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EDITORIAL

As We See It

Financing the Korean war and Rearmament involves some fundamentals all too often overlooked.

Even if such obviously defense-connected expenditures as payments to veterans, interest on war-swollen national debt, and large sums "loaned" or given to foreign peoples, are entirely omitted from consideration, national defense expenditures since the middle of 1946 have not fallen far short of 50 billion dollars. This sum does not by very much fail to equal all such expenditures from the turn of the century up to the date of the attack on Pearl Harbor, and it far exceeds such expenditures over this period if World War I outlays are omitted. Yet, so lacking in general preparedness do we find ourselves today, that the President regards it as essential in light of the Korean situation to add another ten billions to appropriations for this purpose, which is almost equal to annual defense outlay in recent years, which, in turn, are not very much short of the peak of World War I annual war expenditures.

An increase of these proportions in defense spending even though all of the funds may not be, and probably will not be, actually disbursed during the current fiscal year, presents a real financial problem. There would, doubtless, be some such problem in any event, but the complexity and the difficulty of the task which is thus laid before the powers that be are certainly much the greater by reason of loose fiscal policies of recent years, and the fallacious philosophy about spending in general which has permeated

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Private Associations Doomed in Welfare State

By DONALD R. RICHBERG*
Formerly Director of National Recovery Administration

Asserting a Welfare State must become either totalitarian or insolvent, Mr. Richberg likens it to the Police State with objective of providing individuals with services which they can do better for themselves individually or through voluntary associations. Contends only private associations that will survive under Welfare State would be pressure groups working for government, and these could not be "private" when organized and maintained by political aid and government regulation. Holds fiscal program is exhausting financial resources.

The so-called Welfare State is not an assured force for good merely because it proposes to organize a nation for universal service to the general welfare. These were the proposals of Hitler, Mussolini and Lenin. These are the proposals of all socialists and dictators of the modern world. On the other hand modern free-enterprisers do not propose to organize a nation merely for the profit and glory of a favored few. That concept of a "free economy" and the "survival of the fittest" is as dead as the dodo.

Donald R. Richberg

We will make more progress in our efforts to develop government in the service of the common good if we assume that this is the aim of both the socializers and the free-enterprisers; and if we then debate the real issue which is: What extent or limitation of government regulation of industry will be most effective to advance the general welfare? In this debate we can assume that the accepted aim of our Society, and our reason for supporting

*An address by Mr. Richberg, of Davies, Richberg, Beebe, Landa & Richardson, at Conference on the Welfare State, Harvard University, Cambridge, Mass., July 24, 1950.

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A Manufacturer Looks At Free Enterprise

By LOUIS RUTHENBURG*
Chairman of Board, Servel, Inc.

Asserting there are recent encouraging indications of more general understanding of free enterprise despite attacks upon it, Mr. Ruthenburg holds free enterprise system is indigenous to U. S. and is integral part of individual freedom. Points out incentives and rewards are essential to free enterprise, while management is required to bring about an equitable distribution of its benefits. Stresses value of free markets, and asserts freedom, competition, profits, investment and good wages are all necessary factors in our economic system. Calls diversion of income through taxation and short-sighted labor union practices erosive forces.

As one American generation has succeeded another in a climate of increasing national wealth and constantly improved living standards, we have more and more taken our economic system for granted—have lost sight of its origin and underlying philosophy.

Louis Ruthenburg

As confusion and controversy threaten our foundations, it becomes increasingly apparent that we must develop understanding as to "whence we came, whither we are going and how we are going to get there." Such understanding cannot be accomplished merely by making and hearing speeches or by publishing or reading newspaper articles or through the medium of moving pictures. We must work individually and in mental sweat earn our right to teach. We must discuss and debate many issues and analyze them in their relationship to the common good. Beyond this we must lead and inspire others to do likewise. I have been asked to talk to you about free enterprise from a manufacturer's point of view.

*An address by Mr. Ruthenburg before the Indiana Workshop on Economic Education, Bloomington, Ind., July 17, 1950.

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GOING TO NSTA CONVENTION? On page 16 will be found the tentative program of events and activities relative to the Annual Convention of the National Security Traders Association which will be held Sept. 26-30 at Virginia Beach.

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

GEORGE A. BAILEY

Partner, George A. Bailey & Co., Philadelphia, Pa.

(Morris & Essex RR. First & Refunding 3½s, due 2000)

The Security I Like Best must combine the following qualities: it must be well secured. It must be paying regularly at least 6% on present prices. It must have a steadily increasing equity and at the same time, it must offer good possibilities for enhancement in price. Is such an issue impossible to find? The Morris & Essex Railroad First & Refunding 3½s due 2000, appear to combine all of these requirements.

George A. Bailey

It is well secured by a first lien on the entire properties, wharves, water rights, etc. of the railroad. In 1943 the ICC placed a valuation on the property of $93,235,469 before depreciation, while there are but $35,000,000 of these bonds outstanding.

Early in 1945 the Delaware, Lackawanna & Western merged the Morris & Essex and assumed payment of both principal and interest of the Morris & Essex 3½s. Separate financial statements of Morris & Essex operations are not available. The D. L. & W. has been steadily strengthening its capital structure in that its fixed charges have been reduced from $8,320,801 in 1932 to about $4,912,-483 at the end of 1949 or approximately 40%. Based on the present annual fixed charges of about $4,-900,000, the net income available to meet these requirements would have been earned on an average of 1.62 times in the past 20 years. In 1949 fixed charges were earned about 1.56 times, indicating a good margin of safety.

Further adding to the road's efficiency is the dieselization program. During the year 1949 an average of 66.13% of gross tonmiles was handled by diesel power, although in the closing months of the year this percentage rose as high as 85%.

Through the sinking fund operations, the funded debt is reduced annually, thereby steadily increasing the equity back of the bonds. During 1949 the D. L. & W. purchased bonds and leased-line stocks amounting to $2,335,030. It has bought in over $13,000,000 face amount of its debt and leased-line stocks since 1942. Since 1940 the company has paid about $24,000,000 to the credit of its overall tax obligations.

The ICC has approved company's plan to refund $19,356,000 Morris & Essex Construction Mortgage bonds falling due 1955. Upon completion of this plan company will not have any major maturities falling due until 1973.

Another important factor in the future development of this company is the acquisition of 60,000 shares of common stock of the New York, Chicago & St. Louis Railroad (Nickel Plate). This is the first step in the "eventual merger" of the two roads which have had a working agreement for some time. By buying into the Nickel Plate, the Lackawanna gains a voice in the management of the Wheeling & Lake Erie Railway Company, as well as the Lorain & West Virginia Railway Company. The merger of the two roads would create a direct East-West system extending from Hoboken, N. J., opposite New York City, to Chicago. The miles of track operated at the close of the year 1949 by the Nickel Plate was 3,971.78, and by the Lackawanna 2,417.01, a total of 6,388.79. It is anticipated that as soon as the Nickel Plate is able to complete its readjustment plan for arrearages on the preferred stock, that the D. L. & W. may then apply for representation on the Nickel Plate board and make further efforts for the completion of "the merger."

This bond is available in registered as well as coupon form. The registered bonds sell over-the-counter. Free of the Personal Property tax in Pennsylvania, this first mortgage bond is in a stronger position today than any time in the company's history. The property is indispensable to the operations of the Lackawanna system. The company is now in the best financial position in many years and the prospects for still further improvement are increased through the "eventual merger" of the Nickel Plate. Nevertheless, this well-secured issue can be bought at more than 40 points under par.

WARREN H. CROWELL

Partner, Crowell, Weedon & Co., Los Angeles 14, Calif.

(Delhi Oil Corporation)

To select a security "I like best" in such a critical period causes me to pause. On a pre-Korea basis, the selected security would have to offer protection against the threat of continued loss of purchasing power of the dollar. Now, if the tragedy of full-scale war materializes, we need a security which would benefit from war work and yet offer a reasonable tax shelter. If the Korean situation is resolved without the ignition of wide-spread warfare, investment ideas would again call for different vehicles of peacetime nature with perhaps a view toward temporary deflation.

Warren H. Crowell

Under the circumstances we face today, I find myself forced to adopt a hedging position instead of going all-out for one security. In order to straddle, at least to a large degree, the current economic complexities I would wish a natural resource of growth characteristics and I would wish a reasonable tax shelter. To accomplish this program, I would choose a security like Delhi Oil Corp. for growth, in peace or war, and discount bonds, preferably low-priced second-grade rail bonds, for my tax shelter.

Delhi's principal interest is now natural gas, with oil production taking a secondary position. The 1,289,647 shares of $1 par value, traded over-the-counter at around $25 a share at this writing, represents the sole capitalization, preceded only by bank loans.

Delhi holds leasehold interest in excess of 600,000 acres, extending from the Mexican border in Texas up to northeastern Louisiana through New Mexico, Colorado, Wyoming, Montana and into Canada. Only a small portion of this acreage is proven but the management has demonstrated an unusual ability of acquiring interests in lively situations which lend themselves to substantial development.

The Barker Dome field in the San Juan Basin is one example. The four gas wells brought in by Delhi in this field rank among the largest natural gas wells in the country. The successful drilling of a discovery well by Delhi in the Lindrith Field "farmout" from Magnolia Petroleum (Socony-Vacuum) is another good example. Completions in the Johnson County, Wyoming, area offer further evidence of the company's knack of selection.

In the Blanco area, in northwestern New Mexico, it is estimated that Delhi's interest in 43,000 acres contains a reserve of one trillion cubic feet of gas, practically all undedicated. In the Hagist Ranch (Texas) field Delhi's reserve is estimated at ⅕th of a trillion cubic feet. Although only a small part of total holdings is proven, Delhi's reserves of natural gas and oil are substantial and are growing.

Current earnings are not of material importance; long-term development for future consistent income is the keynote. To the best of our knowledge, the company currently has 85 oil wells (mainly small producers in northern Louisiana) and 16 gas wells.

The principal activity is exploration. To aid the execution of this program, Delhi sold its Barker Dome holdings to El Paso Natural Gas Co. for $3,000,000 cash and a continual over-riding royalty on the natural gas treated, plus all the oil produced from that lease. The proposed San Juan pipeline, a contingency upon which this sale was predicated, was approved by the FPC on July 14, last.

This appears to be the pattern for future contracts. Delhi plans to develop an area, then sell the lease for cash, to continue exploration work, and an over-riding royalty. Under this plan, the prospects for future earnings are substantial. Inasmuch as possible big income, allowing material dividend payments, is still an item of the future, current increase in tax rates is not a significant factor.

For temporary tax shelter, I would divert some funds into second-grade railroad bonds on the assumption that tax increases will follow the pattern of the last war. The combination of increased volume of traffic accruing from war work and the immunity from taxes (interest a prior charge on earnings) improves the marginal status of such discount issues with consequent betterment in market values.

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The President's Economic Blue-Print

In his mid-year Economic Report, Mr. Truman calls for unity to meet realities of Korean conflict, terming our human and material resources adequate to do the job. Urges controls on credit and power to allocate essential materials. Warns full-time controls will be necessary if political situation worsens.

WASHINGTON, D. C., July 26—President Truman today gave the country his economic program for dealing with the "Realities" of the Korean conflict. Expressing confidence that the economy can deal with the current emergency under "limited" controls, he at the same time issued sharp warning that he will ask for full wartime powers if the political or economic situation should grow more serious. The occasion for giving these conclusions to the people was the transmission of his mid-year economic report to Congress.

President Truman

Warning that the present responsibilities facing the nation will become still heavier before a lasting peace is achieved, the President keynoted his message thus:

"The facts should warn us equally against easy indifference and sensational alarm. This is not the time for business as usual. We are not now living under peaceful world conditions. But neither are we engaged in a general or widespread war. We are in a situation between these opposite extremes, and economic policy should be guided accordingly. It is urgent to make some shifts in economic policy now. We must all speed up our preparation now to take more drastic action later if it should become necessary."

Controls

The President repeated his previous request to Congress for controls to limit credit and allocate essential materials. "The substantial increases in our military forces in supporting activities now under way do not call for a complete set of economic controls now—if business, labor and consumers practice moderation, and if adequate steps are taken at once to adjust private and public policies and programs to our supply needs and to the curbing of inflation," he said.

Taxes

The President repeated his proposal for an immediate $5 billion increase in individual and corporate income taxes. "The immediate enactment of this tax program is vital, but this interim measure will not be enough."

"It will be necessary, when the necessary studies can be completed, and when the extent of our new obligations can be more clearly determined, to raise still additional revenues to avoid deficit during times when economic policy and budgetary policy call for a balanced budget or a surplus."

Responsibility of Business

"Further careful adjustment of capacity and investment to current and foreseeable conditions, combined with restrained pricing and other market adjustments, can give us the volume and kinds of production which the nation needs. . . ."

Responsibility of Labor

"Labor also has great responsibilities, rising in proportion to its increasing strength and influence upon the course of the whole economy. Labor should continue and enlarge its contribution toward increasing productivity, and toward even more effective use of manpower. Wage demands of a character which might lead to another inflationary spiral should be avoided. Above all, Labor should join with management in the further consolidation of industrial peace. Work stoppages in vital industries are something we simply cannot afford under current conditions."

Responsibility of Consumers

"Every person in the United States is a consumer. The buying practices of the general public will be an important influence upon the economy under conditions which are now developing. The best rule to follow is to buy normally. The current outlook is that serious shortages of consumer goods will not develop, unless they are created artificially by speculative or panicky acquisition of goods far in excess of actual need. The rule applies to business buying as well. Those of us who are not now called upon to make great sacrifices should certainly, in justice to those in the Armed Forces, refrain from hoarding or avarice."

Production and More Production

"Our main effort . . . must be to concentrate upon production and more production . . . the expansion of certain types of production, which is now doubly urgent because of international tensions, should not be held back by fears that capacity would become excessive for peacetime use if international tension should subside. The experience of the last five years has indicated that our domestic markets and the consumption requirements of our people are plentiful and growing."

Production Controls

"Shortages of some critical commodities are now so great that even with allocation measures, we can have no assurance of

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Articles and News Page

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Disseminating Stock Market Information

By WILLIAM F. KERBY*
Executive Editor "The Wall Street Journal"

Mr. Kerby describes methods and objectives in disseminating business and financial news as exemplified by the Dow-Jones periodicals and services. Says work is highly departmentalized and stresses speed in operations, in which "we think we are pretty good." Tells of system of group journalism on nationwide basis and gives illustrations of news gathering.

I work for an organization which is, I think, in many ways unique. We have only one business, and that is gathering and disseminating business and financial news. Incidentally, we have been doing this since 1882. It is a fascinating business, to me, at least; and it is a business which is surrounded by infinite possibilities for trouble.

Wm. F. Kerby

You see, people actually spend their money and run their business on the basis of what Dow-Jones says. There are many very fine organizations in the field of supplying business news, but Dow-Jones, I think, is the only one operating on such a broad basis and covering all aspects of economic news.

Now, economic news has a very formidable sound as a term, but by our definition that means that we are interested in everything about how people earn a living, and how they spend that money after they get it.

A word about our organization as an organization. Dow-Jones and Company operates electrical telegraphic news services—I put the "s" on there deliberately — in some 340-odd cities in the United States and Canada. Those services supply business and financial news to brokers, bankers, insurance companies, industrial companies, newspapers, and everyone who needs news quickly to run his business properly.

As I said, services—we have three. Most important, of course, is what we call and what the Street calls the Dow-Jones Broad Tape. That is a news service where the emphasis is very heavily on financial news. Incidentally, that is edited and operated out of New York City.

Out of Chicago we have another service which carries a good deal of the same material carried on the financial service, but where the emphasis is particularly on commodity news.

Then we have a Canadian subsidiary of Dow-Jones where naturally enough the emphasis is on news of Canadian origin, and news affecting Canadian commerce, industry, and finance, although a great deal of news of an international nature is also carried on that service.

Dow-Jones also has a second string to its bow. It publishes the "Wall Street Journal," which is printed in three cities, New York, Dallas, Texas, and San Francisco. I think you can say that the "Wall Street Journal" is the only truly national newspaper in this country. It is national in its concept of news; it is national in methods of gathering news; and it is national in its circulation.

The "Wall Street Journal" has a circulation today of something in excess of 150,000 subscribers, which is not tremendously large as mass-circulation newspapers go, but which, I think, is very large in influence and prestige because of the type of its readership.

It circulates on a verticle basis throughout industry and finance. For instance, in the case of a small industrial company, a quite typical readership there for us would be the President of the company, the Vice-President, the Treasurer, the Purchasing Agent, the plant Superintendent, the Sales Director and the Labor Relations Manager.

Then we have a third operation which is "Barron's" magazine, a national business and financial weekly. It is a weekly economic magazine and a magazine of money management, if you will.

It is difficult, as a matter of fact, to talk about any one of these facets of the Dow-Jones' organization without grouping them all together. The same staff gathers news for all three, and it is quite a large staff as newspaper organizations go. I counted news department noses yesterday, and we have 223 employees, full-time men, actively engaged in gathering, editing, the disseminating news.

They are literally scattered around the world. We have 19 regional news offices. We have a New England office in Boston, and we have news offices in Philadelphia; Washington; Pittsburgh; Chicago; Detroit; Cleveland; Ottawa; Toronto and Montreal, Canada; Los Angeles; San Francisco; Portland, Oregon; Houston; Dallas; Paris; London; and Frankfurt.

This news-gathering and disseminating organization is knit together by one of the largest leased-wire networks operated by any organization anywhere. We have 52,000 miles of leased wire, including four transcontinental wires.

Highly Departmentalized

As far as the organization and handling of news is concerned, we tend to be rather highly departmentalized, especially in New York, for obviously the staff is larger there than in other cities.

For example, in New York we have what we call our transportation news department. That department operates under a subeditor and its objective is the coverage and analysis of news in the field of transportation—rail roads and railroad equipment manufacturers; air lines and aircraft manufacturers; automobiles, buses, trucks, bus lines; ship lines, shipbuilders, and so on.

Then we have a research and new development department whose duties are obvious. We have a utilities department and a consumer goods department, heavy engineering and so on.

Outside of New York, the staff tends to not specialize so much, because a smaller news bureau is apt to encounter a little of everything. Geography naturally forces some news specialization. In Detroit, for example, our reporters obviously pay a lot of attention to the automobile industry; in Pittsburgh, the steel industry and coal mining; Los Angeles, the moving picture industry, and Houston, the oil and cotton industries, and so on.

We Move Quickly

I would like to tell you a little story which is not particularly remarkable, but which might illustrate the speed with which it is necessary to operate in this business.

On June 27, as you recall, the President announced that the United States armed forces would intervene in Korea. That announcement was handed out at the White House at 10 minutes and 45 seconds aften noon. At 11 minutes after 12 — 15 seconds later—Dow-Jones had that item disseminated all through the United States, and a minute or two later, as you know, we had one of the most active stock markets since the fall of France.

Well, how do we move that quickly? We have a Washington Bureau and a reporter from that bureau is stationed permanently at the White House. We also have a direct telephone tie line from the White House to our Washington office, and, of course, a private leased wire from Washington to New York.

The first thing our man did was to pick up the telephone and call "Flash." That is not to be dramatic. That word has a very real utility around a news service because you get a clear wire immediately, but it had really better be a "flash" because that is a word you don't say casually. Everything stops — literally. Everybody quiets down and you can hear a pin drop.

So when President Truman ordered intervention in Korea, that flash was phoned by our reporter at the White House to our Washington office. A desk man in the Washington office dictated it to a telegraph operator who transmitted it to New York over our leased teletype circuits. On the New York news desk the flash was dictated orally to the telegraph operator who was transmitting news over the Dow-Jones News Service circuits. The net result was that the news moved all over the country in 15 seconds. That isn't remarkable; it is quite routine. A corporate dividend announcement of any significance would have moved at just about the same speed.

I don't mean to sound boastful and you will have to pardon my pride in our organization, but I do think we are pretty good, and the interesting thing to me is

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*A lecture given on July 14, 1950, the 3rd in a series of 17 on the The New York Securities Markets and their Operations sponsored jointly by the New York Securities Industry and the University of Vermont's Department of Commerce & Economics.

International Investment Problems

By FREDERICK R. GARDNER*
International Basic Economy Corporation

Having in view the greater difficulties attached to foreign investment, Mr. Gardner describes work of the International Basic Economy Corporation, established in 1947 by group headed by Mr. Nelson A. Rockefeller, to assist hemisphere development. Says problems involved not only relate to placing of capital but also cover matters of channelling technology, management and science in undeveloped areas. Describes I. B. E. C.'s activities in Brazil and Venezuela.

Raising capital for foreign investment, and particularly risk capital, gets into the problem of tapping the great reservoir of capital in this country and mobilizing risk capital. International Basic Economy Corporation faces essentially the same problems encountered in raising venture capital for domestic development; that is, the problems of taxation, world turmoil, changing technology, and so forth.

Raising capital for investment abroad usually is more difficult than it is for domestic purposes. When capital goes abroad it runs more risk and raises more problems, political and social, than it does at home.

The background against which foreign investment has operated in the last few decades probably has been the most unsettled that capital has had to work under since capital went abroad on a sizable scale. We have had two world wars. Now we have had this so-called "cold war." During this period the United States has emerged as a great industrial power. And these years have brought up problems which certainly merit the best thought and efforts to solve.

In the Western Hemisphere economic development has been accelerated by the two wars. A great inter-American system of trade, cooperation and intercourse among the American peoples has evolved. It now looks as though events may give still greater impulse to hemisphere development.

Hemisphere Development

Hemisphere development problems came to the fore in a dramatic way in the 1930s and 1940s, before and after the fall of France. In that period the necessity of the times brought into being some of the institutions in Washington which tended to put foreign investment increasingly into the hands of government. During the war government had such agencies as the Board of Economic Warfare and the Office of American Affairs which worked on problems of economic development in Latin America.

The development of the hemisphere was speeded during World War II in various ways. And those trends carried into the postwar period.

When World War II ended, there was much discussion as to whether postwar development should be carried out at the government level, with capital coming from sources like the Export-Import Bank, or whether it should come mainly from private sources. That question was debated at length. In the Pan-American meeting at Bogota the accepted principle was that Latin American should look primarily to private capital for long-range economic development. Washington was preoccupied with the Marshall Plan and other aspects of foreign aid. And, as a fundamental principle, our government had the policy of encouraging private enterprise.

With that background, International Basic Economy Corporation came into existence after the war and went to work in 1947 financing and developing new enterprises abroad. The IBEC group is headed by Mr. Nelson A. Rockefeller, who was in Washington during the war working on hemisphere problems. The IBEC group has attempted to put into specific action, as well as into broad principle, concepts of foreign investment based on experience and adaptable to the tremendous change which has taken place in the world.

During this period of world change, the United States has emerged as the great industrial nation. The U. S. has become the leading source of technology, scientific research, advanced management. By the inevitable logic of events the U. S. has acquired a position of leadership comparable in many respects with that Britain held in the 18th and 19th centuries, when Britain was the advance guard of the industrial revolution coming West.

In this vast continental market, the machine and technology have flourished to the present heights. Today, as government, as individuals, as groups, this country has the problem of how we shall join with our friends abroad in transmitting modern techonolgy and science. We recognize as an elemental principle of economic development that nations rise and fall together. Our welfare, internationally and at home, is interlocked and interdependent. We all have the problem of working together for the common good.

International Basic Economy Corporation, in brief, is an attempt to set up channels of partnership enterprise to transmit capital, technology, management, science to what some call "underdeveloped areas." This phrase is controversial and I shall not undertake to define an "underdeveloped" area.

To transmit technology abroad primarily is a matter of raising capital, particularly risk capital. Technology is first the people who have skills and special knowledge. And, secondarily, it is the machine, the equipment, the paraphernalia of modern industry and agriculture.

The International Basic Economy Corporation came into being, so far as I am aware, as the first company of this nature; as a sort of organizing center, to bring to-

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*A lecture given on July 14, the third in a series of 17 on Securities Analysis sponsored jointly by the New York Securities Industry and the University of Vermont's Department of Commerce and Economics.

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 received a fillip the past week as some industry-wide vacation periods terminated. Output for the country at large showed a modest increase in the week and was considerably higher than the level for the comparable period a year ago. Latest reports also reveal a continued slight contraction in both initial and continued claims for unemployment insurance.

In the steel industry output rebounded last week close to its mid-April high record as more mills stepped up output with the return of workers from their vacations. The increase in the operating rate amounted to 3.4 points above capacity output of the week preceding.

Under stimulus of the Korean situation inquiry for steel is reaching new heights and consumers are seeking to build inventories before government distribution controls are applied. In many products, mills and distributors are deluged with requests for tonnage, "Steel," national metalworking magazine, states this week.

A strong tone prevails in the market, but finished steel prices are holding except for isolated increases, this trade magazine asserts. Indications are producers will make a determined effort to hold quotations in view of the threat of government control should prices get out of line.

Some slight reduction occurred the past week in total automotive output, according to "Ward's Automotive Reports," with this agency predicting that, even without imposition of direct government controls, passenger car production for the rest of the year will be restricted by shortages of steel and essential non-ferrous metals. Because of the supply situation, the projected total of 6,600,000 cars for the year seems an "ambitious" forecast, it declared.

* * *

Of interest the past week was the release by the American Gas Association in which it reported an increase in gas sales and revenues in the first quarter of the current year.

It noted that total revenues from sales of gas by utilities for the first quarter of 1950 were $614,000,000, an increase of 14.2% over the like quarter of 1949. Revenues from industrial sales represented the highest percentage gain, rising 16.0%. Residential gas revenues were up 14.7% and commercial gas revenues gained 9.9% over a year earlier.

The Association further states that in the 12-month period ended March 31, 1950, total revenues from utility sales of gas were $1,742,000,000, an increase of 9.4% over revenues of $1,593,000,000 in the previous 12-month period.

* * *

The phenomenal pace set by the building construction industry during the first five months of 1950 was maintained in June, according to the latest survey by Dun & Bradstreet, Inc. The total valuation of building permits issued in 215 cities last month amounted to $568,023,104, or less than 1% below the all-time high of $568,904,044 recorded in May. Compared with the June, 1949, total of $394,056,002, the rise was 44.1%.

The agency also notes that substantial advances over a year ago were reported in all of the geographical regions except New England which showed a loss of 0.9% and the South Atlantic which had a gain of only 2.6%.

Steel Output Slightly Lower Due to Vacations

The slow motion probing of the Administration for a set of "painless" controls has turned the steel market into a whirlpool of frenzy and uncertainty, "The Iron Age," national metalworking weekly, states in its current summary of the steel trade. Steel consumers are frantically trying to build up and balance their inventories. There are plenty of takers for anything that looks like steel, and price consciousness is fading fast.

Military orders have been slow in coming, this trade paper asserts, but a sizable military buildup is definitely on the way. Steel producers and consumers are correct in anticipating: (1) Allocations and priorities, (2) further inflationary trends, (3) chronic shortages of materials and products for months to come, and (4) a continuing onslaught of orders for finished goods.

Although price resistance is disappearing the gray market is not expected to bloat to its 1948 proportions. The big mills have been maintaining very tight control over their outlets and they know where their steel is going and for what it is to be used. Foreign steel is now the gray market operator's best source. Here are some current gray market prices: Cold-rolled sheets, $180 to $210 per ton; hot-rolled sheets, $160 to $200; ingots $75 to $80.

Consumers are projecting their production on the basis of what steel they can get, ordering all other items going into their products in proportion to the availability of the tightest steel item, "The Iron Age" points out.

Heating, ventilating and air conditioning industries report record-breaking orders, and hand tool manufacturers had their best month in history during June. Rural dealers in agricultural equipment are selling out their complete stocks in all standard items and in some specialized items not needed for three to five months.

At government request, according to this trade authority, Kaiser Industries, Inc., filed with the National Security Resources Board and Munitions Board a plan to raise its annual capacity at Fontana by 700,000 ingot tons. The project would cost about $100 million. Those striving for a steel mill in New England are also getting fresh encouragement from Washington.

While this news was still in the making, 13 of the nation's leading steel companies reported huge capacity expansion plans. Their

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Investment Powers of N. Y. Trustees Under New Law Analyzed

Since the passage of New York's modified version of the "Prudent Man" law, the investment of restricted trust funds in the state is no longer merely a matter of consulting the "legal list" of securities approved by the State Banking Department. The new obligations of trustees under the "rule of prudence" are discussed in non-technical language in a booklet just issued by the investment firm of Kidder, Peabody & Co., 17 Wall Street, New York City 5, N. Y.

The new law for the first time permits a trustee to invest in equities, up to 35% of a trust fund's value. Further, it has liberalized the range of securities permitted for the remaining 65%, particularly in the case of revenue and municipal bonds, the booklet points out. The law was intended as relief to beneficiaries squeezed between rising taxes and living costs and the declining yields of fixed income securities to which the previous law restricted the investment of trust funds.

Twenty states now grant full discretionary powers to trustees. While the "rule of prudence" has been a recognized legal precedent in New York for more than 80 years, it has never been explicitly stated in a New York statute until passage of the recent law, effective July 1.

Besides reprinting the full text of the new law, the booklet explains the principles which should govern the "prudent" investor.

With Waddell & Reed

(Special to The Financial Chronicle)

INDIANAPOLIS, Ind.—Eugene Y. Denham and Harold A. Smith are with Waddell & Reed, Inc., Merchants Bank Bldg.

Alvin Davis Opens

(Special to The Financial Chronicle)

NEW ORLEANS, La.—Alvin J. Davis is engaging in a securities business from offices at 916 Union Street. Robert A. Hopkins is associated with Mr. Davis.

With Burgess & Leith

(Special to The Financial Chronicle)

BOSTON, Mass. — Royal W. Leith, Jr., has joined the staff of Burgess & Leith, 30 State Street, members of the Boston Stock Exchange.

J. H. Goddard Adds

(Special to The Financial Chronicle)

BOSTON, Mass.—William H. Robertson has been added to the staff of J. H. Goddard & Co. Inc., 85 Devonshire Street, members of the Boston Stock Exchange.

With E. E. Mathews Co.

(Special to The Financial Chronicle)

PROVIDENCE, R. I.—Ralph K. Jennings is associated with Edward E. Mathews Co., 53 State Street, Boston, Mass.

Analysis of Wartime Behavior Of the Bond Market

By GEORGE F. SHASKAN, Jr., and A. WILFRED MAY

PART III

Study of past performance of fixed-interest securities shows great contrast of their price action between the first and second World Wars. Demonstrates results of Treasury's "art of monetary management" in financing last war on a low interest rate, thus maintaining remarkably strong general bond market.

(This is the third in a series of articles on the facts and significance of the stock market's behavior during past war periods. Comparison of the current post-Korean and previous market performances will appear in next week's issue of the "Chronicle.")

In the two previous instalments of this study we traced the price behavior of stocks during the initial stages as well as the entire duration of the two World Wars. In the present article we show the course of fixed-interest securities.

The bond market greeted the outbreak of World War I with a slight decline. During the four weeks immediately following our actual entry into shooting war on April 6, 1917, practically all rail bonds went down slightly, as did transits and utilities. While the industrials held up very well during this period, the Dow - Jones composite Bond Index registered a decline of a little more than 3%.

A. Wilfred May

Geo. F. Shaskan, Jr.

Over the entire period of our participation in the first World War, however, the bond market suffered a sharp and uniform decline, with only two of the 147 Stock Exchange-listed issues showing a net advance.

Bonds in World War II

During the four weeks following Pearl Harbor, as in April, 1917, most bonds declined, the Dow, Jones Composite Bond Index losing about 4%. The utilities fared particularly poorly. However, unlike the initial period of Word War I, a few bonds rose. These rises were largely concentrated in secondary rails, apparently in anticipation of the wartime conditions of heavier travel and motor-and-gasoline curtailment, which subsequently stimulated the broad rise in the common stocks of the carriers. Sugar bonds rose concurrently with the shares of that industry's companies. In this early period industrial bonds in general did not hold as well as they had at the outbreak of the first war.

Over the entire course of World War II the bond market—in sharp contrast to its behavior during World War I—rose substantially, with the Dow-Jones Composite Bond Index up some 17%. The largest advances, of course, were centered in the lower-grade issues. Thus, nine secondary rails rose by more than 300%, and 47 of such issues by more than 100%. Similarly, secondary issues in other industry groups (utility, sugar, transit and coal) were up 50% or more.

High-grade bonds acted much better during the second world conflict than they had during the first war, the Standard & Poor's Index of High Grade Bonds rising by 2% during the latter period. (This rise was highly selective, however; for example, 40 of 47 high-grade utilities, all six petroleum issues, and 8 of 42 rails actually declined.)

Sharp Inter-War Contrasts

The notable contrast between the bond market's major decline in the first war and its strength during the second conflict seems ascribable to the following major factors:

(1) The second World War was fought on a controlled low interest rate pattern while the first was not. The primacy of this aim was stated by wartime Secretary of the Treasury Morgenthau as follows:

"One of three principal objectives of the Treasury in its war borrowing program has been to finance the war at a reasonable level of interest rates."* Ascribing his success to "the art of monetary management," he contrasted his record with the United States' previous wartime accompaniment of weak bond markets.

Here is a succinct summary of the strikingly contrasting inter-war record. On June 30, 1914, just before the outbreak of

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*From "The War's Financing," from Annual Report to Congress by Secretary Morgenthau, July 21, 1945.

Truman Requests Increased Corporate and Individual Taxes

President, in letter to Sen. George, Chairman of Senate Finance Committee, asks for elimination of individual income tax reductions made in 1945 and 1948, and an increase in corporate income tax levy to 45%. Seeks $5 billion more revenue.

President Harry S. Truman on July 25 addressed a letter to Senator Walter F. George of Georgia, Chairman of the Senate Finance Committee, in which he outlined his proposals for tax increases to meet the increased military expenditures occasioned by the Korean crisis.

President Truman

The text of the President's letter follows:

My Dear Mr. Chairman:

The increased military appropriation requests transmitted to the Congress on July 24, 1950, together with other requests I shall transmit at a later date, will entail sharply increased Federal expenditures. We embark on these enlarged expenditures at a time when the Federal budget is already out of balance. This makes it imperative that we increase tax revenues promptly lest a growing deficit create new inflationary forces detrimental to our defense effort.

We must make every effort to finance the greatest possible amount of needed expenditures by taxation, and we must design taxation methods which prevent profiteering and distribute the tax burden fairly among the different groups of our people.

I appreciate that the development of a comprehensive revenue program adequate for our present needs will require careful Congressional consideration. Our wartime experience will need to be reviewed and alternative approaches explored. Under the most auspicious circumstances, such a comprehensive tax program could not be completed for some time.

In the present situation, however, speed is of the essence, and delay would be costly.

I recommend that, as an interim revenue measure, action should be taken immediately to revise and enact the tax bill now pending before your Committee, so as to increase tax collections substantially for the taxable year 1950. Specifically, I suggest that the revenue-raising provisions of the pending bill be retained and supplemented by increases in the corporate and individual income tax rates. This could be done without interfering in any way with the development of a more comprehensive revenue program as soon as practicable.

Three adjustments would be required in the pending bill:

First to eliminate the excise-tax reductions and other revenue-losing provisions, but retain the loophole-closing dividend withholding and life insurance company provisions.

Second to adjust the revised corporate rate structure contained in the pending bill by increasing the normal corporate rate from 21 to 25%. Taking into account the 20% surtax contained in the present bill, and the $25,000 exemption from surtax, this would result in a 25% tax on the first $25,000 of a corporation's income, and a 45% tax on the balance.

Third, to increase individual income-tax rates to the "tentative" levels adopted in 1945, by removing the reductions from those levels made in 1945 and 1948. This would leave unchanged the income-splitting provisions of present law, and the present personal exemptions of $600 per person. These rate schedules are familiar to the Congress, since they were involved in the consideration of the tax reduction adopted in 1945 and 1948.

The increased corporate income-tax rates should be made applicable beginning with 1950 corporation incomes, as the pending bill would do. With respect to individual income taxes, the increased rates should be applicable beginning with one-quarter of each taxpayer's 1950 income. This would require an increase in the withholding rate from the present 15% to 18%, beginning with the last quarter of 1950.

These adjustments in the pending tax bill would increase the government's revenue, on a full-year basis, by about $5,000,000,000 at present income levels. Clearly, this will not meet our long-run revenue requirements. As an interim step, however, it will have a timely effect on tax revenues and our financial preparedness. It will serve to restrain inflationary forces generated by increased defense expenditures. Without this action, we would face very substantial deficits before any additional taxes could begin to be collected.

In addition to increasing revenues, enactment of the revenue legislation I am recommending would improve the soundness of our tax system. The loophole-closing provisions of the pending bill will strengthen the tax structure and make it more equitable. This is particularly desirable in view of the higher tax rates in prospect, which would surely increase the incentive to exploit present tax loopholes. Moreover, the corporate income-tax structure will be substantially improved by eliminating the present "notch" rate, which bears heavily on smaller corporations. This will moderate the effect of increased rates on business incentives.

I believe that prompt interim legislation along these lines will provide tangible evidence of our determination to conduct our national finances in a sound manner, consistent with the national effort we are required to make. It will also be a major step toward preventing inflation during the time necessary to develop a carefully balanced tax program suited to our longer-range requirements. I expect to transmit further recommendations to the Congress concerning a more comprehensive tax program when we have additional information on the extent of our needs.

I am grateful for your cooperation in working out arrangements for the prompt consideration of these interim proposals. I earnestly hope that they will be favorably acted upon by the Congress at an early date.

I am sending a copy of this letter to the Chairman of the Ways and Means Committee of the House of Representatives, who, as you know, participated in working out the procedure for prompt action recommended in this letter.

Very sincerely yours,
HARRY S. TRUMAN.

Continued from page 3

The President's Economic Blue Print

enough supply for military security and essential civilian use," Mr. Truman declared. He therefore repeated his recent recommendation that Congress authorize a program of loans and guarantees for financing of new plants and processes which private capital does not undertake.

Production, Wages, Profits and Prosperity

The President painted a rosy picture of the nation's recent achievements on the economic front, stating:

"New records on peacetime production, employment and real incomes were reached by the middle of this year. Reasonable balance of prices had been achieved. The outlook in mid-June was for stability and new growth on a sound basis. Toward the end of June, however, the Korean outbreak brought rapid changes."

"Even allowing for population increases, output per capita and standards of living are very much higher than before the war. For example, civilian food consumption per capita in 1950 is estimated at about 11% above the 1935-39 average; and industrial production is about 65% greater on a per capita basis," the President continued.

"Wage and salary payments rose during the first half of 1950 to a seasonally adjusted annual rate of $139.8 billion, about $4.6 billion higher than a year earlier. Rising employment and higher wage rates both influenced this trend. Manufacturing wage rates reached a new high of $1.45 an hour in June."

Referring to profits the President said: "Profits have risen since 1949. In the second quarter of 1950, corporate profits before taxes were running at a seasonally adjusted annual rate of $31 billion, 17% higher than a year earlier. The level of profits after taxes permitted substantial increase of liquid assets, despite higher dividends and a higher level of plant and equipment financing."

"Farm income at a seasonally adjusted annual rate of $11.6 billion in the second quarter of 1950 was 15% below that of a year earlier."

Stressing the need for national unity on an optimistic basis, Mr. Truman said:

"Our economy has the human and material resources to do the job ahead—if we achieve the unity which will enable us to do our best."

Joins Gordon Macklin Co.

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, Ohio — Gardner Abbott, Jr. has joined the staff of Gordon Macklin & Co., Inc., 1010 Euclid Avenue.

From Washington Ahead of the News

By CARLISLE BARGERON

Most people would not see any relation between Senator Joe McCarthy and Korea but there is. He is the victim of, and Korea is the result of, the Administration's becoming highly sensitive, politically, over being pictured as associated with the Commies.

Carlisle Bargeron

Nobody in the world was more surprised than the Senator when after making a speech in Wheeling, W. Va., several months ago charging that the State Department was loaded up with Communists, the Administration pounced down on his head. He said nothing more than Republicans had been saying for months. He was not an important Senator. His speech was not generally circulated. But apparently the Administration had been laying in wait for the next bird to make this crack about its coddling Communists with a view to making an issue of it.

We know about the mudslinging that has followed and I doubt that anything has been proven. Certainly McCarthy hasn't proven his charges and it is impossible to see how one man could have possibly done so. However, neither has the Senate sub-committee created to investigate his charges sought to do so. Instead, they have devoted their time toward ruining McCarthy.

Now, let's go back a few years. Before Pearl Harbor there were quite a few people in this country, and earlier there was the so-called Cliveden Set in Britain, who believed in playing Hitler off against Stalin. Playing one country off against another with a view to maintaining a balance of power had long been Britain's very successful policy but now, along with our so-called isolationists, this Cliveden Set came to be called appeasers. The day Hitler turned on Stalin, in 1941, President Truman, then a Senator, was qouted by the New York "Times" as hoping the two bandits would kill each other off. But he reckoned without the man with whom he was three years later to run as Vice-President and whom he was to succeed to the Presidency. This man accepted Stalin as an ally, notwithstanding that he, too, had denounced him, in effect as a brigand when he originally joined Hitler.

Came the end of the war and the so-called isolationists, with lots of other people, in our country, wondered just what had been accomplished by disposing of Hitler for Stalin to take his place. But the Administration—Truman having now succeeded Roosevelt—insisted that the freedom loving people had triumphed and by agreement, installed Stalin's troops in Austria, Bulgaria, Rumania, Yugoslavia and Eastern Germany. They were also installed in Manchuria and Northern Korea. Our so-called isolationists set up an awful cry of appeasement. "Who are the appeasers now?" they asked. Coupled with this it developed that Communists had infiltrated into our own government, into our colleges, our civic organizations and our labor unions to an alarming extent. This had been charged by Republicans and anti-New Dealers for many years but their charges had fallen upon deaf ears. So what, the New Dealers had asked, aren't we pursuing the same goals?

The heat from disillusioned Americans was beginning to beat strongly upon the Administration when Czechoslovakia went into the Communist camp. There is no record that Stalin used any physical force or that he violated any agreements. Oh, we are assured, and no doubt he did, pull off some tricks to wean these people away from their "democratic" moorings.

Well, when Czechoslovakia went into the Soviet orbit, our intellectuals were shocked and they came suddenly to insist that Stalin and Communism were even more serious threats than the Republicans and isolationists had contended, though they haven't yet become alarmed about our domestic Commies. It had only taken them 10 or 12 years to see this. The heat on the Administration to quit appeasing Stalin now became intense, and Jimmy Byrnes told the Senate plaintively that he would sure like to get the Commies out of the State Department if he knew how.

From that time on, the Republicans have been hollering more about the New Dealers or the Fair Dealers being Communist fellow travelers. Simultaneously, the New Dealers or Fair Dealers have been taking one "bold action" after another to show they are not. First the Truman Doctrine, then the Marshall Plan and subsequently the Military Aid Program. Since the domestic Communists deserted them for Henry Wallace in 1948 the Fair Dealers have even quit speaking to them and have whooped up their denunciation of Moscow. Even the CIO, an affiliate of the Fair Deal, began ousting Communist unions, showing the darndest ingratitude because the Commies gave it birth.

In the meantime, Yugoslavia left the Stalin camp, seeming to leave him just where he was before Czechoslovakia fell. But with the Republican continuing to accuse the Administration of Commie tendencies and with the Administration coming to shout louder denunciations of Communism as a counter offensive, and to increase its spending in behalf of the "free world," Stalin's stature as a world menace has grown tremendously. We are said to be fighting his Satanic genius in Korea now when more likely it is that of the Chinese bandit, Mao Tse-tung, a confederate but hardly a satellite. He's too big a shot in his own right.

Stuck in the midst of the war news the other day was a story of the capture by Americans of a Russian made truck. It was made mostly of wood and the Americans pondered whether it was an example of Russian production. My guess is that it was, the production of this all smart, all powerful man who is coming over here, if we don't spend untold billions of dollars, and bomb us with the bomb which we produced; take it away from us and throw it at us, so to speak.

I sometimes wish nothing had ever been said about the Administration's absurdness in World War II, nothing about their association with Communists. Because apparently all we have accomplished is to push them to compound their felony.

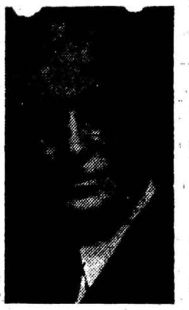
Immediate Price, Wage and Rent Controls Called For

By BERNARD M. BARUCH*

Chairman, War Industries Board, World War I

Contending situation is sufficiently grave to warrant overall ceiling across entire economy, former war mobilization chief urges imposition of price, wage and rent controls. Says no system of priorities can work effectively without price control, and danger of inflation in present crisis is greater than ever. Holds it mistake to curb price rises without wage control and, if inflation is to be halted, price controls must be immediate and universal. Wants whole economy mobilized and taxes high enough to eliminate profiteering and cover defense costs.

Events have left us no choice. We have to mobilize. Already our young men are being called. Casualty lists are coming in. The issue before us—before this committee—is how *quickly* and how *well* is the job of mobilization to be carried out? Shall we do *now* what we know will have to be done later—and thus hasten the victory of peace? Or shall we fumble and falter and invite defeat?



Bernard M Baruch

The League of Nations, already dealt a near-fatal blow by the defection of the United States, was actually wrecked in 1931 when Japan invaded China and the world stood by. Had the effort to overrun Korea been ignored, the United Nations would have been wrecked. All of us—in this country and abroad—would have had to live at the point of a gun. America has taken its stand against aggression and international blackmail. Whatever the cost, I feel sure the American people will see it through—provided they are told what is expected of them and why.

*Statement by Mr. Baruch before the Senate Banking and Currency Committee, Washington, D. C., July 26, 1950.

Bill Defeats Itself

If we *are* to see it through, the legislation before this committee is vital. Many parts of this bill are excellent. There is one major fault which destroys much of its value. This bill does not go far enough.

Experience has taught us that when the Government steps into the market with such enormous demands requiring such quick priority, you must control all prices, including wages, rents, food and other costs, eliminate profiteering and ration certain scarce essentials. This is not a pleasant outlook. Neither is that of the young man who has to go to battle. He risks all. Those who remain at home are called upon only to have less comforts.

The situation is sufficiently grave to warrant an over-all ceiling across the entire economy, overall prices, wages, rents, fees and so on, with high enough taxes to prevent profiteering and to pay all defense costs, and an all-embracing, effective system of priorities.

In urging that, I do not propose to curtail civilian production merely for the sake of curtailment. The very fact that we face a struggle of such uncertain duration and cost means that the sooner our economy is brought under control the better.

We Can Grow Stronger

Far from being a source of hardship, the mobilization I envision would substantially strengthen this country. It would minimize the actual denials we would have to undergo. It would reduce the risks of a third World War, by serving notice to the world that our tremendous economic potential is ready to be thrown against any aggressor, if necessary.

Before the peace is won, we shall have to come to this mobilization. It will never be easier to do than now.

Price Control a Must

As now drawn the bill before the committee defeats itself.

This bill proposes a system of priorities over production, yet nowhere is provision made for controlling prices and other costs. Should this bill be enacted—without price control—the Government may get what it wants, but with needless delay and ever-increasing prices. The public will be left to compete for the remainder—with the fattest pocketbook, not the greatest need, deciding who gets what is available. The cost of every defense item will be needlessly increased; profiteering encouraged; cruel injustice inflicted upon millions with fixed incomes or who have no pressure group to represent them.

This bill, gentlemen, is an invitation to inflation.

Will We Never Learn?

No system of priorities can work effectively or for long, without price control. That was learned during World War I. It was forgotten and had to be learned anew, at what bitter cost, in World War II. Must we persist in repeating the mistakes of the past, even to inviting disaster?

This is what I had to say on the relation of priorities to price control nine years ago, before the House Banking and Currency Committee on Sept. 19, 1941. I quote:

"Priority means giving to one before another. When this happens the man who has been displaced will seek to replace his position. If the total supply is not sufficient to go around, he will bid a higher price to get what he wants. . . . That is why Government priorities cannot be wholly effective without price control. As soon as a priority is discussed—(May I emphasize this sentence) *as soon as a priority is discussed, price control must be automatically considered too*. . . . Much of the waste and confusion of our defense efforts today can be traced to the fact that priorities were instituted without doing the things that must go with priorities. . . ."

Priorities cannot stand alone. They must be seen as a part of the whole, as one finger of the two hands needed to do the job. Along with priorities and allocations must go the elimination of profiteering; higher taxes; effective price, wage and rent controls; power to ration scarce civilian essentials where necessary; the postponement of all less essential works; a reduction of unnecessary public and private expenditures; every effort to increase production; the development of substitutes for things in short supply; control of all exports and imports; conservation of what is scare, and an organized self-restraint among the people—the enlightened self-discipline to accept the denials which winning the peace entails.

Some may disagree when these actions should best be taken. Still, whatever action *is* taken now, must fit into a general mobilization, when, and if that becomes necessary.

Surely, the least that should be done is to lay a sound foundation for the future. A system of priorities without price control is a foundation built on shifting sands.

Inflation a Greater Danger

It may be argued that the menace of inflation is not so frightful today, since we are not yet at war. Actually the danger is greater. Today our economy already is operating at full blast, with little or no slack. Our national debt is about 257 billion dollars, about six times what it was when Hitler invaded Poland. Living costs have climbed so high that serious hardship already is being inflicted on many, particularly those with low or fixed incomes.

Recently, the Senate passed a bill raising all social security payments and pensions for the aged, to offset the reduction in purchasing power since 1939. These higher payments which you have voted would be nullified by your failure to enact an effective price control law.

Colleges Undermined

Everywhere cities and states are searching desperately for the

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Olds Says Drastic Controls Means Permanent Socialism

Chairman of U. S. Steel Corporation holds American industry under private management is ready, able and willing to provide for war, and that proposed Defense Production Act now pending in Congress is unwarranted.

In a statement made at a press gathering on July 25th, at the time the United States Steel Corporation released its quarterly statement of earnings, Irving S. Olds, Chairman of the Corporation, expressed his opposition to drastic controls of industry as proposed in the bill now pending before Congress. Mr. Olds based his opposition both on his contention that American industry, under private management and through voluntary allocations and other means, could and would meet the demands of an all-out war, and also on his belief that the proposed controls could "convert this great democracy into a socialistic state."

Irving S. Olds

Mr. Olds cited the record of the steel industry in World War II under a system of voluntary allocations and priorities administered under government supervision, and criticized the pending Defense Production Bill as "a grant of authority by Congress to nationalize American industry in whole or in part," for which, he added, "there was no justification whatever."

The nation, Mr. Olds stated, has the facilities, skill and ability to produce enough steel to insure victory over a potential enemy, or any group of enemies that might be encountered.

The Current Misinterpretations Of Dow's Theory

By F. P. GOODRICH

Harris, Upham & Co., Members of N. Y. Stock Exchange

Market analyst lists certain refinements allegedly necessary for putting Dow's Theory to practical use, and tells why he regards as unjust some of the criticisms levelled against it. Offers clarification of the technical meaning of chart patterns.

This Theory propounded by Dow and Hamilton some half century ago has come to be widely recognized by the stock-minded "public" as something of a classic concept—but essentially outside their sphere of intimate understanding. On the other hand, there are various Commentators who purport to write and speak authoritatively on Dow's Theory and its interpretations.

F. P. Goodrich

As an intense student of this Theory and its applications to the stock market movements for many years, I believe it can be stated correctly that no professed "authority" on the subject — since Hamilton—has ever displayed a "mastery" comparable to that acquired and demonstrated by Robert Rhea. His was an acquired *finesse* which enabled him to convey in his interpretations a *maximum* of the virtues possessed by the Theory or intended by Mr. Dow that it should possess.

Prefaced by the foregoing, the comments herein offered relate to a refutation of some of the criticisms of Dow's Theory and an expose of defects in the interpretations by some of the self-styled *authorities*.

Alleged Defects

I shall *assume*—because of limited space—that the reader has acquired more than a superficial understanding of the fundamentals of the Theory.

Many of the more usual criticisms relate actually to the matter of "prophetic" virtues allegedly possessed by the Theory. It is not unnatural that the "public" who admittedly have made no intensive study of the subject should entertain an impression that the Theory possesses a *power to predict* price movements in the stock market and that it can continually demonstrate such predictatory virtues. That is an erroneous impression for which the under-informed can perhaps be excused.

But for any Commentator — purporting to have an intimate knowledge of the subject—there is no justification from a standpoint of correct interpretation for their attempts to embellish the Theory with attributes which it does not possess and never was intended to possess. One can attribute such distortions by many contemporary self-styled "authorities" to a desire to "capitalize" commercially on these public impressions of the Theory.

Some of these commercialized mis-conceptions have gone so far as to endow the Theory with virtues tantamount to a "power of prediction" as to future stock prices in respect to both (1) direction and (2) degree or scope of the Major Trend. Such exaggerated and erroneous interpretations frequently furnish ammunition for Critics—who are always eager to condemn any alleged virtues in Dow's Theory.

Correctly interpreted—as did Robert Rhea—Dow's Theory possesses very limited virtues of a strictly predictatory nature. Never does it *predict* the ultimate scope or duration to be attained by any Major Trend movement. There is, incidentally, *no* theory yet devised which has been proved, under an appropriate "time test," to possess such definite attributes.

Wording of Interpretations

The impressions gained by the reader may depend to a large degree upon the choice of words and the framing of sentences on the part of the "interpreter." For example—I quote in part from a recently published interpretation by a Dow Theorist—"This point (confirming by the Rail Average) duplicates similar action by the Industrials 10 weeks ago and, under Dow methods of analysis, confirmed their resumption of the primary bull market which started in June, 1949."

From the above choice of words and the phrasing of them, the reader might well derive therefrom an intimation that he should expect an extensive further upward movement because of—"resumption of the primary bull market" — and should therefore indulge in new buying.

Let us contrast such possible inferences gleaned by the reader with an impression conveyed by Robert Rhea were he interpreting the same point. In its advance to 56.96 close, the Rail Index conformed with the previous action by the companion Indicator and confirmed (1) that the direction of the Major Trend was still upward and (2) that reaccumulation had been taking place during the Line formation.

One can see how such a choice of words and sentences by Robert Rhea would give *no* grounds for the reader to derive an "intimation" as to an extensive further upward movement justifying new purchases.

No interpretation should be so stated as to convey an incorrect intimation to the reader. Let us cite an instance which illustrates the importance of that particular fact: In the upward trek of the 1942-1946 Bull market, we witnessed a fourth Primary movement to Ind. 206.97 (2/2/46) and Rail 68.23 (2/5/46). Thereafter the dual Indicators jointly surmounted the tops of the fourth Primary movement. The ensuing fifth Primary movement however proved to be very modest in scope and in duration—so much so that any interpretation which conveyed an intimation favorable to "new buying" was open to condemnation subsequently in the light of a Bear market decline very shortly thereafter and of some considerable severity.

It was generally true that Robert Rhea would "imply" or even affirmatively state in his interpretations that "buying" of stocks could be safely initiated on the *first* valid "confirmation" of an upward Major Trend. Very seldom did he convey such a statement or even such an "intimation" at a subsequent point of "re-affirmation." Correct and professional Technique requires differentiation between the significances of: (1) an initial "confirmation" and (2) a subsequent "reaffirmation." The reasons for that differentiation are exemplified in the pattern cited above from the 1942-1946 Major Trend—when that "reaffirmation" marked the *final* and relatively small movement before the Major Trend changed its direction. It conveyed *no* assurance or implication as to *how much further* the Major Trend would carry. Correct interpretations of this Precept require not only differentiation between an initial "confirmation" and a subsequent "re-affirmation," but also a correct identification of each in the unfolding plottings.

Another important point on correct chart interpretations is illustrated in the fourth to fifth Primary movements in the 1942-1946 pattern: Even the modest and unemphatic move by the Rail Index to 68.31 against 68.23 served to "reaffirm" the direction of the Major Trend and to "confirm" a *fifth* Primary movement. Some modern Technicians are prone to *insist* upon at least a *full point* penetration for "validation" of a "reaffirmation." Actually the *fact* can validate a "reaffirmation" even though the *degree* may be unemphatic. There again is a fine point of differentiation between a "confirmation" and a "reaffirmation" with respect to the Major Trend.

Furthermore—as in the instance cited from the 1942-1946 pattern—the modest *degree* of betterment furnished by the Rail Index in a "reaffirmation" may carry an "implication" of its own, namely, that the Major Trend is about to engage in a *change* in its direction.

Mechanical vs. Empirical

Application of Dow's Theory is visually portrayed of course by the use of charts showing the plottings of the two Indicators. The direction of the Major Trend is determined by the movements of the *Secondary* Trend in the related plottings of the two Indicators; movements in the *Minor* Trend constitute the determination of the direction of the Secondary Trend.

To a considerable extent, the plottings of the three Trends may unfold with some degree of mechanical precision — the *Minor* movements prescribing the direction of the *Secondary* Trend and the Secondary movements in turn prescribing the direction of the Major Trend. When the plottings partake of such mechanical performance, we term the pattern as *orthodox*.

There are however recurring times when the plottings depart even radically from such mechanical precision and we then term the pattern as *unorthodox*. At times, the plottings may be so extremely unorthodox as to present a pattern in which the *Secondary* Trend is "fused" into the Primary movement. A contemporary instance is the pattern witnessed after June, 1949, when the Secondary Trend was completely "fused" into an extended Primary and an orthodox mechanical "confirmation" was not witnessed during the entire Primary movement.

These variations or even radical departures from an orthodox pattern demonstrate the *Empirical* qualities inherent in Dow's Theory—as contrasted with a semblance of mechanical precision. From the point of view of *practical value* in Dow's Theory, it is important to note that the *unorthodox* pattern is *less* apt to occur when a Bear market is initiated and *more* apt to occur in a Bull market. It can also be helpfully noted—in an orthodox pattern—a mechanical confirmation of a Bear market will occur *within* 15% of the top of the preceding Bull market. For that historical discernment we are indebted to the extensive studies conducted by Robert Rhea.

Related to that fact and the others above cited is the principle indigenous in Dow's Theory that the confirmation "signal" may be *tardy* (by some 15%). The important point in the Theory is the protection afforded to Capital against the potential losses involved in the *balance* of some 85% of the ultimate total decline—as in the disastrous Bear market 1929 to 1932 when that 85% spelled the difference between solvency and bankruptcy in some cases. The Theory has often been a target for criticism because of this "tardiness," but such criticisms are unjust because that moderate degree of tardiness is actually an acknowledged ingredient of the Theory.

Furthermore, in a refined use of Dow's Theory by an expert such as Robert Rhea, there is demonstrated a faculty of "anticipating" a confirmation signal and thereby is the "tardiness" almost completely eliminated. True of course the act of "anticipating" a signal *may* incur error, but such an expert as Robert Rhea proved the chance of error can be reduced virtually to nil.

In a closeup view of the plottings by the dual indicators just beyond the top in 1946, there is visible almost perfect "mechanical" performances typical of the orthodox type of plottings. We can note—in the decline from the top in 1946—how the Secondary Trend gave the "signal" of a Bear market at the point marked "A"—late August, 1946. That Bear market signal appeared *within:* (1) 9% of the top 212.50 in the Ind. Index and (2) 12% of the top 68.31 in the Rail Index.

The illustrative pattern also portrays an instance of the application of the art of "anticipating." In the dwarfed recovery to (1) Ind. 204.52 and (2) Rail 63.12 there was justification for *selling action* in anticipating the next decline might carry the two Indicators down through Ind. 195.22 and Rail 60.41 (a confirmation of a Bear market). That is exactly what did occur.

Further on this matter of "anticipating" a signal, we can note a point of refinement when one discerns correctly the "exhaustion" of the force of a Bear market—even at about the point where a reversal in the Major Trend is initiated. This form of "anticipat-

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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:

Airlines in a World War III—Special review—John H. Lewis & Co., 63 Wall Street, New York 5, New York.

Comparative Values of 36 Representative Banks—Bulletin—Paine, Webber, Jackson & Curtis, 25 Broad Street, New York 4, N. Y.

Leading Banks and Trust Companies of New York—73rd consecutive quarterly comparison—New York Hanseatic Corporation, 120 Broadway, New York 5, N. Y.

Next Buying Spot—Advice on timing in current Bulleting, including 37 War Market selections—$1 for current issue and next 4 weekly issues — Bondex Incorporated, 654 Madison Avenue, New York 21, 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

"Prudent Man" Investing—An Outline of Present Investment Responsibilities of New York Trustees, together with the Full Text of the New Fiduciary Law in New York State — Brochure — Kidder, Peabody & Co., 17 Wall Street, New York 5, N. Y.

Quarterly Comparison and Analysis for 19 Leading New York City Bank Stocks—Laird, Bissell & Meeds, 120 Broadway, New York 5, N. Y.

* * *

Arrow-Hart & Hegeman Electric Co. — Memorandum—Barnes, Bodell & Goodwin, Inc., 257 Church Street, New Haven 10, Conn.

Also available are memoranda on **Colts Manufacturing Co., Hartford Empire Co., New Britain Machine Co. and Safety Car Heating & Lighting.**

Central Vermont Public Service Co.—Analysis—Ira Haupt & Co., 111 Broadway, New York 6, N. Y.

Coca-Cola Bottling of New York — Analysis — Elder & Company, James Building, Chattanooga, Tenn.

First National Bank in Dallas—Memorandum — First Southwest Co., Mercantile Bank Building, Dallas 1, Texas.

Also available are memoranda on **Mercantile National Bank at Dallas** and **Republic National Bank of Dallas.**

Hunt Foods, Inc. — Report — Walston, Hoffman & Goodwin, 265 Montgomery Street, San Francisco 4, Calif.

Also available are a study of **San Diego Gas & Electric Co.** and memorada on **Allied Stores Corp., Bank of America, H. H. Robertson Co.** and **Scovill Manufacturing Co.**

Iowa Power & Light — Memorandum—Auchincloss, Parker & Redpath, 52 Wall Street, New York 5, N. Y.

Kearney & Trecker Corporation—Analysis in current issue of "Business and Financial Digest"—Loewi & Co., 225 East Mason Street, Milwaukee 2, Wis.

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

Missouri Pacific Preferred—Bulletin—Ira Haupt & Co., 111 Broadway, New York 6, N. Y. Also available is a bulletin on **Consolidated Vulture Aircraft.**

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

Also available is a brief review of the Cement Industry

Schenley Industries—Memorandum—Hayden, Stone & Co., 25 Broad Street, New York 4, N. Y.

Standard Oil of Indiana—Memorandum—Shearson, Hammill & Co., 14 Wall Street, New York 5, New York.

Transamerica Corp.—Memorandum—Hirsch & Co., 25 Broad Street, New York 4, N. Y.

U. S. Thermo Control—Analysis—Raymond & Co., 148 State Street, Boston 9, Mass.

Universal Winding Co.—Memorandum — Reynolds & Co., 120 Broadway, New York 5, N. Y.

Zonolite Company—Analysis—Hill Richards & Co., 621 South Spring Street, Los Angeles 14, California.

French Revolution Inflation—Lesson of Irredeemable Currency

By FREDERICK G. SHULL

Connecticut State Chairman for Gold Standard League

Asserting tampering with currency is one of the surest roads to inflation and disaster, writer reviews disastrous experience in French Revolution with issuance of paper currency. Cites departure of United States from redeemable currency as "an act of treachery on the part of our leaders," and says late President Roosevelt resorted to that action because he felt obliged "to do something." Contends our present currency system is proof United States does not practice what it preaches.

Various reasons have been advanced to explain just what is the cause of inflation. Some attribute it to shorter working hours and higher pay; some to lack of a reasonable volume of production caused by inefficiency and slow-down on the part of workmen; and still others, to excessive profits accruing to management. But there must be added to this list: the inordinately high cost of government in these modern days.

Frederick G. Shull

Now, regardless of whether any or all of the above theories are contributors to our present-day inflation in the United States, there is still another factor—thus far little emphasized, and perhaps having only a few adherents—which, in all probability, is to an appreciable degree at the bottom of our trouble. I have reference to the fact that after many years of successful operation under the stability of the gold standard, we were taken off that standard within a matter of months after President Roosevelt was inaugurated in the year 1933.

It is possible to draw on factual information of indisputable authenticity to prove — by actual known experience of other nations—that tampering with the currency of a nation is one of the surest roads to inflation and disaster that has ever been devised. And it ought to be of general interest to the public to see that, after a fashion, history is repeating itself—that the issuing of irredeemable money invariably leads to ruinous inflation.

In order to bear out these claims, proof will be based on the experience of France—late in the eighteenth century—when she resorted to the issuing of irredeemable paper money: whereby she started with an initial issue of only 400 million francs, and, within eight years, increased the volume of that so-called "money" to more than 45,000 million francs —and which by that time had become practically worthless. This became a strong factor in bringing on the French Revolution. Our authority for these facts will be "Fiat Money Inflation in France," by Dr. Andrew D. White, published and copyrighted in the year 1896 by D. Appleton and Co.[1]

Quoting his own words from his introduction to that book, Dr. White says: "As far back as just before our Civil War I made, in France and elsewhere, a large collection of documents which had appeared during the French Revolution, including newspapers, reports, speeches, pamphlets, illustrative material of every sort, specimens of nearly all the Revolutionary issues of paper money —from notes of ten thousand livres to those of one sou." And it was on the basis of those studies that Dr. White was able to develop his masterpiece: "Fiat Money Inflation in France." But first—more about Dr. White himself.

To my amazement, all too few of our generation appear to be aware of the exceptionally high station in public affairs occupied by Dr. White throughout the later decades of the last century. For surely no man deserves a larger niche in our Hall of Fame—as the following facts amply bear out.

He was born in Homer, N. Y., in 1832; was educated at Hobart and Yale; served in the New York Senate, where he had the good fortune to meet Ezra Cornell, which friendship resulted in the founding of Cornell University. Dr. White became its first president. Prior to that he had taught history at the University of Michigan; at Cornell—in addition to being president—he held the professorship of history for a span of nearly twenty years; and, in 1884, he was chosen as the first president of the American Historical Association. In addition to all this, he wrote extensively — as evidenced by his "History of the Warfare of Science with Theology," his "Seven Great Statesmen in the Warfare of Humanity with Unreason," and his "Autobiography." With such a background no one would dispute Dr. White's high station in the field of education. But it was in the field of diplomacy that he fairly shone.

President Grant sent him to Santo Domingo in connection with its annexation; President Hayes appointed him our Minister to Germany; President Harrison sent him as Minister to Russia—from which post he made all his preparations to return home when the Democrats elected Cleveland. But President Cleveland insisted that he continue with the Russian assignment; and, near the close of his Presidential term, Mr. Cleveland appointed Dr. White to serve on the commission investigating the Venezuela-Guiana boundary line. There still followed his appointment by President McKinley as our Ambassador to Germany, where he served from 1897 to 1902—and during which time (in 1899) he was made chairman of the American delegation to The Hague Peace Conference. For full measure, it should be added, he made frequent trips to Washington during the First World War, at the request of President Wilson, in order that Mr. Wilson might gain the benefit of Dr. White's first-hand knowledge of affairs in the European capitals. At that time, being well past his eightieth year, Dr. White rounded out almost fifty years of important service for our Presidents.

In commenting further on his study of the French documents Dr. White had this to say: "Some years later, when there began to be demands for large issues of paper money in the United States, I wrought some of the facts thus collected into a speech in the Senate of the State of New York, showing the need of especial care in such dealings with financial necessities.

"In 1876, during the 'greenback craze,' General Garfield and Mr. S. B. Crittenden, both members of the House of Representatives at the time, asked me to read a paper on the same general subject before an audience of Senators and Representatives of both parties in Washington. This I did, and also gave it later before an assemblage of men of business at the Union League Club in New York."

It now becomes evident that Dr. White was not only regarded as a great statesman by many of our Presidents—he was also held in high esteem by prominent legislators and businessmen as a recognized authority on the subject of finance. In fact, he was able to forsee the possibility of just such a financial crisis as we have experienced in this country in recent decades; and his aim was to help America avoid those crises. It is hard to understand why our political leaders in the 1930's appear to have been entirely oblivious of the facts so ably presented in "Fiat Money Inflation in France"—a book that has been reprinted several times in this country and at least once in Canada, and a book regarded by bankers as presenting expert views on finance.

The name Andrew Dickson White not only appeared in "Who's Who" — it appears, and will remain for all time, in "Who Was Who," as identifying one of our greatest Americans.

Dr. White's Theory

Dr. White's sound theory was that there are certain natural laws which must be followed in finance if calamity is to be avoided; that irredeemable paper money tends strongly toward calamity; and that this will always be true. On this high authority, therefore, the dangers inherent in the use of fiat money are with us just as much today as they were at the time of the French Revolution.

France's trouble appears to have started back in the year 1789 when that country had become deeply involved in debt. A "short road to prosperity" was said to be what her leaders were looking for; and they chose to meet the situation by the issuing of an irredeemable paper money to which they gave the name: "assignats" —a form of franc. It so happened that the Minister of Finance, Necker, who was "acknowledged as among the great bankers of Europe," tried his best to prevent the issuing of irredeemable paper money — but without avail. For the "National Assembly had determined to confiscate the vast real property of the French Church—the pious accumulations of fifteen hundred years." And it was these real values that were intended to support the paper currency to be issued. French statesmen, and others, were said to have recognized the difficulties and dangers of a currency "not well based and controlled." And it may be added with emphasis that "few more keen-sighted legislative bodies have ever met than this first French Constitutional Assembly."

The first issue of paper money "assignats"—four hundred million francs—"were notes secured by a pledge of productive real estate and bearing interest to the holder at three per cent. No irredeemable currency has ever claimed a more scientific and practical guarantee for its goodness and for its proper action on public finances." It was declared that: "These assignats, bearing interest as they do, will be considered better than the coin now hoarded, and will bring it out again into circulation." As compared with our own current irredeemable paper money, this French issue would appear to have possessed more attractive features — being both interest-bearing and secured by real estate; but that French currency failed to bear out such values. And the Minister of Finance, Mr. Necker, being unable to halt this paper-money program "sent in his resignation and left France forever."

As further evidence that fiat money is a very questionable medium of exchange, Dr. White says that "a very thoughtful article" appeared "in the leading paper, the 'Moniteur' "; and that article stated: "It is, then, evident that all paper money which cannot, at the will of the bearer, be converted into specie cannot discharge the functions of money." And as added evidence that this form of so-called money leads to inflation Dr. White had this to say:

"Far more important than any other argument against inflation was a speech of Talleyrand. He had been among the boldest and most radical French statesmen. He it was—a former bishop— who, more than any other, had carried the extreme measure of taking into the possession of the nation the great landed estates of the Church, and he had supported the first issue of four hundred millions. . . . He exhibited various weak points in the inflation fallacies and presented forcibly the trite truth that no laws and no decrees can keep large issues of irredeemable paper at par with specie."

Notwithstanding the fact that it appears to have been a matter of common knowledge for generations that currencies cannot safely be tampered with, our leaders in Washington in the early stages of Mr. Roosevelt's First Administration seem to have been quite unaware of that fact—for they threw the gold standard overboard just about as freely as the NRA was discarded.

As Dr. White points out, there were men who advanced views in favor of the high quality of this French paper money; and among those "eloquent theorists" he quotes one man as having predicted "a time when gold was to lose all its value, since all exchanges would be made with this admirable, guaranteed paper, and therefore that coin would come out from the places where it was hoarded" — but, instead "specie disappeared more and more." Some tried to explain this by saying that "British emissaries were in the midst of the people, instilling notions hostile to paper." But those emissaries were never found.

It developed that as "paper money had increased in amount, prosperity had steadily diminished"; and "vast numbers of workmen in all parts of the country were thrown out of employment." And before the close of the year 1791, "no one knew whether a piece of paper money representing a hundred livres would, a month later, have a purchasing power of ninety or eighty or sixty livres."

In the early days of this French inflation, some "had insisted that

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[1] Quotations are from "Fiat Money Inflation in France" by Dr. Andrew D. White, copyright 1896 by D. Appleton and Co. Reprinted by permission of Appleton-Century-Crofts, Inc.

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AMERICAN CAR AND FOUNDRY COMPANY

FIFTY-FIRST ANNUAL REPORT—YEAR ENDED APRIL 30, 1950

To the Stockholders:

The results of the operations of your Company and its subsidiaries for the fiscal year ended April 30, 1950 and their condition at the close of that year are as shown by the annexed statements—Consolidated Balance Sheet, Income Account and Statement of Consolidated Earned Surplus—prepared and certified, as usual, by independent auditors.

At the beginning of the fiscal year recently closed there was an almost utter lack of activity in the buying of railroad equipment. At that time your Company and its subsidiaries had on their books unfilled orders amounting in dollar value to approximately One Hundred and Thirty Millions, subject to possible increase in dollar amount by operation of the "escalation" provisions contained in practically all our manufacturing contracts. During the first half of the year our plants, some but not all, were kept moderately busy, but principally in the production of work previously booked and included in the "carry-over" from the prior year. As these old orders were filled, the small volume of new work booked naturally reduced the rate of operations of our plants taken as a whole, with the inevitable effect of a reversal from profit to loss in the production of the plants actively engaged—a condition which was forecast in the Earnings Statement submitted to our stockholders at the close of the first half of the year. Toward the close of the year there was a moderate resumption of equipment buying and your Company entered upon its new year with orders on the books amounting, in dollar value, to approximately Forty-Two Millions — an amount which has been substantially increased by business booked since the close of the year.

Despite the not-unexpected lessening of earnings for the year, as shown by the appended Balance Sheet there has been no impairment of the sound, strong and fluid condition of your Company. Its cash position is entirely satisfactory and sufficient for all our needs present and prospective. Inventories are not out of line with the volume of work on the books. Our bank loans, Thirty-Five Millions at the beginning of the year, at the close of the period were reduced to Five Millions—and this amount will shortly be paid.

Your Company's plants have been well maintained and are in a condition of high operational efficiency. Our Valve Division, manufacturing a line of valves used in the oil industry and in many other lines, has been expanded and is now organized as a separate division, showing quite satisfactory results by way of earnings. Our Miscellaneous Products Division, producing a great variety of cast iron, forged, and pressed and welded steel products, has also been expanded and is a substantial contributor to your Company's earnings. The operations of our subsidiary Companies—Carter Carburetor Corporation and Shippers' Car Line Corporation—have been entirely satisfactory, both as to earnings and otherwise. Shippers' fleet of more than ten thousand cars, a majority of them of modern construction, have been steadily engaged at satisfactory rentals on long-term leases to a highly desirable list of oil, chemicals and other manufacturing concerns. Our Carter Carburetor Corporation has also had a year satisfactory in all respects. It is the largest manufacturer of carburetors in the United States, and its products are found not only in a majority of the automobiles in our country but as well in tractors, buses and agricultural machinery. The Management of this division of your Company has now developed a fuel pump which is meeting with an excellent reception from the industry, and gives every promise of becoming an important addition to the Carter line. The present outlook warrants the belief that the satisfactory volume of earnings of both these subsidiaries will be continued for the year now current and thereafter.

The "Talgo Train," properly described in our last year's report as "a new concept in railroad transportation," after several months of trial runs, has now been placed in regular passenger service on the run between Madrid and Irun, both in Spain. Although no actual business has, as yet, been booked in this line, we have a great number of inquiries by railroads in various parts of the world all showing a strong interest in this development. It will be vigorously followed up, but it is still too early to form a definite opinion as to the extent of its possibilities.

It will be noted that the item "Intangibles" heretofore carried as an asset on our Consolidated Balance Sheet has been eliminated therefrom—and its amount charged against Earned Surplus. This was done by action of your Directors in April last, following recommendation to that effect made by your Company's auditors. The item represented the then "good will" value, as distinguished from the value of the physical assets of the several companies taken over by, and merged into, your Company at the time of its formation in 1899—and is without any presently realizable value, besides being a recurring source of argument with the taxing authorities of several States as to its being an item subject, in whole or in part, to taxation in those States.

During the year, two of your Company's wholly-owned subsidiaries, American Car and Foundry Investment Corporation and American Car and Foundry Export Company, both of which had outlived their usefulness so far as concerns the interests of their parent Company, were liquidated and dissolved, thus measurably—and desirably—simplifying the corporate structure of your Company.

In the letter to the stockholders accompanying the report for the fiscal year ended April 30, 1949, attention was called to the dividend rights of the holders of our non-cumulative preferred stock, as those rights have been determined by the rulings of the Courts of New Jersey, under the laws of which State your Company is incorporated and by which rulings your Company is of course bound. Briefly, under those rulings, the holders of our non-cumulative preferred shares, are entitled each year but only out of that year's earnings calculated on a non-consolidated basis, to such amount by way of dividends, as are warranted by the year's earnings, up to seven percent of the par amount of such shares.

Calculated on the basis stated, the year's earnings warrant a dividend payment to the holders of our preferred shares at the rate of $2.94 per share held. Such holders have already, by payment made in December last received out of the year's earnings, a dividend at the rate of $1.75 per share. Your Directors accordingly have, since the close of the year, declared a further dividend on such shares at the rate of $1.19 per share held, payable July 18, 1950 to the holders of such shares at the close of business July 11, 1950—this additional dividend completing the payment out of the year's earnings of the amount thereof applicable to the payment of dividends on the shares of your Company's non-cumulative preferred stock outstanding.

During the year there has been no disturbance of our friendly relations with labor —a condition which of course it is desirable should continue. The maintenance of such relations has necessitated practically continuous negotiation during the year with labor unions at our several plants. In so far as the matters in difference between your Company and labor involved questions of wage increases, hours of employment, working regulations and the like, solutions were found acceptable to both sides—but, of course, in certain cases, increasing your Company's operating costs. Normally such increase in our cost of production would be added to the price of our product, but in the highly competitive conditions prevailing in our industry this is not always possible and in many cases is impossible. As our stockholders undoubtedly know certain of the unions are now insisting upon the setting up of a "pension plan" for the benefit of their members—an insistence which has been met with compliance on the part of practically all the great industrial organizations of our country. In these circumstances your Management, having in mind only the best interests of your Company, has after protracted negotiations worked out with the Unions representing the workers at several of our plants, an agreement (which, to become effective, requires the approval of our stockholders)—whereby there will be instituted by your Company a program for the granting of pensions and other benefits to those workers, with appropriate provisions for the protection of the interests of your Company in connection therewith. Such agreement is referred to at length in the "proxy statement" submitted to our stockholders in compliance with the rules of the Securities and Exchange Commission.

In effect, the agreement so worked out is an amplification of your Company's Employees' Welfare Plan approved by our stockholders at their Special Meeting held for the purpose of its consideration on April 16, 1947 and presently effective. To such extent as is proper and possible, the cost to your Company due to the operation of the agreement submitted will be reflected in the selling prices of its products. On the whole, the agreement so worked out with the Unions and now submitted to our stockholders is as favorable as well could be expected—in many instances, more favorable than are the terms accepted by other concerns similarly placed with us. It is the considered opinion of your Management that the best interests of our Company will be furthered by the approval of the agreement and you are urged to give it such approval.

In the letter accompanying the report for our prior fiscal year—that ending April 30, 1949—it was said:

"During the fifty years of its corporate existence, your Company has occupied, and still holds, a commanding position in its particular field of operations. As a manufacturer of railroad equipment, its business is highly cyclical in nature, dependent upon and moving sympathetically with the welfare of our great railroad systems. The correction of this situation calls for a diversification of activities with a view to lessening our dependence for earnings upon the railroads as such—always with care, however, that such diversification shall only be within the competency of our experience and facilities. Your Management is keenly aware of this need and already much has been accomplished along the indicated line of correction."

Already (as referred to earlier in the present letter) much has been accomplished in the line of a diversification of our activities. We have additionally the problem of the number and location of our manufacturing plants. Your Company was formed in 1899 by the merger of a number of car-building plants located, and not always strategically, in various parts of our country. A number of these plants have since been disposed of—but even so, we today have a number of plants, representing an investment of many millions of dollars, the facilities of all of which cannot at all times be kept in profitable operation. Because of the sporadic nature of equipment buying by the railroads, as it has developed in recent years resulting, so far as equipment-building companies are concerned, in a condition that may properly be described as one of either "feast or famine," the earnings of such of our plants as may be profitably engaged have of necessity had imposed upon them the

(Continued on following page)

CONSOLIDATED BALANCE SHEET APRIL 30, 1950

ASSETS

CURRENT ASSETS:			
Cash in banks and on hand		$14,940,280.49	
Marketable Securities (less reserve) at Market Value		1,151,810.50	
U. S. Government Securities at cost		1,100,000.00	
Notes and Accounts Receivable, less reserve		10,520,808.49	
Accrued Unbilled Escalation Charges		1,402,239.43	
Inventories at cost or less, and not in excess of present market prices		29,435,273.64	$ 58,550,412.55
PREPAID AND DEFERRED ITEMS			771,801.36
NOTES RECEIVABLE—MATURING SUBSEQUENT TO ONE YEAR, LESS RESERVE			742,030.45
MISCELLANEOUS SECURITIES, LESS RESERVE			54,038.53
DEPOSITS OF CASH AND SECURITIES FOR COMPENSATION, INSURANCE, ETC.			260,842.82
PLANT AND PROPERTY ACCOUNT (See Note 1):			
Land and Improvements		$ 6,797,361.37	
Buildings, Machinery and Equipment	$110,742,616.76		
Less: Amortization and Reserve for Depreciation	55,898,130.09	54,844,486.67	
Patents, Trademarks, etc.		18,169.53	61,660,017.57
			$122,039,143.28

Note 1: Plant and Property of Parent Company included in above valuations were inventoried and valued by Coverdale & Colpitts, Consulting Engineers, as of April 30, 1939, on the basis of values at March 1, 1913, with subsequent additions at cost. Plant and Property of Subsidiary Companies are included at cost.

LIABILITIES

CURRENT LIABILITIES:		
Notes Payable to Banks	$ 5,000,000.00	
Accounts Payable and Accrued Expenses	8,084,827.64	
Accrued Federal, State and Local Taxes	1,003,031.89	
Advance payments received on sales contracts	174,750.31	
Sinking Fund requirements due within one year under indentures securing debenture issues of Shippers' Car Line Corporation	685,000.00	$ 14,947,609.84
SINKING FUND DEBENTURES OF SHIPPERS' CAR LINE CORPORATION, A CONSOLIDATED SUBSIDIARY:		
3% DUE APRIL 1, 1961	$ 3,825,000.00	
3% DUE JULY 1, 1962	2,900,000.00	
3¼% DUE APRIL 1, 1963	2,020,000.00	8,745,000.00
MINORITY INTEREST IN CONSOLIDATED SUBSIDIARY		10,186.84
RESERVE ACCOUNTS:		
For Employees' Welfare Plan (See Note 2)	$ 4,386,117.44	
For Contingencies	7,074,629.73	
For Dividends on Common Capital Stock, to be paid when and as declared by Board of Directors	735,744.74	12,196,491.91
CAPITAL STOCK:		
Preferred:		
Authorized and issued 300,000 shares—par value $100.00 per share	$30,000,000.00	
Less: 10,550 shares of Treasury Stock	1,055,000.00	28,945,000.00
Common:		
Authorized and issued 600,000 shares—no par value	$30,000,000.00	
Less: 600 shares of Treasury Stock	30,000.00	29,970,000.00
CAPITAL SURPLUS:		
Excess of acquired equities over cost of investment in consolidated subsidiary	$ 2,397,790.63	
Excess of par (or stated) value of Treasury Stock over cost of acquisition	551,600.25	2,949,390.88
EARNED SURPLUS ACCOUNT, See Statement		24,275,463.81
		$122,039,143.28

Note 2: The Reserve for Employees' Welfare Plan has, during the year, been charged with the net amount (after tax benefits) of $161,191.51 on account of employees' retirement cost applicable to past services.

STATEMENT OF CONSOLIDATED INCOME ACCOUNT

Gross Sales and Car Rentals, less discounts and allowances		$147,470,153.89
Cost of Operations, including Administrative, Selling and General Expense, but before Depreciation		142,620,963.90
		$4,849,189.99
Depreciation		3,883,931.02
Earnings from Operations		$ 965,258.97
Other Income:		
Dividends	$ 105,192.13	
Interest	444,147.01	
Royalties	47,172.60	
Cash Discounts	249,555.99	
Miscellaneous	56,508.56	902,576.29
		$ 1,867,835.26
Other Charges:		
Interest	$ 893,714.18	
Royalties	272,809.06	
Loss on Property Retirements	72,787.16	
Miscellaneous	72,763.74	1,312,074.14
Net Earnings before Provision for Federal Income Taxes		$ 555,761.12
Deduct—Provision for Federal Income Taxes (See Note)		119,568.22
Net Earnings Carried to Surplus		$ 436,192.90

ERNEST W. BELL AND COMPANY
CERTIFIED PUBLIC ACCOUNTANTS
25 Beaver Street, New York

TO THE STOCKHOLDERS OF
AMERICAN CAR AND FOUNDRY COMPANY,
30 CHURCH STREET, NEW YORK CITY

We have examined the Consolidated Balance Sheet of the American Car and Foundry Company and its subsidiaries as of April 30, 1950 and the related Consolidated Statements of Income and Surplus for the fiscal year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying Balance Sheet and related Statements of Income and Surplus present fairly the consolidated financial position of the American Car and Foundry Company and its subsidiaries at April 30, 1950, and the consolidated results of their operations for the fiscal year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ERNEST W. BELL AND COMPANY

New York, June 29, 1950

STATEMENT OF CONSOLIDATED EARNED SURPLUS

Balance, May 1, 1949			$ 44,917,204.02
Add: Net Earnings for year		$ 436,192.90	
Transfer from Reserve for Contingencies		1,086,159.73	1,522,352.63
			$ 46,439,556.65
Deduct: Dividends paid during the year on capital stock publicly held, viz.:			
On Preferred, $3.50 per share from earnings for year ended April 30, 1949 and $1.75 per share from earnings for year ended April 30, 1950	$ 1,519,612.50		
On Common, $3.00 per share	1,798,200.00	$ 3,317,812.50	
Write-off of Intangibles		18,846,280.34	22,164,092.84
Balance, April 30, 1950			$ 24,275,463.81

Note: Federal taxes are shown before tax benefit of $98,359.48 as a result of charges made to the Reserve for Employees' Welfare Plan. This saving has been applied as a reduction in the charge to said reserve.

(Continued from preceding page)

burden of carrying the plants not so fortunately situated. Your Management has under development a program designed to correct the evils of this condition—this involving such a rearrangement of our plants and manufacturing facilities as will give reasonable assurance of the profitable operation of all our facilities, as well those whose activities are given entirely to the building of railroad equipment as those whose facilities are otherwise engaged. The accomplishment of this will naturally involve some cost, but is necessary for the profitable operation of our Company as a whole.

In the letter of last year to our stockholders, world conditions were referred to as verging upon the chaotic. Since the close of the year that condition seemingly has become intensified and events of an importance difficult to realize are now in the making. Notwithstanding this condition your Management remains of the opinion that there is no valid reason for viewing the future, immediate or remote, in a spirit of despondency.

It is with regret that your Management announces the resignation, at the close of the year, of Mr. Howard C. Wick, as Secretary of your Company—he having given to it a lifetime (forty-five years) of loyal, devoted and efficient service. While resigning as Secretary, your Company will retain the benefit of Mr. Wick's experience and knowledge of the affairs and business of your Company by his continuance as a member of your Board of Directors. Mr. C. Allan Fee, for many years Mr. Wick's assistant as Secretary, has succeeded to the position of Secretary made vacant by the resignation of Mr. Wick.

On the whole, the year has been a difficult one, but not more so than have been other years in your Company's history. Your Company is sound and well founded. Its financial condition is assured. Its organization is coherent and capable. Difficulties apparently insurmountable in the past have nevertheless been successfully met and overcome—and your Management has every confidence that such will continue to be the case and that we are fully warranted in facing the future without fear or misgiving.

It is once more a pleasure to your Management to make of record its thanks for and appreciation of the devoted, loyal and efficient service given to your Company and its stockholders throughout the years by the various members of your organization.

For the Board of Directors:

Respectfully submitted,

CHARLES J. HARDY,
Chairman.

June 30, 1950

FIC Banks Place Debs.

A successful offering of an issue of debentures of the Federal Intermediate Credit Banks was made July 19 by M. G. Newcomb, New York fiscal agent for the banks. The financing consisted of $60,855,000 1.40% consolidated debentures dated Aug. 1, 1950, and due May 1, 1951. The issue was placed at par. Of the proceeds, $53,030,000 was used to retire a like amount of debentures maturing Aug. 1, 1950, and $7,825,000 is new money. As of the close of business Aug. 1, 1950, the total amount of debentures outstanding will amount to $569,255,000.

With Frederic A. Adams

(Special to THE FINANCIAL CHRONICLE)

DENVER, Colo. — Willard L. Adams has joined the staff of Frederic A. Adams, U. S. National Bank Building.

Frank Newman Adds

(Special to THE FINANCIAL CHRONICLE)

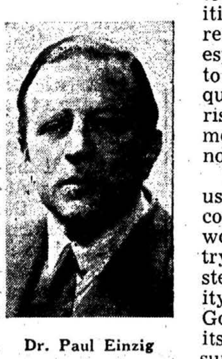
MIAMI, Fla.—Paul S. Wooley has been added the staff of Frank D. Newman & Co., Ingraham Building.

Rearmament in Britain?

By PAUL EINZIG

Dr. Einzig contends though British Government has adopted a "business as usual" attitude in relation to Korean crisis, spread of conflict may lead to restoration of wartime controls. Sees little possibility of an increase in British taxes, but points out country is in sound economic condition and foundations for rearmament drive are well laid.

LONDON, England.—The Korean conflict came to the British public as a bolt from the blue. Ever since the termination of the Berlin blockade there has been much complacency about the international political outlook, and it was with a shock that Britons had to realize early in July the dangerous possibilities of the Korean situation. The result of this realization was a fall on the Stock Exchange, especially in Government loans which failed to benefit by the announcement of favorable quarterly gold figures. There was also a sharp rise in the wholesale prices of several commodities, but so far the man in the street has not been affected by the crisis.



Dr. Paul Einzig

The Government has adopted a "business as usual" attitude. The view is taken that if the conflict is confined to the Far East there would be no need for disorganizing the country's economy through the adoption of drastic steps of war economy. Although the possibility of a general conflict is not overlooked, the Government considers it inexpedient to adjust its economic policies on the basis of that assumption unless and until that possibility becomes at least a probability. This means that there will be no perceptible accentuation of rearmament in the meantime, no noteworthy increase in stockpiling purchases of strategic raw materials, no reversal of the recently adopted policy of de-rationing and decontrol.

The Government's reluctance to embark on large-scale rearmament so long as there is some hope of avoiding a major conflict is understandable from a purely economic point of view, even though it is open to criticism from the point of view of national security. For the present the Government and the country prefer butter to guns. They most certainly cannot have both. For owing to full employment in Britain, any increase of arms production and any increase in the number of men and women in the fighting services would necessarily mean a more or less corresponding reduction in the output of goods for civilian requirements. Even a relatively moderate degree of rearmament would result in shortages in many kinds of manufactures. The question is, how would the Government deal with such a situation if and when it should arise. Unless there is a corresponding degree of deflation of purchasing power the fall in the volume of goods would result in an inflationary rise in prices or a rapid depletion of the none too plentiful stocks of civilian goods.

The trouble is that taxation is already so high that it could not reasonably be raised even higher. World War I was financed largely through raising the rate of income tax to 25%. World War II was financed largely through raising the rate of income tax to 50%, and in the case of large incomes to 95%. There is, however, relatively little scope this time for raising income tax further. For it has only been reduced since 1945 from 50 to 45%, and for large incomes it is still 95%. It is true, some concessions have been made to income taxpayers, so that it would be possible to secure revenue of some £600 million by restoring the income tax to its wartime level. But once rearmament has begun on a really large scale, that amount would be a mere drop in the ocean.

Sir Stafford Cripps stated recently that he also expects to disinflate in case of rearmament through increasing indirect taxation. He always refused to admit the extent to which in existing circumstances taxation tends to affect prices. It would be of little use to increase prices, wages and costs by means of additional taxes for the sake of avoiding their increase through the inflationary effects of a budgetary deficit. Yet this is at present the Government's declared policy in case of rearmament.

The alternative, to which the Government is bound to resort sooner or later, is a return to the wartime system of rationing and controls. Until recently it was the Socialist Government's policy to retain these controls for the sake of ensuring equal distribution. During recent months, however, the official policy has changed in favor of a removal of restrictions. This policy continued even after the beginning of the Korean conflict. On July 11 the Government announced the derationing of soap. Beyond doubt this was fully justified by the supply of soap available in the country, all the more since the newly-invented "detergents" which can be used for washing were not subject to rationing. Nevertheless, in many quarters the decision was viewed with misgivings. For it is felt that, owing to the strong possibility of an early decision to rearm on a large scale, the Government should revert to controls rather than continue to de-control. It seems probable that soap de-rationing was the last move in the latter direction, and that the de-rationing of various commodities which was recently under consideration will now be postponed indefinitely.

In all probability as soon as rearmament assumes substantial proportions, it will be necessary to revert to the rationing of clothing and various foodstuffs which have been de-rationed, also of petrol, and the wide variety of building materials and industrial raw materials which have been de-controlled will have to be made subject to license once more.

Since the chances are that before very long the Government will realize the need for rearmament on a substantial scale, it is safe to assume that the "business as usual" policy will soon be abandoned. Parliament is about to rise for its summer recess, and, according to present arrangements, it will not meet until Oct. 17. It would be little short of miracle, however, if the need for recalling it in order to pass emergency measures required by national defense would not arise. It is true, the Government has extensive powers to take the necessary steps by administrative action. Even so, rearmament on a really large scale would necessitate Supplementary Estimates and other measures that would have to be submitted to Parliament.

Problems of the Small-Scale Investor

By HAROLD G. FRAINE*

Professor of Commerce, University of Wisconsin

Stressing dependence of our future economy on risk capital coming from small-scale investor, Dr. Fraine considers other means of capital formation as well as relief of large-scale investors from current progressive dividend taxation. Points out need of giving proper advice to small investors by dealers, brokers, banks and investment counsellors, and discusses pros and cons of mutual funds.

Before touching on some problems peculiar to the small-scale investor, I should like first to define him and secondly to argue that his problems should not be merely of selfish concern to himself but are of concern to almost all of us, in our various capacities as members of a community which may become increasingly dependent upon him.

Dr. Harold Fraine

Let us take the word "investor" before we take the words "small-scale." An investor to me is a person who expects an increase in wealth from outright ownership of securities; and this increase to flow either from (a) well-secured interest and dividends or (b) an appreciation in value that depends more upon intrinsic worth than upon abberations of the market. Thus, when a person buys securities at a price which more than reasonably discounts their potentialities in the expectation that the market will move upward to levels which are even more unreasonable, he is a speculator rather than an investor.

As to "small-scale," one could hardly defend drawing a line at any one place and saying that upon this side of the line an investor is "small-scale" and just on the other side he is "large-scale." For the purposes of this discussion, I consider that person investing less than $5,000 annually and whose investible fund is still far less than $100,000 falls within our designation. Such an investor could not live on the income of that amount if all of it were invested safely. An investor whose fund is not more than $50,000 would easily qualify as a subject of this discussion. Even if he got double a safe rate of income on this size of fund, he still could not live on it. Such a man must depend upon other activities for the core of his income; investment must be a somewhat incidental activity.

Importance to the Community

Let us consider in passing his possible importance to the community. To do that let us first touch upon the importance of the investment function generally. A few paragraphs by the economist Stahrl Edmunds from his article on "The Financing of Capital Formation" in the January number of the "Harvard Business Review" serve as a good introduction to this point.

"Only 100 years ago production in the United States arose almost solely from the energy of human labor and domestic animals. In 1850 only 6% of the work energy was supplied by fuel and power. Today 28 times as much work-energy is being applied to production, and 93% of this is being supplied by fuels and power. If one thinks of the most back-breaking labor which he has done, this illustration of how mechanical energy has multiplied and supplanted human energy will be vivid evidence of the progress of our industrial development.

"The application of energy to production, which is the process of mechanization, reflects the degree of capital formation in the past 100 years. It has taken capital goods, valued at nearly $400 billion at 1929 prices to make this application possible. This is a large sum, and it is a growing sum. Over a long-term trend there has been an increase of 3% per year in the expenditures for new equipment. The expenditures for new plant have not shown quite so consistent a growth, but they too have been considerable. Savings are of course necessary to finance such capital formation. Americans have over the decades been plowing back from 10% to 15% of their income into new productive facilities.

"The benefits of such increases in productivity are apparent. Per capital real income has multiplied fourfold since 1850. The proportion of incomes which wage-earning families have available to spend for food, clothing, and shelter, has almost tripled. This is a truly remarkable accomplishment when one reflects on the slowness in the rate of economic progress in the centuries prior to 1850."[1]

The great rise in the standard of living was dependent upon the translation of the ideas of inventors into labor saving machinery. This formation of capital was dependent in turn upon savings and investment.

Of the great economists, Lord Keynes did more than any other to stress the importance of the functions of investment and savings. Not only could the failure of either one terminate our progress toward less work and more leisure. But temporary failures to maintain equality between these two variables could precipitate unhealthy booms and depressions.

I like to touch on in this connection a point that was developed in an unpublished manuscript by the economist Melvin Reeder. It is that you might have a disequilibrium due to a maladjustment between investment and savings even when the total flow of savings pressing for investment is equal to the demands by capital producers for investment funds. Savings are not all the same as to the amount of safety required. Some savers are willing to take considerable risk if the rate of return promises to be high. Others are willing to take a low rate of income in return for the assurance of safety. Demands for capital funds also lack homogeneity with regard to the risk involved. Some uses would give almost a sure return; others have a high chance of failure. Even at a high rate of return, some savers will not forsake safety for risk. Consequently the supply of savings available for investment might consist of a high proportion available only for safe investment and a small proportion available for risk investment at a time when

Continued on page 30

*An address by Prof. Fraine at the University of California, Los Angeles, July 6, 1950.

[1] Stahrl Edmunds, "Financing Capital Formation," Harvard Business Review, January 1950, p. 34.

Business Man's Bookshelf

Business Management and Economic Analysis—Report of Committee on Economic Policy—Chamber of Commerce of the United States of America, Washington, D. C.—Paper—1 to 4 copies, 25¢ (lower rates on quantities).

"Prudent Man" Investing—An Outline of Present Investment Responsibilities of New York Trustees, together with the Full Text of the New Fiduciary Law in New York State—Kidder, Peabody & Co., 17 Wall Street, New York 5, N. Y.

Reprieve From War—Lionel Gelber—The Macmillan Company, 60 Fifth Avenue, New York 11, N. Y.—Cloth—$3.

Right to Organize and Its Limits, The—A Comparison of Policies in the United States and Selected European Countries—Kurt Braun—The Brookings Institution, 722 Jackson Place, N. W., Washington 6, D. C.

Three With Saunders, Stiver

(Special to The Financial Chronicle)

CLEVELAND, Ohio—Jack A. Cloud, Harold E. Kibbe and Joseph M. Strayer have become associated with Saunders, Stiver & Co., Terminal Tower Building, members of the Midwest Stock Exchange.

With Samuel & Engler

(Special to The Financial Chronicle)

COLUMBUS, Ohio—Frank H. Vogel, Jr. has joined the staff of The Samuel & Engler Co., 16 East Broad Street.

E. C. Wilmerding

E. Coster Wilmerding died at his home at the age of 72. Prior to his retirement he was a partner in Pyne, Kendall and Hollister.

Harold H. Weekes

Harold Hathaway Weekes, member of the New York Stock Exchange, died July 25 after a long illness.

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

Increased activity with larger volume, but without too important price changes, is the current picture of the government market. All types of Treasuries are moving out of the market, with the demand just as good for the shorts as the longs. Buying has been powerful in the eligibles with commercial banks taking on a wide range of these securities, from the shortest to the longest, the taxables as well as the partials. The restricted bonds continue to find a home without difficulty and Federal has had to supply certain issues in volume in order to prevent this selective spot buying from driving these securities out of line with the rest of the group.

Earliest Taps Setting the Pace

The market has been broad enough so that almost every issue has come in for attention although the earliest eligible tap bonds seem to have an edge over the rest of the list, the bank issues as well as the non-eligibles. Among the bank securities the shorts have been real market pacers, with the 1⅜s of 1954 being very well bought. The longest taxables and partials have also been among the leaders in this group.

Credit Controls Seen Welcome

The part-war economy is bringing with it controls and regulations, which were by no means unexpected, certainly not those that will have to do with the limiting of credit. Federal has done a very good job in retarding the expansion of credit under peacetime conditions. But even at that, the inflationary forces were building up to a point where some form of more direct action would not have been out of order.

Pressure by the Central Banks on interest rates through the continuous sale of Treasury securities has had an influence upon the money markets and bond yields. To be sure, this also affected to a degree the return on other credit instruments, but it does not slow down the mortgage market or instalment buying, both of which helped more than a little bit to keep the inflationary forces moving at top speed.

Market Implications of Credit Restriction

With a little less butter and more guns in the offing, comes restrictions of housing and in the very near future there will be instalment credit limitations, probably something not too dissimilar to old regulation W. Thus by the direct action method the authorities will have greater control over the whole credit structure and the need for making the money market and the government market the focal point in credit limitation as in the past will be appreciably lessened.

This does not necessarily mean that pressure will be lifted from the government market or Federal will cease to be sellers of selected Treasury obligations. But, with the changed conditions, there is not likely to be the same pressure to push quotations of government securities down in order to influence the trend of interest rates. Also, with enlarged spending and more sizable deficits is it probable that interest rates are going to continue to rise? With a debt as large as ours, and more to come, will there be high or lower rates?

For the time being, or at least until the whole international affair can be more accurately appraised, it seems as though money rates will conform pretty much to the existing pattern. A 1¼% certificate rate appears to be the top to be expected in the short-end of the list with the longer end being kept pretty much where Federal wants it to be. But here again, there are not a few who believe that a moderate advance in quotations of the higher-income issues could take place. They look for a more buoyant market with a slightly higher range than has been the case recently.

Bank Issues Gain Added Importance

The bank issues, the shorts and the last three taxables have been in very good demand and there is no doubt about this being real investment buying. Quotations have not advanced appreciably because there have been some bonds around. Yet, where fairly good-sized blocks of the longs have been available they have gone at prices above current market quotations. With the outlook not so promising for other forms of investment, those deposit banks that must have higher income issues to keep earnings up, have not been hesitant in putting surplus funds into the September 1967/72s. The fear that the longest eligible issue might slip off again seems to have gone with the need to put the economy on a semi-war basis.

The partially-exempts have been quoted up and very few of the higher coupon bonds have changed hands because present holders do not want to sell them, at least not until more is known about what taxes are going to be. Also, the strength in state and municipal obligations has not had an adverse influence upon yields of the tax-sheltered Treasury issues.

Federal Tightens Reins on Ineligibles

The demand for the ineligibles continues to expand and Federal again had to let out a fair amount of these issues in order to keep prices of them from advancing. The shorter taps, that is, the 59/62s, the 62/67s and the 63/68s have the best market tone in the whole restricted list. While the 59/62s are the favorites at the moment some of the most shrewd money market followers are paying more than passing attention to the 62/67s. Considerable switching is being done within the group.

Rumor has it that the differences between the Treasury and Federal have been reconciled. If this should be the case, it is quite evident from past happenings that interest rates are not going to rise. If the Treasury is going to have bigger deficits to finance, it isn't going to be done at increasing cost to the government.

Higher Interest Rates in Offing?

By WILLIAM WITHERSPOON

Statistical & Research Department, Newhard, Cook & Co.
Members, New York Stock Exchange

Mr. Witherspoon, contending that contrary to experience during World War II, the interest rate trend is definitely upward, bases conclusion on probable large increase in supply of bonds through war financing and inability of Federal Reserve or Treasury to stabilize interest rates in period of heavy deficits.

Of the many uncertain factors facing us, there is one important element of our economy, however, that can be appraised to some extent at the present time. This is the element of interest rates. We can make such an appraisal because the direction of the trend seems definite in spite of several alternative courses that might be taken by our government or the monetary authorities. Contrary to the experience during World War II, this definite trend in interest rates is toward higher levels. In the event of war this trend will resurrect the customary pattern of interest rates during war financing which was abrogated during the last war because of the unusual condition which prevailed in 1940. By that time, money rates had already declined substantially, having been in that generally downward trend ever since about 1933. However, there was a huge potential demand for money rate securities which had been erected during the 1930's but which, at that time, had not been fully employed. This demand was created by the unprecedented inflow of gold into this country which increased our monetary gold stock (including the revaluation of 2/1/34) almost sixfold. On the other hand, during that interim public and private debt had increased only about 10% from around $172 billion to $190 billion. During and since the war, this total debt has been expanded to around $430 billion or about 2.5 times the level which prevailed in 1933 as compared with the sixfold increase in gold. Thus, money rates are about half the prevailing rate of 17 years ago.

William Witherspoon

The wartime and postwar expansion of debt has caused some firming tendency in interest rates to be manifested. Hence, it is revealed that the slack or potential demand for money rate securities which existed in our economy at the beginning of the last war has now been virtually eliminated so that there is more or less of a balance between supply and demand. If the supply of bonds is now substantially enlarged through the need of war financing, the price of money-rate securities will decline and the yield will therefore advance. Thus, as the overall debt increases, bond prices will decline.

A false impression has been generated in the minds of many persons that the Federal Reserve Board and the Treasury Department have magical powers to control interest rates through regulatory measures and open-market operations. These controls do have some effect upon the minor fluctuations but will be ineffectual over an extended period of deficit operation. Examining some of these controls we find that

(1) Restrictions might be imposed upon consumer credit and other private debt to ease credit, but a reduction in this element of the total would be far offset by an increase in the Federal debt.

(2) The open-market operations of the Reserve Board could also tend to dampen a decline in bond prices, but reserve requirements would have to be increased to provide funds for this purchase. And, how could such requirements be raised without member banks selling Treasury securities? Hence, the effect of this operation would be merely a shift of Government bonds from the commercial banks to the Reserve System.

(3) The sale of Treasury bonds outside of the banking system would be another means of financing this growing debt, thus effecting a shift in the ownership of deposits from private to Federal accounts rather than the creation of additional credit. However, it cannot be expected that the war could be financed fully through this method. Even if it could, bonds thus sold would find their way back into the banking system at the conclusion of the war emergency, just as they have been doing the past five years in this postwar period. This would merely defer a decline in bond prices rather than prevent it.

It is a false security, therefore, for investors to feel that in bonds or money-rate securities they have an assurance of safety. Not only will the further depreciation of the dollar through inflation make drastic inroads into its purchasing power, but the actual decline in the prices of money-rate securities under another war-financing operation will actually erase dollar value from capital invested in bonds.

With Shaver and Cook

(Special to The Financial Chronicle)

ST. PETERSBURG, Fla.—Carl W. Grobert has become associated with Shaver and Cook, Florida Theater Building.

COMING EVENTS

In Investment Field

Sept. 8, 1950 (New York City)

Security Traders Association of New York annual outing at the New York Athletic Club, Travers Island.

Sept. 8-9, 1950 (Portland, Ore.)

Pacific Northwest Group of the Investment Bankers Association annual meeting at Gearhart Hotel, Gearhart-by-the-Sea, Ore.

Sept. 15, 1950 (Philadelphia, Pa.)

Bond Club of Philadelphia Field Day at the Manufacturers Country Club.

Sept. 26-30, 1950 (Virginia Beach, Va.)

National Security Traders Association Annual Convention at the Cavalier Hotel.

Oct. 12, 1950 (Dallas, Tex.)

Dallas Bond Club Annual Fall Meeting.

Nov. 26-Dec. 1, 1950 (Hollywood, Fla.)

Investment Bankers Association annual convention at the Hollywood Beach Hotel.

Dec. 8, 1950 (New York City)

New York Security Dealers Association Silver Anniversary Dinner at the Waldorf Astoria Hotel (Starlight Roof).

The Stock Market, If War Comes

By JOHN DUNCOMB

Despite stock market decline since beginning of Korean episode, writer contends, because of large war preparation orders and other favorable conditions to promote industrial activity, there will be no lasting downward trend as occurred after 1946.

During the past week the stock market added something more than $3,500,000,000 to the value of listed stocks. At the start of the war in Korea the market declined some $5,500,000,000. Therefore, well over half of the ground lost within a few weeks has been made up.

The question that has been puzzling to some people is whether the severe decline in stock values at the start of the situation in the Far East, after a year of a constantly rising market with practically no setback of consequence, was just a technical correction or a fear of war with Russia. In all events the situation in the Far East gave the bears a splendid opportunity to bite off some of the huge profits the bulls have been piling up since the bull market started on June 14, 1949.

It is believed in some quarters that it was a coincidence only that the bear raid and the situation in the Far East came at the same time and that had the Far East situation not arisen the market was due for a large technical correction anyway. Others believe that we are bound to have severe wartime restrictions together with larger income taxes and excess profit taxes.

The other side of the picture, however cannot be ignored.

President Truman's request for $10 billion additional for defense means that many manufacturing firms will eventually be taking on additional contracts. The railroads are expected to carry a far greater tonnage and it is expected that they will have a far better tax base than many of the large and prosperous industries. In view of the poor earnings of the railroads over the past few years and their relative high capitalization, an excess profit tax would not fall so heavily on them as it would on corporations with small capitalization and large net earnings.

Business statistics are most encouraging and it is generally believed that they appear to be set to continue, not only through 1950, but to exceed any year since the end of the last war.

The Federal Reserve Board's Index for the quarter just closed show a new peacetime peak for industrial output during this quarter. New orders for nondurable goods and capital goods have also reached capacity level. This is the condition, therefore, at the start of the situation in the Far East.

Last week's business is also a series of high figures. Plants that have been closed are now reopening. Employment is also rising and at the present time one out of every six men are now employed.

It cannot be overlooked that this country, beside providing arms, ships, tanks etc. for our own forces, will largely manufacture war material for our foreign allies.

Indications of this stepped-up program recently began when Reo Motors received an order for immediate delivery of about 3,900 trucks for the army to cost some $24,000,000. The other day the Cadillac Motor Car Company also received a large order for tanks which it is stated will not interfere with their production of automobiles.

The National Association of Purchasing Agents report that general production employment and pay rolls are at the year's highest levels.

As far as the stock market is concerned, it might be noted that since the last war Investment Trust buying has increased enormously due to the large increase in the purchasing of Investment Trust shares.

In July 1 the "Prudent Man Law" became effective in New York State which means that approximately $1 billion will be released for investment in listed Preferred and Common stocks.

Taking all these facts and figures into consideration many people believe it is difficult to foresee how a long and lasting decline in the market, such as occurred from 1946 to the early part of 1949, could take place at least at the present time even in face of war scares that may, from time to time, have a temporary effect.

Joins Paine, Webber

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass. — John F. Lawrence is with Paine, Webber, Jackson & Curtis, 24 Federal Street.

With R. W. Pressprich

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass.—William F. Goode is with R. W. Pressprich & Co., 20 Devonshire Street.

John W. Reeve Joins T. H. Jones & Co.

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, Ohio — John W. Reeve has become associated with T. H. Jones & Co., Union Commerce Building, members of the Midwest Stock Exchange. Mr. Reeve has been recently with Great Lakes Export and Import Corporation, of which he was an officer. Prior thereto he was with Jackson & Curtis and Otis & Co.

Joins F. I. du Pont Staff

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill. — Ira J. Kaufman has joined the staff of Francis I. du Pont & Co., 208 South La Salle Street.

Paul A. Ludlam With Merrill Lynch on Coast

PORTLAND, Oreg. — Paul A. Ludlam is associated with the Portland office of Merrill Lynch, Pierce, Fenner & Beane, Wilcox Building. Mr. Ludlam was formerly in the investment business in New York, where he was associated with Tweedy, Browne & Reilly and J. G. White & Co.

Two With Merrill Lynch

(Special to THE FINANCIAL CHRONICLE)

INDIANAPOLIS, Ind.—Charles W. Jackson and Joseph Gastineau have been added to the staff of Merrill Lynch, Pierce, Fenner & Beane, Circle Tower.

Mutual Funds

By ROBERT R. RICH

National Securities Funds Sales Up 143%

Indicative of the growing public acceptance of mutual fund shares, first half of 1950 sales for the funds managed by National Securities and Research Corporation, New York, were reported at $14,390,000—an increase of 143% over the like 1949 period and the second largest first half sales in the history of the company, according to Henry J. Simonson, Jr., President. Net assets of the "National" funds as of June 30, 1950 were in excess of $65 million.

Public investment preference appears inclined toward maximum available income from stocks as evidenced by the fact that about 54% of the above sales were in the "National" Stock Series, a fund of dividend paying common stocks selected for above-average income.

Investors Fund Assets Rise

Total net assets of Investors Management Fund on June 30 were $10,539,285 comparing with $10,234,712 Dec. 31, 1949. Asset value per share during the six months rose from $14.57 to $14.98.

Wellington Fund Shows 12-Month Record

Wellington Fund today reported net assets of $126,179,842 on June 30, 1950, for an increase of $50,375,025 over the same date a year ago, largest growth for any 12 months in its history.

Net assets at the close of the half-year, according to the Fund's semi-annual report, equalled $17.80 a share, and compared with net assets of $105,441,702 or $17.91 a share at the close of 1949, and $75,804,816 or $16.23 on June 30, 1949. Securities profits of $2,222,414 were realized by the Fund in the first half of 1950. In the half-year period, stockholders were informed, the Fund decreased its holdings in the automobile, aviation, machinery, motion picture, railroad and rail equipment industries and added to its investments in the bank, chemical, insurance, oil, telephone and electric utility industries.

Keystone Booklet to Aid Selling

Selling mutual funds can be much easier for the salesman and the prospect if the latter is given a booklet like Keystone's "Formula Plan Investing" which he can take home for an evening's reading.

Keystone's 40-page booklet, explaining its numerous funds and various plans, illustrates very well the psychology of letting the customer sell himself. Once his interest has been aroused to the point where he will read the booklet, it seems that he can more readily convince himself that mutual funds are his investment vehicle than let a salesman convince him.

400,000 Women Are Going to Listen

Paul Bartholet of the Mutual Fund Institute said today that 5,000 women's clubs have enlisted for the investment education program which will begin this fall. The number of women who will listen to the lectures is estimated at between 250,000 and 400,000.

The momentum which has been built up is expected to keep the courses going for two or three years.

Public understanding of the long-term investment view is one of the course's primary objectives. Mr. Bartholet said that 7,500 program kits have been ordered.

Distributors Views Higher Taxes

Commenting on the probably higher ordinary corporate taxes and possible excess profits taxes, Distributors Group states that the farsighted investor will place at least part of his funds in a broad list of bonds, the interest of which is, of course, a prior charge on earnings, payable before Federal taxes are computed.

Distributor's states "the investor will add to the security of his income, especially if he selects those bonds which may anticipate a higher gross income before taxes. Outstanding in this respect is the railroad field."

Distributor's is sponsoring Railroad Bond Shares and General Bond Fund, both of which, at present prices, earned about 4½% the last 12 months.

Putnam Fund Answers Worrisome Question

Putnam Fund, in its booklet, "The Investor's Hour of Decision" gives salesmen the answer to a prospect's question, "Is now the time to invest?"

Briefly, Putnam's answer is that the investor should entrust his savings to the Fund's management, and let them worry about when and in what to invest his money.

People who sell mutual funds should read the whole booklet.

Nesbett Increases Common Holdings

Between June 30 and July 20, 1950, the Dow, Jones Industrial closing averages declined from 208.35 to 197.46 and back up to 207.73. During that time the Nesbett Fund increased its common stock investments from 55% to 62% of net assets.

Funds were derived from cash on hand and government bonds, which decreased from 25% to 19% of net assets.

New England Reduced Commons Before Break

New England Fund trustees made substantial reductions in common stock holdings in the first few weeks of the June quarter—from 73.7% of total assets on March 31, 1950 to 67.5% on June 30. The proceeds were used to increase holdings of cash, short-term government bonds and preferred stocks, and, since these defensive steps happened to have been taken prior to the Korean news, they had the effect of lessening the impact of the market break on the Fund's total assets.

This was the trustees' first retrenchment since a similar program, initiated late in 1945, cut common stocks back to about 53% of total assets by June 30, 1946, and increased holdings of bonds and cash to 38%. Common stocks were not bought back in sizable quantities until late in 1947.

It is understood that the trustees do not anticipate presently the need for so drastic a retrenchment as that effected in 1945-46. However, this is a completely managed Fund and changing conditions may force them to change their present plans in the best interests of shareholders.

Per-share net asset value on June 30 was $16.09—up 5% from the $15.33 net asset value on Dec. 31,1949, and at the close of business July 19, 1950, net asset value was $15.96.

Group Securities Fund Lies Low in Break

Group Securities, reporting on its Low Priced Stock Fund, notes that it did not fully participate in the "Dow, Jones recovery" from June, 1949, to June, 1950.

Consequently, during the June 23—July 18, 1950, break, the offering price of the Fund declined only 9.4% compared with the Dow, Jones Industrial decline of 10%. Because of its high velocity and big potential on the "upside," Group Securities thinks its fund represents real value today.

Fidelity Claims Super Performance Record

Fidelity Investment Associates, Inc., sponsored by Gammack & Co., claims no other mutual fund can match its performance record of capital appreciation of 150% since the 1929 high, and an average yield of 6.7% per annum since the same date.

Fidelity notes that it invests in "special situations."

Massachusetts Life Assets Increase

Massachusetts Life Fund reports total net assets of $12,425,708 on June 30, 1950, equal to $105.55 per unit on 117,718.54 outstanding units. This compares with total net assets of $11,180,102 on June 30 of last year, equal to $99.64 per unit on 112,204.29 units then outstanding.

The Fund is operated as part of a novel type of investment program combining the principles of a trust fund and a mutual investment trust. The plan provides separate trusts for each individual investor, with the Massachusetts Hospital Life Insurance Company as trustee. The Fund is the investment medium for such trusts.

As of June 30, 1950, the portion of the Fund's assets represented by equities was 48.27%, with 51.73% in protective-type securities. Of the protective portion, 1.57% of the total Fund was in cash and receivables, 19.73% was in U. S. Government obligations and 30.41% in other bonds, loans and preferred stocks.

In the equity portion, public utility equities were 16.22% of the total Fund; industrials were 23.32%; bank, finance and insurance stocks 6.93% and railroads 1.80%.

With Waddell & Reed

(Special to THE FINANCIAL CHRONICLE)

ST. PETERSBURG, Fla.—Wellington C. Getchell is now with Waddell & Reed, Inc., of Kansas City, Mo.

Who Is to Blame for Boom and Bust?

By SAMUEL B. PETTENGILL*
Former Congressman from Indiana

Contending political interferences with workings of a free market have more to do with boom and bust than excesses of our economic system, Mr. Pettengill condemns price fixing and other controls as producing rigidities that prevent day by day readjustments of demand and supply. Cites free market operation of oil industry as case of gradual adjustment in supply and demand through price mechanism. Concludes government operating in red cannot forever keep business in black.

Job security is rated more highly by our millions of workers than wage rates, hours or working conditions. Farmers would also rather have fairly stable markets than feast and famine. So also business and professional men. These facts point up the great importance of the question—"Who is to blame for boom and bust?"

Despite the proved capacity of our private property system to produce beyond any other system the world has ever known, the Big Government boys charge that our system leads *inevitably* to boom and bust. No count in the indictment against the American system attracts a larger or more receptive audience. There is more dynamite in this charge than in the other charges made against our system such as concentration of wealth, exploitation of workers, or waste of natural resources.

We are constantly told that our system cannot withstand another collapse; that a second 1929 means the end of our private property system and the substitution of total Government control. Unless the responsibility for boom and bust is better understood that statement may come true. My theme is that political interferences with the workings of a free market have more to do with boom and bust than the excesses of the system itself. In short, that more and more political interferences — Socialism — will not cure but aggravate the disease.

Every working man who values his freedom to choose his job; every farmer who values his right to enrich his fields with his sweat; every businessman who values the opportunities our system gives him must understand the pros and cons of this problem.

Against the testing time of cold smokestacks, closed banks, empty stores, and bread lines "knee deep in wheat," every businessman with a trace of either self interest or Christian concern for his fellow man, must do all he can to smooth out the peaks and valleys of the economic cycle. And much more can be done than is now being done to stabilize our economy.

During the 1930's business poured far more money from its reserves into the economic blood stream of the nation than Harry Hopkins and Harold Ickes did with WPA and PWA. It did more for recovery and relief than the Government humanitarians. Business has done a fair job. But in the face of the terrific propaganda attack by the Big Government brigade, it must do more.

So far as possible, business must build up reserves; use periods of recession to make repairs and improvements; avoid fixed charges; fight to keep taxes low; cease acting as banker for its customers; avoid sloppy cost accounting which accounts for a third of business failures.

Leaving aside the human follies that infect every system, it must be admitted that on the point of boom and bust a *prima facie* case can be made against free enterprise as a system for doing business. The sheer mechanics of a private property system that tries to make profits and avoid losses do have something to do with the swings of the economic pendulum. When for any reason, people curtail buying, prices are reduced to restimulate purchases. As no one will continue to produce at full speed in a falling market, labor is laid off or put on short hours; business buying is slowed down and inventories thinned out in order to buy still cheaper tomorrow. Banks call loans made on goods that are losing value, and a vicious spiral downward gets under way. On the boom side, management can scarcely be expected to curtail production in its own plant and lose sales to its competitors on a rising market simply because it thinks the boom is getting out of hand. No. It may grow cautious, but it will ride the boom as long as it has customers.

*An address by Mr. Pettengill before the Chicago Oil Men's Club.

The Job to Stabilize Jobs

This is the charge made by the Big Government boys. So, to cure the situation they demand that they be given the job to stabilize jobs for everybody. They say they will clamp down on a rising boom, which is always a very unpopular thing to do; they will increase taxes on prosperity despite the reluctance of Congress and taxpayers; they will raise interest rates to kill off borrowing; raise prices to kill off buying; and sell Government bonds to drain off the red corpuscles of purchasing power from the veins of a too optimistic people. Then, when their unfailing nostrils smell from afar the stale odor of an approaching decline, they will reverse all gears; reduce taxes, expand public spending; incur deficits; buy back Government bonds from the banks with printing press money; return the vibrant red corpuscles of purchasing power to the people's arteries, and engage in military conscription or colossal public works, all perfectly blueprinted in advance, to provide jobs for the jobless.

With such omniscient wisdom, fortified by a splendid courage and inflexible will to withstand the pressures of the millions who object to higher taxes or prices or interest rates to put the clamp down on booms or to being assigned to distant public works in periods of approaching bust, they say "with us in command there will be no more boom or bust." If the General Staff of National Business is in control of a foreign country, they have fortunate access to American treasure to goldleaf their chariots and ride triumphantly to reelection to the seats of power. Thus, like filling or emptying a pitcher of water, they would pour in or tax out "purchasing power" from the economic blood stream in just the right amount, at just the right speed, and in the very nick of time.

To this, it is a short answer to say that it is not possible "to find master minds so unselfish, so willing to decide unhesitatingly against their own personal (or political) interests, men almost god-like in their ability"—. But this, on even the great authority of President Roosevelt, does not answer the question: Who *is* to blame for boom and bust? What causes bust? If the politicians can't prevent it, how can any one prevent bust from taking place? The people demand an answer to this question. They want to feel secure in their jobs. They will support the system that gives them the best promise of continuous "take home."

Wars and Depressions

We have the answer and must write it so plain that it can be read by moonlight. First: the biggest booms always take place in time of war; the biggest busts always follow war. But war is a political decision. I know of no American industry that lobbied to get into the last two wars for *business* reasons, such as enlarging its foreign trade. Eighty per cent of businessmen were against going to war, and those who thought we should spill blood on foreign fields did so for other than business reasons. So the greatest cause of bust—the destruction of wealth and lives in war—cannot be charged to our private property system. This fact, however, is seldom explained.

Now let us look at the long depression beginning in 1929. Many factors contributed to it. One was the long aftermath of war's red harvest, here and abroad. Then there was the synthetic optimism that we were on a new and permanent plateau of prosperity. This was generated in government circles. Unsound lending of billions of dollars to Europe and South America was both done and encouraged by government as it is today. A defective money and banking system contributed. But this was chiefly the failure of government, state and Federal, which necessarily must regulate this function. The policing of competition—the very heart of our free enterprise system—is necessarily entrusted to government under our anti-trust laws. If the policeman slept at his post, it was the fault of the policeman. The excessively high tariffs preceding 1929, were, of course, lobbied for by some business interests. But other business interests were as strongly opposed. The final decision to raise tariff walls was made by the government—the same kind of government that is now advertised as infallible in foreseeing the future.

The depression in 1937 was the sharpest in history and *was almost entirely a political depression*. The effort to pack the Supreme Court, initiated in February of that year, shook confidence in Constitutional safeguards to their foundations. The sit-down strikes, condoned if not encouraged by governors and the Secretary of Labor, raised grave questions as to the security of private property all over America.

The National Labor Relations Board was packed with men—such as Smith, Madden and Smith, who were violently pro-labor. They almost obliterated the right of free speech by employers from the pages of the Constitution. They condoned violence, and insisted that even criminals must be reinstated with back pay. The investigations by the T. N. E. C. Committee were almost uniformly hostile to business. The steel industry was condemned for "over-expanding," as it has been recently threatened with the competition of government steel mills because it is charged with not expanding enough. The tax on undistributed profits took from business managers the right to judge what to do with their earnings. From the White House in early 1937 came the edict that prices were too high—particularly copper.

So despite the fact that there was a huge backlog of accumulated business to be done, and de-

Continued on page 33

World War III

By ROGER W. BABSON

Mr. Babson, though stating unanimous opinion of informed people at present is that neither U. S. nor Russia can afford World War III, says if such war comes, more inflation is inevitable. Contends whether or not cold war will result in a hot war or in peace, there will be mass unemployment, which can be prevented only by adopting some sort of a socialistic program. Makes recommendations of "stocks to avoid" and "stocks to buy."

Every two months, at least, I come to New York to check over the outlook with a few very influential and well-informed people whose names readers would recognize. This is a review of their unanimous opinions at the moment.

Roger W. Babson

These men insist that neither the United States nor Russia can afford a World War III at the present time. It certainly would result in destroying some of the larger cities of both nations and millions of innocent people. To prevent this we must gradually by infiltration extend our influence by appeasing, compromising or scaring Southern Asia and Western Europe into stopping the Communists. Added to this we must keep our own people happy by providing full employment.

At first thought this seems a cowardly position for us to take, but it is believed that Russia also is anxious to prevent war and is willing to compromise to keep the peace. For instance, the United States might get out of Korea, while Russia might get out of Berlin and East Germany. A divided Korea or Germany would always be a tinder box for war. Russia would not suffer from atomic bombing as much as the United States; but the thought of the new H-Bombs which can be used by artillery against her armies if they attempt to overrun Europe, makes Stalin hesitate. Both sides may soon be looking for a "face-saving" way out.

More Inflation Inevitable

The high level of U. S. production should continue as long as the cold war lasts. When this comes to an end, either by a hot war or by peace, then will be the time for an economic crash. Even then a period of unemployment could be postponed further. Assuming people then stopped buying autos and the employees of the automobile companies are thrown out of work, the New York guess is that the government would loan people money to buy automobiles on 10-year payments and at a low rate of interest! Even now Congressmen are asking, "Why is not the government as justified in loaning money to buy furniture as to buy homes? But, although the effects of Newton's Law of Action and Reaction may be postponed, the law cannot be repealed. **Trouble is coming someday.**

I asked, if under these conditions the automobile companies would be allowed to make money for their stockholders? To this my friends answered, "Yes, because the taxes which the Federal Government collects are dependent upon these auto companies and, in fact, all other companies paying dividends." Of course, such a "stop-gap" program requires continued high taxes, more borrowing and more inflation, **war or no war.** Such will then be all the more necessary because import duties will gradually decrease. World peace ultimately requires "free trade." Furthermore, the government will someday not be collecting in part payment so much as it does now. When that happens mortgages and other debts of individuals will have to be extended and increased by the government.

Russia Does Not Need War

To repeat: The cold war will be continued until there either is a hot war or peace after which mass unemployment can be prevented only by the U. S. Government adopting a more or less socialistic program. Hence, Stalin figures that if he is patient he is bound to reach his goal in the end, namely, the spread of communism throughout the world. As one New York banker expressed it, "The market may have one more big whirl upward, but I fear that large investors are becoming 'like sheep being led to the slaughter' through destruction of property, or high taxes or inflation."

In the meantime, the U. S. will require vast sums: (1) For defense, **and especially for the removal of basic industries from our big cities;** (2) For subsidizing consumers' purchasing power to prevent unemployment in the U. S.; (3) To bribe Europe and other nations to keep out communism and (4) To help out domestic manufacturers facing destructive foreign competition due to the absolute necessity of reducing tariffs.

Suggestions to Investors

Stocks to Avoid: Those of companies with most of their assets in big cities; those having a high proportion of labor expense and thus very subject to labor pressure; and those which will suffer from foreign competition and imported goods.

Stocks to Buy: Those of companies which will profit from the great building dispersion and decentralization program in moving industries out of the big cities; stocks of merchandizing companies especially the chain stores; and stocks of the public utilities serving small cities of the Central West and South.

Reginald Graham Opens in New Haven

NEW HAVEN, Conn.—Reginald E. Graham has opened offices at 37 Sherman Court to engage in the securities business. Mr. Graham has recently been with A. M. Kidder & Co. in Deland, Fla.; prior thereto he conducted his own investment business in North Haven, Conn.

Securities Management Corp. Formed in Dallas

DALLAS, Tex.—Securities Management Corporation has been formed with offices in the Kirby Building. President of the new organization is Charles L. Moruzzi. Mr. Moruzzi was formerly an individual dealer in Dallas and prior thereto was President of Texas-Arkansas Fund, Inc.

Denies Shortage of Textiles

W. Ray Bell, President of the Association of Textile Merchants of New York, says complaints of scarcity are unjustified. Holds cotton cloth producers can meet any critical situation.

Reasonable assurance that current fears of textile shortages will prove groundless, and that complaints of scarcity except where speculation is involved will have "little justification in fact," W. Ray Bell, President of The Association of Cotton Textile Merchants of New York, asserted on July 25 in a public statement.

W. Ray Bell

Production of cotton cloth at near capacity levels, already assured for the balance of this year, plus the demonstrated ability and will of the industry to meet any crucial situation, are offsets, Mr. Bell said, to the powerful market stimulants added in recent weeks, first by the Korean War, and second by new postwar peaks in raw cotton prices occasioned by the government's low acreage estimate.

Reporting in the Association's nineteenth annual survey of the cotton textile markets, Mr. Bell noted that a resurgent home market demand for cotton textiles was already taking up the slack occasioned by diminished cloth exports, which probably would not exceed one-half billion square yards for all 1950. He cited the danger of lowered tariffs and increased imports, which in five months of 1950 have exceeded the full year 1949, but held that these would not affect mill operations for the remainder of this year.

Most immediate and difficult problem of the industry, he said, is the recent bull market in raw cotton which presents the industry with a major raw material cost increase, induces speculative factors, and involves deep uncertainties as to the harvest of cotton. Its effects on cloth merchandising have been strong. For the long pull, he stated, "it adds to the advantages of competing fibers and reflects on the wisdom of government control policies.

"The question of military supply," he continued, "is still an enigma" to be determined "by the future course of political and military action. It is safe to say that complete priority will be given by the industry to any demands for military textiles that may be made, and that requirements will be met in stride."

The annual review of cotton textile statistics reported production of cotton textiles for 1949 amounting to 9,391,578,000 square yards or the lowest for any year of the decade, reflecting the period of inventory liquidation and inadequate buying to meet consumer needs early in that year. A reversal in market psychology coming at mid-year has since expanded and continued over into 1950, with both spindle hour activity and cotton consumption suggesting an 18% improvement in production for the first five months of 1950 from the like 1949 period. The amount of goods made available per capita of population for 1949 registered a new low since 1938 of 57.17 square yards.

The report showed 23,341,000 spindles in place Jan. 1, 1950, a loss of 410,000 spindles for the year, and of 1,599,000 spindles in the past ten years. In the period Jan. 1 to June 1, 1950, a further decline of 240,000 spindles occurred. It was noted that no new cotton mills had been built either during or since the war. Partly offsetting the spindleage decrease, however, were 858,623 new spindles installed, constituting a new record in Association data on new equipment going back to 1925.

NSTA Notes

"AD LIBBING"

Our greetings this week to Glen A. Darfler, Kneeland & Co., Chicago, Ill. and Chas. C. King, The Bankers Bond Co., Louisville, Ky.

Glen A. Darfler

Charles C. King

Glen is a former President of our Chicago affiliate and a Vice-Chairman of our National Advertising Committee. He has done splendid work before on the Advertising Committee, placing Chicago as one of the first three in gross contracts. He may again lead Philadelphia though Herb Blizzard has much confidence that he can produce more new lineage, percentagewise, than any other affiliate. That's a large statement but to date, I have not heard of any acceptance of his challenge.

Charley King, as Chairman of our Louisville Club has had experience with our Committee before and he is bound to do a good job with the promised assistance he will receive from his associate, our ever popular and most lovable former National President, the original Senator Tom Graham. The State of Kentucky has many industries that should be represented in our Convention Issue of the "Commercial and Financial Chronicle." How about it fellows?

You undoubtedly have received a letter from Frank Burkholder, our National President, regarding commercial and corporate advertising. Will you please comply with his request and forward immediately the names of corporate officers that may be contacted. Surely this entails very little work on your part but may mean much to both our National Association and your local affiliate.

HAROLD B. SMITH, Chairman
NSTA Advertising Committee
Pershing & Co.,
120 Broadway, New York City.

P. S.—May I thank all those who have communicated with Johnny O'Neill. He's doing better.

TENTATIVE PROGRAM FOR NSTA CONVENTION

The following tentative program has been announced for the annual Convention of the National Security Traders Association, Sept. 26-30 at Virginia Beach:

Tuesday, Sept. 26
9:00 a.m.—Arrival Cavalier
Breakfast
Registration
Afternoon—Golf, Swimming, Etc.
6:00 p.m.—Cocktails—Cavalier Ballroom

* * * *

Wednesday, Sept. 27
8:00 a.m.—Past Officers Breakfast
9:30 a.m.—National Committee Meeting
2:00 p.m.—Combined Corporate and Municipal Forum; Speakers to be announced.
2:00 p.m.—For the ladies bridge and canasta tournament with prizes.
6:00 p.m.—Cocktails at Beach Club
7:00 p.m.—Dinner at Beach Club
8:30 p.m.—Calcutta Golf Auction and Dancing

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Thursday, Sept. 28
8:30 a.m.—Trip to Williamsburg
Optional—Chesapeake Bay Fishing
Golf, Swimming, Etc.
6:00 p.m.—Cocktails at Beach Club
7:00 p.m.—Dinner at Beach Club
8:30 p.m.—Amateur Show—prizes
(Sponsored by The Investment Dealers' Digest)

* * * *

Friday, Sept. 29
9:00 a.m.—Calcutta Golf Tournament
Tennis, Archery, etc.
3:00 p.m.—For the ladies; Style Show
4:00 p.m.—19th Hole Party—Cavalier Lawn
(Courtesy of Norfolk & Southern Railroad)

* * * *

Saturday, Sept. 30
9:30 a.m.—National Committee Meeting
2:00 p.m.—1890 Bathing Suit Contest—prizes
6:00 p.m.—Cocktails
7:00 p.m.—Final Dinner and Dance, Cavalier Ballroom
(All scheduled dinners—informal dress.)

SECURITY TRADERS ASS'N OF NEW YORK

The Security Traders Association of New York will hold its annual outing and dinner at the New York Athletic Club at Travers Island on Friday, Sept. 8. As usual golf, softball, and horseshoes will be featured, with free beer and prizes. Charles O'Brien Murphy, III, of Merrill Lynch, Pierce, Fenner & Beane, is Chairman of the outing. All members planning to attend are urged to make their reservations as soon as possible. Fee is $8 per person, including gratuities.

C. O'Brien Murphy III

Urges End of $35-an-Ounce Bid for Foreign Gold

George Putnam, Chairman of the George Putnam Fund of Boston, writes President Truman if U. S. support price of metal is withdrawn, its international value will decline.

In a letter addressed to President Truman, dated May 19 and just made public, George Putnam, Chairman of the Board of Trustees of the George Putnam Fund of Boston, proposes that the United States discontinue its fixed bid price of $35-an-ounce for foreign produced gold as a means of keeping down its international value.

George Putnam

The full text of Mr. Putnam's letter follows:

The President
The White House
Washington 25, D. C.

My dear Mr. President:

I admired very much the stand you took some months ago against raising the price of gold. I feel that your reasoning and your conclusions are altogether sound, and I should like to take this opportunity to tell you so.

The real purpose of this letter, however, is to suggest that this is an appropriate time to take another step forward on the subject of gold. What seems to me the sensible thing to do is to continue the $35-an-ounce price of gold for all that is produced domestically, but to maintain no bid on gold that is mined outside the U. S. A. This is just what this country has been doing in the case of silver for a number of years, and commerce has become accustomed to two prices for the metal.

Why not apply the same policy to gold? After all, none of the world's major currencies are convertible any longer; therefore, gold is now nothing but an international commodity and one that has very few uses. It hardly seems to make sense to pay someone a high price in South Africa to dig it up, only to turn around and rebury it in Kentucky.

It is probably true that if the U. S. support price were to be withdrawn, the international value of the metal would tend to decline. If this assumption is correct, there will be those who will argue that we have so much gold, we must keep up its price. This is in effect trying to hold oneself up by one's boot straps, which seems totally unsound to me. After all, an asset is worth only what you can get for it, and any artificial pegging of the value of an asset should not be indulged in by serious people. In artificially raising the world prices, we are deceiving the American taxpayer and costing him a substantial amount of money every year.

Let us examine who would be hurt by such a change. Russia, of course. No one knows just how much. However, Russia does mine gold, and there is no question but that some of it does find its way into international channels and thus eventually into our coffers. The other major gold producers of the world are in the British Empire. There can be no doubt that England would scream at any such proceeding as this. Especially would this be so in South Africa, whose tax rate is low, because the American taxpayer guarantees a market for their principal export commodity.

Now, let us examine the case for England and see whether it comes into the negotiations, as the lawyers say, with clean hands. It was not so many years ago that England came to this country and borrowed something over four billion dollars. In order to get this money, it made certain commitments in regard to Empire preference (now enlarged to include the sterling area) and agreements to work towards multilateral pacts and away from the bilateral and discriminatory deals that Hitler used so much. It is true that there was a good deal of under-estimating on everyone's part at the time that that agreement was entered into. Nevertheless, as seen by the ordinary American taxpayer, four billion dollars is a lot of money, and there does not appear to have been any really serious effort on the part of our British friends to live up to their side of the bargain. They prefer to devote themselves to internal experiments and to laugh at the Americans who let them have so much money.

One is forced to conclude that the British do not come with clean hands to protest any action that we might take towards withdrawing our support price for their gold. To make matters worse, they have recently taken most drastic steps to put our international American oil companies at a great competitive disadvantage. Despite those companies which are willing to take their payment in sterling, purchasers in the British area are obliged to buy their oil from British or British-Dutch companies so long as they have any oil for sale. Only when that oil has given out, can they buy from American-owned companies. A proceeding such as this cannot entitle them to any sympathy from our side of the Atlantic.

Now that gold has become just another commodity and one that has very few uses, why should the American taxpayer be asked to maintain an artificially high price for it? To enable other countries to try various social experiments and to discriminate against our fellow citizens seem hardly sufficient reasons.

Could not you remedy the situation by an executive edict? It would seem to me that the best way would be to do this first and leave any talking that had to be done about it until afterwards.

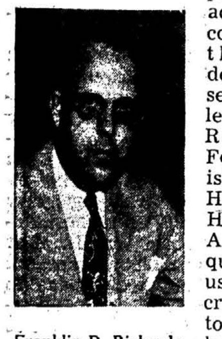
Sincerely yours,
GEORGE PUTNAM

May 19, 1950
50 State St., Boston 9, Mass.

FHA Announces Credit Restrictions

Outlines amendments in line with President's policy to conserve build.ng materials. Reports more than one-third of home buyers have incomes under $300 monthly.

Federal Housing Commissioner Franklin D. Richards on July 18 announced further credit restrictions under FHA insured loan programs. This action is in accordance with the President's policy set forth in a letter today to Raymond M. Foley, Administrator of the Housing and Home Finance Agency requesting the use of further credit controls to conserve building materials which may be needed for national defense and to curb inflation.



Franklin D. Richards

In a telegram to all FHA field offices Commissioner Richards issued the following instructions:

(1) Construction cost figures used in insuring offices for the purpose of analyzing property for mortgage insurance or yield insurance shall be frozen as of July 1, 1950;

(2) Eligibility provisions of Administrative Rules under all mortgage insurance plans are amended by reducing the ratios of loan to value or loan to cost specified therein by 5% of such value or cost;

(3) Dollar mortgage limitation on single family dwelling is reduced from $16,000 to $14,000;

(4) Cash down payment of 10% shall be required on property improvement loans under Title I.

The action described in the first three items are effective with respect to applications or requests for eligibility statements received by the insuring office after July 18, 1950. The down payment requirement on property improvement loans is to be effective with respect to all applications dated or executed on or after Aug. 1, 1950.

Military housing and housing in Alaska are expressly excepted from the new FHA controls.

According to a release of Commissioner Richards on July 23, more than one-third of the new home buyers using FHA-insured financing last your were families with incomes of less than $300 monthly. These families bought houses with an average FHA valuation of about $7,000 and the monthly mortgage payment runs around $50 a month, according to the analysis published in the FHA Annual Report.

Commissioner Richards pointed out that there has been an increasing use of the insured mortgage system by moderate and lower income families. Only one-fourth of the total number of FHA new home buyers in 1949 had monthly incomes of $400 or more; and even the highest one per cent had monthly payments averaging under $100.

The monthly mortgage payments undertaken by the various income groups indicate that no set rule of thumb can be applied as to the proportion of a family's salary to be spent for shelter. The FHA new home buyers payments average $41.54 for incomes under $200; $55.50 for $300 incomes, $69.12 for $500 incomes, and $98.43 for income of $1,000 or more. These mortgage payments include not only mortgage interest and principal payments but also payments for real estate taxes, hazard insurance, mortgage insurance premium, and any miscellaneous charges such as ground rent or water charges if they can result in liens against the property.

Hits Proposals for Consumer Credit Controls

Syd J. Hughes, Vice-President of Industrial Bank of Commerce, New York City, says it is "flicking at target with tack hammer instead of wielding sledge hammer blows of wage and price controls." Attacks bureaucratic regulation of family, under guise of emergency.

To make a major issue out of consumer credit control in the face of total war or runaway inflation is "flicking at the target with a tack hammer instead of wielding the sledge hammer blows of wage and price controls," Syd J. Hughes, Vice-President of the Industrial Bank of Commerce said in a statement on July 25 sent to members of Congress and the Senate.

"Recommendation on the part of the Administration for such controls is not essentially a product of the war emergency," Mr. Hughes said, adding that since the cessation of hostilities of World War II consistent efforts have been made to obtain "such intimate and far-reaching domination over the purely personal customs and habits of every individual and every family in the nation."

The government already has the power to regulate, quantitatively, all credit—commercial, agricultural, stock exchange and consumer —through manipulation of bank reserve requirements, he pointed out.

"Through the government's right of levy upon the individual income it already determines what proportion of an earned dollar the individual or the family can retain for personal disposal. Through further consumer credit control, the government drives the entering wedge of dictating how and for what the public's remaining dollars may be expended.

"It is not paradoxical that some large financing and banking corporations advocate such controls, in or out of war. Such advocacy is another manifestation of that peculiar hybrid evolution of some business and industrial leaders who proclaim for government control when it appears to their competitive business advantage and conversely denounce 'government interference.'

Emphasizing that efforts were again being made under the guise of "emergency" to increase bureaucratic regulation of the American family, Mr. Hughes pointed out that government statistics themselves are often interpreted in such a way as to prejudice opinion.

"National Consumer Credit was placed at $18,600,000,000 on April 30, 1950 and this is the figure tossed to the public as evidence of its own reckless squandermania. Actually, only $6,500,000,000 of this represents 'instalment sale' credit such as automobiles, home appliances and other articles. This is 2.5% of the gross national product as compared with 2.4% in 1929 and 3% in 1939.

"On the other hand, personal savings have increased from $2,700,000,000 in 1929 to $18,600,000,000 in 1950. Thus regulation of consumer credit would only play into the hands of those who have ready cash or other liquid assets. Equally important it is an unwarranted invasion of individual rights when such credit control is extended to types of consumer credit that have no relation whatever to the war effort or inflation.

"It has become increasingly evident that consumer credit is leading the sweepstakes in the political contest for 'Public Whipping Boy No. 1'. The subject provides a forum for the 'reformers,' an escape hatch for the avoiders of realities (allocation, priorities, wage and price control) and another haven for the faithful bureaucratic retainers.

"The national economy, racing in high gear, may be compared with a four cylinder engine. These cylinders are raw material, production, distribution and credit. To tinker with any one of the four, without coordinating the timing and the firing of the other three, simply results in mis-firing.

"The fuel that feeds this engine is a composite of wages, salaries, dividends and other products of the national income. If the purpose is to slow down the engine in terms of inflation, then adjustment of the fuel supply is called for through wage and price control.

"If the purpose is to divert the power of the engine to other than peace-time energy, the basic engineering principles still adhere," Mr. Hughes concluded.

Hill, Thompson Offers Allied El. Prod. Stock

Hill, Thompson & Co., Inc., heads a group which is offering 160,000 units, consisting of one share of 45-cent convertible preferred stock (par $6) and one-half share of common stock (par $1) of Allied Electric Products, Inc., at $7.50 per unit, and 20,000 shares of additional common stock at $4.50 per share.

The preferred stock is subject to redemption at $7.50 per share plus accrued dividends. It is convertible into common stock on a share for share basis.

The net proceeds from the sale of these securities will be used to pay bank loans and accounts payable, to purchase additional equipment and machinery and for additional working capital to carry increased payrolls and inventory, and for other corporate purposes.

Allied Electric Products, incorporated in 1935, manufactures cathrode-ray picture tubes for use in television receivers and also manufactures rectifier tubes, aluminized reflector lamps, infra-red heat lamps, spot lamps, flood lamps and various other kinds of lamps. The company also produces a full line of electric attachment plus, caps and taps as well as electric extension cord sets, fluorescent starter sockets, lamp holders and lamp holder adjusters.

The company is currently producing television tubes at the rate of 700 per day but expects shortly to be in a position to produce 2,000 to 2,500 tubes per day. The company supplies picture tubes to a number of set manufacturers including Bendix, Capehart-Farnsworth, Crosley, Hallicrafters, Magnavox, Stromberg-Carlson, Tele-Tone and Westinghouse.

Net sales of the company for the nine months ended March 31, 1950, were $2,702,834 and net income for the period was $89,192.

Dewey Gruenhagen With Wm. R. Staats

LOS ANGELES, Calif.—Dewey F. Gruenhagen has become associated with William R. Staats Co., 640 South Spring Street, members of the Los Angeles Stock Exchange, as Assistant Vice-President. Mr. Gruenhagen was formerly Vice-President of Investors Diversified Services.

Bank and Insurance Stocks

By H. E. JOHNSON

This Week—Bank Stocks

The action of bank shares during the past month has followed the general trend of the stock market.

Prior to June 23 bank shares had been moving higher in an irregular fashion for about a year. This was a reflection of the improvement in the operating outlook and the increased demand for high quality investments. With the advent of war in the Far East, there was a sharp sell-off in all equities and bank shares declined to the lowest levels in over a year.

Last week there was a sharp recovery in the general market and most bank stocks moved up to a point where they were only slightly below the prices existing at the start of the Korean crisis. For the last few days they have once again been under pressure.

The dominating considerations in the market have been military events and the certainty of higher corporate taxes to finance the increased defense expenditures. Obviously these changed conditions and prospects altered the fundamental position of different groups of securities and upset the balance of the market. The readjustment in prices which occurred have discounted, in part, the probabilities of future developments.

Thus while the market for bank stocks has been paying considerable attention to some of the longer range aspects of the current outlook, there have been several items of current interest that have taken place during the recent period of widely fluctuating prices.

The operating statements of New York City banks for the first six months of the current period were generally favorable and in most cases above those of 1949. The statements appeared during a period when the market was under the influence of military events and as a result were not given the usual amount of attention.

The current rate of earnings of most New York banks, even after allowing for an increase in taxes to the 45% rate, provides an ample coverage of existing dividend rates. Thus while higher taxes may reduce the operating earnings to some extent the prospective rates would not endanger dividend payments except possibly in one or two cases. Most of the New York banks have been paying out only 60%-70% of earnings and theoretically if earnings remained the same and taxes were increased 18% to 45% the current dividends would account for 70%-75% of earnings.

Of course the full impact of the increased taxes may be offset to some extent by the investment policy followed by the different institutions. The extent to which an institution holds tax exempt or partially tax exempt obligations, they can reduce the tax liability.

There is also the fact that earnings are in an upward trend and this too should help final comparisons. Some benefit should also be obtained from a gain in earning assets as a result of a return to deficit financing.

Possibly, of greater significance, will be the resort to long-term borrowing by many corporations for capital needs. The expansion of plant facilities will in all likelihood be stimulated as a result of the recent developments.

The condition of the stock market makes it undesirable to finance such expenditures by selling additional common stock. In fact several companies which had planned to do such financing have had to postpone the sale indefinitely.

The public utilities would appear to be in such a position. First of all they have been particularly hard hit by the market decline and second, they are likely to continue, and in some cases increase, their plant expansion. The use of bank credit to finance the program under such conditions would seem to be fairly obvious.

In other cases, a high level of industrial activity should result in the expansion of bank loans.

Another recent development and of greater immediate benefit to the banks is the prospect that Federal Deposit Insurance assessments may be reduced this year.

After a considerable period during which the bill was more or less buried in committee, the House last week acted to approve the necessary legislation. This gave hope that something will be accomplished in the current session of the Congress.

While such savings in assessments that would be made would be subject to taxes, the benefit to the banks would be direct and also help to maintain earnings.

Webber-Simpson Adds

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill. — Arthur C. Keene has been added to the staff of Webber-Simpson & Co., 208 South La Salle Street.

Joins Merrill Lynch

(Special to THE FINANCIAL CHRONICLE)

FT. WAYNE, Ind. — Gordon Nelson is now with Merrill Lynch, Pierce, Fenner & Beane, Fort Wayne Bank Building.

Public Utility Securities

By OWEN ELY

General Public Utilities Corporation

General Public Utilities is successor holding company to the old Associated Gas & Electric. As one of the final steps to conform to the Utility Holding Company Act, the company disposed of its three New York utilities in 1949. It now retains the following subsidiaries:

	1949 Revenues (Millions)
Jersey Central Power & Light Company	$23.7
New Jersey Power & Light Company	8.1
Metropolitan Edison Company	27.3
Northern Pennsylvania Power Company	4.1
Associated Electric Company:	
Pennsylvania Electric Company	40.4
Manila Electric Company	11.9*
	$115.5

*Includes Escudero Electric Service Company, a small company in the Philippines.

A transmission line is being constructed to connect Pennsylvania Electric with Metropolitan Edison, which will make the entire domestic system interconnected with the exception of the small Northern Pennsylvania Power.

Hearings have been in progress for some time before the Securities and Exchange Commission staff to determine whether the System as now set up complies substantially with the requirements of the Holding Company Act. The management would like to retain the present domestic system set-up, with possible elimination of the sub-holding company, Associated Electric. Eventual sale or distribution of the Philippine properties appears likely. There is also some question about retention of the gas business of Jersey Central Power & Light (1949 revenues about $5 million). The question of final compliance with the Holding Company Act will probably be clarified or decided by the SEC within the next year.

Consolidated earnings have been improving steadily and are estimated at $2.20 for 1950, of which about $1.63 will be derived from the domestic operations. Thus the stock has been selling recently at less than 10 times the estimated earnings of the domestic subsidiaries alone. While the Philippine earnings cannot be capitalized marketwise at this multiple, they are increasing rapidly and should be accorded some value in the price of General Public Utilities stock. An increase in the dividend rate from $1 to $1.20 per share was made recently, so that the stock now yields over 8%. President Tegen stated that improved earnings of the domestic subsidiaries warranted the increase and that earnings of the Philippine subsidiaries were not considered in connection with the dividend declaration.

The common stock and consolidated surplus at the end of March amounted to $143,157,122 which represented 37.8% of consolidated capitalization. (This is an improvement from 24.5% at the end of 1948 which was just before the recently completed program of sales of subsidiaries and reduction of indebtedness was undertaken.) Excluding all reported intangibles and the war claims, the common stock equity would be reduced to about $108 million or a 31% equity, it is estimated.

System earnings have not yet fully reflected the economies resulting from 137,000 kw new generating capacity installed in 1949, and the 227,000 kw additional capacity this year (including 50,000 kw for Manila). Share earnings in the past four calendar years were as follows:

Year	Domestic Subsidiaries Excluding N. Y. Cos.	Philippine Companies	Total
1949	$1.48	$0.52	$2.00
1948	1.17	.26	1.43
1947	1.23	.20	1.43
1946	1.13	.13	1.26

GPU has a contingent interest in assets held for claims of the holders of certain old securities of the Associated Gas & Electric companies. These claims expire in August, 1951, at which time any remaining assets will become the property of GPU. Unclaimed assets at the end of 1949 included 352,000 shares of GPU common, or 4.6% of the outstanding amount, and small portions of the common stocks of South Carolina Electric & Gas and Florida Power Corporation. The cash representing accrued dividends on all these stocks is also segregated. The total value of these assets is estimated at about $1.10 per share of GPU. This acquisition will automatically improve the cash position, the equity ratio and the share earnings (since the GPU stock will be cancelled).

It seems likely that GPU will require about $4.5 million cash this year to take care of its construction program. The company is hopeful of obtaining some cash from Manila Electric, through the conversion of certain senior peso securities (now owned) into cash. However, the Central Bank at Manila must issue the necessary exchange licenses to convert pesos into dollars and it is uncertain whether recent developments may prove a handicap in this respect. If the money is not moved to New York, GPU may have to obtain a temporary bank loan around the end of the year, or (if market conditions improve) sell a small amount of common stock late this year or early next year.

With Bingham, Walter

(Special to The Financial Chronicle)

LOS ANGELES, Calif.—James R. Comeskey is now with Bingham, Walter & Hurry, 621 South Spring Street, members of the Los Angeles Stock Exchange.

With Merrill Lynch Firm

(Special to The Financial Chronicle)

SAN DIEGO, Calif.—Charles C. Leigh has become affiliated with Merrill Lynch, Pierce, Fenner & Beane, San Diego Trust & Savings Building. He was formerly with Wesley Hall & Co.

Much More Is Needed!

"In order to adjust the programs of the Federal Government, I am writing to you and the heads of the other agencies whose programs involve substantial use of materials and other resources needed for the defense effort. Please re-examine your programs, giving particular attention, to the extent applicable, to the following:

President Truman

"(1) All civil public works, both direct Federal programs and grant-in-aid programs, should be screened with the objective, as far as practical, of deferring, curtailing, or slowing down those projects which do not directly contribute to defense or to civilian requirements essential in the changed international situation set forth in my message.

"(2) Consistent with the restrictive policy already in force for housing credit, other credit programs should be tightened. The only exceptions should be those which directly contribute to meeting our defense and international responsibilities.

"(3) Procurement of supplies and equipment should be held to minimum amounts, especially purchases of motor vehicles, typewriters and other equipment using critical materials. Inventories should be reduced to the lowest practical levels, and excess supplies and equipment should be made available immediately to the General Services Administration."—President Truman to 14 departments and agencies of the Federal Government.

Excellent—so far as it goes!
But, really, it is hardly a beginning.
What is really needed is a scrapping of New Deal and Fair Deal ventures by the dozen!

Continued from page 4

International Investment Problems

gether the various elements of partnership enterprise.

Partnership enterprise has been practiced on a diversified scale by many U. S. companies which have entered into partnership with local groups and individuals or have transmitted their techniques for management fees and other considerations. However, IBEC is not a manufacturing enterprise. It is not a service company. It is rather a financing company; a nucleus of the risk capital which has to be the spearhead of any business development, at home or abroad.

Others have told you about the risks of new enterprise. The average big corporation is the end product of a lot of ventures, successful and otherwise. And business mortality experience compiled by Dun and Bradstreet indicates the risks of new enterprise.

The top risk capital in the IBEC structure has come from the Rockefeller family. But the bulk of the development capital in IBEC enterprises comes from various sources. That, in my estimation, is interesting because it represents a pioneering effort to work out a partnership pattern for raising capital and developing enterprise to help solve one of the great problems of today, which is transmitting capital abroad and assisting in carrying out the role of the United States as the world's chief source of technology.

IBEC policy in developing a constructive pattern for joint enterprise applies these methods:

(1) Determine the economic bottlenecks which are holding back sound development in the countries concerned.

(2) Establish under capable management joint business enterprises which will produce goods and services needed in breaking these bottlenecks.

(3) Select enterprises bearing definite relation to one another, and adaptable to coordination, as investments yielding reasonable return and prospect for capital appreciation.

(4) Encourage financial participation in the enterprises by nationals of the country concerned and by such U. S. interests as can contribute the best managerial and technical direction.

(5) Employ local nationals to the greatest practicable extent and train nationals for technical and managerial posts.

(6) Develop enterprises that will contribute to the improvement of living standards and lower production and distribution costs with the ultimate goal of lowering prices to consumers.

These are good principles and I will try to translate them into concrete details so you can visualize this work in specific enterprise.

Risk capital in the past has in large part come from individuals. Most people don't take long risks until they get over a certain minimum level of security. Therefore, it is not illogical to see the top IBEC risk capital coming from a family group. However, in some of the operating enterprises, most of the capital comes from various participating groups and individuals, making this an international pattern of partnership enterprise.

Start of IBEC Program

The IBEC program started in Brazil. Brazil is a good place to start a program of economic development on the IBEC pattern. Brazil is an enormous country with wide diversity of agricultural and mineral resources. Brazil probably has the greatest industrial future in Latin America.

World War II accelerated its growth. It is an expanding economy, one of the most rapidly expanding in the world, and is emerging from an agricultural into the earlier stages of an industrial economy. For the long range, there is no other country that I know of which seems to have greater potential for development, either in the usual business or "Point Four" sense.

"Point IV" is an idea which caught the imagination of the country at a psychological moment. People sensed, even if they didn't rationalize it, the importance of this proposal in the light of world affairs. The Point IV trend has been evolving for many years. It operated on a considerable scale in World War II. For instance, the Office of American Affairs sent many technicians to Latin America. And other agencies engaged in similar activities in other areas of the world.

Neverthelss, that activity was largely tied to the war emergency. The postwar problem of assisting the economic development of other countries is the long-range task. And that task is mainly the task of enterprise.

Brazil is a logical place to apply these concepts. IBEC began its work there, then extended it to Venezuela, and now to Ecuador.

I'll digress a moment to point out that the Rockefeller group also has the American International Association, which is a non-profit organization. AIA works on similar principles, transmitting technology, scientific knowledge and managerial techniques abroad. AIA is in fields like training, research, rural welfare.

Since you are interested in finance, I shall confine my discussion to IBEC.

Now, in 1950, there are a dozen enterprises in the IBEC structure. Some are turning out to be profitable, some are doubtful. That is normal experience in the development of new enterprise.

One of the first IBEC enterprises was a hybrid seed corn company in Brazil. That company well illustrates IBEC principles. So I will go into that in some detail.

As you remember, one of the IBEC principles was stated in terms of bottlenecks. That may not be the best term. But it means an approach at some crucial point that is holding up development. For instance, Brazil may need a steel industry. Perhaps they are handicapped because their coal isn't suitable for coke. That actually was a problem there. So that becomes a technological bottleneck, if you want to use the term. You have tremendous leverage to accelerate development when the bottleneck problem is solved.

IBEC only undertakes enterprises which are basic to the welfare of the country. IBEC starts with overall studies of the problems of the country. From that start it narrows down to specific enterprises. Since one of its principles is to undertake projects which promise to make basic contributions to the welfare of an area in which they will operate, it tends to select a definite type of enterprise. The hybrid seed corn company expresses this principle as well as the matter of transmitting technology abroad.

Hybrid seed corn is one of the greatest advances made in United States agriculture. Corn is a pillar of the American economy. It is the biggest crop, a source of animal food and human food, and is industrialized in many ways. In some Latin American countries, corn is even more a staff of life than it is in the United States.

Brazil is one of the largest corn growers. It is even more important in Brazil as a crop than coffee, except from an export standpoint. So you can see that anyone who could improve corn growing in Brazil would be making a contribution to the basic economy of the country.

Here, in the United States, we have had this great hybrid seed corn development. Recent large crops in the United States have come in part from technological advances in soil, fertilizers, machines, managerial techniques. But certainly hybrid seed corn was one of the most important aids to the expansion of food output and saving of manpower in the United States.

The IBEC people went into Brazil and joined with some local people who were interested in developing a commercial hybrid seed corn enterprise. Out of this came the seed-growing enterprise, Sementes Agroceres, S.A., which now is far enough along to merit a close look.

This is what you might call a "Point IV" enterprise, in the business sense. It shows promise of becoming a successful enterprise financially. This year it is putting into the Brazilian market about 1,300 tons of hybrid seed corn. That is a substantial amount of seed, but most important, we believe, it has shown that a hybrid seed corn company can be a sound enterprise in Brazil. When you have done that, perhaps you have started the ball rolling for development on a scale.

The hybrid seed corn type of enterprise has a potential leverage which could be of substantial significance to the agricultural progress of Brazil.

Sementes Agroceres illustrates another IBEC principle; that of bringing in local capital. You know the history of great corporations in this country. Most enterprises start small, with groups and individuals who take the long risk. As they grow, especially under the present tax structure, they tend to become more and more publicly-owned enterprises, with many stockholders.

IBEC seeks to bring in local capital wherever practical. And, as you know, the problem of raising capital is not too easy anywhere these days. Most Latin American countries do not have capital markets in the U. S. sense. Their surplus capital goes mainly into real estate and land improvements of various sorts.

Broader Participation in View

As a development and financing company, IBEC presumably would develop enterprises and then seek broader participation as the enterprises establish their investment.

As IBEC enterprises grow to maturity, and achieve investment stature, they presumably would attract more investment capital from local sources.

IBEC enterprises have not conducted stock-selling campaigns. But IBEC has had substantial capital coming in from other sources in Venezuela; from oil companies and the Venezuelan Government, which had the common interest of solving the food problem there.

Sementes Agroceres has some local participation. Now that it shows earning power, perhaps more Brazilian capital will come into this enterprise.

IBEC has an integrated development program. The IBEC enterprises in Brazil fit together into a unified program. These include a hog company, a grain elevator company and a farm machinery company.

Corn and hogs fit together as naturally as sugar and coffee at the breakfast table. The idea behind the hog company in Brazil was to try to work out an enterprise for raising hogs on lines similar to those used in this country. IBEC consulted hog specialists in the Middle West for technical knowledge. The hog enterprise perhaps has been successful in transmitting technology but it is still inconclusive as a commercial enterprise.

Improving the production of corn brings up the problem of what is going to happen to surplus corn. This gets into problems of markets and transportation. And that is why IBEC got into a grain elevator enterprise. In this country bulk handling of grain is well established. Cargill, Inc. and other grain companies have terminals and marketing facilities which ramify through agriculture. Grain is handled in this country at relatively low cost.

In Brazil, grain has been handled in bags which results in waste from spoilage and high cost. So IBEC decided that a grain elevator enterprise would make a basic contribution to Brazil's development. And this enterprise shows how IBEC draws on the United States reservoir of technology and management.

IBEC went to Cargill, a highly experienced grain handling company in this country, with a system of elevators and terminals, and entered into a partnership arrangement with them. The financing procedure called for approximately one-third participation by IBEC, one-third by Cargill and one-third by Brazilian investors.

The Cargill enterprise is now operating. The company has built two grain elevators. But this enterprise is still in what you might call the fledgling stage. That illustrates the partnership principle in the sense of IBEC joining with U. S. companies which have managerial and technical knowledge. What that amounted to in part was calling upon Cargill for engineers and managers and technicians to train Brazilians in a new enterprise.

Farm Machinery Concern

Another enterprise which expresses IBEC principles, perhaps more dramatically than the hybrid seed corn and grain elevator companies, is the farm machinery company in Brazil. A great change has been going on in this country in the application of technology to agriculture. Census figures show a continued movement of people to the cities. Out of 150 million people, the United States has only about 27 million left on the farms. One food producer feeds several people in the cities, partly because machines are doing an increasing share of the work on the farm.

The farm machinery company, like all these IBEC enterprises, draws upon United States technology. IBEC people studied farm machinery companies in this country and got one of the leading operators to go to Brazil and advise the company. It is still in the early stages, but the trends look encouraging.

This company uses tractors and other machinery bought in the U. S. and offers its services on a fee basis. It is designed to expedite development of areas where it operates by lowering costs of land clearing and farming. And it seeks to demonstrate that this can be done on a profitable basis, as a sound business enterprise. If this enterprise works out successfully, other people may be encouraged to go into similar enterprise. Then the IBEC ball would start rolling up results on a considerable scale.

In Brazil IBEC also has some minority participations, as in a new fertilizer enterprise.

Venezuela Development

In Venezuela IBEC enterprises are on a larger scale in terms of actual operations and capital invested. Venezuela had an inflation problem, shortage of food and other economic problems. Oil provides Venezuela with a large source of foreign exchange. They have no dollar shortage. Everybody there had the common interest of tackling the food problem after the war. Nelson Rockefeller started a development company in Venezuela before the war. So they knew him and invited him to come in there with IBEC. IBEC set up an affiliated company in Venezuela. It is backed by a substantial amount of capital from the oil companies and the Venezuelan Government development agency.

With that relatively large backing of capital, the Venezuela Basic Economy Corp. has developed four companies in an integrated program aimed to improve the local food supply through modern technology. These enterprises are a fishing company, dairy company, farming company and a food distribution company. The technology covers a broad range from supermarkets to motorized fishing boats, ice plants and irrigation.

IBEC-VBEC provides the top-risk capital and takes the role of corporate manager, developing new enterprise with the idea that eventually, if it is successful, the control or part of the stock in an enterprise may be taken by Venezuelan investors.

In the dairy enterprise, local investors joined with VBEC and the Golden State Dairy Company of San Francisco. This dairy enterprise is being developed along modern lines, using machinery, paper cartons, etc.

In Ecuador, IBEC is starting a farm machinery company similar to the one in Brazil. IBEC put up the top risk capital and is drawing on a credit from the Export-Import Bank for purchase of machinery in the U. S. Again this illustrates the combination of government and private sources of capital and of working with various groups, government and private, in an effort to get a pattern of enterprise which will solve the multpile problems of operating abroad.

When American enterprise goes abroad, it is not a simple problem of financing and operating. Every country is different and has its own traditions, economy, and laws. Some Latin American countries have established government development agencies to provide capital and to stimulate enterprise and new industry.

In specific detail, this brief picture of the IBEC enterprises in South America shows how one group has approached the problems of international investment in this unsettled world. In its own way, in its attempt to work out a practical system of partnership enterprise on an international scale, IBEC is an expression of the historic role the United States has achieved as the leading industrial nation and chief source of the new technology.

It will take years before anyone can appraise the significance of this and similar work, either in terms of finance or of transmitting technology abroad. But there is no question that these problems have a compelling urgency which call for the best efforts that can be put forth on the part of government, private groups and individuals. Out of such efforts in time will come the solutions.

Joins First California

(Special to The Financial Chronicle)

LOS ANGELES, Calif.—Fred A. Zerman is with First California Company, 647 South Spring Street.

With King Merritt Co.

MUSKOGEE, Okla. — William E. Rowsey, Jr., is connected with King Merritt & Co., Inc.

Canadian Securities

By WILLIAM J. McKAY

The conclusions to be reached by the Joint Canada-U. S. Industrial Mobilization Committee which meets in Ottawa Aug. 7th next will have far-reaching repercussions on the entire Canadian economy. More than likely the Hyde Park Agreement of World War II will be revived in an even more embracing form. From the economic angle it is probable that the Dominion to all intents and purposes will be regarded as part of the United States. Problems that had arisen prior to the present emergency as a result of possibly competitive surpluses in both countries, which gave rise to consideration of higher rather than lower tariffs, have disappeared overnight. Every effort can now be directed towards maximum production on both sides of the 49th parallel for the meeting of military requirements and for the purpose of combating run-away inflation.

In place of the increasingly embarrassing situation which prevailed prior to the recent international developments, the way is now clear for automatic adjustment of the previous economic and exchange imbalance. Despite long-range economic planning on the highest levels designed to correct the chronic world shortage of U. S. dollars, its full implementation would have been impossible in view of its dislocating influence on the domestic economy. Now, however, with the certainty of domestic production being taxed to its utmost capacity, a greatly increased volume of foreign imports would serve to relieve the strain. What had previously appeared as a virtual impossibility under normal conditions — the elimination of the overwhelming U. S. export balance—now becomes a practical possibility.

Thus through normal processes the problem of the acute U. S. dollar shortage that has operated so effectively to prevent a natural movement of goods and exchange throughout the Western world now appears at last within sight of solution. As far as this country is concerned this revolutionary development can take place without injury to domestic interests. In addition, it would operate as a counter-inflationary force. Hitherto the tremendous export surplus which, despite the diminishing trend, was still at the high level of $5½ billion in 1949, has constituted an inflationary factor of almost disregarded importance. The correction of this imbalance would contribute to an invaluable degree towards the reduction of inflationary pressures.

The forthcoming U. S.-Canadian meeting in Ottawa presents therefore an early opportunity to take a constructive step in the desired direction. By reason of its unmatched potential for rapid development of vast unexploited natural wealth, the Dominion can play an indispensable role in the coming mobilization of the economic resources of the Western world. Unlike the European countries, Canada's own requirements in relation to her potential production are insignificant. Consequently a major proportion of any increased volume of production would be available for immediate export. Canada moreover is ideally situated as a source of supply in view of her proximity to U. S. industrial centers. The accessibility of Canadian resources is further facilitated by the intimate relationship of the two countries. During the past war the operation of various joint economic and defense boards virtually welded the economies of the two countries into a single unit. It is not to be expected that anything less will be achieved as a result of the Ottawa meeting.

There are many Canadian industrial and mining projects that are now in the planning or early development stage, that could be expedited as a result of still closer U. S.-Canadian collaboration. Earlier development of the vast Quebec-Labrador iron-ore fields could be undertaken as a war-emergency step. Also, production from the existing Steep Rock iron-ore deposits could be readily expanded in order to assure a stepped-up output of vitally needed steel. New discoveries of Alberta oil and natural gas cannot be utilized in the absence of adequate pipelines and refineries; pipeline links to Alaska and the Pacific Northwest are notably vital items in the North American defense scheme. U. S. cooperation in exploiting the numerous known deposits in the Dominioin of base metals, uranium, titanium, and other strategic metals would be still further extended. Likewise with the stimulus of U. S.-Canadian joint efforts the Dominion's output of aluminum, forestry products, chemicals and explosives is capable of tremendous expansion. Canada alone, with her inadequate population, cannot fully exploit her enormous economic potential, but with the energetic assistance of her great Southern neighbor, the Dominion could readily surpass the amazing achievements recorded during World War II.

During the week both the external and internal sections of the bond market displayed a stronger tone, although actual turnover was still on a restricted scale. Free funds continued strong at 9⅛% and the corporate-arbitrage was also firm at 13¼%-12¼%. Stocks in earlier sessions staged a strong rally led by the basemetal and industrial issues. Western oils also advanced, but the golds were slower to respond to the general market upturn. In later sessions losses replaced gains in nearly all sections of the market, but the base-metals and oils still met with steady investor demand.

Holds Canadian Dollar Revaluation Premature

Current "Business Review" of Bank of Montreal says immediate consequences of restoration of Canadian dollar to parity would mean deterioration in Canada's over-all balance of international payments.

Assessing some probable repercussions from an early revaluation of the Canadian dollar to parity with the United States dollar, as forecast in some quarters in Canada, the Bank of Montreal comments in its July "Business Review" that while "revaluation might prove premature at this time, much could be said for a flexible rate, responsive to changing conditions." (The Canadian dollar is quoted in the United States at a discount of around 9½ per cent.)

The Review commented that a dearer dollar would probably have little or no effect on the volume of Canadian goods moving to the United States market so long as sterling and other important currencies remained at present levels in terms of American funds and if business activity in the United States continues at its present high level. "However, a higher price for the Canadian dollar could be expected to impede Canada's exports overseas," the Review added. "But in the opposite direction the return to parity, if unaccompanied by similar action on the part of other countries, would automatically cut the price of all other currencies to the Canadian importer.

"The additional incentive to Canadian purchases from overseas countries might ultimately improve Canada's export prospects in their markets. At the same time, the disappearance of the present premium on United States funds would also facilitate Canadian purchases of goods from the United States."

"The immediate consequence, therefore, could be an increase in imports from both dollar and sterling areas, a deterioration in our already rather precariously poised over-all balance of international payments and, conceivably, an increased reliance on import controls as contrasted with the present relaxation of these barriers to trade. Under conditions of less buoyant demand for Canadian exports, the risks inherent in making our exports dearer and our imports cheaper would obviously be intensified."

"It may well be," the Review concludes, "that thought should now be given to the International Monetary Fund permitting any member a measure of day-to-day flexibility in exchange rates, to allow corrective forces to work automatically. From Canada's standpoint, much could be said for a flexible rate which would reflect and offset the changing conditions resulting from the country's relationship to the world's two great trading areas."

Continued from page 9

French Revolution Inflation—Lesson of Irredeemable Currency

patriotism as well as enlightened self-interest, would lead the people to keep up the value of paper money"; but it developed that there "was a vast debtor class in the nation, directly interested in the depreciation of the currency in which they were to pay their debts." They saw that this was where their personal interest lay, and they were "speedily joined by a far more influential class;—by that class whose speculative tendencies had been stimulated by the abundance of paper money, and who had gone largely into debt, looking for a rise in nominal values."

". . . Committees of experts were appointed to study the whole subject of prices,"—something that has a familiar ring in these recent years of the twentieth century in the United States —and the following "four rules" were adopted:

"First, the price of each article of necessity was to be fixed at one and one-third its price in 1790. Secondly, all transportation was to be added at a fixed rate per league. Thirdly, five per cent was to be added for the profit of the wholesaler. Fourthly, ten per cent was to be added for the profit of the retailer." Notwithstanding the fact that this plan appeared "reasonable"— the first result was that "every means was taken to evade the fixed price imposed, and the farmers brought in as little produce as they possibly could. This increased the scarcity, and the people of the large cities were put on an allowance. Tickets were issued authorizing the bearer to obtain at the official prices a certain amount of bread or sugar or soap or wood or coal to cover immediate necessities." It was found that this plan, "with its divinely revealed four rules, could not be made to work well—even by the shrewdest devices. In the greater part of France it could not be enforced." In other words, it is here clearly seen that planned economy and a general throwing overboard of the law of supply and demand worked no better in the latter part of the eighteenth century than it has worked in this twentieth century.

In those early days in France it was found that shopkeepers could not profitably sell at the established prices; many went out of business, while others charged exorbitant prices; and Dr. White continues: "To detect goods concealed by farmers and shopkeepers, a spy system was established with a reward to the informer of one-third of the value of the goods discovered. To spread terror, the Criminal Tribunal at Strasbourg was ordered to destroy the dwelling of any one found guilty of selling goods above the price set by law. The farmer often found that he could not raise his produce at anything like the price required by the new law, and when he tried to hold back his crops or cattle, alleging that he could not afford to sell them at the prices fixed by law, they were frequently taken from him by force and he was fortunate if paid even in the depreciated fiat money — fortunate, indeed, if he finally escaped with his life." It is quite apparent, therefore, that there is nothing new about black market operations. And while the French evidently gave it a considerably higher criminal rating than it is given in the United States today —even the extreme measures cited above appear to have been unable to stamp it out in France. All of this merely proves the point that the law of supply and demand should be allowed to function in a normal way—with a minimum of laws interfering with the economic set-up.

Heavy fines, or imprisonment, were imposed on "any person selling gold or silver coin, or making any difference in any transaction between paper and specie,"; and "any one who refused to accept a payment in assignats, or accepted assignats at a discount" was required to "pay a fine of three thousand francs; . . ." Later, "the penalty for such offences was made death, with confiscation of the criminal's property, and a reward was offered to any person informing the authorities regarding any such criminal transaction." And it was finally decreed "that the death penalty should be inflicted on any person convicted of having asked, before a bargain was concluded, in what money payment was to be made." The great finance minister, Cambon, came to the conclusion that gold and silver were the worst enemies of his policy; he encouraged the Convention to close the Exchange—which it did in November, 1793—and, finally, "about a year later" the whole price-control plan was abolished.

In commenting on the failure of that four-point price control program to produce satisfactory results, Dr. White makes the following observation—something that may well be given serious thought by our leaders in national affairs today: "Whenever any nation intrusts to its legislators the issue of a currency not based on the idea of redemption in standard coin recognized in the commerce of civilized nations, it intrusts to them the power to raise or depress the value of every article in the possession of every citizen." On this high authority, might it not seem reasonable to assume that our present-day inflation may, to a large extent, be attributable to our having gone off the gold standard and adopted irredeemable paper currency in the 1930s? An affirmative answer to this question gains additional support from the following excerpt: "The main cause of these (French) evils was tampering with the circulating medium of an entire nation; keeping all values in fluctuation; discouraging enterprise; paralyzing energy; undermining sobriety; obliterating thrift; promoting extravagance and exciting riot by the issue of an irredeemable currency." We seem to have experienced some of these evils in the United States during the past few years; and quite possibly for the same reason —inflation brought on, or at least encouraged, by the use of unsound money.

Results of French Paper Money

Again in France: "The National Convention which succeeded the Legislative Assembly, issued in 1793 over three thousand millions of assignats, and, of these, over twelve hundred millions were poured into the circulation. And yet Cambon steadily insisted that the security for the assignat currency was perfect. . .

"Everything was tried. Very elaborately he devised a funding scheme which, taken in connection with his system of issues, was in effect what in these days would be called an 'interconvertibility scheme.' By various degrees of persuasion or force,—the guillotine looming up in the background, — holders of assignats were urged to convert them into evidence of national debt, bearing interest at five per cent, with the understanding that if more paper were afterward needed more would be issued. All in vain. The official tables of depreciation show that the assignats continued to fall. A forced loan, calling in a billion of these, checked this fall, but only for a moment." A law was passed "confiscating the property of all Frenchmen who left France after July 14, 1789, and who had not returned." These properties were supposed to result in added security of the paper money; but the desired results seem not to have been attained.

It was pointed out that "the men who had charge of French finance during the Reign of Terror and who made these experiments, which seem to us so monstrous, in order to rescue themselves and their country from the flood which was sweeping everything to financial ruin were universally recognized as among the most skillful and honest financiers in Europe. Cambon, especially, ranked then and ranks now as among the most expert in any period."—all of which proves "how powerless are the most skillful masters of finance to stem the tide of fiat money calamity when once it is fairly under headway; and how useless are all enactments which they can devise against the underlying laws of nature."

There developed a "brisk trade in all kinds of permanent property"—which seemed to be regarded by many as a hopeful sign; but it proved to be merely a case where "certain cunning people were willing to buy and to pay good prices" for such properties "in assignats." "It was simply legal robbery of the more enthusiastic and trusting by the more cold-hearted and keen. It was the 'unloading' of the assignats upon the the mass of the people."

What had started out to be a system whereby one paper franc was intended to be worth one gold franc, deteriorated to the point where, in February, 1796, "one franc in gold was worth 288 francs in paper"; and, finally, these paper francs became worth practically nothing. As stated earlier, from an initial issue of only 400 million francs in paper money in 1789, the volume grew to more than "forty-five thousand millions of francs" of this worthless money before a final halt was called eight years later.

However, before the final discarding of the paper money plan an expedient was tried in the hope of building confidence in this form of money, which expedient was the issuing of a new type under the name of "mandats," intended to be "fully secured and as good as gold." To constitute this security "choice public real estate was set apart to an amount fully equal to the nominal value of the issue, and any one offering any amount of the mandats could at once take possession of government lands; the price of the lands to be determined by two experts, one named by the government and one by the buyer, and without the formalities and delays previously established in regard to the purchase of land with assignats." But the government "continued to issue the old assignats at the same time that it was discrediting them by issuing the new mandats. . . . Even before the mandats could be issued from the press they fell to thirty-five per cent of their nominal value; from this they speedily fell to fifteen, and soon after to five per cent, and finally, in August, 1796, six months from their first issue, to three per cent. This plan failed —just as it failed in New England in 1737; just as it failed under our own Confederation in 1781; just as it failed under the Southern Confederacy during our Civil War."

Having found it imposible to maintain these assignats and mandats at anything like their nominal values, the government finally gave up the attempt and allowed that "bargains might be made in whatever currency people chose. . . . Since May, 1797, both assignats and mandats had been virtually worth nothing." And Dr. White sums up the French experience in the following brief statement as to just what is likely to happen when a nation tries to make printing-press money take the place of real money:

"So ended the reign of paper money in France. The twenty-five hundred millions of mandats went into the common heap of refuse with the previous forty-five thousand millions of assignats; the nation in general, rich and poor alike, was plunged into financial ruin from one end to the other."

Late in the year 1795 and in the following year prices on some of the most common commodities reached levels of which—"reduced to American coinage"—the following are typical:

"A pound of bread 9 dollars; a bushel of potatoes 40 dollars; a pound of candles 40 dollars; a cartload of wood 300 dollars;" and comparable prices obtained for all common products.

As further evidence of the seriousness which Dr. White attached to this business of deviating from well established lines when dealing with this important question of public finance, he remarks:

"Such, briefly sketched in its leading features, is the history of the most skillful, vigorous and persistent attempt ever made to substitute for natural laws in finance the ability of legislative bodies, and, for a standard of value recognized throughout the world, a national standard devised by theorists and manipulated by schemers. Every other attempt of the same kind in human history, under whatever circumstances, has reached similar results in kind if not in degree; all of them show the existence of financial laws as real in their operation as those which hold the planets in their courses.

* * *

"Prices of the necessities of life increased; merchants were obliged to increase them, not only to cover depreciation of their merchandise, but also to cover their risk of loss from fluctuation; and, while the prices of products thus rose, wages, which had at first gone up, under the general stimulus, lagged behind. Under the universal doubt and discouragement, commerce and maufactures were checked or destroyed. As a consequence the demand for labor was diminished; laboring men were thrown out of employment, and, under the operation of the simplest law of supply and demand, the price of labor—the daily wages of the laboring class—went down until, at a time when prices of food, clothing and various articles of consumption were enormous, wages were nearly as low as at the time preceding the first issue of irredeemable currency.

* * *

"Thus was the history of France logically developed in obedience to natural laws; such has, to a greater or less degree, always been the result of irredeemable paper, created according to the whim or interest of legislative assembles rather than based upon standards of value permanent in their nature and agreed upon throughout the entire world. Such, we may fairly expect, will always be the result of them until the fiat of the Almighty shall evolve laws in the universe radically different from those which at present obtain."

Napoleon Restored Sound Money

When Napoleon took over, France was practically bankrupt; but he evidently had strong ideas as to what constituted an honest and reliable currency; for he is reported to have said: "I will pay cash or pay nothing. . . . While I live I will never resort to irredeemable paper." He never did; and France, "under this determination, commanded all the gold she needed. When Waterloo came, with the invasion of the Allies, with war on her own soil, with a change of dynasty, and with heavy expenses for war and indemnities, France, on a specie basis, experienced no severe financial distress."

In contrast with Napoleon's straightforward approach to this subject of public finance, the manner in which the late President Franklin Roosevelt met a somewhat similar, but far less difficult, situation upward of a decade ago seems worth recalling to mind at this point.

In those early 1930s our economic structure surely was in a very bad way. Business was at a standstill; unemployment was rampant; bank failures were a daily occurence, and things in general were pretty much upset. But we did exactly what these earlier leaders and experts say a nation should never do—we resorted to irredeemable paper money; and, in addition, we depreciated the U. S. dollar to a comparative value of only 59c. By this marking up of gold from $20.67 an ounce (the steady price at which it had stood for generations) to $35.00 an ounce (resulting in the so-called 59c dollar), we seemed to be creating new values; but, unfortunately, real values cannot be that easily created.

To be sure we do have a lot of gold buried at Fort Knox, Kentucky—said to be about equal to the combined supply held by the remaining countries of the world. That gold, rated at $35.00 an ounce, would appear to have a value of some 22 billion dollars; but at the former value of $20.67 an ounce, it is worth only 13 billion dollars. It will be seen that the expedient hastily adopted by the Roosevelt administration is quite misleading—for fully 9 billions of today's rated value of the Fort Knox gold is nothing more than thin air. This clearly supports the well-established theory that real values cannot be created by legislative or executive fiat. There is much more that needs to be said on the broad subject of the gold standard, stabilization of currencies and the like—and particularly on the desirability of developing a definitely-stabilized international currency that shall be as permanent and unchangeable for the measuring of values in international transactions as is the common yardstick for measuring cloth at a local drygoods store. That is a subject in itself. But the following points of this money question do seem pertinent to the present discussion.

Abandonment of Gold Standard Was Treachery

The damage done by this act of treachery on the part of our leaders mean that we stand to suffer an appreciable financial loss—as the following will demonstrate: We, consistently, are an exporting nation—our exports exceed our imports in dollar value; and this difference is normally adjusted by shipments of gold to the United States. Formerly, one ounce of gold would buy only $20.67 worth of our exports; but under this new arrangement one ounce of gold buys $35.00 worth of such exports. Does that show that our leaders displayed any great economic brilliance when they marked up our gold? It hardly seems so; and it without doubt very largely accounts for the enormous growth of our stockpile of gold in recent years, for this gold bargain undoubtedly appeals to all of our shrewd customers. Furthermore, this tampering with the dollar has placed us in the unfavorable position of not practicing what we preach; for we have been one of the greatest expounders of the theory that nations should stabilize their currencies. Yet we did not hesitate to suddenly devaluate our dollar to 59c.

In fairness to the late President Roosevelt, I—a Republican—fully believe that he never, knowingly, did a dishonest act during his long public career; but I do believe that he was dealing with problems many of which were beyond his power or comprehension. In fact, he, himself, admitted as much: For early in his first term he publicly stated that without knowing what the results would be he felt obliged "to try something." He did just that—many times; and it will require years of effort to undo many of those unwise moves—moves that have tended to radically change our whole governmental, economic and social standards resulting from generations of common sense displayed by our forebears.

From about the close of our Civil War, and continuing throughout the remaining decades of the nineteenth century, there, in all probability, was no individual who exerted so great an influence toward promoting the welfare of these United States as did Dr. Andrew Dickson White. His voluminous writings clearly reveal that his heart was filled with an ardent desire that justice should prevail in the world—and, especially, that America should so conduct her dealings and activities, both internal and external, as to rightfully gain the highest respect of the other nations for her forthrightness and humanitarianism in the handling of these matters. He thoroughly loved America; he very ably represented this country in the principal capitals of Europe; he was recognized as the outstanding diplomat of his time, as well as a leading educator; and—of particular interest in connection with the subject in hand—he was a thorough believer that money lacking a sound specie backing is the prime cause of inflation.

Our forebears most probably did not establish our currency on a specie basis because of some preconceived idea that gold and silver were in abundant supply in the United States—for in those earlier days quite the contrary was true, particularly as respects gold; they undoubtedly adopted the specie basis because the thinking men of that time, to whom this important task had been entrusted, regarded this as the only safe and honest basis for a circulating medium of exchange. And since the present article has been heavily supported by ideas so ably advanced by Dr. White as to what causes inflation, it seems highly appropriate and fitting that it be brought to a close with Dr. White's own words used in ending his masterpiece on public finance, "Fiat Money Inflation in France":

"If we glance at the financial history of France during the Franco-Prussian War and the Communist struggle, in which a far more serious pressure was brought upon French finances than our own recent Civil War put upon American finance, and yet with no national stagnation or distress, but with a steady progress in prosperity, we shall see still more clearly the advantage of meeting a financial crisis in an honest and straightforward way, and by methods sanctioned by the world's most costly experience, rather than by yielding to dreamers, theorists, phrase-mongers, declaimers, schemers, speculators or to that sort of 'Reform' which is 'the last refuge of a scoundrel.'

"There is a lesson in all this which it behooves every thinking man to ponder."

First Nat'l N. J. Corp. Is Formed

JERSEY CITY, N. J. — Formation of First National New Jersey Corporation has been announced. The new firm will maintain offices at 921 Bergen Avenue, and will deal in corporate securities, state and municipal bonds and shares in investment trusts.

Officers of the corporation are Col. Hugh A. Kelly, Chairman of the Board; Hubert D. Gallagher, President; Wm. C. Heppenheimer, Jr., Vice-President; Bernard Rodetsky, Treasurer; and Harry E. Roche, Vice-President.

News About Banks and Bankers

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED CAPITALIZATIONS

George Bertrand Paull, Vice-President of **The Marine Midland Trust Company of New York**, has been elected a Vice-President of **Marine Midland Group, Inc.**, according to an announcement made July 20 by George E. Becker, President. It was also stated that Mr. Paull will be in charge of a newly-created Pension Trust division of the Marine Midland Group, Inc. This, it is stated, is not a new service in the Marine Midland banks, as they are presenting managing a large number of Pension Plan Trusts. The creation of the special division is said to be due from increasing demands from companies and employers for information and service in this field. Coordination of the activities of the 19 Marine Midland banks through this new division will enable each of them to broaden the scope of its service. Mr. Paull continues as Vice-President of The Marine Midland Trust Company of New York where he has for many years been in charge of its Personal Trust Department.

G. Bertrand Paull

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Thomas H. Quinn, President of the **Inter-County Title Guaranty and Mortgage Company of New York City** reported on July 25 that there was a gain of 56% in the company's earnings in its first six months of this year as compared with the corresponding period a year ago. Total admitted assets increased to $1,304,543 June 30, 1950 from $790,840 on June 30, 1949.

* * *

Joseph C. Harris has been appointed Assistant Vice-President of the **American Trust Company, of New York**, it was announced by Harvey L. Schwamm, President. Mr. Harris was with Central Hanover Bank & Trust Co. of New York for over 15 years, during which much of his time was spent in the New York State and New England banking divisions. In 1947, he joined the Central National Bank of Richmond, Va., as Vice-President, leaving in April, 1949, to become Executive Vice-President and Director of the newly organized Lexington State Bank, Lexington, N. C. During World War II, Mr. Harris served as a Major in the U. S. Army Air Force.

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Arthur S. Kleeman, President, of **Colonial Trust Company of New York** announces the appointment of Juan X. Aguirre as Assistant Vice-President. Mr. Aguirre has been successively Assistant Manager and Downtown Manager of the bank's International Division. He will continue to be associated with that department at the Rockefeller Center office of the bank.

* * *

At a meeting of the trustees of **The Dime Savings Bank of Brooklyn, N. Y.**, on July 21. David E. Ellis was appointed Auditor and Hubert J. Dierkes Assistant Auditor, it was announced by George C. Johnson, President of the bank. Mr. Ellis started his banking career with Barclay's Bank Ltd., in London. He was also with the Northern Trust Company, Chicago, Ill., and the Brooklyn Trust Company. In February, 1943, after 15 years with the Brooklyn Trust, Mr. Ellis entered the employ of "The Dime," advancing to Assistant Auditor in December, 1949. Mr. Ellis is active in The National Association of Bank Auditors and Comptrollers, the Institute of Internal Auditors and other banking organizations. Mr. Dierkes started his banking career 35 years ago with the old National City Bank of Brooklyn, later taken over by the Irving Trust Company. Mr. Dierkes has been associated with the State Bank of Sea Cliff as Assistant Cashier, the Traders National Bank and the Bank of America. He entered the service of "The Dime" on Jan. 1, 1932.

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Ford Bartlett, an engineering executive, and President of Lockwood, Kessler & Bartlett Inc., has been elected to the board of trustees of the **Lincoln Savings Bank of Brooklyn, N. Y.**, it was indicated in the Brooklyn "Eagle" of July 13.

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Richard D. Marzano, who recently sold his interest in the **Bank of Commerce of Newark, N. J.**, and severed his connection with the institution, assumed on July 17 the post of Vice-President of the **National State Bank of Newark.** Reference to Mr. Marzano's resignation from the Bank of Commerce, founded by his father, Vito Marzano, 60 years ago, was made in our issue of July 13, page 177. Richard Marzano had been with the bank for 43 years and succeeded his father as President in 1938. Mr. Marzano's son, Richard, Jr., resigned as Vice-President of the Bank of Commerce earlier in the year, it is learned from the Newark "Sunday News" of July 16, to take a position in a Miama, Fla., bank.

* * *

On July 3 the business of the **Bank of Montclair, of Montclair, N. J.**, was taken over by the **National Newark & Essex Banking Co. of Newark** in accordance with plans detailed in our issue of June 15, page 2496. The office of the Montclair Bank is now operated as a branch of the National Newark & Essex Banking Co.

* * *

The **Fidelity and Deposit Company of Maryland** and its affiliate, the **American Bonding Company of Baltimore**, have announced a number of promotions and other changes in their field and home office organizations. Paul S. Wise, for the past two years Manager of the Oklahoma City office, has been elected an Assistant Secretary of both companies and named Manager in Brooklyn, N. Y., succeeding the late Thomas J. Ternan, Jr. In the same office, Allan Major Race, formerly an Assistant Manager, has been advanced to the position of Associate Manager. The branch continues under the direction of Vice-President H. R. C. Hickey. Charles E. Hoge, formerly Assistant Manager in Atlanta, succeeds Mr. Wise as Manager in Oklahoma City and in turn has been succeeded in Atlanta by James J. Duncan, formerly a special agent of that office. Among other changes announced William L. Lowe, in Syracuse, N. Y., has returned to his former position as Manager, following a year's leave of absence. John C. Gardner, Manager in Syracuse since August, 1949, has been appointed an Assistant Manager of the agency department in the home office.

* * *

The consolidation is announced of the **Iron Bank of Jackson, Ohio**, with the **First National Bank of Jackson**, under the charter and title of the latter. The initial capital of the consolidated bank will be $200,000, divided into 2,000 shares of common stock, par $100 each; the initial surplus will be $300,000, with initial undivided profits of not less than $162,482.98. The Iron Bank had a common capital stock of $25,000, while the common capital stock of the First National had been $100,000 before the consolidation, which became effective June 30.

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An increase in the capital of the **First National Bank of Dubuque, Iowa**, from $300,000 to $600,000, as of June 23, has been brought about by a stock dividend of $300,000.

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The **Liberty National Bank & Trust Co. of Oklahoma City, Okla.**, has increased its capital from $2,-500,000 to $3,000,000 by the sale of $500,000 of new stock. The enlarged capital became operative on June 27, it is indicated by the Office of the Comptroller of the Currency.

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A total of $300,000 has been added to the capital of the **Peoples National Bank of Little Rock, Ark.**, part of the increase, $150,000, having resulted from a stock dividend, while a like addition ($150,000) was brought about by the sale of new stock. The enlarged capital become effective June 30.

Clifford Michel Heads Travelers Aid Appeal

Clifford W. Michel, President of Dome Mines, Ltd., and partner in the investment banking firm of Carl M. Loeb, Rhoades and Company, has accepted the post of General Chairman for the 1950 Fund Appeal of the Travelers Aid Society of New York.

Mr. Michel will head a committee of over one hundred leaders in business and industry. He announced that the goal of the campaign is $309,000, to be used to maintain the services of the Society.

The Travelers Aid Society is the only social agency in the city devoted solely to helping persons of all ages who are away from home and in difficulty. The services range from simple information and directions concerning the city, to travel assistance for the blind, handicapped and aged; location of runaways; and assistance with problems of family relationships.

Leo Murray Joins Hicks & Price Staff

CHICAGO, Ill.—Leo E. Murray, Assistant Treasurer of United Light and Railways Company, will become associated with Hicks & Price, members of the New York Stock Exchange, 231 South La Salle Street. Mr. Murray will specialize in utility issues and mutual investment funds.

S. Gronick Partner In Garfield & Co.

Garfield & Co., 60 Beaver Street, New York City, members of the New York Stock Exchange, announce that Samuel Gronick has been admitted as a general partner in the firm.

Mr. Gronick's admission to the firm was previously reported in the "Chronicle" of July 12.

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As We See It

the Washington atmosphere for more than a decade-and-a-half. The development of the notion that there was great virtue in prodigality, and its exploitation by the politicians, has, of course, made it natural, if not inevitable, that vast sums be spent to catch the votes of this and that element in the population which could not only then accept but demand gratuities with a good conscience.

Political Untouchables

Thus we find that outlays to help the farmer, social welfare expenditures, housing subsidies of one sort and another, and veterans' benefits, which together have come to roughly as much as national defense expenditures in recent years, and with some relatively minor exceptions, have been and apparently still are regarded as untouchable. Funds sent abroad as bribes designed to assure support against communism, and other foreign outlays believed to be essential to our own defense must, so it is now said, be substantially enlarged, not reduced. Thus we find that the ten billion or so—which dispatches now speak of as possibly but a beginning—must for the most part simply be added to other expenditures as previously planned. Now it happens that, despite record-breaking volume of business, the 1951 budget as planned even before Korea showed a sizable deficit.

Scarcities of labor here and there, shortages of materials in some instances, and unexpectedly insistent buying of some types of consumers' goods had begun to be reflected in prices before the Korean war started. Of course, the outbreak in Korea, as unexpected as it appears to have been to the great rank and file—and, we must say also apparently to the powers that be — almost inevitably started a movement, more or less panicky on the part of consumers and others, to lay up "stock piles" of this and that. But apart from anything in the nature of hysteria produced by the sudden appearance of war and at the possible threat of a much larger scale war, it has been growing increasingly clear that the inflationary forces generated during the last war and during the New Deal years prior thereto—and certainly never vigorously combated during the more recent Fair Deal years—had not yet run their normal course.

Naturally They Wonder

It is natural enough, accordingly, that the President and his advisers are wondering how a huge further enlargement in national expenditures is to be managed without giving a fillip to the inflationary tendency already in evidence. In parts of his recent message to Congress on the Korean situation, Mr. Truman gives evidence of an awareness of the existence of such a problem, and at spots seems to have a vague sort of understanding of some of its fundamentals, but much more explicit formulation of policy and much more vigorous attack upon fundamentals are required.

We may obtain the gist of the President's ideas from a few paragraphs of his Korea message:

"We can achieve some immediate increase in production by employing men and facilities not now fully utilized. And we can continue to increase our total annual output each year, by putting to use the increasing skills of our growing population and the higher productive capacity which results from plant expansion, new inventions and more efficient methods of production.

* * *

"With this enormous economic strength, the new and necessary programs I am now recommending can be undertaken with confidence in the ability of our economy to bear the strains involved. Nevertheless, the magnitude of the demands for military purposes that are now foreseeable, in an economy which is already operating at a very high level, will require substantial redirection of economic resources.

* * *

"In these circumstances, we must take action to insure that the increased national defense needs will be met, and that in the process we do not bring on an inflation, with its resulting hardship for every family.

* * *

"First, we should adopt such direct measures as are now necessary to assure prompt and adequate supplies of goods for military and essential civilian use. I therefore recommend that the Congress now enact legislation authorizing the Government to establish priorities and allocate materials as necessary to promote the national security; to limit the use of materials for non-essential purposes; to prevent inventory hoarding; and to requisition supplies and materials needed for the national defense, particularly excessive and unnecessary inventories.

"Second, we must promptly adopt some general measures to compensate for the growth of demand caused by the expansion of military programs in a period of high civilian incomes. I am directing all executive agencies to conduct a detailed review of Government programs, for the purpose of modifying them wherever practicable to lessen the demand upon services, commodities, raw materials, manpower, and facilities which are in competition with those needed for national defense."

For our part, we should feel a great deal more encouragement if the President:

(1) Showed much more evidence of a determination really to reduce non-essential public expenditure—a determination which indicated a readiness on his part really to cut into the New Deal and Fair Deal fol-de-rol which is now so terribly expensive—and, of course, some indication of being able to persuade Congress to go along with him.

(2) Revealed a realizing sense of the degree in which production could be increased by improved productivity, possibly with nothing other than a more intensive effort on the part of the wage earners of the country. (With proper adjustment of hours of work if need be, and a willingness to produce as once they produced, an addition of $10 billion to our output would be as nothing.)

(3) Gave evidence of a full understanding of the fact that if consumption is to be reduced or held at current levels, it is the consumers—the rank and file of them, not "the rich"—who must be taxed.

(4) Realized that rigging the money market at best merely defers the day when the fiddler will present his bill.

Continued from page 4

Disseminating Stock Market Information

that when Dow-Jones printed that item, the market acted and reacted immediately. People didn't wait and wonder if it was true, or wonder it it had been mixed up. No; they went and traded hundreds of millions of dollars of securities just like that. I think that is a great compliment to Dow-Jones, and I think it is a testimonial to generations of honest, accurate, and responsible handling of news; all of which doesn't mean that we don't make mistakes. We do make honest errors, but I think, considering the very great speed and the complexity of the news we handle, that the margin of error is really very slight.

Let me tell you another story which will illustrate that point. It is a story of news that we didn't print, and I think it illustrates why people are willing to trade hundreds of millions of securities on our news.

Several years ago during the reconversion period, as you know, steel was extremely scarce, and a great many steel companies and a great many syndicates, groups of individuals, were busily engaged in grabbing up all the basic steel production that was in the market, including some very antique facilities. We heard a report that a really astronomical offer was being made for the stock of one of the smaller somewhat obscure steel producers.

We sent a reporter out on the story, and he picked up a letter in the course of time which contained an offer. It had been received at a brokerage house. He turned it over to a subeditor. Well, here it is. Somebody seems to be making an offer, so what do we do about it?

Incidentally, there were no special precautions; it was just a system working. The subeditor looked it over and tried to check on the people making the offer. No results. So he sent another reporter out to check the bona fides of the group making the offer. Before we were finished, we had five reporters working on that story, but we never printed a word about the offer as such. I don't have to tell you that if we had the stock, that steel company would have skyrocketed.

Among other things, there was dug up a link between a gentleman in Brooklyn better known to the police than to the financial community and a little later we printed quite a lot about the activities of the New York District Attorney on the Dow-Jones ticker in the "Wall Street Journal" and in "Barron's". That is perhaps a sensational episode, but I think it does illustrate that Dow-Jones, despite the speed at which we have to operate, tries to take a good long thorough look before it leaps into anything.

There are some other things about Dow-Jones. We serve nobody's interest but the client's and our readers'. There is from time to time an effort to have Dow-Jones serve other interests. Some are frank efforts, some are subterranean efforts, and you would be surprised at the people who call us on the telephone to give us "hot news" with the naive assumption that we will print it.

We take no information over the telephone. If a secretary of some company calls, for example, with the announcement of a dividend, the man on the copy desk will call back the company and check with the secretary to see if that is actually true and he really made the call.

I don't mean to say that people spend their lives trying to have us print fraudulent news, but there are enough such episodes that it is well to be aware of them, and so we have our rules to safeguard our news.

Basic News-Gathering Job

Let's talk about our basic news-gathering job. In the first place we have a practice that if we print quotations on a security, we feel an obligation to cover the news of the company whose securities we quote. Well, that means that, including over-the-counter quotations which we print, we have an obligation to cover the day-by-day affairs of approximately 8,000 corporations. That means that we cover their financial reports, dividend actions, actions by the board of directors, which are public information, and any news which might be of interest to the company's stockholders or potential stockholders, to its customers, to people who do business with it in any way.

Now, we have very human memories so we have devised two tickler-file systems which are quite helpful to us. They occupy a great many filing cabinets. One is designed to show when there is going to be a directors' meeting, or a financial report is about due, something of that sort.

The other is a more elaborate one. It screams at us if a minimum period has elapsed without one of the reporters calling upon a responsible official of the company.

Now, obviously there are all kinds of companies and public interest in them varies. With companies such as American Telephone and Telegraph, General Motors, United States Steel, du Pont, and so on we maintain almost continuous contact. Then you have the rather small companies that may have only a few hundred stockholders, and perhaps a visit or two a year is adequate to keep track of them.

This second tickler system is divided into compartments, and if none of the reporters has visited some major company this month, it will hoist a "red flag." On the other hand, it won't hoist a red flag for the Zilch Rubber Company, for instance, for six months.

Group Journalism

In addition to this bread-and-butter routine coverage of financial news, which, quite truthfully, is a somewhat dull procedure, quite routinized and very, very expensive to handle, we have, if you will, a glamor part of the business. Being a national news organization and looking on news from a national viewpoint, we do a tremendous amount of work which in the trade is called group journalism. All that means is that you have a lot of reporters doing the same thing, checking the same thing in a lot of cities. I think I once set some kind of world's record by having 100 reporters working on the same story at the same time in 22 cities.

During the war we were checking price ceilings on food in the early days of price control to see how they were being observed. We thought the best way was to send our reporters out shopping with their wives or other female companions. They were to report what they paid as compared with the OPA ceilings for a particular store and tell us what the store was.

One thing we were interested in was whether the chain stores were having less or more trouble observing ceiling prices as compared with the independent stores. We obtained a very interesting survey and a very expensive one, of course.

We printed it in the "Wall Street Journal" and over the Dow-Jones ticker. One amusing incident resulted from that. Before I reached the office the next morning, I had had several telephone calls from the same gentleman. My secretary told me Mr. So-and-So had been calling from out-of-town, and that I had better call the operator. I did and he identified himself as the President of a rather large Midwestern food chain. He said, "I read your story this morning in the "Wall Street Journal" about your survey and I noted your report that a Midwestern chain's meat departments were not quite behaving right. Mr. Kerby, I don't expect you to tell me which chain it was, but for God's sake tell me it wasn't mine." I assured him it wasn't his, and he thanked me and hung up.

We do a lot of that survey type of story. Our news organization can literally check a national issue and national trends inside of 24 hours, and have the results of that survey in the hands of our readers in the next morning's paper.

The wire system, of which I spoke to you before, runs rather like a country party telephone line. All the bureaus are hooked up and they chat back and forth and exchange information and gossip. They are very apt to call on one another for aid. For instance, if Pittsburgh is working on a steel story the manager at Pittsburgh might get on the wire and ask his pal in Chicago what National Steel is doing or call Cleveland to ascertain what Republic Steel is doing, and so on.

I went through last week's edition's of the "Wall Street Journal" and made a list of the stories concerning the Korean situation which I hadn't seen in any other newspaper, and I read a good many. I don't claim that all these are exclusive and I don't claim they are all brilliant stories, but it will give you a practical look at the kind of news that Dow-Jones originates which you don't find in the average newspaper.

For instance, on July 12 there was a story indicating that the Government was going to ask authority to allocate steel. Well, I think that was confirmed in this morning's paper. The White House press conference made it pretty clear that the Government is going to allocate steel.

Then, we had a preview of the Council of Economic Advisers forthcoming report to the President. Well, I can't say that has been confirmed yet because it hasn't been released, but I suspect our Washington boys had a pretty good idea of what will be in it.

On July 11 we printed the story of the Government's tentative planning for manpower mobilization. On July 10, we printed estimates for manpower needs and their possible effect on industry.

Likewise, on July 10, we printed the story that the pending tax bill would be ditched, and, as you know, it has been ditched. On July 7 we predicted that synthetic rubber production would be greatly increased. As a matter of fact, we printed an exact figure. That we confirmed the next morning.

We had also printed a story that the arms previously intended for Europe are going to be diverted to Asia. That was officially denied the next day, but I am assured that it was denied because our story had been cabled abroad, and European nations were unhappy. The officials deemed it desirable to deny it, but arms are, of course, being diverted.

On July 5, we had a story that the Korean situation was going to bring a shift in the Air Force aircraft requirements which would result in a speedup in orders for fighter planes.

Here is another one. On June 29 we printed a story stating that the United States Ground Forces would be ordered into Korea and the President would direct General MacArthur to disregard the 38th Parallel as a stopping point for the fighting. I don't have to say that that story has been adequately confirmed.

Line of Factual News Coverage

All this is not by way of boasting that we get exclusives. Of course we do and so do the other newspapers, but I thought it might show you the line of factual news coverage of a business and finance newspaper organization. When we are confronted with a great general news story such as a war, of course, we print it and tell where the battle lines are and all that is basic to tell the financial business what it means to them. Take that small story about the shift in aircraft requirements, for instance. That is a very important item to a number of companies and very important to investors in companies.

Take the synthetic rubber business. The fact of that speedup would be obviously interesting in the rubber market and also to rubber manufacturers. It also means a lot to all civilian industries that use styrene, and incidentally, would point up the effect a potential shortage in styrene would have.

Newman & Co. to Be Formed in New York

Charles M. Newman, member of the New York Stock Exchange, and Herman K. Wallach will form Newman & Co. with offices at 54 Pine Street, New York City, on Sept. 1. Mr. Newman was a partner in Newman, Baum & Hollander. Mr. Wallach was with Shaskan & Co., specializing in Arbitrage.

Henry Buckley to Be Partner in Walston Co.

Henry W. Buckley, member of the New York Stock Exchange, will become a partner in the Stock Exchange firm of Walston, Hoffman & Goodwin, Aug. 1. He will make his headquarters at the firm's New York office, 35 Wall Street. Mr. Buckley has recently been active as an individual stock broker. Prior thereto he was a partner in Buckley Brothers.

Railroad Securities

Bonds vs. Stocks in a War Economy

Railroad income bonds and second grade fixed interest bonds, which had been even more pointedly ignored than railroad stocks since the bubble burst in 1946, have recently come to life. There has been heavy buying throughout the list. As measured by the Dow-Jones index, Income bonds had advanced to 69.3 by the end of last week. This represented the best level reached since the inception of the average in January, 1947. While the index was not in existence during 1946, the bonds that make up the average reached a postwar high of about 90 during that period. As measured by the averages, Income bonds last week were about 23% below the 1946 peak. The Dow-Jones railroad stock average was 13% below its 1946 high.

Obviously it is generally expected that with a prospective rearmament program, or under a full war economy, the railroads are assured of a high level of traffic for a long time to come. These expectations appear fully justified. With a sustained higher level of traffic there can hardly be any question but that earnings, before taxes, will continue to rise. It may also be taken for granted that Federal income taxes will be increased fairly soon, and there is a strong possibility that the excess profits tax may be reimposed. It is this tax uncertainty that has presumably motivated the recent heavy buying of second and third grade bonds. Interest payments are deductible before arriving at taxable interest.

Another factor adding to the market appeal of these second and third grade bonds has been the possibility of heavy buying by the companies themselves if earnings reach expected levels and are not largely drawn off by taxes. During World War II and the subsequent period of high earnings, railroad management generally showed every inclination to use available funds for the reduction of the debt burden and fixed charges. Some marginal roads were thus able to restore their credit standings completely. Those whose credit is still on the weak side may be expected to take the fullest advantage of any opportunities presented by a new earnings bulge.

There are still many rail analysts who look on railroad stocks, particularly those of the fundamentally sound roads, as having greater appeal than these second and third grade bonds. Regardless of the length of an earnings boom and no matter how high the earnings may go, there is a definite ceiling on the income from a bond. There is no such rigid ceiling on the dividends on common stocks. By the very nature of the instrument there is a definite limit on the price appreciation for any callable, non-convertible, bond. There is no such limit on common stock prices. On the down-side, second grade and third grade bonds have in the past proven at least as vulnerable marketwise as good grade common stocks.

There is, of course, the greater tax protection afforded by bonds. However, a tax structure such as prevailed during World War II would still leave sufficient earnings available for railroad common stocks to more than justify present prices and to warrant increased dividend disbursements on a broad scale. If a much more stringent tax is coming, it would, in turn, substantially reduce the reported coverage of charges and would consequently be calculated to dampen enthusiasm for lower grade bonds. Also, it would materially reduce funds that might otherwise be available for company purchases of the bonds. This would remove one of the factors contributing to the better feeling toward these bonds in recent weeks.

Where regular annual income is no consideration there are many analysts who are inclined to favor above all sections of the list the highly speculative non-dividend paying stocks. In most cases these stocks represent the companies whose bonds are also selling at substantial discounts. If rail earnings are to boom, and such a boom is the theory behind recent buying of low grade bonds, the stocks of these roads should, percentagewise, benefit even more substantially. This is particularly true if the anticipated earnings are to be used for aggressive debt retirement.

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The Security I Like Best

JEROME THRALLS, Jr.
President, Thralls & Co., Inc.
New York City

(Port of New York Authority Bonds)

Since our activity in the security business is primarily in United States Government Bonds and Tax-Exempt Securities, the following remarks will be confined to the selection of "The Bond I Like the Best" and the word "bond" is used in the broadest sense.

Jerome Thralls, Jr.

No comment is necessary as to the place the United States Government Bonds occupy in investment accounts. However, revenue bonds have in recent years gained much in popularity, due to their tax exemption, operating success, and generous yields. In selecting revenue bonds for our clientele, we look for:

(1) An issuer having a sufficient amount of securities outstanding and with varied maturities in order to reach most types of investors.

(2) Good yield for a specific maturity.

(3) Sound and aggressive management.

(4) Substantial revenue record over a considerable period of time, evidencing satisfactory growth.

(5) Reserve and sinking fund, and protective indenture provisions.

The Port of New York Authority, in my opinion, meets the foregoing requirements. The various types of issues outstanding permit selective purchases by most classes of investors, such as:

(1) Banks (all types).
(2) Insurance companies.
(3) Trust accounts.
(4) Estates.
(5) Individuals.
(6) And many others.

The business of the Port of New York Authority is a necessary one, competently and aggressively managed, producing substantial net revenues and its operating future is assured. Therefore, the issues of this Authority have been selected by me for the title "The Bond I Like the Best."

SCHUYLER VAN VECHTEN
Vice-Pres., Lee Higginson Corp., New York City

(Speer Carbon Company)

The common stock of the Speer Carbon Company offers possibilities for substantial long-term capital appreciation and increased income. The company is the outgrowth of a business established in 1899 and its growth since 1930 has been particularly rapid, net sales having increased over 11 times. Production and sales reached a new peak in May of this year. Capacity operations should continue under either a peace or a war economy.

Schuyler Van Vechter

It ranks third among the largest manufacturers of carbon and graphite products in the United States, and since mid-1949 when it acquired Jeffers Electric, Inc., and the remaining 50% of the stock of Speer Resistor Corp., has become a large scale producer of electronic component parts which now account for about 40% of its consolidated sales.

Carbon and graphite products are consumed in use and enjoy a demand not only for initial orders on new installations, but also for steady replacements. This division of its business may be divided into three broad categories: electrodes, brushes and specialties. Its electrodes are sold to users of arc furnaces and electrolytic cells and manufacturers of dry cell batteries. Brushes are an essential part of all sizes and kinds of motors and generators while its specialties are used by a widely diversified group of industries. Many leading producers of steel, chemicals, dry-cell batteries, automobiles, glass, radios and television sets are listed among its customers. Although its products are closely related, its markets are broad, diversified and expanding. Its growth has closely paralleled the increased use of graphite electrodes, its most important single product, and the expansion of other branches of the electrical industry. In the last ten years, the annual installed capacity of electric arc furnaces producing metal ingots increased 3.7 times and of those producing metal castings, 1.6 times.

In the last three years, approximately $2,290,000 was expended for capital additions and improvements, about one-half of which was used to increase the capacity of its graphite plant at Niagara Falls, New York, by 25% and the balance for additions to its Punxsutawney plant, purchased from the government at a fraction of its value, and for improvements at St. Marys. About one-half of the proposed capital expenditures of $500,000 for 1950 will be used to double the capacity of its recently acquired and rapidly growing electronic division which already accounts for about 40% of its sales.

Earnings in 1949, amounting to $2.80 per common share, were the largest for any other year except 1943 and new peaks are expected for 1950. It is expected that second quarter 1950 earnings approximated those of the first quarter when they were equal to $1.53 a share as compared with $1.06 in the same period of 1949.

Quarterly dividends of 17½ cents plus an extra of 30 cents brought total 1949 dividend distributions up to $1 a share. Such payments are most conservative and it seems reasonable to assume that higher dividends will be paid as the anticipated growth in earnings materializes, the amounts depending upon the funds required for expansion. The common stock is commonly quoted 18½ bid offered at 19½ and at the offered side of the market yields 5.13%.

Midwest Exch. Members

CHICAGO, Ill.—The Executive Committee of the Midwest Stock Exchange has elected to membership Henry W. Meers, White, Weld & Co., Chicago; Frank W. North, Barret, Fitch & Co., Inc., Kansas City, Mo., and C. Comstock Clayton, Clayton Securities Corp., Boston.

Joins Shaver & Cook

(Special to THE FINANCIAL CHRONICLE)

ST. PETERSBURG, Fla.—Stanley C. Shaver, Jr., has joined the staff of Shaver and Cook, Florida Theater Bldg.

Continued from first page

Private Associations Doomed in Welfare State

a government, is to advance the general welfare.

The Welfare State

What is called the Welfare State may be defined as a government which assumes the direct and unlimited responsibility of assuring to all citizens a decent livelihood and financial security against the hardships that may result from unemployment, ill health, disability or old age. Such a responsibility cannot be met without giving to the government power to plan and control the operation of all productive enterprises and the distribution of all income and products in conformity with government requirements. In such a Welfare State the function of all private associations which are engaged in, or affect, production or distribution must be to act as instruments or agencies of the government in meeting its assumed responsibility.

Even those who oppose the development of such a Welfare State ought to concede that it is the responsibility of our government to establish an adequate legal structure for a Society of men and women, who are living and working together for mutual protection and correlative gains. But, this legal structure should be an authentic House of Voluntary Cooperation in which citizens can organize and operate voluntary associations through which the opportunity to earn a decent livelihood and to gain financial security against hardships will be assured. The opponents of the compulsory Welfare State (a few million surviving "libertarians!") believe that when political force is used to compel men to associate, and to operate their associations, in conformity with political programs, then the inherent vigor of a free people and a free economy is destroyed. They believe that our material progress will be retarded by this loss of vigor far more than it can be advanced by the disciplinary efficiency of compulsory cooperation. They are sure that our spiritual progress will become a spiritual retreat.

A good example of the two opposing concepts of government is found in the choice between government protection and government control of labor organizations. It has been our governmental policy for many years to protect labor unions from destruction by, or subservience to, the economic power of large employers. In order to promote an equality of bargaining power labor unions have been aided by law to organize wage-earners in such numbers that they could confront employers with a choice between paying good wages or being unable to operate their properties.

The economic powers of employers and of organized employees have been abused by both; but so long as neither could dominate the other the principle of voluntary cooperation has been maintained. The government has always had and should exercise a police power to correct these abuses—and even to require both parties to break deadlocks when their inability to agree becomes seriously harmful to the national welfare. But the use of police power to restrain and to punish wrongdoers is utterly different from the use of police power to conscript and to reward right-doers.

Wages and Prices Under Welfare State

If, however, the government should assume an unlimited and direct responsibility for the wage-earner's likelihood and security, government wage-fixing would become a continuing and imperative duty. Then the fixing of a wage for any important group of workers would require the equalization of wages for all other groups and, inevitably, the determination of reasonable prices for consumers and of reasonable compensation for the owners of properties which are used to provide employment or shelter or services for the workers.

We cannot forget that an underlying factor in the cost of living is the cost of products of the soil, the food, the fuel and the raw materials of industry that are the products of agriculture, forestry and mining. The largest factor in all costs is labor cost. How could a government assure a decent livelihood and employment to industrial wage-earners without controlling all the other labor upon which the welfare of industrial workers depends? It should be evident to industrial labor that a Welfare State cannot meet its responsibilities to all the people without subjecting all the people to detailed regulation of the working and living conditions of all.

Indeed the inevitable march of political control is now clearly forecast in the recent official proposal of our nascent Welfare State to guarantee an income to farmers. But, what value would a guaranteed income have for farmers if there were not accompanying guarantee of the purchasing power of that income? How can a farmer's buying power be guaranteed unless there is a control of the prices which a farmer must pay for what he buys? How can industrial prices be controlled without a control of industrial labor?

The difficulty of persuading labor unions to support a Welfare State, which would enslave them, was met by the Socialist leaders of the Labor Party in Great Britain by promising a miracle. Sir Stafford Cripps (Chancellor of the Exchequer) said in February, 1946: "No country in the world, as far as I know, has yet succeeded in carrying through a planned economy without the direction of labor. Our objective is to carry through a planned economy without the direction of labor. . . ." Three years later, despite all its good intentions, the Labor Government had to announce the issuance of directions compelling men to remain in mining and in agriculture.

Of course there is no fair comparison between the cruelly enslaved labor of Russia and gently "directed" labor of Britain. It would be silly to prophesy that an American Welfare State would promptly enslave the industrial workers and the farmers who voted it into power. That would be as silly as calling the Taft-Hartley Act a "slave law." But, it is even more silly to contend that a Welfare State can fulfill its promises, and guarantee a decent livelihood and financial security against hardship to all able-bodied citizens, without exercising a supreme authority to plan and direct the operation of all major industries and to determine the proper compensation and working conditions for all essential workers.

No Difference Between Police State and Welfare State

Advocates of the Welfare State insist that political programs backed by the coercive power of government force are necessary to advance the general welfare. Then why are they so anxious to pretend that there will be no use of force to regiment the workers into the service of a police state? Why do they not admit the truism that the promise of economic security through a politically planned and directed economy is a promise to use force to compel obedience to government directions? Why do they not offer their bribe to wage-earners and farmers in plain terms which would be: "Give us your votes and, as the political representatives of your organizations, we will run the Welfare State so that your members will be left free from compulsory service and yet have economic security provided by taxing and coercing the rest of the people"?

The reason that there is no such candor, no such fundamental honesty, in the Welfare State program is that, when clearly explained, it becomes evident that the nascent Welfare State must become eventually a State of National Socialism, or else engulf us in the most calamitous depression of our history. It is no defense of National Socialism to assert that a complete socialization of our political economy might at least make it financially possible to maintain an orderly society under rigid control of a national police. But, the attempt of a government to eliminate the incentives and profits of private enterprise, while relying on the taxes and capital produced by private enterprise to sustain its operations, is foredoomed to failure.

To make it plain why a Welfare State must become totalitarian or become insolvent, it is only necessary to reveal exactly how our government has been able to carry the enormous load of its present expenditures. The man-in-the-street is unwilling or unable to analyze this fiscal problem. But no student or teacher of political science can shun the tiresome task.

For the later scrutiny of political scientists I will extend my remarks in print to include a brief analysis of this fiscal problem. (see appendix). But, to shorten the present discussion I will now offer only a few conclusions:

(1) We have devalued the dollar, borrowed over $200 billion and in various other ways inflated our national income in *dollars* to 2½ times what it was 20 years ago.

(2) We have increased taxes and Federal expenditures from $31.60 per person in 1929 to $268.23 person in 1948.

(3) In adidtion to payments for national defense and interest on debt the national government is expending about $25 billion per year for the general welfare of ourselves and other people. There will be a serious question of our ability to finance the illimitable costs of another great war, if we continue thus to exhaust our financial resources.

(4) The introductory program for a Welfare State which the President brought forward this year will add another $25 billion to annual national expenditures. This calculation was made by the staff of the Senate Commitee on Expenditures in the Executive Departments; and was reported to the Senate by the Committee Chairman, Senator McClellan. He estimated that the increase in the tax burden to pay for this initial program would be $163 annually for every man, women and child in the United States; and that *total* Federal taxes would then amount to 30% of present national income.

(5) If we add state and local taxes to the Federal, this would "make the annual tax obligation of the American people more than 40 cents out of every dollar they earn."

(6) The major part of all taxes are, and must be, paid by persons of small or moderate incomes.

(7) As the voters become too much exhausted or exasperated by increased direct taxation of incomes, political spenders resort more and more to indirect taxes, concerning which millions of people are either ignorant or strangely indifferent. The indirect taxes paid today by the average family have been carefully computed to exceed $700 per year. When direct taxes on small incomes are added, it becomes a proven fact that the average wage earner's family is already paying over $1,000 a year for the support of an infant Welfare State that has only just begun to bite!

Any competent student of the fiscal and operating problems of the infant Welfare State must see that, with the development of its vast public projects, taxation will become so confiscatory, the regulation of management and labor so detailed, private property rights so reduced, and private enterprise so smothered by political controls, that the emergence of the mature Welfare State as a State of National Socialism is inevitable.

Apparently the concealed justification for taxing people so that the government may spend their individual earnings to advance their individual welfare is that the masses of the people are morons who should not be trusted to spend their own money. It is assumed that they should be glad to have their money spent for them by professional politicians trained and experienced in the art of spending other people's money. Of course this argument isn't made openly because even humble people resent being treated like children. So they are told that they are made more secure by investing their money with politicians than with businessmen. Businessmen are pictured as cold, greedy, fat exploiters, while politicians are those genial backslappers who call you by your first name and work day and night to find ways to buy things for you with your money which you wouldn't buy for yourself.

Is Welfare State Substitution for Private Associations?

There are many things of common use which may wisely be paid for through government, such as roads and parks and common school facilities. But the Welfare State proposes to take more and more of a man's earnings to buy things for his individual use which he ought to be free to buy less or more of according to his individual need or desire. It proposes to substitute a common standard of living and a common, compulsory pursuit of happiness for the individual rewards and the individual pursuit of happiness which have inspired the American people to raise themselves through voluntary cooperative enterprises to the highest standard of living, coupled with the greatest individual liberty, ever enjoyed by 150 million human beings.

But, why shouldn't you buy your own health insurance, or any other insurance against misfortune, from your own selected insurance organization? Millions upon millions of people have done it. Why shouldn't you organize voluntary cooperatives to buy and sell things for you? Millions of people all over the world have done it. Why shouldn't you use your own labor organizations to provide unemployment insurance either alone or in cooperation with employers? Labor unions can pay strike benefits when men refuse to work; why should they not pay unemployment benefits when men are unable to find work?

The point which I am trying to make briefly is that the major offerings of a Welfare State are simply offerings to do for you what you can do better, more cheaply and with greater satisfaction, for yourself. In so doing you can save yourself from dependency on political favor, political integrity and political wisdom, those three weak reeds upon which no man who has common sense and a knowledge of history will ever wish to become dependent. Three weak reeds upon which no man who has a backbone of self-reliance will be willing to lean.

If, on the other hand, we were resolved to preserve the proven vigor and productiveness of a system of private enterprise, we have ample evidence that we could meet our social responsibilities without accepting a compulsory socialism. We could go forward patiently to expand the cooperative powers of our present private, voluntary associations. The government would lend its aid in legalizing such collective projects as the organization of corporations, cooperatives, trade unions and trade associations; and the government would impose such restraints as are necessary to prevent private monopolistic controls of commerce and to preserve competition and a free purchasing power as the natural and impartial regulators of prices and production.

Government Powers in Emergencies

Furthermore, it should be accepted that, in the emergencies of war, national disaster, or serious economic disorder, the government should take such action as is temporarily necessary to develop and make effective the maximum power of our nationally organized resources to meet the emergency demands upon them. But, it should be our established doctrine that such political controls of our lives and work are fundamentally evil, like fighting fire with fire and bullets with bullets. We should make it an everlasting rule to end political tyranny and denials of individual liberty just as soon as the emergent calamity that enslaves us has been overcome.

Time will not permit any adequate exposition of how all the social responsibilites that are supposed to demand the creation of a compulsory Welfare State can be fulfilled through voluntary associations of a free people. But I would like to refer to the stimulating and comprehensive exposition of our capacity and willingness to meet these responsibilities, which is presented by a representative group of industrial leaders in a book entitled, "The New Outlook in Business," published by Harper & Brothers in 1940. When I list among the 22 authors, Paul G. Hoffman, Richard R. Deupree, Robert E. Wood, Walter D. Fuller and Wallace Brett Donham, you will understand why I think that a reading of this book would be more enlightening than any further argument by me. Also, I believe that the plans and programs of these practicing economists offer more trustworthy guidance than those of the theorising economists who are befuddling the American people today with roseate visions of a make-believe Welfare State.

Major Excuses for Welfare State

There are two major excuses for substituting political support for self-support, and political discipline for self-discipline, which merit brief discussion.

One is the excuse that because some men make too much money out of others, they should be compelled by taxation to share their gains with those whom they exploit; or, because some localities are more prosperous, their gains should be shared with poorer localities. Let us disregard the counter-argument that the forced service of the more competent to the less competent, and the leveling down of humanity to a common standard of living, is not a democratic but a communistic doctrine. Nevertheless, we may well agree that the exceptional profits of fortunate individuals or favored communities should be taxed away to maintain the common defense and to promote the general welfare. But, it is a proven fact that if every dollar of income in excess of a fair compensation for personal services, or for the use of private properties, were siphoned into the United States Treasury, this would provide only part of the Federal revenue needed to pay for national defense, national administration of justice and national expenditures for public works of general value. A major part of all essential public revenues must be obtained by a direct or indirect tax deduction from the earnings of the great mass of workers of small or moderate incomes. So the revenues of the expanding Welfare State will necessarily come from increased deductions from the earnings of those who are the proclaimed beneficiaries of this additional government spending.

The second excuse for a paternal collection and spending of a worker's earnings, is that voluntary cooperation will fail to advance the welfare of the cooperators as far as compulsory cooperation would. It is argued that the thriftless or unfortunate who most need protection, will not or cannot insure themselves. It is also argued that in any industry a chiseling minority will break down the best devised programs for preserving an ideal balance between producing and consuming power. As one of the administrators of the notable NRA experiment, I am familiar with these arguments and believe that I can appraise their merits with the aid of an unusual amount of experience and with, perhaps, an unusual impartiality of judgment. I still believe in the voluntary self-government of industry, which was the announced objective of the NRA. I never believed in the compulsory political government of industry which NRA dabbled in, while floundering down the road to Limbo.

There will always be chiselers and black marketeers to sabotage and subvert every cooperative program of private associations or political governments. But business and social ostracism is more effective than criminal prosecution to discipline recalcitrants. There is always some sympathy for the rebel against government who asserts his right as a free man to live and work as he pleases. There should not be the same sympathy for the cheat or sharper who will not abide by the rules of fair play adopted by his neighbors and co-workers. And so, to gain an undeserved support, the business cheater always poses as a little David fighting the Goliath of Monopoly.

Labor Monopolies Tolerated

The American people are rightfully afraid of monopolies, but they have been educated to recognize only a business management monoply. They tolerate labor monopolies that curtail production, create scarcities and raise prices with a ruthlessness that no business management monopoly ever dared to exhibit. They are being seduced into approval of the oppressive monopolies of a Welfare State, although for centuries the common people of every nation on earth have been fighting to free themselves from compulsory service to government monopolies operated by political tyrants.

Once upon a time it was the supreme law of our land that there was no "due process of law" by which our national government could deprive a man of the liberty to support and protect himself and his dependents by his free labor and his free use of his own earnings. The government could only tax him to support the stricly limited powers of the government to provide for the common defense and the general welfare. It could not tax him to enable the government to take care of his individual welfare or the individual welfare of his neighbors. It could not deprive him of his "unalienable right" to take care of himself, or to make a fool of himself.

A New "Due Process of Law"

But, today, following the socialist dogma that the individual citizen should be made the bond servant of the general welfare, the courts have invented a new "due process of law" with which the national government can deprive a farmer of the right to raise grain on his own land for his own consumption, unless he obeys government orders limiting the amount of grain he can raise and fixing the prices at which he can sell it. Today, the national government, by using this new "due process of law," can deprive a worker of the right to spend, to save and invest his own earnings as he wishes, for the economic support and protection of himself and his family. He can now be compelled to pay taxes which transfer a substantial part of his earnings to the government so that it can then provide such economic protection for him and for others as the government decides to be in the interest of the general welfare.

If 10 to 20% of a man's subsistence earnings can be taken from him today there is no legal barrier against taking from him 30 to 40% tomorrow, which, according to British precedents, will be required to support a young Welfare State. In such a political economy, of what use will be private, voluntary associations, except to serve as pressure groups to try to elect and control public officials so that, in the political distribution of a worker's earnings, he may get back as much as possible after paying a few million political employees for spending his money for him?

For such lowly and limited functions private associations may survive in the Welfare State. They may also serve to maintain the illusion that we are a free people, free to organize, to debate, and to petition the government for the redress of grievances, subject, of course, to laws restricting and controlling lobbying and propaganda, so that a dominant political party will not be unduly hampered by a too vigorous opposition.

It would not be accurate to define associations as "private" or "voluntary" which are, and will be, organized and maintained by political aid to make effective government regulations. Such associations might well be compared to "company unions," which national trade unions have always denounced as mockeries of voluntary organization.

Here is a summary answer to the question presented for this discussion: Private, voluntary associations, as an influential factor in our political economy, will not and cannot survive in a compulsory Welfare State. Their powerful influence in the expansion and enrichment of our American way of life will disappear in the politically planned and dircted economy of National Socialism.

APPENDIX

Analysis of Fiscal Problem

First, there are the unavoidable costs of national defense, the payment of interest on debts, and the comparatively small cost of *necessary* administration. These aggregate costs would be a heavy but tolerable burden on our national income. But to these the nascent Welfare State is adding billions of dollars extracted from the pockets of all of us and then in part transferred to the pockets of some of us, after deducting the huge cost of welfare administration.

Where has the money come from that has permitted the Federal Government to spend annually $40 billion more in peacetime than it spent 20 years ago? It has been taxed out of a vast increase in the dollars of national income. Some of these dollars represent a genuine increase in productive income, made possible by capital enlargement of plants and improved methods of production and distribution. But the major increase in the dollars of national income is the result of inflation, and the devaluation of the dollar. First, came the 60-cent dollar. Then came the increase of national debt of more than $200 billion. Then came the rise of industrial wages and consequent rise of industrial prices and the artificial lifting of agricultural prices.

So we have arrived at a largely inflated national income of over $200 billion, about 2½ times what national income was before the depression began in 1929. Thus it is easy to understand how the President, in January of this year, in a lyric flight of fancy, could predict that in 50 years or more there would be a national production of $1 trillion.

But, it might have sobered the President and his Fair Weather friends if he had also pointed out that in 1929 the Federal Treasury was collecting from the American people and spending only $31.60 per person, whereas in 1948 it was spending $268.23 per person. Also, he should have pointed out that our national debt per person was $139.04 in 1929 and was $1,721.80 in 1948. (Treasury Dept. Reports; See World Almanac 1949: and Senate Doc. 150, infra.) A bright mathematician could easily figure that, since the national government spent, as the Treasury reports, about 5% of the national income in 1929 and about 20% in 1948, if this rate of increase continues there won't be any income left for private spending long before we reach the President's goal of $1 trillion.

Of course the liberal spending advocates of the Welfare State will scoff at the idea that any such increased taxation is contemplated, or to be anticipated. They will assert that the drastic tax increases of recent years have been necessitated by the Second World War. But, that war actually ended five years ago and, after an abrupt decline, Federal expenditures have been rising again—not to pay the costs of that war—not to pay the continuing costs of national defense — but to pay for more and more new and expanding projects of the Welfare State.

This exhaustion of financial resources raises the dreadful question of how we would be able to finance the illimitable costs of another international war. Great nations can become bankrupt, as we learned in the Second World War. It is the fond hope of communists that all capitalist nations will bankrupt themselves and will be forced into the confiscation of private property and the acceptance of a communistic dictatorship to reestablish an orderly society.

If there is such a reasonable fear of war that we must spend $13 billion a year for national defense, how can we dare to spend $25 billion additional each year, largely to make life easier in our own and other nations? In addition we must pay our $5 billion a year for interest on a national debt which we do not reduce but intend to increase. Yet, in the face of the plain necessity to reduce our debt and reduce our taxes, and to husband our resources for peace or war, the President brought forward this year the introductory program for a Welfare State which, according to official estimates will add another $25 billion a year to our national expenditures.

The Chairman of the Senate Committee on Expenditures in the Executive Departments presented to the Congress this estimate, made by the committee's staff, and the detailed computations and sources of information through which it was made. On the basis of this most authentic analysis, Senator McClellan reported that this initial welfare program would increase the tax burden per person by $166 annually; and would require total Federal taxes amounting to 30% of present national income, to pay for Federal expenditures. This would "make the annual tax obligation of the American people" (to support national, state and local governments) "more than 40 cents out of every dollar they earn."

There is an illusion sedulously fostered by liberal spending politicians that taxes are paid largely by the rich. Even if that were so, it should be evident that the government must continue to allow more and more rich people to make more and more money out of poor people, in order to make it possible for the government to collect more and more taxes for larger and larger expenditures. However, any student of income tax returns knows that the major portion of income taxes is collected from persons of small and moderate incomes. Future tax increases must come mainly from those who need most of their income to maintain a decent standard of living.

Furthermore, as direct income tax sources of revenue are exhausted and public hostility rises, the political spenders resort more and more to indirect taxation which people of small income are particularly slow to recognize and to resent, although they suffer most from them. Perhaps the largest indirect tax is imposed in the apparently direct taxation of corporate income, which is inevitably passed on to the humble consumer in higher prices for his necessities.

It is disturbing to note the persistent ignorance or indifference of masses of people to excise and sales taxes, some of which (such as the enormous taxes on tobacco and liquor) are completely hidden in the retail price, some of which are invisible (such as real estate taxes included in rents), and some of which are quite evident (such as retail sales taxes). But, the representatives of organized labor who blithely advocate a Welfare State ought to inform their constituents that *they* will pay most of its cost in the future —even more than they do now. Not only will these workers sell their liberties for a fraudulent promise of security (which many seem to regard as a good bargain) but they will also pay their political rulers a high price for spending their incomes for them.

Today the indirect taxes paid by the average family exceed $700 a year. This amount has been carefully calculated from accurate government reports. When direct income taxes on small incomes are added to this $700, it becomes a proven fact that the average family—which means the small wage earner's family — is already paying over $1,000 a year for the support of an infant Welfare State that has only just begun to bite!

Ken-Lo Corp.

PROVO, Utah—Ken-Lo Corporation has been formed with offices at 265 West First North St. to engage in the securities business. Officers are Charles W. Love, President; and Delmar C. Kenner and Vera M. Backman. Miss Backman was formerly with W. H. Child, Inc. of Salt Lake City.

With Waddell & Reed

(Special to The Financial Chronicle)

KANSAS CITY, Mo. — Charles L. Summers is associated with Waddell & Reed, Inc., 1012 Baltimore Avenue.

Stix & Co. Adds

(Special to The Financial Chronicle)

ST. LOUIS, Mo. — Norbert H. Zahner is affiliated with Stix & Co., 509 Olive Street, members of the Midwest Stock Exchange.

With Bache & Co.

(Special to The Financial Chronicle)

GREENSBORO, N. C.—Robert L. Gray. Jr. has been added to the staff of Bache & Co., 101½ West Market Street.

Joins McDaniel Lewis

(Special to The Financial Chronicle)

WINSTON-SALEM, N. C.—Fred M. McKenzie has become associated with McDaniel Lewis & Co., Jefferson Building, Greensboro, N. C.

With Thomson & McKinnon

(Special to The Financial Chronicle)

GASTONIA, N. C.—John E. Setzer is affiliated with Thomson & McKinnon.

Gruss & Co. Admits

Carmine J. Teti has been admitted as a partner to the New York Stock Exchange firm of Gruss & Co., 115 Broadway, New York City, and to membership on the New York Curb Exchange.

With Schirmer, Atherton

(Special to The Financial Chronicle)

BOSTON, Mass.—Raymond W. Morse is with Schirmer, Atherton & Co., 50 Congress Street, members of the New York and Boston Stock Exchanges.

With Hornblower & Weeks

(Special to The Financial Chronicle)

BOSTON, Mass. — William A. Monroe, Jr., is with Hornblower & Weeks, 75 Federal Street.

Continued from page 4

A Manufacturer Looks At Free Enterprise

Mine is a limited viewpoint, and I express only one man's opinion, which you will, in the spirit I have attempted to describe, consider, weigh and accept or reject.

The kind of economy that has evolved in the United States of America might be designated by a more generally understandable expression than free enterprise. Certainly there are indications that many Americans either do not understand the expression or believe it to mean something quite different to the concept that is held by those who advocate and defend free enterprise.

There are those who have conceived free enterprise as conveying the worst implications of laissez-faire philosophy. To some individuals it has meant special privilege for business management or lack of restraint of practices damaging to the public interest. There are those who have thought of free enterprise as meaning unmitigated piracy by business management.

Semantics

Although many have been suggested, substitute expressions are not easily developed. "Competitive capitalism" perhaps is more accurately descriptive, but the implications of that phrase are not altogether happy ones. Dr. Henry C. Link, of The Psychological Corporation, has demonstrated that "Private Capitalism" as distinguished from "State Capitalism" supplies clarification. Distinguished economist Dr. Leo Wolman characterizes our system as "a privately owned, privately managed, competitive system." That expression is more clearly explanatory, but it is lengthy and, therefore, not likely to be generally adopted.

It is to be hoped that an expert in semantics may soon find a brief expression that will have Horatio Alger connotations; that will convey to all who run and read that here is the economic philosophy that gives greatest promise of opportunity unlimited.

I can now report to you that there are encouraging recent indications of more general understanding of free enterprise.

In attempting to define and appraise free enterprise, I believe that we may safely begin with the fact that free enterprise is indigenous to the U. S. A. Its counterpart does not and never has existed elsewhere. Free enterprise cannot exist in the absence of those philosophies upon which this nation was founded. When the founders of this nation reached a parting of the ways with the old world, we adopted a radically different way of life to that of Europe—a radically different relationship of church and state—radically different political and social usages and radically different relationships between individual citizens and the nation's economy.

In the Beginning

Our Declaration of Independence and Adam Smith's "Wealth of Nations" both appeared in 1776. One was an immortal expression of the social and political aspirations of free men; the other a declaration for economic freedom. These liberal political and economic declarations coincided with the early ferment of the industrial revolution. Under this constellation of events and upon an undeveloped continent rich in natural resources, freedom and enterprise developed affinity without precedent, and American free enterprise, unique and potent beyond the imagination of men, brought forth national growth, the creation and broad distribution of wealth at a rate so amazing that in 174 years thirteen little, poverty-stricken colonies have become the world's richest and most powerful nation, now ineptly struggling under the terrible, recently acquired burden of world leadership.

Sometimes there has been too much freedom. Frequently men have displayed too little enterprise. Just now it seems that restricted freedom may place limitations upon enterprise serious enough to violate the public interest and to bring about radical and undesirable revolution in our American way of life. Human nature being as it is, the balance of ingredients seldom is perfect. Nevertheless, the basic formula works so well and generates such amazing benefits that we should be very certain of the greater value of another economic mechanism before we abandon or seriously impair the operation of free enterprise.

Wisely it has been said that freedom is indivisible. If, in our thinking, we attempt to isolate free enterprise from other aspects of the American life structure, free enterprise can neither be defined nor appraised.

Foundation

Free enterprise is the product of a fundamental philosophy of human relationships. The Christian code gives expression to the responsibility, dignity and freedom of the individual. The Sermon on the Mount survives as the finest expression of human relationships. The founders of this nation were guided by these precepts. Our early history was profoundly influenced by men and women who came to this continent seeking, above all things, freedom to worship according to conscience. They did not seek freedom from fear and want. Many of them surrendered security in order to have freedom. Spiritual liberty was their goal.

Courageously they faced the most fearful conditions—exposure, disease and starvation—as a price to be paid willingly for spiritual liberty. An old historian tells the story of the Mayflower Pilgrims who landed on the forbidding coast of New England in the dead of winter and lost half their number before spring came. Yet when the Mayflower went home, as the old writer says, "not a single colonist went with her, so sweet was the taste of freedom even under the shadow of death."

From such beginnings grew our national belief in freedom of the individual, and in government as the instrument and servant—not the master—of the people.

With such beginnings, it is only natural that our social life has reflected individual freedom—that we have lived under few legal restrictions, with great opportunities for advancement and rich rewards for accomplishment—that our laws initially were designed to prevent undue interference with the liberties of others. Our worst punishments came, not so much from breaking the laws of the land as from our own mistakes.

A wise man has said, "The human donkey requires either a carrot in front or a stick behind to goad him into activity." Under our philosophy, the "carrot of incentive" rather than the "stick of compulsion" was emphasized.

Paul Hoffman, distinguished administrator of Economic Cooperation Administration, has said:

"Our American system has traditionally offered rich rewards for hard work and creative thinking. . . . Few people work for work's sake. Most of us put forth our best efforts only as a result of pressure in the form of penalties for inaction and rewards for extra exertion. Rewards are the most powerful influence. In fact, psychologists have discovered that rewards have nine times the pulling power of penalties. . . . The Nazis found slave labor inefficient and wasteful."

Politically our principles are defined by our Declaration of Independence and by our Constitution with its Bill of Rights. In these documents are reflected and recorded the moral and social concepts of a free people, resolved never to become the servants of government.

Our economic principles and usages, which we designate as "Free Enterprise," could not have come into existence except as an outgrowth of our moral, social and political backgrounds.

The initial policies and practices of the Government of the United States brought about environment and incentives that encouraged cooperative productivity by all our citizens—workmen, farmers, consumers, inventors, industrial pioneers and investors.

Beneficent Spiral

Under such conditions the people of the United States developed an economic system which resulted in rich and widely distributed benefits.

Free men, striving for individual rewards, invented, developed, made and sold many new and desirable products. They also invented and improved methods of production so that more and better things could be made at lower costs and reduced prices. Lower prices brought about greater sales, and greater sales in turn brought about even lower prices. Profits and savings were invested to enlarge plants and to buy more efficient machinery. Increased mechanical power helped men to produce more goods at lower costs. Wages and purchasing power of workers increased constantly.

The spirit and practice of competition and of freedom of choice on the part of buyers are important and distinguishing characteristics of free enterprise. Under our economic philosophy, business management is wisely restrained from engaging in monopolistic practices that may retard economic growth or operate against the public interest. Always the broad public interest should be the controlling consideration. Such principles are the spurs and incentives of economic growth.

Rewards and penalties are generated by free enterprise which require management to bring about equitable distribution of benefits to customers, owners and workers. Unless the customer, upon his own evaluation, receives value above price, the business will fail through lack of orders. If owners are not assured of the safety of their investments and of adequate profits, the business will fail for lack of capital. Workers must be rewarded in proportion to increased productivity, else the worker-consumer cannot purchase the products of industry.

Here it seems appropriate to quote a thoughtful statement regarding the market which was embodied in an address by Mr. John M. Hancock before the New York University Workshop on Economic Education a year ago:

"It must be remembered, however, that the *key economic institution of a free society is the market*. This does not refer only to highly organized trading as in the stock market or the grain exchanges. It includes all the channels through which people buy and sell to each other.

"We in this country have found that the market—despite its admitted imperfections—operates with an efficiency which has never been equalled by any other system, and that the decentralization in decision-making which the market permits prevents the development of great concentration of economic power. Unless consumers are controlled, producers and distributors must serve the wants of the consumer. We each make our own decision in the market and our individual decision helps to produce the overall result in the economy.

"We need to teach the value of the market process in our schools. We need to recognize that it is the democratic way of doing business and of conducting our affairs. We need also to recognize that the more we understand about it, the better we can use it as a strengthening factor in our country's economy.

"I do not mean to imply that the market can operate without a framework of rules. We in this free society, of course, oppose artificial controls of wages, prices, production or distribution except in clear cases of national emergency. But we do recognize the need to protect the market process with appropriate laws. Contract and property rights, for instance. Rules to prevent monopoly, and to raise standards of health, safety, and to prevent falsification in weights and measures and content of products, and so on, are other examples."

Mechanization, Investment, Power and Wages

American industrial management has increased productivity and real wages very rapidly by devising mechanisms that multiply the use of mechanical power and productivity and by finding and applying capital for purchasing such equipment. A hundred years ago, production was largely accomplished by the direct application of man's muscle power. Mechanical horsepower per worker was quite limited. Investment per worker was in the order of $500. Of necessity, the work week was from 60 to 70 hours. Annual wages were less than $250.

In 1939, the average worker had at his service almost 6½ horsepower of mechanical energy. Investment per worker had risen twelvefold to $6,000. The work week was 40 hours or less. Annual wages had risen to $1,150—almost five times those of 1849.

Today it is estimated that the average industrial worker directs the application of about 7½ horsepower and his job requires the investment of some $8,000. Since 1939, his hourly dollar wages have more than doubled and his *real weekly earnings* have increased by some 36%.

If we assume that the muscle power of a man is equivalent to one-eighth horsepower, it becomes apparent that the average American workman directs the energy and benefits by the productivity of an amount of mechanical power equivalent to that of sixty tireless men.

Through such processes, implicit in free enterprise, have we achieved a living standard far above that of any other country. Others look upon American free enterprise with envy and lack of comprehension.

Freedom, competition, profits, investment and good wages all are necessary factors in the system which brings about the economic welfare of the people of the United States. If any one of these vital elements is lost or damaged, free enterprise cannot be fully effective.

It is interesting to examine our relative *quality* of living in *quantitative* terms. An American workman buys a pair of shoes with the proceeds of seven hours and 15 minutes of work. The Russian workman must devote 104 hours and 30 minutes to earning a pair of shoes. A pound of wheat bread costs the American 7½ minutes of labor; the Russian one hour and 10 minutes. For 20 cigarettes the Russian worker must labor two hours and four minutes; the American for nine minutes.[1] The benefits of free enterprise are very tangible ones.

Industrial Growth and the Public Interest

As an industry develops from birth to maturity, it passes first through an era of pioneering, then through a period of rapid growth, eventually reaching a phase of stability and slower growth rate.

It has been my privilege since 1907 to be associated with two great industries during their pioneering and rapid growth phases and to observe the improvement of production, reduction of costs and prices, great market expansion, all taking place in the presence of rapidly rising real wages and reduction of hours worked per week.

In 1907, conservative people were not at all sure that the automobile was here to stay. Steam, electric and gasoline cars competed for the rich man's dollars. The Ford Motor Company was only four years old. The Model T was yet to be born. General Motors did not exist. The Cadillac car was propelled by a crude, single-cylinder engine. Electric starters were five years in the future. There were no concrete highways—no filling stations.

In 1907 there were only 143,200 automobiles of all types in the United States, and in that year only 44,000 automotive vehicles were sold here. The total value of all passenger cars and trucks sold in 1907 was $93,400,000.

Forty-two years later the automotive industry, directly and indirectly, accounted for more than 10% of all jobs in the United States. In 1949, 6,243,572 passenger cars and trucks were sold in the United States. Their value was more than $8¾ billion. At the end of 1949, 43,773,982 automobiles and trucks were registered in the United States.

In 1907 the average wholesale price of passenger cars, crude as they were, was $2,129. By 1940 the average wholesale price of vastly improved cars had declined to $638. In 1949, postwar inflation had cut the dollar's value substantially, but real wages had nevertheless increased. In 1949, the average wholesale price of passengers cars was $1,331, of which more than $400 was tax cost.

Each year automobiles represent increasing values; each year they become a less dispensable factor in the transportation system of our country.

The automobile industry also is largely responsible for modern mechanization of farming, it has contributed to the rapid development of aircraft and of innumerable other important, employment-creating industries.

Similarly, I have seen the refrigerator industry grow from insignificant beginnings in the early '20s to an industry of major importance, affording ever-increasing employment, ever-increasing value to the buyer. Prices have been lowered year after year until automatic household refrigerators are available to families in the lowest income brackets. In 1949, 4,450,000 automatic household refrigerators were sold. At the end of that year, 30 million of these useful appliances were in use in the United States.

The frozen food and air conditioning industries are important by-products of the modern refrigeration industry.

Similar accounts could be given of the amazing growth of the

[1] New York "Times."

radio industry, of various mechanical household appliances, of diesel engines, diesel locomotives.

We are in the beginning of electronic developments and already are becoming beneficiaries of nuclear fission.

Such rapid, healthful economic growth takes place in a climate of economic freedom. All segments of our complex society share the fruits of enterprise.

Vitality of Free Enterprise

Free enterprise has such great vitality that it has continued to increase our national wealth and to advance our material well-being at an amazingly rapid rate, notwithstanding the development and increasing pressures of many potent opposing forces.

It is conceivable, however, that, despite its amazing vitality, free enterprise may be nullified through the cumulative effects of such erosive influences.

It is not my purpose here to discuss the many controversial questions that now cause so much confusion in the minds of the people of the United States.

Many thoughtful people are disturbed because it seems to them that forces inimical to freedom may be transforming our republic into a socialistic state—that we may be moving toward bureaucratic dictatorship through forces very much like those that caused England's decline.

It is not my purpose to discuss such subjects as social security measures, Federal subsidies for education, socialized medecine, education, socialized medicine, public housing and rent controls, government lending and credit endorsement, public power, farm subsidies, persecution of business by governmental agencies. However, two major forces that contributed to England's sorry plight now threaten our progress and, therefore seem to merit present examination.

Erosive Forces

These two forces are diversion of income through taxation and short-sighted practices of monopolistic labor unions.

Our Federal income tax became effective in 1914 following legislation based upon a constitutional amendment and enacted in the preceding year.

In 1914 another significant chain of events was set in motion when our national legislators departed from a time-honored precept for the government of free men. This principle was enunciated by Aristotle more than 300 years before the birth of Christ when he said, "The only stable state is that where everyone possesses an equality in the eye of the law . . ."

The Clayton Act, adopted in 1914, held labor unions to be immune from the provisions of the anti-monopoly laws. Years later, further special privilege for labor unions was provided by the Norris-La Guardia Act which limited the injunctive power of the courts where labor unions are concerned. Again, in 1935, the Wagner Act provided severe penalties for certain "unfair labor practices" on the part of employers. This law, however, is completely silent as to labor practices on the part of labor unions and labor leaders.

A Minority Dictates

The cumulative effect of such measures is reflected by a following statement made this month by a well-known economist:[2]

"On May 10, at the Steelworkers Convention at Atlantic City, Philip Murray, President of the Steel Workers, and Walter P. Reuther, President of the Auto Workers, announced that the two unions would wage a joint fight for a guaranteed annual wage, union shop, higher pensions and other gains. Mr. Reuther stated:

"'If our two powerful unions stand together in the front-line trenches in the struggle for a fuller measure of economic and social justice for our membership, I am confident that there is no power in America that can stop us in our forward march to a better life for our people.'

"On other labor fronts, we have had repeated practical demonstrations of the power of organized labor. Mr. John L. Lewis time and again has shown his power to paralyze industry by turning off its fuel supply. At this writing one of the railroad unions, demanding a larger wage increase than was recommended by a Presidential fact-finding board, has tied up transportation on five major railroads. James Caesar Petrillo continues to dictate the terms on which musicians can perform for radio or television audiences or make recordings."

Too many labor organizations use monopolistic power to exact wage increases, pensions and "fringe benefits" that are disproportionate to increased productivity and consequently, by adding to the cost of production, reduce the buying power of the dollar, thus accelerating inflation.

Too many labor union leaders encourage featherbedding or restriction of output with similar end results.

Here as in England, too many labor union leaders are advocates of socialism and, through group pressures, influence our legislators to limit our freedoms.

The burden of inflation must be borne by all of us. Such a burden, induced through monopolistic powers granted to a minority, falls upon us because we have departed from the moral teachings upon which our culture was founded.

Tax Burden

The tax burden borne by the people of the United States reminds us that "The power to tax is the power to destroy," and it may here be noted that Karl Marx, in his "Communist Manifesto," described a sharply graduated income tax as a potent means for bringing about the communistic state.

Government in the United States —Federal, state and local—is spending today at a rate of approximately $61 billion per year. That is 27.4% of the national income. It adds up to an average tax of $402.63 upon every man, woman and child in the United States.

Senator John L. McClellan, of Arkansas, a Democratic leader and Chairman of the Senate Executive Expenditure Committee, recently estimated that, if the new programs vigorously sponsored by his party are adopted, added costs eventually will reach at least $25 billion per year over and above the present $43 billion level of Federal expenditures. Senator McClellan's estimate seems to be very conservative because Brookings Institution has estimated that the social security program alone, as now proposed, will eventually cost between $33 and $55 billion. Taking the average of the high and low Brookings estimates, we find that the probable ultimate cost of the social security programs will approximate $44 billion per year, which is $34 billion per year more than we now spend on social security programs. Since social security is only one of a number of Federal expenditure programs now being promoted, it is evident that Senator McClellan's estimate of $25 billion is ultra-conservative. These estimates do not, of course, take into account the fantastic tax cost of another war.

A simple computation indicates that we may soon require 40 cents out of every dollar of national income to cover government expenditures which is about the same as the present tax take in England.

It is very difficult to develop public understanding of the implications of government spending at the present rate of more than 27 cents of every dollar of national income—or at the possible future rate of 40 or 50 cents out of the dollar.

Students of economic history have said that when a nation spends more than 25% of its national income for government it is the beginning of national deterioration. When a government takes these great percentages of income, there is little left for saving and investment. When saving and investment are sufficiently restricted, free enterprise must disappear. Without the investment of private risk capital, business cannot grow, and government must assume ownership and direction of the economy. That, of course, is socialism, and socialism has been accurately described as "a way station on the road to communism."

Attrition

A thoughtful article recently was published in "Newsweek" Magazine. Its substance is as follows:

Fact No. 1: For 55 years prior to 1930, annual trading in corporate stocks averaged better than 40% of the national income. Last year, it averaged 4%. Public interest in owning shares of stocks of big corporations has hit an all-time low.

Fact No. 2: American corporations for the time being have an adequate supply of money for expansion . . . but it is money obtained principally through the retention of earnings and through borrowing. In the 3½ years from January, 1946, to July 1, 1949, industry in the United States raised $53,500,000,000 from retained earnings and depreciation charges and $23,500,000,000 from increased loans and credits . . . but only $4,500,000,000 from the sale of stock to investors.

Fact No. 3: Many corporations are worth more dead than alive. In other words, if they should go out of business and sell their assets, the money realized from the sale of the assets would exceed considerably the total value of all outstanding stock at the present cash value of the stock. For example, American Woolen Company stock is now selling for $26.37 a share, but if the company's assets were liquidated, stockholders would receive $37.60 a share from the liquidation. Every share of the U. S. Steel Corporation stock is backed by $56.56 worth of assets; yet it is selling for $26 a share. Socony-Vacuum Oil Company has assets of $33 for each share of stock that now sells at $16.38. (These stock price figures, of course, were the prices as of the date on which the article to which I have referred was written.) The article from which I am quoting is authority for the statement that the total value of the stock of nine of the country's 15 largest companies is less than the book value of their assets—and the book value usually is a very conservative figure.

I now quote the "Newsweek" business news editor's conclusions as to the significance of the facts that have been outlined:

"The real meaning of these figures is startling. They show that if most of our corporations were not already in existence, it would be impossible today to create them. Their stock could not be sold for a high enough price to replace the present assets. . . . The situation . . . threatens our jobs and security. Unless more people start buying common stocks, the nation faces the danger of another nagging, dragging recession. . . . As a very calm and unhysterical investment banker puts it: 'Private enterprise cannot possibly work if people are unwilling to take the risks of owning a share in industry.'

"What has happened to the flow of equity capital which fostered the growth of American industry? It has been virtually taxed out of existence. The traditional source is the savings of people earning at least $10,000 per year. Today there are more than twice as many people making $10,000 a year and up as there were 20 years ago. But their average income after taxes is $14,500 apiece, compared with $30,000 in 1929. Taxes and a tremendous jump in the cost of living have virtually wiped out most of the risk capital which once fed industry."

Loss of Incentive

The steeply graduated Federal income tax not only destroys savings and investments but removes incentive for enterprise. Only a few years ago an ambitious American could develop a business, knowing that the success of that business would reward him with a large personal income and perhaps with a substantial estate subject to his own disposal to his heirs or to institutions of his choice.

Today the American who develops and directs a business is deprived by taxes of a large part of his personal income. Taxes take 38% of his company's profit. Dividends paid to his stockholders are taxed again as part of the recipients' personal income. Knowing that he cannot increase his capital by selling his company's securities, he must refrain from paying generous dividends in order to retain profits for business expansion.

High estate taxes deprive him of the incentive of accumulating a fortune for the benefit of his heirs. Young Americans, no matter how able and courageous, cannot be imbued with the spirit of enterprise that animated their fathers, not only because incentives have been destroyed, but because they have been indoctrinated with the specious philosophy of "social security." Like the dog in Aesop's fable, they lose the substance by striving for the shadow.

The elimination of incentive may be just as destructive to free enterprise as the shrinkage of investment funds.

Incidentally, Russia, since 1935, has established and promoted most effective incentives for her citizens—be they industrial workers, managers, scientists, artists, soldiers or others. History may note the fact that in the same period when incentives were being destroyed in the United States of America they were used most effectively in Russia.

The Impact of War?

As I prepared this discussion of free enterprise, our troops in Korea were retreating before the enemy, and it was evident that our economy might be converted at any moment to meet the requirements of an accelerated defense program.

The result of such transition must be to accelerate the development of forces opposed to freedom. Taxes would be greatly increased. We would be subjected to the most severe governmental controls we have ever known. Such measures, superimposed upon our present debt, tax and bureaucratic structures, must result eventually in greater inflation or dollar devaluation and in bureaucratic control that may pass "the point of no return."

Unfortunately, such developments as I have described have a way of insidiously growing upon us until we reach "the point of no return." There is much evidence that England has already passed that point and that the United States rapidly is approaching it. No thoughtful person seriously believes that the wayward economic and social trends in England could be reversed by the Conservative Party if it were returned to power. Have the people of the United States been so demoralized by the effect of taxing and spending and by devotion to the fetish of social security that we have passed "the point of no return"?

Conclusion

The terrible problems that plague us in these days of confusion and controversy are the fruits of indifference, complacency, ignorance and wrong thinking on the part of the people of the United States. In this republic our public servants, by and large, reflect the moral and mental qualities and the will of the people. In great measure we get exactly the kind of government we deserve. Daniel Webster remarked many years ago that "God grants freedom only to those who love it and are always ready to guard and defend it."

2 July Letter of The National City Bank of New York.

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Analysis of Wartime Behavior Of the Bond Market

World War II, the average rate of return on the government's government debt was 2.36%. Six years later after the $1 billion debt total had grown to $24 billion, the average interest rate rose to 4.22%.

Contrastingly—at June 30, 1939, just before the outbreak of World War II, the average rate of return on the Government's $45 billion debt was 2.53%. **By June 30, 1945, the debt had grown to $257 billion—but the average interest rate concurrently registered a striking drop to 1.94%.**

This occurred against the background of a wartime increase of $57 billion in the nation's money supply coincident with the absorption of $89 billion of government securities by the commercial and Federal Reserve banks.

During the first World War (1915-'20), our commercial bank deposits rose from $15 to $30 billion; and during the second conflict from $40 to $125 billion. (Now, under the existing reserve ratios, the $161 billion of deposits can be expanded to $387 billion.)

(2) A second factor apparently responsible for the bond market's poorer comparative performance during the first World War was the higher price level at which it stood then than it had at the initiation of the second conflict. ("The bigger they are the harder they fall" principle.)

(3) Another possible element making for the poorer showing of the market during the first war was the government's taking-over of the nation's railroads Jan. 1, 1918, with subsequent losses of over a billion dollars.

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Immediate Price, Wage and Rent Controls Called For

means of raising the salaries of teachers, firemen, policemen, nurses and others whose real wages have been so cruelly slashed by the inflation of the last 10 years. How much further can our cities and states go and still avoid disaster?

The inflation of the last 10 years has undermined the stability of all our colleges, churches, hospitals and other institutions, shrinking the value of endowment funds while raising operating costs.

Savings Lose Value

It is forcing the reorganization of health insurance and hospitalization plans, raising the cost beyond the capacity of many to pay. It is cheapening the real worth of all insurance, all annuities, all savings.

How much more inflation can our society stand?

Preserve the American Way

Price and other controls are often opposed out of fear that such measures will concentrate power in the government and threaten our freedoms. By inclination, I, too, am opposed to government controls. But the gravest threat to the preservation of the American system today are not government controls. They are military defeat abroad and further inflation at home.

Let those who fear, as I do, too great a dependence upon government ask what would make people more dependent on government than inflation?

To the extent that the value of saving is destroyed, so is the ability of individuals to care for themselves.

To the extent that some are permitted to profiteer at the expense of many, the confidence of people in government and justice is sapped, leaving grievances which the politically unscrupulous can exploit.

Stop Inflation—And Save

No more effective move to achieve economy in government can be taken than to stop inflation—now. At a time like this, all postponable government expenditures should be eliminated. Each day that prices rise, the real value of every dollar appropriated by Congress shrinks. More billions will have to be voted to buy the same things; the national debt will mount needlessly.

Threats Are Futile

Some contend price increases can be prevented by public appeals and threats to invoke price control legislation. That hope has already been dashed. Its fallacy lay in the fact that such threats could be effective only if price control legislation were already on the statute books, on a stand-by basis, ready to be put into instant operation.

Under such a stand-by law, with its due notice, the President would have had the legal authority to roll back the price increases of recent weeks to levels prevailing before the emergency began. The knowledge that the government had this power might have prevented these price rises.

That was one of the many reasons for my insistence over the years on the necessity for putting into law a full stand-by mobilization program—to be able to prevent the runaway price increases which a war emergency always brings. Now, we have no alternative but compulsory controls—or pay the piper of inflation.

Shut the Door Now

To wait until prices have run out of hand before legislation is sought means that action will not be taken until too late, until after additional inflation has taken place.

This legislation before you proposes that we deliberately **refuse** to lock the stable door until the horse is stolen.

The Race Has Begun

The rise in prices which has already occurred since the Korean outbreak will be used to justify wage increases this fall and winter. Those wage increases may not do labor any good since higher wages will lead to still higher prices. Once the inflationary race has begun, it becomes ever more difficult to check. There will always be new groups to cry, "Wait with your controls until we have caught up."

The right time to stop inflation is always—**now!**

It may be said that while it is true **economically** that priorities must be accompanied by price controls, it is too soon **politically**. The people aren't ready for it, so this argument runs, implying that we must wait for further disaster.

Who Fears Price Control?

Those who believe this, misread the temper and intelligence of the American people. Who opposes price controls? The millions whose savings will be reduced if inflation continues? The millions of teachers, firemen, policemen, nurses, civil servants, and others with fixed incomes? Old-age pensioners struggling on inadequate subsistence grants? Widows living on the insurance left them by their husbands? Workers who find their real wages cut by rising living costs? Farmers who find the cost of the things they must buy mounting?

Is the omission of price control legislation today but a repetition of the tragic blundering of the recent war? As you know, the price control bill finally passed by Congress in 1942 left wages to run free and allowed farm prices to rise to 110% of parity. That law legalized inflation. More than a year later, when this effort to control prices in piecemeal, partial manner broke down, a crude substitute for the over-all ceiling which I originally proposed was adopted. But by then a terrible price had been paid in an inflation which added a hundred billions to the cost of the war, needlessly prolonging the conflict, unnecessarily increasing the toll of dead and wounded.

Ceilings Fair for All

Is a lack of courage to impose ceilings on wages, farm prices and profits the real reason why price controls are now being neglected?

Wages, rent and food costs are the largest components of all prices. They cannot be left to run free, if inflation is to be halted.

I believe that each of the major segments of society will submit to ceilings on their gains, if all are treated fairly and equitably.

Under any system of price and wage control, machinery would be established for correcting inequities and for orderly changes where the needs of defense or justice required them.

Crisis Bigger Than Korea

Many people, I realize, still hope that the Korean crisis will pass off without upsetting ourselves too much. This is a futile, illusory hope. That doesn't mean I regard another world war inevitable. It is still possible to prevent another terrible conflict—but only through a far greater effort than has thus far been proposed.

We dare not blind ourselves to the fact that we are in a race against the enemy—and so far are lagging in that race. When the recent war ended we scuttled and ran, demobilizing before the peace was won. The Soviet Union though, kept several million men under arms; their munitions plants continued to produce sizable quantities of military weapons. While we were stocking our homes with refrigerators and television sets, the Soviets were stocking tanks and radar. Because we permitted the Soviets to gain this headstart in their mobilization, we now face a round of puppet aggressions—where next who can tell?

More than two years ago, in testifying on the so-called Marshall Plan, I warned that the time had come to mobilize the American economy if peace was to be preserved. Had we begun to mobilize then, two years ago, the Korean invasion might never have taken place.

Least We Dare Do

This lag behind the Soviet Union's mobilization for war must be reduced. Korea is not the arena of final decision. It is to the basic disparity between the advanced Soviet mobilization and the lack of mobilization on the part of the democracies that we must direct ourselves.

The essence of our defense policy, I have repeatedly stressed, must be to pace ourselves vis-a-vis the Soviets. Even if the Korean affair did blow over, we still would have to mobilize—or invite aggression elsewhere.

We Must Do More

How large will the necessary effort be? I do not have that information. The President has already stated that it will extend beyond the $10 billion thus far requested. In his message to Congress, the President specifically mentioned the need to step up our assistance to Western European nations in rearming themselves against possible aggression. How rapidly that program must be pushed depends on the pace of Soviet rearmament.

Nor is the effort required of us to be measured merely in terms of direct military needs. Our defensive strength reflects not only our military establishment, but innumerable other things, such as the state of our raw material stockpiles, the number of freight cars we have, the adequacy of electric power, of oil supplies, steel capacity and so on.

We must develop new sources of supply or substitutes for chrome, manganese and other supplies which we must expect will be cut off in event of war.

To bring in any major expansion of plant capacity or of raw materials, takes two, three, in some cases, five years. Should war break out in two, three or five years, these deficits in our economy woud be sources of weakness, which would cost us dearly in blood and treasure.

Don't Waste Time

Put another way, what we do—or do not do today—will constitute sources of strength or weakness in event of war any time in the next five years.

Wherever the gap between our normal civilian pursuits and what war might require is dangerously wide, steps should be taken promptly to narrow that gap.

Many of these actions will require scarce materials or limited manpower. Less essential civilian activities will have to be curtailed to free those resources. Voluntary controls cannot possibly be adequate for what needs to be done—if it is to be done in time.

Only a selfish few can make voluntary controls unworkable. Voluntary controls are important for the transition period until the machinery of mobilization is set up.

What We Risk

To limit the effectiveness of our mobilization to what can be done through voluntary means is to jeopardize everything we hold dear, our liberties, our possessions, the futures of our children. Shall we risk all that—for what? To avoid petty inconveniences? For petty profit?

Mobilize for Strength

Perhaps I should emphasize this thought. The term "mobilization" sounds bad. It raises frightening visions of all our young men thrust into foxholes, of all sorts of hardships and regimentations at home. But "mobilization" properly done can be a source of strength.

Our aim should be to organize the nation so that every factory and farm, every man, every dollar, every bit of material can be put to use where it will strengthen our defenses and fill the most essential needs first. There should be equal treatment for all. All demands should be kept in balance, for defense abroad and for defense at home, for the needs of our civilians and for our allies.

The weight of the different elements to be kept in balance will shift with time. What I propose is that we organize ourselves—all our resources of men, money, materials, morale—so that whatever happens—new aggressions abroad, possible destruction at home—whatever happens, the armed forces can get what they need, when they need it, with the least necessary dislocation of the civilians.

Direction—Not Drift

This requires putting everything in readiness now—organizing all our resources into pools that can be readily tapped, passing all necessary laws now, setting up the necessary machinery of mobilization and civilian defense so that it is capable of swift expansion, and creating now, the central mobilizing agency to guide the flow of all our resources.

Throughout our economy direction must replace drift. Purpose must replace aimlessness.

Strengthen the United Nations

Abroad there would have to be another body, in continuous operation, coordinating the actions of the other United Nations who are cooperating with us in this

Securities Salesman's Corner

By JOHN DUTTON

There are times when you literally must "build a fire" under some people in order to get them to act—even when it is in their best interest to do so. Probably among your accounts, or your prospects, there are quite a few who have put you off with a "see me later," or an "I'll think it over," or some other such excuse. There are people who have been sitting on more cash than is advisable and yet they have done nothing about investing it.

The events of the past week give you an opportunity to talk sense to these people. Vast spending for armament will be piled upon an already overloaded economy. We have been at the top of a boom and now we are going to expand production to an extent that will reach the straining point. Business activity and production will be pushed to even greater heights. Already hoarding and scare buying is door-to-door gossip and front page news. The national debt will go higher—you will hear more and more about deficits despite higher taxes and controls. No one can tell just how far this altogether new and sensational turn in our affairs will take us. But the point is this—if there ever was a time when protection of the value and purchasing power of one's assets depended upon skillful and intelligent handling it is now.

If you believe that soundly selected equities afford a measure of protection against the shrinkage in value of fixed assets, such as cash and government bonds (and history proves that this is a fact) then now is a golden opportunity to bring this forcefully before your clients who have been on the fence.

This is where some salesmanship can help you. You can go around and see these people again and you can lackadaisically tell them what you think about all this. Maybe you will get somewhere with some of them and maybe you won't. But if you will dramatize your presentation with a sensible "build-up," an opportunity to close more business than you have had in many a long month is here now! First of all, there is an old law of salesmanship that says, "Make it important." The way to make something important is to create some excitement. You do this in two ways—by the tone of your voice and by making a telephone call to ask for an appointment. Let us say, for example, that you have some prospects who two months ago have said to you, "I'll wait a while, maybe this market will have a tumble. I'll buy some stocks later." All right, we've had the tumble, and we've had the news that we're off to the races to the tune of another $10 billion more for armament just for a starter. So you pick up your telephone and you say, "Mr. Put-It-Off, How are you?" And he says, "Fine." And you say, "It looks like we are in for some **shrinking dollars** during the next six months, Mr. Put-It-Off, and I'd like to come over to see you and talk with you. I expect to be in your neighborhood next Wednesday, and also on Friday. When is the best time for you?"

And don't be put off—make some appointments with the express purpose of going over this matter of **asset protection** against the possible shrinkage of dollars that may lie ahead. This doesn't mean that you have to overstate the case—but it does mean that people who thought they were playing safe by holding too large a percentage of their assets in cash had better get busy and invest some of it in some **protection**—and that protection is the **right equities.**

Every firm that is intelligently serving its clientele should provide its salesmen with a list of securities that should bring in a good return and also offer some possibility of enhancement during the period which lies ahead. A good mutual fund certainly has this qualification—even a balanced fund offers more real protection than cash, savings accounts, government bonds, life insurance, and building and loan investments during a period of intensified inflation. I personally would be wary of many highly speculative stocks (especially some that have been dragged out of the doghouse in recent weeks).

struggle for real and lasting peace. This organization might be developed out of the existing European Recovery Program.

One of its functions would be to find and tap new resources. It is not enough simply to divide existing resources. The total resources at the command of the free peoples of the world must be constantly swelled.

America Helps Those . . .

America, by itself, cannot save the whole world. We can only help those Nations who are willing to mobilize themselves to fight aggression. There must be a common sharing of burdens. It will not do for us to incur deficits, while others store surpluses for a "rainy" day. The rainy day has come.

To sum up my recommendations:

(1) Organize America for all-out mobilization, with a general ceiling over the entire economy to prevent further inflation and an all-embracing system of priorities to strengthen our defenses and minimize dislocations.

(2) The very least that must be done is to amend this priorities legislation to provide for effective price and wage control and rationing authority. To do less is to invite cruel suffering and possible disaster.

(3) Taxes high enough to eliminate profiteering and to cover *all* defense costs. These taxes should take effect for at least the second-half of this year.

(4) Continued rent controls with provision for clearly justifiable increases.

(5) Prompt creation of an over-all mobilizing agency to synchronize all our efforts.

(6) Postpone less essential expenditures. As an aid to that a Capital Issues Committee should be established under the Secretary of the Treasury to review all capital issues, public and private, deferring less essential projects to make sure housing, schools, hospitals and other more essential needs are met first.

(7) Strengthen the United Nations by coordinating our efforts with it in common defense of peace.

(8) Speedier assistance in the rearming of those nations ready to resist aggression, along with the expansion of our own defense forces.

Nearly three years ago I clipped an item from a newspaper which seems ominously prophetic today. It told of a boast made by a Soviet General. This general boasted that the Western democracies were bound to be defeated by the Soviet Union because they would not make the sacrifices necessary to arm themselves. They prized their standards of living too highly. They would not be willing to accept the disciplines to put "guns" over "butter." In Russia, though, this general boasted, the people were inured to hardship. The Soviet Government would force the sacrifices to mobilize. A lean and hungry, but mobilized Russia would overrun a Western world which couldn't bring itself to mobilize—in time.

Mobilize for Peace

That is the test which confronts us—not only this country but all of the free peoples of the world. It is the choice of "peace" or "butter," of mobilizing our strength now, while peace can still be saved, or of clinging to petty wants and petty profits, imperilling our freedom and our civilization.

No outside enemy can defeat us. We *can* defeat ourselves. Gentlemen, yours is the decision. Which shall it be—discomfort or defeat?

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The State of Trade and Industry

combined expansion programs will add 3,363,000 ingot tons to their annual capacity by the end of 1952 at an estimated cost of $1 billion. This extends by one year a previous survey by "The Iron Age" which showed that the industry was planning to expand its capacity more than four million tons this year and next.

The American Iron and Steel Institute announced this week that the operating rate of steel companies having 94% of the steel making capacity for the entire industry will be 99.3% of capacity for the week beginning July 24, 1950, compared to 99.4% a week ago, or a drop of 0.1 point.

This week's operating rate is equivalent to 1,892,900 tons of steel ingots and castings for the entire industry, compared to 1,894,800 tons a week ago. A month ago the rate was 101.2% and production amounted to 1,929,100 tons; a year ago it stood at 81.5% and 1,502,500 tons.

Electric Output Sets New Historical High Record

The amount of electrical energy distributed by the electric light and power industry for the week ended July 22, was estimated at 6,185,702,000 kwh., according to the Edison Electric Institute.

It was 179,357,000 kwh. higher than the figure reported for the previous week, 724,037,000 kwh., or 13.3% above the total output for the week ended July 23, 1949, and 843,575,000 kwh. in excess of the output reported for the corresponding period two years ago.

Carloadings Improve in Latest Week

Loadings of revenue freight for the week ended July 15, 1950, totaled 789,268 cars, according to the Association of American Railroads. This was an increase of 235,392 cars or 42.5% above the preceding week.

The week's total represented an increase of 65,085 cars, or 9% above the corresponding week in 1949, but a decrease of 102,812 cars, or 11.5% below the comparable period in 1948.

Auto Output Recedes Slightly From Previous Week

According to "Ward's Automotive Reports" the past week, motor vehicle production in the United States and Canada declined to an estimated total of 190,515 units, compared with the previous week's total of 194,073 (revised) units.

Total output for the current week was made up of 154,742 cars and 26,414 trucks built in the United States and a total of 6,697 cars and 2,762 trucks built in Canada.

The week's total compares with output of 160,173 units produced in the United States and Canada in the like 1949 week.

Business Failures Ease Slightly

Commercial and industrial failures dipped to 170 in the week ended July 20 from 187 in the preceding week, Dun & Bradstreet, Inc., reports. Although casualties were slightly lower than a year ago when 182 occurred, they exceeded the 91 in the comparable week of 1948. Failures continued below the prewar level and were 32% below the 251 in the similar 1939 week.

Casualties involving liabilities of $5,000 or more declined from the preceding week, while those under $5,000 rose. Despite this increase, they were slightly lower than in 1949.

Five regions reported decreases in casualties during the week just ended. However, an increase occurred in the East North Central and in the South Atlantic states. More concerns failed than a year ago in the Middle Atlantic, New England, South Atlantic, West South Central, and Mountain states. These increases were offset, however, by relatively sharp declines from 1949 in the Pacific, West North Central, and East South Central states.

Food Price Index Extends Sharp Uptrend

A further sharp rise last week lifted the Dun & Bradstreet wholesale food price index for July 18 to $6.41, from $6.28 the week before, or a gain of 2.1%. The current level marks a cumulative advance of 7.4% over the $5.96 recorded on June 20, just preceding the start of hostilities in the Far East. This week's figure of $6.41 is the highest since Oct. 26, 1947, when it stood at $6.47, and represents an increase of 12.3% above the $5.71 a year ago at this time.

The index represents the sum total of the price per pound of 31 foods in general use and is not a cost-of-living index.

Commodity Price Index Moves Sharply Higher

After declining slightly for three days, the daily wholesale commodity price index, compiled by Dun & Bradstreet, Inc., turned sharply higher in the closing days of the week to extend the upward movement of recent weeks. Rising to the highest level since September, 1948, the index closed at 276.48 on July 18. This compared with 275.58 a week previous, and with 238.78 on the corresponding date a year ago.

Grain markets on the Chicago Board of Trade continued to be unsettled last week with prices fluctuating rather widely at times.

Trading was less active as sales volume dropped to a daily average of 44,300,000 bushels as compared with 50,000,000 bushels in the preceding week.

The movement of winter wheat to terminal markets continued fairly heavy with prices off slightly for the week. Harvesting has been progressing rapidly and prospects for the new crop showed improvement during June.

The official estimate of the total wheat crop as of July 1 was 957,000,000 bushels, as compared with last year's production of 1,146,000,000 bushels. The country movement of corn was quite heavy; cash prices were generally firm. The outlook for the new corn crop also showed improvement. Oats prices declined rather sharply as the new crop movement to market increased in volume.

Flour prices were slightly firmer. Buying of hard wheat flours was fair most of the week with considerable pick-up noted toward the close. Soft wheat flours also sold in good volume. Cocoa prices rose sharply to new high levels for the season, aided by active manufacturer demand for actual cocoa, a scarcity of offerings from primary markets, and growing concern over the international situation. Trading in coffee was very active with both spot and futures prices advancing to new all-time highs. Both raw and refined sugar scored further slight gains. Volume of trading in lard futures increased materially last week. All deliveries of lard futures touched new seasonal highs, aided by strength in vegetable oils and the rise in live hog prices to the highest levels since October, 1948. Cattle prices finished lower under the influence of heavier receipts.

Domestic cotton prices registered further sharp advances this week.

The New York spot quotation touched 40 cents per pound, highest since July, 1947. Trading was more active; reported sales in the ten spot markets totaled 106,300 bales, compared with 49,300 the previous week, and 61,500 in the corresponding week a year ago. Export demand for cotton continued active. Bullish factors in the current uptrend of prices reflected buying induced by developments in the Korean situation and the possibility for a small crop due to the sharp curtailment in acreage reported last week. Reflecting the advance in raw cotton, prices for cotton textiles moved sharply higher, with most manufacturers and distributors withdrawn from the market.

Trade Volume Lifted by Fear of Impending Shortages

Consumer buying, already at a high level, was accelerated in the period ended on Wednesday of last week by the fear among some consumers of impending shortages of certain goods. Retail dollar volume was moderately above the level of the comparable week a year ago, Dun & Bradstreet, Inc., states in its current survey of trade.

There was a slight rise the past week in the demand for apparel with requests for nylon hosiery and some accessories frequent. While there was a slight increase in the interest in women's sportswear, the overall unit volume of dresses bought was virtually unchanged. Men's summer suits and sport shirts were in moderate demand, as was footwear of both formal and utility types.

A noticeable increase in the consumer demand for some kinds of food helped to raise over-all dollar volume in food during the week.

Dry groceries, such as flour, sugar, spices and cereals were increasingly popular with housewives. The unit volume of some meats and fresh produce was practically unchanged, although slightly higher prices brought about increased dollar sales in scattered sections.

Demand for house-furnishings rose sharply last week, as an increased number of consumers purchased automobiles and major appliances; among the more frequently sought appliances were refrigerators and freezers. There was also a rising interest in television sets. Household linens attracted very favorable attention.

The dollar volume of furniture and housewares rose in some sections and was steady in others.

Total retail dollar volume in the period ended on Wednesday of last week was estimated to be from 3% to 7% above a year ago. Regional estimates varied from last year's level by these percentages:

New England, South, and Northeast +2 to +6; East 0 to —4; Midwest +3 to +7; Southwest +4 to +8; and Pacific Coast +1 to +5.

Stimulated by various trade shows and the need for many retailers to replenish diminished stocks, wholesale ordering rose appreciably in the week. Aggregate dollar volume was moderately above the level for the corresponding period a year ago. The number of buyers present at various wholesale centers increased slightly and was moderately above last year's figure.

Department store sales on a country-wide basis, as taken from the Federal Reserve Board's index for the week ended July 15, 1950, rose 24% from the like period of last year. An increase of *8% (revised) was recorded in the previous week from that of a year ago. For the four weeks ended July 15, 1950, sales showed a rise of 10% from the corresponding period a year ago, but for the year to date register no change.

Notable activity continued in New York the past week in retail trade. Building up stores against possible war shortages was marked in some lines of food and home wares. As a consequence, estimated department store sales were placed at close to 15% ahead of 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 July 15, 1950, advanced 16% from the like period of last year. In the preceding week a decline of *7% (revised) was registered from the similar week of 1949. For the four weeks ended July 15, 1950, an increase of 3% took place. For the year to date volume decreased by 4%.

*In using year ago comparisons allowances should be made for the differences in the number of trading days. For stores in some cities the week ending July 1 had one more trading day than the corresponding week last year and conversely the week ending July 8 contained one less trading day.

Francis Cook With Tyson in Philadelphia

PHILADELPHIA, Pa.—Tyson & Company, Inc., announced that Francis A. Cook has become associated with them in their Philadelphia office, Lewis Tower Building, and William U. Rosenmund, Jr. in their Pittsburgh office, First National Bank Building, as Registered Representatives.

Mr. Cook was formerly an officer of Charles A. Taggart & Co.

Sightmirror TV Stock Offered by Tellier

Tellier & Co., New York are offering an issue of 749,000 shares of common stock (par 1 cent) of Sightmirror Television Corp. at 40 cents per share.

The corporation, which is located at 111 Cedar St., New Rochelle, N. Y., plans to use the net proceeds for payment of patents, etc., and for working capital.

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

Hardly had I dropped last week's column into the mail box when the market started up, and kept going up until the end of the week. The frightened selling of the past few weeks turned into eager buying. The rumors of panic, so widespread during the break, disappeared completely and the rumors of sensational profits were riding high.

* * *

All this is cut of the whole cloth. Rumors of sharp breaks and the reasons for them are as uninformed as rumors of sharp rallies. Both were and are being fed by hopes and fears based a great deal on the tides of battle in South Korea.

* * *

A week or so ago I said I wasn't a military expert. But I can read history and can add well enough to come up with some right answers. What I see is a lot of bad news coming out of Korea before we get enough materiel and men in to turn the tide. But what to me is more important is not Korea so much as a turn in the political tides all through Asia—China, Indo-China and, perhaps, even the Philippines. It is evident that our foreign policy is now turning to the Far East and away from the Continent. I'm not going to forecast what its objectives will be, or how they'll be reached. But I'm virtually certain that the Korean war will not end in Korea.

* * *

What this will do to our stock market is a moot question. The Administration has one foot in the water and one foot on the shore. Its halfway measures in asking for "partial controls" is whistling in the dark. As the news from the battlefront gets worse the Administration will be forced to give up its half-way measures. At that time you will get the increased taxes in one form or another.

* * *

The market seldom discounts the same thing twice. The shock of learning that war had broken out caused a market break. On this break a lot of outstanding short stock was covered. As the news came in and it looked like Washington wasn't putting any strict controls into immediate force, and the likelihood of new profits became imminent, stocks rallied. I think this rally has further to go. But I also think that stocks will go down again, though perhaps not below their recent lows.

* * *

This will make it an ideal trader's market, assuming one is agile enough to get in and out, a feat that most of us seldom can accomplish. For the long-term trader a position of holding and adding to on breaks, will make for profits.

[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.]

With Faroll & Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill. — Robert G. Nussbaum has become connected with Faroll & Company, 209 South La Salle Street, members of the New York and Midwest Stock Exchanges.

Continued from page 11

Problems of the Small-Scale Investor

the reverse proportions exist in the total demand for use of savings.

Possibly that is one reason why a number of economists have been pointing with alarm to certain trends in our savings pattern.[2]

They point out that an increasing proportion of the savings of individuals in our nation are being channeled into financial institutions such as life insurance companies, commercial and savings banks, and retirement funds; which, for legal and other reasons, are constrained to confine their investment of these funds to debt instruments. There is therefore a widespread concern that we shall over-balance the flow of funds to debt instruments and conservative uses as compared with the flow for the underpinning of equity capital and new venture uses. Figures published by the Bureau of Internal Revenue indicate that we have had a substantial increase in the proportion of debt in our corporate capital structures and a corresponding decrease in the proportion of underpinning of equity capital. Taken at 10-year intervals, we find that the proportion of debt in manufacturing company structures increased from 28.4% in 1926 to 29.3% in 1936 and 35.7% in 1946. For trading concerns the proportion also rose from 37.2% to 42.3 and 45.0% in the same three points of time. This means that the equity underpinning dropped in its proportion of the capital structure in the case of manufacturing companies from 71.6% in 1926 to 70.7% in 1936 and 64.3% in 1946. For trading corporations the equity underpinning also still looks ample on the average, but it declined from 62.8% to 57.7% and 55.0% over the three ten-year dates.[3]

During these two decades when these corporations were increasing their proportion of debts to equity underpinning, life insurance companies, which invest almost entirely in debt instruments, approximately doubled in size; and the bond holdings of commercial banks almost quadrupled. Although both types of institutions increased their holdings of corporate bonds, their increase in size was mostly in holdings of government debt.

These institutions are, of course, large-scale rather than small-scale investors. But the fact that they have absorbed an increasing proportion of our savings and the fact that their investments are heavily in old ventures and debt capital rather than in equity capital and new ventures, leaves the problems of balancing the scales largely to individual investors.

Before we jump to the conclusion that this is uniquely the problem of the small investor, let us look in passing at the large-scale individual investor. He is, of course, the wealthier among the individual investors and is subject to income taxation at a higher rate than individuals of lower incomes. This fact has tended to modify his performance as a furnisher of equity capital and new venture capital. This has its unfortunate aspects inasmuch as he is characteristically better able to take the risks of equity and new venture investment than the lower income citizens. He was the big source for such capital before the personal income taxes rose to such high rates. Now when he contemplates investment in a stock offering, let us say, a 6% dividend return, the prospective investor knows that the government has probably already withdrawn by the corporate income tax an amount of cash that compares favorably with the entire amount distributed to all stockholders. But if he is in the high income tax brackets he knows that the government will in turn take possibly a major portion of his dividend as well. The stock paying 6% may yield him only between 2% and 3% after tax. Hence it is no wonder that many individuals subject to the high bracket taxes put their surplus available for savings in safe municipal bonds yielding a tax free income of less than 3% rather than venture the savings in stocks subject to business losses when the dividends are taxed at a rate such as to reduce the income after tax to the yield on tax free bonds.

Thus many large-scale investors have their limitations as producers of risk capital: the savings institutions by virtue of their liabilities and legal restrictions; wealthy individuals, by reason of discouragingly high rates of taxation of personal income. Does this leave the burden for this important type of financing entirely on the small-scale investor? If he should fail, would it mean that the formation of capital necessary to cope with an expanding population would not be met? That the rise in our standard of living would be arrested? That the owners' stake in our business units would continue to decline to an almost insignificant proportion relative to the creditors' stake, which incidentally is about the position at which many of our commercial banks already appear to have arrived? That the proportion of debt in the right hand side of the balance sheet will continue to expand to the point where the debt instruments held by our insurance companies and banks as security for our policies and savings are no longer senior to a substantial equity and so are subject to all of the risks of outright ownership of the business units? Will our business units, because of an increasing burden of debt fall more easily into financial difficulties and receiverships on occasions when the curve of business activity happens to fall for a time below normal?

Before we too hastily assume that the practical answer to these questions must rest on action entirely by the small-scale investor, let us consider some other possible solutions:

(1) **Will taxes be reduced so that more profits will be available to equity investors, and so encourage the flow of equity and new venture capital?** This, however desirable, does not look like a probable development. Taxes cannot be reduced unless government expenditures are reduced. The whole historical trend is to the contrary. As our civilization becomes more complex, we seem to ask more and more of our government. Furthermore the great bulk of government disbursements is a result of past wars and the threat of future wars.

(2) **Can the method of taxation be reorganized so as to give more encouragement to new venture and equity capital financing?** Unquestionably a tax system could be designed which would accomplish this result. To relieve stockholders of "double taxation" and the high income receiver from an almost confiscatory rate might appeal to our sense of justice. But unless it is accompanied by a commensurate reduction in government expenditures, such moves might be considered by many to cause merely a shifting of the burden from certain taxpayers to others and so result in loud objections. The objectors might not be willing to gamble on the possibility that the shift of burden might increase the productivity of society to a point where all are richer instead of some poorer.

(3) **Should life insurance companies increase their holdings of stocks?** Life insurance policies and savings accounts have a certain quality that is of prime importance to many people. It is the certainty of payment of the number of dollars involved. The quality of certainty is there mainly because the character of assets of these institutions is such as to furnish the high probability of payment upon need. These assets are mainly senior securities; senior to a substantial equity by others. If a life insurance company buys stocks junior to bonds which it holds, its position is almost the same as if it were a partner in the business. To avoid undermining its own senior position, the insurance company should probably invest only in stocks which have little or no senior issues. Under such restrictions and considering the expert quality and conservatism of their investment staffs, it would probably not be unsafe to permit life insurance companies to hold assets other than cash and high grade debt instruments to the extent of at least 5% of the total.

(4) **Could insurance companies and savings banks invest in the bonds of an intermediate institution that would specialize in equity and venture capital financing?** Diversification and expert selection of commitments would minimize the risk of new ventures for the insurance company. The holding of bonds would give them a senior claim if the equity junior to the bonds were held by others. Thus the problem would be shifted partly to individual investors. The companies and insurance commissions might well explore this possibility. Within suitable limitations and with good administration it might be reasonably safe and yet constitute an important flow of venture capital.

(5) **How about the possibility of the government filling the gap in the financing of equity and new venture capital?** A very close approach to this was made in the case of several advances by the Reconstruction Finance Corporation, as, for example, the Lustron loan. Dependence upon this method as a solution would mean a shift from private ownership and control.

(6) **Could corporations themselves save for capital expansion?** This is the method by which many of our large corporations financed their capital needs during the past decade. That is, by paying out to stockholders only a portion of the earnings accruing to them. Wealthy stockholders have looked upon this method with favor because of the high rates of tax they would have to pay if the earnings were distributed. It tends to perpetuate the corporations which can do it; but the method has the limitation that it does nothing to provide outside capital to others.

These alternative ways of coping with the changing pattern of savings are either unpromising or at best of limited utility. The consequences of not coping with it are such that we must hope that the small-scale investor, subject neither to such discouraging income tax rates as the wealthy investor nor to the business and legal limitations of the savings institution, may make a substantial contribtuion toward overcoming the unbalance that appears to exist. But by the very virtue of being "small-scale," this type of investor has serious problems to meet when he considers investing in equities. Let us now consider some of these specific problems.

2 See for example various articles by Homer Jones during the past few years in the "Journal of Finance."

3 From Stahrl Edmunds, supra, p. 36.

Because of the smaller amounts he has to invest, there are certain investment problems which are more difficult of solution for him than for the large-scale investor.

(1) **In the first place, should he go into stocks at all; and if so, to what extent?** This problem is more complicated for the small investor than it is for the large financial company investing perhaps millions of dollars each month. The liabilities of the institution, while perhaps uncertain as to the dates on which they will have to be met, are at least certain in amount. The opportunities to secure more than a safe income and to secure substantial appreciation of the principal are much less important to it than the sureness of a small safe income and ability to maintain the principal value of the investment fund.

The typical small investor, on the other hand, faces dilemmas as to both the principal and the income of his investments. (a) As to the principal: (1) If he confines his investments to stocks, he is endangering the principal value. It is not uncommon for stocks to double their value in a short period of a few years elapsing between the depression and prosperity phases of a business cycle. Conversely they often decline about an equal absolute amount in the subsequent phase of the cycle. (2) If he confines his investments to such safe securities as government bonds, although he will be certain to maintain the dollar principal, he risks a decline in the purchasing power of the principal in the event of inflation. (b) As to income: (1) If he tries for a high rate of yield, to that extent he risks his future of both income and capital, for securities which offer high rates of income almost invariably involve higher risks of failure. (2) On the other hand, the small rate of income from safe investments may be too low to meet the costs of living of him or his dependents. During the past decade, for example, the 2.9% return on the best of these, namely the Series E Savings Bond, was more than doubly offset by the decline in the purchasing power of the dollars involved.

How compromise between these conflicting needs for safety and income? He can probably solve this problem best by analyzing the nature of his future liabilities. I say "future" rather than "present," for if he has current debts, he probably should not be investing at all. It is rarely economical for a person in the low income tax brackets to be investing money with one hand while with the other he is paying out interest on a mortgage or note. If the investment is as certain as the liability, it will yield him a lower rate than he pays out. If it yields him more, he will probably find that he is trying to balance a liability which is certain against an assets which is uncertain.

Assuming then that he is clear of debt, he must then consider the exact extent to which he needs dollar protection in the future. This will include the arranging of sufficient life insurance to meet the needs of his family in the event of his untimely death. Cash in a savings account or in government bonds of short enough term should be set aside to take care of any forecastable future drains. An additional amount in a savings account for unforecastable contingencies, the proverbial rainy day, should be provided. The balance in his checking account should not only be sufficient to meet all purchases between pay days without the necessity of temporary borrowing but also sufficient to avoid service charges, which are usually high compared with the income on safe investments.

The investible surplus left over after meeting the above described needs measures the maximum amount he should consider for investment in securities selected to give a rate of income higher than that obtainable on Series E bonds. The amount within this maximum which is placed in common stock and the amount placed in fixed income securities will differ among investors, depending upon their individual needs for purchasing power protection and for an investment return higher than a conservative rate. This plan attempts to meet the conflicting needs for safety and income by meeting them in sequence rather than both at the same time. This plan of compromising the conflicting factors of safety and income by achieving a balance between government bonds and common stocks is superior to the alternative of putting the entire fund into securities of intermediate safety, such as second grade bonds and preferred stocks. The latter might give the same yield as the average of the governments and the commons. But no part of it would have the degree of protection against monetary inflation that is afforded by the common stocks. Also no part of it would have the degree of resistance to depreciation in dollar value that is characteristic of government bonds, savings accounts, and life insurance policies.

With the decision to invest in common stocks as well as in high grade bonds, certain further questions arise for consideration. (2) **Should the stock investment be put in one promising stock or divided among a number?** There is hardly a stock so promising but that a number of others equally promising can be found. Thus, while not reducing the chances for a good return, spreading the investment among several equally good selections does, however, most assuredly reduce the degree of investment risk. For if the one stock should turn out badly, the entire investment would be lost. But if the investment is diversified over a number of industries and companies, the chances are infinitely highly that a loss in any one stock will be more than offset by gains among the others.

Having reduced investment risk by balancing and diversification in the portfolio, we now turn to more difficult problems, of which one is: (3) **Should the small investor attempt to "time" his transactions in common stocks?** Knowing that stock values have usually moved from extreme overvaluations to extreme undervaluations in the business cycles, should he concentrate his purchases at the lowest points of the cycle and sell out at the highest points, thereby securing maximum profit from the upswings and insuring himself against loss of value in the downswings? There is no doubt that such a policy would be enormously profitable if perfectly executed. There are a number of difficulties in the way of successful execution. One is that he will probably not be able to judge the peaks and nadirs of the fluctuations at the time they occur. If he should have such a correct judgment he would then be faced with the psychological difficulty of selling when the record of earnings is good and of buying when the record is poor. The policy also requires him to act oppositely from his fellow investors, who unfortunately buy stocks most heavily when they are in the higher price levels. Few people have sufficient confidence in their own judgments of price movements to behave oppositely from the crowd.

Lacking confidence in his own judgment, he will also be vulnerable to a deluge of advice, much of which will be bad. It is difficult for the uninitiated to be unimpressed when a member of the financial community expresses a confident opinion as to the future course of the market. It is still more difficult for him not to be impressed when he sees in print a definite statement that a certain stock is going to move up, or down, in price. Furthermore he will probably pay out money to some reporting service that purports to tell him when to buy and when to sell. Having paid money for the advice, he is likely to take it seriously. Several scientific studies have been made of such services, which lead to two conclusions: (a) that it is easily possible to lose money following their advice; and (b) that the chances are the investor will be no better off following it than by continuous holding of the average stock. Writing and publishing such advices is a considerable chore. If the forecaster were even fairly consistently good, he would be making so much money practicing what he preaches that he would not bother working for the moderate salary that he is certainly getting for writing his advice. When a forecaster of market movements seems to be taking himself seriously, I like to ask him if he's got $20,000,000. Because if he can forecast fairly consistently he could easily have it. So far the answer has always been "No." But if he ever answers "Yes", I will ask him if he made it speculating on market swings. The chances are high that he did not make it that way; but they are high that he will lose it that way.

If the small investor wishes to concentrate his purchases in the lower levels of the market prices and lighten load in the higher levels, perhaps the safest method is for him to do it on the basis of the reasonableness of the price at any time to the past average earnings on the stock. That is, to: (a) Buy stocks only when the price seems low or at least reasonable compared with the earnings per share over the past five to seven years. (b) Sell any stock whenever it appears that the price adequately discounts the amount of earnings it is reasonably likely to produce as judged from data of the past. Where the small investor wishes merely to protect himself against the usual mistake of concentrating purchases when stocks are high and concentrating disinvestment when they are low, he might well follow the policy of "dollar averaging." This simply consists of putting the same amount of dollars into common stocks in each time period without regard to the price level. This will result automatically in accumulating fewer shares at high prices and more shares at low price levels.

Now we come to perhaps the most difficult problem for the small investor: that of selecting his stocks. This requires two qualities he is not likely to have in sufficient measure: (a) ability; and (b) time. A minimum degree of diversification would involve the selection of at least ten stocks. But selection of these ten best stocks implies that they are but a consideration of a larger portfolio. Therefore minimum diversification would require the study and analysis of at least thirty or forty stocks and most likely many more. Competent study of each of these would probably require at least one day, or forty days for the minimum initial portfolio. By definition the investible fund is on such a small scale that the investor, could not live off the income of it alone. Therefore he is earning his living some other way. In that case he can hardly spare the time, even if he had the background of education or experience required. Consequently we must assume that he will look for advice.

(4) **On whom should the small investor lean for advice on selection of stocks?** Several possibilities immediately come to mind. Let us note their advantages and limitations.

(a) He might subscribe to a **service** that makes suggestions and analyses. This solution has the merit of being within the financial ability of the small investor. Some of these services can be obtained at a yearly cost that does not constitute an uneconomical proportion of the annual investment income. They have the merit also of being objective; the writers have no financial interest in the investor's action. Their recommendations are however made for broadcast to all of their customers, without regard to the differences in the investment problems of the individuals. It would be somewhat analogous to depending for medical advice upon the doctor's column in the daily newspaper. The investor should not pass over lightly the advisability of depending for advice upon some person with whom he can sit down and talk over his problems and who can ask questions to get the needed picture of all the aspects of the personal financial situation.

(b) **Friends and acquaintances** could fulfill this last mentioned condition. Their advice will cost nothing and will usually be worth the cost. Unless they are professionals, their competence is open to question. Until their competence has been adequately demonstrated, it would be well for the investor to seek out a p.ofessional; that is, a person who makes his living by giving such advice.

(c) Another possibility is the stock broker. He is generally both capable and honest. His advice is usually unbiased, for he will probably have no financial interest in the security he recommends. Furthermore, such advice costs the investor little, the broker securing his income most likely merely from the commission on purchases or sales the investor makes through him. He can usually draw on a competent statistical department for analyses and conclusion. Most people who frequent brokerage offices are of a speculative disposition. They frequently press the broker for advice on what stocks to buy for near-term price appreciation. Such a great demand for this kind of advice evokes a supply to meet it. The broker may perhaps be pardoned if he falls into the habit of giving such speculative advice to a bona fide investor. Knowing of this limitation may help the investor to make his own position sufficiently clear. If the broker is convinced that the customer is interested in getting intrinsically sound stocks at prices which are not unreasonable for long run performance rather than interested in immediate price appreciation, he will be quite competent and willing to give appropriate advice and guidance.

(d) The investment dealer is similarly competent and also generally of high character. His advice will be costless where he depends for recompense on his profit from any purchases which the customer may make from him Several limitations should be kept in mind. One is that he will have a natural enthusiasm for the securities which he has on hand for sale, which may cause an unintended bias in his recommendations. Another is that most stock flotations are made through investment bankers and dealers during the times when the market prices are in their higher levels. Whereas a broker usually considers only securities which have a fairly active market, an investment banker often sells issues which turn out to have no active market after the public distribution is terminated.

(e) A professional investment counsel, a competent person who sells nothing but his advice, is the perfect answer except for the very serious limitation that he may be unable to advise on a small account for a fee that would be within the capacity of the account. Some such firms however have been known to accept a small account at a reasonable fee, although it would clearly not be economical for them. It is sometimes done on the chance that the small account will grow to a size that will be mutually economical.

The possibility is worth checking; but the small investor should not feel discriminated against if his account is not accepted. For a small account may require as much time as a large one; and the cost of that time may be small with relation to the income of the large one, but the same cost prohibitive for the small one.

(f) Another possibility worth checking is a large **trust company.** Like a public investment counsel, some such companies do not find it possible to accept the size of accounts which fall within our definition of a small scale investor except at a fee which is prohibitive compared with the income. However, the matter should always be explored, for such companies usually have very competent investment officers and their advice and services are well worth while. To the small scale investor, many trust companies have the advantage of providing a pool of securities; so that by buying say one share in it, the investor gets a participation in a diversified list of perhaps a hundred different stocks expertly selected and supervised.

(g) Another way for a small investor to get expert selection, diversification, and supervision is by purchasing a share in a mutual fund. Some of these are balanced funds; that is, include bonds as well as stocks. Some even practice "timing"; that is, attempting to lower the ratio of stock investment and increase the ratio of bond investment when stocks get high and reverse the procedure when they are low. The holder has the option of withdrawing his share of the market value of the fund at any time, upon short notice; but the initial loading charge is often too high to make moving in and out economical. The amount of the loading charge should be ascertained and considered very carefully. Five percent or under would not be regarded as high. Many run over 7 or 8%. Thus it is not unusual for the loading fee to equal one or two years' dividends. The investor may have to spend time analyzing different funds to select one that is economical on loading and management fees, gives the type of portfolio he desires, and has a satisfactory record of past performance. But selecting the one fund gives him a greater diversification of his investment than he could possibly gain by direct investment in common stocks. The selection may be better than the small investor could make, and probably would not be worse. And if the practice is also promised of varying the ratio of bond and stock investment with the market, the investor may gain more, and will probably not lose more, than if he tried the same thing himself.

Summary

To summarize: Whether or not the small-scale investor advances risk capital may affect the future shape of our future economy. On it may depend: the variety and quantity of products making up our standard of living; the amount of our leisure time; the degree of concentration of corporate business, and therefore the extent of competition and monopoly; the proportion of debt and equity interest in our corporate capital structures; and therefore the nature and quality of the assets which secure our life insurance policies and bank deposits.

For the small-scale investor to plug the apparently widening gap between the demand and supply of equity capital, he must face certain problems; but we have seen certain directions in which he can proceed toward a solution of these problems.

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)	July 30	99.3	99.4	101.2	81.5
Equivalent to—					
Steel ingots and castings (net tons)	July 30	1,892,900	1,894,800	1,929,100	1,502,500
AMERICAN PETROLEUM INSTITUTE:					
Crude oil and condensate output — daily average (bbls. of 42 gallons each)	July 15	5,495,450	5,475,500	5,347,400	4,725,400
Crude runs to stills — daily average (bbls.)	July 15	¶5,806,000	5,912,000	5,565,000	5,130,000
Gasoline output (bbls.)	July 15	19,311,000	20,059,000	19,034,000	18,117,000
Kerosene output (bbls.)	July 15	2,147,000	1,752,000	2,033,000	1,531,000
Gas, oil, and distillate fuel oil output (bbls.)	July 15	7,179,000	7,353,000	7,065,000	5,699,000
Residual fuel oil output (bbls.)	July 15	8,026,000	7,916,000	7,467,000	7,785,000
Stocks at refineries, at bulk terminals, in transit and in pipe lines—					
Finished and unfinished gasoline (bbls.) at	July 15	111,739,000	114,278,000	116,374,000	111,464,000
Kerosene (bbls.) at	July 15	22,532,000	22,035,000	19,507,000	23,791,000
Gas, oil, and distillate fuel oil (bbls.) at	July 15	58,658,000	56,568,000	47,717,000	68,622,000
Residual fuel oil (bbls.) at	July 15	42,708,000	41,874,000	40,740,000	67,799,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	July 15	789,268	553,876	805,680	724,183
Revenue freight received from connections (number of cars)	July 8	540,985	646,256	637,154	455,432
CIVIL ENGINEERING CONSTRUCTION — ENGINEERING NEWS-RECORD:					
Total U. S. construction	July 20	$343,307,000	$364,963,000	$256,200,000	$158,751,000
Private construction	July 20	217,786,000	254,053,000	141,592,000	65,223,000
Public construction	July 20	125,521,000	110,910,000	114,608,000	93,522,000
State and municipal	July 20	91,187,000	68,385,000	88,598,000	77,984,000
Federal	July 20	34,334,000	42,525,000	26,010,000	15,538,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	July 15	†9,300,000	1,500,000	10,440,000	6,908,000
Pennsylvania anthracite (tons)	July 15	786,000	48,000	886,000	1,034,000
Beehive coke (tons)	July 8	97,200	133,700	137,600	15,800
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100	July 15	264	*218	302	213
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	July 22	6,185,702	6,006,345	6,102,283	5,461,665
FAILURES (COMMERCIAL AND INDUSTRIAL) — DUN & BRADSTREET INC.	July 20	170	187	147	182
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	July 18	3.837c	3.837c	3.837c	3.705c
Pig iron (per gross ton)	July 18	$46.38	$46.38	$46.38	$45.91
Scrap steel (per gross ton)	July 18	$37.17	$37.08	$39.00	$19.33
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	July 19	22.200c	22.200c	22.200c	17.325c
Export refinery at	July 19	22.425c	22.425c	22.425c	17.520c
Straits tin (New York) at	July 19	89.500c	86.750c	77.000c	103.000c
Lead (New York) at	July 19	12.000c	11.500c	12.000c	14.000c
Lead (St. Louis) at	July 19	11.800c	11.300c	11.800c	13.800c
Zinc (East St. Louis) at	July 19	15.000c	15.000c	15.000c	9.500c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Government Bonds	July 25	102.17	102.10	102.02	103.24
Average corporate	July 25	115.24	114.85	115.63	113.70
Aaa	July 25	120.02	119.82	120.84	120.02
Aa	July 25	118.60	118.60	119.20	118.20
A	July 25	114.66	114.46	115.24	112.75
Baa	July 25	107.98	106.92	107.80	105.00
Railroad Group	July 25	110.34	109.06	110.34	108.16
Public Utilities Group	July 25	116.41	116.41	116.80	115.24
Industrials Group	July 25	119.00	119.20	120.02	118.40
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Government Bonds	July 25	2.34	2.34	2.35	2.27
Average corporate	July 25	2.89	2.91	2.87	2.97
Aaa	July 25	2.65	2.66	2.61	2.65
Aa	July 25	2.72	2.72	2.69	2.74
A	July 25	2.92	2.93	2.89	3.02
Baa	July 25	3.28	3.34	3.29	3.45
Railroad Group	July 25	3.15	3.22	3.15	3.27
Public Utilities Group	July 25	2.83	2.83	2.81	2.89
Industrials Group	July 25	2.70	2.69	2.65	2.73
MOODY'S COMMODITY INDEX	July 25	447.9	434.0	395.4	339.5
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	July 15	188,355	226,087	205,526	145,799
Production (tons)	July 15	186,959	129,356	209,448	137,034
Percentage of activity	July 15	82	55	93	64
Unfilled orders (tons) at	July 15	489,490	491,744	395,147	282,174
OIL, PAINT AND DRUG REPORTER PRICE INDEX—1926-36 AVERAGE=100	July 21	123.5	121.6	120.6	128.4
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	July 8	25,093	51,541	29,623	13,160
Number of shares—Customers' total sales	July 8	722,305	1,543,106	904,850	368,858
Dollar value	July 8	$30,976,066	$67,599,778	$41,289,592	$13,549,189
Odd-lot purchases by dealers (customers' sales)—					
Number of orders—Customers' total sales	July 8	19,311	45,843	34,629	12,101
Customers' short sales	July 8	152	293	321	136
Customers' other sales	July 8	19,159	45,550	34,308	11,965
Number of shares—Customers' total sales	July 8	555,812	1,434,872	994,556	318,652
Customers' short sales	July 8	6,302	11,359	11,038	5,844
Customers' other sales	July 8	549,510	1,423,513	983,518	312,808
Dollar value	July 8	$22,532,535	$59,792,806	$39,737,085	$10,251,259
Round-lot sales by dealers—					
Number of shares—Total sales	July 8	135,810	422,380	342,130	100,700
Short sales	July 8				
Other sales	July 8	135,810	422,380	342,130	100,700
Round-lot purchases by dealers—					
Number of shares	July 8	279,150	470,700	243,570	147,790
WHOLESALE PRICES NEW SERIES — U. S. DEPT. OF LABOR—1926=100:					
All commodities	July 18	162.9	*161.9	157.1	154.0
Farm products	July 18	175.3	176.3	166.2	167.5
Grains	July 18	172.0	173.1	167.9	155.5
Livestock	July 18	244.2	243.7	224.0	213.9
Foods	July 18	174.2	171.9	162.4	162.2
Meats	July 18	269.2	265.1	241.0	231.1
All commodities other than farm and foods	July 18	150.5	*149.9	148.3	145.2
Textile products	July 18	139.6	138.7	135.9	137.9
Fuel and lighting materials	July 18	133.4	133.2	133.1	130.0
Metals and metal products	July 18	173.7	173.1	173.0	167.8
Building materials	July 18	204.2	*203.8	201.1	189.2
Chemicals and allied products	July 18	117.7	115.7	113.9	118.3

*Revised figure. ¶Includes 489,000 barrels of foreign crude runs. †Estimated by the National Coal Association.

	Latest Month	Previous Month	Year Ago
AMERICAN TRUCKING ASSOCIATION—			
Month of May:			
Number of motor carriers reporting	302	*302	302
Volume of freight transported (tons)	3,929,766	*3,537,476	2,999,558
BANKERS DOLLAR ACCEPTANCES OUTSTANDING — FEDERAL RESERVE BANK OF NEW YORK—As of June 30:			
Imports	$170,467,000	$141,650,000	$121,154,000
Exports	66,486,000	57,661,000	46,768,000
Domestic shipments	10,658,000	8,539,000	9,845,000
Domestic warehouse credits	10,472,000	6,713,000	7,029,000
Dollar exchange	638,000	28,000	68,000
Based on goods stored and shipped between foreign countries	20,721,000	16,558,000	13,066,000
Total	$279,442,000	$231,149,000	$197,930,000
BUILDING CONSTRUCTION—U. S. DEPT. OF LABOR—Month of June (in millions):			
Total new construction	$2,441	$2,220	$2,039
Private construction	1,798	1,635	1,428
Residential building (nonfarm)	1,036	980	712
New dwelling units	930	890	614
Additions and alterations	82	77	81
Nonhousekeeping	14	13	17
Nonresidential building (nofarm)	306	275	272
Industrial	73	73	76
Commercial	110	92	94
Warehouses, office and loft buildings	28	26	26
Stores, restaurants and garages	82	66	68
Other nonresidential buildings	113	110	102
Religious	33	31	30
Educational	23	21	21
Hospital and institutional	30	29	16
Social and recreational	21	19	23
Remaining types	11	10	12
Farm construction	108	100	131
Public utilities	285	267	305
Railroad	28	27	32
Telephone and telegraph	42	41	50
Other public utilities	215	199	223
All other private	13	13	8
Public construction	643	585	611
Residential building	29	28	33
Nonresidential building (other than military or naval facilities)	192	187	172
Industrial	18	17	16
Educational	90	88	80
Hospital and institutional	44	42	42
All other nonresidential	40	40	34
Military and naval facilities	11	9	11
Highways	240	200	236
Sewer and water	52	52	53
Miscellaneous public service enterprises	17	15	18
Conservation and development	93	85	80
All other other public	9	9	8
BUILDING PERMIT VALUATION — DUN & BRADSTREET, INC.—215 CITIES—Month of June:			
New England	$22,506,004	$34,576,531	$22,701,824
Middle Atlantic	140,734,615	136,585,976	73,666,736
South Atlantic	51,648,183	45,712,850	50,361,182
East Central	133,475,938	111,838,224	80,614,614
South Central	83,527,519	80,891,868	64,315,861
West Central	39,556,473	47,637,287	24,345,207
Mountain	15,949,526	14,781,900	14,350,863
Pacific	80,624,846	96,879,408	63,699,715
Total United States	$558,023,104	$568,904,044	$394,056,002
New York City	102,562,255	86,101,764	46,389,039
Outside of New York City	465,460,849	482,802,280	347,666,963
CONSUMER PURCHASES OF COMMODITIES—DUN & BRADSTREET, INC. (1935-1939=100)—Month of June	318.1	*311.5	294.8
DEPARTMENT STORE SALES—SECOND FEDERAL RESERVE DISTRICT, FEDERAL RESERVE BANK OF N. Y. — 1935-1939 AVERAGE=100—Month of June:			
Sales (average monthly), unadjusted	234	226	*233
Sales (average daily), unadjusted	230	221	*228
Sales (average daily), seasonally adjusted	242	226	*240
Stocks, unadjusted	209	231	208
Stocks, seasonally adjusted	222	228	220
FABRICATED STRUCTURAL STEEL (AMERICAN INSTITUTE OF STEEL CONSTRUCTION—Month of June:			
Contracts closed (tonnage)—estimated	266,531	*189,311	96,952
Shipments (tonnage)—estimated	162,343	*165,915	172,260
HOUSEHOLD VACUUM CLEANERS—STANDARD SIZE (VACUUM CLEANER MANUFACTURERS ASSN.)—Month of June:			
Factory sales (number of units)	250,190	278,645	207,354
PRICES RECEIVED BY FARMERS — INDEX NUMBER — U. S. DEPT. OF AGRICULTURE August, 1909-July, 1914=100 — As of April 15:			
Unadjusted—			
All farm products	241	237	256
Crops	225	215	234
Food grain	227	224	229
Feed grain and hay	181	174	177
Tobacco	389	389	403
Cotton	242	236	251
Fruit	206	193	225
Truck crops	205	168	196
Oil-bearing crops	239	230	256
Livestock and products	256	258	276
Meat animals	312	308	324
Dairy products	235	243	241
Poultry and eggs	161	165	220
REAL ESTATE FINANCING IN NONFARM AREAS OF U. S. — FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION —Month of May (000's omitted):			
Savings and Loan associations	$461,474	$393,677	$296,617
Insurance companies	120,743	107,966	79,713
Banks and Trust companies	293,452	235,403	196,865
Mutual Savings banks	84,638	66,945	59,396
Individuals	199,900	173,926	168,926
Miscellaneous lending institutions	217,661	193,231	141,232
Total	$1,377,918	$1,171,148	$942,749
ZINC OXIDE (BUREAU OF MINES) — Month of April:			
Production (short tons)	19,683	18,351	Not avail.
Shipments (short tons)	19,589	17,213	Not avail.
Stocks at end of month (short tons)	15,743	15,644	Not avail.

*Revised.

Continued from page 15

Who Is to Blame for Boom and Bust?

spite the further fact that the government had turned on all faucets to "create purchasing power," we had the 1937 depression and 8,000,000 men continued to stay jobless until 1940 when war buying put them to work.

I repeat that the government which caused the 1937 bust was staffed by the same breed of bipeds with bulging brows who continue to assert that they alone know how to prevent boom and bust.

The worst depressions of all are those in which men, women and children actually starve to death. Before adopting State Socialism, note that Communist Russia had had famines in which millions died from hunger, and that its economy today is in large part sustained by 15,000,000 Russians in slave labor camps working without pay except the minimum of food or shelter necessary to keep body and soul together. The Russian experiment—even in the field of business alone—is not so hot. Yet, the left-wing propaganda mill grinds out the endless tune: If we don't have continuous full employment, Americans will go Russian.

Distortion of Balance Between Supply and Effective Demand

What are the guts of boom and bust? Are they anything other than a supreme distortion between supply and effective demand? A score of factors may cause it, but that is the final fact. What is the force—as silent and ceaseless as water seeking its level—that constantly struggles to correct this distortion? It is price. Price works in every market place where goods are offered for money. It represents the judgment of the millions who are close to the problem and vote their judgment with dollars and dimes. It is as impersonal as gravity. Political considerations of winning the next election do not distort the movements of the price needle telling where goods should flow to supply demand. No one asks, or cares, whether the buyer or seller of goods is a radical or conservative. Even the Big Government boys buy their own groceries where they can buy cheapest. If a million kids clamor for Hopalong Cassidy pants and and pistols, price will supply their demands. When would the double-domes of Big Government, now busy with managing the entire world, get around to these boys? And if they did, would the quotas to produce be allocated only to those manufacturers who "kick in" for the next election?

What can do more to prevent boom and bust than the day-by-day readjustments of the price system? A ship loaded with a cargo of fuel oil may be destined for Naples. But if the fluctuating needle of price indicates a greater shortage of supply in Liverpool, the tanker in mid-ocean can be instantly diverted to supply the greater demand—in short, prevent a depression in the Liverpool market. Compare that with the tortuous readjustments made by what Woodrow Wilson called "the palsied hand of bureaucracy." If the fluctuating needle of price is free to correct the little depressions, how can there be a major depression, short of the vast dislocations of war?

Government interferences with the free market create rigidities that prevent these day-by-day readjustments of demand and supply from taking place. When the government fixes wages and rents, or prices and rates—as it does in the railroad industry, for example—and then loads the industry down with the fixed charge of taxes and interest—you have a depressed industry. The industries leading the economic parade today, keeping supply and demand in balance—automobiles and petroleum, as examples—are those most free from government controls. *Note this fact well.*

Any industry working in a free market proves my argument. But the petroleum industry is a good example. A modern refinery can produce more or less gasoline or fuel oil from a barrel of crude oil. If there is a terrific demand and short supply of gasoline, price tells the refiner to shift to gasoline. If sub-zero weather blankets a nation, price says, shift to fuel oil.

"Price finds oil" is an old saying. As a result, the petroleum industry has found and has today known underground reserves greater than ever before, for use in peace or war, at the turning of a valve. Two wars have proved how lucky we were that price found the supply to meet the demand—to save us from a petroleum depression.

Interferences With Free Market

What do we see today? Constant *political* interferences with the free market. We have $4 billion tied up in potatoes, eggs, etc., rapidly getting rotten, to buy votes by artificially keeping prices *up*. In England, they spend tax money to buy votes by keeping prices *down*. Our government is artificially keeping *up* the price of its bonds. It is artificially keeping *down* the interest on its bonds. The whole credit structure of the nation is on political stilts. Artificially low interest rates and double taxation of dividends put business under pressure to go into debt to get money to expand—thus subjecting business to the peril of fixed interest charges which must be paid even though profits are non-existent. In 1947 only 2% of the money which went into business expansion came from new common stock issues. So, to cure the disease it creates, the government will put business deeper in debt with Federal loans.

In a prosperous period, the Federal Government is again going $6 billion in debt for its Belshazzar's feast. It has gone deeper and deeper in debt during 18 of the past 20 years. *Can a government that always operates in the red, forever keep business in the black?*

Desperate for funds, it is absorbing earnings, which in the wage earner's hands would buy consumer's goods, and in business hands would buy producer's goods to provide the tools necessary for good jobs for our 700,000 young men and women entering the labor market each year. The taxes paid by one petroleum company last year equalled $4,484 for every worker, and $17.50 for each share of common stock. Again, to suck all the blood possible from the tax-bearing animals, it maintains depreciation schedules wholly unrelated to today's inflated prices. This not only makes it difficult for business to replace worn out machinery, but gives such a distorted mirror to true business profits as to whet every ignorant demagogue to furious attacks on our business system. Bureaucrats who would eat snakes before loaning their own savings on 95% public housing mortgages assert the divine right of kings to take *my* savings and lend them on such shaky security. And you and I are helpless to protect our own savings from their wasting. We have only one resource left. It is the ballot box, and there I intend to put a cross in the right square if I can find candidates on *some* party ticket who will take these leeches off my throat.

All these interferences with the workings of a free market economy may keep the balls in the air for some time. But has any bureaucrat yet repealed the law of gravity?

It is a law of physics that any object is more stable, the closer its center of gravity is to the earth. It is another law that a pyramid should be placed on its base and not on its apex. These universal laws operate in the market place as well. Business has learned that the big money is in the pockets of the little people at the base of the economic pyramid. Henry Ford was the leading professor of that truth. So the law of profits forces business in a competitive economy — even against the wish of some businessmen—to seek ways to lower prices or make a better product for the same money in order to reach the mass markets at the base of the pyramid. Mass production, large volume, small unit profits — that explains the miracle of America. It has brought confort and luxuries into millions of homes—and not to the country club set alone.

The price that points to profit is the magnetic needle of our achievement. Radios, formerly $400, now $30, and better. Ball pointed pens, once $18 now $1 or $2. Tires, once good for 2,000 miles, if you were lucky, now good for 50,000 miles. Gasoline (without the tax) cheaper today than 30 years ago, despite inflation. And a better gasoline than Lindbergh had to fly the Atlantic.

But the Big Government boys, busy with buying votes; busy also in finding more jobs for their relatives and retainers on the public payroll, are loading the economy with high taxes which are inevitably reflected in high prices. They are lifting the center of gravity of prices constantly upward; they are putting the national pyramid on political stilts, and at the same time, turning it upside down to rest on the apex of Washington, D. C. *It is thus that they propose to put an end to boom and bust!*

And because men who know better are too lazy or cowardly to speak, the uninformed millions crowd forward at every whistle-stop to sell their freedom for the snake oil and ration cards of the political hawksters of both parties.

But not me. I'm still looking for the right square where I can put my "X."

Commercial and Industrial Real Estate Transactions Continue in Large Volume

Herbert U. Nelson, Executive Vice-President of National Association of Real Estate Boards, reports a growing anticipation of war and new inflation threats as primary factors in increasing number of transactions.

Commercial and industrial real estate are sharing in the general uptrend of real estate sales volume of the last six months, Herbert U. Nelson, Executive Vice-President of the National Association of Real Estate Boards, reported on July 22 in a summarized finding of the 51st periodic survey of the real estate market in which real estate boards in 252 cities participated.

Herbert U. Nelson

"The business property market, always an index of investors' judgment on the business future of individual cities, has been affected, like the residential market, by a public attitude favoring immediate investment," Mr. Nelson said.

Primary factor responsible, the real estate boards report, is a recently growing anticipation of the inflation effect of both war preparedness and of other national programs. Combining with this to bring sellers and buyers together is the market adjustment from World War II scarcities that has taken place in the past two years. Since the war activity peak, many cities have been reporting that little well-located, well-tenanted downtown property is for sale. Now some owners are concluding to "take their profit" and release their still scarce business properties at a salable price.

"The general confidence in the future of real estate is affecting not only residential purchases, but also good commercial property," the real estate board of St. Louis reported, in a typical reply, adding, "A big demand for 100% locations, but very little available. Secondary locations are up slightly in demand."

"The market on downtown commercial property has been definitely accelerated by the improvement program in our Golden Triangle," stated the report from Pittsburgh, which has been remaking that crowded area to fit modern needs.

Statistically, the situation for commercial, industrial, and farm properties measures up as follows, Mr. Nelson said:

(1) Prices for business property, measuring the demand, are higher than they were six months ago in 31% of the reporting cities, are stable in 59% of the cities, and have weakened in only 10% of the cities. Significantly, in cities of over 500,000 population, most sensitive to commercial trends, business property prices are on the rise in three of four reporting cities.

(2) Volume of sales, limited by the scarcity of offerings, remains on the level of 1949 in 76% of all the reporting cities. But it is up in 19% of the reporting cities, and of particular significance, in 56% of the cities of over 500,000 population.

Six months ago the Association's survey showed an uptrend in sales volume in only 10% of all reporting cities, and an uptrend in prices in only 11% of the cities. Six months ago not a single city of over 500,000 population had an up for commercial property in either prices or volume of sales.

(3) For modern one-story industrial buildings, sales volume is higher than it was six months ago in 50% of all cities of over 500,000 population, and in 17% of all reporting cities, lower in only 8%. There has been no change in market volume in 75% of the reporting cities. Prices are stable. They are at the December-January level for 84% of the reporting cities, up in 8% of the cities, down in 8%.

Six months ago the NAREB survey showed an uptrend in sales volume for modern one-story factory buildings in only 9% of reporting cities, with price trend up in 8%, down in 27%.

(4) Farm sale volume is sustained at the 1949 rate in 57% of reporting communities, up as compared with six months ago in 21% of the communities. In the West North Central and Pacific regions, volume of farm sales is rising in 37% of the reporting communities.

Regionally, the general real estate market, considering residential, commercial, industrial, and farm property, Mr. Nelson said, shows this situation as compared with six months ago:

The East South Central region (Kentucky, Tennessee, Alabama, Mississippi) seems to lead the country in the percentage of its reporting communities that have experienced the recent uptrend. The East North Central region (Ohio, Indiana, Illinois, Michigan, Wisconsin) is just behind it. Both show an uptrend in 70% of the reporting cities, and in the East South Central region not a single city shows any recession, down trend, or reduced volume of sales.

The Pacific area (Washington, Oregon, California) is another focus of increasing activity, with 67% of its cities showing that recent uptrend.

The West North Central area (Minnesota, Iowa, Missouri, North Dakota, South Dakota, Nebraska, Kansas) comes next, with 66% of its cities showing a recent acceleration of sales.

The Middle Atlantic region (New York, Pennsylvania, New Jersey) shows a good general situation, with 55% of its cities showing a recent uptrend in the over-all real estate market.

The Mountain states (Montana, Idaho, Wyoming, Utah, Nevada, Colorado, Arizona, New Mexico) are in a healthy position, with 50% of their cities showing an uptrend in the real estate market and an additional 21% having at least as good a market as six months ago.

The South Atlantic states (Maryland, Delaware, West Virginia, Virginia, North Carolina, South Carolina, Florida, Georgia) show an uptrend in 41% of the cities and a situation at least as good as six months ago in 56% of the cities.

The West South Central states (Arkansas, Louisiana, Oklahoma, Texas) have had a recent market pickup in 37% of reporting cities and the market is at least as good as it was six months ago in 54% of the reporting cities.

In New England a recent uptrend is reported in 33% of the cities and the market is at least as good as it was a year ago in 73% of the cities.

Reports, made before the Korean crisis, nevertheless show a high percentage of cities whose general real estate demand was primarily affected by local military activity.

Reports of this type included: "Aircraft factories," "New international airport," "Air base here made permanent," "Army rocket center," "Military projects." Or the opposite: "Army camp here closed," "Closing government installations."

Still another typical local factor: "Strikes," or "Strike settled." Significantly frequent, is this type: "New superhighway," "New four-lane bridge," "New freeway."

Two small cities just back of coastal areas report gain of population coming from coastal urban areas.

Securities Now in Registration

● INDICATES ADDITIONS SINCE PREVIOUS ISSUE

Alberta-Canada Oils, Inc. (Del.), Alberta, Canada
July 18 filed 1,000,000 shares of common stock (par 50 cents). **Price**—$2.50 per share. **Underwriter**—Thomas G. Wylie Co., New York. **Proceeds**—For general funds.

● **Alexander's Department Stores, Inc.**
July 21 (letter of notification) participations under the Profit Sharing and Retirement Plan—not to exceed $300,000. **Proceeds**—To be held in trust for exclusive benefit of participating employees.

● **Allen Organ Co., Allentown, Pa. (9-1)**
July 19 (letter of notification) 1 500 shares of 6% preferred stock (par $100) and 750 shares of common stock (par $100). **Price**—At par. **Underwriter**—None. **Proceeds**—For expansion of plant and development of other electronic products. **Office**—8th and Pittston Streets, Allentown, Pa.

American Motorists Insurance Co., Chicago
June 28 filed 100,000 shares of capital stock (par $5) to be offered to stockholders of record July 25 at rate of one new share for each three held. **Price**—At par. **Proceeds**—For general corporate purposes. **Business**—Casualty insurance.

American Radio & Television, Inc., North Little Rock, Ark.
June 16 (letter of notification) 301,686 shares of common stock (par 10 cents). **Price**—75 cents per share. **Underwriters**—Gearhart, Kinnard & Otis, New York City. **Proceeds**—For additional working capital. **Office**—Fifth and Cornish Streets, No. Little Rock, Ark.

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. Statement effective June 30.

Arkansas Power & Light Co.
May 23 filed 155,000 shares of cumulative preferred stock (par $100). **Proceeds**—To be applitd to (a) redemption on Aug. 1, 1950, at $110 per share plus dividend accruals, of all the 47,609 shares of outstanding $7 preferred and 45,891 shares of outstanding $6 preferred; and (b) the carrying forward of the company's construction program. **Bids**—Received by company up to noon (EDT) on June 19, but rejected. Only one bid was made of $100.003 per share, with a $4.95 dividend from Lehman Brothers, Equitable Securities Corp. and White, Weld & Co. (jointly). Statement effective June 12. No further decision reached.

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.

Avco Manufacturing Corp., N. Y. City
July 14 filed an unspecified number of shares of common stock (par $3) to be offered in exchange for shares of Bendix Home Appliances, Inc., at a rate to be filed by amendment. **Dealer-Managers**—Emanuel, Deetjen & Co. and Lehman Brothers.

Benson (N. P.) Optical Co.
July 11 (letter of notification) $150,000 of 4% debenture, series D, due 1965. **Underwriter**—None. **Proceeds**—For working capital. **Office**—450 Medical Arts Bldg., Minneapolis, Minn.

● **Broadway Angels, Inc., N. Y. City**
July 20 (letter of notification) 570,000 shares of common stock (par 1c). **Price**—50 cents per share. **Underwriter**—John E. Blair, Vice-President and a director, 310 East 66th Street, New York, N. Y. **Proceeds**—For working capital. **Office**—29 West 65th Street, New York 23, N. Y.

Cameron (Wm.) Co.
July 21 (amendment) 159,000 shares of capital stock (par $7), of which 100,000 will be sold to the public and 59,000 offered to employees. Of the total offering, 150,333 shares will be sold by the company and 8,667 for account of stockholders. **Underwriter**—Dealers may be underwriters. **Price** — To public, $19.50 per share; to employees, $16.75 per share. **Proceeds** — To reduce a loan and for general corporate purposes. **Business** — Distributor of building materials. Statement originally effective July 10.

Canadian Superior Oil of California, Ltd.
June 27 filed 2,150,000 shares of common stock (par $1). **Price**—To be filed by amendment. **Underwriter**—Dillon, Read & Co. Inc. **Proceeds**—For geological and drilling operations in Canada. Temporarily postponed.

Caspers Tin Plate Co., Chicago, Ill.
June 16 filed 150,000 shares of common stock (par $1), of which 50,000 shares are to be sold by company and 100,000 shares by three stockholders. **Price**—To be filed by amendment. **Underwriters**—F. Eberstadt & Co. Inc. and Shillinglaw, Bolger & Co. **Proceeds**—Proceeds to company, together with term loan of $1,000,000 from insurance firm, will be used to pay existing long-term obligations and the balance to be used as working capital. Temporarily postponed.

● **Church Oil & Gas Co., Inc., San Francisco, Calif.**
July 13 (letter of notification) 49,853 shares of capital stock, of which 30,000 shares are for account of company and 19,853 shares for B. S. Kampert, a selling stockholder. **Price**—$1.02 per share. **Proceeds**—For working caiptal. **Office**—Russ Bldg., San Francisco, Calif.

Citizens Credit Corp., Washington, D. C.
June 2 (letter of notification) 3,000 shares of class A common stock (par $12.50) and 1,000 shares of class B common stock (par 25 cents), to be sold in units of three shares of class A stock and one share of class B stock. **Price**—$44.50 per unit. **Underwriter**—Emory S. Warren & Co., Washington, D. C. **Proceeds**—For general funds. **Office**—1707 Eye St., N. W., Washington, D. C.

Citizens Telephone Co., Decatur, Ind.
April 27 (letter of notification) 3,000 shares of 4½% preferred stock, non-convertible. **Price**—At par ($100 per share). **Underwriter**—None. **Proceeds**—For plant additions and conversion to dial operations. **Office**—240 W. Monroe St., Decatur, Ind.

City Stores Co.
July 17 filed an unspecified number of shares of common stock (par $5) to be offered in exchange for common stock (par $10) of Oppenheim, Collins & Co., Inc., and for the 4½% convertible preferred stock (par $50) and common stock (par $1) of Franklin Simon & Co., Inc., in ratios to be determined by the directors of City Stores Co. when registration becomes effective. The exchange offer is expected to expire around Sept. 15, 1950. **Dealer-Manager**—W. E. Hutton & Co.

● **Clarette Co., Inc., Los Angeles, Calif.**
July 13 (letter of notification) 1,750 shares of common stock. **Price**—At par ($100 per share). **Underwriter**—None. **Proceeds**—For expansion. **Office**—2500 West 6th St., Los Angeles, Calif.

Columbia Gas System, Inc. (8/1)
July 7 filed $90,000,000 of debentures, series B, due 1975. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co. **Proceeds**—To retire on Sept. 9 $45,000,000 of 3¼% debentures due April 1, 1973; $20,000,000 of 3% debentures due March 1, 1974; and $13,000,000 of 3% debentures due Aug. 1, 1974; and the remainder ($12,000,000) for expansion program. **Bids**—To be received by the corporation up to 11:30 p.m. (EDT) on Aug. 1.

Combustioneering Inc., Cincinnati, Ohio
June 5 filed 30,000 shares of class A capital stock. **Underwriter**—None named as yet. **Price**—$100 a share. **Proceeds**—For offices and equipment, expenses and working capital. **Business**—Research in field of smelting and heating-treating of metals. Statement withdrawn July 17.

Commonwealth Springfield Drive-In Theatre Corp.
July 10 (letter of notification) $100,000 of debentures and 1,000 shares of common stock (par $1) to be sold in units of one $100 debenture and one share of stock. **Price**—$101 per unit. **Underwriter**—None. **Proceeds**—To reimburse George W. Fuller, Kansas City, Mo., for expenses in completing the Sunset Drive-In Theatre, Springfield, Mo. **Office**—215 W. 18th St., Kansas City, Mo.

Consumers Power Co., Jackson, Mich.
June 23 filed 499,903 shares of common stock (no par) to be offered present holders at the rate of one new share for each 10 held, with an oversubscription privilege. **Underwriter**—To be named in an amendment, along with offering price. Five months ago an offering of 454,457 shares of common stock to common stockholders was underwritten by a group headed by Morgan Stanley & Co. **Price**—Expected to be not less than $33 per share. **Proceeds**—For construction. **Offering**—Postponed.

● **Cooper's Picture Frame, Inc., Reno, Nev.**
July 18 (letter of notification) 200,000 shares of common stock. **Price**—At par ($1 per share). **Underwriter**—None. **Proceeds**—To buy a factory site, and construct and equip a building. **Office**—139 N. Virginia St., Reno, Nev.

● **Corporate Leaders of America, Inc., N. Y. City**
July 21 filed $10,000 of trust fund certificates, series B period payment certificates, and 474,748.53 participations, and $500,000 trust fund certificates, series B single payment certificates, and 25,170.26 participations. **Underwriter** — Corporate Leaders Sales Co., Inc., New York, N. Y.

Cristina Mines, Inc., N. Y. City
May 24 filed 400,000 shares of common stock (par 50 cents). **Underwriter**—Max Wolberg, a director of company. **Price**—$1 per share. **Proceeds**—For development of tonnage and mining and shipment of ore.

● **Diamond Lil Corp., Las Vegas, Nev.**
July 13 (letter of notification) 50,000 shares of common stock (par $1). **Price**—$6 per share. **Underwriter**—None. **Proceeds** — To build a casino and theatre-restaurant. **Office**—114 N. 3rd St., Las Vegas, Nev.

Dryomatic Corp., Alexandria, Va.
July 10 (letter of notification) 300 shares of 6% cumulative preferred stock (par $100) and 1,500 shares of voting common stock (par $1) to be offered in units of one preferred and five common shares. **Price**—$105 per unit. **Underwriter**—None. **Proceeds**—For working capital. **Office**—812 N. Fairfax St., Alexandria, Va.

● **Duquesne Light Co.**
July 25 filed $12,000,000 first mortgage bonds due 1980. Underwriters—To be determined by competitive bidding. Probable bidders for bonds: Halsey, Stuart & Co. Inc.; Kuhn, Loeb & Co., Union Securities Corp. and A. C. Allyn & Co. (jointly); Harriman Ripley & Co., Inc.; White, Weld & Co.; Drexel & Co. and Equitable Securities Corp. (jointly); First Boston Corp.; Glore, Forgan & Co. **Proceeds**—To repay bank loans and finance construction.

Eastern Stainless Steel Corp.
June 7 filed 100,000 shares of capital stock (par $5) to be offered to stockholders at the rate of one new share for each three held, with oversubscription privilege. **Underwriter**—Allen & Co., New York. **Price**—To be filed by amendment. **Proceeds** — To pay bank loans and for working capital. **Business** — Stainless steel plates and sheets. Offering postponed.

Fedders-Quigan Corp.
June 21 filed 103,402 shares of series A cumulative convertible preferred stock (par $50) to be offered to common stockholders on basis of one preferred share for each 12 shares held. **Price**—To be filed by amendment, along with dividend rate. **Underwriter**—Smith, Barney & Co., New York. **Proceeds**—To pay promissory note, to complete purchase of a new plant at El Monte, Calif., and for additional working capital. Offering postponed.

First Security Corp. of Nevada, Reno, Nev.
June 14 (letter of notification) 50,000 shares of common capital stock (par 10 cents). **Price**—$5 per share. **Underwriter**—None. **Proceeds**—To buy instalment sales contracts and for investment in selected common stocks of other corporations. **Office**—511 W. 3rd St., Reno, Nev.

First Springfield Corp., Springfield, Mass.
May 29 (letter of notification) 5,471 shares of common stock. **Price**—$15 per share. **Underwriter** — Springfield Mortgage Corp., Springfield 3, Mass. **Proceeds** — For working capital.

Fleetwood Airflow, Inc., Wilkes-Barre, Pa.
April 20 (letter of notification) 79,050 shares of common stock (par 50 cents) to be offered first to common stockholders. **Price**—$1 per share to stockholders and $1.25 to public. **Underwriter**—None. **Proceeds**—For working capital, remaining $28,000 being offered to six creditors in payment of debt. **Office**—421 No. Pennsylvania Ave., Wilkes-Barre, Pa.

● **Fleetwood-Airflow, Inc., Wilkes-Barre, Pa.**
July 19 (letter of notification) 8,965 shares of common stock (par 50 cents). **Price**—At market. **Underwriter**—Howard O'Connor, 302 Cliff Avenue, Pelham, N. Y. **Proceeds**—To selling stockholder.

Fleming-Hall Tobacco Co., Inc., N. Y.
June 30 (letter of notification) 180.000 shares of common stock (par $1). **Price**—$1.25 per share. **Underwriter**—Carstairs & Co., 1421 Chestnut Street, Philadelphia 2, Pa., will act as financial adviser. **Proceeds**—To be added to general funds. **Office**—595 Fifth Avenue, New York, N. Y.

Florala (Ala.) Telephone Co.
June 29 (letter of notification) 1,200 shares of 4% cumulative preferred stock. **Price**—At par ($25 per share). **Underwriter**—None. **Proceeds**—To extend and modernize plant, lines and other telephone facilities.

Frontier Leather Co., Sherwood, Ore.
July 8 (letter of notification) 1,000 shares of 6% cumulative preferred stock (par $100) and 10,000 shares of common stock (par 20 cents) to be offered in units of one preferred and ten common shares. **Price**—$101 per unit. **Underwriter**—George Patton & Co., Portland, Ore. **Proceeds**—To pay off mortgages and for additions, plant facilities and equipment.

● **Gate City Steel Works, Inc., Omaha, Neb.**
July 14 (letter of notification) $95,000 of 5½% subordinated debentures due May 1, 1959, to be sold by Lloyd Taggart and Milward L. Simpson of Cody, Wyo. **Price**—104% of principal amount. **Underwriter**—None. **Office**—11th and Seward St., Omaha, Neb.

● **General Plywood Corp., Louisville, Ky.**
July 17 (letter of notification) 101,500 shares of common stock (par 50 cents). **Price**—$2.11 per share. **Underwriter**—None. **Proceeds**—For working capital. **Office**—334 East Broadway, Louisville, Ky.

General Radiant Heater Co., Inc.
May 3 filed 170,000 shares of common stock (par 25¢). **Price**—$3 per share. **Proceeds**—For plant and warehouse, advertising research, working capital, etc. Temporarily postponed. Amendment may be filed.

General Shoe Corp., Nashville, Tenn.
June 30 filed a maximum of 32,885 shares of common stock (par $1) to be offered on a share-for-share basis in exchange for outstanding preferred stock of W. L. Douglas Shoe Co. No underwriter.

Globe Hill Mining Co., Colorado Springs, Colo.
May 26 (letter of notification) 5,885,000 shares of common stock. **Price**—At par (one cent per share). **Underwriters**—George C. Carroll Co., Denver; Inter-Mountain Shares, Inc., Denver; and M. A. Cleek, Spokane, Wash. **Proceeds**—For mining equipment.

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. Statement effective May 10.

Gulf Atlantic Transportation Co., Jacksonville, Florida
May 27, 1949, filed 620,000 shares of class A partic. ($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..

Gulf Stream Frozen Foods, Inc., Miami, Fla.
June 30 (letter of notification) 100,000 shares of 6% preferred stock (par $1), each share convertible into two shares of common stock one year after date of issuance. **Price**—$3 per share. **Underwriter**—None. **Proceeds**—To buy sea food for distribution. **Office**—26 N. E. 27th St., Miami, Fla.

● **Harrisonville Telephone Co., Chicago, Ill.**
July 14 (letter of notification) $150,000 of 4¼% first mortgage bonds. **Price** — 103.375%. **Underwriter** — McCourtney-Breckenridge & Co., St. Louis, Mo. **Proceeds**—To retire bank loans and for expansion. **Offering**—Made July 21.

Harvill Corp., Los Angeles, Calif.
June 16 (letter of notification) 150,000 shares of common stock (par $1) to common stockholders of record June 26 on basis of one share for each four held, with an oversubscription privilege; rights expire July 31. **Price**—70 cents per share. **Underwriter**—None. **Proceeds**—For working capital. **Office**—6251 W. Century Blvd., Los Angeles 45, Calif.

● **Hydro-Oils, Ltd., Bartlesville, Okla.**
July 16 (letter of notification) 300 000 shares of common stock. **Price** — At par ($1 per share). **Underwriter**—None. **Proceeds**—For oil and gas development. **Address**—P. O. Box 491, Bartlesville, Okla.

Industrial Stamping & Mfg. Co., Detroit
July 6 filed (by amendment) $500,000 of first mortgage 5% bonds due 1967 (with warrants to purchase 60,000 shares of common stock) and 400,000 shares of common stock (par $1). Of the latter, 272,000 shares will be publicly offered and 28,000 shares will be offered to certain officers and directors of the company; 60,000 shares to be reserved for stock options; and 40,000 shares to be optioned to the underwriter of the bonds. **Price**—of bonds, 100; and of stock to public and employees, $1 per share. **Underwriters**—For bonds, P. W. Brooks & Co., Inc.; for stock, Baker, Simonds & Co. **Proceeds**—To pay mortgage and certain debts, and balance added to working capital, part of which will be used to reduce bank loans. **Offering**—Expected early in August.

Interstate Finance Corp., Dubuque, Iowa
June 14 (letter of notification) 4,000 shares of common stock (par $5) and 2,000 shares of B common stock (par $5). **Price**—$25 per share. **Underwriter**—None. **Proceeds**—To increase working capital. **Office** — 1157 Central Ave., Dubuque, Ia.

Kauai Engineering Works, Ltd., Lihue, Hawaii
June 23 (letter of notification) 98,000 shares of common stock (par $1). **Price**—$1.10 per share. **Underwriter**—Ross & Co., Box 2665, Honolulu, T. H. **Proceeds**—For working capital. **Co.'s Address**—Box 1589, Lihue, T. H.

Leigh Foods, Inc. (N. Y.)
June 30 (letter of notification) 300,000 shares of capital stock (par 10 cents). **Price**—$1 per share. **Underwriter**—None. **Proceeds**—For working capital and general corporate purposes. **Office**—630 Fifth Avenue, New York 20, New York.

Louisiana Power & Light Co.
May 23 filed 90,000 shares of preferred stock (par $100). **Proceeds**—To be used to redeem, at $110 per shart plus dividend accruals, the 59,422 shares of outstanding $6 preferred stock, and for construction and other purposes. **Bids**—Received by company up to noon (EDT) on June 19, but rejected. Three bids were made as follows: Union Securities Corp., $100.40 per share with a $4.65 dividend; Blyth & Co., Inc., and Equitable Securities Corp. (jointly), $100.10 with a $4.65 dividend; and W. C. Langley & Co. and First Boston Corp. (jointly), $100.30 with a $5.80 dividend. Statement effective June 12. No further decision reached.

Loven Chemical of California, Newhall, Calif.
May 31 (letter of notification) 282,250 shares of capital stock. **Price**—At par ($1 per share). **Underwriter**—Floyd A. Allen & Co., Inc., Los Angeles, Calif. **Proceeds**—To buy land, build a plant and equip it to produce so-called "impact" plastics. **Office**—244 S. Pine St., Newhall, Calif.

Mercantile Credit Corp., Wichita, Kansas
June 30 (letter of notification) 200,000 shares of common stock (par $1). **Price**—$1.50 per share. **Underwriter**—None. **Proceeds**—For general corporate purposes. **Office**—609 Scott St., Wichita, Kan.

NEW ISSUE CALENDAR

July 28, 1950
Mutual Telephone Co.______________Bonds & Pfd.

August 1, 1950
Columbia Gas System, Inc.
11:30 a.m. (EDT)__________________Debentures
Raytheon Manufacturing Co.____________Common

August 2, 1950
Great Northern Ry., noon (EDT)__Equip. Tr. Ctfs
St. Louis-San Francisco Ry.
Noon (EDT)____________________Equip. Tr. Ctfs.

August 7, 1950
Pacific Petroleums, Ltd.___________________Common

August 8, 1950
Seaboard Finance Co.__________________Preferred

August 16, 1950
Maine Central RR.______________Equip. Trust Ctfs.

September 1, 1950
Allen Organ Co.________________Preferred & Com.

September 12, 1950
Utah Power & Light Co.__________________Common

October 9, 1950
Utah Power & Light Co.____________________Bonds

OFFERINGS TEMPORARILY POSTPONED
American Natural Gas Co.________________Common
Canadian Superior Oil of California, Ltd.__Common
Caspers Tin Plate Co.____________________Common
Consumers Power Co.____________________Common
Eastern Stainless Steel Corp.______________Common
Fedders-Quigan Corp. ____________________Common
Middlesex Water Co._____________________Common
Northwestern Public Service Co.____________Common
Public Service Co. of Colorado_______Debs. & Pfd.
Rochester Telephone Corp.________________Common
Safeway Stores, Inc._________________Pfd. & Com.
Southern Co. _____________________________Common
Tele-Tone Radio Corp.____________Class A & Com.
United States Plywood Corp.______________Preferred

Merry Brothers Brick & Tile Co., Augusta, Ga.
June 15 (letter of notification) 1,250 shares of 5% cumulative preferred stock. **Price**—At par ($100 per share). **Underwriter**—Johnson, Lane, Space & Co., Inc. **Proceeds**—To Ernest B. Merry, Jr., Vice-President and General Manager, the selling stockholder.

Middle South Utilities, Inc.
June 1 filed 400,000 shares of common stock (no par) to be offered to preferred stockholders of three subsidiaries—Arkansas Power & Light Co., Louisiana Power & Light Co. and Mississippi Power & Light Co. **Underwriter**—Equitable Securities Corp will serve as "dealer-manager." (See also listings of Arkansas, Louisiana and Mississippi companies elsewhere in these columns.)

Middlesex Water Co., Newark, N. J.
Feb. 9 (letter of notification) 5,200 shares of common stock offered to common stockholders at $50 per share on a one-for-five basis. **Underwriter**—Clark, Dodge & Co. **Proceeds**—To pay notes and for additional working capital. Indefinitely postponed.

Miles Laboratories, Inc., Elkhart, Ind.
June 23 (letter of notification) 2,500 shares of common stock (no par). **Price**—$16.50 per share. **Underwriter**—Cohu & Co., New York City. **Proceeds**—To two selling stockholders. Offering date indefinite.

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.

● **Mines Management, Inc., Wallace, Ida.**
July 18 (letter of notification) 250,000 shares of common stock. **Price**—25 cents per share. **Underwriter** — None. **Proceeds**—For working capital and to make contract payments. **Office**—507 Bank St., Wallace, Idaho.

● **Mission Appliance Corp., Hawthorne, Calif.**
July 24 filed 50,000 shares of 6% cumulative convertible preferred stock. **Price**—At par ($20 per share). **Underwriter**—Lester & Co., Los Angeles, Calif. **Proceeds**—To retire bank loans and install machinery and equipment in a proposed new plant to be located east of the Rocky Mountains. **Business**—Manufacturer of gas and electric water and space heaters.

Mississippi Power & Light Co.
May 23 filed 85,000 shares of cumulative preferred stock (par 100). **Proceeds**—To be used to redeem at $110 per share plus dividends, the outstanding 44,476 shares of $6 preferred stock and for construction and other corporate purposes. **Bids**—Received by company up to noon (EDT) on June 19 but rejected. Four bids were made as follows: Union Securities Corp., $100.10 per share with a $4.80 dividend; Lehman Brothers, $100.551 with a $4.85 div.; W. C. Langley & Co. and First Boston Corp. (jointly), $100.30 with a $4.90 dividend; and Blyth & Co., Inc., Equitable Securities Corp., Shields & Co., White, Weld & Co. and Kidder, Peabody & Co. (jointly), $100.19 with a $4.90 dividend. Statement effective June 12. No further decision reached.

Mutual Credit of Cincinnati, Inc., Cincinnati, O.
June 7 (letter of notification) 1,200 shares of common stock (no par) and 1,000 shares of preferred stock (par $100). **Price**—$25 per share for common and $100 for preferred. **Underwriter**—None. **Proceeds**—To increase available capital for loan business. **Office**—123 E. 6th St., Cincinnati, O.

Mutual Telephone Co., Honolulu, Hawaii (7/28)
June 27 filed $1,000,000 first mortgage bonds, series G, due 1980, and 100,000 shares of preferred stock, series C (par $10), the new preferred stock to be offered initially to common stockholders and employees of the company at rate to be filed by amendment. **Price**—Of bonds to be filed by amendment; of preferred, at par. **Underwriter**—Kidder, Peabody & Co. **Proceeds**—To pay short-term notes and toward 1950-1951 construction.

New York Pattern Co., Inc., N. Y.
July 14 (letter of notification) 2,450 shares of 7% cumulative preferred stock (par $40). **Price**—At par. **Underwriter**—None. **Proceeds**—For expansion and working capital. **Office**—220 West 19th St., New York 11, N. Y.

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. Statement effective May 22.

North American Acceptance Corp.
June 26 (letter of notification) 20,000 shares of 60-cent dividend series cumulative preferred stock (par $5). **Price**—$10 per share. **Underwriter**—None. **Proceeds**—To increase notes receivable and for working capital. **Office**—765 W. Lancaster Avenue, Bryn Mawr, Pa.

Northern Illinois Coal Corp., Chicago
May 10 (letter of notification) up to 2,000 shares of common stock (no par) to be sold at the market price (between $20 and $22 per share) by T. Howard Green, a Vice-President of the company. **Underwriter**—Faroll & Co., Rogers & Tracy and Shields & Co., Chicago.

Northwestern Public Service Co., Huron, S. D.
June 9 filed 49,200 shares of common stock (par $3) to be offered to present stockholders at rate of one share for each 10 held. **Underwriter**—A. C. Allyn and Co., Inc., New York. **Price**—To be filed by amendment. **Proceeds**—For construction expenditures. Postponed temporarily.

Ohio Oil & Gas Co.
May 5 (letter of notification) 1,100 shares of common stock now held in treasury. **Price**—50 cents per share. **Underwriter**—None. To be offered through Preston, Watt and Schoyer. **Proceeds**—Toward repayment of bank loans.

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 Petroleums Ltd. (8/7)
June 30 filed 900,000 shares of common stock (par $1-Canadian). **Price**—To be filed by amendment. **Underwriter**—Eastman, Dillon & Co. **Proceeds**—To pay bank loan and for corporate purposes, including development of oil and gas lands.

Pan American Gold Ltd., Toronto, Canada
July 20, 1948 filed 1,983,295 shares of common stock (par $1). Underwriters may be brokers. **Price**—45 cents per share. **Proceeds** — Mainly for development. Statement effective April 10, 1950.

● **Pitney-Bowes, Inc., Stamford, Conn.**
July 18 (letter of notification) up to 10,500 shares of common stock (par $2) to be subscribed for under employees' stock purchase plan. **Price** — $14.15 per share. **Proceeds**—For working capital.

● **Power Condenser & Electronics Corp., Boston**
July 17 (letter of notification) 2,250 shares of common stock (par $1) and $15,000 of 6% sinking fund debentures due 1958 to be offered in units of one $1,000 debenture and 100 shares of common stock. **Price**—$1,000 per unit. **Underwriter**—Luckhurst & Co., Inc., New York. **Proceeds**—For working capital.

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.

Public Service Co. of Colorado
June 26 filed $7,000,000 of convertible debentures, due 1960, and 100,000 shares of cumulative preferred stock (par $100). **Underwriters**—To be determined by competitive bidding, along with prices, interest rate on debentures and dividend rate on preferred stock. Probable bidders for bonds: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc., and Smith, Barney & Co. (jointly); Lehman Brothers; First Boston Corp.; Harris, Hall & Co., Inc.; Kidder, Peabody & Co. Probable bidders for preferred: Glore, Forgan & Co. and W. C. Langley & Co. (jointly); Lehman Brothers; First Boston Corp., Boettcher & Co.

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and Bosworth, Sullivan & Co.; Kuhn, Loeb & Co. and Harris, Hall & Co., Inc. (jointly.) **Proceeds**—For construction. Temporarily postponed.

Raytheon Manufacturing Co. (8/1)
July 12 filed 289,459 shares of common stock (par $5), to be offered to holders of common stock of record around Aug. 1 at rate of one share for each five shares held; rights to expire about Aug. 14. **Price**—To be filed by amendment. **Underwriters**—Hornblower & Weeks and Paine, Webber, Jackson & Curtis. **Proceeds**—For working capital. **Business**—Electronic tubes and equipment for television and radio sets.

Resort Airlines, Inc., Pinehurst, N. C.
June 19 (letter of notification) 13,547 shares of common capital stock. **Price**—At par ($1 per share). **Underwriter**—None. **Proceeds**—For working capital.

Rochester (N. Y.) Telephone Corp.
June 29 filed 125,000 shares of common stock (par $10) to be offered to present stockholders at rate of one new share for each four held. **Price**—To be filed by amendment. **Underwriter**—The First Boston Corp., New York. **Proceeds**—For general corporate purposes, including construction and repayment of a loan. Offering postponed.

Rocky Mountain Textile Mills, Inc., Denver, Colorado
July 11 (letter of notification) $150,000 of 5% convertible sinking fund debentures, due 1960, and 15,000 shares of common stock (par $10), to be sold separately or in units of one $1,000 debenture and 100 shares of stock. **Price**—Separately, at par, and in units, at $2,000 each. **Underwriters**—Boettcher & Co. and Peters, Writer & Christensen, Inc., Denver, Col. **Proceeds**—For new machinery, equipment and working capital.

Royal Television & Electronics, Inc., Washington, D. C.
June 22 (letter of notification) 600,000 shares of common stock (par 10 cents). **Price**—50 cents per share. **Underwriter**—None. **Proceeds**—To buy television set components. **Office**—714 Fifth St., N. W., Washington, D. C.

Safeway Stores, Inc.
June 8 filed 321,000 shares of cumulative preferred stock (par $100) and 257,064 shares of common stock (par $5). The common will be offered to common stockholders at the rate of one new share for each 10 shares held. Of the preferred 205,661 shares will be offered in exchange for 186,965 shares of outstanding 5% preferred stock, along with an unspecified cash payment. **Underwriter**—Merrill Lynch, Pierce, Fenner & Beane will offer the unsubscribed common shares as well as 85,114 shares of preferred not needed for the exchange and 30,225 shares which will be created by converting that many of the old 5% shares brought in under the exchange into new preferred stock. Any old preferred not exchanged will be redeemed on Oct. 1. **Price**—To be filed by amendment, along with the dividend rate on the new preferred. **Proceeds**—To redeem the unexchanged 5% stock, make cash payments on exchange, and toward the prepayment of $20,000,000 in bank loans. **Offering**—Temporarily postponed.

● **San Andreas Oil Co., Las Vegas, Nev.**
July 14 (letter of notification) 12,500 shares of common stock. **Price**—$2 per share. **Underwriter** — None. **Proceeds**—To develop an oil lease in San Bernardino County, Calif. **Office**—El Portal Bldg., Las Vegas, Nev.

● **Seaboard Finance Co. (8/8)**
July 20 filed 114,000 shares of $1.35 convertible preferred stock, series B (no par), to be offered in exchange on a share-for-share basis for $1.35 convertible preferred stock of company now owned by 26 participating underwriting firms. An additional 36,000 shares of the latter stock sold to two institutional investors at $25.50 per share will remain outstanding. **Price**—To be filed by amendment. **Underwriters** — The First Boston Corp. and five others. **Proceeds**—For acquisition of stock of Employees Credit Corp. and for working capital.

Seneca Oil Co., Oklahoma City, Okla.
April 27 (letter of notification) 225,782 shares of class A stock (par 50¢). **Price**—$1.25 per share. **Underwriter**—Genesee Valley Securities Co., Rochester, N. Y. **Proceeds**—To acquire properties and for working capital.

Sightmaster Corp., New Rochelle, N. Y.
June 20 (letter of notification) 18,500 shares of common stock (par 5 cents). **Price**—20 cents per share. **Underwriter**—Butler, Moser & Co., 44 Wall Street, New York, N. Y. **Proceeds**—To selling stockholder. **Office**—111 Cedar Street, New Rochelle, N. Y.

● **Sightmaster Corp., New Rochelle, N. Y.**
July 21 (letter of notification) 43,331 shares of non-convertible preferred stock (par $4) and 260,986 shares of common stock (par 5 cents) to be offered in units of one preferred share and six common shares. **Price**—$5 per unit. **Underwriter**—None. **Proceeds**—To repay a bank loan and accounts payable and for other corporate purposes. **Office**—385 North Avenue, New Rochelle, New York.

Simmel-Meservey Television Productions, Inc.
June 29 (letter of notification) 150,000 shares of common stock (par $1). **Price**—$2 per share. **Underwriter**—Koellmer & Gunther, Newark, N. J. **Proceeds**—To complete films in progress and for general corporate purposes. **Office**—321 So. Beverly Drive, Beverly Hills, Calif.

Southern Co., Atlanta, Ga.
June 23 filed 1,000,000 shares of common stock (par $5). **Underwriters**—To be determined by competitive bidding. Probable bidders are: Morgan Stanley & Co., Kidder, Peabody & Co. and Merrill Lynch, Pierce, Fenner & Beane (jointly); Blyth & Co., Inc. and Bear, Stearns & Co. (jointly); Lehman Brothers; Union Securities Corp. and Equitable Securities Corp. (jointly); Harriman Ripley & Co., Inc. **Proceeds**—To purchase shares of subsidiaries in order to assist them in financing new construction. Temporarily postponed.

● **Southern Fire & Casualty Co., Knoxville, Tenn.**
July 17 (letter of notification) 2,000 shares of capital stock (no par). **Price** — $9.50 per share. **Underwriter**—None. **Proceeds** — For working capital. **Office** — 4277 Lyons View Pike, Knoxville, Tenn.

Southwest Natural Gas Co., Shreveport, La.
June 26 (letter of notification) 13,500 shares of common stock to be sold by Ronald M. Craigmyle, at market (about $7.37½ per share) through Craigmyle, Pinney & Co., New York City.

Standard Oil Co. (New Jersey)
July 14 filed an unspecified number of shares of capital stock (par $25), to be offered in exchange for 500,000 shares of outstanding capital stock of Creole Petroleum Corp. at rate of eight Standard Oil shares for 15 Creole shares. **Purpose**—To increase holdings of Creole stock to 95% from present 93.12%.

● **Suburban Gas Service, Inc., Ontario, Calif.**
July 14 (letter of notification) 6,900 shares of 6% convertible preferred stock, series B, (par $25) and 41,400 shares of common stock (par $1). Of the common stock 34,500 shares will be reserved for conversion of preferred stock on a five-for-one basis. **Price**—For preferred, $25 per share; for common, $4 per share. **Underwriters**—Lester & Co., Wagenseller & Durst, Inc., Los Angeles, Calif. **Proceeds**—To expand business. **Office**—212 West B St., Ontario, Calif.

Sudore Gold Mines Ltd., Toronto, Canada
June 6, 1949, 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.

● **Tappan Stove Co., Mansfield, Ohio**
July 17 (letter of notification) 2,000 shares of capital stock (par $5), purchased by The Citizens National Bank & Trust Co., trustee, on the open market, at an estimated price of $20 per share, for use under the company's retirement plan.

Tele-Tone Radio Corp., N. Y. City
June 22 filed 135,000 shares of common stock (par $1). **Price**—$6 per share. **Underwriters** — Sills, Fairman & Harris; Straus & Blosser. **Proceeds**—To 15 selling stockholders. Temporarily postponed.

Tele-Tone Radio Corp., N. Y. City
June 22 filed 100,000 shares of cumulative convertible class A stock. **Price**—At par ($10 per share). **Underwriters**—Sills, Fairman & Harris; Straus & Blosser. **Proceeds** — For additional plant facilities and for working capital. Temporarily postponed.

Television Associates, Inc., Michigan City, Ind.
June 26 (letter of notification) 15,623 shares of common stock. **Price**—At par ($5 per share). **Underwriter**—None. **Proceeds**—To cancel existing indebtedness and for working funds. **Office**—East Michigan Street, Michigan City, Ind

● **Texas Consolidated Oils (formerly Texmass Petroleum Co.)**
July 24 filed voting trust certificates representing shares of $5 cumulative preferred stock, class A (no par). **Voting Trustees**—John F. Chase, Lindsey Hooper and Forrester A. Clark. **Office**—Dallas, Tex.

Transvision, Inc.
June 13 filed 300,000 shares of common stock (par $1). **Price**—2.75 per share. **Underwriter**—Blair F. Claybaugh & Co., New York. **Proceeds**—To increase working capital and repay loans from RFC and Croydon Syndicate, Inc.

● **United Profit-Sharing Corp., N. Y. City**
July 21 (letter of notification) 1,400 shares of common stock (par 25 cents). **Price**—At market (about 50 cents per share). **Underwriter**—To be sold on the New York Curb Exchange through Tucker, Anthony & Co. **Proceeds**—To selling stockholder.

United States Plywood Corp.
June 19 filed 60,000 shares of series B cumulative convertible preferred stock (par $100). **Underwriter**—Eastman, Dillon & Co., New York. **Price**—To be filed by amendment along with dividend rate. **Proceeds**—To increase working capital and for other corporate purposes, including the erection of a new plant at Anderson, Calif. Temporarily postponed.

● **Upson-Walton Co., Cleveland, Ohio**
July 12 (letter of notification) 28,584 shares of common stock (par $1), of which 24,284 shares are offered to common stockholders of record July 7 at rate of one new share for each five held, with rights expiring Aug. 10, and 4,300 shares are offered to employees. **Price**—$5 per share. **Proceeds**—To erect new office building. **Office**—700 Perry-Payne Bldg., Cleveland, O.

Vieh Co., Columbus, Ohio
May 8 (letter of notification) 19,500 shares of common stock at $10 per share. **Underwriter**—The Ohio Co. **Proceeds**—To buy the assets of Brodhead-Garrett Co. and for working capital.

● **West Disinfecting Co.**
July 25 (letter of notification) 3,000 shares of common stock (par 50 cents). **Price**—At market (about $10 per share). **Underwriter**—Coffin & Burr, Inc., New York. **Proceeds**—To selling stockholder. **Office**—42-16 West Street, Long Island City, N. Y.

Western Carolina Telephone Co., Franklin, N. C.
June 22 (letter of notification) 1,406 shares of capital stock to be offered to stockholders at rate of one share for each two shares held. **Price**—At par ($50 per share). **Underwriter**—None. **Proceeds**—To pay bank loans.

● **Western Gold Mines, Inc., Carson City, Nev.**
July 13 (letter of notification) 3,000 shares of common stock (par 10 cents) to be issued to creditors. **Office**—First National Bank Bldg., Carson City, Nev.

Western Gypsum Corp., Carson City, Nev.
May 29 (letter of notification) 300,000 shares of capital stock. **Price**—At par ($1 per share). **Underwriter**—Phil Morse, Trustee, P. O. Box 1283, Kingman, Ariz. **Proceeds**—For equipment, real estate, working capital and general corporate purposes. **Office**—Virginia and Truckee Building, Carson City, Nev.

Western Oil Fields, Inc., Denver, Colo.
May 5 (letter of notification) 600,000 shares of common stock and a $50,000 note carrying interest at 4% payable from percentage of oil sold. This note will carry with it as a bonus 500,000 shares of stock. **Price**—Of stock, 25¢ per share. **Underwriter**—John G. Perry & Co., Denver. **Proceeds**—To drill for oil in Wyoming and for working capital.

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. Statement effective May 23.

Wood River Concentrating Co.
June 26 (letter of notification) 1,000,000 shares of common stock to be sold at 10 cents per share and 125,000 shares to be issued to directors of the company for their services. **Underwriter**—Lackman & Co., Hailey, Idaho. **Proceeds**—To build a mill for small mine operators. **Address**—Box 455, Hailey, Idaho.

Prospective Offerings

Aetna Finance Co.
June 3 it was reported company may do some financing later this year. Traditional underwriter: Goldman, Sachs & Co.

Alabama Power Co.
May 12 company reported to be considering issue in late summer of about $10,000,000 preferred stock. Probable bidders: Morgan Stanley & Co.; Blyth & Co., Inc.; Union Securities Corp. and Equitable Securities Corp. (jointly); First Boston Corp.; Drexel & Co. Proceeds will be used for construction expenditures.

American Investment Co. of Illinois
May 24 announced company is planning to file shortly a registration statement covering 160,000 shares of prior preferred stock (par $50). **Price**—To be filed by amendment. **Underwriters**—Glore, Forgan & Co.; Kidder, Peabody & Co., and Alex. Brown & Sons, and others. **Proceeds**—For additional working capital.

American Natural Gas Co.
May 18 it was announced company plans issuance of 380,607 shares of common stock (no par) to common stockholders at rate of one share for each eight shares held. **Price**—To be filed by amendment. **Underwriters**—To be determined by competitive bidding. Probable bidders: Glore, Forgan & Co. and W. C. Langley & Co. (jointly); Blyth & Co., Inc.; Lehman Brothers; The First Boston Corp. **Proceeds**—To increase investments in stock of Michigan Consolidated Gas Co. and Milwaukee Gas Light Co. **Offering**—Postponed indefinitely.

Associated Natural Gas Co.
June 14 it was announced company plans issuance of $234,000 common stock and $450,000 of 18-year 4½% first mortgage bonds, plus a 5-year bank loan of $250,000, to finance construction of a new pipe line project in southeastern Missouri, authorized by FPC, to cost $934,000.

Associated Telephone Co., Ltd.
June 15 it was announced that the company's present intention is to raise approximately $10,000,000 of additional funds by selling, in the fall of the current year, 50,000 additional shares of cumulative preferred stock (par $20), a like amount of common stock (par $20) and $8,000,000 of first mortgage bonds, series G. **Underwriters**—For preferred stock, probably Paine, Webber, Jackson & Curtis, Stone & Webster Securities Corp. and Mitchum, Tully & Co. For the bonds, to be determined by competitive bidding. Probable bidders for bonds: Halsey, Stuart & Co. Inc.; Kuhn, Loeb & Co. and Salomon Bros. & Hutzler (jointly); Lehman Brothers; Paine, Webber, Jackson & Curtis and Stone & Webster Securities Corp. (jointly); White, Weld & Co. and Kidder, Peabody & Co. (jointly); Equitable Securities Corp. and Harris, Hall & Co. (Inc.) (jointly). **Proceeds**—For construction program.

Big Bear Markets of Michigan, Inc.
June 9 it was announced company plans early registration of 100,000 shares of additional capital stock. **Underwriter**—J. G. White & Co., New York.

● **Canada (Dominion of)**
July 25 it was reported that registration is expected about the middle of September of a new issue of $100,000,000 bonds, the proceeds of which are to be used to refund on Oct. 1, next, a like amount of 4% external bonds, due Oct. 1, 1960, which are payable in U. S. dollars. Probable underwriter—Morgan Stanley & Co.

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 Maine Power Co.**
July 24 New England Public Service Co. applied to the SEC for authority to sell 260,000 shares of its holdings (1,315,181 shares) of the common stock of Central Maine Power Co. at competitive bidding prior to Oct. 1, 1950. Probable bidders: Blyth & Co., Inc., and Kidder, Peabody & Co. (jointly); Coffin & Burr, Inc.; First Boston Corp.; Harriman Ripley & Co., Inc. and Goldman, Sachs & Co. (jointly). The proceeds would be used to pay outstanding notes of NEPSCO.

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.

Central Telephone Co.
June 22 company announced it plans to file a registration statement late in July covering 90,000 shares of common stock (par $10), which are to be issued to common stockholders of Central Electric & Gas Co. on a 1-for-13 basis. **Dealer Managers**—Paine, Webber, Jackson & Curtis and Stone & Webster Securities Corp. **Proceeds**—Mainly to retire $850,000 short-term loans.

Central Vermont Public Service Corp.
May 4, it was announced that if offer to acquire Green Mountain Power Corp. becomes effective, it plans to refund outstanding $7,715,000 first and refunding 3¾% bonds due 1963 of Green Mountain by the issue and sale for cash of first mortgage bonds of a new series and of a new series of preferred stock, $100 par value. Probable bidders for bonds: Halsey, Stuart & Co. Inc.; probable bidders for preferred: W. C. Langley & Co. and Hemphill, Noyes, Graham, Parsons & Co. (jointly).

● **Chenango & Unadilla Telephone Co.**
July 17 company applied to New York P. S. Commission for authority to issue $1,000,000 of mortgage bonds, $357,000 of preferred stock and $300,000 of common stock.

Chicago & Western Indiana RR.
Jan. 31 reported company will probably issue in the near future some bonds to refund the 4% non-callable consolidated first mortgage bonds due July 1, 1952. Refunding of the first and refunding mortgage 4¼% bonds, series A, due Sept. 1, 1962, is also said to be a possibility. Probable bidders: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co.; Lee Higginson Corp.; Harris, Hall & Co. (Inc.); Drexel & Co.; Kuhn, Loeb & Co. and Salomon Bros. & Hutzler (jointly); Harriman, Ripley & Co., Inc.; First Boston Corp.; Lehman Brothers; Paine, Webber, Jackson & Curtis; Kidder, Peabody & Co.

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.
May 15, Ralph H. Tapscott, Chairman, said the company will require approximately $90,000,000 of "new money" through the sale of securities. No permanent financing is contemplated before this fall, however, and current expenditures are being financed by short-term loans, of which $16,000,000 are now outstanding. It is anticipated that $257,000,000 will be needed for the construction program over the next four years. Probable bidders: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co.; First Boston Corp.

Eastern Utilities Associates
May 23 it was announced that under a plan filed with the SEC a new company will be formed to acquire the assets of Eastern, and of the Brockton Edison Co., Fall River Electric Light Co. and Montaup Electric Co. and will issue and sell $22,000,000 of first mortgage and collateral trust bonds and $8,500,000 of preferred stock.

● **El Paso Electric Co., El Paso, Tex.**
July 19 it was announced company plans to refund $3,500,000 bank loans (authority for which is sought from FPC) with permanent financing prior to March 31, 1951, their maturity date. The last issue of debentures was placed privately last September with the John Hancock Mutual Life Insurance Co.

Elliott Co.
May 26 it was reported that between 47,000 and 48,000 shares of this company's common stock may be offered some time in the near futuer through F. Eberstadt & Co.

Emerson Radio & Phonograph Corp.
May 29, Benjamin Abrams, President, announced that company may use unissued 1,240,390 shares of capital stock (par $5) to acquire additional plant facilities if needed. Traditional underwriter: F. Eberstadt & Co.

Florida Power Corp.
July 10 company reported to be contemplating issuance of $25,000,000 new bonds, the proceeds to be used to refund the outstanding 3¼% and 3⅜% issues. Probable bidders: Halsey, Stuart & Co., Inc.; Glore, Forgan & Co. and W. C. Langley & Co. (jointly); First Boston Corp.; Kidder, Peabody & Co. and Merrill Lynch, Pierce, Fenner & Beane (jointly); Harriman Ripley & Co., Inc. Not considered imminent.

Florida Power & Light Co.
June 9 stockholders approved creation of 50,000 shares of $4.50 cumulative preferred stock (par $100). These shares are soon expected to be offered to finance part of construction program which is expected to require approximately $25,000,000 new capital through 1952.

Granite City Steel Co.
July 11, company announced stockholders will vote Aug. 17 on increasing authorized common stock from 400,000 shares to 1,000,000 shares, and directors approved tentative plans for a proposed offering to stockholders of rights to subscribe to additional common stock. The proceeds will be used to reimburse company for capital expenditures already made and to provide funds for further capital expenditures contemplated. A registration statement is expected to be filed with the SEC at an appropriate time. Traditional underwriter: Glore, Forgan & Co.

Great Northern Ry. (8/2)
Bids will be received by the company, at Room 905, 2 Wall Street, New York, N. Y., at or before noon (EDT) on Aug. 2 for the purchase from it of $14,130,000 equipment trust certificates, series of 1950, to mature in 30 equal semi-annually instalments beginning on Feb. 1, 1951 and ending Aug. 1, 1965. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Harriman Ripley & Co., Inc. and Lehman Brothers (jointly).

Holeproof Hosiery Co.
June 22 it was announced that registration statement is expected to be filed shortly covering not less than 25% and not exceeding 33⅓% of the stock held by principal stockholders following proposed 7½-for-1 stock split up to be voted upon Aug. 16.

Houston Lighting & Power Co.
April 14, S. R. Bertron, President, estimated construction expenditures for 1950 between $19,000,000 and $20,000,000. This estimate may be raised to accommodate increased power demands on the system. If this is the case, more financing will be necessary, he added. This may be done through additional common or preferred stock financing.

Indiana Gas & Water Co.
July 5 it was reported that the company may issue $9,500,000 of refunding mortgage bonds. Probable bidders: Halsey, Stuart & Co. Inc.; First Boston Corp.; Harriman Ripley & Co., Inc. and Blyth & Co., Inc. (jointly); Kidder, Peabody & Co. Expected in August.

Iowa Southern Utilities Co.
April 26 company said to plan sale of first mortgage bonds to finance part of its $3,200,000 construction program for 1950. Probable underwriter: The First Boston Corp.

Kaye-Halbert Corp., Culver City, Calif.
June 8, Harry Kaye, President, announced that "it is possible from time to time that additional financing might be undertaken to facilitate the further growth and development of the business." Office—3555 Hayden Ave., Culver City, Calif.

La Crosse Telephone Co.
June 6, company announced that it has advised the Wisconsin P. S. Commission that it expects to sell $1,000,000 of long-term bonds and not less than $600,000 additional common stock. Proceeds will be used to repay $1,300,000 bank loans, due in September, 1951, and the remaining $300,000 will go to Central Telephone Co., parent, to repay temporary advances for construction. Probable underwriter: Paine, Webber Jackson & Curtis.

Long Island Lighting Co.
May 18 it was reported company's construction program in 1950 will cost $20,000,000 which is currently being financed by up to $12,000,000 bank loans pending permanent financing which may be done following effectiveness of consolidation plan. Probable bidders for any new securities include Smith, Barney & Co.

Lorillard (P.) Co.
April 4, Herbert A. Kent, President, said: "It may be necessary to do some financing" before Aug. 1, 1951 to redeem $6,195,450 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 underwriters: Lehman Bros and Smith, Barney & Co.

Macy (R. H.) & Co.
May 8 it was reported that company is considering issuance of $10,000,000 of new securities, either debentures or preferred stock. Traditional underwriters — Lehman Brothers; Goldman, Sachs & Co.

Maine Central RR. (8/16)
July 10, company applied to ICC for authority to issue $5,600,000 of equipment trust certificates. Probable bidders: Halsey, Stuart & Co. Inc.; Harriman Ripley & Co. and Lehman Brothers (jointly); Salomon Bros. & Hutzler.

Market Basket, Los Angeles, Calif.
May 25 company announced it plans sale of 4,452 shares of authorized but unissued, preferred stock, series C, (par $15) and an additional 30,000 shares of preferred stock, (par $15) to be authorized. Further details not available.

● **Michigan Bumper Corp., Grand Rapids, Mich.**
July 20 stockholders voted to increase authorized common stock (par $1) from 250,000 shares to 500,000 shares, with holders of present outstanding stock to have no preemptive rights.

● **Michigan Consolidated Gas Co.**
July 25 it was reported company expects to sell between $20,000,000 and $25,000,000 of first mortgage bonds this fall. **Underwriters** — To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; White, Weld & Co. and Lehman Brothers (jointly); Smith, Barney & Co. **Proceeds**—To pay off short term bank loans and for new construction costs. Additional funds for construction will also be raised through the sale of additional common stock to American Natural Gas Co., parent.

● **Michigan-Wisconsin Pipe Line Co.**
July 25 company received SEC authority to borrow not more than $20,000,000 from banks. A permanent financing program provides for the elimination of these bank loans prior to their maturity, July 1, 1951, and such program will include the issuance and sale of $12,000,000 additional bonds and $3,000,000 of additional common stock. Previous debt financing was placed privately.

Milwaukee Gas Light Co.
June 21 it was announced that the company's permanent financing program, expected to be consummated prior to October, 1950, will involve refinancing of $13,334,000 of first mortgage 4½% bonds due 1967, $2,000,000 of 7% preferred stock and bank loans (about $8,500,000) through the issuance of new senior securities and common stock (American Natural Gas Co. now owns 97.7% of presently outstanding common stock). Probable bidders for bonds: Halsey, Stuart & Co. Inc.; Glore, Forgan & Co., and Lehman Brothers (jointly); Kidder, Peabody & Co.; Harriman Ripley & Co.; Smith, Barney & Co., Kuhn, Loeb & Co. and Blyth & Co., Inc. (jointly).

Mountain Fuel Supply Co. of Utah
June 6 company announced plans to create a new firm to take over its exploration and development of natural gas and oil operations. It will be financed, in part, through public sale by the new unit of 1,000,000 shares of capital stock (par $8). Financing plan submitted by First Boston Corp. Expected this Fall.

Mountain States Power Co.
May 17 the stockholders voted to increase the authorized preferred stock (par $50) from 75,000 to 150,000 shares. There are presently outstanding 72,993 shares. Probable underwriter: Merrill Lynch, Pierce, Fenner & Beane.

New England Power Co.
April 24 it was estimated that about $37,000,000 new financing will be required to pay construction costs estimated at $40,000,000 for 1950 to 1952. Present plans are to issue in late summer or early fall $10,000,000 bonds and 50,000 shares of preferred stock. Probable bidders: (1) For bonds—Halsey, Stuart & Co., Inc.; (2) for bonds and preferred: Harriman Ripley & Co. Inc.; Lehman Brothers; Kidder, Peabody & Co.; First Boston Corp.; Merrill Lynch, Pierce, Fenner & Beane; (3) for preferred:—W. C. Langley & Co.

New Hampshire Electric Co.
July 18 company informed SEC it plans to issue and sell at competitive bidding $3,600,000 of first mortgage sinking fund bonds, series A, due 1975. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Kidder, Peabody & Co. **Proceeds**—To retire (a) $1,880,000 first mortgage bonds, series A and B due 1963, and (b) $1,250,000 of bank loans due Dec. 31, 1952; and the balance for construction purposes.

New York State Electric & Gas Corp.
May 24 it was reported company expects to sell $14,000,000 of bonds and $6,000,000 of new preferred stock in June, 1951, with an additional $10,000,000 of new securities to be sold in 1952, the proceeds to be used to pay, in part, cost of new construction estimated to total $55,800,000 in the next three years. Probable bidders for bonds and preferred: Blyth & Co., Inc., and Smith, Barney & Co. (jointly); First Boston Corp. and Glore, Forgan & Co. (jointly); Harriman Ripley & Co. Inc. Probable bidders for bonds only: Halsey, Stuart & Co. Inc.

Niagara Mohawk Power Corp.
Jan. 19 announced that construction program will necessitate in 1950 not more than $25,000,000 of additional debt or equity financing, including short-term bank loans. Probable bidders for bonds: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co.; The First Boston Corp.; Kuhn, Loeb & Co.

Pacific Northwest Pipeline Corp.
June 30 company sought FPC authority to build a 2,175 mile pipeline system—from southern Texas to Washington—at a cost of $174,186,602. Negotiations for major financing requirements are now in process of being completed.

Pacific Power & Light Co.
April 13, Paul McKee, Presdient, disclosed that a group of 16 purchasers who acquired company's 500,000 shares of common stock from American Power & Light Co. on Feb. 6, last, have informed him of their intention to

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make a public distribution of these shares at earliest practical date, which may be shortly after Aug. 6. A. C. Allyn & Co., Inc. and Bear, Sterns & Co. headed this group. The 500,000 shares of common stock are being split-up on a 3½-for-1 basis, all or part of which will be publicly offered. Company also expects to raise $3,000,000 in new money later this year and a similar amount in 1951. Registration of new 1,750,000 soon expected.

Pennsylvania RR.

July 12 company reported planning issuance and sale early in September of $10,005,000 additional equipment trust certificates, series Z, to mature annually April 1, 1951 to April 1, 1965. Probable bidders: Halsey, Stuart & Co. Inc.; Harriman Ripley & Co., Inc. and Lehman Brothers (jointly); Salomon Bros. & Hutzler.

Philadelphia Electric Co.

May 5 it was said that there will be additional financing later this year, with probably some common stock to be underwritten by Drexel & Co. Bond financing would be competitive, and preferred stock would be either negotiated or competitive.

Plantation Pipe Line Co.

July 6, it was reported that this company, an affiliate of Standard Oil Co. (New Jersey), is contemplating financing of about $50,000,000, part of which is expected to be placed privately and the balance sold to the public. **Underwriter**—May be Morgan Stanley & Co. **Proceeds**—To be used to build new pipe line, with construction to begin early next year and completion scheduled for early 1952.

Public Service Electric & Gas Co.

April 17 stockholders approved the 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.

Reynolds Metals Co.

June 7 company announced stockholders will vote Aug. 9 on increasing authorized common stock from 1,500,000 shares to 2,500,000 shares. The increase is being sought to make additional shares available for any future need. Probable underwriter: Reynolds & Co.

St. Louis-San Francisco Ry. (8/2)

Bids will be received by the company, at Suite 1524-8, 120 Broadway, New York, N. Y., at or before noon (EDT) on Aug. 2 for the purchase from it of $3,705,000 equipment trust certificates, series G, to mature in 15 equal annual instalments. Probable bidders: Halsey, Stuart & Co. Inc.; Harriman Ripley & Co., Inc. and Lehman Brothers (jointly); Salomon Bros. & Hutzler; Harris, Hall & Co. (Inc.).

San Diego Gas & Electric Co.

July 3 it was reported that company may issue late in September or early October between $8,000,000 and $10,000,000 of bonds. Probable bidders: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc.; White, Weld & Co. and Shields & Co. (jointly): First Boston Corp.; Union Securities Corp.; Merrill Lynch, Pierce, Fenner & Beane; Lehman Brothers and Bear, Stearns & Co. (jointly); Salomon Bros. & Hutzler.

Schering Corp.

May 4, it was announced that the company's entire common stock issue (440,000 shares) was expected to be registered with the SEC in the near future and offered for sale to the highest bidder by the Office of Alien Property. 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.; new company to be formed by United States & International Securities Corp.; Dillon, Read & Co.; F. S. Moseley & Co.; Riter & Co.

Sierra Pacific Power Co.

June 2 company announced it plans to finance and permanently refund $2,200,000 of bank loans by the sale of debentures and common stock prior to Oct. 31, 1950. Probable bidders for bonds: Halsey, Stuart & Co. Inc.; Stone & Webster Securities Corp.

South Carolina Electric & Gas Co.

May 11 it was announced company plans to spend in the next four years $34,000,000, of which $11,600,000 will be spent in 1950. It is estimated that $6,000,000 of new money will be required this year, to be raised by the sale of $3,000,000 of bonds and 60,000 shares of preferred stock (par $50). Probable bidders include Lehman Brothers.

South Jersey Gas Co.

June 15 United Corp. proposed, under its amended plan filed with SEC, to sell its holdings of 154,231.8 shares of South Jersey Gas Co. common stock as to which an exemption from competitive bidding is requested.

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 Natural Gas Co.

June 21 SEC approved temporary bank borrowings of up to $20,000,000 to mature July 1, 1951, the proceeds to be used for construction program, estimated at $32,520,000 for 1950-1951. Permanent financing is expected to involve the issuance and sale of at least $10,000,000 of first mortgage bonds, with respect to which a declaration is expected to be filed prior to Nov. 1, 1950, to be followed by additional financing early in 1951, involving the sale of at least $5,000,000 additional common stock which will be offered to stockholders under preemptive rights. Probable bidders for bonds: Halsey, Stuart & Co. Inc.; Blyth & Co. and Kidder, Peabody & Co. (jointly); First Boston Corp.

Southern Utah Power Co.

June 8 SEC authorized trustee of Washington Gas & Electric Co. to undertake negotiations with "all interested parties" for the sale of its common stock interest (62,910 shares) in Southern Utah Power Co. for not less than a $550,000 base price, plus adjustments.

Tampa Electric Co.

April 25 it was announced company plans to raise $4,700,000 in new money through sale of additional securities, the proceeds to finance in part 1950 construction expenditures.

Tennessee Gas Transmission Co.

Jan. 25 Gardiner Symonds, President, announced that "some bonds will be sold late this summer at competitive bidding, but the amount has not yet been decided." Banking circles speculated that a $40,000,000 bond sale would be forthcoming. Probable bidders: Halsey, Stuart & Co. Inc.; Stone & Webster Securities Corp. and White, Weld & Co. (jointly); Kuhn, Loeb & Co. and A. C. Allyn & Co. (jointly). The proceeds would be used in part to pay for construction.

Tide Water Power Co.

May 4 stockholders have approved an increase in the authorized common stock to 1,000,000 shares from 500,000 shares. It was understood that 125,000 shares may be sold. Traditional underwriters: Union Securities Corp.; W. C. Langley & Co.

● **Toronto (Ont.), Canada**

July 25 the Board of Control authorized the sale in the United States of $15,000,000 debentures to provide funds for construction of Toronto's subway. The proposal provides for borrowing at an average interest rate of 2.84%. It is understood that the new debentures are to be placed privately with institutional investors through a banking group headed by Dominion Securities Corp. and Harriman Ripley & Co., Inc.

● **United Gas Pipe Line Co.**

July 25 filed with FPC for authority to build 1,130 miles of new lines in Texas, Louisiana and Mississippi at a cost of about $110,000,000, including new facilities. It is probable that the bulk of this new capital will be raised through the public sale of new securities.

Utah Natural Gas Co.

June 5 it was announced company plans to build a 325-mile 22-inch pipe line in Utah to cost approximately $25,000,000. Hearings will be held before the Utah P. S. Commission in August or September, after a study of the project.

Utah Power & Light Co. (9/12) (10/9)

July 15 it was reported that registration is expected about Aug. 2 of $8,000,000 of additional first mortgage bonds to be sold through competitive bidding, and 166,604 additional common shares to be offered to present shareholders in ratio of one new share for each eight shares held. Proceeds from the bond and stock sales will be used to repay short-term loans in connection with the company's construction program, and for carrying forward the expansion program into 1951. Probable bidders for bonds: Halsey, Stuart & Co. Inc.; Lehman Brothers and Bear, Stearns & Co. (jointly); Union Securities Corp. and Smith, Barney & Co. (jointly); First Boston Corp. and Blyth & Co., Inc.; Harriman Ripley & Co., Inc.; Kidder, Peabody & Co.; White, Weld & Co.; Salomon Bros. & Hutzler. Probable bidders for common: Blyth & Co., Inc.; Union Securities Corp. and Smith, Barney & Co. (jointly); Lehman Brothers; W. C. Langley & Co. and Glore, Forgan & Co. (jointly); Kidder, Peabody & Co. and Merrill Lynch, Pierce, Fenner & Beane (jointly). Common stock expected about Sept. 12 and bonds about Oct. 9.

Valley Gas Pipe Line Co., Inc., Houston, Tex.

June 27 company sought FPC authorization to construct a $144,500,000 pipeline project to carry natural gas from the Gulf Coast and off-shore fields in Louisiana and Texas to markets in Indiana, Ohio and Michigan. Company is now in process of completing negotiations for its major financing requirements.

Virginia Electric & Power Co.

June 20 it was announced company expects to offer through competitive bidding not exceeding $20,000,000 of first and refunding mortgage bonds. Probable bidders: Halsey, Stuart & Co. Inc.; Union Securities Corp.; Kuhn, Loeb & Co.; White, Weld & Co.; Stone & Webster Securities Corp.; Salomon Bros. & Hutzler. Proceeds will be used to finance construction program. Expected this Fall.

Vulcan Detinning Co.

July 18, A. C. Buttfield, President, announced that, following approval of proposed two-for-one split-up of the common stock to be voted upon Aug. 17, Continental Can Co., Inc., contemplates public offering of part of its Vulcan common stock holdings (which now total 59.2%). Early registration with SEC expected. **Underwriters**—Goldman, Sachs & Co. and Lehman Brothers.

Warner (William R.) & Co., Inc.

June 12 Elmer H. Bobst, President, announced that corporation proposes recapitalization and change in name to Warner-Hudnut, Inc.; also to file a registration statement with the SEC covering the sale of approximately 325,000 shares of new common stock (par $1) to the public through a nation-wide group of underwriters headed by F. Eberstadt & Co., Inc.

● **Western Pacific RR.**

July 17 it was reported company plans issuance and sale of $22,000,000 mortgage bonds. **Probable bidders:** Halsey, Stuart & Co. Inc.; Blyth & Co., Inc.; Lehman Brothers and Bear, Stearns & Co. (jointly); Merrill Lynch, Pierce, Fenner & Beane. **Proceeds**—To retire first mortgage 4% bonds and convertible income 4½% bonds due 2014.

● **Wilcox-Gay Corp.**

July 14 it was announced that in connection with proposed acquisition of Garod Radio Corp. and Majestic Radio & Television, Inc., Wilcox-Gay Corp. plans public offering of a new issue of stock. **Traditional Underwriter**—Gearhart, Kinnard & Otis. **Proceeds** — For working capital.

Worcester County Electric Co.

April 25 company reported planning issuance of $10,000,000 first mortgage bonds. Probable bidders: Halsey, Stuart & Co. Inc.; Harriman Ripley & Co., Inc.; Lehman Brothers; Kidder, Peabody & Co.; First Boston Corp.; Merrill Lynch, Pierce, Fenner & Beane

Our Reporter's Report

The corporate bond market continues virtually dormant with the possible exception of the income obligations of the railroads, and there is little to indicate any early general pickup in the new issue market.

True, Columbia Gas System has called for bids to be returned next Tuesday on $90,000,000 of new debentures, largely a refunding operation, but past that there is nothing really important in the immediate offing.

Meanwhile, however, the turn toward revival of wartime taxation, with higher rates indicated for individuals and a jacking-up of excess profits levies due for corporations, has turned interest sharply to the tax exempt market.

Municipals literally have run wild the past week or 10 days with indicated average yields having been pared some 10 basis points in that period. How much of the current activity is for the account of actual investors who intend to put the bonds away is a matter of conjecture.

Observers are convinced that a goodly portion of the current buying reflects purchases by traders in anticipation of a "mark-up" as the administration unfolds its actual tax aims.

But for the moment the market is roaring along on the high road and new borrowers are naturally profiting.

Columbia Gas Debentures

Next Tuesday will bring the opening of bids for Columbia Gas' new $90,000,000 of debentures with prospective bidders slated to discuss final details with company officials today.

This company recently completed one of the year's largest single undertakings, involving $110,000,000 of debentures and though some bonds were around when the syndicate dissolved, it is evident that the situation has been pretty thoroughly cleared up now.

The current operation is chiefly refunding and intended to replace $45,000,000 of 3¼s, due 1973 and $33,000,000 of 3s due 1974, with the new issue. The indicated balance would be added to funds for construction purposes. Market observers are convinced that only proper "pricing" is needed to assure a satisfactory deal.

77% Subscribed

Bankers who undertook the "standby" agreement on Haloid Co.'s offering of 47,183 shares of additional common to shareholders had to take up about 11,000 shares of the issue when the "rights" expired this week.

Stockholders exercised their rights to the extent of 36,272 shares of approximately 77% of the total, indicating that interest is still high in the case of equities.

With the bankers' take-down priced at 29¼ less a dealers' concession of 75 cents a share, sponsors reported the stock moving out well with about half the balance sold the first day.

Pipe Line Financing

Financing of new natural gas pipe lines holds promise of yielding substantial new business for investment bankers in the months ahead. Whether the threat of a new war will spur or hinder such plans, however, remains to be seen.

Such operations require large amounts of steel and pumping equipment which conceivably could come rapidly under allocation if the present situation should become worse.

Currently Plantation Pipe Line Co. is planning some $50,000,000 of new financing, partly through the public sale of bonds and partly by bank loans.

Meanwhile United Gas Pipe Line Co. has just filed with FPC for permission to build 1,130 miles of new lines in Texas, Louisiana and Mississippi at a cost of about $110,000,000 including other facilities.

Doubtless the bulk of this new capital would be raised through the public sale of new securities.

Continued from page 8

The Current Misinterpretation Of Dow's Theory

ing" has its maximum merit when, as revealed in subsequent plottings, the succeeding Major Trend upward movement proves to be of the "unorthodox" type—as in the contemporary instance above cited (from June, 1949). Such discernments were illustrated when the writer emphasized in Market Comments during June-July, 1949, the statements (quotes): "The charted pattern appears to be conveying convincing evidences of 'exhaustion' of the downward force of the Major Trend."

On this matter of mechanical versus empirical performances, studies over a period of years have established the fact that unfolding current patterns have never reproduced completely for a sustained length of time an exact replica of any preceding pattern—in either or both of the two Indicators. In the light of that fact, it is interesting to note a contemporary Commentator propounding as follows: "Stock prices since 1942 have duplicated the pattern made by the price movements in 1921-1924, the base period for the long advance. The two markets look alike."

The implied intimation for the reader is of course that the similarity of patterns—so far—conveys *assurance* of another 1929 rise. Future events will bring an answer to such a contemplation by this Commentator either that he has erred in implying such a prediction or that this historical precedent has been broken.

Bull and Bear Markets

Presumably the reader might consider a discussion of the "mechanical" features of the patterns to be incomplete unless comments are included with reference to "bull" and "bear" markets. To such authorities as Robert Rhea, we attribute the version that (1) a point of change to downward in the direction of the Major Trend—as "confirmed" by the Secondary movements—marks the completion of a "bull" market and (2) a point of change to upward in the direction of the Major Trend — similarly "confirmed" — marks the completion of a "bear" market.

Under correct classification — *each "bull" market and each "bear" market is of a separate entity*—and this is true regardless of the scope or duration (time) of each completed Major Trend movement.

I have been frequently asked: how long does the average "bull" market last? Significantly that question is usually asked while a "bull" market is in force and that significant fact tends to suggest that what *really* prompts the question is whether some historical records exist to serve as a guiding answer to the actual one sought, namely, how much longer should a current "bull" market last?

The answer must invariably be: there is *no* precedent to furnish an answer carrying and guiding dependability. For many years, the historical patterns reveal bull and bear markets varying in length from about seven years to as short a period of time as six or seven months—and the peaks of the oscillations in the Major Trend swings have proved to vary widely in their vicissitudes.

In such broader views, we find radical variations in scope or degree and in time consumed and we find patterns of completed Major Trend oscillations to be "empirical" in aspects and radically at variance with any semblance of "mechanical" or "mathematical" precision. The closest approach to any semblance of congruity in the Major Trend swings is this fact: when a long bull market attains a peak which is exceptionally high historically (above 200 in the D-J Ind. Average) the more severe and intense seems to be the next ensuing "bear" market. An extreme instance was the deep "bear" market into 1932 which followed as the aftermath of the exceptionally high peak of the 1929 "bull' market. Extremes upward tend to breed corresponding extremes downward in the peak points attained by the Major Trend oscillations over the last 30 years.

Any Technician who finds himself obsessed with visions of never-ending upward prices will do well to ponder at length the patterns of these historical Major Trend oscillations over a long period of years. Such a review should help to reestablish a more realistic concept of any contemporary pattern with which he may be dealing and with respect to which he may be entertaining delusions of further upward plottings to limitless heights.

The purposes of this article will be fulfilled if the writer has succeeded in adequately refuting some of the unjustified criticisms by critics of Dow's Theory and if it has conveyed a measure of clarification on some of the fine points of discernments in the charted patterns from the standpoint of significances of their Technical meaning under correct interpretations of Dow's Theory.

FINANCIAL NOTICE

American Power & Light Company
Two Rector Street, New York 6, N. Y.

Capital Distribution in Partial Liquidation

A distribution in partial liquidation of American Power & Light Company at the rate of $6.89 a share on the Capital Stock of the Company will be paid on August 24, 1950 to stockholders of record at the close of business August 4, 1950.

D. W. JACK,
Secretary & Treasurer

MEETING NOTICE

Allied Chemical & Dye Corporation
61 Broadway, New York 6, N. Y.

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

To the Stockholders:

Pursuant to call by the Board of Directors, a special meeting of the stockholders of Allied Chemical & Dye Corporation will be held at the principal office of the Company, No. 61 Broadway, New York City, at 11:00 A.M. (Eastern Daylight Time), on Monday, July 31, 1950, to consider and take action upon recommendation of the Board of Directors that the common stock of the Company outstanding in the hands of the public be split on the basis of four shares for one and that the certificate of incorporation of the Company be amended for this and related purposes; and to transact such other business as may properly come before the meeting.

Stockholders of record as of the close of business June 28, 1950, will be entitled to vote at such meeting. The transfer books will not be closed

W. C. KING, *Secretary*

Dated, June 28, 1950.

DIVIDEND NOTICES

The American Tobacco Company
INCORPORATED
111 Fifth Avenue New York 3, N. Y.

180TH COMMON DIVIDEND

A regular dividend of Seventy-five Cents (75¢) per share has been declared upon the Common Stock of THE AMERICAN TOBACCO COMPANY, payable in cash on September 1, 1950, to stockholders of record at the close of business August 10, 1950. Checks will be mailed.

HARRY L. HILYARD, *Treasurer*

July 25, 1950

Allegheny Ludlum Steel Corporation
Pittsburgh, Penna.

At a meeting of the Board of Directors of the Allegheny Ludlum Steel Corporation held today, July 20, 1950, a dividend of fifty cents (50c) per share was declared on the Common Stock of the Corporation, payable September 30, 1950, to Common stockholders of record at the close of business on September 1, 1950. The Board also declared a dividend of one dollar twelve and one-half cents ($1.12½c) per share on the $4.50 Cumulative Preferred Stock of the Corporation, payable September 15, 1950, to Preferred stockholders of record at the close of business on September 1, 1950.

S. A. McCASKEY, Jr.
Secretary

Borden's
DIVIDEND No. 162

An interim dividend of sixty cents (60¢) per share has been declared on the capital stock of *The Borden Company*, payable September 1, 1950, to stockholders of record at the close of business August 11, 1950.

E. L. NOETZEL
July 25, 1950 *Treasurer*

INTERNATIONAL HARVESTER COMPANY

The Directors of International Harvester Company have declared quarterly dividend No. 128 of one dollar and seventy-five cents ($1.75) per share on the preferred stock payable September 1, 1950, to stockholders of record at the close of business on August 5, 1950.

GERARD J. EGER, Secretary

NATIONAL CONTAINER CORPORATION

On July 18, 1950, a **regular quarterly dividend of 15¢ per share** was declared on the Common Stock of the National Container Corporation, payable September 11, 1950 to all stockholders of record August 15, 1950.

HARRY GINSBERG,
Treasurer

DIVIDEND NOTICES

OTIS ELEVATOR COMPANY

PREFERRED DIVIDEND No. 4

A quarterly dividend of $1.00 per share on the Preferred Stock of the par value of $62.50 per share, has been declared payable September 20, 1950, to stockholders of record at the close of business on September 7, 1950.
Checks will be mailed.

BRUCE H. WALLACE, *Treasurer*
New York, July 26, 1950.

SOCONY-VACUUM OIL COMPANY
INCORPORATED

Dividend No. 158 July 25, 1950

The Board of Directors today declared a quarterly dividend of 30¢ per share on the outstanding capital stock of this Company, payable September 9, 1950, to stockholders of record at the close of business August 4, 1950.

W. D. BICKHAM, *Secretary*

THE SOUTHERN COMPANY
(INCORPORATED)

Directors of The Southern Company, at a meeting held on July 24, 1950, declared a quarterly dividend of 20 cents per share on the outstanding 13,520,000 shares of common stock of the Company, payable on September 6, 1950 to holders of record at the close of business on August 7, 1950.

L. H. JAEGER, *Treasurer*
Atlanta, Georgia

SUBURBAN PROPANE GAS CORPORATION

COMMON DIVIDEND

The Board of Directors today declared a quarterly dividend of 21 cents a share on the Common Stock, payable Aug. 15, 1950, to stockholders of record Aug. 1, 1950.

R. GOULD MOREHEAD,
July 24, 1950 *Treasurer*

Southern Railway Company

DIVIDEND NOTICE

New York, July 25, 1950.

A dividend of seventy-five cents ($0.75) per share on 1,298,200 shares of Common stock without par value of Southern Railway Company has today been declared out of the surplus of net profits of the Company for the fiscal year ended December 31, 1949, payable on September 15, 1950, to stockholders of record at the close of business on August 15, 1950.

J. J. MAHER, *Secretary.*

DIVIDEND NOTICES

TENNESSEE CORPORATION

July 19, 1950.

A dividend of thirty-five (35¢) cents per share has been declared, payable September 21, 1950, to stockholders of record at the close of business September 7, 1950.

61 Broadway J. B. McGEE
New York 6, N. Y. *Treasurer.*

UNITED STATES LINES COMPANY
Common Stock DIVIDEND

The Board of Directors has authorized the payment of a quarterly dividend of fifty cents ($.50) per share payable September 8, 1950 to holders of Common Stock of record August 25, 1950 who on that date hold regularly issued Common Stock ($1.00 par) of this Company.

CHAS. F. BRADLEY, *Secretary*
One Broadway, New York 4, N. Y.

WOODALL INDUSTRIES INC.

A regular quarterly dividend of 31¼¢ per share on the 5% Convertible Preferred Stock has been declared payable September 1, 1950, to stockholders of record August 15, 1950.

A regular quarterly dividend of 30¢ per share on the Common Stock has been declared payable August 31, 1950, to stockholders of record August 15, 1950.

M. E. GRIFFIN,
Secretary-Treasurer.

Edison

41st *year of consecutive dividend payments*

SOUTHERN CALIFORNIA EDISON COMPANY

CUMULATIVE PREFERRED STOCK
4.08% SERIES
DIVIDEND NO. 2

CUMULATIVE PREFERRED STOCK
4.88% SERIES
DIVIDEND NO. 11

The Board of Directors has authorized the payment of the following quarterly dividends:

25½ cents per share on the Cumulative Preferred Stock, 4.08% Series, payable August 31, 1950, to stockholders of record on August 5, 1950;

30½ cents per share on the Cumulative Preferred Stock, 4.88% Series, payable August 31, 1950, to stockholders of record on August 5, 1950.

T. J. GAMBLE, Secretary

July 21, 1950

Washington . . . And You

Behind-the-Scene Interpretations from the Nation's Capital

WASHINGTON, D. C.—Whether President Truman will put real steam behind his announced intention of curtailing government activities not necessary to the war as a means of limiting the spread of inflation, is seriously doubted here on the basis of the Chief Executive's first single performance on this front, the alleged "curtailment" of government sponsored housing financing activities.

With considerable fanfare, the President announced that he was asking agencies handling financing problems to tighten up.

One of these orders was the alleged requirement that hereafter a veteran must put up a 5% down payment in buying a house with a GI-guaranteed loan. This "order" appears to be moderate indeed upon analysis.

The actual text of the order provides that the 5% down payment may be required only when a proposed GI loan is submitted for prior approval by the Veterans Administration. Under the law, only non-supervised institutions—or primarily mortgage companies—are required to submit loans in advance to obtain a guarantee. The banks, building and loan associations and insurance companies, all state or Federally-supervised, under the law may automatically commit the government to the guarantee and by statute a down payment may not be required where the loan is at a level low enough so that the GI guarantee on top of the primary loan adds up to the total purchase price.

Hence, the President's order actually only requires a little 5% down payment in the case of non-supervised lenders, or for somewhere around one-half the current volume of VA lending.

On the other hand, there is some hope that the supervised lenders may take advantage of the loophole in the law which permits them to submit applications for loans for prior approval to the VA, and thus escape, where it is applicable, the automatic no-down-payment provision of the law.

It is reasonable to expect that most supervised institutions, will do this eventually, because they will be disposed to cooperate in the anti-inflation program. At best, however, it is said that all that such a step will do will be to cut out the extreme lunatic fringe of guaranteed housing financing. The veteran then would have to put up 5%. This would end the racket of building houses to sell to veterans who irresponsibly bought them with $50 or nothing down to escape paying commercial-level rents, because the subsidized credit requires less of a monthly payment burden.

On the other hand, a great many projects already have got going and set under the old no-down-payment rule.

Against the possibility that a 5% down-payment might be required in most cases eventually, the Congress this spring enacted in the new housing act provisions boosting the total GI guarantee to $7,500 from $4,000, or 60% versus 50%. Hence, the total availability of the mortgage guarantee is even greater than it ever has been before, and thus far the President has not seen fit to suggest that the margin of guarantee be cut back.

Another provision of the President's order would have the effect of reducing to 15% from 25% the figure representing the percentage of the assets of a member of the Home Loan Bank system which could be borrowed from a Home Loan Bank for relending on mortgages. This is an entirely theoretical "limitation." The Home Loan Banks are not intended to be normal sources of loanable funds to their members any more than Federal Reserve Banks are supposed to be regular and normal sources of loanable funds for member banks. The current figure of borrowings for relending averages around 3%. The highest total of borrowings for this purpose has never averaged more than 5%. So the most that this "order" could do would be to double-sure prevent an occasional isolated member institution from going overboard in case the Home Loan Bank had not already clamped down.

A third "limitation" in the President's order requires an additional 5% down-payment in connection with future FHA-insured loans. This is the only phase of the President's curtailment of easy government mortgage money which has any appearance of genuine substance. Hereafter, where a 5% down-payment was required, a 10% down-payment will be required, and where a 10% cash payment was previously required, a 15% payment will be required in the future, and so on.

On the other hand, the housing act of this year liberalized FHA insurance on a broad front, in general reducing down-payments and lengthening terms. Thus, for instance, in the lowest Title II brackets, the term of repayment was extended from 25 years to 30 years and the insurance ratio raised to 95% from 90%.

So with FHA, the President has only back-tracked in part on the 1950 act's liberalization.

* * *

Whatever the President appears to have done with the government favored financing of housing, he has given every indication that the clamp-down will really be put on mortgage financing outside the blissful guarantee heaven. Title IV of the President's control bill is written in the usual style of Genesis with which the Federal Reserve Board, which will administer the title, writes its proposed legislation.

So encompassing are the powers of the Federal Reserve Board in this bill over both consumer and mortgage financing, it would be difficult to imagine that in any kind of an unpredictable situation the Federal Reserve system would find itself without broad powers to handle it. It is not unreasonable to suppose that broad credit-restriction powers not unconnected with mortgage financing could be read into the law if it passes this way. Certainly the "Fed" would, if wooden nickels come to be more acceptable than the coin of the realm, be able under the language of Title IV, to restrict credit in wooden nickels.

So it would appear that where the mortgage business is on the more conventional basis of 50% down and 10 years to pay, that this will be hit hard, but the 90% to 95% stuff with 30 years to pay, will be tapped lightly.

* * *

The dope that there will be no war housing in this war is only a gleam in the eye of the National Security Resources Board's eye. During the last war millions of housing units were constructed to house war workers in congested areas or in outlying areas where new factories were built. The highlight of this extravaganza was the proposal of the CIO reputedly backed by Mrs. Roosevelt, for the allocation of materials to build an entire city of 25,000, which the CIO would control, adjacent to Willow Run. A former Senator, Harry S. Truman, as Chairman of the War Investigating Committee, effectively scotched that one.

This war housing was enormously expensive and has been a headache since. The public housing boys have been sabotaging its sale since the war, hoping that they could turn it over to local housing authorities for subsidized public housing. They have had their way somewhat. Some of it, however, has been grudgingly sold. Other units have been given away to colleges and universities.

NSRB, it is reported, believes that come the impact on materials of the new war, the nation cannot afford to erect a couple of million new housing units. They are said to favor the use of trailer camps, possibly pre-fab housing, compulsory billeting where necessary, and even tent cities.

* * *

Congress took one single step to kill off for the duration the erection of a marble monument to the officers and staff of the Federal Deposit Insurance Corp., equal in ornateness and dignity to the Federal Reserve Board palace in this city.

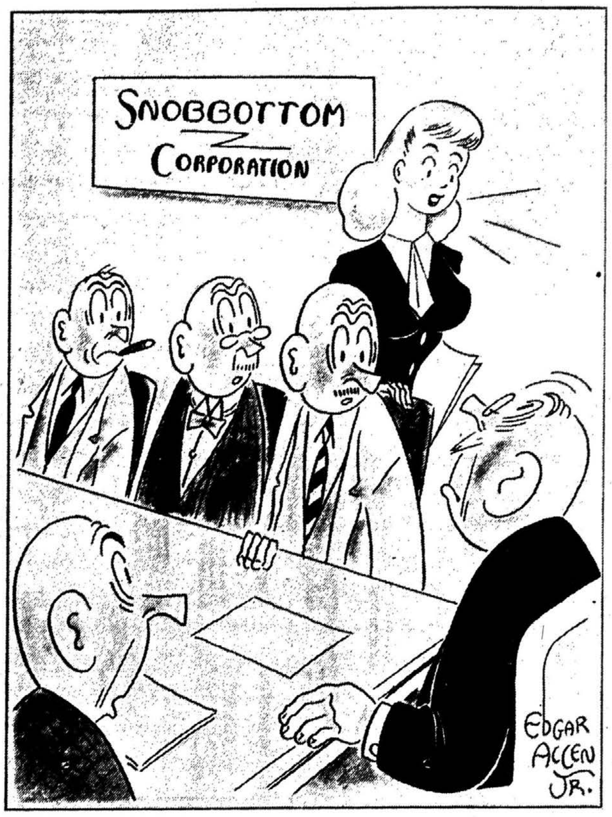
As part of the bill to boost deposit insurance coverage and lower the effective assessment, the FDIC had asked for authority to spend $15 million on a lot and building of its own. The agency lives in rented quarters.

It was reported that this was a building of such projected beauty that one visting it would be even more tempted to carve his initials somewhere in the joint, than when visting the Reserve Board. Each executive of the FDIC was to be given a separate conference room of his own. There would be steel vaults—to hold records.

The irony of the situation was that the FDIC directors wanted the building but not the reduction in assessments. New members of the Banking Committee, green and unfamiliar with finance, turned up with erudite figures and arguments against the assessment credit. Even the CIO, which is not ordinarily a student of technical finance, came out with a blast against the assesment reduction.

(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



"A girl on the phone, Mr. Snobbottom, she said 'It's the little redhead you were playing piggy-back with at the Stork Club last night'!"