales (M therms)	3,731,943	3,975,609	3,160,406
Manufactured gas sales (M therms)	228,769	230,897	231,728
Mixed gas sales (M therms)	123,769	118,725	125,280
AMERICAN PETROLEUM INSTITUTE—Month of January:			
Total domestic production (bbls. of 42-gallons each)	167,674,000	170,465,000	180,070,000
Domestic crude oil output (bbls.)	152,590,000	155,754,000	167,072,000
Natural gasoline output (bbls.)	15,063,000	14,681,000	12,987,000
Benzol output (bbls.)	21,000	30,000	11,000
Crude oil imports (bbls.)	15,102,000	15,041,000	14,131,000
Refined products imports (bbls.)	10,959,000	10,642,000	5,355,000
Indicated consumption—domestic and export (bbls.)	204,397,000	*215,453,000	196,751,000
Decrease—all stocks (bbls.)	10,662,000	*19,305,000	††2,805,000
AMERICAN TRUCKING ASSOCIATION—Month of February:			
Number of motor carriers reporting	318	318	318
Volume of freight transported (tons)	3,147,597	*3,247,372	2,712,104
AMERICAN ZINC INSTITUTE, INC.—Month of March:			
Slab zinc smelter output, all grades (tons of 2,000 lbs.)	77,946	69,639	78,121
Shipments (tons of 2,000 lbs.)	85,589	84,257	71,017
Stocks at end of period (tons)	59,776	67,419	28,204
Unfilled orders at end of period (tons)	55,533	45,131	79,722
COAL OUTPUT (BUREAU OF MINES)—Month of March:			
Bituminous coal and lignite (net tons)	52,435,000	11,808,000	*33,762,000
Pennsylvania anthracite (net tons)	4,894,000	*2,581,000	2,373,000
Beehive coke (net tons)	265,100	*26,400	444,000
COTTON AND LINTERS — DEPT. OF COMMERCE — RUNNING BALES:			
Lint—Consumed month of February	739,438	734,186	640,179
In consuming establishments as of Feb. 25	1,825,791	1,749,946	1,616,394
In public storage as of Feb. 25	9,228,737	9,974,867	7,563,540
Linters—Consumed month of February	127,662	132,013	119,003
In consuming establishments as of Feb. 25	342,881	290,276	373,695
In public storage as of Feb. 25	65,453	69,249	85,021
Cotton spindles active as of Feb. 25	20,417,000	20,217,000	20,756,000
EMPLOYMENT AND PAYROLLS—U. S. DEPT. OF LABOR—REVISED SERIES—Month of January:			
All manufacturing (production workers)	11,460,000	*11,502,000	------
Durable goods	6,007,000	*5,957,000	------
Nondurable goods	5,453,000	*5,545,000	------
Employment indexes—			
All manufacturing	139.9	*140.4	148.9
Payroll indexes—			
All manufacturing	329.7	*330.1	345.9
Estimated number of employees in manufacturing industries—			
All manufacturing	13,997,000	*14,033,000	14,732,000
Durable goods	7,354,000	*7,300,000	8,044,000
Nondurable goods	6,643,000	*6,733,000	6,738,000
METAL PRICES (E. & M. J. QUOTATIONS)—Average for Month of March:			
Copper (per pound)—			
Electrolytic domestic refinery	18.200c	18.200c	23.178c
Electrolytic export refinery	18.425c	18.420c	23.425c
Lead (per pound)—			
Common, New York	10.963c	12.000c	18.907c
Common, St. Louis	10.763c	11.800c	18.715c
Silver and Sterling Exchange—			
Silver, New York (per ounce)	73.098c	73.250c	71.500c
Silver, London (pence per ounce)	63.957	64.000	43.500
Sterling Exchange (Check)	$2.79750	$2.79750	$4.02750
Zinc (per pound)—East St. Louis	9.940c	9.750c	17.056c
Tin (per pound)—			
New York Straits	75.694c	74.352c	103.000c
New York, 99% min. (§§)	74.694c	73.352c	102.000c
Gold (per ounce U. S. price)	$35.000	$35.000	$35.000
Quicksilver (per flask of 76 pounds)	$71.000	$71.000	$87.296
¶Antimony (per pound), (E. & M. J.)	27.882c	30.598c	41.730c
Antimony (per pound), bulk, Laredo	24.602c	27.318c	38.500c
Antimony (per pound), in cases, Laredo	25.102c	27.818c	39.000c
Antimony (per pound), Chinese Spot	Nominal	Nominal	Nominal
Platinum, refined (per ounce)	$66.000	$66.000	$75.111
†Cadmium (per pound)	$2.00000	$2.00000	$2.00000
‡Cadmium (per pound)	$2.07500	$2.07500	$2.05000
§Cadmium (per pound)	$2.15000	$2.15000	$2.10000
Cobalt, 97%	$1.800	$1.800	Not avail.
Aluminum, 99% plus, ingot (per pound)	17.000	17.000	17.000
Magnesium, ingot (per pound)	20.500c	20.500c	20.500c
**Nickel	40.000c	40.000c	40.000c
NEW CAPITAL ISSUES IN GREAT BRITAIN—MIDLAND BANK, LTD.—Month of February	£9,690,000	£10,995,000	£5,430,000
PORTLAND CEMENT (BUREAU OF MINES)—Month of February:			
Production (bbls.)	13,070,000	15,174,000	13,751,000
Shipment from mills (bbls.)	9,775,000	9,593,000	9,134,000
Stocks (at end of month) (bbls.)	23,562,000	20,267,000	22,206,000
Capacity used	67%	70%	73%
RR. EARNINGS — CLASS I ROADS (ASSOC. OF AMERICAN RRS.) — Month of Feb.:			
Total operating revenues	$584,927,686	$657,044,390	$675,771,407
Total operating expenses	501,117,846	546,665,008	567,794,600
Operating ratio—per cent	85.67	83.20	84.02
Taxes	55,118,342	64,111,602	64,289,723
Net railway operating income before charges	15,236,248	32,757,854	30,934,276
Net income after charges (est.)	—9,000,000	11,500,000	6,000,000
SELECTED INCOME ITEMS OF U. S. CLASS I RYS. (Interstate Commerce Commission)—Month of December:			
Net railway operating income	$69,309,849	$75,582,130	$64,491,439
Other income	61,066,963	21,754,801	35,212,889
Total income	130,376,812	97,336,931	99,704,328
Miscellaneous deductions from income	6,744,296	3,818,574	5,919,013
Income available for fixed charges	123,632,516	93,518,357	93,785,315
Income after fixed charges	88,524,917	57,743,306	59,760,134
Other deductions	6,069,468	3,318,190	14,317,750
Net income	82,455,449	54,425,116	45,442,384
Depreciation (way & structures & equip.)	34,683,574	35,130,793	32,848,872
Amortization of defense projects	1,465,519	1,367,669	1,158,622
Federal income taxes	12,592,286	30,383,515	33,390,366
Dividend appropriations:			
On common stock	18,236,152	36,223,051	28,854,228
On preferred stock	9,019,743	5,245,742	10,256,958
Ratio of income to fixed charges	3.52	2.61	2.76

*Revised figure. †Based on the producers' quotation. ‡Based on the average of the producers' and platers' quotations. §Based on platers' quotations. ¶Domestic, five tons or more but less than carload lot packed in cases, f.o.b. New York. **F.O.B. Port Colburne, N. S., U. S. duty included. §§Tin contained. ††Increase—all stocks (bbls.).

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The O'Mahoney Steel Report —A Political Grab for Control!

presumably the government. Back in wartime the CIO already was lobbying for some such arrangement when it proposed to President Roosevelt to limit return on investment in industry to 4% and individual annual incomes to $25,000. The proposal of the majority that schedules of intended price increases be filed with a government agency is strangely silent with respect to price decreases. Is it a case of "heads I win, tails you lose?" But such price procedures fit easily into the types of industrial strait-jackets contemplated by the Spence Bill (H.R. 2756) or S. 281 somewhat ironically called the Economic Expansion Act of 1949.

Real Purpose: Price Control

We incline to the opinion that the reference to a public utility status is a semantic device to cover up a move toward price ceilings or price control in the first instance. We don't believe the majority had in mind the idea of compensating shareholders for relinquishing their right to a relatively high return in good years by granting them full utility status involving a fair and reasonable return in poor years. The cyclical character of the steel industry being what it is, this would be quite an ambitious undertaking even if the stockholders and the management were to write all the rules. Return on the investment in the steel industry has characteristically been low, the Federal Trade Commission having found that earnings of 6% or more existed in only 7 of the past 20 years. Cognizance of this fact, known to all intelligent investors in and analysts of the steel industry, is an important reason why the quotations for many of the leading companies are far lower than the book values based on original cost and even farther below estimated present net sound depreciated values.

(5) Stockholder groups were conspicuous by their silence.

They did not register an appearance at the hearings nor did they attempt to make their views known through any of the customary channels. The United Steelworkers of America, CIO, however, were much in evidence through their director of research, Otis Brubaker, and the United Automobile Workers through Donald Montgomery, their Washington representative. If present trends continue, historians of the future will record that the investors in American industry contributed importantly to their own eventual liquidation by their indifference, lethargy and lack of organization. We are reminded of a marble plaque in the lobby of the Crillon Hotel in Paris upon which is inscribed the famous letter of Henry IV to one of his captains, written in 1589 after a great battle: "Where were you, brave Crillon, we fought at Argives and you were not there."

(6) The strict division of the majority and minority along party lines transforms the hearings into a political event of the first magnitude.

We don't know whether the seven Democrats, who comprised the majority, or the six Republicans, who were in the minority, will utilize the wealth of material which the hearings and reports brought forth as a source or a basis of political potential. Speaking personally, we feel that the majority views constitute a blueprint for the virtual destruction or at best the enfeeblement of U. S. heavy industry to a degree where the State for reasons now all too thoroughly propagandized would find it easy to step in and take over. How destroyed or how enfeebled? Well, through the purse, because if the rules of the game were to be changed to suit the majority, no investor outside the psychopathic ward at Bellevue would ever put a dollar of new savings into heavy industry. By way of contrast, we feel the minority views are realistic, factual and temperate. They apparently come from men who know what makes the wheels of free enterprise turn and wish to preserve and nurture this system.

It is to be hoped that the vital isue highlighted by these hearings will be clarified and simplified so as to be comprehensible to the average lay voter unskilled and untutored in the mumbo-jumbo of accounting and the terminology of industrial economics. This issue is, as we have stated, not merely that of steel prices. It involves the future of all industry and not merely a schedule of prices for steel products but the whole price system, which is the crucial organizing and regulating mechanism of free enterprise.

Guilty Before Trial

And as for the hearings, well, they comprised a sort of demonstration trial in which the writers of the majority report constituted themselves prosecutors, judge and jury. We have seen all too many trials of this type in various parts of the world recently, trials in which the verdict is known in advance and in which a principal objective is to propagandize the particular views of the party in power. Of course, the ultimate victims abroad were people, while in Washington there were only stockholders involved. Or by any chance, are stockholders also people?

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Britain's Overemphasis of Individual Security Obstructing Competition and Economic Progress

done and is so intensive, there develops, even among the business men a certain liking for the easy, controlled life, a certain love of the chains that at the same time limit their movements and also guarantee them an easy and profitable life.

On top of those difficulties, not to merely the same extent, in World War II there was a further complicating factor, and that was that it so happened that the conduct of the war led to an enormous extension of the capacity of some of the British exporting industries, particularly the steel industry, and also to the capture by other producers of the markets of others of the British exporting industries, in particular the cotton-textile industry, so that when we emerged from World War I with very substantial proportions of over-capacity in several of our most important industries that, as I say, has been avoided in World War II, for a variety of reasons that it would be interesting to expound but which my time does not permit.

Well, the second reason for the change in the attitude towards competition is, I think, to be found in the relative size of the two economies. The British national product, gross national product, in the roundest of round figures, and converting at the present rate of exchange, is about $35 billions, whereas the American is $250 billions or more, and that is a ratio of, shall we say, one to seven.

Moreover, I will remark in passing that in spite of that enormous ratio of one to seven, I think it is still true that the British national income is still the second largest in the world. With other countries you would find the ratio even greater than one to seven.

The Undersized Market

Now, that means that the market that is available is in many industries becoming too small to provide a really competitive condition in a number of the industries that require very heavy capitalization. I am always in great danger of error whenever I put even one foot over the line of technicalities, but I have been told and believe it to be true that, for example, it is impossible to contemplate having more than, at the most, two continuous strip steel rolling mills in Great Britain.

Well, now, clearly, when there can only be, for technical reasons, two producers of a given article, clearly there is not a competitive situation and there can not be a competitive market. Clearly, also, before anyone or any two producers are willing to invest the very large sums of money necessary to produce such equipment, they need to have some assurance that somebody else is not going to put down a third or a fourth, and in those situations, I think, you can very readily see, various devices which, however good their intentions, have the effect of limiting competition naturally or otherwise.

Britain Nearing Population Peak

Thirdly, this British economy is not only very much smaller than the American economy, it is also one that is nearing the peak of its population. Doctor Moulton referred to the quite astonishing fertility of the American people within the last ten years (laughter from audience) which has upset all the forecasts of the population experts and have made it possible once again to believe that the population and therefore, fundamentally, the productive power of this country can look forward to a period of expansion which if it is not quite indefinite will certainly last for a long time yet.

Now, in Britain, that is not so. There was some increase in the birth rate in the war years, and the estimates of the population experts have been, to some extent, falsified, but to nothing like the same extent as in this country, and the position is still as it was 10 years ago, that we have just about reached the peak of our population.

It has just pushed over the figure of 50 millions, and that is where it will go. Now, clearly, that means that the expansion of the economy from here on out is limited to the increase that will prove to be possible in productivity, per head of the population. Indeed, towards the end of the 20th Century, you may find that productivity, the rise of productivity per head is beginning to be offset by a fall of the number of heads that can be produced, whereas in this country you are going to have the two curves reinforcing each other, the productivity going up and the number of heads going up also.

Overcapitalization

There also you can see is a factor which in Great Britain to a much greater extent than in this country, namely, a general tendency towards overcapitalization, and it is overcapitalization either temporary or permanent, which is far and away the biggest enemy of competitive countries.

Now, my three reasons that I have given you—so far as one can humanly foresee—are not likely to be operative in the United States. But now I come to two, and very pertinent ones that conceivably may. The first of these is the effect on the trade cycle.

It so happened that Great Britain suffered from depression and unemployment throughout, substantially, the whole of the period between the two world wars. The depression was not as deep, and the unemployment was not as severe as you suffered in this country in the early 30's nevertheless, those were years in Britain of depression and unemployment.

There was a chronic tendency for supply of all things to exceed demand for them. That is a case of temporary overcapitalization. And when the temporary lasts as long as 20 years it creates in men's minds a very powerful urge to search for means of removing all the human misery that is caused by unemployment, and one of the devices that very quickly comes up, and very quickly achieves support in such circumstances, is the general idea that competition is wasteful and hurtful, and that the amount of market, the apparently fixed market, can be equitably shared out among the producers.

Lest you should be tempted to think that is an unusually soft and quick yielding to temptation, let me briefly, and in some spirit of criticism, remind you of the great support that was forthcoming in this country for exactly similar ideas, written into law in the form of the National Industrial Recovery Act of 1933.

For 20 years the ideas of the Blue Eagle have prevailed in England, and that accounts for quite a large part of the "slump-mindedness" which supports the present attitude of opposition to competition.

Number Five on my list is another one which perhaps comes even nearer at home to you in the United States, which I do not need to go back to 1933 to find my example for, and that is the effect of labor unions.

Effect of Labor Unions

Now, in England, the labor unions, the trade unions, as we call them, had reached the position of being substantially in control of the labor market. As long as 30 years ago! We have had a whole generation of experience of a strong trade union, a strong labor movement, and the effect, beyond any question, has been to strengthen the anti-competitive forces.

The basic doctrine of the trade union movement is the doctrine of the standard pay-wage. That is to say, a worker in a given trade shall have the same rate of pay as the man who is working alongside of him or, indeed, who is working in the plant across the street.

That doctrine, which I am not standing here this morning to criticize, which I am merely mentioning as one of the most important factors in the situation, that doctrine, unquestionably tends to make costs rigid. That is the more so when the power of labor unions extends beyond the rate of wages and begins to cover the field of labor and productive practices in general. When, for example, the number of men who are necessary to operate a given machine is not within the power of the employer to decide, but is laid down by trade union rule and is uniform from one plant to another.

Now, it is quite natural that when you have trade unions, organizations of labor putting themselves into a position of such strength in the labor market, it is quite natural that there should be a similar growth of organization on the employers' side, and in the past generation in England we have had a very great deal. There has been an enormous growth of trade associations, of employers associations, which came into existence no doubt originally for the purpose of bargaining but have remained in existence to move on and try and find some way in which the rigid costs to which collective bargaining leads can be matched by equally stable selling prices.

The Tariff Factor

Now, I have got two more on my list, and here I come for the first time to a specific act of governmental policy. That was the decision that was taken when in 1932 Great Britain decided, after nearly a century, to reverse its policy of free trade, and to enact a protective tariff. And the particular form that that enactment took, in the Import Duties Act of 1932, has been a most powerful instrument in removing competition from British industry, because the Act took the form of imposing a general import duty of 10% *ad valorem*, and then giving the government the right to impose additional duties if application were made and case stated.

Well that, of course, immediately led every industry that hankered after any form of protective tariff to form itself into an association for the purpose of making an application and stating the case, and when they did so they found that the ideas prevalent in governmental circles at that time—and I am speaking of both of the depressions of 1932 and 1933—were very strongly in favor of organization as a condition for protection.

I think they sometimes used the word "efficiency," but it is quite clear from the word that "efficiency" was being used as a synonym for "organization." For example, the steel industry, which was one of the leading cases, was disposed to form itself into a tolerably tight cartel as a condition of being given protection against imports.

The deliberate policy of the British Government of those days, so far from being inspired by Sherman Act and anti-trustism, was quite openly and deliberately contrary and that had and still has a most powerful influence.

Socialism

Now, my seventh and last—and no doubt you would have thought that I should have put it first—is socialism. Well, I would say that socialism, in the sense of a specific doctrine, a specific set of beliefs as to how government, how industry, should be run, has had a very small influence, a very small influence in this growth of anti-competitive opinions in England.

And without discussing that particular subject at any length, I will give you just two reasons, which are all but conclusive for believing that is so:

First of all, that it wasn't until 1945 that a socialist government was growing in power and therefore anything that is done deliberately as part of socialist doctrine must be confined to those last few years.

Secondly—my second reason, is that you will find that the dislike of competition is just as strong—indeed, I sometimes think, stronger—among the businessmen and the industrialists, among British management, among people who would sue me for libel if I said or implied they

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Britain's Overemphasis of Individual Security Obstructing Competition and Economic Progress

were socialists in any meaning of the word whatever—I think that it is rather an easy conclusion to which I sometimes find people in this country jumping, that it must be the insidious disease of socialist doctrine that has produced this reaction against competition in England.

This is so far from the truth that it can best be regarded as being the opposite of the truth. It is misleading. It will obscure your analysis of conditions in England, if you open your minds to that doctrine. It is far nearer to the truth to assume that these phenomenal changes that I have been describing are due to the impact upon the British community of external circumstances, and that the very widespread belief in socialist principles in England is to be regarded more as an affect of the general political and economic circumstances of the country than as their cause.

I have left myself very little time to describe the results of this change in opinion, and I want, very briefly, though, merely to say this, that though they have been bad, though one can make quite a long list of the deleterious effects of this non-competitive state of affairs in particular point of the rate of economic progress, you would find great difficulty indeed in proving that they have been disastrous.

For example, the rate of production, of output in the United Kingdom is today not only higher than it has ever been, but, indeed, the increase in productivity per head in the past 12 months has been at the rate of 5½% per annum, a figure so large that I confess I distrust it, but if the true figure is anything like that order of magnitude, that is a rate of technical progress far higher than was achieved, on the average, in the competitive 19th Century.

Also, this non-competitive state of affairs has been combined with quite enormous social advantages in Great Britain. There is certainly very much less wealth, either corporate or individual, in England, than there is in the United States, but I sometimes think as I go about that there is less poverty, too. That also should not be forgotten, in casting up the balance sheet.

Effects Bad

But when all that has been said, I still think it remains true that the long-term effects of this shift-over in opinion from competition to non-competition are, on the material plane at least, going to be bad. They explain much of the material sluggishness that can be observed in British industry today. They explain the halting technical progress of many industries.

Well, finally, can one look forward, in England, to any change back towards the old ideas? Not, I think, without a change in public opinion, and the essential point that I want to put before you this morning is that British public opinion is hostile to the idea of competition. And that is true on both sides of the fence, among capital as well as in labor, in the Conservative Party as well as in the Labor Party.

Competition Scorned

Competition is regarded as being—briefly expressed—a bad thing. Indeed, the word "competition" is hardly ever allowed out in public in England without some label such as "cut-throat," "wasteful," "damaging," "hurtful," or the like, being tied around its neck (laughter from audience).

Now, why should this be so? Because unless this general popular approach is changed, I can not hold out any prospect to you of a change in the state of British industry, and again I would impress upon you that this attitude, no doubt so strange to your minds, is not just due to foolishness, or to blindness, or to addiction to wrong doctrine. It arises from circumstances. It arises, in particular, from the passion that the British people have acquired in the last generation for individual security.

The Psychological Origins

Now that, no doubt, has psychological origins. There are people who can trade it to the climate, or to the diet. But for myself, I do not think that you have to look any further than the history of the last generation to find the explanation. We have gone through a most insecure time, in England, in the last 30 years, and by perfectly natural processes there is bred in the individual mind a passion for security.

Sometime ago, on one of my visits to this country, I remember seeing a magazine published in this country that was devoted to industrial problems and which, under its title, ran the battlehead, the slogan, something of this sort: Dedicated to all who believe in making better goods at lower cost.

And suddenly it occurred to me—but nobody in my own country would say that was the purpose of industry.

If you stopped the man in the street and asked him what industry was for, he would say, "to provide a decently remunerative job for as many people as possible."

If you accept that difference in psychological approach, very much of the rest follows. Now, I would like to leave with you the thought that the British approach to these matters may not be wholly wrong. Those of you who know my paper know that I spend most of my time pointing out defects of the British system, and out of earshot of my English listeners, I would like to suggest to you, to this American audience, that this different approach may not be wholly wrong.

My old friend, Professor Allan Fisher, who spoke to you yesterday, and whom I am delighted to see here this morning, once wrote a book, a most inpressive and important book called "The Clashing of Progress and Security" and that, I think, is a description of the whole of the 20th Century.

Progress vs. Security

The clash between progress and security now, in this country, you set up as your ambition a particular balance, a particular formula, of mixture between these elements of progress and security. We in England set up a different mixture, a different balance. I think there are many of us there now who think that we have got the balance wrong, that we have too much security and too little progress, that we have neglected our material productivity to such an extent that we are now finding ourselves in difficulties, in difficulties both abroad, typified by the persistent dollar gap, and difficulties also at home.

That is to say in producing enough from material income to support the program of individual security that is placed upon it. But I do not think that we should ever wish to adopt exactly the same formula of combination between progress and security that you would.

To an Englishman coming to this country, he is first of all impressed by the enormous material wealth that is produced by your competitive economy, and then I think, he is less favorably impressed by the phenomenon of individual insecurity that goes with it. Now, that is no doubt a shocking thought to you, and I would merely just mention in passing that if you take any of the phenomena that indicate individual insecurity, such as the suicide rate, the incidence of mental instability, the alcoholism, the incidence of divorce, any of the other signs of personal insecurity, I think you will find that the incidence of all of those is quite considerably higher in this country than it is in the United Kingdom. Here, I am in my capacity as reporter, and not as commentator. I think the Englishman would say, "Give us a little bit more competition and a little bit more progress, but let us keep, as much as we can of our security."

I notice more and more that British industries are sending teams of explorers over here to try and find out what is the secret of your exhuberant, your bouyant productivity. Good luck to them! It is a good development and one which I hope to see extended. I hope that they will be able to find the magic prescription that produces such wonderful material prosperity in this country. When they have found the prescription, and when we have made up the bottle of medicine in England, I don't think that we shall ever want to drink the lot.

Two With Waddell, Reed

(Special to THE FINANCIAL CHRONICLE)

KANSAS CITY, MO.—Gerald W. Bartsch and Rufus F. Roberts are now associated with Waddell & Reed, Inc., 1012 Baltimore Avenue.

With White & Co.

(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, MO.—Clarence V. Norfolk is with White & Co., Mississippi Valley Trust Bldg.

Securities Now in Registration

• INDICATES ADDITIONS SINCE PREVIOUS ISSUE

• Aelus Wing Co., Inc.
April 10 (letter of notification) 300,000 shares of capital stock, of which 150,000 will be offered publicly, 148,599 shares will be held in reserve to pay for work done by employees who desire part of their compensation to be paid in common stock, and 1,401 shares to cover stock previously subscribed for at $1 per share. **Offering**—The 150,000 shares will be offered through salesmen. **Price**—At par ($1 per share). **Proceeds**—To construct housing units, boats, aircraft, etc. **Office**—505 Perry Street, Trenton, N. J.

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. (5/10-15)
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. Expected between May 10 and 15.

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 Phenolic Corp., Cicero, Ill.
April 3 (letter of notification) 12,000 shares of common stock (par $1) to be offered at market price (of between $7 and $8 per share) for account of Arthur J. Schmidt, Chicago, President. No underwriter. **Office**—1830 S. 54th Street, Cicero, Ill.

• Ampal-American Palestine Trading Corp.
April 10 filed $3,000,000 of 10-year 3% sinking fund debentures. **Underwriter** — Israel Securities Corp., New York. **Proceeds**—To increase working capital to be used for enterprises in Israel. **Business**—Developing the economic resources of Israel.

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.

Associated Natural Gas Co., Tulsa, Okla.
March 14 (letter of notification) 2,500 shares of common stock at $100 per share. No underwriter. Proceeds to build a natural gas transmission line. **Office**—105 N. Boulder, Tulsa, Okla.

Beverly Gas & Electric Co.
Dec. 20 filed 33,000 shares of capital stock (par $25) to be offered to stockholders at the rate of 1½ shares for each two shares now held, at $30 per share. No underwriter. The proceeds will be used to pay off $575,000 of notes held by the New England Electric System and bank loans.

Bluegrass Life Insurance Co., Louisville, Ky.
March 10 (letter of notification) 100,000 shares of common stock at $2.50 per share. No underwriter. Proceeds for minimum operation capital. **Office**—Marion E. Taylor Bldg., Louisville, Ky.

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 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. Probable bidders for bonds: Halsey, Stuart & Co. Inc.; Coffin & Burr, Inc.; Kidder, Peabody & Co. Traditional underwriter for stock, Coffin & Burr, Inc. **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.

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.

● **Consolidated Engineering Corp., Pasadena, California**
April 3 (letter of notification) 50 shares of common stock (par $1) to be sold at $5 per share to Francis L. Vore, Monrovia, Calif. No underwriter. Proceeds for working capital.

● **Cordillera Corp., Seattle, Wash.**
March 29 (letter of notification) 50,000 shares of non-assessable common stock at 50 cents per share. No underwriter. Proceeds to develop and operate Ling mining properties in Colorado. **Office** — 902 Seaboard Bldg., Seattle 1, Wash.

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.

● **Dairy Dream Farms, Inc.**
April 5 (letter of notification) 5,139.6 shares of common stock (par 10¢), to be offered under plan of recapitalization to common stockholders pro rata at par. Proceeds to pay current debts and for working capital.

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.

● **(The) Dominion Plan, N. Y. City**
April 11 filed $5,000,000 of quarterly investment series for the purchase of trusteed industry shares. **Sponsor**—Income Estates of America, Inc., New York.

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.

Douglas Oil Co. of California
Feb. 3 (letter of notification) 15,000 shares of common stock (par $1) to be sold at the market price of about $3.75 per share by Woodrow G. Krieger, President. **Underwriter**—Shearson, Hammill & Co., Los Angeles, Calif.

Drewrys Ltd., U. S. A., Inc., South Bend, Ind.
Feb. 20 (letter of notification) 8,015 shares of common stock (par $1) to be sold by Carleton S. Smith, President, for $12 per share. **Underwriter**—R. C. O'Donnell & Co., Detroit. **Office**—1408 Elwood Ave. Temporarily postponed.

Drewrys Ltd., U. S. A., Inc., South Bend, Ind.
March 1 (letter of notification) 9,000 shares of common stock to be sold at the market price by Alfred Epstein. No underwriter.

(Allen B.) Du Mont Laboratories, Inc. (4/20)
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. Expected about April 20.

NEW ISSUE CALENDAR

April 13, 1950	
Delaware, Lackawanna & Western RR. Noon (EST)	**Equip. Trust Ctfs.**
Great Plains Development Co. of Canada, Ltd.	Notes & Stock
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**
April 20, 1950	
Du Mont (Allen B.) Laboratories, Inc.	**Common**
Glatfelter (P. H.) Co.	**Preferred & Com.**
Nashville, Chattanooga & St. Louis Ry.	**Equip. Trust Ctfs.**
April 25, 1950	
Rochester Gas & Electric Corp.	**Preferred**
May 1, 1950	
American Gas & Electric Co.	**Notes**
Idaho Power Co.	**Preferred**
May 10, 1950	
American Cladmetals Co.	**Common**
May 22, 1950	
Iowa Public Service Co.	**Preferred**
May 23, 1950	
California Electric Power Co.	**Common**
June 7, 1950	
California Electric Power Co.	**Bonds**

● **Eastern Corp., Bangor, Me.**
April 3 (letter of notification) 2,500 shares of common stock (par $10) to be offered at the market price (about $14.625 each) by the Central National Corp., New York City. No underwriter.

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 13; rights will expire April 24. **Underwriter**—White, Weld & Co., New York. **Price**—To be supplied by amendment, along with dividend rate. **Proceeds**—To pay for construction of new San Juan pipe line. Expected in April.

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.

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. (4/20)
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. The offer is expected to be made about April 20 and to expire May 1. **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.

● **Gold Shore Mines, Ltd., Winnipeg, Canada**
April 10 filed 500,000 shares of common stock (par $1). **Underwriter** — None. **Price**—$1.50 per share. **Proceeds**—To drill for commercial ore.

● **Golden Anchor Mining & Milling Co. Consolidated, Inc., Spokane, Wash.**
April 3 (letter of notification) 938,730 shares of common non-assessable stock (par 5 cents). **Price**—10 cents per share. **Underwriter**—None. **Proceeds**—For development and operation of mine properties. **Office**—1103 Paulsen Bldg., Spokane 8, Wash.

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. (4/13)
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. Expected today.

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.

● **Harzfeld's, Inc., Kansas City, Mo.**
March 30 (letter of notification) 2,980 shares of prior preferred stock. **Price**—At par ($100 per share). **Underwriters** — George K. Baum & Co. and Prescott-Wright-Snider Co., Kansas City. **Proceeds**—For additional working capital and to reduce short-term loans.

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.

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.
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). Bonds awarded April 12 to a group headed by White, Weld & Co. and Merrill Lynch, Pierce, Fenner & Beane on its bid of 100.18 for 2¾s. **Price**—For preferred $51 per share and dividends. Reoffering of bonds planned at 100.61. **Proceeds**—To pay short-term bank loans made for construction.

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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.

● **Intercoast Petroleum Corp., New York**
April 5 (letter of notification) 30,000 shares of common stock (par 10¢) for account of Oils & Industries, Inc. Withdrawn on April 11.

Inter-Mountain Telephone Co.
March 20 filed 95,000 shares of $10 par common stock to be offered to holders of record March 31 in the ratio of one share for each two shares held 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. Statement effective April 6.

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 efective March 22.

Kern Mutual Telephone Co., Taft, Calif.
March 31 (letter of notification) 15,000 shares of common stock offered pro rata to stockholders of record about April 10 at $10 per share; unsubscribed shares to be publicly offered at $10.50 per share. **Underwriter**—Bailey & Davidson, San Francisco Calif. **Proceeds**—To retire $33,000 of outstanding debentures and pay for construction.

● **Keyes Fibre Co., Waterville, Me.**
April 7 filed 100,000 shares of 5.6% series first preferred stock (par $25). **Underwriter**—Coffin & Burr, Inc. (The company is offering five shares of the new preferred, plus an unspecified cash payment, in exchange for each of the 13,293 outstanding shares of preferred, of which Coffin & Burr owns 9,459 shares. However, Coffin & Burr won't enter the exchange, which means only 19,170 shares of the new preferred are needed to affect the exchange offer.) **Price**—To be supplied by amendment. **Proceeds** — For cash adjustments under the exchange offer, to redeem preferred shares not surrendered, and for working capital.

● **Lloyd International Oil Corp., Tulsa, Okla.**
April 3 (letter of notification) 100,000 shares of common stock (par $1) to be sold by William L. Mann, Arcadia, Calif., President. No underwriter. **Office**—215 Calumet Bldg., Tulsa, Okla.

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.

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.

Mountain States Telephone & Telegraph Co.
March 10 filed 183,918 shares of capital stock 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.

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.

● **New York State Electric & Gas Corp.**
April 6 filed 272,380 shares of common stock (no par) to be offered to common stockholders of record April 27 at the rate of one new share for each seven held; rights will expire May 15. **Underwriters**—First Boston Corp.; Lehman Brothers; Wertheim & Co.; and Merrill Lynch, Pierce, Fenner & Beane; all of New York. **Price**—To be filed by amendment. **Proceeds**—For construction.

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.

● **North Western Coal & Oil Ltd., Calgary, Ala., Canada**
April 6 filed 2,200 basic units of $250 face amount each of production trust certificates, or an aggregate principal amount of $550,000, Canadian funds. **Underwriter**—Israel and Co., New York City. **Price**—$123.75 (U. S. funds) per $250 unit. **Proceeds**—For equipment, working capital and current liabilities.

Northwest Cities Gas Co., Walla Walla, Wash.
March 15 (letter of notification) 21,370 shares of convertible preferred stock (par $5), 10,685 shares being offered to common stockholders of record April 3 on a share-for-share basis at $10 per share, rights to expire May 1. The remaining 10,685 shares and any unsubscribed shares are also to be sold at not less than $10 per share, less a commission not exceeding 50 cents 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 be offered stockholders of record April 5, 1950, at the rate of one for each 10 now held. Rights will expire April 25. 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**—$41 per share. **Proceeds**—For construction. Statement effective April 4.

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. Statement effective April 7.

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. Unsubscribed securities will be retained by the company and subject to future issuance as may be subsequently determined. 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.

● **Paramount Fire Insurance Co. (N. Y.)**
April 5 (letter of notification) 50,000 shares of common stock (par $10). **Price**—$28 per share. **Offering**—To stockholders of record April 15, 1950, rights expiring on May 8, 1950, on a share-for-share basis. Transamerica Corp. owns 44,870½ of the outstanding shares. Any unsubscribed shares will be taken by Transamerica. **Proceeds**—$10 per share to capital account and balance to surplus account. **Underwriter**—None.

● **Peninsular Telephone Co., Tampa, Fla.**
April 12 (letter of notification) 50,938 shares of common stock (no par) to be offered to stockholders at rate of one new share for each five held. **Underwriters**—Morgan Stanley & Co.; Coggeshall & Hicks; and G. H. Walker & Co., New York. **Price**—To be filed by amendment. **Proceeds**—For general corporate purposes, including expansion of facilities.

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.
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.

● **Pepsi-Cola Co.**
April 4 (letter of notification) 4,500 shares of capital stock (par 33⅓¢), to be offered on the New York Stock Exchange through Delafield & Delafield at the market (about $10.87½ per share), for account of Walter S. Mack, Jr., Chairman of the board.

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 stockholders April 18 at the rate of $100 of debentures for each eight shares held. Rights are expected to expire on May 2. **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.

● **Portal Drilling Corp., Tucson, Ariz.**
April 3 (letter of notification) 117,000 shares of $1 par value common non-assessable stock to be offered at par ($1 per share). No underwriter. Proceeds for drilling, leases and development work. **Office**—1448 N. 1st Ave., Tucson, Ariz.

● **(The) Potomac Plan, Washington, D. C.**
April 11 filed $3,600,000 of securities. **Sponsor**—Capital Reserve Corp., Washington. An investment fund for the systematic accumulation of the common stock of Potomac Electric Power Co.

Power Petroleum Ltd., Toronto Canada
April 25, 1949, filed 1,150,000 shares ($1 par) common of which 1,000,000 on behalf of company and 150,000 by New York Co., Ltd. **Price**—50 cents per share. **Underwriters**—S. G. Cranwell & Co., New York. **Proceeds**—For administration expenses and drilling. Statement effective June 27, 1949.

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.

● **(The) Prudential Fund of Boston, Inc.**
April 11 filed 91,752 shares of capital stock (par $1). **Underwriter**—Standish Ayer and McKay, Inc., Boston.

● **Public Service Co. of Northern Illinois**
March 31 (letter of notification) 1,142 rights to subscribe to additional common stock at $1 per right and 283 shares of this stock at $100 each. (The company offered stockholders of record March 28 the right to buy one new share for each 12 held. Commonwealth Edison Co., as holder of 99.81% of the common, bought most of the shares. Only 2,254 shares are held by 148 public stockholders. The rights are offered to give these stockholders a chance to round out their holdings to 12 rights since no fractional shares will be sold.) No underwriter. Proceeds are for working capital.

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.

Rand McNally & Co., Chicago
March 14 (letter of notification) 20,000 shares of common stock (par $10). **Price**—$15 per share. Underwriter—None. **Proceeds**—To be added to working capital. **Office**—536 So. Clark Street, Chicago, Ill.

● **Reid Brothers, Ltd., San Francisco, Calif.**
April 3 (letter of notification) 10,000 shares of preferred stock. **Price** — At par ($10 per share.) **Underwriter**—Denault & Co., San Francisco. **Proceeds**—To restore depleted stocks, buy new items and for additional working capital.

Rochester (N. Y.) Gas & Electric Corp. (4/25)
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. Expected April 25, the exchange offer to expire May 4.

Rotella Beverages, Inc. (N. J.)
Feb. 17 (letter of notification) $100,000 10-year 5% convertible income debentures, at par, in New Jersey only. No underwriter. Proceeds for additional working capital. **Office**—45 Downing Street, Newark, N. J.

Security Insurance Co. of New Haven
March 22 filed 50,000 shares of capital stock (par $10) and warrants enabling stockholders to purchase these shares at $30 per share on the basis of one share for each five held April 12. Rights will expire May 2. **Underwriters**—Chas. W. Scranton & Co. and Day, Stoddard & Williams, Inc. **Proceeds**—To increase company's capital and surplus.

● **Segal Lock & Hardware Co., Inc.**
April 5 (letter of notification) 2,500 shares of common stock (par $1), to be offered at market (approximately $1.75 per share) through Delafield & Delafield, New York, for the account of a selling stockholder.

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.

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.

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.

South Carolina Electric & Gas Co. (4/18)
Nov. 22 filed $22,200,000 first and refunding mortgage bonds, due 1979. **Underwriter**—Names by amendment. (Prospective bidders include: Halsey, Stuart & Co. Inc.; Kuhn, Loeb & Co. and Glore, Forgan & Co. (jointly); 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) 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. (4/26)
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.

● **Spencer Chemical Co., Kansas City, Mo.**
April 10 filed 250,000 shares of $6 par value common stock (par $6) to be sold for account of J. H. Whitney & Co., The Pittsburg and Midway Coal Mining Co. and Kenneth A. Spencer. **Underwriters**—Glore, Forgan & Co. and Kidder, Peabody & Co. **Price**—To be filed by amendment.

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.

● **Structolite Corp., Richmond, Calif.**
April 3 (letter of notification) 25 shares at $1,000 per share. No underwriter. Proceeds to buy crude material and build processing machinery to make Perlite. **Office**—627 Portola Ave., Richmond, Calif.

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.

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.

● **Texas Electric Service Co.**
April 6 filed 175,000 shares of preferred stock (no par) of which 65,000 will be offered in exchange for a like number of outstanding $6 preferred shares on a share-for-share basis and the remainder will be sold to the public. **Underwriters** — Kidder, Peabody & Co. and Merrill Lynch, Pierce, Fenner & Beane, New York. **Price**—To be filed by amendment. **Proceeds**—For construction.

● **Texas Power & Light Co.**
April 6 filed 203,786 shares of preferred stock (no par) of which 133,786 will be offered to holders of outstanding 7% and $6 preferred stocks in exchange for their shares on a share-for-share basis, plus a dividend adjustment on all exchanges and a $5 per share share payment on all 7% shares exchanged. The remaining 70,000 shares will be sold to the public. **Underwriter**—To be supplied by amendment, along with price and dividend rate. **Proceeds**—To pay off loans from Texas Utilities Co., parent, for construction.

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.

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.

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.

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.

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.

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.

● **Broadway Department Store, Inc.**
April 11 stockholders approved offer of 1¾ shares of company's common stock in exchange for each share of Hale Bros. Stores, Inc. stock under a plan of consolidation. Expected exchange offer will be made about May 15. Traditional underwriter: Blyth & Co., Inc.

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.

● **Budget Finance Plan, Inc.**
March 20 reported company plans to issue bonds, probably to an amount of $1,250,000.

● **California Electric Power Co. (5/23) (6/7)**
April 12 company filed with California P. U. Commission tentative financing plans calling for the sale of 180,000 additional shares of common stock and $2,000,000 of a new series of first mortgage bonds. The stock is expected to be sold on a negotiated basis with the offering tentatively set for May 23 (traditional underwriters: Shields & Co. and Walston, Hoffman & Goodwin). The bonds are to be sold through competitive bidding about June 7 (probable bidders: Halsey, Stuart & Co. Inc.; Shields & Co.; Kidder, Peabody & Co.). Invitations for bids on the bonds are expected to be published on May 31. **Proceeds**—To finance in part property expenditures for 1950 and 1951.

● **Celanese Corp. of America**
April 12 the stockholders voted 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 Corp.**
April 6 company announced plans to sell this year between $7,000,000 and $10,000,000 first mortgage bonds, $3,500,000 preferred stock next year and between $6,000,000 and $9,000,000 of additional bonds in either 1951 or 1952. The proceeds will be for construction.

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, Rock Island & Pacific RR.**
April 11 company applied to the ICC for authority to issue $3,630,000 of equipment trust certificates. Probable bidders: Halsey, Stuart & Co. Inc.; Harriman Ripley & Co., Inc. and Lehman Brothers (jointly); Lee Higginson Corp.; Salomon Bros. & Hutzler; Harris, Hall & Co. (Inc.).

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.

● **Commercial Credit Co.**
March 30 stockholders approved creation of 500,000 shares of cumulative preferred stock (par $100) of which company plans to sell 250,000 shares. A group of underwriters, headed by Kidder, Peabody & Co. and The First Boston Corp., are expected to offer the stock.

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.

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

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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.).

● **Delaware, Lackawanna & Western RR.**
April 3 company applied to ICC for authority to issue $11,613,600 of new Pennsylvania Division refunding mortgage and collateral trust bonds due 1985 and for exemption from competitive bidding. The bonds are to be offered in exchange for Morris & Essex consolidated mortgage bonds, 5s series A, and 4½s series B, due 1955 on basis of $400 in cash and $600 in new bonds (with interest at same rate as old bonds). The lien of the new bonds will be subject only to a new first mortgage under which a maximum of $12,000,000 may be issued. Of this amount, Metropolitan Life Insurance Co. will purchase up to $7,750,000, the amount necessary should all Morris & Essex bonds assent to the exchange. Georgeson & Co. will aid in soliciting exchanges. The First National Bank of New York is exchange agent.

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.

Hamilton Watch Co.
April 11 stockholders authorized 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.

● **Holiday Brands, Inc., Boston, Mass.**
April 10 it was announced company plans to offer 400,000 shares of class A common stock. **Price** — $3 per share. **Underwriter**—Clayton Securities Corp., Boston. Expected early next month.

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.**
April 10 company applied to SEC for authority to issue and sell at competitive bidding $3,000,000 of first mortgage bonds, series due 1980; and to sell at public or private sale through a negotiated underwriting 100,000 shares of $50 par preferred stock (the latter being subject to stockholder authorization on May 2); and to issue and sell at competitive bidding not exceeding 275,000 shares of common stock (par $3.50). Probable bidders: Merrill Lynch, Pierce, Fenner & Beane and Kidder, Peabody & Co. (jointly); Halsey, Stuart & Co. Inc.; Smith, Barney & Co.; The First Boston Corp. Proceeds to pay $2,400,000 of 3% notes and $5,000,000 of first mortgage 4½% bonds, due 1978, and for new construction.

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.

● **Kansas City Power & Light Co.**
March 31 reported planning sale of $12,000,000 to $15,000,000 of first mortgage bonds this year in addition to the sale of additional equity securities. Probable bidders for bonds: Halsey, Stuart & Co. Inc.; Glore, Forgan & Co. and W. C. Langley & Co. (jointly); White, Weld & Co., Shields & Co. and Central Republic Co. (jointly); Lehman Brothers and Bear, Stearns & Co. (jointly); The First Boston Corp.; Equitable Securities Corp.; Smith, Barney & Co.; Kuhn, Loeb & Co., Salomon Bros. & Hutzler and Union Securities Corp. (jointly); Harriman Ripley & Co.

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.

● **Lorillard (P.) Co.**
April 4, Herbert A. Kent, President, said: "It may be necessary to do some financing" before Aug. 1, 1951 to redeem $6,195,400 of 5% bonds due on that date and for additional working capital to meet expanded sales volume. He added that company plans to pay off its bank loans in full by July, 1950. These loans now amount to $12,000,000. Traditional underwriter: Lehman Bros.

● **Montana-Dakota Utilities Co.**
May 1 bondholders will vote on increasing the aggregate principal amount of bonds which may at any one time be outstanding to $40,000,000 from $20,000,000.

● **Montaup Electric Co., Fall River, Mass.**
March 30 announced company expects to formulate plans in the near future to refinance bank loans and to finance construction program through 1951, estimated at $12,329,400.

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. **Price**—Expected at $5 per share.

● **Nashville, Chattanooga & St. Louis Ry. (4/20)**
April 10 reported planning to issue $4,800,000 of equipment trust certificates to mature serially in one-to-fifteen years. Probable bidders: Halsey, Stuart & Co. Inc.; Equitable Securities Corp. and Harris, Hall & Co. (Inc.) (jointly); Kidder, Peabody & Co.; Salomon Bros. & Hutzler; Harriman Ripley & Co., Inc. and Lehman Brothers (jointly). Expected about April 20.

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. **Underwriters**—May include Blyth & Co., Inc.

Northern Natural Gas Co.
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.

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.

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.**
April 11 it was reported investment banking firms have formed groups to bid for a probable offering of $30,000,000 new bonds, the proceeds to be used to refund at lower cost $20,000,000 in outstanding 3¼s, due 1966, and to provide construction funds.

● **Public Service Co. of Colorado**
May 22 stockholders will vote on increasing authorized preferred stock (par $100) from 300,000 shares to 375,000 shares; the additional 75,000 shares, in addition to $7,500,000 debentures are expected to be sold about mid-year. Probable bidders: (1) for preferred: Glore, Forgan & Co. and W. C. Langley & Co. (jointly); First Boston Corp., Boettcher & Co. and Bosworth, Sullivan & Co. (jointly); Lehman Brothers; (2) for debentures: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc., and Smith, Barney & Co. (jointly); First Boston Corp.; Kidder, Peabody & Co.; (3) for both issues: Lehman Brothers; Harris, Hall & Co. (Inc.).

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.

● **Rochester Telephone Corp.**
April 4 it was announced that the stockholders on April 19 will vote on the issuance of 300,000 additional shares of common stock (par $10). Traditional underwriter: First Boston Corp.

● **Safeway Stores, Inc.**
March 31 management reported considering possibility of offering additional common stock to common stockholders, the proceeds to be used to redeem outstanding long-term debt or for working capital. It is also proposed to replace the outstanding 5% preferred stock with another series of preferred stock with a lower dividend rate. Traditional underwriter: Merrill Lynch, Pierce, Fenner & Beane.

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 $31,534,500 outstanding 4% 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. Expected late this month.

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. Expected early in May.

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.

Transcontinental Gas Pipe Line Corp.
March 27 it was announced that the company will sell $32,000,000 additional first mortgage pipe line bonds (which may be placed privately) and will borrow $10,000,000 from banks. Proceeds will be used to expand operations.

Utah Power & Light Co.
March 28 G. M. Gadsby, President, reports company plans late this year to sell $10,000,000 of bonds, plus an additional like amount in 1951, together with 150,000 additional common shares in the latter year and 165,000 shares in 1952, the proceeds to meet construction costs. Probable bidders for bonds: Halsey, Stuart & Co. Inc.; Drexel & Co.; Harriman Ripley & Co., Inc. and Union Securities Corp. (jointly); Kidder, Peabody & Co.; White, Weld & Co.; Lehman Brothers; Carl M. Loeb, Rhoades & Co.

Virginia Electric & Power Co.
March 27 it was reported that company may issue next fall $20,000,000 of "new money bonds." Probable bidders: Halsey, Stuart & Co. Inc.; Union Securities Corp.; Kuhn, Loeb & Co.; White, Weld & Co.; Stone & Webster Securities Corp.; Salomon Bros. & Hutzler.

West Coast Transmission Co., Ltd.
Feb. 10 reported that Eastman, Dillon & Co. and the First Boston Corp. were ready to underwrite the financing of the 1,400 mile pipe line proposed by the West Coast Transmission Corp., along with Nesbitt, Thomson & Co., Ltd., of Montreal, Canada, and Wood, Gundy & Co. of Toronto, Canada. The financing would be divided 75% to bonds and the remainder to preferred and common stock. A large amount of the bonds are expected to be taken by life insurance companies. Arrangements will be made to place in Canada part of the securities. It is expected an American corporation will be formed to construct and operate the American end of the line in Washington, Oregon and California. The completed line, it was announced, will cost about $175,000,000.

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.

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Contribution of Imports to Business Activity and Full Employment

likely to be in semi-manufacturers and finished goods — in effect, in the product of American labor.

Your exports to Belgium fell from $535 million in 1947 to $307 million in 1949. Multiplied by shrinking exports to other countries, as the Marshall Plan runs its course, this is not an expanding outlook for you.

On the other hand, imports into the United States from Belgium rose from $59 million in 1947 to 95 million in 1949. This has narrowed our trade balance with you from a 9 to 1, to a 3 to 1 ratio—at the expense of the flow of goods from your country to mine.

Trade Deficit $200 Million

Our trade deficit with you, however, is still $200 million.

Our export also represents the product of our labor. However, we make machinery and textiles, and process canned goods for home consumption as well. As our productivity increases, we too have to consider the competition in our markets of your manufacturers of comparable products, and the degree to which they may effect employment in our industries.

This serves to illustrate the distortion in world trade especially in the emphasis which is placed on the importance of competing and completing goods.

According to the economist, Robert L. Gulick, in representative years before the war, strictly consumer goods, other than foodstuffs, comprised around 6% of total imports. In 1948, all imported finished goods going into your industrial and consumer markets, including foods, were less than one-third of your total imports. These represent merchandise with a high content of the labor of other countries. In contrast, two-thirds of your exports represented a high content of your labor.

Imports of raw materials and semi-manufactures contribute to the manufacturing processes of industry. They thereby provide employment in many industries which otherwise could not exist at their present levels.

Employment thus created or sustained means purchasing power for other products of domestic manufacture — in the same way that purchasing power is provided by those five million jobs in export industries.

Moreover, as raw materials, commodities, semi and finished goods for industrial and consumer use, move through the channels of trade, they create employment in the distributive trades. They increase demands for insurance and services, they add to the activity at ports of entry, they are warehoused, and shipped to their destinations. Even though they may displace in competitive selling American goods of a similar nature, they still have to be handled in transit. Therefore, in distribution channels, they cannot be said to displace labor.

When these goods add to existing supply or are non competitive —if they are **completing items**— they increase total labor employed in distribution.

Dislocations Always Occurring

Certain imports may cause some dislocations in the manufacturing fields. But dislocations are occurring at all times in a world where nothing is certain but change. Substitute materials, or new products growing out of changed conditions, outmode or replace those long established. A factory moves to a new location, or a machine is invented which displaces labor. But such is man's resourcefulness and inventiveness that another factory replaces the old one, or a new invention is the start of an entirely new industry or group of industries.

I am not minimizing the distressing effects of these dislocations. They are very real to the people and industries involved. How to cope with these situations as they arise constitutes a domestic problem of utmost concern in my country as well as in yours. In a time of growing social consciousness, however, we most surely can—and must—arrive at an equable solution.

The dislocation caused by the volume sale of an imported product tends to be offset by two factors. One we have already mentioned—employment in the distribution and service trades.

The other is that the more a product — whether domestic or foreign—is promoted, the wider its sale. This sale is not entirely at the expense of customers of competitive products, but—if I understand rightly the thesis of American selling—the whole base of the market is broadened to take in new customers. Thus the luxuries of yesterday have become the necessities of today.

But, you say, wage scales abroad are lower than in the United States. Imports not only compete for the consumer dollar, but undersell the comparable American product.

Unfortunately, the spotlight turned on imports produced by excessively cheap labor tars all imports with the same brush. The postwar problem of the majority of foreign exporters to the United States is how to get their prices sufficiently low to compete in your market.

It is also true that other countries with lower wage scales erect tariff and other trade barriers to protect their workers against the low American wage cost per unit!

Now, I want to ask you a question:

Do the people of Michigan say to the people of Mississippi: "We will buy your raw cotton for our automobiles, and you, in turn, buy our automobiles. But we do not want to buy your paper or canned goods, because we process those things too, and our wage scale is higher than yours."

An Integrated Market

The answer is an obvious "no." Why? Because you have here in America an integrated market, as Mr. Hoffman calls it, a market of 160 million people, the same kind of market that he is advocating for Europe.

Full employment in a given industry or locality increases the purchasing power for necessities and luxuries alike, whether they are produced in the same area or elsewhere. By the same token, unemployment decreases that purchasing power.

The "Wall Street Journal" recently reported that New York's share of all goods entering the country by ship was 20%, compared to 33% in 1941. Part of this slump was due to competition with other ports, but a major cause was the interruption in the full flow of trade, when ships had to sail only partially loaded, or with empty bottoms. One out of every ten persons employed in the New York metropolitan area is in some way dependent on port activity and foreign trade. Where is the purchasing power of these people who may be thrown out of employment?

If your exports are sharply curtailed—I refer particularly to finished manufactures and consumer goods—the effect on employment will be felt in key industries, in key localities, at ports of entry, and in all distributive trades. It will be far greater than any possible dislocation caused by an increase in imports—particularly so, because such imports are diffused over large areas of population.

Therefore, is it the increased imports of the product of labor of other countries, or the decreased exports of the product of domestic labor which constitutes the real threat to full employment?

In spite of the unprecedented demand for materials and products of United States manufacture following the war, the total volume of your exports today is not abnormally high in relation to national income and production.

In contrast, the ECA Commerce Mission, headed by Mr. Wayne Chatfield Taylor, who is with us today, pointed out that had the prewar relationship between imports and the gross national product been maintained, ECA countries alone, in 1948, could have sold to you two billion dollars more than they did.

I should like to propose that joint studies be instigated by your government and mine, and by the governments of other countries to expand those already undertaken for exports. These studies should seek to answer such questions as:

How many people are engaged in export and import industries?

How does the total number of workers engaged in export industries compare with those in the so-called protected industries? How do their wages compare?

How do wage rates and productivity represented in imported merchandise compare with comparable domestic rates, industry by industry?

In cases where unemployment is claimed as the result of increased imports or decreased exports, to what extent does dislocation in one segment of the industry compare to the entire industry, or the economy as a whole?

What other dislocation factors are an element in the particular condition of an industry—such as competition from substitute materials or new products?

How does the competition of imports of finished merchandise for part of the consumer income compare with the portion of consumer income created by imports?

Such continuing, coordinated studies, country by country, and industry by industry, could have far-reaching effect in increasing the understanding of the importance of imports to a domestic economy, and the true function of both imports and exports.

In closing, I should like to quote a few remarks made by Dr. Amos E. Taylor, who is also with us today. As you know, he was for many years director of your Bureau of Foreign and Domestic Commerce, and is now director of Economic and Social Affairs for the Pan-American Union. In a brochure prepared for the Committee on International Economic Policy, Dr. Taylor says:

"Not only does a substantial part of United States imports consist of raw materials and semi-finished products essential to American industry, but certain other imported commodities are in increasing demand when the level of national income rises. . . . In order to avoid the mistakes of the past, we need to remove the traditional fears relative to imports. In a world of full employment, specialized production, and a high standard of living, imports should be viewed as benefits, not dangers to the economy. . . . Employment is not solely a national problem. It is an international problem, the solution of which can be found only in an expansion of world trade and economic cooperation. The modern interdependent world must do business with itself if peace and prosperity are to be more than an empty hope."

Our Reporter's Report

The Federal Power Commission appeared determined, this week, to tighten its grip on financing by public utility companies coming under its jurisdiction.

At any rate that appeared to be the case in connection with the $9,000,000 offering of first mortgage, 30-year bonds, projected by the Pacific Power & Light Co. of Oregon.

Placed in registration with the Securities and Exchange Commission almost a month ago, and since approved for issuance by the Public Utilities Commissioner of Oregon, the proposed financing was authorized by FPC earlier this week, subject to certain conditions.

The Commission requires that the company submit to it data on bids it receives and obtain approval of such things as the interest rate, the price to be received from bankers and the initial reoffering price.

The bonds are being floated to put the company in funds to liquidate an outstanding promissory note for the same amount, held by a Pittsburgh bank, and dated Sept. 30, 1949.

Some 10 banking groups have been formed to bid for the issue when it is put up for sale by the company and since the necessary period of hibernation has been completed the company could call for bids at any time.

A Helping Hand

Over the years it has been such time-established institutions as insurance companies, savings banks and trust funds that have supplied the major outlets for high-grade corporate paper.

But this situation gives evidence of changing with the trend of the times and it appears likely that the aforementioned institutions are destined to encounter considerable in the way of competition from a newcomer in the field.

Pension funds, now growing vigorously under the prod of labor's demand for such protection, promise to shape up in an increasingly substantial way as time goes on. Fact of the matter is that one of the large pension funds, the name has not yet been revealed, stepped in to take up $2,000,000 of the Boston Edison issue, or about 11% of the total.

Bits and Pieces

While the investment market has been displaying improved powers of absorption in recent weeks there have been few deals that could be actually termed as "out-the-window" operations.

Rather while the bulk of new issues has been moving out to the investor the general run have required a bit of "working". This was true in the case of the Wheeling & Lake Erie's recent offering.

It also goes for Metropolitan Edison Co.'s bonds brought out recently, along with those of Georgia Power Co., and Monongahela Power Co.'s preferred stock.

Meanwhile Northern Indiana Public Service Co.'s new 2⅜s, brought out just recently, have been cleaned up quickly.

Washington . . . And You

Behind-the-Scene Interpretations from the Nation's Capital

WASHINGTON, D. C. — How tricky a job it is to keep a check on the prodigal ways of a spendthrift government, was illustrated rather sharply by a couple of the most recent actions of Congress.

Neither of these involves a direct appropriation for an expenditure. Both are in the way of a liberal boost of guarantees which involve a potential risk of some kind, or the guarantees would not be necessary.

The first was in relation to military housing. For decades upon decades the Armed Services have been getting what direct appropriations they could out of Congress to provide housing for military personnel at military camps and installations.

Last year the Defense Department thought up a new gimmick. It was to shift to FHA (and hence to the Treasury as the ultimate guarantor) the burden of financing construction of housing at out-of-the-way military installations, to take care of both civilian and military personnel, other than, of course, troops in barracks.

What happened is that Congress passed a law creating a new Title VIII, called "military housing," for FHA. Under this FHA underwrites any bank or insurance company loan to construct housing at military installations at out-of-the-way places, removed, that is, from metropolitan areas that might reasonably offer private rental facilities for the families of military and civilian personnel at these installations.

Furthermore, Congress adopted the highest inflation ratio of the war era, 90% of replacement cost, and the loans run for from 32 to 40 years. Finally, the novelty was adopted of permitting the Armed Services to lease government land for the sites for these rental projects.

This correspondent attended several of the hearings on this proposition last year. Not once, however, was it explained simply to Congress that this device was simply one which would take a large load of military housing off this year's taxpayer and put it on a future one—unless all of the projects pay out sweetly.

To protect the "sound character" of these loans the Secretary of Defense was ordered to go through the solemn farce of certifying as a condition precedent to the making of the application for insurance on these projects, that it was intended to keep as a permanent installation, the military base on which the rental housing was being erected.

One fundamental principle of government, however, is that no official no matter how important not even the President of the United States, can make a binding promise of that character. A future President or a future Defense Secretary or a future Congress could, with impunity, any time close up that base, put it out of existence, and leave the rental housing project at the defense installation stranded and valueless. It is doubted that a promise of that character would even be binding upon the particular Secretary of Defense who made it.

Hence this promise that in effect there would be for the life of the loan on a Tile VIII project, a continuing need for it, is in the nature of a prayer that future Defense Secretaries, future Presidents of the U. S., and future Congresses would go along.

Of course these loans are riskless to the bank which makes them. With a 90% guarantee, the element of risk in practice is probably not too great for the private party who allegedly undertakes to launch them. Nevertheless, there is so little commercial interest in building houses at remote military installations that Title VIII has proved to be a great disappointment to the Defense Department. Only about a dozen loans for around $20 million have gone through in nearly a year.

What is new in this situation, however, is a "technical amendment" which the House passed a few days ago and which will probably get by the Senate as well, unless the economy Senators are a little more alert than their House counterparts.

That "technical amendment" in fact puts the Defense Department in the position of the initial developer of military housing for insurance under Title VIII. The Defense Department can get the plans drawn and get the project already to wrap up in a pink ribbon for FHA approval. Then, when it is all fixed up, there remains only the problem of getting some private party to sign the papers and take over. It was very apparent from the debate that when the House passed this by unanimous consent nobody outside the Banking Committee knew what was going on.

* * *

The other loose guarantee project was the paradoxical action which occurred in connection with 608 (Sec. 608 of Title VI of FHA) loans. It had been well advertised that the Congress was going to kill off 608 this year, the last vestige of the liberal wartime easy financing. Under 608 FHA insures 90% of the replacement cost (but not higher costs at the end of 1947) of multiple rent projects.

Theoretically, everybody was for a return to more sane appraisals and guarantees than 608, whose purpose was obviously to make financing easy so as to get the houses built in the war-time and postwar eras.

Housing and Home Finance wrote amendments substituting a more conservative Title II operation, and ending the receipt of applications for 608 financing. Both committees and both Houses went along.

The joker, however, was this: Whilst "ending" the receipt of applications for new 608 projects, the housing bill added $500 million additional of insurance authority to underwrite applications pending at the March 1 deadline for "ending" this 608 business.

Actually, even without this additional $500 million, FHA was able to clear enough projects to sustain a level of activity greater than occurred during 1949, a boom year in building.

So the Congress has guaranteed another year of inflation in multiple rent projects, has underwritten the boom generally in building, and in effect has postponed for another year the decision whether to bring housing finance down to earth. The money it has made available will keep 608 financing going until well into 1951.

At the same time the new Title II rental financing was made so much lower on valuation, by comparison, as to be virtually a dead letter.

* * *

There is a great deal of nervousness as to whether either House or Senate action can come in time to forestall Reorganization Plan No. 5, whose effect is to submerge the Patent Office to the political control of the Administration.

This plan is closely analogous to Plan No. 1, to submerge the independence of the Comptroller of the Currency to the Secretary of the Treasury, a plan which now stands a good chance of being beaten because the bankers became aroused so much sooner to the danger.

Both are alike in that neither Cabinet member, Secretary Sawyer of Commerce nor Snyder of Treasury, was behind the move to do harm to the respective agencies. Likewise neither intends to wipe out the semi-independent identity and integrity as long as they remain in the Cabinet, even if the Reorganization plans go into effect.

The inspiration for both came from the Budget Bureau, an agency which was given by President Roosevelt the policy coordinating function of the White House on many matters, and which has been expanding in power since and reaching for even greater powers.

For years under the New Deal, the radicals in the Administration were sniping at the patent system. They called it "monopolistic," which, of course, it avowedly was. The attack was seldom frontal, but usually oblique. Officials did not attack the patent system openly, which is too deeply rooted in the American tradition, but talked constantly of "abuses of the patent system."

Nevertheless, for the last couple of years the attack has abated. Hence the plan to give the Commerce Department (and Budget Bureau) authority to wipe out the separate Patent Office, came as a surprise. When Henry Wallace left the Commerce Secretaryship, he left about a dozen of his key men around, whom Sawyer for some reason has not fired.

* * *

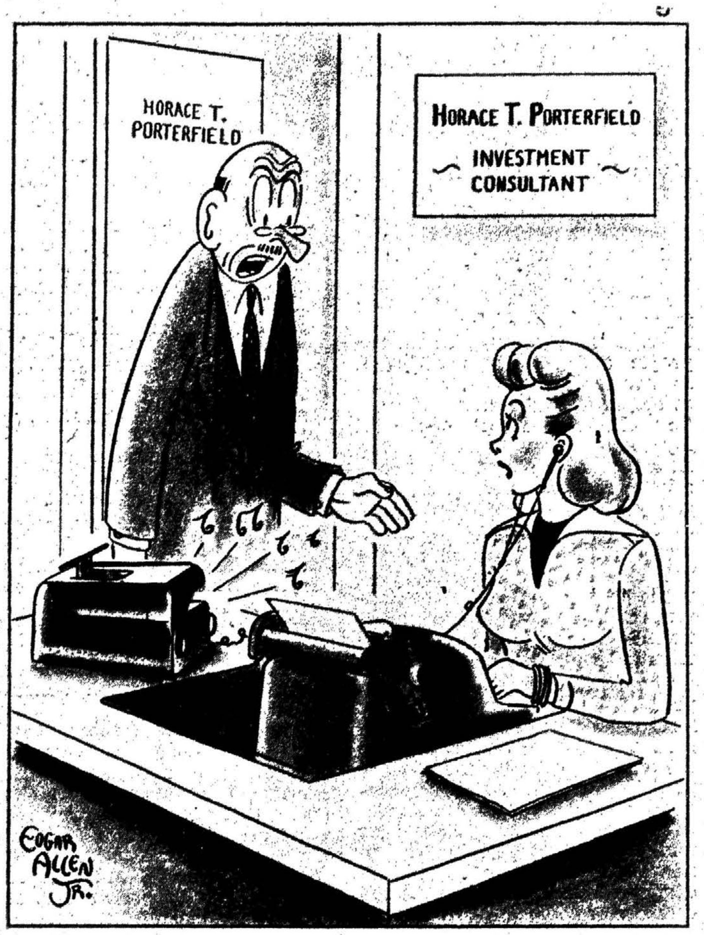
President Truman's message to Congress renewing some of his recommendations for liberalization of unemployment insurance was significant only as making a contribution by the President to Democratic election insurance in case unemployment does rise sharply this fall and some of the states which are in danger of being drawn out on unemployment compensation money, do in fact run out of money.

Most of the President's proposals do not have a chance of getting enacted this year. There is among these proposals, however, a possibility for action. The President wanted to "re-insure" state funds with Federal money. Congress, if unemployment worsens before July, might set up a "loan fund" for broke state jobless funds.

Chief object of the message, however, was to be able to say, should there be any appreciable hardship this fall among the jobless, that he had asked for help but Congress didn't act.

(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



"If you don't mind a suggestion, Miss Perkins, you are being paid to listen to Horace T. Porterfield —NOT Guy Lombardo!"

Geo. O'Connor With E. F. Hutton & Co.

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF.—George R. O'Connor has become associated with E. F. Hutton & Co., 160 Montgomery Street. Mr. O'Connor was formerly a partner in Leib, O'Connor & Co.

Sheldon J. Nankin has also been added to the firm's staff in San Francisco.

With Walston, Hoffman

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF.—William J. Younger has become affiliated with Walston, Hoffman & Goodwin, 265 Montgomery Street, members of the New York and San Francisco Stock Exchanges. In the past he was with Schwabacher & Co.