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EDITORIAL

As We See It

The most disconcerting events of the past few weeks are not to be found in Korea, but in the mounting evidence here at home of incredible confusion and conflict of counsel which appear to continue even unto this day.

Word came from Washington early this week of efforts by the President to improve the functioning of the National Security Council. Apparently, it is now more or less tacitly admitted that in the national capital the left hand has regularly been in ignorance of (or perhaps did not care) what the right hand was doing. At all events, Korea has made it clear beyond doubt that internal consistency was not an element of our overall foreign policy. It is far from clear even at this moment what our irreducible political commitments, responsibilities, or obligations are believed to be. But it is evident that such commitments as are recognized and widely publicized are in no way matched by readiness to meet them.

For this state of affairs, it seems to us the President must himself accept full responsibility. It may be, as rumored repeatedly, that disagreements existed within the President's household; it may be that no one took the trouble to integrate all the various aspects of foreign policy, and hence to come to a realizing sense of the possible consequences of failure to be certain that the foreign program as a whole made sense. But after all, it is the duty of the Chief Executive to attend to such matters as these, either personally or through a representative qualified for the task.

Must Be Eradicated

But wherever the fault lay or lies, it is imperative that it be eradicated. That it still exists is

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American Economy Now And Its Growth Capacity

By SUMNER H. SLICHTER*

Lamont University Professor, Harvard University

Harvard economist reviews changes and trends in American economy over last generation as well as some probable characteristics of the economy in foreseeable future. Discusses such problems as difficulties in starting new enterprises; availability of investment funds, and size of future business concerns. Holds it is unlikely growth of economy will be retarded by lack of capital, and contends most important question will be effective demand for goods to keep up with production pace. Foresees increasing public operation of some industries.

The Present Position of the American Economy

What is happening to the economy of the United States and what will it be like a generation or more hence? In times of rapid change, such as the present, much more is happening to the economy than can be seen and recognized. Examination of apparent long-term trends gives one deeper insight into present institutions, policies, and conditions. And recognition that certain trends are under way and are likely to continue is the first step in attempting to encourage the trends that one likes and to discourage the trends that one dislikes. Changes fall into three main groups: (1) Changes in Economic Institutions and Methods of Doing Business; (2) Changes in Economic Conditions; and (3) Changes in Ideas.

Prof. S. H. Slichter

I

Among the important changes in institutions and methods of doing business during the last half century the following stand out as particularly important.

(1) The growth in the economic activities of the gov-

*An outline of a series of five addresses delivered by Prof. Slichter at the ninth Stanford University Business Conference, Stanford, Calif., July 24 to 28, 1950 inclusive.

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Investment Policy Under Current Conditions

By RICHARD W. LAMBOURNE*

Partner, Dodge & Cox, Investment Managers

President, The Security Analysts of San Francisco

Holding business prospects have been favorable on a peacetime basis, a West Coast security analyst attributes recent stock market decline largely to Korean episode. Says war in Korea not likely to be settled soon, and looks for higher tax rates with sacrifices from all sectors of the economy. Recommends investment in sound equities as inflation hedge, and sees no ground for liquidating common stocks. Contends price level has not yet reflected increase in money supply, and concludes there'll be no substantial rise in interest rates.

The securities markets today are dominated by developments emanating from Korea. In the past month billions of market value have been taken off stocks listed on major exchanges in addition to wide losses in thousands of over-the-counter issues. The decline in prices is clearly an attempt to discount the impact on the economy of war or greater preparation for war. I think it is fair to say that the outbreak in Korea caught the markets, as well as Washington, by surprise. It remains to be seen whether the initial reaction is reasonably correct.

R. W. Lambourne

Active participation in the Korean war should be viewed as a major turning point in the international position of the United States. It is no longer just a matter of extending economic assistance or military supplies to nations in danger of Soviet domination. We must assume that a decision has been reached to call a halt to aggression against free countries wherever and whenever it appears.

*An address by Mr. Lambourne before the Ninth Stanford University Business Conference, Palo Alto, Calif., July 27, 1950.

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CORPORATE FINANCING POSTPONED—This week's "New Issue Calendar," which appears on page 39, includes a list of the larger corporate issues which have been temporarily postponed due to unsettled market conditions resulting from the Korean war.

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

RUPERT H. JOHNSON
Partner, R. H. Johnson & Co., New York City

(Texas Utilities Company)

My favorite security at this moment is Texas Utilities Company common stock. This company serves an area (all in Texas) having a population of 2,500,000, being one-third of the population of the State. Cities served include Dallas, Fort Worth, Wichita Falls, Waco, Denison, Odessa, Midland, Sweetwater, Tyler, Paris, Temple and Corsicana.

Rupert H. Johnson

Since the area served is all in Texas, the company has asked the SEC for exemption from the Public Utility Holding Company Act. The company serves one of the best growth territories in the country.

Agriculture is important in this area, and includes the raising of cotton, wheat, corn and, of course, cattle raising on a large scale. In addition there are oil and gas wells, and numerous manufacturing enterprises making textiles, ceramics, lumber products, aviation, iron and steel, etc.

The number of customers served by Texas Utilities increased 64% between 1940 and 1948, while customers served by the electrical utility industry as a whole, grew 35%.

Sales, in terms of kilowatt hours, also had a large increase, namely, 145% in the same period, compared to 103% for the industry as a whole.

Added to this favorable growth factor, is Texas Utilities' accessibility to low cost natural gas. All major units burn natural gas, but can use oil, while Texas Power & Light has a unit convertible to company-owned lignite. Residential and rural load provided 40% of 1949 gross, commercial 32%, industrial 22%, and others 6%. This reduces fuel costs of the company to about eight cents per dollar of operating revenues which compares with about 18½ cents for the electrical utility industry as a whole.

The company increased the annual dividend rate from $1.12 per share, to $1.28 per share and this would seem to indicate that dividend declarations will keep pace with the increasing earnings which can be expected from this property. At current price of 23, the stock yields 5.56%.

Texas Utilities Company owns all the outstanding common stock of Texas Electric Service Company, Texas Power & Light Company, and 91.27% of the common stock of Dallas Power & Light Company.

The western section of the company's properties serve a large part of the Permian Basin which constitutes about one-fifth of the nation's oil reserves. With new industries constantly entering this growing dynamic territory, the industrial load should continue to grow. New domestic users will be added, and old users will increase their demand. The commercial load should also continue to increase.

The population of this section is growing three times as fast as the remainder of the country as a whole. This all spells large increase in gross earnings, in net earnings, and in dividends. The growth characteristics of the area served by the company would seem to indicate that Texas Utilities stock is a quality security.

In 1949, gross earnings were $60,155,465.86. Funded debt was $121,500,000. The funded debt, therefore, is about twice the gross earnings which is a conservative ratio. The common stock equity represents about 33% of capitalization.

Some of the best farm land in the State of Texas lies in the area known as the Black Waxy Belt around Dallas, Waco and Fort Worth.

The company has an aggressive construction program, aggregating $141,000,000 from 1949 to 1952 inclusive. This will involve new financing but the final results accruing to the common stock as a result of this financing should be satisfactory.

Texas law recognizes 8% as a fair return and the municipalities, which control regulation in the State of Texas, are conscious of their growth potentials so that no burdensome restrictions are anticipated in regard to rates. The rate of return on this property is 7.3% and is higher than the national average.

For the 12 months ended May 31, 1950, gross earnings were $62,746,230 compared to $56,220,686 for the 12 months ended May 31, 1949. This is an increase in gross for the year of $6,525,544, or an increase of 11½%.

Net income, after income taxes, for these periods was $10,689,583 and $8,460,170. This increase in net of $2,229,413 indicates that 24% of gross earnings was carried through to net.

There were 4,000,000 shares of common stock outstanding on May 31, 1949 on which the company earned $2.12 per share during the preceding year. If the same amount of shares had been outstanding on May 31, 1950, the company would have earned $2.67 per share, or an increase of more than 25%. However, there were 4,800,000 shares of common stock outstanding on May 31, 1950, on which the earnings were $2.23, or an increase on 20% more stock.

ARTHUR MARX
President, Wilson and Marx, Inc., New York City

(N. Y. Central-Michigan Central Collateral 3½s of 1998)

I am going to select a bond that seems to have been overlooked for some years and tell you why I think it is very attractive. New York Central-Michigan Central collateral 3½s of 1998, selling at about 60. They are a first mortgage on 17 miles and a second mortgage on 1,430 miles on the New York Central System.

Arthur Marx

In addition to this, and most important, they are collaterally secured by deposit with the Guaranty Trust Co. of approximately nine shares of Michigan Central stock per $1,000 bond outstanding. This stock is currently quoted $1,000 per share or better bid, which sets a collateral value of about $9,000 per thousand dollar bond selling for $600.

These bonds were exchanged in 1898 for Michigan Central stock. The ratio of exchange was $115 in bonds for each share of stock which at that time was selling at about $105. Michigan Central's statement as of Dec. 31, 1949, shows a funded debt of $30,274,000 and common stock of $13,736,400. About $12,000,000 of bonds mature in 1952. There is $10,075,000 short-term governments and cash which no doubt will be used to pay off the bonds when they mature, which will reduce the debt to slightly over $18 million. These governments are purchased with cash that accrues to Michigan Central from depreciation funds received from New York Central. In all probability there will be $3 to $5 million governments or cash over and above the amount needed to pay the 1952 maturity.

It is possible that some day New York Central will wish to absorb Michigan Central as they did the Lake Shore and at that time will probably take the stock from under the New York Central-Michigan Central collats and give them a mortgage subject to the ones existing on the Michigan Central at that time. By 1952 this would be approximately $18 million.

Michigan Central's operations cover over 1,100 miles, the best being the line from Kensington, Illinois, to Detroit, Mich., which has been one of the most dense traffic arteries of all the railroad lines in the U. S. Michigan Central's share of net ton miles (revenues and nonrevenues) of the New York Central system in 1949 was 11.55% and in 1948 was 10.78%. Based on these ratios, I figure Michigan Central could earn at least $50 and perhaps as high as $100 per share on its stock were it operating on its own.

It would appear to me that the value of the Michigan Central stock deposited as collateral for these bonds has been completely overlooked. Over the next ten years it seems you will have:

(1) Michigan Central's only capitalization will be common stock, or

(2) These collateral bonds will be a mortgage on the Michigan Central because of absorption as in the Lake Shore case.

Michigan Central collateral 3½% bonds of 1998 are listed on the New York Stock Exchange and also traded over-the-counter. They constitute, in my opinion, a desirable investment for either institutions or individual investors.

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Economics of "Little Pearl Harbor"—Short-Term Outlook

By MELCHIOR PALYI

Asserting large scale rearming will bring nation back to where it was in 1941, Dr. Palyi foresees permanent Garrison State. Looks for Federal Budget above $55 billion, and holds increased armament outlays cannot be offset with additional taxes. Contends Welfare State will have to give way to Garrison State, and holds, despite controls, there will be more inflationary momentum.

Garrison State in Permanence

"Police Action," the President called it first. He did not intend to send American ground troops to the South, nor planes over the North, of Korea. Now, he calls it war. And he makes the most of it.


Dr. Melchior Palyi

Since a new compromise with Russia is out of the question (no more appeasement, let us hope), large-scale rearming of this country, and partial rearming of our friends, at our expense, will bring us back to where we were in 1941; to the Garrison State. With a most significant difference, however; this time, the country will be turned into a **permanent garrison.**

To quote our article in the "Commercial and Financial Chronicle" of Dec. 8, 1949: "All indications are that preparedness on a colossal scale is what we have to face. The costs will be colossal, too, well comparable to those of World War II, but protracted over an indefinite period, with no end in sight. . . . It stands to reason that the 'progress' of armaments will be accompanied by a more or less continuous, if not rapidly accelerating inflation of the national debt."

The magnitude of the job is the first thing to be visualized. If half of the $10.5 billion the President requests is for Korean campaign, that is probably more than what France has spent in 120 years on conquering and policing North and Central Africa, Madagascar and Indo-China.

It is simply fantastic that with the gigantic volume of war equipment left over from World War II, and with nearly $80 billion spent since then on the military establishment, the U. S. should find itself totally unprepared to cope with the North Koreans, "well-prepared" as their five to ten front-line divisions (if that many) may be. The incompetence, waste and corruption involved must be appalling. Europe is deeply shocked, while the American people seem to take it all in apathetic stride.

If it is true that we have a single full-fledged armed division against 40 such Soviet divisions in readiness, it will take far more than $5 billion to make up for the five years wasted on global welfarism.

With inexhaustible optimism, Washington appears to assume that as soon as the Yanks arrive at the front in force, they will outnumber or at least outgun the enemy. But has he no reserves to match ours? North Korea should be capable of putting 500,000 men in the field; the Russians could supply them profusely. And **what if** in the meantime a Chinese (communist) "volunteer" army arrives, too? Indications are that Moscow is driving China into War against the West, using Formosa as the immediate reason. We still may have a few surprises to face.

As we send troops and material, the Communists to date are matching us. Later on, the guerrillas will take up where the regulars left off. In addition, we will have to start policing Southeast and South Asia. Even if we use local and foreign troops, the burden of equipping, training, transporting and continuously providing an army of up to one million men (together with auxiliary formations), plus the populations in front and behind them, implies tremendous costs—to say nothing of the policy line of the Fair Deal (paraphrasing its fairest-haired wonder boy, Harvard's A. Schlesinger, Jr.) "to bribe the masses" of Asia into democracy.

True, there should be some "savings"—at the expense of the Welfare State. Public housing already has been "called off." The same fate may befall many open and concealed "pork barrel" projects, public works, federal health and education programs, etc. Inasmuch as most farm prices are likely to stay at or above statutory support levels, there will be no point in supporting them. Some spending on the unemployed and the indigent might be superseded by military pay checks. The total thus saved may go into several billions a year.

However, such economies will be slow in materializing, while the military will proceed fast, and has more and bigger plans up its sleeve. It would be a near-miracle if the current budget can be kept at $55 billion, a mere $12 billion or so over the one contemplated before July 1st.

Financing the Deficit

The sound way to finance the new deficit—on top of the "peacetime" $3 or $4 billion pending already—is, of course, by taxes. But is it likely that the pay-as-you-go war proposed by the Joint Congressional Committee should be enforced? The answer is, probably, NO (unless—a Korean Dunkirk or outright war with China,

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Regular Features

GOING TO NSTA CONVENTION?

The Annual Convention of the National Security Traders Association will be held September 26-30 at Virginia Beach. As in former years, the "CHRONICLE" will publish a special Convention Issue which will include texts of addresses and Committee reports, also numerous candid shots of those in attendance at this important yearly event.

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My European Trip in 1950

By ROBERT H. OTTO*

President, Robert Otto & Co., Inc., International Advertising

Mr. Otto recounts h s impressions of a recent trip throughout all Western Europe. Reports general recovery in Europe and a growing optimism, with exception of Spain. Says European Payments Union is aiding in bringing solution of convertible currency problem, and black markets have been largely eliminated. Finds general lack of war fear among people and growing confidence on part of businessmen. Sees opportunity to promote American advertising methods in Europe.

The temerity on my part of talking to you about Europe is tremendous, especially when so many of you have been abroad recently. But I would like to discuss the human side, how people live, how they feel, what they are buying and mainly, what their outlook is.

Robert H. Otto

The safest ground to start on is food, a subject interesting to all of us. Let's start with Denmark—a country which rations coffee, sugar and many other items, but particularly butter, yet Denmark is the largest producer of butter in Europe!

Take a look at this menu. There are 172 sandwiches available in Osker Davidsen's 80-year-old restaurant. I doubt if this can be equalled anywhere in the States. One amusing item is a shrimp sandwich consisting of 55, 100 or 150 shrimps. This may sound as if you would need a loaf of bread but as many of you know, their little shrimps are no larger than your small fingernail.

Europeans today are all eating well but I would not say cheaply, with possibly one or two exceptions. Even England has new interest in life, for just before we arrived the ceilings were taken off restaurant prices. It was amazing how quickly imported cheese, meat and other scarce items appeared on their menus. There still is a great contrast in prices between countries. A meal of four courses in Sweden might cost $1.50. An equally good one in Brussels—$4 to $5. But let's cover living costs as we discuss individual countries.

*An address by Mr. Otto before the Export Advertising Association, New York City, July 27, 1950.

As I indicated, these will be our impressions of the people who make up your market. These impressions have been gathered through two pairs of eyes. As secretary and travel companion, my wife talked with people in stores and in homes while I interviewed businessmen. This is a composite of the viewpoints expressed by your managers and distributors, by storekeepers, newspaper editors, salesmen, taxi drivers and waiters. We even spoke with an ambassador, as well as other government officials, just for good measure!

Little War Talk

One heard very little war talk. In fact, war was never mentioned in any of our business conferences, even in those countries next door to the "big bear," unless the subject was specifically brought up by me. Admittedly, there was an underlying feeling of fear about Russia. Strangely enough, this was expressed rather by the women that Mrs. Otto talked with and it concerned the future of their children. In fact, we would need a Children's Home if we had brought back all the children our many friends tried to wish upon us.

We felt a confidence over and above mere talk. People are building homes, investing their own capital, rebuilding their businesses, working on a long-term basis—something they would not do if they felt they were all going to be blown to bits tomorrow or next year.

It is my impression that the reaction to the Korean invasion has brightened Europe's outlook because it has shown that the U. S. is willing to back up some of its promises with action.

Conditions have improved rapidly throughout most of Europe this year. Europeans can physically feel the advantages of freedom and taste some of its desserts.

European Businessman More Confident

And there are other reassuring trends. I think all of you who recently visited Europe, were impressed by the change in attitude of the European businessman. For the first time since the war, he is showing confidence.

It is significant that this renewed optimism goes hand in hand with diminishing isolationism. Two examples: A few days after the Schumann plan had been proposed, I had lunch in Paris with nine business executives; one a Belgian, six Frenchmen and two Americans. I asked them what they thought of the plan. All, with the exception of one Frenchman, who said it never paid to do business with the Germans, were not only enthusiastic, but thought this was a bright light; something concrete to integrate central Europe. They felt that because of pressure from the East, the most sensible thing that France could do would be to cooperate with Germany, thereby naturally strengthening their economies.

It was interesting to hear the same opinion expressed by the other side. When we arrived in Frankfurt the next day, German businessmen frankly stated that it was high time to forget old hates and build their economy westernwise. They appreciated the gesture on the part of France.

The European Payments Union was continually being talked about. As you know, it has become a fact since I left Europe. The men I talked to felt that it would be one of the most significant steps yet taken by the European Marshall Plan Council on the road to a freer, more rationally integrated European market. Of course, it is only a step, and the removal of quantitative restrictions on a multilateral basis is the next essential that can now more easily be worked toward.

Currency Convertibility

There was also talk of convertibility—that it might become a realty in Belgium at any time. The biggest step in this direction, of course, would be the freeing of the pound sterling, which could happen faster than anticipated because of: (1) American prosperity, (2) increased purchasing of raw material in the sterling area at favorable prices, (3) sustained recovery abroad and (4) success of the European Payments Union.

The Korean war will no doubt be a shot in the arm for trade and dollar earnings in Western Europe.

The Payments Union confidently expects soon to give the public a sorely-needed "better break" for its money. As one businessman expressed it in Denmark: "It's like playing tennis alone—batting the ball against a wall and knowing just where it will bounce. This works up a fine sweat but never teaches you to play tennis because you have no real competition."

Many local manufacturers today would certainly be hard put to sell their inferior merchandise in a competitive market. This is clearly shown by the uneven ratio between costs of certain items. In some countries you may be able to buy a wonderful dinner for $1.50, but have to pay $8 for a $2.50 cotton shirt. In others, you may pay $5 for a fair meal and be able to buy a beautiful ceramic for $1.50.

Consumer business in most countries is booming as evidenced by the fact that our associates in Europe are doing the biggest volume of business in their history—and the histories of two of them go back 100 years!

In markets such as Sweden, which is a great paper producer, space is being voluntarily rationed. In Holland, the largest weekly publication has no space available until January, 1951.

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Peace Stocks in War Markets

By WALTER K. GUTMAN

Market Letter Writer, Goodbody & Co., Members, New York Stock Exchange

Market analyst advocates purchase of peace stocks since many companies' cuts in civilian production will be more than made up for by armament orders; and their already-registered market declines have discounted unfavorable prospects. Maintains corporations are sure to get large share of increased money supply in time. Concludes contrast between prewar and postwar seemingly is too fantastic for us to get used to.

My attitude toward wartime markets is based partly on the thought that the intention of any war is to be swift. The Communists have conquered most of South Korea in five weeks—about the vacation period of the average brokerage house partner.

The aggressor often finds that the war turns out longer than he thought, but the changes in pattern and implication of the war remain swift. Hitler conquered France in a few months but the entire pattern and implication changed a year later when he attacked Russia. One can cite many examples — Alexander the Great conquered the whole of the effective Mediterranean World in a few years. This was an example of successful swift warfare. Napoleon, when he won, won swiftly, but he did not quite win completely. The Napoleonic wars were full of swift changes.

In taking action in the seecurity markets during a period of exceptionally swift change one has to be guided either by a sense of humility or a sense of genius. Since I know from experience that I am no genius I am inclined to be cautious and buy only those stocks I will be glad to own if I have to. Suppose I buy (or advise buying) a war stock. I want to feel that if the pattern of the war becomes suddenly and decisively changed, I still have a good investment. Steels, oils, rails in many cases, have been and still do seem worth buying to me because of their intrinsic values. The war has spotlighted for more people those valuable qualities of earnings and dividend paying power which many of us have been talking about for years. In this respect the war is yielding a mild by-product of positive value. It is not a good thing to have large masses of securities sell well under their economic value.

Peace Stocks Commended

I have been advising the purchase of peace stocks for two reasons: (1) the difference between so called war and peace stocks is often much less than the market has thought. Suppose civilian automotive production is cut to five million vehicles next year, this is a high level and is about the level which automotive economists had been forecasting anyway. On top of this will be added wartime production. (2) Declines of 25% to 40% have made many peace stocks attractive on a long-term basis. It has brought them back to or respectably near the areas of their long-term central tendencies. Buying Monsanto or Dow at 55, Radio at 15, Commercial Credit at 45 could not be called reckless whatever else it may prove to have been.

We have all been figuring taxes to an unfortunately great degree. I say unfortunately because figuring taxes is tedius work and it can so easily prove useless under the swift circumstances of war. My experience in war is that it is enormously stimulating to business activity and that someone gets the money. While the large corporations we in Wall Street are interested in are not particularly well placed to benefit immediately from war, they are sure to get a large share of the money in time. If taxes do not put an absolute ceiling on earnings a good many companies will do remarkably well even during the war.

Potential Increases in Corporate Strength

If the war really settles down and strings out it will bring back the more sophisticated analysis of income accounts which was prevalent during the last war. I have even more faith than I had then in the ability of large corporations to collect cash, whatever they may show as earnings. This is because I appreciate even more deeply the ability and energy of the financial officers of our large companies and the tough job the minions of the Bureau of Internal Revenue have in talking them out of a plugged nickel. The unsophisticated investor never knows, and the sophisticated one usually forgets, that accounting arguments are fundamental philosophical arguments. What is the real value of any inventory, how much of it can anybody physically count, what is an expense, what is a capital investment? If these problems were simple there would not be periodicals on accounting published every month.

The best accountants gravitate to the large corporations. The higher taxes go the more valuable is a powerful minded accounting officer who can argue with the government and persuade it to accept his views. Professional football is kid stuff compared to corporate accounting. What fascinates me about many stocks is the hidden score which I know is there. But even on the simplified reports it is obvious that corporations do not do too badly during war. Total cash flow of U. S. Steel in 1941 was $234 million and in 1942 it was $221 million. But reported after all charges it was $116 million in 1941 and dropped to $72 million in 1942.

Survival of Well-Run Corporations

Having the faith that I have in the ability of well-run corporations to survive war, I cannot get frightened (as an investor) when war comes, and this is probably a big mistake. Even if I am fundamentally correct (and there is always the haunting possibility of error) security values can be determined for long periods of time by people who are incorrect. Eventually if you are right, you come out all right, but having run cross country when I was young I have a somewhat dubious attitude toward that phrase "the long run." However I don't see any other solution than to run with those legs you have been given.

One factor we Americans have no experience with, and which none of us has faced, is losing a war. America has always been victorious in the end, and statistically speaking, that is not a good thing. Even England has lost wars; they lost an important one against us in 1783. Everyone can now see that there has been an amazing amount of mismanagement in the Korean affair. The questions are: (1) will we learn the lessons, and (2) does the handwriting on the wall threaten a real tragedy, or just a sobering experience for us if we do not learn? I do not think we will learn the lesson. Individuals will, by the thousands, but not the people at the controls. It will not be possible for the

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The State of Trade and Industry

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

With the return of more plants to capacity operation schedules last week, total industrial production for the nation reflected some slight increase. While total output remained greatly above the level for the 1949 comparable week, initial and continued claims for unemployment insurance turned slightly downward.

Steel ingot production was practically without change the past week as a result of vacations with some slight recession as well in automotive output. On the other hand electric production the past week attained a new historical high record for the industry.

In the days just ahead the steel industry will be pressed further to meet the extraordinary demands now being made upon its present capacity and ability to produce steel.

The nation's railroads last Friday adopted a drastic carbuilding program they believe is required to prevent a serious transportation bottleneck. It's big enough to drain steel from other industries.

At a special meeting called in Chicago by the Association of American Railroads, presidents and other top officials representing nearly all the country's 132 major lines agreed to a program calling for construction of about 122,000 new freight cars.

That number of cars would require nearly 2,500,000 tons of steel and would cost around $670,000,000.

* * *

Intensified efforts of consumers to build steel inventories before government allocations apply are getting them nowhere, says "Steel," national metalworking magazine this week. The mills jammed with orders, are turning away tonnage left to right. They are moving slowly on future commitments pending clarification of defense program plans. Some producers' order acceptances do not go beyond October, a month that largely will be given over to handling third quarter carryover. Others are not booking even that far ahead. And the few mills that have set up schedules over remainder of the year on certain products warn revisions in quotas and deliveries may be necessary before autumn is far advanced. Special clauses are being inserted in contracts permitting cancellations and shipment delays in event national emergency priorities make such necessary.

Impact of new military demands is not expected to be noticeably heavier until fall. Armament and munitions orders are beginning to trickle through but it will be weeks before military releases come out in volume, this trade magazine asserts.

Steelmakers are pushing facilities to the limit to meet current demands. All signs now point to record-breaking production this year, probably in excess of 95 million tons, with operations likely averaging close to 100%.

* * *

Consumer loans to purchase retail goods were extended at a quickening pace in June according to the Federal Reserve Board. Such consumer credit outstanding rose to a record $19,627 million on June 30. This was an increase of $550 million during the month. It was $3,503 million higher than a year ago.

Instalment-type credit increased by $395 million in June to a total of $12,063 million. Amounts owed on automobiles climbed to $3,761 million, or a gain of $161 million in June and $1,262 million above June 30, 1949.

* * *

Business failures in June declined 17% to 725, reaching the lowest level since July, 1949. They remained below prewar totals, however; concerns failing were only two-thirds as numerous as in the comparable month of 1939 and 1940. Dun's Failure Index, which projects the monthly failure rate to an annual basis and adjusts for seasonal fluctuations, declined to 32 failures per 10,000 concerns in business as against 36 in June a year ago and 70 in the similar month in 1939.

Liabilities involved in June casualties totalled $18,072,000, the smallest volume in nearly two years and some $10,000,000 below 1949's corresponding month. Despite this decline, they bulked larger than in any prewar June since 1936.

* * *

Totaling 8,861, new business incorporations during the month of June were above the level of the preceding year for the ninth consecutive month. They compared with 7,260 in June last year, or an increase of 22.1%, but showed a drop of 3.9% from the 9,216 recorded in May. Eight of the 48 states reported a smaller num-

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Forecasts Only Limited Rise in Food Prices

The current "Monthly Review of Business Conditions," published by the Federal Reserve Bank of New York, analyzes the commodity price situation of the Korean crisis, and while noting that there has been substantial rises, particularly in food prices, since the outbreak of hostilities, it is argued that in view of heavy farm surpluses and carryovers there is no ground for a pronounced increase in basic food prices in the immediate future. According to the article:

"Farm products, which are generally very responsive to changes in supply and demand conditions, undoubtedly would have risen further had it not been for the large stocks of most basic farm products, which preclude the development of any shortages in the near future. This is true despite the fact that the outlook generally is for smaller production this year in wheat and in cotton, because of reductions in acreage ordered by the Department of Agriculture and because of unfavorable weather conditions. Carryovers from previous crops will help provide more than ample supplies of most commodities to meet this year's domestic consumption and exports. However, substantial quantities of these stocks are held by the Commodity Credit Corporation in its price-support inventories, and there is still room for further price increases, especially for wheat and corn, before these CCC-held commodities can be made available to the market unless legal restrictions on sales are changed by Congress. The CCC cannot now 'sell any basic agricultural commodity or storable nonbasic commodity at less than 5% above the current support price for such a commodity plus a reasonable carrying charge.' The market prices for most of the commodities owned by the Government, except cotton, are still below the minimum levels at which they can be sold under the present law.

"The restraining influence that the large farm surpluses are having on price rises can more readily be seen in the variations in price increases that have taken place for individual foodstuffs. Price increases for the major grains, of which large surpluses are held in storage, have been relatively small. Winter wheat has risen 5% since June 23, corn and rye have each advanced 3%, while barley and oats are down 1% and 8%, respectively. This year's harvest of wheat, plus the amount available from previous crops (a third above the 1949 carryover), are about twice the annual domestic consumption of 700 million bushels and will be more than enough to meet export demands for the present season, estimated to be from 225 million to 250 million bushels. Rye supplies are greater this year than last and appear sufficient to meet both domestic and export needs. The corn crop (as it now appears) is expected to exceed 3 billion bushels, which is about 21% larger than the amount recommended by the Department of Agriculture prior to the current emergency, under an acreage allotment program aimed at cutting down the existing surplus. This will probably be the sixth largest corn crop of record and, taken in conjunction with the already large carryover (10% more than last year's record high), would indicate that adequate supplies will be available as feed for the projected high level of livestock population. This year's oat crop should also prove to be a better-than-average crop and will further supplement feed supplies. The amount of barley on hand is only four-fifths of the

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Analysis of Wartime Behavior Of the Securities Market

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

PART IV

Study of securities price action during Korean crisis shows outbreak of hostilities followed by sharp and widespread drop in common stocks. Fixed-interest and preferred issues, particularly high-grades, resisted much better than equities. Partial recovery noted. Comparison with post-Pearl Harbor market movements shows interesting similarities and disparities, and again illustrates difficulty of uncritically using past performance as pattern for current investment programming.

(This is the fourth instalment in a series of articles on the facts and significance of the performance of security prices during wartime)

Following the military outbreak in Korea, common stock prices, as we know, suffered a widespread and sharp decline. The record shows that by July 13, or three weeks after the shooting began, 907 of 960 issues listed on the "Big Board" were lower—with 509 off 11% or more, and 148 down more than 21%. Only 31 stocks moved upward during this period. (These price movements are shown in Table I.) Of 52 industry groups, only five—aircraft, cotton, shipbuilding, sugar, and woolen—enjoyed a rise during this three-week interval. Nine other groups showed price resistance, but did not rise. These latter included coal, leather, meat-packing, nonferrous metals, rails, rail equipment, shipping, shoes and soap. Security groups suffering the sharpest declines—more than half of the securities in the group falling by over 20%—were building materials, motors, gold mining and radio-electronics.

Geo. F. Shaskan, Jr.

A. Wilfred May

This sharp downward movement following the initiation of hostilities reflected the traditional mad scramble to get into cash in a period of confusion; disregarding the potential increase in inflation, industrial activity and even possibly of increasing profits which a full-scale rearmament program might bring to certain industries. Thus even expected "war babies" such as air transport, petroleum and steels, sold off sharply in this early period.

Many Securities Recovered Rapidly

Despite the severity of this initial sell-off which carried the Dow, Jones Industrials from 224 on June 23 to 197 three weeks later—a decline of some 12%—it did not take long for the investor to recover his "wartime sea-legs." By July 26, or about one month after the Korean outbreak, the Dow, Jones Industrial average had recovered to 202 and as this article goes to press had further climbed to 212, thus gaining back more than half of the ground lost. Fifteen of 52 industry groups exceeded their pre-Korean levels by July 26 and 11 others were off only very slightly by this date. Aircraft, coal, railroads, shipbuilding and woolen showed a net gain of more than 10% in this first month of hostilities.

Many securities, of course, did not share in this comeback. Building materials, finance and gold mining companies were down approximately 25% after one month of shooting, and five other groups—confectionery, drugs, household furnishings, utilities and

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Intangible Factors in Public Utility Analysis

BY THERON W. LOCKE*
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Members, New York Stock Exchange

Contending intangible factors in analysis of public utility securities are more important than published figures of operations, Mr. Locke lists among these factors: (1) territory in which utility operates; (2) regulatory climate in such territory; (3) Federal or municipal competition; (4) revenue characteristics as measured by proportion of industrial and domestic revenues; and (5) quality of management. Foresees further tremendous expansion of utilities, particularly in electric power. Describes financial ratios in analysis of utilities.

I appreciate the opportunity given me to discuss with you today a subject which you, as students should consider seriously, namely, what factors other than the published income statements and balance sheets should be considered in the analysis of Public Utility securities. As you know, it is quite customary today to make comparisons based on reported earnings and changes in balance sheet ratios of a company to see how much improvement is being indicated, and then it is customary to make comparisons between companies. Often we will make up a list of ten or twenty companies and compare their earnings figures and balance sheet ratios.

Theron W. Locke

The purpose of my talk before you today is to indicate my belief that this comparative method alone is not sufficient as a basis of comparative analysis. In fact, I think that I can show you that it may be unwise to make comparisons of earnings or balance sheet ratios without at the same time giving some explanation concerning other factors affecting individual companies which may have to be considered before you pass judgment as to the relative attractiveness of one company as compared with another.

I believe that the so-called intangible factors which I am to discuss today play a large part in the final analysis of a utility security—in fact, I will go so far as to say that I believe they are even more important than the published figures in the analysis of an individual company's securities.

Why does one utility common stock sell for eight times earnings and another at sixteen? Why is it that one commands so much more in market value than the other? If you could just take the earnings and balance sheet and determine market value from these alone, how simple it would be!

Why doesn't it work that way? If two companies each earn $3 and pay $2 and have a book value of $30 a share and good balance sheet ratios, why aren't they worth the same? You have the same earnings, dividend, and book value, but why do they sell far apart in price? This is the problem of analysis. It is one that everybody has been trying to solve for a good many years. There isn't any easy answer. There is only the problem of gradually understanding the factors that make one sell higher than the other.

It is my belief that in the analysis of public utilities the intangible factors play a greater part than earnings trends or published reports or published figures. These intangible factors number about five. In order of importance, I would put the **Territory** first. **Regulation** and the **Regulatory Climate** second. Third would be the **Federal or municipal competition** in the territory served. Fourth, **Revenue characteristics**. How large are revenues from industrial customers? How are earnings derived? The fifth would be **Management**. I place management fifth because while management is extremely important, it has to work with these other factors which are there. Taking the territory, the regulatory climate, Federal or municipal competition, and revenue characteristics, what can management do with them?

In addition to these I would include some pertinent financial ratios, and some special factors not generally used, which are partly intangible, partly published information.

Now, as to the first factor, the **territory**, that is the beginning and end of a public utility. It is all it has to work with. It can't go somewhere else like General Motors and establish a new plant if it doesn't do well where it is. It can't go to California or the deserts of Arizona if it doesn't like the climate in New York. The utility is here; it has to operate in this territory. Its franchise is for this territory, and all that it does has to be done in the area which it serves.

That is a limiting factor, but: A company can make a lot with a little to start with in a good territory, and it may do better in a poor territory with good conditions than it can in a good territory with less satisfactory conditions. If management is alert and has a good regulatory climate to work in and if the territory is one offering possibilities of expansion, a utility can grow and grow and continue to grow and expand its services, whereas in an area where those factors are unfavorable, a management can work very hard and make much less progress.

If a utility has a territory that is all desert or part desert and mountains, it has an entirely different problem than it would have in a region like that served by Consumers Power with its large rural areas outside of Detroit and that great diversified small town and farm region in Michigan plus the large natural gas storage fields with a storage capacity of 50 billion cubic feet.

Compare that excellent territory with Nevada or a number of regions where we don't have all the favorable prospects brought quite as close to home as we do in a company like Consumer Power Company.

I think, the ideal utility territory is one which contains a fairly large city or a few good-sized cities coupled with a large small town and rural area or suburban area. Commonwealth Edison has those characteristics. It has Chicago, plus an area of 5,000 square miles in a fan-shaped area south and west of the city. It has natural gas outside Chicago plus a fine electric system both in Chicago and throughout its territory plus an extremely capable management.

As I have said, territory is the beginning and end of a utility, and you should have an understanding of the characteristics of a territory. For instance, down South, there is another factor to which I imagine you haven't given much thought. For years the South was a cotton-growing area. Its wealth indices 20 years ago were among the lowest in the U. S. In the depression of the 30s, the wealth indices were extremely low—the income taxes paid per thousand of population, the number of automobiles per thousand, and all those wealth indices that people who measure municipalities lay such stress on were well below the U. S. average.

Naturally the local utilities showed a low-customer power use. Rates had a tendency to be high naturally because the use was low. The area was regarded by some as a backward region. However, the South, even while losing some population, has had a tremendous improvement in its wealth indices. As a result the utilities have done better there than in some area where the population has increased tremendously, indicating that you do not have to have an increase in the population to have a tremendous change for the better in a public utility company. You can get the same effect through an improvement in the standard of living in the territory.

It isn't necessary to double the population served to double or treble the load of a utility. All that was necessary in the South was to give this so-called backward area a way to develop its economic wealth. That has been done in part through crop diversification, by teaching cotton growers that cotton wasn't the only crop. Also many new industries have been brought into the area. The local utilities have helped greatly in this work. The utility analyst must keep up to date on relative changes in the territories served by various utility companies as territorial improvement can result in a much higher level of earnings.

Now as to Regulation of Rates. Regulation differs in every state in the Union. There are, I think, four states without a state commission with the power to regulate rates of electric companies, namely, Iowa, Mississippi, Florida and Texas. Also some states have

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*A lecture given on July 19th, the fifth 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.

Round-Lot Trading on the New York Stock Exchange

By ARCHIE T. TIGHE*
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Among the topics relating to round lot trading on the New York Stock Exchange covered by Mr. Tighe are: (1) making and reporting quotations; (2) long and short transactions and SEC regulations affecting short sales; (3) types of customers' orders to buy and sell; (4) types of exchange members and their functions, and (5) round lot trading rules. Illustrates auction market procedures as followed in executing orders.

We will talk first about quotations: what they are and how they are and how they are changed in an auction market. Next, we'll explain briefly the terms "long" and "short," particularly "short," with emphasis on the SEC's short selling rule and its application in the execution of orders to sell short on the floor of the New York Stock Exchange or any national securities exchange.

Archie T. Tighe

Then we'll discuss the various types of orders with more detailed explanations on two classifications, time-in-force in the market, and price. Next, we'll review briefly the route of an order from the time it is given by a client to an account executive in, say, an out-of-town office of a member firm until it is executed on the Exchange floor and reported back to the client.

This will lead us into the six types of floor brokers on the New York Stock Exchange. Then we will explain the round-lot trading rules. This will highlight priority of bids and offers, the "clearing" of the floor as each transaction is completed, and the "matching" among competing brokers to win or lose in sales involving the possible execution of their customers' orders. We will illustrate these auction market procedures through blackboard examples.

Finally, we will explain an important facility, "stopping stock", which often permits member firm customers to obtain better execution prices than prevailed at the time their orders were entered.

And now for our first topic.

Quotations

Quotations consist of the **highest bid** and the **lowest offer** prevailing at the time the quote is requested. Let's use General Motors as an example. We'll assume the last sale was 79½—a transaction of say 100 shares effected by two floor brokers, one representing a buyer, the other a seller. Immediately after sale took place, let's say the highest bid is 79⅜ and the lowest offer is 79⅝. Each is for 100 shares, the unit of trading in over 1,100 of the 1,460-odd stocks listed on the New York Stock Exchange. The bid price of 79⅜ means that a customer of a member firm wants to **buy** 100 shares of GM at no more than 79⅜ dollars per share. The offer price of 79⅝ means that another customer wants to **sell** 100 shares at no less than 79⅝ per share. The brokers holding these orders will not be able to execute them at these prices until a seller is willing to meet the buyer's 79⅜ bid price, or a buyer is willing to meet the seller's 79⅝ offer price. Both brokers continue voicing their respective bid and offer prices until one or the other is able to execute his order or until the quote changes.

Before we discuss how quotations are changed, let's illustrate the complete picture in General Motors, that is, other bids and offers in this stock at its section of the trading post on the exchange floor. Quite naturally, there are other member firm clients who want to buy GM but at prices below the prevailing highest bid price of 79⅜. Also, there are other clients who want to sell GM at prices higher than the prevailing offer of 79⅝. Discussing the buy side first, it is not at all unlikely that one or more customers want to buy GM at 79¼, others at 79⅛, at 79, and perhaps at every ⅛ or ¼ point down to 70 or 60 dollars per share. It is possible that there are orders on the floor to buy GM as low as 40! Potential buyers at these low levels won't buy, of course, until supply and demand forces cause the stock to decline, sale after sale to these levels, if they ever will. Similarly, potential sellers at prices above 79⅝, say as high as 120 dollars per share, won't sell their stock until market prices, fluctuating in accordance with demand and supply, rises to those price levels above the current market price.

Anyone wanting to know the current market picture—the prevailing quotation—in GM, would not need to know **all** of the bid prices from 79⅜ down to 40. Nor would he want to know **all** of the offer prices from 79⅝ up to 120. The prevailing quote, that is, the highest of all the bids and the lowest of all the offers tells him the practical story quickly and speedily. The quote 79⅜-⅝ tells anyone that 100 shares of GM can be bought at 79⅝ or can be sold at 79⅜. Note that in voicing or writing a quote, it is not necessary to repeat the full figure on the offer side, 79⅜-⅝ means the offer price is 79⅝. If the offer were 80⅝ however, the quote would be expressed or written 79⅜-80⅝.

Now let's see how quotations are changed. There are three ways, the first of which is by a higher bid or a lower offer. To illustrate a change created by a higher bid, assume a client instructed his account executive to buy 100 GM at 79½. On the Ex-

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change floor, this order would be voiced as a 79½ bid. The previous quote, 79⅜-⅝ would immediately be changed to 79½-⅝. To illustrate a change by a lower offer, assume the client's instruction was to sell 100 GM at 79½. The previous quote, 79⅜-⅝ would immediately be changed to 79⅜-½.

The second method by which a quote is changed is by a sale (transaction) if, after the sale occurs, no other bid or offer remains at the sale price. Using the illustrations in the separate examples just given, the seller at 79½ would have sold his stock to the buyer at 79½ in the quote 79½-⅝. The quote would be changed back to the original 79⅜-⅝. The same would be true if the seller had offered first, making the quote 79⅜-½, the buyer then buying at the 79½ offer price, changing the quote back to the original 79⅜-⅝. The quote would not be changed by a sale if there remained other bidders or offerers whose orders were not executed at the sale price. To illustrate this, let's assume there were two bidders at 79½. A seller now sells to one of them. The other bidder renews his bid and the quote remains unchanged at 79½-⅝.

The third method by which a quote is changed is by the cancellation (withdrawal) of the existing highest bid or lowest offer. Using the 79⅜-⅝ quote in this example, the quote would be changed if either the bidder or the offerer cancelled his order, assuming, of course, no other bidder had wanted stock at 79⅜ or offerer had been offering stock at 79⅝. Thus, if the 79⅜ bids were cancelled, the quote would be changed to 79¼-⅝. If the offer were cancelled, the quote would be changed to 79⅜-¾. (These new quotes assume that there was a buy order in the market at 79¼ and a sell order at 79¾.) These or any other buy and sell orders would not be voiced or revealed in any manner until, as quotations were changed, each in turn became the highest of all bids or the lowest of all the offers.

Long and Short

Long is relatively simple. It describes a customer's position immediately after his order to buy stock is executed. In one of our illustrations of quotations, we said a client had given an order to buy 100 GM at 79½. As soon as his order was executed, this client's position in GM would be described as long. And, it would be so described until he entered an order to sell this long stock. Then it could be said he was "even" in GM—neither long nor short. He was "even" before he bought it, was long during the period he held it, and became "even" again after he sold his long stock.

If another client, "even" in a given stock, decides to sell it short, he would instruct his account executive to enter an order to sell, say, 100 shares at the market short. When his order is executed, the 100 shares must be borrowed from someone in order to make delivery of the stock to the buyer who bought it. This creates a definite obligation on the part of the short seller to buy back or "cover" his short stock some day, in order to return the stock he borrowed when he sold short.

Let me give you a practical example of long and short which will make both terms easier to understand. We'll use XYZ as the stock and assume it's selling at $50 per share. The prevailing quote is 49⅞-50. Illustrating long first, let's say a client "even" in XYZ has decided to buy 100 shares. He instructs his account executive to enter an order to Buy 100 XYZ at the market. At the floor post, the broker "takes" the 100 shares offered at 50. The customer's position is now long

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From Washington Ahead of the News

By CARLISLE BARGERON

If you want to know what it takes to make a successful politician you should give study to Bob Taft's opponent in the Ohio senatorial campaign. They call him Jumping Joe Ferguson, whose main claim to fame is his large family and that as a vote-getter he has few equals.

Carlisle Bargeron

He was in Washington several weeks ago and after giving several interviews to the newspapermen to the effect that he could beat Bob Taft lying down, he suggested to the Democratic publicity men that they photograph him sitting in Taft's seat in the Senate, "to show that I can hold it," he explained.

It is strange, or maybe the innate courtesy of the Washington correspondents, that he was never asked what would seem to be a fair question. Why shouldn't he have been asked:

"Mr. Ferguson, do you think you are as able as Taft; do you think you can make as much of a contribution to the country as he?"

Undoubtedly this has never occurred to Jumping Joe, but it is the characteristic of a politician that it would not have deterred him in the slightest. He wants the job, thinks he has enough of a way with the gullible public to get it and notwithstanding that the loss of Taft in the Senate would be a distinct loss to the people of the country, Jumping Joe is in the race very confident he will win.

I doubt that you will find this sort of attitude prevalent in any other walk of life. A man aspiring to the Presidency of a corporation but realizing that he is not as competent as the occupant will likely have the humility at least to wait until the occupant dies or retires and even then he will have a sense of inadequacy.

The theatre is made up of about as selfish, self-centered and vain people as any other group under the sun. But they lay their jealousies aside to admire a Barrymore; no one of them thinks he can take her place.

Not so with the politicians. No man becomes so big or so important to his country, that a mediocre man would not hesitate to knock him off for the privilege of serving in his place. If Jumping Joe should by chance come to Washington, it matters not to him that he wouldn't have the slightest idea of what it is all about. He would just go along voting as labor, for instance, wants him to vote.

When you say this about him you are, of course, saying it about such a man as Jack Kroll, the Russian born immigrant, who as the successor of the late Sidney Hillman is the leader of the organized labor movement to get rid of Taft. He, of course, would tell Jumping Joe how to vote and it is not a question with him whether his directions were for the betterment of the country; it is power he seeks, the same sort of power which his predecessor gained.

It should be very offensive to decent people that a man of this stripe should become so vocal in their affairs. Kroll's rise to power has, like that of Sidney's, been through the browbeating of the garment workers centered in lower Manhattan, where the English language is honored more in the breach and where American traditions are something not yet attained. Hillman and Kroll brought "order out of chaos" out of the teeming mass with which they work, "stabilized" the garment industry, much to the admiration of many businessmen who don't like disorder of any kind. This bringing of "order out of chaos," this "stabilization," was done by gangster outrages but it was an accomplishment that brought Hillman to be an associate of Roosevelt the Great, of Felix Frankfurter, Frances Perkins and the like and to place him in a position of life or death over American industry during World War II. Kroll aspires to take up where he left off. Undoubtedly when we get Donald Nelson, Henry Kaiser and the rest of them back in Washington as it appears we are about to do, Kroll expects to have the high place held by Sidney.

You would think that the people of Ohio would take offense at a man of Kroll's type meddling in their affairs and this is exactly what they may do.

Taft expects to formally launch his campaign for reelection Aug. 14. He will not be able to put in the work he had planned to do because of the Korean situation but he is a hound for punishment and he will get in more campaigning than his opponents hope he will be able to. The smear artists are already busy on him, trying to pin responsibility for the Korean mess upon him. This shows the amazing confidence which they have in their power of propaganda.

Wasn't it Taft, they ask, who a few months ago wanted the Navy to make a showing around Formosa to prove that we intended to protect it. The facts are, of course, that had this been done there would not be the Korean mess. Taft has had very little stomach for our pouring out billions of dollars all over the world, in economic and military aid, to "contain" Communism. But when we became committed to that over his opposition, he could see no reason why Communism should not be "contained" in Asia as well as elsewhere. To this end he advocated that it should be made known in advance that our Navy would protect Formosa. The Administration hooted at him, said neither Formosa nor Korea was in our strategic area. This was an invitation for anybody to move in that could. When the Russians took the Administration at its word and moved in Korea, it changed face overnight and decided to fight.

Venture Capital in Overseas Investment

By GEORGE F. JAMES*
Treasurer, Standard-Vacuum Oil Co.

Holding considerations in investing abroad are not generically different from investment at home, Mr. James finds American foreign investment impeded by: (1) war and civil commotion, along with instability of governments; (2) inconvertibility of currencies; and (3) nationalistic xenophobic pressures. Says excessive taxes and tax discriminations are problems as well as restrictions on movements of capital and devaluation risks. Cites cases of anti-foreign investment regulations and discriminations, particularly in undeveloped countries, and questions whether Point IV program has much value. Advocates improved commercial treaties with other nations, and elimination of U. S. taxes on foreign investment profits.

The topic, "considerations when venture capital looks at overseas opportunities" is short but you could spend a good many years to advantage in its study. Nevertheless, we may be able to do something with an hour and a half, and leave you some time for questions too.

George F. James

The easiest thing to say about what venture capital considers in looking at overseas opportunities is that it considers the same factors which any prospective investor considers on any proposed investment: prospective profit and probable risk, and the one weighed against the other. Generically there is no difference.

Figures indicate that after investors have weighed the possible profits of an overseas venture against the possible risks, the usual answer is that they don't make the investment. Department of Commerce figures show that for 1947 the net increase of all American overseas investment—I am talking about direct investments not portfolio investments, not investors who buy stock in a foreign company or bonds of a foreign government—was only about $666,000,000, and 1947 was a banner year compared with 1945 or 1946.

Two-thirds of a billion dollars may seem like quite a lot of money, but beside the capital from Marshall aid and various other government-to-government financial measures, you will realize that it is an extremely small drop in a very large bucket.

I have not seen the Government figures on 1948. It was probably a somewhat better year. It is estimated that the gross increase in American foreign investment that year was in the neighborhood of $1¾ billion. Of course, there would be some liquidation, but the net increase was probably substantially greater than in the year previous.

Even the larger figure would indicate that in comparison with the total investment funds available, or in comparison with the potential use of capital funds, American venture capital is not going abroad to any great extent.

The nearest thing to an exception is the oil industry.

I said that $666 million was about the net American increase in direct investment in 1947. The oil industry provided $454 million of that, and of the estimate of the gross increase in 1949, something around 80% came from the oil industry. For some reason, therefore, that industry is investing a substantial amount of money abroad.

Oil Industry An Exception

It is not too difficult to see reasons why the oil industry has been an exception to the trend against foreign investment. In the first place, an investor in oil production is limited to some extent by the location of the oil. If you had made prewar discoveries of the vast reservoir of oil under the desert of Saudi Arabia, even if it does involve an extraordinary risk of large capital, you are certainly going to go after that oil. If, before the war, you already had a concession and exploitation contract in Sumatra, even though it might not look from every point of view, like a conservatively sound investment, knowing the oil is there, you will spend a tremendous amount to go out and develop it again.

On the marketing end, the principal reason that the oil industry has been making substantial postwar foreign investments is a matter of continuity. They had the markets before the war, and hoped to get back to a relatively peaceful world again. Because the loss of market position is hard to regain, some risk is justified to preserve that position.

Between production and marketing you have refining. You either have to refine where the crude oil is found or refine where the markets are, and if the oil is produced in foreign territories, and not imported into the United States but sold in foreign territories, it will be refined abroad, one place or the other.

Despite all those factors which have impelled the oil industry into postwar foreign investment, it is still true that the amount which has been spent in foreign ventures by the oil industry since the war is very substantially less than the amount which might have been spent, the amount indicated for reinvestment by internal financial forecasting during the planning for postwar rehabilitation and expansion.

The factors which have kept the foreign investment by the oil companies below the potential are much the same as those which have largely inhibited foreign investment, by other American investors potentially investing abroad.

Why Foreign Investment Is Retarded

The principal factors are three: one is war or civil commotion and noncontinuity of government; a second is nonconvertibility of funds or limited convertibility, exchange risks and currency devaluation; the third is all of the nationalistic, xenophobic pressures ranging from discriminatory taxation or regulation to actual expropriation.

I should like to expand a little on each of those in connection with the background of my company, because I think I can illustrate the general problems more effectively in connection with the specific problems on which I have to work.

We have a marketing operation which extends from Japan to New Zealand across to Cape Town and around back just south of the Persian Gulf, including India and all southeast Asia, and in happier times, China. We also have substantial production in Indonesia, and a big refinery in Palembang, Sumatra.

You can see from the geographic position that when the war ended, we were out of business in about half of our area. The marketing business was gone in Japan and Korea, Manchuria, China, Siam, Burma, Malaya, Singapore, and French Indochina, and the marketing and producing and refining were gone in Indonesia. Right at that point we faced the question of how much money we were prepared to spend to get back into business again. We had a remaining marketing business in Australia and New Zealand, India and Ceylon, South and East Africa, which was only a fraction of our normal total of business. You can see exactly the problem that arose, which was of an established company, having a background in the foreign field, having the funds available, being required to weigh the desirability or undesirability of committing those funds and making the capital outlays necessary to re-establish the business.

Well, the first thing that had to be considered was the political outlook. On that, I would say, we probably guessed rather badly right at the start. We had no idea that things would be as bad in a number of areas as they have proven to be.

We did go back into China. We put parties out there to locate our properties. We rebuilt the big installation at Shanghai and at Hong Kong, and we laid out a number of millions of dollars.

The first thing we considered was whether we were going to be able to stay in business, or whether we should go back in there on a skimming operation to invest only as much money as was necessary to keep the business for a while. What we did was what you usually do in that sort of a decision—spent more than the minimum but less than the maximum we would if we were sure we were going back into a territory with a sound political future.

One factor that made that picture look as if it was worthwhile was the fact that traditionally the marketing profit of that area is high and is subject to low local taxes, and so to the extent that the operation proved successful, it might produce a profit higher than the profit a similar investment would receive in the United States, and subject in effect only to United States taxes.

I will develop that tax point a little bit in a few minutes.

We had exactly the same problem in Indonesia with an additional factor. In Indonesia we had oil in the ground, and we would be giving up something very large and very tangible if we didn't go back, so there was additional pressure to return there. On the other hand, the nature of that operation would involve the expenditure of a great deal more money. We had a big refinery there that was thoroughly wrecked. Our own people dynamited it when they got out. The Japs built it up and got it going a little bit again, but planes came from Ceylon and knocked it down again.

In 1946 it was very much of a wreck, calling for a big capital outlay. At the time a civil war was going on between the Indonesian Republic group and the Dutch. Despite the risks, the necessary investment was made to protect and exploit the concessions. We don't know yet how that decision came out, because

Continued on page 35

*A lecture given on July 17, 1950, the fourth 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.

Dealer-Broker Investment Recommendations and Literature

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

City of Philadelphia Bonds—Valuation and appraisal as of June 30, 1950—Stroud & Co., Inc., 123 South Broad Street, Philadelphia 9, Pa.

Also available is a valuation and appraisal of Railroad Equipment Trust Certificates.

Comparative Equity Earnings—Comparative table of common stocks in ten industries—Dreyfus & Co., 50 Broadway, New York 4, N. Y.

Effect of Excess Profits Taxes on Leading Companies in World War II—Analysis—Eastman, Dillon & Co., 15 Broad Street, New York 5, N. Y.

Also available is a list of **Common Stocks** favored for investment, a table of marginal **Preferred Stocks** which might benefit from a semi-war economy, and an analysis of five stocks which the firm considers attractive for holding in a growing war economy.

Market Reversal?—Analysis of market developments with recommendations on timing of purchases and sales and selections—current bulletin and next 4 weekly issues for $1—Bondex Incorporated, 654 Madison Avenue, New York 21, N. Y.

Municipal Bonds During World War III — Bulletin — Moroney, Beissner & Co., 812 Rusk Avenue, Houston 2, Tex.

New York's New "Prudent Man" Law—Analysis—Hemphill, Noyes, Graham, Parsons & Co., 15 Broad Street, New York 5, N. Y.

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

Pension Plans and Common Stocks — Analytical brochure—Morgan Stanley & Co., 2 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.

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Allied Stores Corp.—Memorandum—Shearson, Hammill & Co., 14 Wall Street, New York, N. Y.

Bendix Aviation Corp.—Memorandum—Sutro Bros. & Co., 120 Broadway, New York 5, N. Y.

Bullock's Inc. — Recent Bultin — Hill Richards & Co., 621 South Spring Street, Los Angeles 14, Calif.

Bullock's Inc.—Analysis—Wagenseller & Durst, Inc., 626 South Spring Street, Los Angeles 14, Calif.

Also available are detailed studies of **General Controls Co.** and **Seattle Gas Company.**

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

Dewey & Almy Chemical Co.—Memorandum—Walston, Hoffman & Goodwin, 265 Montgomery Street, San Francisco 4, Calif.

Also available is a memorandum on Grinwell Corp.

Farrel-Birmingham Co.—Memorandum — First California Co., 300 Montgomery Street, San Francisco 4, Calif.

Hamilton Manufacturing Co.—Memorandum—Loewi & Co., 225 East Mason Street, Milwaukee 2, Wis.

Lone Star Steel — Memorandum—Dallas Rupe & Son, Kirby Building, Dallas 1, Tex.

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

Missouri Pacific Railroad—Analysis—Vilas & Hickey, 49 Wall Street, New York 5, N. Y.

Newport Steel Corporation—Study for dealers only — L. H. Rothschild & Co., 52 Wall Street, New York 5, N. Y.

Pennsylvania Railroad Co. Analysis—Hayden, Stone & Co., 25 Broad Street, New York 4, N. Y.

Also available is a bulletin on **Revere Copper and Brass Incorporated.**

Pennsylvania Water & Power Co.—Bulletin — Boenning & Co., 1606 Walnut Street, Philadelphia 3, Pa.

Rayonier — Memorandum—Francis I. du Pont & Co., 1 Wall Street, New York 5, N. Y.

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

Also available is a brief review of the Cement Industry

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

Wisconsin Corporations—Booklet of financial briefs—Robert W. Baird & Co., 110 East Wisconsin Avenue, Milwaukee 1, Wis.

Also available is a memorandum on **Cutler-Hammer.**

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).

Strength With Flexibility First Need of Economy, Council Says

Presidential advisers maintain rigid controls are avoidable, despite inflationary threats and armament needs fostered by Korean situation. Advocate "a prompt and drastic" increase in taxes, holding they would not interfere with maintenance of maximum production. Advocates as main immediate aims of public policy: (1) a quick increase in production; (2) establishing priority for defense and essential civilian needs; and (3) protection against inflation.

Although the international political crisis has made economic prediction and policy-making particularly difficult, they are now


Leon H. Keyserling


John D. Clark


Roy Blough

all the more necessary, is the underlying theme of the mid-year "Report to the President," submitted July 24 by the Council of Economic Advisers. The Council members are Leon H. Keyserling, Chairman; John D. Clark and Roy Blough.

"Very recent events have placed international developments and their impact upon the domestic economy, in the forefront of public attention," the Council says. "It is manifestly impossible to predict the future sequence of these developments. This makes it difficult to discern the appropriate economic policies which should now be followed. But the difficulty does not remove the necessity. The fact that our future programs may be largely influenced by the action of other nations does not force us to drift aimlessly. The need for maintaining the American economy at maximum strength and productivity has become even greater than before. In domestic economic affairs no less than in international, we must be prepared and watchful, retaining enough flexibility to change our course quickly as conditions change."

The Impact of International Developments

After citing the highly favorable economic developments existing during the year's first half, the Advisers point to the complete disruption of the increasingly favorable trend.

"We cannot yet judge the extent or duration of this new turn of events," say the Advisers. "If other nations were to force this country into defense programs comparable to those of war, a full war economy would then need to be established. If the Korean situation were to be followed by a situation of heightened and prolonged tension requiring that we be fully prepared for military effort at many points in the world, the resulting increase in expenditures would require even more extensive economic controls than those thus far proposed."

"The current request for an additional $10 billion for increasing our armed forces and our military outlays, while very sizable, does not involve full mobilization of our military might or the placement of our civilian economy on a full wartime footing. But the increasing preparations for defense which must now be made will have a very substantial effect upon the domestic economy, even though not all of the additional appropriations will be expended this year. The stepping up of military procurement will cause further tightening of the market situation in important areas of the economy. There has been and will be some increased forward buying, both by business and by consumers. There will be a larger demand for labor, and a tendency towards wage increases of a magnitude which would increase the costs of production and add to the pressure on prices."

Inflationary Pressures and Controls

Holding that, despite the inflationary threats, rigid controls are avoidable, the Council declares:

"Such increased pressures, superimposed upon an active economy, would quickly create a sufficiently serious inflationary situation to require the whole gamut of comprehensive and direct controls, if advance buying by business and consumers should approach the proportions of hoarding or rampant speculation, or if prices and wages should commence to spiral. This would also follow if further changes in the international situation should require the stepping up of military efforts and procurement even more rapidly than has thus far been proposed. But if neither of these contingencies develops, price, wage, and manpower controls should be avoidable. There is some margin of unused capacity in most industries, even apart from the use of double shifts and overtime work, and there is still a substantial reserve in the labor force. The utilization of these reserves, plus some necessary capacity expansion, should cover military needs on the present scale without a complete set of controls, if production is effectively channeled into essential areas through material allocation, and, above all, if total demand is held in check by strong tax and credit measures."

Increased Output

The Advisers express their confidence in the continuance of man-hour output as follows:

"Output per man-hour was estimated to be about 11% above the 1945 level in the first half of the year. This means an average gain of about 2.4% per year (compounded), slightly higher than the average rate in the prewar decade. With vast recent improvements in plant, technology, and skills, we should certainly be able to maintain at least the recent rate of increase in output per man-hour over the next few years."

The Council further cited the assured growth of the labor force, as follows:

"Coupled with this productivity trend, there is the certainty of a growing labor force. The labor force, in fact, is likely to increase more rapidly than is indicated by the size of the normal annual increment, because many new workers are drawn into industry when the economy is working at high speed. Additional labor power is also available in the current body of 3.4 million unemployed workers, and among those who now work only part-time. While substantial numbers of men will be drawn into the armed forces, it seems clear that the labor force will be large enough to permit sizable increases in civilian employment.

"Without an unusual increase in the labor force, or in hours of work, maximum employment would involve by the end of 1950 an increase in our annual rate of total output of about $8 billion at present prices. But our potential increase in production is considerably greater, allowing for the further reduction of unemployment by 1 to 2 million, for possible enlargement of the labor force, for the possibility of full-time employment of many who are now employed only part-time, and for the full use of existing plant capacities. In succeeding years, we can expand about 3% annually."

Economy in Good Shape

"With this output potential, the economy is in good shape to deal with increased programs of substantial scope. Nor does the fact that there is so much less slack in the economy than there was in 1939 mean that we are faced with unmanageable problems. It is true that additional procurement programs, coming in a period of boom, create greater problems of scarcity and inflationary pressures. But these problems can be dealt with more expeditiously than the time-consuming process of shifting an economy from low gear into high," continue the Council.

"Now that we are in high gear, however, we must exert every effort to produce even more. Our economy is so flexible, and its demands so varied, that the increase of total production up to the limits of our resources will be the most effective general effort that we can make. The more we produce, the more fully we can supply the most essential purposes without diversions which would impair other sectors of the economy."

Production Increase Insufficient

Calling attention to the need for public action along with private policy, the Advisers went on:

"But the increase of total production will not in itself be enough. The kind of situation in which we now find ourselves, and the immediate outlook, will impose concentrated strains upon some lines of supply much greater than the average strains upon the economy as a whole. The increased need for steel, and other items entering into military and related uses, will be relatively much greater than the increased demands upon the economy as a whole. And the increased need for these special products will converge largely upon areas where supply is already tight, and the utilization of existing capacity complete or almost complete. This means that the expansion of production in these specific lines must take precedence over the expansion of other lines. This involves special problems of labor utilization as well as use of facilities and materials. It also means that, in special lines, expansion of total output probably cannot proceed rapidly enough to avoid the necessity of some diversion from less essential use to the most essential use. It follows that policies directed toward the expansion of specific lines, and toward influencing the composition of the demand for and the distribution of these products, are likely to become just as urgent as policies to reduce the total level of demand to counteract general inflation. Both types of policies are now needed."

Public Policy and the Korean Situation

Discussing the range of public policy, the Council states:

"Public policy cannot be adjusted simultaneously to each of the possible contingencies of the future, particularly when so many of these are beyond the control of this nation. An effort to do this would impair the effectiveness of current action directed to current problems. The degree of effectiveness demonstrated, in adjusting what we do now to what is needed now, will be the surest token that we can adjust later to whatever may be needed later on. The uncertainties of the future should not generate either paralysis or excessive action in the present.

"We must maintain our domestic economy in a position to serve as a tower of strength for all the efforts of the nation, not only during an emergency of a few weeks or months, but for years which may be many in number. The north Korean attack is a warning to the world to be prepared against the possibility of similar aggression at other points. The United States must be ready to bear its share of the burden of the common defense. The heavier

Continued on page 28

Bernard Weissman Is Siegel Co. Partner

Bernard Weissman

Siegel & Co., 39 Broadway, New York City, announces that Bernard Weissman has been admitted as a general partner. He has been associated with the firm of Siegel & Co. for the past eight years as Manager of the real estate and mortgage statistical department.

L. H. Rand Joins Cowen & Company

Cowen & Co., 54 Pine Street, New York City, members of the New York Stock Exchange and other exchanges, announce that Louis H. Rand has become associated with the firm. Mr. Rand formerly conducted a general brokerage business under the firm name of L. H. Rand & Co.

Hayward Admits Partner

BELLINGHAM, Wash.—Francis C. Hayward has admitted Roland B. Boettrer to partnership and is continuing his investment business under the firm name of Francis C. Hayward & Co. from offices in the Bellingham National Bank Building.

Pennsylvania Brevities

Corporate News and Notes

Warner Company

Gross sales of Warner Company, producers of central-mix concrete, building materials, lime and lime products, rose to $9,239,476 for the first six months of 1950, compared with $8,409,842 for the like period of 1949. Per share earnings on the 474,329 shares of outstanding common were $2.83 as against $2.55. Characteristically, larger earnings are realized in the latter half of the year and estimates for all of 1950 run to $6 per share, or better.

Last April, the quarterly dividend rate was increased from 25 cents to 40 cents, and it is anticipated that a year-end extra disbursement will be made in December.

Many of the company's larger construction contracts are considered to fall in the high priority class and little if any curtailment in activities is foreseen in the near future. Next year's business is expected to be stimulated by the beginning of construction of the new Carnegie-Illinois Steel Co.'s plant to be located on the Delaware River at Morrisville, Pa. Warner Company's chemical lime business, which has many applications in essential industry, is operating at capacity.

Since the end of World War II, the company has expended between six and seven million dollars for plant and equipment improvements. The program has reduced operating cost ratios and increased productive capacities at needed points.

* * *

P. T. C. Earnings Improve

PHILADELPHIA — Operating revenues of the Philadelphia Transportation Co. for the first six months of 1950 increased $2,072,352 over the corresponding 1949 period, resulting in a net profit of $236,980 compared with a loss of $1,314,497 in the first half of last year. Although revenues were up about 6% in 1950, the greater part of the gain was attributable to the 10-day strike which suspended all service in February, 1949.

The company estimates that on the basis of existing fares operations for the full year 1950 will produce no taxable income. On the other hand, no provision has been made for a tax credit which might result from carrying forward the 1949 operating loss.

A Federal tax refund of $277,606 on taxes paid in 1946 is expected to be received and, when received, will be recorded as income. In addition, a reserve of $479,823, set up to take care of possible income tax assessments for years prior to 1946, has been released under the statute of limitations and will also be added to income in 1950.

The common and preferred stocks of P. T. C. have been admitted to trading on the Philadelphia - Baltimore Stock Exchange.

* * *

Philadelphia Company, principal subsidiary of Standard Gas & Electric Co., has filed an application with the SEC designed to bring about the retirement of its issues of 6% non-callable preferred (par $50) and $5 cumulative preference stocks. The $6 preference stock, of which $10,000,000 was outstanding, has already been called for redemption. When and if consummated according to the proposed plan, Philadelphia Company will be left with a capitalization consisting solely of its common stock and $17,500,000 to be borrowed from banks.

As an intermediate step, Duquesne Light Co., a subsidiary of Philadelphia Company, would refund its present issue of 5% preferred by selling to Philadelphia Company a new issue of lower dividend-rate preferred in the principal amount of $27,500,000. Philadelphia Company would obtain funds for the purchase from the bank borrowing noted above, from the approximately $8,000,000 remaining from the recent sale of Equitable Gas Light common stock and from general funds.

The new Duquesne Light preferred, purchased by Philadelphia Company, would constitute the principal medium of exchange in retiring Philadelphia Company 6% preferred. The $5 preference stock would be retired for cash or securities in a manner to be determined by amendment.

It is contemplated that at about the same time Duquesne would sell $12 000,000 additional first mortgage bonds at competitive bidding and later would sell, also at competitive bidding, $7,500,000 additional preferred stock. Funds so realized would defray the call-price premium on Duquesne 5% preferred, repay short-term construction loans and provide for the 1950 construction program.

* * *

Fares Raised in Pittsburgh

HARRISBURG—Generally higher trolley and bus fares for Pittsburgh Railways Co. were approved by the Pennsylvania Public Utility Commission last week. The new schedules, which will become effective Aug. 4, are expected to increase revenues approximately $2,500,000 per year.

The basic trolley fare is raised from 12 to 15 cents, although riders may continue to pay the present fare through the purchase of five tokens for 60 cents. Token buyers, however, will pay three cents for transfers which will be issued without charge to the 15-cent cash fare riders. Present 15-cent bus fares will be increased to 20 cents, although strips of tickets will be available at the rate of 10 for $1.50. On certain cross-town bus routes, three tokens will be sold for 50 cents.

* * *

Pennsylvania Power & Light Co.

For the 12 months ended June 30, Pennsylvania Power & Light Co. reported gross income of $73,561,504, compared with $68,516,483 for the similar previous period. Net income increased from $8,745,163 to $11,082,142, equivalent to $2.55 per common share on the 3,326,197 shares currently outstanding, against $2.26 per share on 2,911,885 shares outstanding on June 30, 1949.

* * *

Stock Exchange to Move

PHILADELPHIA — After 37 years in its present location at 1411 Walnut Street, the Philadelphia - Baltimore Stock Exchange and the Stock Clearing Corp. of Philadelphia are planning to move to the adjoining Central-Penn Bank Building at Broad and Walnut Streets. The latter building is being completely modernized, including the installation of high-speed elevators and complete air-conditioning. The Stock Exchange has leased the ninth and part of the eighth floors and will move at the expiration of its present lease.

* * *

Armstrong Cork Allocates

LANCASTER — Distribution of asphalt tile produced by Armstrong Cork Co. has been returned to an allocation basis, according to H. Dorn Stewart, Assistant Manager of the Floor Division. Although productive capacity of all four of Armstrong's tile plants have been increased, operations are at capacity under the stimulus of peak sales.

* * *

Yarn Prices Increased

PHILADELPHIA—Due entirely to the rising cost of raw wool, James Lees & Sons announce an advance of about 10% in the price of its Columbia and Minerva hand-knitting yarns, effective immediately.

* * *

Yea, Pennsylvania!

Pennsylvania Railroad reported gross revenues in June of $80,815,470, the largest for any month since January, 1949. Net income of $5,216,406 for the month was more than sufficient to wipe out the deficit of $3,077,521 recorded for the first five months of the year. A downward revision of tax accruals for the first half-year of $4,398,000 brought net income for the six months to $6,174,521, only slightly below the comparable figure for the first half of 1949. Earnings per share were 47 cents.

* * *

S. S. White Dental Mfg. Co.

Although sales and profits of S. S. White Dental Mfg. Co. in the first half were slightly below results for the first six months of 1949, a sharp upturn was marked in the second quarter and prospects for the remainder of the year are bright, according to Fred E. Steen, President, as reported in the "Philadelphia Inquirer."

Sales for the first six months were $9,717,000 against $9,833,304 a year ago. Domestic sales were ahead of last year, but foreign currency devaluations and restrictions on shipments tended to curtail results.

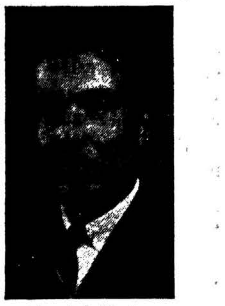
Over $500,000 has been spent in development of the new "Air-brasive Technique," which prepares cavities for filling by forcing finely ground aluminum oxide powder against the tooth under 60 to 70 pounds of pressure of carbon dioxide gas. The process cuts away tooth enamel without heat, vibration or pain. Demonstration units have been supplied to most dental schools and will be available to the general practice early next year.

Preston Holt Joins Walston, Hoffman Co.

(Special to THE FINANCIAL CHRONICLE)

PORTLAND, Oreg. — Preston Holt has become associated with Walston, Hoffman & Goodwin, American Bank Building. Mr. Holt was formerly with Russell, Hoppe, Stewart & Balfour and prior thereto was an officer of Holt, Robbins & Co.

A. J. Stalker With Kidder, Peabody Co.



Alfred J. Stalker

Kidder, Peabody & Co., 17 Wall Street, New York City, members of the New York Stock Exchange, announces that Albert J. Stalker has become associated with the firm in charge of the Dealer Relations Department. He was formerly with Shields & Co. for a number of years.

Sydney Clark With First Central Corp.

(Special to THE FINANCIAL CHRONICLE)

RICHMOND, Calif.—Sydney S. Clark is now associated with First Central Corporation of California. Mr. Clark was formerly with Davies & Mejia, H. R. Baker & Co. and Bankamerica Co.

R. F. Cooley Rejoins Thomson & McKinnon

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill. — Richard R. Cooley has rejoined Thomson & McKinnon, 231 South La Salle Street. Mr. Cooley has recently been with the Chicago office of Reynolds & Co. as manager of the trading department.

Perry With Douglass Co.

(Special to THE FINANCIAL CHRONICLE)

BEVERLY HILLS, Calif.—James A. Perry has become associated with Douglass & Co., 133 North Robertson Boulevard. He was formerly with Morgan & Co. and prior thereto was Assistant Vice-President of First California Co.

Francis I. du Pont Adds

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—Walter S. Wesp has joined the staff of Francis I. du Pont & Co., 722 South Spring Street. He was previously with Paine, Webber, Jackson & Curtis.

Advertisers

By ROGER W. BABSON

Mr. Babson, asserting public relies on advertisements, advises merchants and others not to curtail or cut down their advertising. Says one of best ways to avoid "boom or bust" policy is allowance of a special tax reduction on five-year contracts for advertising expenditures. Holds "now is the time to advertise." Says North Koreans will get such a beating as to make it impossible for many years for Russia to induce another satellite to embark on a military venture.

I have just been reading a most interesting advertisement of a great steel company. In effect, it constitutes a report of the progress this company has made in its production of steel plates for ships, bombs, and other war materials. This company has nothing whatever to sell to the general public, but it chooses to buy considerable newspaper space to give the people some most encouraging facts.

Roger W. Babson

The public has come to rely upon advertisements. In countless instances people make it a practice to read the ads first and the news stories second. Naturally, there is some waste in advertising; but 90% of it is to the good. The merchant who pays a bill for advertising expects his ad to "pay its way." The return in merchandise sales per dollar spent for space is carefully watched.

In certain types of copy featuring the sale of shoes, dresses, and various other articles of consumer goods, a merchant thinks he can determine an hour after his store opens for business whether or not the advertisement is a success. He fools himself by trying to do this. Statistics show that money spent on one daily newspaper advertisement will be a factor in increasing sales for a period of some months ahead.

Don't Worry About Korea

Many believe that the consumers goods industries must now fall off and are curtailing advertising. I cannot necessarily agree with this position. Whatever happens in Korea, the vast machinery of manufacturing and distributing which makes up our great retail trade must be kept running. Newspaper advertising is the best means of making this possible. Besides, I am more optimistic on the international situation than I have been for some years. The Koreans will get such a punishment that it may be many years before Russia gets some other satellite to try the same stunt.

Too many readers accept their newspapers as a matter of course. Newspapers are, however, as important to their communities as are municipal conveniences and other services. Probably no single item would be missed more from our daily lives than our local newspaper. A newspaper is the greatest buy in the world. All newspapers, regardless of size, are highly educational. Unlike other great institutions of learning, however, they are not endowed and must be self-supporting. Naturally, what keeps a paper going is its advertising revenue. Everyone should help on this as a civic duty.

Service Rendered By Newspapers

Newspapers are vastly more important to retailers, manufacturers, and the city itself than merely increasing sales. All kinds of civic and social organizations rely upon free notices of their activities. We all have more of a stake in the business of advertising than we realize. Our papers not only give us the news each day but the growth of our cities depend upon the prosperity of our local newspapers. Washington certainly owes a debt to all newspapers whether editorially they are "for" or "agin" the Administration.

Successful manufacturers are carrying on a most sensible campaign of paid publicity with no chance of now getting their money back through immediate increased sales. I hope more local firms will take advantage of the opportunities to advertise which are offered today. Yes, I am optimistic for advertising for those who will stick to it "rain or shine." Sensible continuous advertising is the best investment that there is.

Advertising and Taxes

Merchants who cut down advertising appropriations at this time are making a great mistake. Not only do all merchants now need more sales, but those who advertise now get more attention when their competing merchants are not advertising. Now is the time to advertise.

One of the best ways to avoid the "boom or bust" policy would be for Congress to allow a special tax reduction as an incentive for five-year contracts for advertising expenditures. Then instead of merchants spending freely good years, with very little left for lean years, the advertising appropriations would be spent over a five-year period. This would do much to keep business on an even keel which is what we especially need today.

Morgan Stanley Group Offers $90,000,000 of Columbia Gas 3% Debs

Morgan Stanley & Co. and 59 associated investment firms offered to the public on Aug. 2 a new issue of $90,000,000 3% debentures, series B due 1975 of the Columbia Gas System, Inc., at 102.308% plus accrued interest to yield approximately 2.87% to maturity. This issue was awarded at competitive bidding on Aug. 1.

From the proceeds of the sale the corporation will redeem on or about Sept. 9, 1950, $45,000,000 of 3¼% debentures due 1973 and two issues of 3% debentures due 1974, totalling $33,000,000 principal amount.

The balance of the proceeds will be added to the general funds of the corporation. It is estimated that its general funds will then be adequate for the 1950 construction and gas storage program of the System.

The new debentures are subject to redemption at 106% if redeemed during the 12 months beginning Aug. 1, 1950 and thereafter at prices decreasing to the principal amount if redeemed on or after Aug. 1, 1974. They are also redeemable for the sinking fund at prices ranging from 102.20% to the principal amount.

Columbia Gas System through its operating subsidiaries distributes and sells natural gas at retail in 1,218 communities to more than one million residential, commercial and industrial customers. The corporation also sells gas at wholesale to other public utilities for resale. The principal territory served by the System at retail includes large areas in Ohio, Pennsylvania and West Virginia. During 1950 the System will begin serving at wholesale a number of new communities including Baltimore, Md., Charlottesville and Roanoke, Va.; Harrisburg, Allentown, Reading, Lancaster and Bethlehem, Pa.; and Poughkeepsie, Kingston and Newburgh, N. Y.

Mutual Funds

By ROBERT R. RICH

Retirement Funds Increase Fund Use

An increasing number of retirement funds are using suitable investment company shares in their investment program, according to an exhaustive study of the "Investment Trend in Retirement Plans," just completed by Rawson Lloyd.

Mr. Lloyd gives this picture of pension funds. They have grown rapidly since 1942, when the Internal Revenue Act allowed corporations to deduct contributions under such plans as expense. Only about 1500 companies had plans then. Today there are approximately 13,000 qualified plans and the number is growing. These funds total about $5 billion covering 7.2 million employees.

The executive had this to say of the growth of pension funds. Some five million more employees can be expected to be covered in the next three years. Annual contributions to retirement funds are now about $1.2 billion and may rise to $2 billion a year in three years time. For instance, if the automobile industry adopts a program similar to steel, total contributions to these two funds alone may be as much as $400 million each year.

Against an analysis of the principal features of several retirement plans now in use, the study illustrates how the cost of pension plans is increasing because of rising living costs, increased longevity and lower income from best grade securities.

"To offset the rise in pension costs," Mr. Lloyd pointed out, "more and more trusteed plans are now including preferred and common stocks as well as bonds in pension funds to boost income and provide some hedge against further inflation and higher prices."

Mr. Lloyd cited several examples to show there is a trend toward inclusion of all classes of securities in retirement and endowment funds. A survey of trusteed pension funds of 114 large corporations by the Cleveland Electric Illuminating Co. showed a majority (53%) of the funds hold common or preferred stocks. The Federal Reserve Bank recently purchased a limited amount of common stocks for its pension fund. The endowment funds of 12 eastern colleges totaling about $600 million have an average of about 45% of their investment in bonds, 13% in preferred stocks and 42% in common stocks.

Mr. Lloyd further pointed out that last year U. S. life insurance companies (within legal limitations on insurance company investment in various states) increased their purchases of common stocks by more than 40% over 1949 from $49 to $69 million.

Finally, citing the experience of his own investment company, Wellington Fund, of which he is vice-president and director of research, Mr. Lloyd said: "More than 1000 institutions, corporations, estates and fiduciaries, including trustees of pension funds, own over $8,500,000 of Wellington Fund. Recent examples," he continued, "include a $50,000 investment in Wellington Fund by a pension fund of a Texas manufacturing company and an investment of a casualty insurance company in Iowa for its retirement trust. The Wellington Fund management group's retirement program uses Wellington Fund shares and government bonds in its own benefit fund."

Growth Companies Offers 300,000 Shares

Public offering of 300,000 shares of common stock of the new open-end diversified mutual fund, Growth Companies, Inc., whose organizers include four of the country's outstanding scientists, was made yesterday (August 2), by Growth Companies Management Corporation, sponsor of the fund, with principal offices in Philadelphia.

The shares are being offered initially at $9.84 a share and this price is to remain unchanged for 24 hours following the initial offering, as the sponsor company has announced that no investment of Growth Companies, Inc., monies will be made during this 24-hour period. Thereafter the price will vary with any change in net asset value. Net assets of the fund consist of a cash balance of $256,500 or $9 a share. Shares of the fund are tax free in Pennsylvania.

The new fund, according to the prospectus, will invest for the most part in common stocks of companies believed by the directors to possess more than ordinary possibilities for growth. Primary object of the fund is described as capital gain.

Growth Companies, Inc., has been organized, the prospectus states, with the objective of combining the best available experience in scientific research and industrial technology with experienced investment judgment. Its board of directors includes:

Dr. Roger Adams, President of the American Association for the Advancement of Science and past President of the American Chemical Society;

Dr. Zay Jeffries, until recently Vice-President of the General Electric Company in charge of the Chemical Department and past President of the American Society for Metals;

Bayard D. Kunkle, a member of the board of General Motors Corporation and a former Vice-President of that company;

Clyde E. Williams, the Director of Battelle Memorial Institute, America's largest endowed organization for theoretical and applied research on metals, ceramics and fuels, and past President of the American Institute of Mining and Metallurgical Engineers;

John E. Templeton, President of Templeton, Dobbrow and Vance, Inc., Investment Counselors;

Harry J. Haas, past President of the American Bankers Association, and Dr. John H. Gross, Investment Counselor, who is President of the new fund.

Wisconsin Claims It Foresaw War Economy

The management of Wisconsin Investment Company not only had the foresight to anticipate an international incident seven weeks before the start of the shooting in Korea but made courageous moves in the portfolio to adjust it to that possibility, according to a statement made by the Fund.

The following quotation is taken directly from the minutes of the Investment Committee meeting of May 8:

"A substantial portion of the meeting was devoted to a discussion of the international situation and the danger of war and their bearing on the investment policy. It was recognized that our relations with Russia are growing steadily worse and that with the arrival of spring, some move by Russia in Europe or Asia could be considered as a probability. . . . Those present were of the opinion that one should be prepared for an international incident at any time which could bring this country to the brink of war. The recent action of the stock market was considered as reflecting intensified armament and preparedness for war with their natural inflationary implications. The stimulation which has occurred in the nonferrous metals, oil and armament groups as compared with the laggard action of the utilities and insurance stocks were considered as partly indicative of the trends. It was considered wise, under the circumstances, to somewhat readjust the company's portfolio to these trends. . . ."

Not only does Wisconsin Investment claim to be able to make rapid changes to adjust to varying conditions but the management actually did make major ones, according to a table it prepared. As may be seen from the adjustments in the following groups an additional 30%, approximately, of the portfolio was placed in those industries which would benefit from armament and inflation, the Fund pointed out.

Industry—	% of Tot. Fund Mar 31, 1950	Jun 30, 1950
Aircraft	--	4.1
Chemicals	2.8	13.3
Foods	3.9	--
Machinery	8.2	12.9
Mining	3.6	8.5
Oils and Nat. Gas	5.7	10.9
Retail Trade	3.5	--
Utilities	10.3	--

Foresees Devaluation

Defensive securities such as foods, retail trade and utilities were completely eliminated. Bank and financial holdings were decreased. As a long-term policy, however, the company's position in gold mining securities was maintained. The Fund believes that inflation may eventually result in the devaluation of the dollar and it says that this group has been retained as a hedge against this eventuality.

Net Assets Increased

Net assets of Wisconsin Investment Company totaled $2,263,599 at June 30, 1950, compared with $2,205,900 three months earlier and $1,698,638 a year earlier, the quarterly report to stockholders disclosed. Net assets equaled $3.46 a share at June 30, against $3.71 a share at March 31 and $3.23 a share at June 30, 1949.

Women Constitute Half of Manhattan

Women represent more than half the shareholders of Manhattan Bond Fund, Inc., a mutual fund investing only in bonds, according to a survey published by Hugh W. Long and Company, New York, national underwriters of the Fund.

The survey also revealed that over 700 shareholders of Manhattan Bond Fund, Inc., are institutions, corporations, partnerships or fiduciaries with aggregate holdings of more than 360,000 shares, representing one out of every 12 shares outstanding. Estates, guardians and trustees are by far the largest holders in this group, followed by churches, church and charitable organizations. Business organizations, including corporations, partnerships and insurance companies, are third. Many employee funds, hospitals, investment companies, universities, colleges and schools also appear on the list of large shareholders.

Of all individual holders of Manhattan Bond Fund, Inc., on

July 1, more than half were women, approximately 25% men, and the remainder men and women owning shares as joint tenants.

Keystone Reports

Combined net assets of the ten Keystone Funds on June 30, 1950 were $198,489,100, it is disclosed by the semi-annual reports of the Keystone Investment Bond Fund B1 and the Appreciation Preferred Stock Fund K2, made public today. The total compares with $165,657,500 on June 30 of last year and $198,612,500 at the close of 1949.

Aeronautical Price Takes Off

Aeronautical Securities, Incorporated, on June 30 had net assets equivalent to $5.94 per share of outstanding capital stock compared with $4.38 a share a year earlier, an increase of approximately 36%, according to the semi-annual report for the six months ended June 30, 1950.

"The past six months have been marked by a sharp increase in expenditures for armaments for ourselves and associated nations under the North Atlantic Pact. The present critical situation in Korea and the threat of further Communist aggressions in other parts of the world will undoubtedly result in a great acceleration in the pace of this rearmament," the report said.

"In view of these circumstances your company has maintained a substantially fully invested position in common stocks during the past six months, but recently greater emphasis has been placed on the stocks of the principal manufacturers of military aircraft."

Hence, 59.83% of net assets was invested in aircraft manufacturing stocks on June 30, 1950 compared with 42.83% at the end of 1949; 21.08% in airline stocks versus 35.44%; 18.41% in aircraft accessory stocks versus 21.66%.

Dividend Shares Reports

Dividend Shares, Inc., a mutual investment company, announced that net assets on June 30, totaled $77,743,380, equal to $1.57 a share on 49,653,714 outstanding shares. These compared with total net assets of $78,084,552 on March 31, 1950, equal to $1.58 a share on the 49,528,035 shares outstanding on that date; and with $60,824,300 on June 30, 1949, equivalent to $1.31 a share on the 46,303,180 shares then outstanding.

Investments in common stocks represented 86.76% of total net assets as of June 30, last; investments in bonds, 9.87%; and cash, etc., 3.37%.

The largest common stock commitment was in the public utility group which comprised 17% of total net assets, followed by the oil and gas group, representing 12.07%; automotive and accessory group, 6.68%; building, 6.52%; retail trade, 6.01%; and non-ferrous metals, 5.69%.

Nation-Wide Up

Total net assets of Nation-Wide Securities Company, Inc., on June 30, last, were at the highest level for the end of any fiscal period in the history of the company, Hugh Bullock, president, stated in the semi-annual report of the company for the six months ended June 30, 1950. The growth in assets, he said, reflects both an increase in the number of the corporation's shares purchased by investors and a gain in the market value of investment holdings.

Net assets on June 30, 1950 amounted to $14,507,852, compared with $11,566,388 on June 30, 1949. The net assets on June 30, 1950, were equal to $13.98 a share on 1,037,742 outstanding shares. A year earlier net assets were equal to $12.40 a share on 932,400 shares then outstanding.

The Outlook for Gold

By PAUL EINZIG

Dr. Einzig, in commenting on rise of price of gold in free markets since Korean outbreak, foresees no immediate advance in official price. Looks for more hoarding, but contends it will not benefit gold mining equities because of higher production costs. Holds, however, long view outlook is for higher prices for gold and gold company shares.

LONDON, ENG.—One of the consequences of the Korean conflict was a sharp recovery in the unofficial price of gold in all free markets. It was followed, however, by a reaction, creating a feeling of uncertainty about the prospects of the price of gold. At the same time, there was a noteworthy depreciation in the prices of gold mining shares on all Stock Exchanges. It would be interesting, therefore, to re-examine the prospects of gold in the light of the international political situation.

Dr. Paul Einzig

Although tension between the USSR and the Western Democracies has been almost continuous since the end of the war, the sudden development of the crisis in Korea took the public by surprise. It is indeed remarkable how the absence of any acute conflict could lull the peoples in the democratic countries into a false feeling of security. For months before the invasion of Southern Korea the Stock Exchanges were very firm and the price of gold was falling, which was an indication of the absence of any fear of war or even of war scares. Yet to anyone who had followed closely the international situation it must have been obvious that an acute crisis was only a question of time, and that it was bound to flare up during this summer. On that assumption the slump in the price of gold was entirely unjustified, and so was the rise of prices on the Stock Exchanges, especially the rise in government loans.

When the reports of the invasion of Southern Korea made the public realize the dangers of the international situation there was a rush to buy gold in the free markets, leading to a sharp increase of the premium over official prices. This was due to the revival of war fears. Since time immemorial wars always meant an increased demand for gold, partly for fear of a depreciation of the national currencies, partly because gold is a convenient form of wealth in troubled times. There is no reason why this should be otherwise during the third world war (if there should be one) than it was during the first and second world wars, and during many previous wars of any substantial magnitude. In the East as in the West, many people would prefer in time of war to hoard gold rather than to hold notes, bank balances or securities which might depreciate, or to possess any form of property which is more liable to destruction than gold and which could not so easily be hidden or removed in an emergency.

Even if the Korean conflict should be settled, it seems probable that similar crises will occur in the not too distant future. It is impossible to foretell whether or not they will eventually culminate in a world war, but it is certain that the world will be exposed to comparatively frequent major war scares. For this reason there is no likelihood of a fall in the price of gold to the vicinity of the official parities. From time to time there is bound to be a sharp rise through hoarding and speculative buying. Should fears of a third world war materialize there is bound to be a marked and lasting upward trend, especially if the war should be of long duration.

The prospects are totally different as far as gold mining equities are concerned. The extent to which most gold mining companies would be in a position to benefit by the rise in the unofficial price of gold is relatively small, as in South Africa and in most other gold producing countries the producers have to sell most of their output at the official prices. And there is no reason for assuming that a third world war would result in an increase in the official prices. In particular there is no reason for supposing that the official American buying price of gold would be raised. This would only be conceivable as a result of a prolonged unilateral American rearmament which might reverse the economic balance of power through a marked deterioration of the balance of payments of the United States. Although the fact that at the time of writing Britain and other countries are not inclined to follow the American example of large-scale rearmament seems to point in that direction, it seems probable that the realization of the full extent of the danger of a major war will induce all these countries before long to join in the rearmament race to the extreme limit of their resources.

In the absence of a devaluation the rearmament race will mean an increase in world prices, resulting in an increase in the costs of gold production. Unless the producers are allowed to cover this increase by selling a large proportion of their output in the unofficial markets, the higher cost would reduce their profit margins, and would render the working of low-grade seams unprofitable. At the same time there would be a shortage of labor and of new equipment, as there was during the last war. Gold mining companies are likely to have a lean time in case of another war, and even in case of a prolonged rearmament race. This explains the paradox of a fall in gold mining equities simultaneously with a rise in the unofficial price of gold.

Taking a long view, however, it seems safe to assume that the price of both gold and of gold mining equities will be higher. If a third world war or a prolonged rearmament race should result in a further substantial decline in the purchasing power of money, it is probable that sooner or later the United States Government and other governments will accept the new situation and will adjust the gold parities accordingly. It is indeed inconceivable in the long run that gold producers should be compelled to sell most of their output on the basis of 1939 prices when the prices of all other mining products have risen by several hundreds of per cent. Unless the official price is adjusted to the realities of the new situation, or producers are allowed to benefit by the high unofficial prices, there would be a decline in the output which would necessitate measures to remedy the situation.

It may take years, however, before the need for an increase in the official price of gold is realized. Meanwhile gold producers will have to bear the burden of high production costs. If owing to the high cost of production their output should decline this would be a further reason for a rise in the unofficial price of gold. For the chances are that the governments concerned will refuse to allow producers to sell more in the free markets. Thus while the short view may be unfavorable to a rise in gold mining equities it is distinctly favorable to a rise in the unofficial price of gold. Taking a long view, the possession of gold in any form, whether as metal or as part-ownership of gold mines, is a reasonable hedge against the secular trend of currency depreciation.

Bank and Insurance Stocks

By H. E. JOHNSON

This Week—Insurance Stocks

Operating results of a number of the major fire and casualty insurance companies for the first half of the current year have been published during the past few weeks.

While there is considerarble variation in certain phases of underwriting operations for the companies that have reported so far with some showing gains and others declines, investment results appear to have been uniformly better with all companies showing a considerable improvement in income for the period.

Many of the fire companies have been faced with increasing operating expenses, higher losses and lower volume. This is in contrast to the experience of a year ago when volume was rising and losses were actually declining. Even though the results for the period may not equal the very excellent showing of last year which was by far the best in the history of the insurance industry, operating results are still favorable measured by any of the usual standards.

A summary of the results for two of the companies which have issued reports is presented below.

The Continental Insurance Company, the largest company in the *America Fore Group,* reported premium underwritings of $31,367,390 for the six months ended June 30, 1950. This was a decline of approximately $3,250,000 from the $34,625,203 written in the corresponding period of 1949. As a result the increase in the unearned premium reserve was much smaller than in the earlier period amounting to only $319,880 as compared with the $3,366,371 of a year ago. Premiums earned showed only a minor change amounting to $31,047,509 for the current period as against $31,258,832 in 1949.

Losses for the period showed an unfavorable trend and were higher partly in reflection of the increased fire losses experienced so far this year. For the six month period losses for the Continental totaled $14,838,034 compared with $13,942,662 a year earlier. Expenses were lower as a result of the smaller volume of business handled and declined to $12,932,153 from $13,223,634 in the first half of 1949.

The combination of these various factors resulted in a statutory underwriting profit of $3,277,323 for the period as compared with the $4,092,537 reported in 1949.

Investment results showed considerable improvement and were higher by 12.4%. Net investment income amounted to $3,667,924 as against the $3,262,910 reported for the first half of 1949.

Federal income taxes reflected the lower underwriting earnings and totaled $1,755,464 as compared with the $1,824,456 liability shown in the same period of a year ago.

United States Fidelity & Guaranty Co. has also released a report covering the first six months of operations. Net premium writings for the first half of 1950 were the largest ever written by the company in any similar period. They totaled $53,191,772 and represented an increase of approximately 2% over the $51,925,987 reported for the first six months of 1949.

After allowing for an increase in unearned premium reserves of $3,726,620, earned premiums were higher by $3,237,710 and amounted to $49,435,153 as compared with $46,227,442 during the first half of 1949.

Losses and expenses were considerably higher with the result that underwriting profits were down substantially from those of the earlier period. The results for the six months showed an underwriting profit of $1,303,981 compared with the $3,029,779 reported for the comparable period of 1949.

Investment earnings were sharply higher, reflecting a larger volume of funds invested, part of which came from the sale of additional shares to stockholders and part from the increase in premium volume. Also dividends from equities have been higher this year and contributed to the gain.

The investment earnings for the six months ended June 30, 1950, totaled $1,897,227 as compared to the $1,624,147 reported for the same period of 1949.

With Francis I. du Pont

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill.—Alvin H. Ulrich has become associated with Francis I. du Pont & Co. 208 So. La Salle Street. He was formerly with Goldman, Sachs & Co. and in the past was with J. S. Bache & Co.

Intercontinental Credit

(Special to THE FINANCIAL CHRONICLE)

Intercontinental Credit Corp. has been formed with offices at 40 Wall Street, New York City to engage in a securities business. Officers are Gabriel Neumann, President; John Ziegler, Treasurer; Thomas G. Newman, Secretary; and Katherine Farrell, Assistant Secretary.

Now Sole Proprietor

(Special to THE FINANCIAL CHRONICLE)

Baron G. Helbig is now sole proprietor of Baron G. Helbig & Co., 60 Broad Street, New York City.

With Cayne & Co.

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, Ohio — Carl G. Berdis has been added to the staff of Cayne & Co., Union Commerce Building.

Business Man's Bookshelf

Audits by Certified Public Accountants: Their Nature and Significance—American Institute of Accountants, 270 Madison Avenue, New York 16, N. Y.—Paper 50c.

Framework for Long-Range Agricultural Policy, A—Oscar Heline and Donald Kaldor—National Planning Association, 800 Twenty-first Street, N. W., Washington 6, D. C.—Paper—50c.

Pension Plans and Common Stocks—Morgan Stanley & Co., 2 Wall Street, New York 5, N. Y.—paper.

Survey of Banking Participation in the Finance Industry and Consumer Credit—Girard Trust Co., Broad and Chestnut Streets, Philadelphia 2, Pa.—paper.

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

The Central Banks are selling government bonds in quite sizable amounts, to put it mildly, in order to keep prices of the ineligibles from advancing. More investors are putting funds into the restricted issues because they believe yields on these securities will eventually go lower. This is real investment buying and the bonds are going away. On the other hand, there has also been some position building among the trading fraternity in these securities. According to reports, the Vics and the earlier eligible taps have been the most sought-after securities in this group.

Bank obligations continue to move out of the market, with the mid-terms and longs getting a bit more of the play at this time. The shorts, nonetheless, are not being neglected. The partially-exempts are still in the limelight, although not too many of them are changing hands at advancing prices. Switches from the long eligibles into the Vics seemed to have gained some momentum last week.

Are Higher Interest Rates Likely?

The impression in some quarters is that "higher interest rates are in the offing." This conclusion is based upon the probable large increase in supply of bonds, through war financing and the inability of the Federal Reserve or the Treasury to stabilize interest rates in periods of heavy deficits. The latter part of the satement as to the reason for higher interest rates is more than amply disproved by the records, because if there is one thing that is stabilized with large deficits it is the cost of borrowing. World War II is proof of that.

Why should an increase in debt by Federal raise interest rates when private borrowings will be sharply curtailed as is the case in a war or semi-war period? Why should interest rates advance with other economic controls available to the government? Then again during the postwar period, why have interest rates been advancing? They have gone up purely because Federal has pushed them up. If it were not for selling by the Central Banks, government securities would have gone to considerably lower yields. This would have taken place despite very heavy purchases of non-Treasury obligations. Also considerable funds have gone into the financing of consumers' goods.

Where Will Investment Money Go?

With a semi-war economy and its accompanying controls over mortgage financing and consumers' borrowings, where will there be investments other than governments available to meet the demand that is growing and will continue to grow even with the rearmament program? How are insurance companies, savings banks, trust accounts and pension funds going to put their resources to work at higher rates with less mortgages and non-government obligations? Also state and municipal obligations will not be as plentiful as in the past, because of restrictions which will come with controls over the whole economy by the government. Do such conditions make for higher interest rates?

What about taxes, and this most likely means considerably higher taxes, if there is to be a prolonged conflict? Will this not do something about keeping revenues and expenditures much more in line? Also revenues have generally been underestimated so that there will most likely be some leeway from this side of the equation. It is very well realized this time that the nation enters an uncertain period with a much larger debt than it ever had before in its history, and despite some "politics as usual" there will no doubt be considerable trimming of non-essential expenditures. This will not have an adverse effect upon the deficit.

Is War Financed at High Cost?

Financing of a war or a rearmament program or an armed truce, whatever one may call it, is one of the easiest things that a country has to do. It is not done with rising interest rates. With the needed controls, and they will be there this time, interest rates can be set at any level the monetary authorities may see fit to agree upon. With our high debt, is it logical to assume that rates are going to advance? Would there be higher interest rates if the Central Banks should stop selling Treasury obligations? To be sure, there would not, and the only reason Federal has been a seller of government securities is to keep interest rates from going lower.

What about pension funds and the securities they will absorb now and in the future? The growth of these funds will continue, war or no war, and where will they find the needed securities to put their monies into? The trend toward more and larger pensions indicates (in the future) a growing shortage of investments rather than an oversupply. Such conditions do not make for higher interest rates.

Reason for Present Rate Rise

The increase in interest rates, which has been in evidence recently, is due entirely to the policy of the monetary authorities and can and will most likely be reversed when conditions warrant such a move. Interest rates should not be confused with the other economic forces which are the real inflationary ones. There can still be low interest rates, without adding or detracting from the strength of the inflation. Interest rates are only one force and not too important a one at that. Controls over the other elements in the economy could retard or stop the inflationary trend without affecting money rates. In the past direct controls have brought about lower interest rates.

While some securities will no doubt be sold to the banks, the bulk, and that means by far the largest part of the securities sold by the Treasury during the coming period of conflict, will be sold outside of the banking system. This will be done in part to limit the money supply, to meet the non-bank demand, and to keep interest rates from declining.

LETTER TO THE EDITOR:

The Best Excess Profits Tax

Warning that renewed excess profits taxation should neither accentuate existing distortions nor create new ones, and should prevent profiteering without destroying initiative, Philip Cortney offers formula based on both 1936-39 and 1946-49 periods.

Editor, Commercial and Financial Chronicle:

There is no doubt that the greatest danger lying in wait, hidden behind our present events and actions, is the danger of inflation. Therefore, it is essential that our budget should be put on a pay-as-we-go basis. An excess profits tax may prove necessary and advisable. However, if such a tax is decided upon, it is vital that it should not accentuate the existing distortions and should not create new ones.

Philip Cortney

It is easy to agree, I think, that the objectives to be attained in levying an excess profits tax should be:

(1) It should prevent profiteering without destroying incentive.

(2) It should not accentuate and perpetuate distortions with which part of our economy is still struggling as a result of World War II.

There is no doubt that as a result of the war, the conditions of economic activity and competition have been very unequal between different industries, mainly for the following two reasons:

(a) Many industries had no backlog of demand at all, and some filled the backlog within one or two years. The industries which had no backlog of demand were in a very competitive market, the more so as a greater percentage of the purchasing power of the public was attracted to automobiles, durable goods and home building. On the other hand, their costs were constantly pushed upward mainly because of labor contracts entered into between big labor unions and big companies manufacturing automobiles and durable goods. A great number of companies which had no backlog of demand were most of the time incapable of passing to the consumer the increases in costs and therefore, their profit picture is anything but enviable.

(b) The constant increase in consumers' credit operated to accentuate the effect of backlogs of demand.

A Formula

If an excess profits tax should prove advisable, it should be instituted with the above considerations in mind. A formula for the basis of assessment, to be equitable, could be the following:

All companies shall pay an excess profits tax calculated in the following manner:

The government will determine the average increase of profits of all corporations in the period from 1946 to 1949, as compared with the period from 1936 to 1939. All profits in excess of the '36 to '39 period multiplied by this national average will be considered excess profits and taxed as such.

One can, of course, think of other formulas, but I believe that the one just suggested would be equitable and take into account the distortions from World War II.

PHILIP CORTNEY.

New York City 19, N. Y.
Aug. 2, 1950.

Continued from page 5

Analysis of Wartime Behavior Of the Securities Market

variety stores—continued to decline during this "recovery" period. (See Table II.)

Bonds and Preferreds Resisted Better Than Common Stocks

In contrast to the sharp decline in common stock prices in the initial period of hostilities, high-grade bonds and preferred stocks held exceptionally well. Of 88 listed high-grade bonds, only one showed any substantial loss. Similarly, only 17 of 216 listed high-grade preferred issues were down by more than 5%. Convertible bonds and preferreds of course acted like the common stocks of their issuers, and we find 46 of 96 convertible preferreds down by more than 5%, and 11 of 12 convertible bonds also off by more than 5%. Secondary bonds and preferred stocks acted considerably better than equities, but not quite as well as high-grades. (These price movements are shown in Table I.)

The far better showing of bonds and preferred issues undoubtedly reflects the fact that such securities are not as vulnerable to the effects of controls and, particularly in the case of bonds, to increased taxes, as are equities. Equally important to the stability of such issues, however, was the general belief that our engagement in hostilities would ensure the continuation of "cheap money" policies.

Overall Market Pattern Similar to Post-Pearl Harbor

The general sharp initial market decline following the shock of our entry into the Korean hostilities and its subsequent substantial recovery were on an overall basis quite similar to what occurred following Pearl Harbor. In each conflict the decline in the first three weeks was approximately 10%, a good part of which was made up during the following two or three weeks. In both periods, moreover, many of the individual security groups acted very much alike. Thus, such expected "war babies" as explosives, petroleum, and steels again surprised by selling off initially with the others. Some industries acted quite well price-wise in the first month following hostilities, including cottons, leather, meat-packing, nonferrous metals, rails, rail equipment, shoes, soap and sugars. War-to-War similarities included substantial declines in the motors, finance, gold mining and mail order companies.

Investor Could Not Uncritically Follow Pearl Harbor Experience

Despite the many similarities, however, Pearl Harbor experience would have misled the investor in many cases. This again illustrates a basic point which we have made in the preceding articles, namely that planning an investment program solely according to experience may be just as dangerous as militarily preparing for a previous war. Many of the groups which did relatively well in the first month after Pearl Harbor—such as building materials, drugs, household furnishings and printing—have fared most poorly in this conflict. Others—such as department stores, petroleum, shipping, rubber and tires, woolen, and air transport—which acted poorly after Pearl Harbor, are among the leaders now. Securities of gold mining, finance and utilities which were able to make a strong come-back from their sharp sell-offs in December, 1941, have shown no recovery powers so far at the present time. As a matter of fact, 11 industry groups which enjoyed some measure of recovery in January, 1942, have continued to decline from the levels reached in the first shock of Korean hostilities. Conversely, two of the industry groups—distillers and petroleum—which showed no recovery immediately after the Pearl Harbor break, have come back appreciably now. (This comparison of security price movements following Pearl Harbor and Korea is shown in Table II.)

TABLE I—THE INITIAL IMPACT

Price Changes of Securities Listed on the New York Stock Exchange between June 23, 1950 and July 13, 1950 Grouped by Industries and Classes

Part I—Listed Common Stocks

Total Number of Companies in Group	Industry Group—	Higher	No Appreciable Chg.	Lower by— 6%-10%	11%-20%	21%-30%	More than 30%
9	Agricultural Machinery	0	1	1	7	0	0
15	Aircraft Manufacture	9	6	0	0	0	0
10	Air Transport	1	0	2	7	0	0
9	Auto Manufacture	1	1	1	0	6	0
45	Auto Equipment	0	4	8	21	10	2
2	Banks	0	0	1	1	0	0
3	Biscuit Manufacture	0	0	0	3	0	0
4	Bread Manufacture	0	1	3	0	0	0
34	Building Materials	0	0	4	10	17	3
2	Camera Supplies	0	0	0	1	1	0
29	Chemicals	0	1	4	18	5	1
13	Coal	0	5	6	2	0	0
8	Communications	0	2	2	2	2	0
5	Confectionery	0	1	0	4	0	0
10	Containers	0	0	1	5	4	0
2	Cosmetics	0	0	0	1	1	0
3	Dairy	0	0	0	3	0	0
31	Department Stores	1	1	6	19	4	0
13	Distillery and Brewing	0	3	1	8	1	0
17	Drugs	0	1	5	8	3	0
7	Electrical Equipment	0	1	1	4	1	0
4	Engines and Motors	0	0	0	4	0	0
3	Explosives	0	0	2	1	0	0
2	Feed	0	1	0	1	0	0
2	Fertilizers	0	0	1	1	0	0
7	Finance	0	0	0	4	3	0
26	Food and Beverage	0	3	11	8	4	0
9	Food Chains	0	0	2	7	0	0
8	Gold Mining	0	1	1	2	4	0
7	Hosiery	0	1	0	5	1	0
27	Household Furnishing	0	0	1	17	7	2
2	Insurance	0	0	0	1	1	0
28	Investment Companies	0	2	5	15	5	1
3	Leather	0	1	1	1	0	0
10	Machine Tools	0	1	5	3	1	0
34	Machinery and Parts	0	4	6	15	8	1
3	Mail Order	0	0	0	2	1	0
7	Meat Packers	0	1	5	1	0	0
20	Metal Products	0	0	6	11	3	0
11	Motion Pictures	0	0	2	7	2	0
7	Natural Gas	0	0	0	7	0	0
34	Nonferrous Metals	1	6	16	9	2	0
8	Office Equipment	0	0	1	7	0	0
15	Paper	0	2	2	11	0	0
44	Petroleum	0	6	6	29	3	0
7	Printing and Publishing	0	1	3	2	1	0
18	Radio and Electronics	0	0	1	2	6	9
71	Railroads	1	20	29	17	4	0
20	Railroad Equipment	0	11	5	4	0	0
2	Razors	0	0	0	1	1	0
5	Restaurants	0	1	2	1	0	1
10	Rubber and Tires	0	1	2	5	2	0
6	Shipbuilding	3	2	0	1	0	0
6	Shipping	1	2	3	0	0	0
7	Shoe Manufacture	0	4	2	1	0	0
4	Soap and Cleaners	0	1	1	1	1	0
35	Steel and Iron	1	5	11	16	2	0
16	Sugar	10	6	0	0	0	0
2	Sulphur	0	0	1	1	0	0
	Textiles—						
9	Apparel	0	1	5	3	0	0
13	Cotton	1	5	6	1	0	0
4	Rayon	0	0	1	2	0	1
2	Woolen	1	0	1	0	0	0
17	Tobacco	0	3	8	5	1	0
11	Transit and Taxi	0	1	3	7	0	0
9	Trucks and Buses	0	3	3	3	0	0
73	Utilities	0	2	13	49	6	3
16	Variety Chains	0	1	10	5	0	0
3	Vegetable Oils	0	2	1	0	0	0
2	Wire and Cable	0	0	1	1	0	0
960	TOTAL—All Com. Stocks	31	129	231	421	124	24

Part II—Listed Preferred Stocks

Total Number of Companies in Group	Industry Group—	Higher	No Appreciable Chg.	Lower by— 6%-10%	11%-20%	21%-30%	More than 30%
216	High Grade	5	194	11	5	1	0
121	Secondary	4	65	24	25	2	1
96	Convertible	3	47	23	19	4	0
433	TOTAL—All Pfd. Stocks	12	306	58	49	7	1

Part III—Listed Bonds

Total Number of Companies in Group	Industry Group—	Higher	No Appreciable Chg.	Lower by— 6%-10%	11%-20%	21%-30%	More than 30%
88	High Grade	2	85	0	1	0	0
36	Secondary	2	25	7	2	0	0
20	Convertible	0	9	7	4	0	0
144	TOTAL—All Bonds	4	119	14	7	0	0

Differences at War Outbreaks

While it is not the purpose of this article to explore the reasons for the similarities and dissimilarities in security price movements following the present and last conflicts, the comparison of price movements in these periods offers the basis for a number of observations. First, it is perhaps surprising that the overall movements in both periods were so similar. Many observers undoubtedly expected the decline following Korea to be greater and the recovery less than in the earlier conflict. Such expectations were based on the fact that at the outbreak of hostilities last June the market stood at its second highest historical level, with the stock average up by more than 40% over the previous 12 months; whereas, contrastingly, Pearl Harbor found stock prices following a two-year bear market with the averages down almost 20% from their 1939 highs. Also, while the shooting in Korea certainly came as a surprise to most people, the Pearl Harbor attack occurred after more than two years of a world-wide conflagration into which it was apparent that we would eventually be drawn.

Such differences in market group movements as did occur can be partly explained by these contrasts in the antecedent elements. Thus, the better showing of such groups as building materials, finance and house furnishing companies in 1942 can be explained by the fact that security prices in these groups had already suffered a sharp decline by the time of Pearl Harbor. Similarly, the poorer showing of expected "war babies" such as aircraft and shipbuilding in 1941 than now is explained by the fact that these groups had previously been enjoying a high rate of activity as a result of the outbreak of war in 1939. Perhaps the most important observation the authors can make, however, is to point out again that **past performance cannot be uncritically used for current investment programming.**

The authors intend to continue this series after observing the further course of this War's security markets. By the second month after Pearl Harbor almost all securities turned sharply downward and continued to decline for several months; from which "lows" it took many months to recover to their pre-Pearl Harbor levels. (See Part II of this series, "Commercial & Financial Chronicle," July 20, 1950.) It will be interesting to note whether the present broad stock market pattern will continue to resemble that of the earlier conflict.

TABLE II

Comparison of Security Price Movements—by Groups—in the First Month following Our Entry into Shooting Wars

Security Prices Following Pearl Harbor (Prices Dec. 3, '41=100) Dec. 3 1941	Dec. 24 1941	Jan. 7 1942	Industry Groups—	Security Prices Following Korean Incident (Prices June 21, '50=100) June 21 1950	July 12 1950	July 26 1950
100	92	101	Agricultural Machinery	100	89	94
100	93	97	Aircraft Manufacture	100	103	115
100	74	84	Air Transport	100	93	105
100	89	91	Apparel	100	91	96
100	82	90	Auto Manufacture	100	83	84
100	93	100	Auto Equipment	100	87	89
100	89	98	Baking	100	90	90
100	87	99	Building Materials	100	82	78
100	95	96	Chemicals	100	86	88
100	90	99	Coal	100	96	112
100	85	90	Communications	100	92	93
100	86	93	Confectionery	100	90	85
100	93	96	Containers	100	84	86
100	96	99	Cotton	100	102	109
100	88	98	Dairy	100	93	95
100	80	88	Department Stores	100	94	96
100	94	93	Distillers	100	94	101
100	95	100	Drugs	100	86	85
100	94	104	Electrical Equipment	100	87	90
100	96	100	Fertilizers	100	91	92
100	78	85	Finance	100	77	73
100	94	102	Food Chains	100	87	91
100	81	93	Gold Mining	100	77	73
100	85	96	Household Furnishings	100	87	82
100	90	108	Leather	100	99	105
100	92	101	Machinery	100	93	98
100	85	88	Mail Order	100	89	90
100	95	106	Meat Packers	100	97	99
100	90	109	Metal Fabricating	100	95	100
100	87	97	Motion Pictures	100	93	97
100	99	109	Nonferrous Metals	100	99	105
100	91	93	Office Equipment	100	85	83
100	86	96	Paper	100	88	96
100	90	86	Petroleum	100	93	99
100	90	104	Printing and Publishing	100	88	88
100	87	103	Railroads	100	96	111
100	95	105	Railroad Equipment	100	97	109
100	87	95	Rayon	100	88	93
100	99	105	Shipbuilding	100	108	122
100	86	91	Shipping	100	98	101
100	97	106	Shoes	100	97	95
100	92	93	Soap	100	97	98
100	96	106	Steel	100	92	101
100	99	112	Sugar	100	103	104
100	70	74	Tires and Rubber	100	90	99
100	90	101	Tobacco	100	94	93
100	86	95	Utilities	100	85	84
100	90	98	Variety Stores	100	93	91
100	85	93	Woolens	100	121	120
100	90	95	STANDARD & POOR'S 416-Stock Compos. Ind.	100	90	93
100	91	98	DOW-JONES Industrials	100	89	92

Halsey, Stuart Group Offers Great Northern Ry. Equip. Trust Ctfs.

Halsey, Stuart & Co. Inc. and associates are offering $14,130,000 Great Northern Ry. 2⅜% equipment trust certificates maturing semi-annually from Feb. 1, 1951 to Aug. 1, 1965, inclusive. Issued under the Philadelphia Plan, the certificates are being offered, subject to approval of the Interstate Commerce Commission, at prices to yield from 1.40% to 2.625%.

Proceeds from the sale of the certificates will be used to provide for the following new standard-gauge railroad equipment, estimated to cost approximately $17,688,000; 23 Diesel-electric road-switching locomotives; 10 Diesel-electric freight locomotive type "A" lead units; 3 Diesel-electric freight locomotive type "B" booster units; 6 Diesel-electric passenger locomotive type "A" lead units; 2 Diesel-electric passenger locomotive type "B" booster units; 3 all steel 48 seat, air conditioned coaches; 38 all steel, air conditioned sleeping cars; 1 all steel, air conditioned observation-sleeping car; 36 all steel passenger cars of various types; and 3 Diesel-electric switching locomotives for use at Vancouver, British Columbia.

Richard Shanley With Paine, Webber Co.

Paine, Webber, Jackson & Curtis, 25 Broad Street, New York City, members of principal stock and commodity exchanges, announce that Richard T. Shanley has become associated with the firm in its municipal bond department.

Mr. Shanley was formerly in the trading department of the New York office of A. C. Allyn & Co., Inc. Prior thereto he was manager of the municipal department for the New York office of Bond & Goodwin, Inc.

G. A. Saxton Wire to Akin-Lambert Co.

G. A. Saxon & Co., Inc., 70 Pine Street, New York City, announces the installation of a direct open wire to Akin-Lambert Co., Inc., 639 South Spring Street, Los Angeles, Calif.

Two With Goldsbury

(Special to THE FINANCIAL CHRONICLE)

MINNEAPOLIS, Minn.—Robert E. Fisher and G. A. Thiel have become associated with J. W. Goldsbury & Co., Twin City Federal Building. Mr. Fischer was previously with Strauss & Blosser.

Loewi Adds to Staff

(Special to THE FINANCIAL CHRONICLE)

MINNEAPOLIS, Minn. — Richard C. Olson has joined the staff of Loewi & Co., Rand Tower.

Two With Merrill Lynch

(Special to THE FINANCIAL CHRONICLE)

MINNEAPOLIS, Minn. — Dale R. Wikman and Catherine E. Stukel have become associated with Merrill Lynch, Pierce, Fenner & Beane, Rand Tower. Mr. Wikman was formerly with Dayton & Gernon. Miss Stukel was with J. M. Dain & Co. and Piper, Jaffray & Hopwood.

Joins Kalman Co.

(Special to THE FINANCIAL CHRONICLE)

ST. PAUL, Minn. — Peter G. Spindler has become affiliated with Kalman & Co., Inc., Endicott Building.

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

What the market will do from here on in depends a great deal on what averages you're studying or the system you're following. The Dow theory lads see a secondary reaction in a bull market in which there'll be little change until the industrials confirm the rails by going through the 228.38 figure.

* * *

Another technical methcd calls for the market to back and fill at current levels, followed by another upsurge into higher ground. There are probably a couple of more theories based on charts, tape and straight hunch, or what have you, but it's too blamed hot to go through all of them.

* * *

I wish I had a pat system I could set down for our mutual edification. It would save me a lot of work. Unfortunately, I haven's got a system, mainly because I discovered years ago that the market refuses to be reduced to a system.

* * *

The industrial average is now around 206-207; the rails are about 61. Assuming no change in the news picture in the immediate future, it looks to me like the industrials can make another attempt to about 210 where I think they'll be stopped. On the downside, I think about 205 will mark the limit of any decline. There's an outside chance that a sudden piece of bad news will drive the industrials down to around 200. But the news, or interpretation of it, will have to be real bad for the averages to break that level by more than two points.

* * *

The rails present a different outlook. Having jumped to new highs they are now in a vulnerable position. Whereas the industrials can retreat to around 200-205, the rails can be driven back to around 55 without any serious damage to the technical structure. If, however, you're long of rails, such a move will hardly be greeted with complacency.

* * *

The question is what to do from here on. My answer is to regard the market as in an uptrend subject to news reactions of various kinds. Whatever economic barriers will be set up in pursuance of Truman's $10 billion request plus his additional $4 billion request, will touch profits comparatively little.

* * *

The kind of inflation we talked about but didn't see, is now in the offing. The $10 billion asked for will not buy as much today as it did in the last war. This is all down the line. I think stocks will act accordingly.

[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 King Merritt

CLARKSTON, Mich. — Jack E. Harned is now connected with King Merritt and Co., Inc., 22 East 40th Street.

Joins King Merritt Staff

BEMIDJI, Minn. — M. W. Andrews is representing King Merritt & Co., Inc., with offices in the Northern National Bank Building.

With Merrill Lynch Co.

(Special to THE FINANCIAL CHRONICLE)

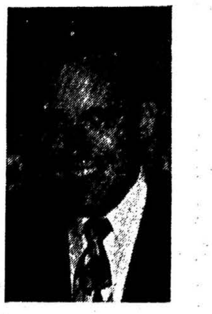
BEVERLY HILLS, Calif.—Donald Caminsky is now affiliated with Merrill Lynch, Pierce, Fenner & Beane, 454 North Camden Drive.

NSTA Notes

AD LIBBING

These distinguished gentlemen need no elaborate introduction to our membership. Both have served their local organizations and have been prominent in national affairs for many years.

John Latshaw of Uhlmann & Latshaw, Kansas City, Mo. at present is a national officer and John F. Egan of First California Company, San Francisco is a member of the Executive Council



John Latshaw

John F. Egan

and both are Vice-Chairmen of the National Advertising Committee. We are indeed very fortunate to have them serve with us and it is my personal opinion they may be further honored in national affairs. John and Jack, in spite of your many duties, can you put your respective affiliates over their quotas?

You have all received a letter from our President, Frank Burkholder, relative to corporate advertising. You are not requested to secure a signed contract but simply advise Frank of personal contacts you might have. Should you make a primary market in some security, send along the name of the contact you may have in that company and let Frank and Herb Seibert carry on from there. With such cooperation we feel certain results will convince the most skeptic. May we have your confidence in this matter and prove to those who are doing so much to assist us that we will unite to make 1950 a most successful year advertisingly.

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

MERRILL LYNCH, BEATS I. T. A. OF PHILA. AT SOFT BALL

Pitching softball for the team representing the Philadelphia office of Merrill Lynch, Pierce, Fenner & Beane, Miss Charlotte Chandler's curves failed to dazzle the batting eyes of her opponents, members of the Investment Traders Association of Philadelphia, in a twilight game played last week. The "mob" won, nine to three. Joe Dorsey caught for Miss Chandler. Battery for the Traders was Carl Cook, First Boston Corp., on the mound, with Edgar Christian, Blair-Rollins & Co., Inc., and Bob Donovan, Blyth & Co., alternating behind the plate. Beer and sandwiches were served to attending fans and surviving players.

Continued from page 4

Peace Stocks in War Markets

people at the controls to learn, because they will be risking their political lives if they do. That is probably why the Babylonian politicians could not learn. In their dreams they knew what the handwriting meant, but they could not possibly come out and say so. Of course it may be me who is crazy. Who am I, just a security analyst, to say that not only the politicians but a large part of the nation is on the wrong track. But I am not entirely alone. If you read the front line dispatches, and especially those of Homer Bigart, you get a feeling that there is something wrong that is deeper than mere technical mistakes. In today's "Herald-Tribune" there is a review of the foreign policy mistakes of the Administration over a period of years. But even the "Tribune" misses the point. I think, these are not just Administration mistakes, these are national mistakes. They are not the mistakes of the conscious intelligence, they are much deeper mistakes, mistakes of the emotions, mistakes of deep prejudice, mistakes which come from America not being able to grow up, to shake itself free of the umbilical tie with Europe. Before the Palestine War an American Naval captain told me that it would take 500,000 marines to keep order in Palestine. He could not realize that they would fight with the same ingenuity and ardor that he would fight with were he defending Boston or Cape Cod. This turned out to be a comic error. But if we underestimate the Russians and Chinese as badly as we underestimated the Jews and North Koreans, we could be lead into a truly tragic error.

Over-Compensation

Right now it seems to me we are over-compensating. Having dwelled in a world of fantasy about our military power we are changing, it seems to me, not to a world of reality but to another dream. There is nothing in the facts to indicate that the Russians are any more masterminds than we are; there is nothing to indicate that they are more hell bent for World War III in 1950 than in 1949 and there is no real reason to think that we do not have the fundamental force to defend our national integrity providing we operate with reasonably good sense. Considering the tough time we are having in South Korea it seems ludicrous to me to think of Russia or any one else conquering the United States. But it is typical of fantasy to go from one dream to another. The little boy has a dream in which he is rescuing the golden haired girl from the very falls of Niagara, and then, since the girl is his beautiful mother, and the Falls represent his noisy father, he becomes frightened and dreams he is alone in a house without locks surrounded by timber wolves, plus perhaps a few Russian spies with atom bombs. The Greeks said: "Those whom the gods would destroy they first make mad." They meant that something comes up from the subconscious to interfere with clear thinking. This happens frequently in the stock market; we all experience it often enough to know it. But it is not so well recognized elsewhere. Sugar hoarding, dumping peace stocks, and a slapdash rush for economic controls, all caused by a few divisions of North Koreans fighting 7,000 miles away, give me the uneasy feeling that we don't know what we are doing. I am advising a trading attitude on the part of our clients so that we can be mentally and financially in a position to move quickly in whatever direction seems best under the circumstances. As a whole, despite some somber dreams, I feel that the war markets will turn out good for stocks. That is because Americans have been very sober minded about securities.

Enormous War Opportunities

An unfortunate aspect of war is that it is very creative. If war wasn't so damn exciting, if it didn't liberate so much energy and create so many opportunities for young people or organizations, which otherwise would have had to stay on the treadmill of patience and precedence, we might not have wars. Bertrand Russell has said the problem is to release the creative energy of war without the war. The war between Sicily and Rome stimulated Archimedes to the discovery of an essential principle in physics. The Crusades brought a revival of business and invention to Europe; the war between the Spaniards and the Saracens brought a young queen to power who could understand a young man when he spoke to her and brought about the discovery of the Western World. The last war stimulated atomic energy, antibiotics, electronics, synthetic packaging materials, etc. On a normal commercial basis we might not have penicillin yet and we might be 50 years away from any commercial application of atomic energy. What this war is going to stimulate, it is obviously too early to know, but it is going to create opportunities for many people far faster than they would have come otherwise.

Because war has its creative aspects and also because it has its inflationary aspects it drastically changes the acceptable level of the earnings of well run, well established companies. The earnings level of dozens of companies, steels, motors, chemicals, stores, oils, etc., are dramatically different than they ever were before. The contrast between prewar and postwar is so fantastic that we haven't gotten used to it, and don't believe it. But big wars are tremendous, complex upheavals; things cannot be the same again. Investors will I believe someday benefit from the immense energies which have been plowed into our companies in various ways and the persistent conservatism with which postwar earning power has been valued.

Continued from first page

The American Economy Now And Its Capacity for Growth

ernment dwarfs all other economic changes that have occurred during the last half century. The government is steadily becoming a more and more important producer of income; it is becoming a more important consumer of the output of the country; it is becoming a major redistributor of income, taking a larger proportion of personal incomes and paying out a larger proportion to persons who give no service in return. The consumption of goods and services by the government has risen far faster than the production of goods and services. In 1948 the government produced about 7.8% of all goods turned out and consumed nearly 17% of the country's output.

(2) The next most important change in the economy has been the organization of employees into trade unions. Today the trade union membership is about four times as large as in 1929. Trade unions as a group represent the strongest organizations of sellers in the country. The strong pressure of unions for higher wages will undoubtedly accelerate technological progress by forcing managements to work harder to keep down labor costs. Union strength will probably also make necessary a rising price level. More promptly and completely than ever, a rise in the demand for labor will bring about an increase in the price at which union members are willing to sell their services. Moreover, with a large proportion of employees organized into unions, wages will be less sensitive than ever to drops in the demand for labor.

(3) The rapid growth of staff relative to line has been one of the most important changes in business during the last 50 years. Expenditures on industrial research are now many times larger than the expenditures of all of the universities of the country.

(4) The rise of the chain store and the mail order house offer ready-made and cheap nationwide distribution to new manufacturers. The availability of marketing outlets that can reach millions of consumers promptly and at low mark-ups makes it easier for new manufacturers to start in business. They encourage competition among suppliers and avoid the accumulation of slow-moving items. They make prices more responsive to changes in demand in periods of contracting demand by cutting prices to consumers and by finding manufacturers who will supply goods at prices consistent with the reductions.

(5) The rise of the terms loan is an important development in banking. It makes capital available for medium-term loans out of bank-created money rather than out of savings. The term loan is particularly useful to enterprises which are growing rapidly and which need to raise capital more quickly and simply than can be done by a bond issue. The use of term loans helps the economy obtain the needed increase in its money supply as physical output increases.

(6) One of the most important recent improvements in the economy has been the collection and publication of information about intentions—intentions of farmers to plant, intentions of business enterprises to spend on plant and equipment, and intentions of consumers to buy various classes of goods, particularly automobiles, other durable consumer goods, and houses. For the first time business concerns and government agencies are able to make plans based on statistics pertaining to the future behavior of the economy, not the past behavior.

(7) The large-scale borrowing by the government during the depression and during the war has changed the principal source of the money supply. As a result, the economy is much less sensitive than 20 years ago to changes in the willingness of enterprises and individuals to borrow at short-term or of banks to lend. Prior to 1929 short-term loans by commercial banks accounted for nearly two-thirds of the country's supply of money. Hence a change in the willingness of banks to lend or of enterprises or individuals to borrow produced a large effect on the supply of money.

(8) The development of superventure capital enterprises. Since the community has never had regular and organized ways of putting capital into new enterprises, the super-venture capital companies that have recently come into existence mark an important step forward in the economy. They are staffed to investigate the kind of investment opportunities that are difficult to appraise; they are prepared to offer managerial advice; they are prepared to put in additional capital if that seems necessary and worthwhile.

(9) An important development in recent years has been the growth of arrangements which make personal income less dependent upon the level of economic activity. Unemployment compensation, old-age pensions, and old-age assistance are the three principal arrangements. As a result, a contraction in economic activity would have less effect upon incomes today than ever before.

II

There have also been important changes in economic conditions of great importance. Among them are:

(1) The development of a great contest between the United States and Russia. This is the most important of all changes in conditions because it means that the United States may not have a truly peace time economy for many years to come.

(2) The great accumulation of individual savings in recent years. During the last 10 years individuals have saved nearly $175 billion—more than they saved in the preceding 30 years.

(3) The decrease in private debt relative to the net national product. Private debts are 50% larger than in 1939 but the net national product is 2.6 times as large as in 1939.

(4) The great increase in the public debt. The public debt is four times as large as in 1939 and eight times as large as in 1929.

(5) The great increase in the liquidity of the economy. The liquid assets of individuals are 3.5 times as large.

(6) A great shift of power in the community represented by the drop in the prestige and influence of businessmen and the rise in the influence of the representatives of employees.

(7) The war between the United States and Russia which greatly stimulates technological advance and raises employment.

III

Changes in Ideas

More important than the changes that have occurred in institutions and methods of operation or in economic conditions is the change that has occurred in ideas and preferences. These changes are reflected in the attitudes of the community towards the economy and towards the relationship of the government to the economy. The essential change is the abandonment of the view that the economy is self-regulating and that it is a mistake for the government to interfere with the operation of the economy. The traditional view of "hands-off" has been replaced by the view that the economy needs to be regulated to assure full employment.

In summary, the people of the United States at the mid-century find themselves with a highly dynamic economy—an economy which has been changing rapidly and which, in all probability, will continue to change rapidly. The economy has been strengthened by the two world wars and is in stronger condition than ever before. American economic and political institutions and the philosophy of life accepted by Americans are challenged by a great power, but the challenge to American values in the field of politics is more basic than its challenge in the field of economics.

Finally, the people of the United States, with their highly dynamic and extraordinarily strong economy, are much divided with respect to the way in which the economy should be operated. The majority that desire a more or less government-guided economy are not agreed as to what they wish. Even more than the first-half of the century, the second-half seems likely to be a period of important experiments in the field of economic policy.

Some Probable Characteristics of the Economy in the Foreseeable Future

Most characteristics of the economy of the future are far from clear and the trends that are likely to predominate are in doubt. Nevertheless, some characteristics and some trends seem much more probable than others.

(1) The economy will be considerably more stable than it has been in the past. Managements have made great progress in learning how to operate with smaller inventories in relation to sales and thus limit the time that enterprises might meet current demand out of inventories. Businessmen have apparently gained much in sophistication. To the extent that they avoid the errors of optimism and pessimism that have contributed so much to economic instability, the ups and downs of business will be mitigated.

Unemployment compensation, which now extends to about three jobs out of five, adds to stability because it prevents unemployment from causing a complete loss of income. Pension plans have the same effect. Important improvements have been made in the banking system. Bank deposits are insured up to $5,000, and a high proportion of the assets of banks now consist of government securities. No longer are short-term business debts the principal source of money supply, and no longer will the repayment of these debts reduce the money supply at the very times when this would do the most harm. Finally, government fiscal policy may be counted upon to be a stabilizing influence in periods of contraction.

(2) The reliance of the economy on industrial research will be greater than today. The increase in research is almost automatic because research by one enterprise stimulates research by its rivals. The cold war is a tremendous impetus to research, particularly the support of research by the government. The strength of the trade unions and the upward pressure on wages will

Continued on page 18

Canadian Securities

By WILLIAM J. McKAY

It would appear that in view of recent international developments the question of possible revision of the parity of the Canadian dollar must again be reviewed in the light of the new factors that now have a pertinent bearing on the entire situation, whereas before the Korean incident it was unlikely that the Canadian authorities would have taken any immediate action despite the strong case that existed even then in favor of such a step. Recent precedents certainly dictated caution in advancing in this direction, and there was no certainty that the extremely favorable economic trends would be sustained over an indefinite period. The requirements of the International Monetary Fund moreover do not permit any flexibility of action on the part of its members; once committed to a new parity of exchange there can be no question of early reconsideration.

If the Canadian authorities were in a position to allow the dollar to seek a natural level there is little doubt that the present discount would be almost immediately eliminated. As matters stand however full responsibility would have to be taken for any new arbitrarily fixed parity. On June 5th last when the Canadian Minister of Trade and Commerce stated in the House of Commons that the discount on the Canadian dollar might disappear sooner rather than later, the prediction was probably based on an optimistic view of future prospects. On the other hand he, to a greater degree than any other member of the Canadian Cabinet, is in a position to appraise the strength of the Dominion's economic situation. Subsequent events moreover have certainly added force to what has been described as a mere expression of a personal opinion given casually without reference to any particular timing.

Before the recent dramatic turn of events, Canada's foreign trade figures and the buoyant state of the exchange reserves already had led to conjecture concerning a possible upward revaluation of the dollar. Sales to this country during June last rose to $179,850,000 in comparison with $115,600,000 during June, 1949, the Dominion's reserves of gold and U. S. dollars on June 30th were $1,255 million, and are still mounting. Under the present circumstances there is little doubt that the current strong economic trend will be still further accentuated. As previously mentioned the Joint U. S.-Canadian Industrial Mobilization Committee which meets next Monday in Ottawa is likely to arrive at decisions which will have a momentous bearing on the Canadian economic situation. To all intents and purposes it is probable that the international boundary between the two countries as far as economic matters are concerned will be virtually eliminated. In this event the establishment of a common dollar would greatly facilitate the operation of any revised form of the Hyde Park Agreement that operated so effectively during World War II.

Also from the Dominion's point of view, apart from the current upward pressure on the Canadian dollar, the following factors are sufficient to justify an early decision to eliminate the differential between the U. S. and Canadian dollars at this time:

(1) Inflationary pressures south of the border have been accentuated by recent developments; an upward revaluation of the Canadian dollar would tend to insulate the Dominion economy from their full impact.

(2) The stimulus to Canadian exports south of the border following the suspension of the "Buy American Act" will offset the effect of the elimination of the present discount on the Canadian dollar.

(3) With the exchange at par the Canadian dollar will buy more abroad. Difficulty of procuring durable goods in this country should preclude however a repetition of the "buying spree" that occurred following the 1946 revaluation. On the other hand the resultant cheapening of imports from Britain should further tend to place U. K.-Canadian trade in better balance.

(4) Early revaluation would check the inflow of speculative hot money, but would not interfere with U. S. investment of the "bricks and mortar" type, or with the influx of foreign funds for the development of Canadian natural resources.

Thus it would appear that there is every justification for acting earlier rather than later, to give practical recognition of the steadily appreciating trend of the Canadian dollar *vis-a-vis* the U. S. dollar.

During the week there was little activity in the external section of the bond market but there was a moderate demand for the internal Dominions in sympathy with the strength of free funds. To all intents and purposes there is now only one rate of exchange for the Canadian dollar as the demand for free funds is now almost entirely satisfied by recourse to the official supply at 9⅛%. The corporate-arbitrage rate at 12¼%-11¼% likewise was firm on stepped-up U. S. demand. Stocks on the Toronto Board, in sympathy with the trend in New York, displayed a rallying tendency but trading was on a moderate scale. The industrials were the best performers with Abitibi Paper notably prominent. Modest advances were also registered by the base-metal and oil groups, but the golds with a few exceptions still continued in the doldrums.

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The American Economy Now And Its Capacity for Growth

stimulate the expansion of research.

(3) The progress of industrial research makes the development of new industries and new products inevitable.

(4) The number of small- and medium-sized businesses will continue to be large. If there were ever to be a great drop in the number of business enterprises, it would have been during the period when introduction of the family car made it possible for families to shift their patronage from small stores close at hand to more remote larger stores. Nevertheless, the number of business enterprises per thousand of population is larger today than it was before the introduction of the automobile. In manufacturing, research will encourage the growth of medium-sized establishments, and there may be a good many mergers in order to get the benefit of research. Small concerns in manufacturing, however, will be fostered by large retail organizations who are able to take the entire output or most of the output of the manufacturer and thus greatly reduce the cost of distribution.

(5) The expenditures of the state, local, and national governments will be a large fraction of the national product. Among the expenditures that will increase substantially are those for old-age pensions, roads, national defense, and some form of sickness and disability insurance.

(6) The policies of the government will be inflationary. The prices that the government supports, such as wages, and farm prices, will have more effect upon the price level than the prices which the government holds down—electricity, natural gas, railroad rates, and telephone rates. Moreover, the government will spend more than it collects for there is a great demand from organized groups that the government increase its expenditures for this or that purpose, but there is no organized demand that the government raise taxes.

(7) Union membership will grow and upward pressure on wages will be strong. There are great possibilities of an increase in union members among white collar workers, in retailing, and in the South. Perhaps the ratio of union members to non-supervisory and non-technical employees will never rise higher than about two out of three. As wages of non-union members are promptly adjusted to changes in union wage scales, non-union workers see less and less reason for joining unions.

(8) The long-run movement of prices has been upward and the outlook for rising prices in the future is even stronger than in the past. The bargaining power of unions will be sufficient to permit them to raise money wages faster than the increase in physical output per manhour. The result will be a rise in labor costs. The bargaining power of the unions would be considerably less if the community were not insistent that a high level of unemployment be maintained.

(9) The job of the business manager will become a more exacting one and will require more training. The demands made on managers by customers, by employees, by stockholders, by other members of management, and by the government have been increasing for a long time. Management in turn may demand a higher and higher standard of conduct from trade unions, from employees, and from customers.

(10) The United States will become more dependent upon other countries for raw materials than in the past. Lumber, oil, copper, zinc, wool, and other raw materials will come from abroad in increasing amounts.

(11) The ownership of corporate industry will become considerably broader than it is today. Corportions need a much broader ownership of their stocks in order to get fair treatment from the government. The acquisition of millions of new stockholders will probably require that corporations issue new types of security. Types of participating preferred stock could be developed in order to interest preferred stockholders in the growth and success of the concern.

(12) The economy will continue to increase the collection of statistics and to provide itself with a more complete picture of economic business conditions and trends. Statistical information on intentions to buy, on the size and distribution of income, and on the kind of people who are in the different income brackets are likely to be extended and improved. Statistics sooner or later will become available on the money flows in the community and on the ownership of bank deposits. In the near future the country ought to be able to publish an annual balance sheet showing its principal assets and liabilities and showing the ownership of the assets and the categories of persons and organizations responsible for the various liabilities.

(13) The statistical information that is becoming available on low incomes should make possible a more thorough and informed attack on the problem of poverty than has ever been made. Such attack upon the problem of low incomes means that everything possible will be done to raise the productivity and, therefore, the economic worth of the recipients of low incomes.

(14) The proportion of the population of working age (16 years of age and over) in the labor force will increase. The need for a larger labor force is increased by the great contest between the United States and Russia. The desire to work is increased by improvements in working conditions, by reductions in the standard work week, and by changes in managerial methods. About one out of five jobs in industry is a part-time job and the demand for part-time jobs will probably increase the number of such jobs in industry. More part-time jobs would undoubtedly increase the number of young people in the labor force. The proportion of married women who desire to work is increasing. With reduction in working hours more and more women prefer to have money and to make fewer things in the home and to buy more things from the stores. Finally, resistance to retirement is increasing. Since 1940 the proportion of males 65 years of age or more in the labor force has risen. It is clear that the drop between 1890 and 1940 was due to the employment practices of employers, not to the desire of workers. As health improves and longevity increases, the retirement age will rise, and rise fast enough to increase the proportion of the population in the labor force.

Some Principal Points of Doubt About Trends in the Economy

There are many important questions about the developments of the economy about which one cannot reach definite conclusions. Nevertheless, it is useful to speculate about these questions and to seek to gain insight into the conditions that will determine what trends develop.

Will the economy of the future be one in which it will be difficult for new enterprises to start, to find investment funds, to grow into larger concerns? It will probably continue to be easy to start new enterprises in most lines of business, but not all. Despite stiff, progressive income taxes, there are as yet no signs of a general lack of investment-seeking funds, and individuals much prefer to invest their savings in small unincorporated enterprises than in corporations.

The starting of new enterprises may be facilitated by the development of venture capital companies that are free to take any risk that seems to be worth taking. Unless venture capital companies are willing to invest in new large concerns, the starting of them may be much more difficult, because small investors usually put money into new concerns which offer a job as well as income on capital. It may become increasingly difficult to presuade well-qualified persons to go into business for themselves for such people are usually already employed by well-established concerns which offer excellent chances for promotion. They might be persuaded by a change in the corporate income tax to permit losses to be carried forward for five years, instead of two; by elimination of the so-called "notch rate" by which corporations earning more than $25,000 but less than $50,000 pay an income tax at a higher rate than concerns earning less than $25,000 or more than $50,000, and by provision that the costs of private pension plans shall be deductible under the corporation income tax only if an employee may leave the service of the enterprise without losing his earned pension rights.

Several studies agree that one-fourth or more of new concerns die within a year and one-third to half within two years. There is little likelihood that the infant mortality rate among business concerns will be reduced unless we restrict drastically the freedom of people to launch ventures of their own. No one wishes to do this. Whether it becomes easier for small concerns to grow into large ones may depend upon the extent to which costs of production are determined by industrial research. Since research of equipment makers largely determines technology, many small enterprises may obtain the benefit of their research. It will be easier for small concerns to grow in response to increases in the demand for their products. The essential issue is the procurement of capital. The principal source of capital will continue to be plowed-back earnings, supplemented by the increased use of the term loan.

There are no signs of a general trend to reduce government intervention in economic matters and there is considerable evidence that intervention will gradually be extended to these purposes:

(1) Limiting the fluctuations in business.

(2) Redistribution of income on the basis of need perhaps by some type of insurance to protect people against the loss of income from disability and to meet the costs of medical care.

(3) Protection of workers against arbitrary admission rules, burdensome initiation fees, and arbitrary discipline, and protection of the public against emergency disputes.

(4) The facilitation of long-term capital loans to new and small business perhaps by some form of capital banks.

(5) A rise in prices or a limit to wage increases if unions raise wages faster than the managers and engineers can raise output per manhour.

(6) Regulation of pricing practices of business and perhaps even regulation of the mere size of business concerns and the kind and degree of integration of business operations and the conditions under which integration is permissible.

The growing power of the government over the size and structure of business concerns seems almost entirely bad. It can limit seriously experimentation with business structures and make the economy less progressive, dynamic, adaptable, and flexible. Some of the kinds of intervention that do not seem likely are rationing, accumulation of agricultural products which are allowed to spoil, and drafting and enforcing a central plan.

Will the slowly rising price level continue indefinitely or will it be halted by union wage policy or direct controls? There is no reason to expect trade unions to adopt a national wage policy that would impose restraints upon individual unions. Even in Britain where executive officers of unions hold office for life a policy of wage restraint was operated by the unions until recently only with great difficulty. Nor is it probable that the government will use either controls over wages or prices. Price controls would meet with opposition from well-organized groups to almost the same extent as would wage controls.

If people expect prices to move upward, they will convert bank deposits and bonds into stocks, commodities, and real estate and drive prices farther upward. The danger of a disorderly rise in accentuated by (1) the maturing of over $33 billion of E-bonds before 1960; (2) by the government's policy not to permit prices of Federal bonds to drop below par; and (3) by the development of easy consumer credit. There are, on the other hand, strong reasons for believing that a rapid advance in prices will not easily develop and can be prevented: People are not led by slow increases in prices to shift out of cash. A large part of higher incomes produced would go to the government in the form of taxes, and thus reduce the deficit or increase the budget surplus. The Reserve System might again regulate the terms of consumer credit.

Will the great strength of unions cause a new type of unionism to develop in the United States? Although trade unions have become strong and pervasive, I doubt that the experience, economic strength, and influence of unions will make much difference in the objectives and methods of unions. Unions are bargaining organizations, not political organizations. I do not expect unions to foster a labor party. A party that limited its attention to matters that particularly concerned trade union members would not get very far in winning votes and a party that took a position on enough issues to win elections would not be able to command the solid support of trade union members and would not be a trade union party. Moreover, union leaders can see from the experience of other countries that leadership would be transferred from them to party leaders. The British trade unionists who sponsored the Labor Party two generations ago did not have this experience to guide them.

The employee point of view, however, will be more influential. The economy is becoming laboristic, but union officials are committed too completely to special interests to become the leaders in this economy.

What will be the future position of the United States in the economy of the world? For many years exports by the United States have kept up the excess of exports by making large gifts to other countries but this system is not satisfactory. No country likes to depend upon gifts, and this excess of exports means that the consumption of the people of the United States is less than their production.

The solution lies in an increase of imports into the United States. During the next thirty years the United States will consume as much raw material as in the last 150 years. But American manufacturers are inclined to regard any sales of finished goods by foreigners here as a need for higher duties. Large reductions in duties, however, have been made and with the drastic currency devaluations, a large but gradual increase in the imports of finished and partly finished goods is likely. Time will be required for foreign sellers to find out about American markets and for American buyers to find out about foreign goods. If the United States were to double its imports, over 90% of the great American market would still be supplied by domestic producers, but the influence of the United States throughout the world would be enormously enhanced. If the United States does refuse to raise its duties or check imports by administrative devices as more and more goods come in, it will be because the intense and bitter contest with Russia forces Congress not to yield to the pleas from the multitude of pressure groups that the country be surrounded by an insurmountable tariff wall.

There are two ways in which foreign investment might help solve the problem of the export surplus—by creating a demand abroad for machinery and equipment, and by providing new sources of imports into the United States. Investment abroad may be a way of combining superior American managerial skill with cheaper foreign labor.

The Capacity of the Economy to Grow

Some people conceive that the economy in the past has shown a capacity to grow rapidly enough to absorb the increasing number of job seekers, but assert that the economy is losing this capacity. If the United States is to keep its standard of living and, at the same time, keep itself strong enough to resist Russia's attempt to spread Communism, output must increase substantially. The needed expansion of production depends upon the increase in the size of the labor force. I estimate that the number of persons in the labor force will increase by about six million during the 10 years 1950 to 1960. This estimate assumes that there will be some increase in the proportion of women in the labor force.

The growth of the economy could be retarded by a lack of capital, but this is not likely. At the present time industrial capital per worker is about $7,000. In 1900 it was about $5,000 in terms of present-day prices. If capital per worker were to increase 1% a year for the next 10 years, the needed increase in capital would be $50 billion, or approximately 2% of the net national product. Some people fear that savings may be inadequate because of the stiff progressive income tax. For example, in 1948, persons receiving incomes of $25,000 a year or more were 60% more numerous than in 1928, but total incomes after taxes were one-sixth less than in 1928. Personal incomes as a whole in 1948 were 2½ times as large as in 1928. Other people believe expansion may be retarded by too much saving, but this possibility also seems unlikely. More than half of personal savings are made for the purpose of buying goods. Moreover, nearly half of investment-seeking funds are provided out of reinvested corporate profits. A drop in investment opportunities would lead corporations to cut their saving.

The most important question about the capacity of the economy to grow relates to the expansion of the effective demand for goods. If output increases, effective demand must increase to the same extent in order to avoid an increase in unemployment. A rise in the total volume of expenditures each year will be necessary in order for the country to absorb the increase in the labor force and the increase in the supply of goods made possible by technological progress.

Spending cannot grow unless some people are willing to spend at least a little bit more than their recent income while others continue to spend the same amount of their income. One person's expenditure is another person's income. To increase expenditures over recent incomes people might draw on idle balances, a likely possibility. Of the country's total money supply of $170 billion, more than 60% is owned by individuals. These people might be willing to invest in unincorporated business enterprises, corporate securities, or in housing. Each of these ways represents a form of saving and would at the same time increase the total demand for goods.

Another way to increase expenditures would be for people to sell securities to banks that buy them out of newly created money. The seller of the bond would have more to spend and no one else would have less to spend. Although there has only been a slow tendency for non-bank corporations to convert their holdings of government securities into goods, one may expect over the long run that this tendency will continue. Individuals or business enterprises may borrow from banks that lend them newly created money. It is quite probable that expenditures will be increased for some time by borrowing. The debts of individuals and business enterprises are likely to rise because at present they are abnormally low. Debts of state and local governments are likely to rise because of the need for schools, roads, bridges and hospitals.

Although the increase in debt will be stimulating and will increase output of goods and raise the standard of living, is not an increase in debt also dangerous? A stable economy can stand a much higher ratio of debt to income than an unstable economy. It is a sensible, long-run rule that the debt should not rise faster than the national income. The relationship between debt and national income depends also on how an increase in debt is financed. The greater the extent to which the increase in debt is financed by commercial banks, the greater is the likelihood that national incomes, expressed in current dollars, will rise as rapidly as the increase in debt.

Short-term debts create problems because repayments may cause a sharp contraction in the form of income available to buy goods. The country may be confronted with this problem because there is the probability that total consumer credit will be coming due at the rate of at least $9 billion a year.

Although there has been a very rapid increase in private debt in the last four years—far more than one can expect to be maintained—the net national product has also increased rapidly so that the ratio of debt to product has not greatly changed.

The Future Organization of the Economy

One should not envisage any ultimate and permanent economic system, because notions on an ultimate state simply overlook the great inherent creativeness of human beings. Nineteenth century Socialism, that, is, government ownership and operation of most industries, does not seem likely to develop although it is quite probable that government operation of some industries under public authorities will spread. For example, government operation may spread to urban transportation, steam railroad transportation, and electric power plants, particularly in connection with river development and flood control.

Is some sort of a planned economy likely to develop? A planned economy of the budget type is quite unlikely, for at high levels of production rationing would be required and citizens will not tolerate rationing in time of peace. Nor is the development of a planned economy of the non-budget type—one in which government provides indirect incentives and in which planning consists in the consistencies of policies designed to achieve generally accepted objectives—to be expected. It is true that there is general agreement on certain objectives such as economic stability and full employment. But many proposals to obtain these objectives come in conflict with the interests of particular groups. This means that in a democracy the making of public policy consists of a series of compromises.

The economy of the future is likely to be "messy" just as it is today — reflecting a mixture of more or less contradictory and conflicting principles. Indeed an orderly and consistent economy would undoubtedly be an extreme one. Three principal features will characterize the economy of the future: (1) organized groups will be more important than in the past, although I do not think that they will dominate the economy; (2) the intervention by the government in economic matters will continue and will probably slowly grow in importance. The government will be under pressure to promote stability, expansion and security, but the promotion of these objectives will clash with special interests; (3) individual decision-making will continue to play a big role in the economy because the more educated they become, the more likely they are to have ideas of their own and to exercise initiative.

The course of history is largely guided by ideas. During the last hundred years two principal ideas have had tremendous impact upon public policies: (1) the idea that the pursuit of individual self-interest can be relied upon to advance the interests of the community; and (2) the idea that the essential relationship between persons is explained by the class struggle. The revolt against the era of great individual freedom at first took the form of making exceptions, as in the case of monopolies, and gradually the idea that government ought to assume planning for economic activity was advanced. Although in some parts of the world the revolt against the class struggle has not even started, opposition to the idea developed recently in the Western Hemisphere. History has been a mixture of cooperation and struggle and people's own preference can control the amount of conflict or cooperation in the community. Both the idea that individual self-interest can be depended upon to advance the interests of the community and the idea of the class struggle are on their way out.

What ideas may be important in the second half of the twentieth century? Acceptance of the idea of planning is not likely, because men hold fast to the idea that planning can unduly restrict the area of tolerable freedom. They will regard decision-making as experimental and, consequently, there are important advantages in having a great many people make decisions. Decentralized decision-making gives great opportunity to minorities and is good for competition.

It is quite certain that men will agree that there must at all times be opportunities for all would-be workers to find employment, and if there are not sufficient opportunities, the community, acting through the government, ought to do something about it. The conviction that there are no cure-alls for problems will likely win acceptance. Faith in cure-alls dies slowly, but it seems plain that it is dying.

The idea that policy can be guided by facts and information will gain in importance, for people are discovering that statistics are slowly but surely changing the intellectual temper of the times.

The problems which will absorb men's attention will influence the development of the economy. One problem will be the "proper" relationship between government and industry; another, the relationship between organized groups and the community.

The rise of government decision-making and of decision-making by groups does not mean a reversal of the trend toward giving more opportunity to individuals. The educational system is turning out the kind of people who demand opportunity. Furthermore, the success of the community in giving people security will stimulate their interest in opportunity. The fact that security is provided stimulates them to turn their attention to other things. Security is pretty much a means to an end—one of the conditions necessary in order to enjoy life. Opportunity, however, is life itself—it is the chance to do different things, to experiment, to try out one's hunches and ideas. Give men security and their interest in opportunity is bound to be enhanced.

Earle Gott With Goodbody in Chicago

Earle C. Gott

CHICAGO, Ill.—Goodbody & Co., 105 West Adams Street, announce that Mr. Earle C. Gott has become associated with them as Manager of the trading department. Mr. Gott was formerly Resident Manager of the Chicago office of Geyer & Co., Inc. Prior thereto he was with Cruttenden & Co.

Donald Cook Named To New SEC Post

WASHINGTON, D. C.—Donald C. Cook has been elected to the newly created post of Vice-Chairman of the Securities and Exchange Commission. Mr. Cook became a member of the Commission last November. The new post was established since members of the Commission decided a Vice-Chairman had been needed to assist with the administrative duties of the agency and the recent government reorganization plan enabled its creation.

Public Utility Securities

By OWEN ELY

Florida Power & Light

Florida Power & Light, the largest utility in that State, operates principally on the east coast of Florida, but also serves portions of the western and northern parts of the State. The total population served is about one million. The territory includes 335 communities, mostly small in size (only 10 have a population over 10,000). Revenues are 96% electric and 4% gas. Over half the electric revenues are derived from the greater Miami area, where the tourist trade is important.

Electric revenues in 1949 were 45% residential, 42% commercial, 8% industrial and 5% miscellaneous. As further industrial growth takes place, earnings should become less dependent upon tourist ond associated commercial users. The seasonal peak is now being ironed out somewhat; while the sales peak of the winter season in February is about 12% higher than in July, the summer tourist volume is now growing faster percentagewise than the winter industry.

The increase in population and prosperity has been outstanding. During 1940-49 the population of Florida gained 31%, retail sales 224%, bank resources 253%, individual income 207%, and electric power sales 228%. In 1949 the company's kwh sales were 16% over 1948 and three and one-half times those of the decade previous. The population of Miami has gained 87% since 1940, it being the fastest growing metropolitan area east of the Rockies. It has lead all eastern cities in private residential building—$230 per capita in 1949 compared with $148 for Washington, $82 for Detroit, $61 for New York City.

While Florida has not been known as a manufacturing State, the fact that it has no State income tax nor duplicating inheritance taxes, as well as a negligible burden of State and local taxes on business, has resulted in much greater gains in value of manufactured products than for the country as a whole. In the decade ended 1948 manufacturing employment increased 227%, against 44% for the country as a whole.

Florida agriculture consists largely of cattle-raising and the growing of citrus fruits. Improvements in technique have greatly expanded both industries in recent years. The rapid development of frozen concentrates for citrus juice has sharply improved prices for fruit "on the tree." Cattle raising has benefitted by the wiping out of the tick, the upbreeding of Florida herds with Brahman bulls, the development of rich mineral grasses seeded by airplanes, and the conversion of orange and grapefruit pulp and skins into food material for cattle.

Florida is becoming a foreign trade air center, with the Miami International Airport ranking first in the number of international passengers and overseas cargoes. Last year 38% of all passengers in and out of the country passed through this airport. In the first half of 1949 overseas air cargoes of 17 million pounds were more than double the total for the LaGuardia and International Airports in New York. The airport's annual payroll is over $56 million and other expenditures nearly equal this figure.

Florida Power & Light's earnings of $2.17 in 1949 were after special maintenance charges attributable to storm damages totaling 82c a share, so that ignoring this factor earnings would have approximated $3 per share. Actual storm damages from the August hurricane approximated 37c a share after tax savings, and in addition 45c per share was accrued to the balance sheet reserve for storm damages (which amount was not offset by tax savings). There was also a charge for amortization of plant acquisition adjustments equivalent to 19c a share.

The company's revenues gained only 4% last year as compared with an increase of 16% in kwh sales (the previous year revenues had jumped 34%). This was due to lower rates, reflecting automatic adjustments for lower fuel and commodity costs (oil declined 90c a barrel to 31%, but kw production per barrel was up 6% due to improved generating equipment; thus, despite a 13% increase in electric output, total fuel costs were down 26%). Despite the small increase in revenues and the heavy charges for storm damage and reserves, net income in 1949 gained 20%.

The company established a reserve for hurricane damages in 1947 and this was built up to $2.2 million at the end of 1949, the accrual amounting to $1.1 million in 1949 and $900,000 in 1948. When the balance sheet reserve reaches $3 million, the accrual rate will be reduced, it is understood.

In the June quarter of 1950 earnings showed a sharp gain, the balance for common stock increasing 36% over last year. The gain was principally due to an increase of 13% in revenues as contrasted with an increase of only 7% in operating expenses (excluding taxes and depreciation).

The company's average residential rate in 1949 was 3.41c per kwh compared with national average of 2.95c; residential usage was 2,070 kwh compared with the national figure of 1,684 kwh. The estimated rate base at the end of 1949 approximated $143 million, and net operating revenues of $9,322,000 approximated a 6% return. There is no statewide regulatory commission in Florida.

Florida Power & Light has been selling around 18 recently to yield 6.7%, based on the $1.20 dividend; the 1950 range approximates 22½-17. Capital structure is about 60% debt, 8% preferred stock and 28% common stock equity (after eliminating plant acquisition adjustments).

Minneapolis Assoc. Add

(Special to THE FINANCIAL CHRONICLE)

MINNEAPOLIS, Minn.—Woodrow F. Wilson and Oscar J. Wooliscroft have been added to the staff of Minneapolis Associates, Inc., Rand Tower.

With King Merritt

(Special to THE FINANCIAL CHRONICLE)

ST. CLOUD, Minn.—Marvel W. Andrews, Fred D. Hutchinson, and John A. Hollenhorst have joined the staff of King Merritt & Co., Inc., 1616 St. Germain Street.

NEWS ABOUT BANKS AND BANKERS

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED
CAPITALIZATIONS

Stockholders of the **Title Guarantee & Trust Co. of New York** at a special meeting on Aug. 1 voted to approve the acquisition of the company's deposit liability and certain assets of its banking division by the **Bankers Trust Co. of New York.** By this action, trustees and officers of the Title Guarantee & Trust were authorized to carry out the agreement of July 6 under which the Bankers Trust would assume TG&T's commercial banking and deposit and trust functions, contingent upon the transfer of certain banking premises, facilities and other assets. The date for the closing of its banking offices by the Title Guarantee & Trust has been fixed for Aug. 5. On Aug. 7 the transferred banking offices will reopen under operation by Bankers Trust. All of the eight title insurance offices of Title Guarantee & Trust will continue to function as previously and the head office of the company will remain at 176 Broadway. After the meeting, Barnard Townsend, President of the Title Guarantee & Trust Co., issued a statement saying in part: "The action taken today confirms the judgment of the board of trustees that continued operation of our banking division would not be in the best interests of the company or, in turn, of its stockholders. We plan to devote our undivided energies to the continuing development of title insurance which has been our principal business since 1883."

A previous item regarding foregoing proposals appeared in our issue of July 13, page 171.

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At a regular meeting of the directors of **City Bank Farmers Trust Co. of New York** held on Aug. 1 Charles F. Piedmonte was appointed a Vice-President. He was formerly an Assistant Vice-President.

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Denmark and her products is the subject of an exhibition currently in the windows of **Colonial Trust Company's** Rockefeller Center Office on Avenue of the Americas at 48th Street, New York. The display, arranged as a special tribute to the bank's correspondents in Denmark, is sponsored jointly by the Consulate General of Denmark in New York and by the Danish Information Office. Arthur S. Kleeman, President, announces that in conjunction with the exhibit the banking house has prepared another in its series of international monographs, "World Recovery through Imports." This set, entitled "Trade with Denmark," calls attention to the economic necessity for maintaining United States purchases from Denmark at a high level. Both the exhibition and the monographs are the outgrowth of several visits to Denmark by Mr. Kleeman and by Mario Diez, Vice-President in charge of the bank's International Division.

* * *

The Royal Industrial Bank of New York received the approval of the State Banking Department on July 11 of plans to reduce its capital stock from $535,000, consisting of 53,500 shares, par $10 each to $302,500 in 60,500 shares of par $5 each.

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William L. DeBost, Chairman of the **Union Dime Savings Bank of New York** announced on July 20 that Marcel Tucci, Assistant Secretary of the bank, would retire on Aug. 1, after serving the bank for 42 years. Mr. Tucci, who speaks several foreign languages, entered the bank in 1908 to act as interpreter for the bank's depositors of Italian, French and Spanish origin. He was made an Assistant Secretary in 1927, and since then, in addition to his former duties, had been in charge of all work concerning estate accounts and general information. Mr. Tucci's duties have been assumed by Francis M. Leake, who was recently elected an Assistant Secretary, as of Aug. 1. Mr. Leake entered the bank in November, 1921, and is the son of the late Francis M. Leake, a former trustee and at one time Treasurer of the bank. Howard Hammarlund was also elected an Assistant Secretary, effective Aug. 1; he has been with the bank since July, 1926.

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Cyril T. Wells was elected a Vice-President of the **South Orange Trust Co., of South Orange, N. J.,** at a meeting of the directors on July 25, according to the Newark "Evening News" which states that Mr. Wells has been a director of the trust company since 1941.

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The election of John B. Cline as Second Vice-President of the **Phillipsburg National Bank & Trust Co. of Phillipsburg, N. J.,** was noted in the Newark "Evening News" of July 16. Mr. Cline, who has been a director of the institution since 1926, succeeds in his new post, Arthur E. Peters, who died July 9. Harold J. Curry, Cashier for three years and associated with the bank since 1923, has succeeded Mr. Peters as a director.

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The **Miners National Bank of Wilkes-Barre, Pa.,** announces the election of Frank W. Anderson as President, effective Aug. 1.

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The Peoples Bank & Savings Co. of Cincinnati, Ohio, has been absorbed by **The Atlas National Bank of Cincinnati,** it is announced by the Board of Governors of the Federal Reserve System. In connection with the absorption, the former main office of The Peoples Bank and Savings Company, and a branch operated by it, have become branches of The Atlas National Bank.

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Through a stock dividend of $150,000, and the sale of $150,000 of new stock, the **National Bank of Commerce of Chicago, Ill.,** increased its capital as of June 30 from $600,000 to $900,000.

* * *

A stock dividend of $250,000 has served to increase the capital of the **Union National Bank of Little Rock, Ark.,** as of June 30, from $1,000,000 to $1,250,000.

* * *

The capital of the **First National Bank of Temple, Texas,** has been increased from $300,000 to $1,000,000, effective June 30; through a stock dividend of $200,000, the amount was raised from $300,000 to $500,000, while the further increase of $500,000 was brought about by the sale of new stock.

* * *

The death of J. Ollie Humphreys, Vice-President of the **Mercantile National Bank of Dallas, Texas,** occurred on July 18, it is learned from the Dallas "Times Herald," which stated that Mr. Humphreys had been with the Mercantile National for 10 years; previously he had been Vice-President of the Dallas National Bank.

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The resignation of Herbert Decker as Vice-President of the **Denton County National Bank of Denton, Texas,** on Aug. 1 was indicated in Denton advices to the "Times Herald" of Dallas, which noted that he was on that date slated to become Regional Manager of the San Antonio district of the Federal Land Bank of Houston. Mr. Decker was Secretary-Treasurer of the Denton-Wise National Farm Loan Association from 1934 until this year, except for time served in the Navy during the recent war, it is stated. He resigned to become Vice-President of the bank March 1 of this year.

* * *

In its advices covering the five weeks ending July 15, the Board of Governors of the Federal Reserve System reports as follows: Absorptions and establishment of branches in the California Federal Reserve District:

"Bank of Beaumont, Beaumont, Calif; Bank of Newman, Newman, Calif., and First Trust and Savings Bank of Pasadena, Pasadena, Calif., all State members: business acquired by **Bank of America, N. T. & S. A., San Francisco,** Calif. On June 26, 1950, the latter bank established branches at the locations of the banks whose business was acquired, as well as at the locations of the two branches of the Bank of Newman and the two branches of the First Trust and Savings Bank of Pasadena. (Status of these transactions is in litigation.)"

It was reported in Associated Press advices early in July from San Francisco that on June 23 Bank of America announced it had acquired 22 California banks from Transamerica and would operate them as Bank of America branches, effective June 26.

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James A. Bacigalupi, former President of the **Transamerica Corporation** and the **Bank of Italy,** predecessor of the Bank of America, died at San Jose, Calif., on July 27. He was 67 years old. According to the San Francisco "Chronicle," in 1917, A. P. Giannini invited Mr. Bacigalupi to organize the trust department of the Bank of Italy, predecessor of the Bank of America. He was made its Vice-President the same year and, in October, 1924, became President. He became President of Transamerica Corp. in 1931; he retired in 1931.

Charles Klein Joins Granbery, Marache

Charles E. Klein

Granbery, Marache & Co., 52 Broadway, New York City, members of the New York Stock Exchange, announce that Charles E. Klein has become associated with them as manager of the trading department. Mr. Klein was formerly trading manager for Stanley Heller & Co. and prior thereto was with Hoit, Rose & Troster and Holsapple & Co.

Continued from first page

As We See It

clear enough. It protrudes like a sore thumb from current controversies about the extent to which controls, restrictions and other interferences by government with business and the private citizen are essential in the circumstances. It could be, of course, as some have suggested, that the President in refraining from a request for full war powers (thus leaving a demand for them to build up in Congress and among a number of private citizens who seem to take it on themselves to formulate public policy) is but a piece of "clever" political strategy. It may be that in this way he could succeed in obtaining all the powers an absolutist could desire without shouldering the political responsibility for demanding them.

But however that may be, it seems evident to us that an important factor upon which all such decisions must rest is as of today largely unknown. We suspect it is far from clear even to the President himself. It is this: Precisely what do we regard to be our "responsibilities" throughout the world? What must we really do to protect ourselves from totalitarian aggression? Obviously, our commitment in Korea requires that we drive the Communists back to their original position above the 38th parallel regardless of the cost of such an undertaking. Of course, should the Kremlin decide, and this appears unlikely, that it wishes a final "show-down" there, in that case World War III would almost inevitably be on the way, and Korea would, one would suppose, quickly become unimportant, and indeed untenable.

What Should We Do Then?

But what if we have to evacuate? Are we then under obligations to reestablish ourselves on the mainland of Asia in sufficient force to drive the Communists back to their starting point? And once that is accomplished, what then? Must we remain indefinitely in that unfortunate land to prevent a return of such a campaign as we have been fighting there? Many of these questions will rise to plague us even if we never evacuate. If we must commit the relatively large forces apparently necessary to reach such objectives in Korea, what if then trouble breaks out around Formosa, and develops more power than we have been supposing possible? What about Indo-China? Iran? Yugoslavia? Must we "save face" by defending all these despite the fact that the Kremlin is not under the necessity of committing a single Russian soldier, and not very significant amounts of Russian equipment?

If we are determined to do all this, and in addition be prepared to meet Russia itself across the face of Europe, then something approaching a full war footing appears almost unavoidable. Of course, it is open to serious question as to whether any such commitments on our part are necessary, or wise. They would seem to us to be precisely what the Kremlin wants. But some decision now as to what we intend to do must be reached, so it would seem to us, before coming to any fixed and final conclusion about what is essential to meet current military requirements. It would be one thing if we laid no burdens upon ourselves other than those necessary in winning the Korean war and for enlarged assistance to Europe—and generally to strengthen ourselves as a sort of contingency reserve; it would be quite another to prepare for such worldwide commitments as would be involved in applying Korean principles to the remainder of the world.

Confusion at Home, Too

Possibly not the same differences of view, but certainly the same lack of full understanding prevails in current notions about the basic principles of a sound and effective economic system. The latest report of the President's Council of Economic Advisers sets forth a number of things "learned" from the postwar years. Here are some of them:

"Our economy is far more resistant to shock than it was after World War I. It is better prepared to deal with inflationary or deflationary dangers. . . .

"There is need for further improvement, but we can build confidently upon what we have thus far achieved. . . . The domestic situation makes this desirable; the world situation makes it imperative.

"The healthiest and safest condition for an economy such as ours is maximum utilization of our productive resources. . . . During the inflation of 1948, there were some who said that a lower level of total activity would provide a cure for the dangers of inflation. But when we entered upon that lower level of fundamental activity, we felt

even more insecure and yearned for the day when full production might be restored. . . .

"We must draw a sharp distinction between the sound elements of maximum production and the unsound elements which threaten its maintenance. . . . It is no solution to overcome inflation by private and public policies which turn the whole economy downward.

"Stability and economic strength are advanced by private and public policies which adjust themselves to our need and prospects for stable growth, instead of adjusting themselves to the inevitability of the business cycle."

If this sort of economic twaddle is all that the postwar years have taught the Council, then the President would be wise to get another Council.

Railroad Securities

Chesapeake & Ohio

Although it has not been so dynamic as some other rail leaders such as Illinois Central and Southern Pacific, the common stock of Chesapeake & Ohio has been giving a considerably better account of itself recently. At least in part the increased buying interest may unquestionably be attributed to the disturbed foreign situation and the projected rearmament effort. Due to a number of factors—merger of the Pere Marquette properties, industrial growth of parts of the service area, more intensive solicitation of merchandise freight, etc.—the character of the road's traffic has changed considerably in recent years. Nevertheless, it is still to a major degree a coal carrier.

Last year even with periodic mine closings the road received just about half of its total freight revenues from the transportation of bituminous coal. Considerable pessimism as to the long term outlook for coal has developed in the past few years, centering largely around the expanding use of competing fuels such as oil and natural gas. This pessimism communicated itself to the stocks of the major coal carrying roads, aggravated by the adverse earnings influence of complete mine shutdowns and three day work weeks for miners. In the past few weeks a far more sanguine attitude toward at least the intermediate term outlook for this most important freight item has developed.

There is little question but that this recent change in sentiment is fully justified. In the first place, it is doubtful that such abject pessimism as prevailed just a few months ago was ever warranted. Secondly, military operations and the step-up in armament production will unquestionably mean much heavier shipments and consumption of coal. Even now coal has a price advantage over oil. This may well widen. The military situation points to the strong possibility of the development of oil shortages, and this is not being overlooked by consumers in a position to switch from one fuel to the other. Finally, material shortages may well seriously restrict additional natural gas pipeline construction.

At the same time that the traffic outlook of C. & O. has been brightening (it should also benefit from increased manufactured freight tonnage) its operating performance has been on the upgrade. The company has made considerable progress in reducing its passenger train deficits by reducing or eliminating branch line service, consolidating trains, etc. More progress along this line is in prospect. Also, the company is experiencing the cumulative benefits of substantial sums spent in recent years on yard improvements, new equipment, track installations, etc. Such savings should be augmented by the trend toward dieselization of switching operations and road service on some divisions.

The overall performance for the first half of the year was distorted by the particularly poor opening months when the mines were still closed because of strikes. In the last couple of months, however, the transportation ratio has been running down close to 30%. This compares with a 1950 monthly peak of 43.5% reported in February. For the six months through June the ratio was 33.1%, a cut of more than a full point from the 34.4% ratio for the opening half of the preceding year. Year-to-year comparisons should be even more favorable in the last half.

In each of the three months of the second quarter the company reported common share earnings in excess of $0.50 a share. This brought the cumulative total for the half year to $1.66 a share. Considering the early deficits, the showing, only $0.29 a share under the like 1949 interim, is highly satisfactory. Full year earnings may run around $3.50, or better. Last year the company earned only $1.36 on the common. With such prospects most analysts look for at least a $2.00 annual dividend basis and in many quarters an even more liberal policy is looked for. It is expected that, ex any recurrence of serious labor troubles in the coal fields, the road's earning power in future prosperous years should top the 1950 estimate—perhaps around $4.50 a common share.

But What Is the Real Remedy?

"The Korean war has spotlighted the weaknesses of alliance in the face of aggression.

"After 30 days of fighting, during which our gallant forces have been all but pushed into the sea, the United States, almost unaided, supports the Free Republic of Korea.

Owen J. Roberts

"Fifty-two members of the United Nations have denounced the aggressor — the Security Council has called upon all to aid — but only a few have sent as much as token forces to date. . . .

"Korea again proves that forces voluntarily offered . . . by free states are no defense against aggression.

"Free peoples must have a united command to move with dispatch against the arch enemy; and this is possible if they are politically united.

"A political federation of democratic members of the United Nations would give to that body the real authority it needs to halt aggression. . . .

"Surely this is a reasonable proposal that we explore now with our free neighbors the means of building the political unity needed to create a secure common defense against the common foe." —Owen J. Roberts, to President Truman and Secretary Acheson.

The Judge clearly sees some of the weaknesses of the foes of the Kremlin; it appears doubtful if he knows the remedy.

Purchasing Agents Decry Immediate Controls

Robert C. Swanton, reporting opinion of Business Survey Committee of National Association of Purchasing Agents, holds signs of public buying hysteria are passing.

A composite opinion of purchasing agents who comprise the National Association of Purchasing Agents Business Survey Committee, whose Chairman is Robert C. Swanton, Director of Purchases, Winchester Repeating Arms Company, Division of Olin Industries, Inc., reports that "the expected lag in general business during July was upset by the Korean blow-up. Production, which was sagging because of industrial vacations during the first half of the month, has snapped back and is forging ahead to meet increased demands. New orders have zoomed, creating the heaviest backlog since the steel and coal strikes. Buying policy, though still considered to be conservative, has had to extend the range to meet lengthened production lead time. Prices are up all along the line, with escalation rapidly coming into the picture. Industrial inventories are creeping up — in many cases, limited only by sellers' self-imposed allocations. Employment is up, to man the increased production schedules. Very little of the July business increase is attributed to direct military orders.

Robert C. Swanton

"There has been a flurry of panic buying of products that were short during the war, most of it at retail and distributing levels. At month end there are signs that this hysteria is passing.

"Purchasing executives, viewing the current situation in the light of the President's message, find little reason to expect immediate imposition of government controls. Ten billion dollars for preparedness, with possibly half of that reaching industry, is not a deep cut into our capacity and resources. The announced program should be handled without setting up broad use and price controls.

Commodity Prices

"The sharp upsurge of buying during the month carried prices to the highest point this year. Demand has exceeded supply in many industrial materials. Some higher prices are believed to have been established in anticipation of government price freezing. Sellers should remember the price rollback of the OPA days. 'Price ruling on date of shipment' and escalator clauses are again common in future delivery quotations.

Inventories

"The trend of inventories is up. Forty percent report adding to industrial stocks during July. Increasing deliveries of currently critical materials such as steel, copper, zinc and aluminum, is practically impossible, leading to unbalanced stocks which cannot, at this time, be assured of adjustment by future commitments. Purchasing Agents are aware that hoarding of strategic materials which may be restricted in use by government controls can prove unprofitable.

Employment

"Following the heavy curtailment caused by industrial vacations early in the month, employment came back with a bang and, at the end of the month, stood higher than at the close of June. The demand for skilled labor overbalances the current supply in several areas. The work week is being lengthened in many industries, and would go higher if materials were immediately available. Present draft requirements are not considered much of a threat to industrial man power. However, employment managers are looking ahead to the use of more women if future war developments cut deeply into the supply of male workers.

Buying Policy

"The brisk rise in new orders following the Korean outbreak has developed a new high in backlogs. In turn, this has stretched out production lead time on many industrial items. The range of future commitment had been extending during May and June. July pushed many from 30 and 60 days into the 90-day column and moved 20% into over 90 days, with several endeavoring to cover up to six months. There is apparently little, if any, price speculation in this extended view of the markets, as price escalation is attached to most commitments over 660 days. Buyers do not feel that present conditions call for government price or end use controls.

Specific Commodity Changes

"Everything going up—nothing coming down—is the report for July. Increases over-all have not been drastic. Important items affected were: Aluminum, acids, alcohol, bakelite, cotton and paper bags, cadmium, castings, cement construction materials, corrugated containers, cornstarch, electrical supplies, food products, fuel oil, gasoline, glass, lead, lumber, machine tools, paper platinum, rags, rosin, rubber, soap, soda ash, styrene, textiles, tin, tires, wood screws.

Canada

"Canadian business conditions differ little from those reported for the United States in July. Production about the same; new orders higher; price structure checks with the United States; inventories up a little more; employment increasing; buying policy a little more on the low side. Business is good, at the high level of the year, and expected to continue into the fourth quarter."

Hartford Office for Walston, Hoffman Co.

HARTFORD, Conn. — Walston, Hoffman & Goodwin, members of the New York Stock Exchange and other leading security and commodity exchanges, announce the opening of an office in Hartford under the management of Harry L. Perkins.

M. B. Arnett Opens Own Investment Co.

SAN ANTONIO, Tex. — Melton B. Arnett has formed M. B. Arnett Company with offices in the Frost National Bank Building to deal in investment securities. Mr. Arnett was formerly manager of the municipal department of Lentz, Newton & Co.

Havener, Gill Will Admit Walter Benjar

Walter Benjar will become a partner in Havener, Gill & Co., 61 Broadway, New York City, members of the New York Stock Exchange, on Aug. 14. Mr. Benjar was formerly partner in Walter Benjar & Co.

Greene & Brock to Admit H. T. Greene

New Name Greene & Ladd

DAYTON, Ohio—Harry Talbott Greene will become a partner in Greene & Brock, Third National Building, members of the New York Stock Exchange, on Aug. 10. He has been associated with the firm for some time.

On the same day Ray M. Brock will retire from partnership and the firm name will be changed to Greene & Ladd.

Walston Hoffman to Admit

SAN FRANCISCO, Calif. — On Aug. 10 August M. Amend and William L. Minick will be admitted to limited partnership in Walston, Hoffman & Goodwin, 265 Montgomery Street, members of the New York and San Francisco Stock Exchanges.

Eccles' Anti-Inflation Program

Member and former Chairman of Federal Reserve Board calls for, among other things, restriction of bank credit, rise in short-term interest rates, reimposition of modified excess profits tax.

In a statement issued at Salt Lake City on July 18, Marriner S. Eccles, member and former Chairman of the Board of Governors of the Federal Reserve System, outlined a program which he urges be immediately carried out because of the inflationary situation caused by the Korean crisis.

Marriner S. Eccles

The text of Mr. Eccles' statement follows:

"Because of the Korean crisis a dangerous inflationary situation is rapidly developing. This is due to the urgent and increasing military needs and a rapid stepping up of business and civilian demands on top of an economy that has been showing inflationary pressures for some time, especially in the durable goods and housing sector. Price inflation is sure to develop when the demand for goods and services supported by money and credit exceeds the supply. The available supply of money and credit can be increased only by the banking system making loans to or buying securities from either the government or the public. In the present situation it is, therefore, imperative, if price inflation is to be controlled, to stop the overall growth of loans and investments by the banking system, including the Federal Reserve. This can be promptly brought about if the government will adopt without delay the required monetary and fiscal program.

"Such a program would materially reduce civilian demand and thereby increase the supply of goods and labor available for the military needs without the necessity of putting the country under all of the onerous war-time direct controls, unless the Korean situation develops into World War III. Even then, it may not be necessary to go all the way because it would likely be an atomic war that would not last long. In any case, the following program is an urgent necessity and should be carried out immediately, no matter what action may be called for later:

Monetary and Credit Program

"(1) Request every bank to unite in a nation-wide voluntary agreement to stop bank credit expansion which has been growing rapidly by limiting new loans made by any bank to the amount of loans paid; meet the gain or loss in its deposits by buying or selling government securities accordingly. Such a bank program would stabilize the government securities market, as well as the general credit situation. If this voluntary program is not carried out, then the Federal Reserve should increase reserve requirements to the legal limit and get additional powers if necessary.

"(2) Request the insurance companies and the mutual savings banks not to sell their government securities for the purpose of getting money to increase their loans and other investments. This would avoid putting pressure on the Federal Reserve to support the government securities market, thereby creating new deposits and excess reserves in the banking system.

"(3) Require the RFC to stop making loans, except when they are for military purposes and cannot be gotten elsewhere.

"(4) Reduce the effective demand for housing by requiring FHA to rescind its recent reduction in interest rates and reduce its insurance coverage, thereby requiring home owners to make larger down payments, slowing up the approval of mortgage guarantees by the Veterans Administration and mortgage insurance by the FHA., requiring the Federal National Mortgage Association to limit its purchases of insured and guaranteed mortgages to the amount sold.

"(5) Reduce the effective demand for consumers durable goods by giving to the Federal Reserve control of consumer credit terms, which should be made sufficiently restrictive as to down payment and maturity to curb further growth of the huge volume now outstanding.

"(6) Require the Treasury to permit short-term interest rates to rise moderately and thereby take off the pressure for long-term interest rates to go down. This change of policy would make the government securities more attractive to the public. It would reduce the need of the Federal Reserve supporting the market for government securities which creates excess money and makes impossible the restrictive monetary policy that is called for.

"The above six-point program has the advantage that it can be put promptly into effect or rescinded to the extent needed without requiring legislation, with the exception of consumer credit regulations.

Fiscal Program

"(1) Make no reduction in taxes this year.

"(2) Increase second and third class postal rates enough to meet large Post Office deficits.

"(3) Close tax loopholes previously recommended by the Treasury, especially those where the government is losing large amounts of revenue.

"(4) Reimpose a corporation excess profits tax of 75% on all net earnings above 10% on the first $5 million of invested capital and 8% on any balance, allowing a $5,000 exemption of earnings subject to excess profits tax.

"(5) Request organized labor to make no demands for wage increases while excess profits tax is in effect.

"(6) The Treasury should offer promptly to non-bank investors long-term non-marketable bonds, G type, 15-year maturity, interest rate 2½%.

"The above fiscal program is essential if the government deficit is to be held to a minimum so that it can be financed outside the banking system.

"This is also an essential requirement of the montary and credit program suggested if it is to be successful. The present situation calls for the people to save their money and purchase more bonds. They cannot be expected to do this unless the government takes the necessary action to protect the purchasing power of the dollar (their money) from further price inflation, which has already been permitted to go too far. The vigorous credit, monetary and fiscal program above outlined will accomplish this purpose without the need of imposing the objectionable harness of direct controls."

Continued from first page

Investment Policy Under Current Conditions

The investment implications are far-reaching but by no means conclusive at this juncture. A precise forecast of the future would as always be an impractical basis for long-range investment policy. The short-run trader is entitled to speculate as much as he desires on his personal views of military prospects. The portfolio manager, however, has to consider and give careful weight to possible alternative patterns that may emerge.

(1) **Limited Military Action**—Aid to South Korea is being given by decision of the United Nations, with only Russia and her satellites not in accord. It is conceivable that a determined and successful campaign could be suffciently impressive to forestall other Soviet military plans and thus set the stage for longer-term world peace. One weakness in this approach is that the campaign may be difficult and prolonged. Another is that Korea may be only one of a series of Russian maneuvers carefully designed to keep the United States and its allies on the defensive.

(2) **World War III**—The decision of the United States to fight aggression means that if Russia wants war, she will have it. It would be foolhardy under prevailing tense conditions to ignore the risk of a third world war. Likewise, it is difficult to support the view that world conflict is imminent, since no one knows when Russia will consider the time is ripe to act. Unfortunately, we are not privy to the deliberations going on in the Kremlin.

(3) **Intensified Armament**—For the time being the most realistic approach centers on the strong probability that the United States is in for a period of rising military expenditure. We are committed not only to Korea, but also to the defense of the rest of the Far East. This is no minor undertaking. Continued military expansion would appear to be increasingly necessary until there is evidence that aggression against other weak nations in the world is not apt to occur. The pace of further preparedness will be geared with unfolding developments, as will the need for economic controls.

The Background

We cannot properly discuss the current investment situation in a vacuum or discard all normal lines of investment analysis. As a background I would like to present some observations of the business outlook as it appeared on a peactime or cold-war basis "Before Korea."

It is particularly important to recognize that the entire postwar period has been a dynamic one with prospects of remaining so in at least the next few years ahead. I believe that most contemporary forecasts of impending economic depression have seriously underestimated the inherent vitality of the American economy. We can ascribe this growth in part to the impelling need to make up civilian goods shortages generated in World War II and to the huge wartime increase in national savings and money supply. But the dynamic expansion in production and trade surely goes deeper, into such factors as (1) a population gain of over 19 millions or 14% in the past decade, (2) the increase in family spending units of over 26%, (3) the rise of over 75% in real supernumerary income per capita and (4) the ability and willingness of American business to invest in new plant and equipment to meet the needs of a growing civilian economy (in contrast to the low demand for capital goods in the prewar years of the 'thirties).

Since 1946, the national economy in fact has been very well sustained on many counts. A significant aspect is that postwar industry adjustments took place *ad seriatim* and not in concentrated cyclical doses. We have managed to weather a number of individual economic weak spots without an over-all collapse, including (1) a sizable decline in net farm income, (2) the drop in soft-goods production following the early postwar boom, (3) a sharp reduction in our balance of net exports, (4) the foreign exchange devaluation last fall and (5) the inflationary price rise of 1948 and its subsequent correction.

The downturn in industrial production in 1949 was essentially a business inventory adjustment, reflecting a shift from accumulation of inventories in 1948 of some $6.5 billion to a reduction in 1949 of around $2.3 billion. The swing in inventories thus amounted to approximately $8.8 billion on a year-to-year basis and considerably more at the high and low months. This compares with a net decline in 1949 of about $4.6 billion in total gross national product. National income and retail trade remained fairly stable throughout the episode, due in part to rising government expenditures and transfer payments. The recovery in production to a current FRB Index level of over 195 has had the benefit of (1) necessary inventory rebuilding from last summer's over-depressed condition, (2) a boom in the automobile and housing industries and (3) a much stronger than expected demand for capital goods and equipment.

Was the business situation highly vulnerable "Before Korea"? I find it hard to subscribe to this view. To the contrary, it seems to me that the economy had entered into an area of high business activity in rather well-balanced form. The recovery in capital goods new orders early this year should be emphasized as it is a strong indication that the adjustment going on in heavy industry since 1948 was completed, at least for a time. There is considerable evidence, I believe, that the basic replacement demand for producers' durable equipment is close to $15 billion annually at present costs, adding in a moderate amount for normal military requirements. We have support on this point from Dr. Slichter, who has stressed the imperative need for new equipment to help keep unit labor costs down and improve productivity. Furthermore, the present level of around $20 billion for producers' durable goods output is not excessive in relation to manufacturing activity, based on historical tests. Equipment prices in the postwar period have certainly lagged well behind the sharp increases in hourly labor costs. It is reasonable to suppose that the average life of capital equipment will be shortened as a result of both intensive use and new technological changes arising from the huge sums being expended on industrial research. From a financial standpoint, corporate enterprise in the aggregate has had little trouble in financing large-scale programs of plant and equipment expansion when necessary in the postwar years.

In my judgment the prospect has been that the recovery in the capital goods segment of the economy would go far to offset the effect of declines in the automobile and housing industries when deferred demand backlogs of the latter are reduced. There is not much question but that the rates of motor car production and new housing starts so far this year have been substantially above any reasonable calculation of a longer-term trend. A more fundamental point is what the so-called normal demand for autos and homes might be, assuming active business conditions and a continuation of government policies that tend to keep the national income relatively stable. I could go into a maze of statistical details here, but I prefer to rest on a combination of factors which appear to be of greatest significance.

Consider the peacetime situation in consumer durable goods including automobiles. In recent months national spending on consumer durables has been roughly 15% of total consumer expenditures, a ratio which is somewhat but not unduly excessive in terms of historical precedence. In passenger cars the optimum level of national ownership may be calculated up to 38,000,000 units compared with approximately 36,000,000 now in use. Some 20,000,000 of the cars on the road are eight years or older, most of which would be replaced within five years, indicating an average replacement demand from this source alone of around 4,000,000 units annually. If we also take into consideration the normal growth in the number of family units and other determining factors, we can arrive at an estimate of somewhat over 5,000,000 passenger cars as a demand criterion for 1951 and 1952, plus an annual production of over 1,000,000 trucks in an active economy. These figures do not suggest that the auto industry was facing a decline of severe proportions, especially if we adjust the recent high output rate for a proper seasonal factor.

In the construction industry a demand for around 800,000 residential units per year for the next five years appears to be well within the limits of probability. Indeed, for the next two years or so a figure of somewhat over 1,000,000 residential units per year can be supported on evidence that the deferred backlog at the end of 1949 was as much as 1,800,000 units.[1] Various other points can be included in an appraisal of the peacetime construction outlook. Even if the rate of home building should be reduced below expectations, various types of private and public construction would be available to fill the gap. Industrial building, for example, has lagged in the postwar period and should increase in line with the rate of industrial production. Schools, new highways and other types of publicly financed construction are still in such intensive demand that years may be required to satisfy minimum requirements. Total new construction in the first quarter of this year has been estimated at around an annual rate of $20 billion, or less than 8% of the gross national product, which again is not excessive on a historical basis. It is interesting to note that the principal concern of economists in studying the construction outlook pertains to the possible drop in the number of new family units created in the years after 1955. By that time we may have arrived at a point when a real replacement or "scrappage" market for homes could be developed as an important offset.

There has been a good deal of concern about the rise in consumer credit over the past year. All of us are aware that easy payments on consumer durable goods have been a lifting factor since Federal credit controls were removed in 1949. I can agree that the rate of increase has perhaps been on the excessive side in the last several months. Nevertheless, the present total of instalment debt does not appear to be over-extended if we relate it to disposable national

1 Survey of Current Business, March, 1950.

income. It is in fact quite low in relation to the present rate of national savings and particularly in comparison with the huge amounts of liquid assets held by the public, to which I will refer again later.

We can also take a look at the recent expansion of mortgage loans as an influence on the boom in residential building. It seems to me that in a dynamic economy there should be a substantial increase in mortgage debt. Where the demand is so intensive the necessary credit for home financing is typically made available, either by private sources or by government.[2] Dr. Schlichter has some words of comfort for those who worry about this aspect of things, by pointing out that the present total of net mortgage indebtedness for the country as a whole in relation to national disposable income is less than two-thirds the amount that prevailed in 1929. According to his calculations the aggregate amount of all private net debt, relative to national income, has dropped in half as compared with 1929. Moreover, the ratio of liquid assets held by the public to private net debt has risen sharply in the past decade. Dr. Schlicher is on record as expecting a substantial expansion of private debt in the next 10 years ahead.

I know that you gentlemen are more interested at present in prospects for earnings and dividends under more intensified rearmament conditions, but I cannot refrain in this discussion of the peacetime outlook from referring to the question of a "normal level" of industrial production. The FRB Index in June stood at just under 200 (1935-39=100). I believe that estimates of a normal of under 175 again fail to give proper weight to the dynamic factors at work. It is of interest to note that Moody's has lately computed a civilian normal of 165 to which they add 10 points for cold-war defense production. If we take into fuller account our rising population a reasonable estimate of normal for the FRB Index by 1951 would be in the vicinity of 185 and higher in subsequent years.[3] I will leave it to you to judge whether the economy has been in a high area of dangerous excess. My own opinion is that "Before Korea" the over-all rate of business activity was in the process of moving close to capacity (around 210 on the FRB Index). The chief concern would be if this should generate enough commodity price rises that would effectively cut into the demand for goods or throw the business situation into unbalance.

In sum the weight of evidence is that prospects have been favorable for business activity and corporate earnings in the next year or two or longer on a peacetime basis. The recent decline in the stock market cannot be attributed to deterioration in the business outlook. Some correction of stock prices may have been necessary in view of the increase in margin indebtedness over the past year and also to the elimination of weak speculative holdings in certain groups of stocks. However, there were not large amounts of undigested new security offerings such as characterized the 1946 market top. Finally, I think a good case can be made that most issues of sound quality have not been unduly high in the market in relation to conservative estimates of future average earnings and yields. What the market has done is to shift from a consideration of peacetime prospects to appraising the potential risks to earnings and dividends under war developments.

2 No doubt some types of federal home loans, especially for lower cost units, are entirely too lenient and should be adjusted. However, the situation today is better in many respects than the 2nd and 3rd mortgage system of the twenties.

3 The studies of the Econometric Institute (New York) are particularly enlightening on this subject.

Korean Episode Not Likely to Be Soon Settled

At the moment it seems unrealistic to believe that the war in Korea can be settled up in short order. The President has asked for and will undoubtedly get authorization covering an additional $10 billions of military expenditure. In this environment it appears certain that both corporations and individuals are faced with higher income tax rates. Still I feel that it would be premature for the portfolio manager to make a major revision in investment policy at this time, providing the portfolio is adequately diversified and if it holds dollar reserves. The foreign situation is serious, but it is too early to know the extent to which higher corporate taxes or economic controls may be invoked. A gradual rather than a sudden increase in military expenditure may be expected if the war is continued in Korea. One can question if it is possible for the government to step up military spending by $5 billions annually, let alone $10 billions, in a matter of a few months. Of course it can and will be done eventually if developments warrant it. I certainly cannot predict the speed of further preparedness, but as an analyst I do not want to overlook the possibility that military spending in the immediate months ahead may be considerably less than publicized.

It would appear that the most pressing need is to build up the size of armed forces, to be followed later by sizable procurement demands for equipment and materials if deemed necessary. Even under this possible pattern of gradual military expansion there should properly be some increase in taxes together with restrictions on various types of consumer and mortgage loan credits for the purpose of siphoning off spending power and restraining inflationary price trends. However as I see it there is no justification for going off the deep end on corporate taxes if there is any chance that the annual rate of military spending may not be increased by more than say, $5 billion in the months ahead. Such an amount happens to be only 2½% of our present disposable national income. Moderate commodity price increases from current levels and credit restrictions could displace enough civilian demand to make room for a gradual increase in the military budget. Moreover the business outlook, as discussed earlier, indicates that total personal income in the government's fiscal year ending June 1951 could be some $15 billion higher than in fiscal 1950. Corporate profits subject to tax will also be higher, possibly by as much as $4 billion. With the present structure of corporate and individual tax rates the increase in tax revenues to the government would be on the order of $4.5 billions from these combined sources.

I would like to stress this point since it suggests that an abrupt rise in the corporate tax rate to 50% or reimposition of excess profits taxes at wartime levels may not be immediately at hand. Congress will surely examine any Administration tax proposals with care and insist on knowing the degree to which prospective military requirements will necessitate more revenue (and controls). Admittedly the steady barrage of discouraging war news from the front is making this pattern of gradual military expansion less likely. However it is still a possibility that warrants caution in liquidating sound stocks in companies that normally do best under peacetime conditions. Most issues of that type have already sustained a substantial price adjustment in the market and in many cases dividend payments can probably be maintained even under higher tax rates. The Dow-Jones Industrial Stock Average now yields over 6½% based on present dividend rates. It is my opinion that the market may rest on rather firm ground at this juncture if all-out war can be avoided and if military expenditures are not accelerated sharply.

The other side of the picture is that if we fail in Korea there could be vast repercussions. Perhaps this is what Dr. Slichter and others have in mind when they predict that the U. S. may not have a real peacetime economy for many years. If the war intensifies or spreads to other areas we will have to rebuild invasion armadas, step up our atomic warfare program and go over to widespread re-equipment of our armed forces with particular emphasis on aircraft. There is no question in my mind that we will then have not only a wartime system of taxation that will reduce net corporate profits, but also priorities, material allocations, manpower controls and other restrictions on the civilian economy. We could not possibly add tens of billions to military spending without sacrifice from all sectors of the economy.

It is impossible to know if we are facing such an eventuality. For the moment I think that, barring another act of aggression elsewhere than Korea, we have a waiting period in which to make a more careful appraisal of the potential effect on corporate earnings.

In this connection we should not overlook the great productive ability of the nation. Electric power facilities, for example, have been increased some 50% since 1941. Manpower and available working population are higher. Oil resources in the American continent are enormous and food supplies are large and increasing. While some critical raw materials will no doubt be in short supply, others have been extensively stockpiled by the government. Our over-all military preparedness is far ahead of the conditions that prevailed before World War II.

We have a real element of strength in our national capacity to produce over 100 million tons of ingot steel per year. Including Western Europe the U. S. and its allies have available in excess of 150 million tons annually compared with under 50 million for Russia and its dominated states. If by good fortune war does not come to Western Europe for a few years, thus permitting those nations to prepare militarily under our aegis, I should think that the combination of population and resources facing the Soviet will give the dictators in the Kremlin considerable grounds on which to pause before taking the final step to World War III.

Sound Equities As Inflation Hedge

In the present confused situation I believe that cash or high-grade bond reserves in investment portfolios should largely remain intact if they are moderate in amount. On the other hand those investors who may have kept unduly large dollar reserves for one reason or the other should begin, I think, to give greater consideration to investing in sound equities as a measure of protection against the threat of possible further depreciation in the purchasing power of the dollar. Inflation of the money supply and the general price level has always been an eventual consequence of war. I see no reason to expect that another war will differ in this important respect, except perhaps in degree. A major war simply cannot be financed entirely out of taxes. While we should realize that no two war patterns are ever alike it seems inconceivable that further monetary inflation could be avoided in any event. Sooner or later price and other wartime controls have to be thrown off in order to permit normal economic forces to work. Unless our whole form of government is changed the inevitable consequence is a rise in prices and living costs.

Investors who are liquidating good stocks on balance today are in effect speculating on their ability to buy them back cheaper. There is little evidence to suggest that common stock liquidation in recent weeks has been necessary on any large scale for financial reasons. The motive is fear of a war situation that might lead to sharp reduction in corporate earnings after taxes for a period. This is legitimate enough up to a point. However, professional investors, as well as anyone engaged in heavy selling operations in the market, might stop to consider the longer term implications which may accrue out of the present situation. I have referred to further inflationary possibilities. It is perhaps of even greater import to note in particular the tremendous increase in the nation's money supply since the end of 1941. The net amount of demand deposits adjusted in all banks, after deducting all bank loans, had risen from around $12 billion to over $36 billion, an increase of 200%. Time deposits are up approximately $31 billion in the same period and currency outside of banks has increased almost $16 billion. These three items add up to a total expansion of the money supply of over $70 billion, but this is not all. Holdings of government bonds by individuals are also up by $68 billion and there has been a $20 billion increase in governments held by non-financial corporations.

It seems to me that the rise in the general price level during the past decade, while substantial, has not yet fully reflected the expansion in the supply of liquid assets. Over the longer run the price level should tend to advance. Involvement in another war contains the prospect of adding further latent fuel to the fire. Furthermore, we should not overlook the fact that in a modern dynamic economy unit labor costs typically contribute to a rising price level. Dr. Slichter has said that the gains of technological progress will in general go to labor in the form of higher wages, not to consumers in the form of lower prices. The recent General Motors labor contract underscores this view.

It is not my purpose here to debate whether common stocks are an adequate hedge against price inflation. Perhaps it is fair to say that nothing can be a 100% hedge considering the taxing power of the government. But let us put it this way. The investors who placed his funds in common stocks of good quality in 1940-41 has certainly fared much better than the investor in high-grade bonds. I am sure all of you realize that investment in prime bonds, including governments, has suffered two direct hits in the past decade or more. One was the decline in interest rates which reduced the dollar return of income, and the second was the loss of realpurchasing power as a result of the advance in the cost-of-living. Depending on which measurement of prices you take, the reduction in real income from prime bonds due to the price factor has been from 40% to 50%. We can compare this with an increase of over 100% in total corporate dividends since 1940 and a substantial advance in the quoted value of all listed common stocks. Argument by parallel is always dangerous but I have confidence that *over the longer run* we will find that investment income based on dividends will have greater value than income derived largely from dollar-type securities.

Proposed Shifts in Investment Portfolios

Regardless of which pattern of military expenditure develops out of Korea it is only prudent for the investor to make at least some shifts of portfolio emphasis in recognition of changed conditions. This is of course going on, as evidenced by the rise this week of the Dow-Jones Railroad Stock Average to a new 1950 high as against further weakness in many industrial and utility stocks. In the past several days the market has shown a great discrimination between the unpopular "peace" and popular "war" issues. Many of the latter are now higher than "Before Korea." However it is my opinion, which is fully shared by my associates, that the situation does not justify heavy investment in the so-called armament or war-baby stocks. Most of these are of marginal character under longer range conditions and would therefore be excluded from conservative investment accounts in normal times. I would question if the purchase of certain stocks in companies that happened to be benefited during World War II will turn out to be sound. Traders are showing a strong inclination to bid up issues that would normally be categoried as cats and dogs. I suppose that some stocks of this type may benefit enough to warrant holding. However, I feel that since conditions in another war cannot be precisely the same as in the last one, there is a risk of a substantial margin of error in purchasing any stock that does not have reasonably good prospects on a peacetime basis.

We should also remember that, in general, investors who pursued the "war" stocks in World War II did not achieve outstanding results in the long run. It is unlikely that a similar course now would be any more productive. Despite lower earnings and dividends it was the "peace" stock group that showed the greatest and steadiest market price advance after 1942. I do not want to infer that there cannot be a further market price decline now in issues that may suffer a marked shrinkage in earnings due to a heavier tax load or restrictions on civilian production. This could easily happen, but it is by no means a certainty when we consider the latent money supply and the influence it can have towards the stock market. Wars and foreign crises have a habit of ending eventually and many companies that may be hurt this time around are strong enough to survive and later continue to grow. The long-term investor should be in a position to hold a reasonable representation in such stocks at these levels with plans to carry them right on through and add to commitments if prices should be further reduced in the market.

Many of you are well aware of the extensive amount of learned analysis being applied to the problem of what form an excess profits might take in the event such legislation becomes necessary. Any calculation of earnings and tax protection under wartime conditions must still be highly tentative. Instead of E.P.T. we may end up with a stiff increase in the straight corporate tax. However I would venture a guess that Congress will not authorize a return to the same tax basis as used in World War II. It seems reasonable to believe that any new E.P.T. legislation will change the base from the prewar years of 1936-39 to some combination of earnings results in the postwar years after 1945, along with an invested capital option. It would be manifestly unfair to numerous corporations, especially those with strong growth characteristics, to do otherwise. It is unrealistic to figure that the government would allow the full average amount of 1946-49 earn-

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Investment Policy Under Current Conditions

ings as a tax credit base, since this would probably not raise enough revenues under conditions requiring an E. P. T. Perhaps an allowance of from two-thirds to three-quarters of the 1946-49 average would be a reasonable compromise, with the E. P. T. rate ranging from 50% to 75%. This appears to check with estimates that the E. P. T. rate need not be higher than 75% to raise an additional $10 billions of corporate taxes.

I may suggest here that for the time being any new purchases in common stocks should be considered against a background of heavier taxation and **possible** E. P. T. Based on preliminary analysis and keeping in mind the rather tenuous nature of such early calculations, it would seem that the following industries, among others, will have more than average difficulty in maintaining net profits: **telephone, electric and natural gas utilities, chemicals, ethical drugs** and **tobaccos.** However the effect will no doubt vary widely depending on the strategic position of individual companies and the margin of safety of earnings over dividends. Various growth companies that have increased earnings sharply within the last year or so would also appear to be vulnerable to E. P. T., a risk which is already reflected in recent market price action.

If we are looking for an industry that is likely to benefit earningswise from greater military activity we can single out the **railroads** for particular attention. Profits before taxes should increase, thus accentuating a trend that was in evidence earlier this year. Relative protection under E. P. T. seems good on various tests and even an increase in regular corporate taxes across the board should not impair the present favorable rate of dividends in many cases. I would not object to reasonable purchases of rail income bonds or other rail obligations selling at a discount, providing they measure up as reasonable values for longer term holding.

The stock market often goes to unwarranted extremes and this one may prove to be no exception in the persistent liquidation of **automobile** and **building material** shares. It implies that measures to meet the war situation may not be confined merely to higher taxes or credit controls but will have to include a sizable reduction in the allocation of steel for civilian purposes and other measures to reduce civilian activity in these two major industries. Under the circumstances we should recognize that earnings stand a good chance of being cut. The extent to which dividends may be impaired will of course depend on subsequent war developments. **Office equipment, flat glass, installment finance** and **tin containers** are in much the same position. It is doubtful that shifts to war production in these industries could become a sufficient offset to prevent a sizable earnings decline if the situation becomes more acute. However I would suggest again that the long-term investor should not attempt to dispose of all investment participation in this class of stocks in the hope of replacing his position at a later date.

Several industries appear to be rather well off in terms of potential tax protection and in addition their operations will tend to be maintained at very active rates if manpower conditions permit. These include **steel, metals, oil, paper, rubber, foods** and **rayon.** The impact of higher taxes or E. P. T. would of course vary as between companies. Under all-out war conditions we may expect that price controls could have an adverse influence on profits in some cases, and a shortage of raw materials could affect others. Nevertheless the ...ves or currently is entitled to give these industries some special preference since they also have a balance of favorable attributes in their peacetime outlook.

In a strict war economy I believe that just about all industries will have to stand a sacrifice of profits. However there are some others that appear to occupy a good "straddle" position for long-term investment whether we have a prolonged period of war conditions or not. Here I would place the **grocery chains,** various types of **retail trade** companies in a position to supply merchandise to the public, and the better **insurance** companies. Perhaps the **farm** and **electrical equipment** producers may turn out better than expected. Their profits from civilian goods would of course be reduced under war conditions but they are in a position to shift to to military production and dividend payments might be fairly well maintained.

I am going to pass over the prospects for **aircraft, airlines, shipbuilding, motion pictures, liquor, coal** and **railroad equipment.** Most of these could be war benefited in greater or less degree but all have important peacetime problems. I will concede that earnings after taxes could rise even sharply for certain companies. However I am reminded of the fact that wartime earnings the last time were given a very low appraisal in the market. I suggest that we leave these to the nimble trader. With but few exceptions they do not appear to have an established place in conservative investment portfolios.

Outlook for Interest Rates

What about the outlook for interest rates and prime bonds? It seems to me that investors, particularly those in charge of institutional and trust accounts, should be reconciled to the fact that the Treasury is compelled to hold the pattern of interest rates in a relatively inflexible straitjacket. Management of a huge national debt requires a system of government bond price supports on the downside. The existence of a tremendous money and savings supply necessitates Federal counter-measures in the direction of higher interest rates whenever bond prices rise too much.

I can see no real escape from this enigma. A return to a war or semi-war economy will intensify the need for interest rate controls. With the exception of a short period in 1948, when inflationary pressures were pronounced, our postwar capital requirements have been satisfied from current and past accumulated national savings without a major change in rates. Another period of enforced saving will add to the supply of liquid assets. Perhaps at some future date, in another dynamic phase of economic growth, the problem will be resolved by permitting government bonds to drop below par.

In the foreseeable period ahead I believe that private investors ought to accept the yield advantage offered in longer term issues as compared with short maturities. The institutional investor would do well to adhere to his traditional policy of spacing maturies to obtain an average rate of return.

War developments are not a threat to the quality of high-grade corporate obligations or preferred stocks and they have a real place in diversified investment accounts for fixed-income purposes. However I have felt for some time that marketable governments and savings bonds are more attractive, considering maturities and yields, than corporate issues. In the present instance a particularly strong case can be made for a position in **convertible** corporate bonds and preferreds of sound quality that are priced in the market reasonably close to their prevailing interest rate basis, but which provide a longer term call on the common. It is possible in a combination of these issues to obtain a "straddle" on the general trend of the stock market and also on diverse price movements between war and peace-type shares. Southern Pacific and American Telephone convertibles would be a logical pair.

Some comments on tax-exempt municipals are in order. Here is a good example of right-about-face almost overnight, due of course to the war situation and the higher tax outlook. "Before Korea" it could be held that long-term municipals were one of the least attractive segments of the bond market. The prospective supply of tax-free bonds in connection with state and municipal financing was huge, to say the least. In addition one could plan on a large-scale issuance of long-term, wholly tax-free U. S. Housing obligations. Now there is (a) the possibility that war exigencies may effect a sharp reduction in public works and new tax-free issues and (b) a probability that both corporate and individual tax rates will be raised. All of which suggests that a further rise in municipal bonds may be expected. Incidentally I believe that any government efforts to levy Federal taxes on the income from municipal bonds will continue to meet with failure.

It would be gratifying to close this review with a concise summary of an investment policy that would not only be nicely adapted to current conditions but also well-hedged against whatever developments may occur. However we can never achieve such perfection and it is even more difficult to approach it in a limited way now. The current investment situation is as fluid as the front in Korea. As an analyst friend of mine in New York said recently, "Things are getting a little confusing."

The Chairman of the National Security Resources Board reported the other day that America is facing the greatest danger in its history. This may be so. There may also be some truth in the contention that despite billions of arms expenditure in recent years, our military position is perilous and must be reinforced with utmost speed. If we go along with these views then of course we cannot disagree with Federal action to place drastic restrictions on civilian activity immediately.

Yet the evidence to date is far from complete that the crisis is as grave or impending as the above would indicate. I must reiterate that the analyst and the long-term investor are constrained to wait a bit before jumping to conclusions and making wholesale portfolio revisions.

However we can list the salient points of investment significance that come out of such appraisal as we are able to make at this time:

First, any program of military expansion is going to impinge on a civilian economy operating close to capacity. The timing and extent are still indefinite.

Second, the probabilities are that during this period the overall level of net corporate profits will decline because of restrictions on civilian production and higher taxes. Again we cannot make a precise calculation, and the impact on different industries and companies will have a wide variance.

Third, the supply of money and savings should operate as a strong supporting factor in the stock market. Without it the Dow-Jones Average might have dropped substantially more than it did in the Korean crisis.

Fourth, longer term inflationary implications, coupled with a dynamic modern economy, suggest that the market valuation of common stocks could eventually move to higher levels.

In any event the need for investment income will go on. Higher personal taxes will make it even more important. I am in agreement with the view that individuals dependent on investment income cannot satisfy living requirements with a return of 2.5% to 3.0% a year. This means that holding a reasonable percentage of common shares will continue to be a prerequisite for most in-long run it will prove wise to live off principal and forego the benefit of higher yields from common stocks.

The analyst will of course continue to search for good investment values. War developments make the job more difficult but not impossible. Finally I believe that continued advantages will accrue from a policy which gives particular emphasis to longer term factors, sound quality and adequate investment diversification.

Barclay Director

PHILADELPHIA, Pa.—William K. Barclay, Jr., resident partner of Stein Bros. & Boyce, 123 South Broad Street, has been elected a director of E. F. Houghton & Co.

To Be Limited Partner

On August 1, J. F. B. Mitchell, a general partner, became a limited partner in Wood, Walker & Co., 63 Wall Street, New York City, members of the New York Stock Exchange.

Jacob J. Heinrich

Jacob J. Heinrich, partner in W. R. K. Taylor & Company, prior to his retirement, died at Bennington, Vt., after a brief illness.

Edward P. Frost

Edward P. Frost, member of the New York Curb Exchange, died at the age of 61.

Securities Salesman's Corner

By JOHN DUTTON

Prospecting has always been more difficult for some people than for others. But this should not be so. Like every other phase of sales work there are certain fundamentals which must be mastered. When this is done you will find that the problem of "who to see" will never trouble you again. I will never forget the answer I once had given to me by a so-called high-powered sales manager when I was just starting out to sell securities. I was having trouble locating prospects that were qualified buyers; I was making too many unproductive calls, and I asked him, "where are the people I can call on and do some business?" Our office was on the 11th floor of a building that overlooked the whole town. He took me over to the window, pointed out, and said, "There!" It was not very helpful advice even though it was true enough.

First of all you have to be eye and ear conscious and look for prospects continuously. Your daily paper will give you a good start. Carry a blue pencil and circle every name that looks like a prospect. People that take trips to Europe, or long vacations, are good possibilities. Business items, such as recorded sales of properties, personalities in the local business news, club leaders, are another. Estates that are probated are of course, definite leads. Have your wife keep her eyes and ears open. She reads the society page more than you do. Build up a reserve prospect file from such leads.

Next source of leads are your own customers. Some securities men say that their clients are reluctant to give them the names of prospects, because of the possibilities of future embarrassment they may sustain if their friends have losses on their investments. In some cases this is true, but if you are developing a clinetele of investors, who are primarily interested in safety and income, you will be able to locate quite a few of them who will cooperate. The important thing to do is to **ask for leads.** If you don't ask you certainly won't get them. You will also find that you will find some people who will actually enjoy giving you leads. When you discover a few of these "lead sources" keep after them. Always tell them how you made out. Get **others to take an interest in you.** People like to help if they think they are really doing something worthwhile for others.

Here is a hint that can be helpful in obtaining leads from customers. Make up a list of about four or five type-written pages of prominent names in your community. Ask one of your friends who is well-connected if he would be good enough to go over it with you. Take it to him and let him read it over. Once he starts talking let him go. He will become interested in telling you what he knows about this one, and that one, and before you know it he will be on your team offering names and advice that you never expected to receive. If you have success with any of the people he has talked about be sure and let him know. He may start calling you when he hears of a good prospect. This has happened.

Then there is the "swap lead method." You can make an arrangement wtih a good insurance man, a lawyer, and an accountant. All of these people are selling "service" just as you do. They can use recommendations, too. You can help them to obtain more business and they can reciprocate. Work this intelligently and it can be very worthwhile.

There are clubs, friends and social organizations of all kinds that offer opportunities of finding people who have investments and investment problems. This takes tact. Organizations should never be used for business getting purposes. But you don't have to be a pusher in order to find out who is who—just keep your eyes and ears open.

The answer is: be **Prospect Conscious.** It is the first step in becoming a successful salesman in any field. This is even more so in the securities business.

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Intangible Factors in Public Utility Analysis

commissions which have authority over electric rates only if the company and the community are unable to agree.

The philosophy of regulation has a great deal to do in determining the prosperity of a utility. I might cite as one of the states with a very liberal law the State of Ohio where the statute requires, that the State Commission shall use reproduction cost less observed depreciation in determining the value of utility properties for the purpose of rate-making. New York uses original cost with straight-line depreciation back to the time when each particular unit of the property was first put to public use. This is a much more restrictive philosophy. That same philosophy is followed in several other states, including Wisconsin.

Another group of states are "fair-value" states, so-called because they do not restrict their valuation to original cost, but, on the other hand, are not as liberal as Ohio. I might cite in that group Michigan, Indiana, Pennsylvania, Oklahoma, Kansas and there are others. In the fair-value states consideration is given to original cost, but consideration is also given to other factors including reproduction cost.

The idea of using original cost is that you should establish the cost of each piece of property as it is put in service and straight-line depreciation is applied from the time that this property was first put to public use. That is then the value for rate-making purposes on which the commission determines a rate of return. The trouble with original cost valuation is that it does not reflect the going value or the replacement value of properties when costs are above original cost. Hence commissions using this method tend to permit too low a dollar return to their utilities.

Commissions in general are not required to determine any particular percentage rate of return. There is a general conception that utilities are always allowed to earn 6%. This is not correct, while frequently utilities are allowed to earn 6% there is no set rule and each company is given a rate which the Commission considers fair. Regulation does not guarantee earnings; it limits earnings. It is not a floor; it almost always is a ceiling. Therefore, an analyst should always keep in mind that, "it is not what a utility can earn; it is what it can keep," that counts.

In New York an electric utility would probably not be allowed to earn more than 6% on original cost, but cross over into Ohio, and one might earn 6½% on reproduction cost. The difference in allowable earnings could be enormous. There have not been many rate cases in Ohio, and they have had an excellent experience under that law.

In Ohio a utility arranges rates with the communities which it serves, and ordinances are generally set up for a period of two to ten years. Under that ordinance the town and the utility agree on what rates shall be charged during this period, and that rate remains in effect unless the company or the town disagree during the ordinance period or at the end of the ordinance period. If so, the matter must then be taken to the State Commission which will then apply the statute requirement of reproduction cost less observed depreciation. There is a wide difference between observed and straight-line depreciation.

Since the amount of depreciation set aside reduces the rate base, you can see where straight-line depreciation could result in a lower rate base than observed depreciation.

Last year I appeared before a committee of the Ohio Legislature as one of several who testified in behalf of retention of the present law. There was a movement to change the law to original cost with straight-line depreciation in place of the present law. I was glad that the proposal never got out of the committee as I can see little advantage in changing a favorable utility law that has worked as well as this one has in Ohio. The utilities in Ohio have not misused the protection this law gives them, but where they have been unable to get rates that they considered necessary in order for them to obtain new capital for construction, the law has worked in their favor, and rightly so.

Regulation should be such as to permit a utility to obtain the necessary new capital at favorable money rates, and if regulation does not do that, then it is not doing the job, because regulation works both ways—not only to prevent a company from earning too much, but also to permit it to earn enough to keep on expanding. It is that delicate balance that makes regulation the difficult problem that it is in some areas.

Some commissions seem to feel that their duty is to punish a utility more than to cooperate with it. There is no reason why a utility should be punished for being a utility, yet we have evidences of that philosophy in various directions, including actions of our own government. This is something that you should give considerable thought to because there is no reason why a utility should be punished for being a utility any more than you should be punished for being a student. The men in utilities are upright men, devoting their lives to a work which is a perfectly good work. They are not operating dishonestly or trying to cheat anybody.

There is no reason why their business isn't as up and above-board and honorable as any other business, yet we find a punitive attitude in some areas because they are a public utility and not a steel company or a chemical company.

Regulation differs, as I told you, in a great many states, and the climate of Regulation is extremely important to the man who is investing his money in a utility. I have advocated at numerous times, that investors should watch the trend of regulation and should place their money in utilities located where the Regulatory climate is favorable, and should withdraw their money from those states where the regulatory climate is punitive or not cooperative.

Capital is a very illusive thing. It gets the jitters at the slightest pretence. It will run with great rapidity from a place where there seems to be danger to another where it seems to be better for that capital. If the laws of one state are unfavorable, I can move my capital from that state merely by selling one utility stock and buying another, and I have taken my part of that capital right out of that state.

That is a theoretical assumption. Actually I haven't done that. I have sold a stock and some other fellow has bought it. But if enough people followed that course, the utility would be hamstrung in obtaining new equity capital, and that would be the responsibility of the commission because of its regulatory policies.

So I feel there is a direct relation between the regulatory climate and the value of a stock, and in my work there is a very clearcut differentiation. There are states I prefer to stay out of, because of unfavorable regulatory policies.

That brings me to the next item —Federal or Municipal competition. The rapid growth of local or Municipal or Federally financed electric utility organizations is a real threat to the continued growth of this industry. You as students should study this question on an impartial basis and decide for yourselves whether or not this expansion is justified because in the last analysis the taxpayer pays the bill, even though he may get relatively low electric rates under some of these tax free organizations and think he is coming out ahead of the game. You should study the history of this expansion, get some idea of the tremendous number of new projects under consideration particularly by tax free Federally financed agencies, and form an opinion not only as to the wisdom of this power expansion (much of which is competitive to some extent at least with a taxpaying utility) but also whether the great drain on the Federal Treasury for this purpose is justified.

You should also consider the effect of tax free utility expansion on the existing utilities because an analyst must keep this problem in mind in deciding the relative value of one utility stock compared with another. How fast is competition spreading in a given utility's area. How is one utility management handling the problem as compared with another? Will the utility lose some of its best territory to municipal ownership. Will local Rural Electric organizations financed with Federal funds and paying no Federal income taxes be allowed to invade the territory of a hard working, tax paying privately owned utility, run transmission lines across its territory, buy power from Federal or State agencies, band together the isolated rural electrification agencies with a few municipally owned electric facilities and set up a competing system? These are the things you must watch for because they are happening today.

Municipal Competition. Power production by the Federal Government was originally designed primarily for those large projects which lent themselves because of their size to Federal financing. Big dams like the Hoover Dam, TVA, and so forth were designed partly for flood control, water supply or irrigation, and partly for electric power, but with the Roosevelt administration came a movement toward greater expansion of Federal projects, not only for flood control or irrigation, but for the actual development of electric power.

In order to understand competition by municipalities, REA's and the Federal Government, you must have a good understanding, of the purpose of each individual project, and most people don't even know the names of them not to speak of the purpose or size or what it is going to do for or against an existing utility.

It stands to reason that if a dam is developed to hold back flood water, it must have an empty reservoir when the flood comes. If it doesn't have an empty reservoir, then it doesn't have flood control. If it does it can't produce power because there isn't water to turn the water wheel.

Those are the fundamental considerations in deciding whether or not a project is for flood control or for electric power. It seems to me, and I think you will agree, that is a sort of simple way to figure it out. If the reservoir is going to be empty in flood periods, it cannot supply power the year around.

There are numerous instances where projects have been built partly for flood control or irrigation and partly for purposes of producing power, but in many instances these do not have firm power to sell the year round. These projects should logically sell their surplus power to local utilities instead of trying to add other facilities so as to be able to sell power in competition with the local utility. For example, the Central Valley project in California has a tremendous investment in power producing facilities which are only operated a part of the year, and during the rest of the year do not have firm power.

Hence they either need steam generating facilities or interconnections with some other source that has power available in the dry season. We find now in various parts of the country that the government or the rural electric adminstrations or the municipalities or various combinations thereof are going more and more into the power business through the actual construction of competitive high-tension lines, over the territory of private utilities, or the construction of competitive steam plants to supply power in those periods when the hydro facilities cannot supply firm power.

That is direct competition no matter what term you wish to put on it, and it means that a privately owned untility in such a territory is more and more limited as to its expansion, not to speak of the problem of comparative rates which arises when a tax-free Federal or state agency supplies power alonside a tax-paying privately owned utility that has to obtain its money through common stock, preferred stock and bonds that are not tax free. Yet there are instances where the private utility is able to offer a rate almost as low or as low as the publicly-financed project in spite of all the advantages which might obtain in that situation.

I hope sometime you folks will have a chance to really give some thorough consideration to this question of expansion of public power because it is the only real threat there is today to the further growth of the electric light and power industry. The industry has ahead of it continued growth for many years to come. It is a dynamic industry. We haven't seen the beginning of the use of electricity.

It is rather useless to talk about the various uses to which power might be put, because there are so many. If you look back just ten or fifteen years, and see appliances today that weren't even on the drawing board then, you can get an idea why this industry is so dynamic, and why most companies today are expecting an expansion of 100% in 10 years as the probable minimum, barring a war.

My checks indicate that in spite of the tremendous construction program we have had over the last five years, an even larger program will be necessary over the next five. The companies I have visited for the most part have little excess capacity today. One large city company with over 900,000 kilowatts of capacity can not even shut down an 80,000 kilowatt generator for repairs because the power demand is so great.

I had hoped the industry would catch its breath, but it has just barely caught up to demand in the construction program. The money needs are going to be great, but if after the money is obtained, some Federally financed agency comes along and wants to run a line across your territory, and starts competing, it sort of takes the heart out of the investors.

Management will stand and fight off this unjustified invasion and I must say that the industry is doing a wonderful job in trying to educate the people as to what this encroachment of Federally-financed power really means. To me it means the loss of the greatest investment opportunities we have because I believe utility securities offer the best investment media available. Every time a company is taken over or reduced in size by some tax free agency, the opportunity for investment for many years to come is denied life insurance companies, trustees, widows and orphans, pension funds, savings banks and all through our whole economic system that very favorable investment medium is removed and replaced by what? A bureaucracy where the rates may be higher (not lower) in a number of cases, and where the efficiency is likely to be less. In the long run nothing will be gained except the loss of a very fine investment medium.

Nebraska used to have some fine utility investments. In Nebraska today, as I understand it, there is no privately-owned electric utility, Puget Sound Power and Light is fighting with its back to the wall. It has to figure on a sellout, and hopes to get enough to pay off its security holders. Why should that be? I am sure I don't know. It just doesn't make sense. I haven't been able to see that when it is all finished the customers will really be getting cheaper electric power, and unless they do, nobody has really gained except the people having jobs with the Federally-financed agency.

Here is something I should like to have you get for your library. Mr. J. W. Thomas, President of Texas Electric Service Co. gave this address before the American Petroleum Institute. It is called, "The Case History of Federal Encroachment on the Electrical Industry." I consider it something you should read.

I think the speech made by Mr. Thomas, with its accompanying charts should be read by everyone because it certainly gives proof of what has been going on, and I believe those who are interested in public utilities and those who are interested in taxes and the size of the Federal debt and so forth, whether they are interested in utilities or not, should read it. Government expansion is not coming out of the air; it is coming out of the United States Treasury.

Perhaps a utility has been bought out by some municipality or Federal organization, and perhaps it is paid for through 100% bond financing, tax-free, of course. The theory is that there is nothing wrong with any of these public power projects being financed with 100% bonds, tax free, because Uncle Sam or some revenue authority is behind them, and the Authority is generally empowered to set rates sufficient to take care of interest and sinking funds, so that is quite all right according to the current thought. Wouldn't it be nice if the utility companies could be financed with 100% bonds, tax-free, and pay no income taxes?

Generally speaking, the state commissions don't have any control over rates or financing of these Federal or state authorities. Perhaps it is going a little far to say that they are a law unto themselves, but I merely mention it in these words to prove a point, as I think it is worth thinking about.

There is no place in an economy like ours for competition and duplication of electric facilities because there isn't sufficient proof that it reduces rates enough or helps anybody enough to justify its cost. If you could prove that a large city could take over its local utility and operate it on substantially lower rates with equivalent taxes and if this city could get the money on a proper basis,

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Intangible Factors in Public Utility Analysis

and if a great many people would be aided, a person might argue in favor of it, but I don't know of any cases where this type of competition has resulted in lower rates on a strictly comparable tax basis or where the taking over by a municipality under exactly the same accounting conditions has benefited the rate payer.

In the first place, to make the situation comparable, they should pay taxes equal to the taxes paid by the utility. Otherwise, you never can compare the rates. How can you compare the rates charged by a tax-free organization with one that has to pay taxes, or the rate of an organization obtaining its money through tax-free bonds with one that must sell taxable bonds, preferred stock and common stock? Yet in many cases the privately owned utility operates under that burden and still charges low rates. I claim that a sound case has not been made for public power. When it is made, I will be glad to be shown.

Now, the next item in the intangible factors is that of the **Revenue Characteristics.** Where does the utility get its money? From customers. What kind of cutomers? Residential customers, factories, stores, garages, etc. But what kind of customers are best for a utility? Which revenue classification turns out to be the best? The place where the average utility derives a large part of its revenue is from residential, rural, and commercial customers. The best group of customers is the residential group. On the average they provide about 30% to 35% of revenues. Their revenues are the most stable and reflect the largest growth of any group.

There never has been a year in the last twenty-five or thirty when the average use of electricity by residential customers has not increased, even in the depression. The average rate per kwh. has declined so that even today, in spite of all the higher costs of construction, electric rates on the average are the lowest in the history of the industry —about 2¾ cents average, with an average use of around 1,700 kilowatt hours per residential customer.

Farm use is much greater than it was and is becoming just as stable or even more stable than the residential group because electricity is replacing the hired man. The annual cost of electricity for some farms is less than one month's pay to a hired man. The farms have really gone electric. They use it in many ways, for milk cooling, milking machines, and for all kinds of power around the farm. The fact that it pays off is proved by merely examining the percentage of farms in most states that are electrified. I think in Michigan and Wisconsin and that area about 97% of all the farms are electrified.

The commercial use is not quite as dependable—stores and offices and so forth. It tends to fluctuate according to business conditions. Revenue from commercial customers, may show a wider fluctuation but if a company has between 50% and 60% of total revenues in the residential, rural and commercial group, you are going to have a company that should show high recession resistance in its earnings.

In March, 1949, I made a comparison of the revenue trends of various customer groups over a 20-year period, and then a study of what happened to various groups of customers in the depression and which stood out well. I will quote from this study:

"There is an unusual feature of the electric power business which gives it strong recession-resistant characteristics. A study of revenue of three principal groups reveals important variations in rate of decline during a business recession.

"Revenues of industrial customers reached a peak in 1929 and declined for four years. Revenues of commercial customers reached a peak in 1930, a year later than the industrial group, and declined for three years. However, sales to residential users, the most profitable group of the three, trended upward for two years after the depression began and did not reach their peak until 1931. They declined for only two years and then only moderately. Thereafter, all three groups recovered together.

"As a result of this staggered decline, the effect on total earnings was much less severe than it might otherwise have been.

"In 1929 revenues of the industrial section accounted for 30.5% of total revenues; the commercial, 23.7; domestic customers 31.9."

In 1939 when there was a one-year sharp recession, we had the same pattern, and again in the Spring of 1949 when general business began to decline, industrial revenues began to fall off sharply, and we noted at the beginning of the recession just exactly the same pattern as we had before. Therefore, I feel an examination of revenue classifications of a company is very important in trying to determine how recession-resistant one might be compared to another.

If a company obtains 50% of revenues from industrial customers, it probably will not have as strong a recession-resistant position as one that only gets 30% from industrial customers and the rest from residential, rural, and commercial users, and perhaps a small amount of power sales to municipalities for street lighting or to other companies and so forth. That feature must be taken into account.

The next factor, and the last of the so-called intangible factors, is Management. You may ask why I put management last when perhaps it should be the most important, but, as I told you before, management has to deal with the conditions occasioned by the territory, regulation, Federal or local competition, and the revenue diversification. These may be perhaps in a sense more important, but I don't mean to detract for a minute from the importance of management.

Management is still an extremely important thing. Just because a utility is regulated, because it has fixed rates, and because it may seem that the money just rolls in, and the company runs itself, don't ever discount the necessity of management.

Management represents decisions on a great many things, every day and if you want a definition of management, that is the only one I know. Every day management decides a number of things, and in so deciding determines the policy. Those decisions make the policy this way or that way, not by some sudden decision made to apply in the next few months, but a lot of decisions made in many directions every day.

I don't know whether you ever thought of it in that light, but that is what it is. Management isn't one man. Management is a team; it is a team of men working together for a purpose, for a goal, to better a company in every way.

Management has several groups to satisfy at all times. The customer is first. He is the person who is being served; he is the reason for the company being in existence. The company isn't in existence because of a stockholder or the employees. The company is in existence because of the customer, and that is the reason for the utility being formed. The utility is created to supply him.

Some managements in the past have failed to see this too clearly, and perhaps some of our difficulties due to Federal power and local REA's may stem from the fact that the customer wasn't given just consideration in some cases, and it was a wonderful chance for someone else to try to do it. That isn't true today. I don't think you can go into very many areas and prove that someone else can do the job better. I just don't think so. Not on a strictly comparable accounting basis.

Management has to satisfy the customer, the employee, the stockholders, the regulatory authorities, and the financial people. If a company has poor employee relations, it generally will be a company that is having trouble from other directions. Not always, but quite often. I don't mean strikes, but if there is evidence of difficulties over a period of time with employees, you will generally find trouble in other directions.

The management's responsibility to stockholders is always important in the utility field. Many companies have been owned in the past by holding companies. Due to the many holding company divestments which have occurred in recent years the number of individual stockholders has increased tremendously and a great many stockholders don't know much about their company or the management. Numerous managements are doing a good job in getting acquainted with their stockholders and working with them. There is a wide field for further work. I have been extremely impressed with the way utility management is working with new stockholders. I think the cooperative attitude of these managements is really something to be commended.

A utility president is a many-sided man because he may in the same week have to deal with customers, employees, and regulatory authorities, financial men and stockholders and keep them all happy. The work in most companies is generally divided, among a staff of men with duties delegated to handle these different problems.

I think the utilities have done an excellent job. As a matter of fact, I believe, the pension funds provided for employees of utilities today are far ahead of any other industry. I think utility employees in general are very well paid and well taken care of, and most of them have lifetime positions, (which isn't true of most industries), because the industry's earnings stability tends to provide steady jobs. Utility employees are a preferred group of workers. That certainly becomes important in a depression. You find the same group working year after year, and they probably have had only a small wage cut, if they had any, even in a depression. That makes a big difference.

Management in its policies can either make a utility a wonderful company or it can retard it. In general the managements of the various operating companies in the industry today are exceptionally good. I am not competent to speak of any other industry, so I don't think I should compare managements, but I must say that I feel that these utility officers are really doing a wonderful job, and there is little room for criticism.

Now, as to Item No. 6—Financial Ratios. There are some that you know, but I just want to call attention to a few that I use. Perhaps you already use them, and perhaps I am just overlapping on what you have done. I hope you don't mind, Professor Ricciardi, if I make a few suggestions.

I keep track of the payroll as a percentage of the operating revenues, and the fuel expenses as a percent of operating revenues because I like to find what is happening to fuel and labor costs. Labor costs are not controllable, but fuel costs offer various possibilities for control.

Some areas have been able to turn from coal to natural gas, also, the low cost of hydro power in times of good water is very helpful in reducing fuel costs. Most companies have adopted fuel clauses, particularly for the large users, where if coal rises above a certain level, an additional charge for fuel is assessed against the user.

Today I believe the percentage of gross carried to common is about 12% to 15% with taxes where they are now. Of course, where taxes rise, you will either have to have an offsetting percentage of higher rates or you will have a lower percentage of gross carried to common. It is not expected that many utilities will be permitted to increase rates commensurate with the increase in taxes that could occur over the next year.

During the war we had some pretty low percentages of gross carried to the net, due to excess profits taxes. Since this ratio is the margin of protection for common dividends, it is a factor that needs to be watched because something might come along that will affect the gross revenues adversely and a company might not be able to control costs. Hence some pretty low common earnings might result.

Other ratios which are important are the depreciation deducted for tax purposes compared with that in the annual report. Also in the balance sheet debt and common stock ratios are very important.

I have one other comment to make before I stop. I have talked about the electric industry because it is the one I know the most about, but there are other phases of the public utility industry which are large and have different characteristics.

In the manufactured gas field, for example, many companies had an experience much worse than most electric companies. While labor and fuel costs of electric companies also showed a considerable increase, the cost of manufactured gas rose so sharply in the years 1947 and 1948 that many gas companies were in the red. Brooklyn Union alone had four rate increases in two years. Not only did fuel costs rise sharply but wage costs also skyrocketed.

I think they had three wage increases over there in about four years. Although the cost of gas went up and rates were increased sharply, there is a limit to the amount a company can charge for utility service. Regulation does not guarantee earnings. A great many companies were approaching the point of diminishing returns, where a higher rate did not produce higher earnings.

Just because we have a favorable trend for a period doesn't mean that utilities are always going to be profitable. You have these conditions develop where an industry that was profitable can be very badly hurt, even though temporarily, and the stocks go down just as badly as if they were going to stay down.

Why is natural gas booming so? Because through the use of natural gas you have a fuel that is available at a price much lower than other fuels for heating purposes, and suddenly all these utilities, once they get natural gas, are able to earn a full return on their investment.

One large Eastern utility didn't make over 3% or 4% on its investment in the forties, but next year it will make a full return on natural gas. Why? Because Columbia Gas is supplying it with natural gas and the large Eastern utility has gone on straight natural gas. As the change from manufactured to natural gas is accomplished, every customer will get a 25% rate reduction.

Regulation doesn't guarantee earnings; it is a ceiling on earnings, and economic conditions can change the earnings of a public utility to a point where regulation can help very little. Just look at street-car companies and what happened to them, or look at bus lines and the hard time they have had making a go of it.

That is about all, gentlemen. I will be glad to try to answer any questions you may care to ask. I really believe in the utility industry. It is a wonderful industry. It has a great future if it is given an even chance to show what it can do. Its opportunities for expansion seem almost limitless. The country is more dependent on electric power today than any other item except, perhaps, water. But it has to have the power even to pump the water.

I hope you will decide to study the utility industry more. I am sure if you do you will find it fascinating, and gradually you will become enthusiastic over its prospects just as I am. As you meet the managements and visit the companies in their territories you will be impressed by the fact that this is a down to earth everyday business run by men who are sincere, able and energetic. They are devoting their life to the work of supplying the people with an essential service at the lowest possible cost. Their companies pay their full share of taxes — they have no benefits of tax exemption or tax free bonds to enable them to charge lower rates, yet the rates they charge are the lowest in their history in spite of all the cost increases that have taken place. Compare the labor needed per kwh. produced in privately owned utilities vs. municipally owned or Federally financed agencies. Compare their rates after allowing for no tax exemption and no tax free bonds. I think you will find that these agencies are not doing a better job. Instead they probably are doing a worse job. Compare and then decide. I think you will decide in favor of the privately owned business managed tax paying utilities.

I hope I have been able to prove to you that the so-called intangible factors of territory, regulatory climate, revenue diverisification, Federal or municipal competion, management and certain other considerations are more important in the analysis of a utility security than the published income statement and balance sheets. If not, start asking questions now, and let's see if I can't clear up any uncertainties.

Philip B. Flaherty With Kerr & Bell

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—Philip B. Flaherty has become associated with Kerr & Bell, 210 West 7th Street, members of the Los Angeles Stock Exchange. In the past he was an officer of Fairman & Co.

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Economics of "Little Pearl Harbor"—Short-Term Outlook

with which the latter is threatening—should create a sense of national emergency). In a high tax situation fresh burdens are prime political issues, subject to keenest pressure-group bickering. During this election year, at any rate, new taxes are virtually certain to lag behind the rapidly mounting expenditures. The safest bet is the reimposition of a stiff excess profits tax, if only after elections.

A reinvigorated Savings Bond drive is the next best device (given the fact that Mr. Morgenthau's chickens are coming home for redemption, precluding the possibility of truly long-term issues at higher interest rates for the investor's portfolio). It may be turned into virtual forced savings, as the President suggests. Otherwise, its success can be a limited one only, given the public's experience with halved purchasing power after the last war.

Which leaves a substantial margin for deficit financing through bank credit. As a conservative and optimistic assumption, it may be set at a tentative $5 billion for the first year of the Korean Era. But that budgetary "gap" does not measure the actual intensity of the inflationary threat. The behavior of prices will depend on more factors than the government's deficit financing alone.

The Welfare State in Moth Balls

For one thing, the stimulus hinges on the faster or slower decline of civilian construction activities and of the capital goods output for civilian consumption. The amount of federal expenditures on housing, etc., is a minor element in that picture. Far more important is the combined volume of lavish mortgage guarantees, which do not appear in the national budget, of consumer loans and of municipal projects. All three face the certainty of being deflated, but in no hurry: credits already granted and ventures under way are permitted to take their course and new ones to be stopped gradually only. As a matter of fact, we are moving leisurely; thus far, the "deflation" of credit subsidies, e.g., consists in orders to the Housing Administration to raise its down-payment requirements on guaranteed mortgages slightly above the present average of 15.9%; and to the Veterans' Administration to demand 5% cash on each mortgage. But residential building permits of the speculative type are falling off sharply.

For several months, civilian and military constructions will run concurrently, causing shortages in steel, metals, lumber, wool, rubber, etc. However, pretty soon, the Welfare State will have to give way, more or less, to the Garrison State. That, *per se*, should relieve a great deal of inflationary heat. Allocating materials by priorities and rationing, seizing of inventories, closing down "unessential" plants (from gold mines to video factories), converting automobile plants to tank production, etc., may complete the job—later on. Full powers to do just that, also to clamp down price ceilings, are what the President is asking from Congress (instead of starting seriously with reducing Welfare expenditures); he is not likely to get them all unless with important limitations.

The Inflationary Momentum

But controls — automatic and artificial, monetary, fiscal and "physical"—may not accomplish more than to slow down the inflationary momentum. In the first place, the conversion of industry to war-time production and its expansion necessitate an appreciable increase in fresh investments. For a year or so, this sort of unavoidable extension of facilities—at home and abroad—will have a three-fold effect: it calls for more bank credit and enhances the money supply; it absorbs raw materials, especially of the "scarce" type; and it diverts labor. Steel output, as an example, has to be stepped up, with a 6 million ton capacity boost under way, and steel mills to be shipped to Brazil. Oil consumption is likely to skyrocket; special housing demands of a temporary kind arise, etc., etc.

All these considerations refer to the next twelve months or so. For such a "short run," military picture is not likely to deteriorate to the point of total mobilization. Therefore, not more than, say, 20% of the total national output must be diverted into military and related channels. Moreover, even a moderate lengthening of working hours and efforts, and an increase of imports (bolstered by tariff reductions) combined with a tightening of export curbs, should suffice to keep the civilian demand for perishables and semi-durables, at least fairly satisfied. In other words, inflationary prospects may appear reasonably well balanced by circumstances which reduce their efficacy in raising commodity prices.

Psychology vs. Arithmetics

The upshot of the pros and cons is that in the short run, the aggregate demand **need not** exceed the supply of goods to such an extent as to cause more than a minor surge of domestic prices in the U. S. (Especially so, if Congress enacts at once the additional income and corporate taxes requested by the Administration.) The trouble is that this is not a matter of supply-demand arithmetics of a static type. At least two dynamic factors complicate the general price outlook, which do not fit into the simple equation of the traditional "quantity theory" of money.

To begin with, what about **labor?** Will it take lying down the rising cost of living, its index nearing the record high of early 1948 (174.5% of the 1936-1939 average)? Wage rates are rising almost incessantly, in one industry after another; by November, the labor contract of Big Steel and others will mature. Manpower shortages are bound to develop. And, last spring General Motors set the pattern for automatic pay boosts: by "productivity" measures on top of cost of living standards. Feted at the time as a masterpiece of industrial statesmanship, it will turn out to be a mechanism to set the vicious cost-price circle into motion. To control it will be a most difficult task.

The biggest unknown is **consumer behavior.** The current trend of commodity hoarding could be a passing phenomenon, as it has been before, unless over-zealous bureaucrats bolster it by their favorite "controls." Comparisons with the past are misleading: the problem the people of the U. S. face now is very different from World War II experiences. We entered the last conflict with 10 million unemployed, large excess capacities, and a decade of depression "in our bones." We enter the new era of mobilization in the midst of the greatest peace-time boom, one that has lasted a decade, with business and the public "swimming in a sea of liquidity" (some $250 billion in cash-like assets, not counting the surrender value of life policies, about four times larger than the corresponding amount was in 1939), with prices rising, and with productive facilities strained by full employment. The worst of it is the outlook that consumers, investors, and every one else has acquired: the knowledge, non-existent a decade ago beyond an esoteric circle of sophisticated economists, that come what may, prices double after the war. If an ounce of experience has the proverbial weight, a ton of it might outweigh all presidential sermons and price stabilization attempts.

World Market Boom

Wholesale prices having risen for several months "before Korea," the trend has accelerated since the incident began. The weekly wholesale index is approaching the all-time high of 168.9 in July, 1948 (1926=100), with no prospect of an immediate stabilization, and still less of being reversed to the July 1st level as Mr. Truman would like it. The rise is due in part to panicky hoarding and inventory replenishment; at any rate, it discounts the disproportion between demand and supply which it to prevail under the circumstances.

An obvious consequence of this situation will be a substantial increase in U. S. imports and a decrease in exports payable in dollars. Evidently, the countries short of dollars will profit greatly, Canada above all, because of her strength in strategic raw materials as well as in industrial capacity.

The point is that for some time the Western World will be lagging behind the U. S. in war preparations. In the meantime, world market prices are upward bound, if only because of the demand from this side, plus stockpiling, inventory replenishment and increased raw material consumption abroad. Global inflation—in dollar terms, not just in local currencies—while strengthening the gold and dollar reserves of the soft-currency countries, will fan the fire of our domestic inflation. Also, we are bound to lose gold (or not gain what we would have gained otherwise), and the open market price of gold is likely to go up. The pattern of international trade will be thoroughly distorted for the "duration," presumably for years to come.

Germany and Japan may be the greatest "profiteers," other than Canada. They have most to gain, of course, from their present comparatively low levels of production and exports. They will gain politically and militarily (rearmament!), too, as it becomes increasingly evident that the Roosevelt policy of blotting two great nations from the map, relying on eternal peace based on Russia's friendship, was the greatest blunder any responsible statesman has ever committed.

Arthur Newfield Is With Shields & Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—Arthur A. Newfield has become associated with Shields & Co., 510 West Sixth Street. Mr. Newfield was formerly manager of the investment department of A. W. Morris & Co. and prior thereto was a partner in Newfield & Co.

Thomas R. Peirsol, Jr., formerly with Fabian & Co., is also now affilated with Shields & Co.

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The State of Trade and Industry

ber of stock company formations in June this year than a year ago, as against only four that showed year-to-year losses during May.

The number of stock corporations organized during the first half of 1950 reached an aggregate of 52,438, which exceeded the 43,883 for the first six months of 1949 by 19.5%.

Steel Operations Scheduled to Rise to 100.7% of Capacity

Military steel requirements will not be as large as some people had expected according to "The Iron Age," national metalworking weekly, in its current survey of the steel trade. Under the regular budget for this year they will take only 1.6% of total steel production. The extra $10.5 billion voted for military purposes will add about 3 to 5%, making a total of 4.6 to 6.6% of total steel output needed for defense.

Foreign aid programs, including the Marshall Plan and Military Aid Program, will require not more than 4%. This means that total steel needs for security at home and aid abroad will not exceed 10% of total steel production, this trade authority notes.

Moreover, the huge battle and merchant fleets, which took large tonnages of steel during World War II, will be brought out of moth balls as needed. So will the defense plants thus eliminating the necessity for large tonnages of steel for these purposes unless we face total war and mobilization far beyond that which is now planned.

Voluntary allocation of steel will assure quick shipment of all military needs and still leave enough steel to operate the civilian economy on a high level. They can also be placed in operation quickly, with a minimum of red tape, "The Iron Age" declares.

Mandatory steel controls not only aren't needed at this time, but would cause a deal of unnecessary confusion. They would delay the immediate war effort by a month or more. A priority doesn't get steel; it is only a "hunting license." We learned that the hard way during the last war, when valuable time was lost cutting through the duplication and red tape, this trade paper adds.

Freight cars could become a bottleneck. A serious car shortage, potentially the worst in history, is developing. The situation is likely to become worse before it gets better, and mandatory loading and shipping rules are a possibility if the picture doesn't improve. The Interstate Commerce Commission has ordered, effective Aug. 1, a demurrage penalty for cars held over Saturday and Sunday.

In addition to heavy shipments of iron and steel products by rail, the car shortage has been aggravated by heavy grain movements and large shipments of coal, sand, gravel, construction materials, steel scrap and other products, "The Iron Age" concludes.

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 100.7% of capacity for the week beginning July 31, 1950, compared to 99.3% a week ago, or a rise of 1.4 points.

This week's operating rate is equivalent to 1,919,600 tons of steel ingots and castings for the entire industry, compared to 1,892,900 tons a week ago. A month ago the rate was 92.6% and production amounted to 1,765,200 tons; a year ago it stood at 81.3%, and 1,498,800 tons.

Electric Output Attains a Fresh New Historical High Record

The amount of electrical energy distributed by the electric light and power industry for the week ended July 29, was estimated at 6,190,098,000 kwh., according to the Edison Electric Institute.

It was 4,396,000 kwh. higher than the figure reported for the previous week, 671,613,000 kwh., or 12.2% above the total output for the week ended July 30, 1949, and 837,659,000 kwh. in excess of the output reported for the corresponding period two years ago.

Carloadings Higher in Latest Week

Loadings of revenue freight for the week ended July 22, 1950, totaled 829,884 cars, according to the Association of American Railroads. This was an increase of 40,616 cars or 5.1% above the preceding week.

The week's total represented an increase of 111,368 cars, or 15.5% above the corresponding week in 1949, but a decrease of 52,245 cars, or 5.9% below the comparable period in 1948.

Auto Output Rises Due to Higher Scheduling

According to "Ward's Automotive Reports" the past week, motor vehicle production in the United States and Canada rose to an estimated total of 194,828 units, compared with the previous week's total of 187,339 (revised) units.

The increase was attributed to higher scheduling by Kaiser-Frazer, Nash, Chevrolet, Buick and Ford trucks. Studebaker and Plymouth operations were hindered by wildcat strikes.

Total output for the current week was made up of 157,064 cars and 28,299 trucks built in the United States and a total of 6,904 cars and 2,561 trucks built in Canada.

Business Failures Continue Downward Trend

Commercial and industrial failures declined to 160 in the week ended July 27 from 170 in the preceding week, Dun & Bradstreet, Inc., reports. Casualties fell slightly below the comparable 1949 total of 168 but remained above the 98 which occurred in the similar week of 1948. Continuing considerably below the prewar level, failures were down 45% from the 291 recorded in the corresponding week of 1939.

Manufacturing and retailing accounted for the week's drop in mortality. Both wholesaling and commercial service casualties increased slightly, while a more marked rise occurred in con-

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The State of Trade and Industry

struction. In all industry and trade groups except construction and service, failures were less numerous than last year.

The only major rise in business casualties appeared in the Pacific States where 45 concerns succumbed as against 29 last week. Failures in that area and in the Middle Atlantic States showed a noticeable rise from their respective 1949 levels, but in other regions a decrease prevailed from last year.

Food Price Index Rises to New 22-Month Peak

Further moderate advances covering a wider number of commodities lifted the Dun & Bradsteet wholesale food price index last week to a new high since Oct. 5, 1948, when it stood at $6.51. The July 25 figure at $6.49 was up 1.2% over last week's $6.41, and compared with $5.73 a year ago for a rise of 13.3%.

Twenty-one of the 31 items included in the index moved higher during the week; only five declined. Lower in price were beef, hams, bellies, coffee and potatoes.

The index represents the sum total of the price per pound of 31 foods in general use. It is not a cost-of-living index.

Commodity Price Index Shows Moderate Improvement

The general price level rose moderately the past week although movements in individual commodities were somewhat irregular. The daily wholesale commodity price index, compiled by Dun & Bradstreet, Inc., closed at 280.22 on July 25, comparing with 276.48 a week earlier, and with 238.16 on the corresponding date a year ago.

Leading grain markets were unsettled with prices irregular and trading volume about equal to that of a week previous. Wheat futures sold at new seasonal peaks and the cash market was strong, aided by good elevator interest. There was active buying by mills influenced by recent heavy sales of flour. Export demand for wheat continued rather slow. Primary market receipts of wheat continued to increase seasonally. The outlook for the Spring wheat crop improved both in the United States and Canada as the result of good moisture conditions. All future deliveries of corn reached new high ground for the season during the week. Cash corn was quite steady with a fairly active demand noted from processors and elevator interests. Prospects for the new corn crop were improved somewhat by recent rains over some dry areas. The cash oats market declined rather sharply under pressure of increasing new crop supplies.

Cocoa values rose to new highs for the season under good dealer and manufacturer support combined with short covering and commission house buying. Offerings from primary markets continued on a limited basis. Demand for coffee was somewhat slower. Spot prices were quite firm while the futures market was unsettled by fears of price controls.

Strength in both the raw and refined sugar markets was maintained under exceptionally heavy world-wide demands.

Lard prices advanced steadily to reach new high ground for the season. However, the market for fresh pork developed a weaker undertone due to consumer resistance against recent high asking prices. This was reflected in slower demand for live hogs which dropped around $1.25 per hundred pounds from recent top levels.

Spot cotton prices declined moderately after soaring to the highest level in three years on Monday of last week.

Early strength in the market was attributed to prospects of a comparatively small crop, persistent demand for cotton goods and the inflationary aspects surrounding the country's economic situation. Sales of cotton in the 10 spot markets expanded to a total of 122,300 bales last week, as compared with 106,300 the previous week, and 56,900 in the same week a year ago. Mill buying was better and export demand showed improvement in the Southwest.

Withdrawals from 1949 loan stocks continued heavy, totaling 215,700 bales in the week ended July 13, compared with 172,000 in the preceding week. Withdrawals for the season through mid-July totalled 2,385,600 bales. Cotton textile markets remained active and strong with many constructions offered at levels considerably above a week ago.

Trade Volume Soars on Strength of Anticipated Shortages

Despite assurances of surpluses in many consumers' items, anticipatory buying continued unabated in scattered communities. Nation-wide retail dollar volume rose appreciably in the period ended on Wednesday of last week and was moderately above the level for the corresponding week a year ago, Dun & Bradstreet, Inc., reports in its current summary of trade.

Accessories and small furnishings were eagerly sought by shoppers as the volume of apparel increased noticeably last week.

Among women's items, hosiery and undergarments were in considerable demand; ready-to-wear suits and dresses were bought in less sizable volume. The interest in men's wear was about on a seasonal level except for such lines as sport shirts, footwear and haberdashery.

The retail dollar sales of food rose noticeably in the week; increasing prices for some products were partly responsible for the rise.

The buying of meat was practically unchanged, while dairy products and eggs were sought in growing quantities. There was an increased demand for many kinds of fresh, as well as canned, produce; the volume of frozen foods continued to rise. The retail purchasing of soft drinks and ice cream increased seasonally.

There was a marked rise in the volume of housefurnishings sold last week; much of the increase was in large appliances. Other items bought in fairly increased amounts were floor-coverings, furniture, draperies and television sets. The demand for lamps housewares and small electrical appliances rose substantially in some districts.

Total retail dollar volume in the period ended on Wednesday of last week was estimated to be from 5 to 9% above a year ago. Regional estimates varied from last year's level by the following percentages:

New England and Midwest +4 to +8; East +3 to +5; South and Northwest +5 to +9; and Southwest and Pacific Coast +6 to +10.

There was a noticeable rise in wholesale buying during the week as an unseasonal amount of advance orders was placed by many retailers; the aggregate dollar volume of ordering was appreciably above the level for the similar week in 1949. While the number of buyers present at various wholesale centers dipped slightly from last week's level, it was somewhat above the level of a year ago.

Department store sales on a country-wide basis, as taken from the Federal Reserve Board's index for the week ended July 22, 1950, rose 46% from the like period of last year. An increase of 25% (revised) was recorded in the previous week from that of a year ago. For the four weeks ended July 22, 1950, sales showed a rise of 22% from the corresponding period a year ago, but for the year to date register an advance of 1%.

Retail trade manifested strength here in New York last week with the purchase of items that were in short supply in the past war quite pronounced.

According to the Federal Reserve Board's index, department store sales in New York City for the weekly period to July 22, 1950, advanced 33% from the like period of last year. In the preceding week a decline of 15% (revised) was registered from the similar week of 1949. For the four weeks ended July 22, 1950, an increase of 12% took place. For the year to date volume decreased by 3%.

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Strength With Flexibility First Need of Economy, Council Says

defense expenditures, which we are now undertaking, will not end when the mandate of the United Nations has been enforced in Korea. We are striving to avoid a major war, but there may be other alarms and possibly other attacks, and we must be prepared to meet them no matter how long may be the period before full peace is established.

"Economic policy must now be adjusted to the prospect of this long pull. If the pull proves to be short, we shall lose little by being prepared; if it proves to be long, we shall gain much. Our efforts now should be directed toward developing and maintaining maximum national economic power indefinitely."

Conclusions

The Council then states these conclusions regarding public policy:

"This statement of basic principles prompts three broad conclusions regarding public policy in the light of the current situation:

"First, these policies should be designed to bring about a quick increase in production. Such an increase is essential not only to supply our military requirements, but also to meet the essential needs of our growing population.

"Second, public policies should ensure that defense requirements and essential civilian needs have priority over other uses. Hoarding must not be tolerated, nor can we allow needed scarce materials to be used for nonessential purposes.

"Third, public policies should provide protection against the threat of a new inflation. An increase of $10 billion in military appropriations, coming at a time when our economy is already operating at near-maximum levels, will greatly increase demand for goods and for labor, thus putting pressure on our price and wage structure. A sharp and continued rise in prices and wages at this time would not only impose hardships on domestic consumers; it would weaken our whole economy and would impede our military effort."

Defense Costs and Controls

Discussing the economic effects of the proposed increases in defense expenditures, the report declares:

"We find firm ground for believing that it will be possible to make and maintain substantial enlargements in these expenditures without resorting to all of the controls of a war economy. But we must take some important steps now.

"The first and most important of these is to use fiscal and credit policies to the fullest extent feasible for the restraint of inflationary pressures. On the fiscal side, this means that we should seek to reduce the size of the cash deficit substantially or, better still, to remove it entirely. For the maintenance of a large deficit creates and aggravates inflationary pressures in a time like this. The economy is strong enough to bear the burden of financing the needs which have now been outlined, without deficit financing and extensive increases in the money supply.

"Before the north Korean attack, the domestic economy was moving into a range of national income which would have substantially enlarged budget receipts. The acceleration of economic activity, resulting from the expansion of defense preparation, is hurrying the enlargement of production and employment and accordingly the growth of tax revenues. The imperative need now is to provide additional sources of revenue, to cover the new defense and related expenditures as rapidly as possible. Such a program will help to curb inflationary forces (a) by restricting the enlargement of the money supply, and (b) by reducing the buying power of consumers and business.

"In our judgment, the economy is now strong enough to bear the burden of substantial increases in tax rates in accord with this principle and to do this without endangering the maintenance of maximum production," the report continues. "There are, of course, alternative sources from which this amount of revenue could be obtained, but we cannot urge too strongly that some combination of methods should be applied immediately toward this end. The program of other restraints, now being recommended, will prove woefully inadequate without a prompt and drastic increase in taxes.

"The fiscal policies we have recommended would not sufficiently eliminate the inflationary threat. There would be delay in the increase of Federal tax collections, and in the meantime government spending would considerably exceed Treasury receipts. There is also the danger that consumers and businessmen may engage in panicky buying.

"Further restraint upon civilian demand for goods should now be imposed through the control of consumer credit, and through the tightening of credit for building construction. Administrative measures have been taken to tighten terms on residential loans insured, guaranteed, or made by the government. Further legislation is needed to tighten both private and governmental lending policies. In addition, further controls should be established over commodity speculation.

"In addition to fiscal and credit policy, it is important to recognize that pressures in specific areas will far exceed the pressures upon the economy generally. Shortages already exist with respect to some of the essential elements of a military program. The prices of some of these commodities have risen much more rapidly than average prices during the first half of this year, and some price increases have been accelerated in recent weeks. This requires a compulsory allocation program, not only to assure adequate military supply, but also to prevent price and cost increases in these limited areas from spreading outward through the whole economy. It will not be enough, in this connection, to establish a program which enables the military to procure promptly the materials which it needs. This alone would only aggravate competitive bidding by other users. The inevitable rise in prices would move into the costs of production of most producers of goods and services. The program should therefore provide for limitation of nonessential use. This would reduce the total demand to match the supply. There should also be the power to requisition hoarded or unnecessary supplies of these essential commodities, and to prevent excessive inventory accumulation."

The Nation's Economic Budget

As the climax of its Report, the Council of Economic Advisers presented a summary of its so-called Nation's Economic Budget, as follows:

"The economy in the second quarter of 1950 was producing goods and services at a rate of $268 billion per year. This is in the neighborhood of 5% above the rate at midyear 1949. Since prices had not changed significantly over-all, the dollar increase approximately reflects the real increase in economic activity by the second quarter. This carries us to a level of activity surpassing that of the second half of 1948. (See table 16.)

"The rate of increase in production of goods and services from the fourth quarter of 1949 to the second quarter of this year, if continued, would be sufficient to

TABLE 16

Indexes of Gross National Product, Current and Constant Prices

[First half of 1948 = 100, seasonally adjusted]

Period—	Current prices	Constant prices
1948—First half	100.0	100.0
Second half	105.1	101.6
1949—First half	101.7	100.5
Second half	100.6	100.6
1950—First half*	104.9	104.1
First quarter	103.9	103.5
Second quarter*	106.1	104.9

*Estimates based on incomplete data; by Council of Economic Advisers.
Source: Department of Commerce and Council of Economic Advisers.

provide full employment before the end of the year.

National Income and Expenditures

"The Nation's Economic Budget summarizes the main developments in national income and expenditures. (See table 17 and chart.) The largest increase in expenditures from the last half of 1949 to the first half of this year, both in absolute terms and percentagewise, was in business investment. Gross investment at an annual rate increased by $10.6 billion or about 33% over the period, compared with a rise in consumer expenditures of about $3.6 billion or about 2%. Table 18, which is derived from the national economic accounts presented in appendix A, shows the areas in which expansion has taken place.

"Most of the increase in private domestic investment is attributable to the swing from inventory liquidation in 1949 to inventory accumulation in 1950, resulting in an increase in effective demand of over $6.5 billion (annual rate). A second important contribution to the increase in private domestic investment was made by a rise of over 25% in residential construction over the last half of last year (seasonally adjusted).

"Outlays for producers' durable equipment were somewhat higher in the first half of this year and in the second quarter increased substantially, thus reversing the downward movement which had taken place since the 1948 peak.

"The increase in consumer goods purchases can best be appraised in connection with a somewhat more detailed view of the receipts side of the Nation's Economic Budget. (See table 19.)

"In the first half of this year, disposable income of consumers exceeded the rate of the last half of 1949 by about $10.2 billion or over 5%. About half of this increase is attributable to the payment of the veterans' dividend, computed at an annual rate. However, income derived from current production, particularly wages, business and professional incomes, dividends and rental incomes, increased by nearly $4.7 billion or about 2.5%. Only farm incomes showed a continued decline.

Durable and Non-Durable Expenditures

"The fact that disposable personal income increased by 5.5%, and consumer expenditures by only about 2%, may in part be explained by the behavior of veterans who used a considerable portion of their dividend for payment of outstanding debt, to accumulate liquid assets or to make payments on new homes. Another part of the dividend was used for the purchase of durable goods, sales of which increased by 8% in the first half of 1950 over the second half of 1949. The proportion of expenditures devoted to durable goods was higher than in any previous period, postwar or prewar. Expenditures for nondurable goods increased scarcely at all. The disparity between the increase in durable and nondurable expenditures may reflect in part the nonrecurring special payments to veterans during the first half of the year.

"The same factors that are reflected in the expenditure and receipts sides of the Nation's Economic Budget also affect the relationship of saving and absorption of saving. (See the third and sixth colums of table 17.) The increases in personal saving and in the government cash deficit are both inflated by the receipt or payment of the veterans' dividend during the first six months of this year, which appears to be doubled when counted at an annual rate. Excluding the veterans' dividend, the combined cash deficit of Federal, State and local governments (expressed as a seasonally adjusted annual rate) shows a substantial declines from the second half of 1949.

"The large increase in the excess of business investment over retained corporate receipts reflects the increase of funds spent for residential construction and especially for inventory accumulation. While several factors were of significance in the expansion of the last six months, inventory movements were outstanding. This was true even before international events gave a new impetus to further inventory accumulation.

"This analysis of the Nation's Economic Budget indicates that the expansion of the last six months has rested not only upon the shift from inventory liquidation to accumulation, and upon the payment of the extraordinary veterans' dividend, but also upon factors of more lasting duration. Prior to the Korean development, it was to be expected that the economy, during the rest of the year, would continue to move towards maximum employment and production in a steady manner. Since then, the request for additional military appropriations, and greatly accelerated consumer and business buying, have resulted in an increasing threat of shortages, price increases, and other inflationary developments. It is with these most recent developments, and the prospect of further developments initiated by the changed international situation, that public policy must now concern itself."

TABLE 17

The Nation's Economic Budget

[Billions of dollars, annual rates, seasonally adjusted]

Economic Group	1949, second half — Receipts	1949, second half — Expenditures	1949, second half — Excess of receipts (+) or deficit (—)	1950, first half* — Receipts	1950, first half* — Expenditures	1950, first half* — Excess of receipts (+) or deficit (—)
CONSUMERS—						
Disposable income relating to current production	169.3	----	----	173.8	----	----
Government transfers and net interest payments	*16.5*	----	----	*†22.3*	----	----
Disposable personal income	*186.0*	----	----	*†196.2*	----	----
Expenditures for goods and services	----	179.8	----	----	183.4	----
Personal savings (+)	----	----	*+6.2*	----	----	*+12.7*
BUSINESS—						
Retained business receipts from current production	30.8	----	----	28.5	----	----
Gross private domestic investment	----	31.6	----	----	42.2	----
Exc. of receipts (+) or investm't (—)	----	----	*—.8*	----	----	*—13.7*
INTERNATIONAL—						
Government loan transfers abroad	*.3*	----	----	*—.3*	----	----
Net foreign investment	----	—.3	----	----	—2.0	----
Exc. of receipts (+) or investm't (—)	----	----	*+.6*	----	----	*+1.7*
GOVT. (Fed., State and local)—						
Tax payments or liabilities	56.7	----	----	59.4	----	----
Adjustment to cash basis	*1.0*	----	----	*—2.0*	----	----
Cash receipts from the public	*57.7*	----	----	*57.4*	----	----
Purchases of goods and services	----	43.0	----	----	41.4	----
Government transfers	----	*17.6*	----	----	*21.1*	----
Cash payments to the public	----	*60.6*	----	----	*62.5*	----
Exc. of receipts (+) or payments (—)	----	----	*—2.9*	----	----	*—5.0*
ADJUSTMENTS—						
For receipts relating to gross national product	—2.8	----	—2.8	+3.5	----	+3.5
Other adjustments	*—.3*	----	*—.3*	*+.8*	----	*+.8*
Total: Gross national product	254.1	254.1	----	265.2	265.2	----

*Estimates based on incomplete data.

†Includes 2.6 billion dollars (5.2 billion at an annual rate) of the nonrecurrent payments on the NSLI dividend.

NOTE—Items relating to current production of goods and services are shown in roman type. Transfer payments and receipts and subtotals including them are in italics; they are not included in the gross national product. Detail will not necessarily add to totals because of rounding.

Source: Based on data from the Department of Commerce and Bureau of the Budget.

TABLE 18

Change in Selected Expenditure Items of the Nation's Economic Budget

Expenditure Items—	Change from 1949, second half to 1950, first half* — Billions of dollars†	Percent
Consumer expenditures	+3.6	+2.0
Durable goods	+2.0	+8.0
Nondurable goods	+.2	+.2
Services	+1.4	+.25
Gross private domestic investment	+10.6	+33.5
Construction	+2.7	+15.4
Residential (nonfarm)	+2.4	+27.0
Nonresidential	+.3	+3.5
Producers' durable equipment	+1.4	+7.4
Change in inventories	+6.6	----
Government cash payments to the public	+1.9	+3.1
Federal	+.4	+.9
NSLI dividend	+5.2	----
Other	—4.8	—11.2
State and local	+1.4	+7.9
Total gross national expenditures	+11.1	+4.4

*Based on preliminary estimates for 1950, second half.
†Annual rates, seasonally adjusted.

TABLE 19

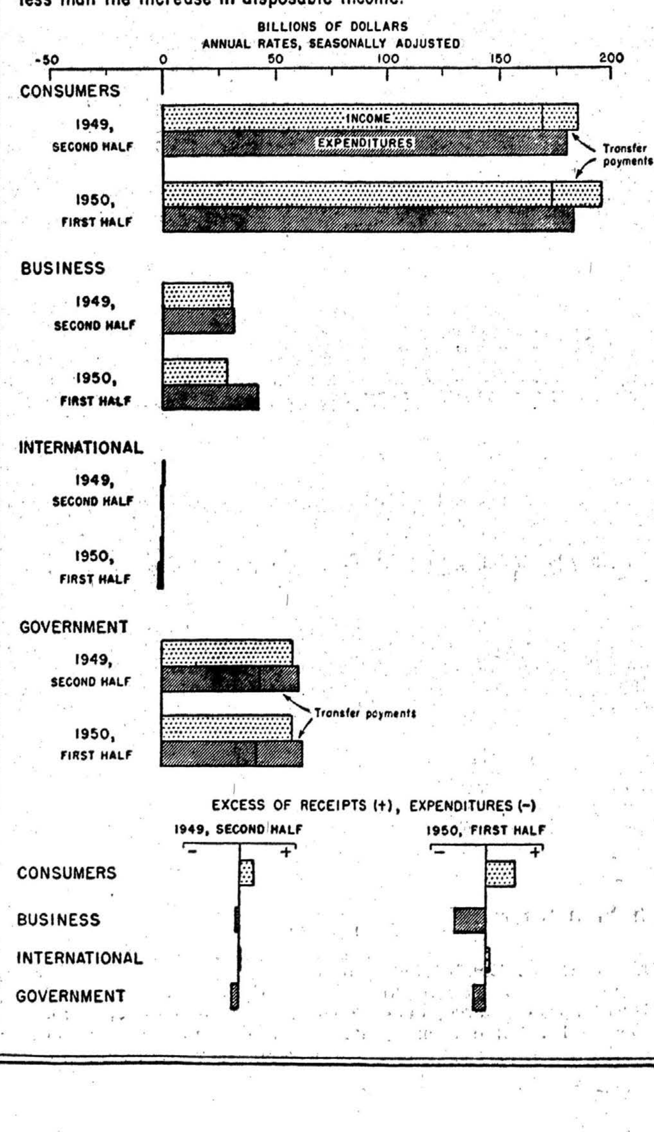
Change in Selected Receipt Items of the Nation's Economic Budget

Receipt Items—	Change from 1949, second half to 1950, first half* — Billions of dollars†	Percent
Disposable personal income	+10.2	+5.5
Government transfer payments and net interest	+5.8	+35.2
NSLI dividend	+5.2	----
Other	+.6	+3.6
Income from current production	+4.7	+2.5
Wages and salaries	+3.2	+2.4
Farm income	—.3	—2.4
Other income	+1.8	+4.4
Less: Personal taxes	+.2	+1.1
Business receipts	—2.3	—7.5
Corporate profits before tax	+2.2	+7.9
Inventory valuation adjustment	—3.8	----
Capital consumption allowances	+.7	+3.6
Less: Corporate taxes and dividends	+1.5	+8.1
Cash receipts from the public	—.3	—.5
Federal	—.8	—1.9
State and local	—.6	—3.6
Total receipts relating to gross national product	+11.1	+4.4

*Based on preliminary estimates for 1950, first half.
†Annual rates, seasonally adjusted.

THE NATION'S ECONOMIC BUDGET

Business investment rose about 10½ billion dollars (annual rate) from the last half of 1949 to the first half of 1950. Consumer expenditures increased about 3½ billion dollars, which was much less than the increase in disposable income.



Another N. Y. Branch For Walston, Hoffman

Walston, Hoffman & Goodwin, members of the New York Stock Exchange and other leading security and commodity exchanges, opened on August 1 a new branch office in New York at 1370 Broadway under the management of Walter Rosenbush. This will give the firm three offices in New York and increase to 31 its chain of offices coast to coast. Mr. Rosenbush has resigned from the Broadway branch office of Zuckerman, Smith & Co. to accept the new post.


Walter Rosenbush

A native New Yorker with 25 years' experience in Wall Street, he began his career in the financial world as a junior clerk with Zimmerman and Forshay, international bankers, in 1925. After 10 years with that organization he subsequently was associated with F. L. Solomon & Co. and with Ira Haupt & Co. He is a graduate of the American Institute of Finance and Banking, and an international officer of the Parnell Foundation.

Irving Like, Murray Schiffman, Roger Stearns and Aaron Weil will be associated with Mr. Rosenbush in the new office as registered representatives.

Howard, Labouisse and Weil Co. Merge

NEW ORLEANS, La.—Howard, Labouisse, Friedrichs & Co. and Weil & Co., Inc., New Orleans investment firms have announced the merger of their organizations into a partnership to be known as Howard, Weil, Labouisse, Friedrichs & Co., with offices in the Hibernia Building.

Weil & Co., Inc. entered the securities business in 1922. Howard, Labouisse, Friedrichs & Co. was organized in 1946.

Partners of the firm are G. Shelby Friedrichs, Alvin H. Howard, John P. Labouisse, Walter H. Weil, Jr., and Paul T. Westervelt.

Associated with Howard, Weil, Labouisse, Friedrichs & Co. are J. Thomas Whalen, in charge of the Municipal Department; Alfred W. Helmke, Cashier; Robert D. Alexander, Trader; Gerland J. Foucha, Jr., Assistant Cashier; Frederick Brauer, Economist; and H. Waller Fowler, Jr., Research.

Representatives of the firm are Paul C. Boudousquie, Jr., Edward Caffery, Thomas C. Holmes, Jr., John D. Lelong, Martin Macdiarmid, Robert G. Moroney, Gordon O. Quackenbos and George B. Riviere.

Howard, Weil, Labouisse, Friedrichs & Co. will conduct a general investment business as underwriter, dealer and broker. Active markets will be maintained in Louisiana and Mississippi municipal bonds, bank stocks and other corporate securities. The firm is particularly interested in financing established local businesses.

The partnership holds memberships on the Midwest Stock Exchange and the New Orleans Stock Exchange.

Geo. E. O'Brien With Hornblower & Weeks

DETROIT, Mich.—George E. O'Brien has become associated with Hornblower & Weeks, Penobscot Building. Mr. O'Brien was formerly a partner in S. R. Livingstone & Co.

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The Security I Like Best

RICHARD C. NOEL
Partner, Van Alstyne, Noel & Co., Members, New York Stock and New York Curb Exchanges

(St. Lawrence Corporation, Ltd.)

The choice of "The Security I Like Best" is not so easy. Many common stocks are good buys today. One is attractive for its yield, another for its prospects, and so on. But perhaps in these inflationary days two of the most important considerations are earning power and the availability of raw materials. On both of these counts, my pet issue is St. Lawrence Corporation common. St. Lawrence is one of the large Canadian paper operations. In the two years since July, 1948, when the recapitalization plan went into effect, the common (now selling around 19) has earned about $14 a share, before sinking funds. In the matter of raw materials, the present timber limits of the St. Lawrence Group of companies cover 8,905 square miles.

Richard C. Noel

St. Lawrence Corporation is a holding company with three operating subsidiaries. Largest of these is St. Lawrence Paper Mills Company, Ltd.; two preferred issues of this company are publicly owned, and over 99% of the common stock is held by the parent company. The other two subsidiaries are: Lake St. John Power & Paper Company, Ltd., of which Paper Mills owns all the preferred and 99.6% of the common; and Brompton Pulp & Paper Company, Ltd., 99.9% of which is held by St. Lawrence Corporation. Total operating capacity in five mills is 522,500 tons annually. Products include newsprint, kraft fibre and specialty papers, boxboard, unbleached sulphite, sulphate and groundwood pulp.

Second Preferred Stock Retirements

The recapitalization plans effective in July, 1948, cleared up all dividend arrears on the old preferred issues of both the Corporation and the Paper Mills. This was accomplished through cash payments and the issuance of second preferred stocks by both companies. Sinking funds were established for the retirement of the second preferred at $500,000 annually for the parent company and $1,000,000 for the Paper Mills.

Especially significant is the fact that so far second preferred retirements have considerably exceeded the minimum sinking fund requirements. Through purchases in the open market, the companies have been able to effect them at $1,365,235 under the call value. By June 30 of this year, the Corporation's second preferred had been reduced from 264,401 to 142,882 shares; Paper Mills' second preferred had been cut from 124,875 to 59,947 shares.

Recent Earnings Excellent

To determine the full earning power of St. Lawrence Corporation common, it is, of course, necessary to consider the total net profits before second preferred retirements. On this basis, consolidated earnings for the first six months of 1950 were $2,876,152 or $4.93 per share after taxes and all preferred dividends. This compares with $6.02 per share on the same basis for the full year of 1949. Even though a favorable exchange rate and reduced depreciation allowance did contribute somewhat to the improvement, current earnings actually represent a satisfactory level of operations.

There has been a corresponding enhancement of the company's working capital position. As of June 30, 1950, total working capital was $24 million, of which $11.5 million was in cash. This is more than adequate for operating needs. Combined funded debt of the parent company and subsidiaries at the end of 1949 was $13.3 million, represented by several bond, mortgage and debenture issues. The amount is being reduced steadily, on terms which are not burdensome to the Corporation. This total debt seems very low in relation to that of most of the other large Canadian paper makers.

Outlook Is Favorable

In view of the current market for the type of paper products made by St. Lawrence, I fully believe that earnings for the full year 1950 will substantially exceed those of 1949. Newsprint, principal product of St. Lawrence Paper Mills, accounts for a good percentage of total volume. Demand for this item continues to grow — annual per capita consumption in the United States has risen from 59 to 75 pounds in the last twelve years and current American needs are estimated at five and a half million tons a year. This is higher than the presently available supply although Canadian newsprint producers have been operating at more than 100% of rated capacity. It is expected that this trend will continue—and perhaps accelerate.

Demand for other products made by the St. Lawrence Group is on the increase. Although some weakness appeared last year in the pulp markets, considerable improvement began to be evident, in the second quarter of 1950, notably in unbleached sulphite, and it is believed that the higher rate will be sustained. Volume has also been good on the kraft products of Brompton Pulp & Paper and there have been some upward price adjustments in this division.

Another factor which is very important to St. Lawrence's outlook is that it is virtually impossible for new competition to enter its field. Additional timber limits to support new Canadian mills simply are not available. With all of these favorable conditions, plus the continuing savings in preferred dividends through second preferred retirements, earnings of $10 a share for St. Lawrence common are a good possibility within the next few years.

St. Lawrence's recent performance, its ability to retire the second preferred so rapidly, its favorable raw material position, its prospects—all make it a particularly attractive common stock around current levels.

IRVIN F. WESTHEIMER
Senior Partner, Westheimer & Co. Cincinnati, Ohio

(Procter & Gamble)

The security I like best is also the security that Cincinnati likes best. There is rarely a portfolio of a Cincinnatian which does not include Procter & Gamble. Procter & Gamble, listed on the New York Stock Exchange and the Cincinnati Stock Exchange, is to Cincinnati the epitome of a successful manufacturing corporation, successful because it is well-run and continuously growing. Procter & Gamble is a citizen of our industrial community of which every Cincinnatian is proud. When a Cincinnatian is asked about the leading home industry the first name that comes to his lips is always Procter & Gamble. Cincinnatians like the company as a neighbor and employer and they like its 59-year dividend record. The reasons for this reputation—they are sound reasons—are the same reasons for my picking Procter & Gamble as the security I like best.

Irvin F. Westheimer

Any bright statistician with a sharp lead pencil can tell you how an investment in Procter & Gamble would have grown with the company. For instance, a purchase of 100 shares of Procter & Gamble in 1890 at 100 would now be over 42,000 shares. It would have required the investing of $10,000 to begin with and an additional investment of about $90,000 to exercise rights. But look: cash dividends over the 60 years would have been almost $1,800,000 and the stock (at 60) would be worth more than $2,500,000. This is real growth.

Procter & Gamble retains its head offices in Cincinnati because they feel that it is a good climate for good management, and because, as their brilliant young President, Neil McElroy, says, they wish to be close to the heart of America—the grass roots. Management and personnel are the hard core of Procter & Gamble's success. There is a careful culling of the pick of American youth from Procter & Gamble's plants and from the universities throughout the country for material. There is no nepotism.

Stockbrokers are used to looking for figures. Any stockbroker or student or investor can look at Procter & Gamble's statements for an example of continuously conservative operation and continual growth. The company has maintained a current ratio of near 4:1. They have been in the habit of generous dividend payments — most years the dividend being at least 60% of earnings. Reserves for possible inventory losses of $37,000,000 were set up in 1947 and 1948 and partly used in the fical year ending June 30, 1949. Depreciation has been ample but always realistic. Loans are usually small. There is no funded debt, and all preferred stock except a relatively small amount of non-callable preferred was retired in 1945.

But let us look at Procter & Gamble as an industry, rather than as an annual statement. Its wealth does not rest alone on its sales of Ivory soap, but its excellent Research Department is constantly bringing forth new products, and as it happens these are the products that the public wants. Tide and Dreft have captured leadership in the detergent market, and Joy, a semi-liquid dishwashing detergent, is on its way to take its place along with the others. Besides Ivory, they have the leading soaps, Camay, Oxydol, Duz, and American Family in their soap line. In the drug products field are Prell, Drene and Shasta shampoos, and now the home permanent wave, Lilt. In an entirely different field, Crisco has a consumer's preference as a shortening over lard, and Procter & Gamble is enormously important in making commercial shortening for bakeries, hotels and institutions.

Procter & Gamble has had wide publicity concerning its great amount of radio advertising. This has been the cornerstone of its publicity. Management was wise enough and quick enough to use radio when it was a growing medium. They will always know how to advertise.

Procter & Gamble has always been a leader in enlightened employer-employee relationship, which they have developed through profit sharing (which they pioneered), stock ownership, and a guaranteed work year. They have been remarkably free from labor troubles. The labor expense item is very low.

As a war stock, Procter & Gamble would be in a strong competitive position because of their leadership not only in detergents which they have learned to make either from natural fats or from petroleum derivatives; and because of their oil crushing facilities, used in producing raw materials for shortening. Foreign commitments are not a major contribution toward consolidated profits.

Only the theory of diversification can supply any reason to seek investment elsewhere. I like to tell my clients when I invest in a company that I am giving my $1,000 to the management of that company to do the best they can with it. Patrick Henry said, "I know of no way of judging the future but by the past." Procter & Gamble operates a model business which grows and prospers.

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Round-Lot Trading on the New York Stock Exchange

100 XYZ at 50. Within a few months or so, let's say the stock rises to 60. The customer decides to sell his stock, and the account executive enters an order to Sell 100 XYZ at the market long. (Under SEC rules, all sell orders must be marked either long or short.) The order is executed at 60, and the customer has made approximately $1,000 profit. When he bought it at 50, he paid $5,000 plus commission, and when he sold it at 60, he received $6,000 less commission and taxes. In this illustration, the customer had effectively translated his appraisal of the stock—a rise of 10 points—into a profit.

Let's look at a short seller now. We'll use XYZ selling at 60 and say that this customer, at the moment "even" in XYZ, feels that it should decline in price. This appraisal he wants to translate into a profit which will be real if he sells the stock at 60 and buys it when and if it declines to 50. Not having the stock, however, requires that it be borrowed for him in order that when it is sold "short" the buyer in the transaction will receive the stock he will pay for. The member firm shops around for the short seller to find someone long 100 XYZ and willing to lend it. Then, upon the short seller's instruction, it enters an order to sell 100 XYZ at the market short. Let's say this order is executed at 60 and the borrowed stock is delivered to the buyer. The short seller, now short 100 XYZ at 60, must buy it back someday in order to return a 100 share stock certificate of XYZ Corporation to the person from whom it was borrowed. On the assumption the short seller's appraisal of the future market action of XYZ was correct, and it subsequently declined to 50, the customer short the 100 XYZ instructs his account executive to enter an order to Buy 100 XYZ at the market.

And, let's assume this buy order was executed at 50. The stock delivered on this purchase was returned to the lender, clearing up this obligation, and the short seller had made a profit of approximately $1,000. He had sold short at 60, receiving $6,000 less commission and taxes, and when he bought back or "covered" his short position, he paid only $5,000 plus commission. He was short from the moment his sell short order was executed, and he became "even" again when he "covered" his short position through the execution of his buy order.

If, during the period he was short, XYZ Corporation paid a dividend, the short seller would have to pay the dividend on the stock which, in effect, he had created by selling short. The person from whom the stock was borrowed was still long even though he had lent his stock, and was therefore entitled to dividends declared. And the person who had bought when the short seller sold short was, in effect, long the stock and thus also entitled to the dividend. The extra 100 shares was "created" by the short seller who must pay the dividend on the 100 shares he had sold short.

Now let's talk about the SEC's short selling rule which restricts the execution of orders to sell short on national securities exchanges such as the New York Stock Exchange. The SEC says in effect, that no short sales shall be made (1) below the price of the last sale, and (2) at the price of the last sale unless it is higher than the next preceding sale made at a different price. This rule was designed to prevent sell short orders from depressing market prices. Let's examine a sequence of sales to determine which of them could have permitted a short sale to be made: 50, 50⅛, 50⅛, 50, 49¾, 49¾, 49⅞. Using the first sale at 50 as a starting point, the next sale—the first at 50⅛—was higher than the preceding sale of 50 and, under the short selling rule, a member could execute a client's order to sell short at this price, assuming, of course, a buyer was willing to pay 50⅛ at the time. In Stock Exchange language, this 50⅛ sale is a plus tick or up tick sale. Observe now that the second sale at 50⅛ while at the same price as the preceding sale, is higher than the next preceding sale made at a different price, namely, higher than the first sale in our sequence, the sale at 50. A short sale could have been effected on this second sale at 50⅛ as well as on the first sale at 50⅛. The second sale of 50⅛ is called a zero plus tick sale because it is at the same price as the sale preceding it, yet higher than the next preceding sale made at a different price. In fact, a series of short sales could be made at 50⅛, and each succeeding one would be identified merely as a zero plus tick sale.

Returning to our sequence of sales, we note that a sale now took place at 50. Only an order to sell long stock could have been executed on that sale. Remember we said a short sale shall not be made below the price of the last

Wendell Harper Now With John G. Kinnard

(Special to The Financial Chronicle)

MINNEAPOLIS, Minn. — Wendell P. Harper has become associated with John G. Kinnard & Co., Baker Arcade. Mr. Harper was formerly with Shields & Co. and prior thereto was Vice-President of Shaugnessy & Co., Inc.

sale. Thus, if a member was endeavoring to execute his client's order to sell at the market short, he could not offer the short stock below 50⅛. This sale at 50 is a minus tick or down tick sale. The next sale in our sequence was at 49¾, and it too could have been made only by a seller of long stock. It was a minus tick sale because, like the sale at 50, it was down from the preceding sale. The best a member holding an order to sell short could do would be to offer the short stock at 49⅞. Pause a moment to reread the short selling rule and note that, by implication, a short sale can always be effected at a price higher than the last sale. An offer of short stock could therefore be made at 49⅞ following the first sale at 49¾. But in order to be executed, a buyer at 49⅞ would have to appear. In our sequence of sales, this did not occur. A second sale at 49¾ was made, also only by a seller of long stock. This second sale is called a zero minus tick sale because it is at the same price as the sale preceding it, yet lower than the next preceding sale made at a different price.

The final sale in our sequence is 49⅞, a plus tick sale. And, since it was higher than the preceding sale, a short seller's order could have been executed at this price. In fact, as we explained before, a series of short orders could be executed at this 49⅞ price, each sale being at a price higher than the next preceding sale made at a different price — the different price sale being the 49¾ sale.

Types of Orders

Orders can be classified into many categories, such as, buy orders versus sell orders, round-lot versus odd-lot, stock versus bond or commodity orders, etc. There are two relatively important categories: time-in-force, and price. Let's deal with time-in-force first. This means the length of time a client wants his order to remain in the market—until one of two possibilities occurs: either the order is executed or the client cancels it. Some clients prefer to enter day orders. This means such orders are to remain in the market or in force only until the close of the market session during which, or before which, they were entered. If a day order is not executed by the market's close, it automatically expires, that is, it is cancelled without any further instruction from the client. He may, of course, re-enter the same order with perhaps a minor change in its price limit the following morning.

A client may enter a day order at any time after the close of a market session. It will be in force, that is, in the market, only through the close of the following market session.

An open order is one that remains in the market indefinitely, that is, until it is either executed, or the client eventually cancels it. Open orders are GTC orders—Good Till Cancelled.

Some clients want their orders to be in the market longer than a day but not indefinitely. Thus, we have Good Through the Week orders, Good Through the Month orders, and Good Through A Specific Date orders. Here are some examples: Buy 100 GM 79 GTW. This means that the client wants to buy 100 General Motors at $79 per share, if GM declines to that price from the moment the client gives this instruction (any day during the week) through the close of the last market session of the same week. Sell 100 GM 80 GTM long (or short) means that the client wants to sell at this price if the order can be executed through the last market session of the month during which this order was entered. GTW or GTM orders never mean good for a week or month. If a client enters an order on, say July 25, with instructions for the order to remain in the market through Aug. 25, we would use the definite date instruction. Buy 100 GM 75 GT 8/25.

Before we leave time-in-force types, there is one other we can discuss—the immediate order, also known as the Fill Or Kill order. The client wants to buy or sell a particular stock at a specified limit, always very close to the current market price, and he wants the order to be executed if it is possible to do so the moment the member reaches the floor trading post for the stock, and if not executable at that moment, to be immediately cancelled. The member, in the latter instance, will advise the prevailing quotation in the stock which explains why the customer's limit order could not have been executed, revealing also at what price an execution could have been effected. Example: Client instructs, sell 100 GM 79½ FOK. The member requests a quote at the post and is told, "⅜-⅝." He offers "100 at ½," and if no other member "takes" this offer, it is withdrawn. The customer is advised his order is "out" (cancelled), and that the quote is 79⅜-⅝. The client may then decide to enter another order: Sell 100 GM 79⅜ FOK. If the 79⅜ bid had not been "hit" meanwhile by another seller, or the bidder had not cancelled this ⅜ bid, the selling customer's second FOK order would have been executed at the 79⅜ price specified.

Now, orders with respect to their price instructions. These fall into three types: market orders, limit orders, and stop orders. A market order, whether buy or sell, is to be executed at the best prevailing price. Returning to our original quote in GM, 79⅜-⅝, a sell at market order would be executed at 79⅜ (the highest bid price), and a buy at market order would be executed at 79⅝ (the lowest offer price). When a client uses a market order, he wants to buy stock regardless of the price he may have to pay for it, or sell stock regardless of the price it is sold for. In sell market orders, orders marked short may not be executed below the price of the last sale, or at the price of the last sale unless it is higher than the next preceding sale made at a different price. No member or client can violate the short selling rules regardless of price instructions on orders.

Limit orders are those in which clients specify a limit price per share beyond which they do not wish to buy or sell. Buy 100 GM 75 means that the customer is willing to buy only if he can buy at $75 per share, or less. Sell 100 GM 85 means that the customer wants to sell only if he can get 85 or more. Thus, in the case of the buy order at 75, execution at 75 or lower is possible only if the bids higher than 75 are first satisfied. If additional sellers come in, the customer's buy order will be executed. In the case of the sell order at 85, execution at this price or higher is possible only after lower offers are satisfied. If buyers still demand stock at rising prices, the customer's sell order will be executed. Stop orders are a little more complicated. And like market orders or limit orders, there can be buy stop orders and sell stop orders. Before giving you a definition of a stop order, let's use an illustration of the most popular use, one of the six different uses of stop orders.

A customer has just purchased 100 Radio Corporation of America at say 18. He went long because of the current dividend return and the prospects for an increase in the dividend, and also because he felt he could some day sell his long stock at a higher price than the 18 he paid per share. But, he recognizes the possibility that RC may decline instead of rising in price. He could not forecast the Korean situation, for example, or the effect such news would have on stock prices in general, and his stock in particular. So he decides to protect himself against too great a loss. He decides that if Radio, still selling around 18, should decline to 17¼, he would want to be sold out at the market. He would instruct his account executive, "When and if Radio sells down to 17¼, sell 100 shares at the market." The account executive would write the following order for immediate transmission to the floor: Sell 100 RC 17¼ Stop Open long. To the member on the floor, this means exactly what the customer instructed—when and if Radio declines to 17¼, immediately upon the first sale occurring at 17¼ (or below it if it doesn't sell at, on the way down), sell 100 shares at the best prevailing price (the highest bid price). The member will do nothing until RC sells at 17¼ or lower. The instant a sale occurs at or below 17¼, the member holding this stop order will act as though he had at that moment been given a market order to sell. If RC is still 17¼ bid, he'll hit the bid for 100 shares, executing this customer's order at 17¼. If RC is 17⅛ bid, he'll execute at that price.

We can now define a stop order as an order that becomes a market order when and if the market price declines or rises to or beyond the price named in the customer's stop order.

This is a broad definition which could be restated as follows: A sell stop order becomes a market order when a sale occurs at or below the stop price; a buy stop order becomes a market order when a sale occurs at or above the stop price. In either case, the customer decides the price in his stop order and this price will not necessarily be the execution price. The reason is that the customer is instructing his stock be sold or bought "at the market." The stop price he selects is only the price level at which point he wants his **market** order to be executed.

We said there were six uses of stop orders. There are three for buy stop orders and three for sell stop orders.

In buy stop orders, a customer may want to (1) go long above the current market price, or (2) stop or limit a loss on a short position, or (3) clinch a profit on a short position. To illustrate a customer wanting to go long above the current market price, let's assume XYZ which is currently selling at 24, has not within the past few months had enough demand to cause it to sell above 25. In other words, every time XYZ rose to 25, sufficient selling developed to prevent it from rising above that price and it soon declined to below 23 again. Twenty-five was an upper resistance level in our customer's estimation of the stock's market action. He wants to buy the stock and is probably looking for a substantial rise eventually, but rather than give instructions to purchase it at its current price of around 24 through the entry of a buy market order or a buy limit order with a limit price of say 24 or 24⅛, he rather buy it when, to him, it has demonstrated sufficient demand to force it decisively through 25. He feels he would want to buy 100 shares, even though he'll pay more than the current price, only when it penetrates this upper resistance level of 25. The customer instructs the account executive to Buy 100 XYZ at the market when and if it sells at 25⅜. The customer selected this 25⅜ stop price. (He might have decided on 25¼ or 25½ for the stop price.) The account executive writes the order: Buy 100 XYZ 25⅜ Stop Open. The customer wants to go long above the current market price.

The second purpose of a buy stop order is used by a short seller to limit his loss on a short position. Let's say the client is short 100 DEF at 39 through the execution of an order to sell 100 at the market short, executed in accordance with the SEC's short selling rule as described earlier. He sold short expecting the stock to decline, but he recognizes the possibility of it rising instead. He is willing to consider his judgment was wrong if DEF rises to 40½. So he instructs his account executive to enter an order to Buy 100 DEF 40½ Stop Open. This means that when and if DEF sells at or higher than 40½, the member holding the stop order will immediately execute it as a market order upon the first sale occurring at or above 40½. The customer's purpose is clear—cover my short position if DEF sells at 40½ or higher.

The third purpose of a buy stop order is to clinch a profit on a short sale. Let's use GHI this time, and assume the customer is already short at 70 with the stock now selling at 61. The customer has an indicated nine point per share profit but believes the stock is still headed for lower levels. If it continues to decline he will later decide to cover (buy back) his short position, probably by placing a buy market order or a buy limit order. But, right now, he wants to protect a substantial portion of his nine points profit. So, he instructs his account executive to enter the following order: Buy 100 GHI 62 Stop Open. The stock is currently selling at 61, but if it should rise to 62, the member holding this stop order will immediately execute it as a buy market order. If, the stock should rise to only 61⅞, then start to decline again, the stop order would not be "elected," that is, made a market order. If in declining again, it sold down to say 58, the customer might then decide to enter a buy stop at 60, cancelling his 62 stop instruction.

Sell stop orders have three purposes too, one of which we described earlier when we started our discussion of stop orders. Its purpose was to stop a loss on a long position. You will recall the customer was already long 100 Radio at 18, and wanted to limit his loss to less than a point. He decided on 17¼ as the stop order price, and his order was entered to Sell 100 RC 17¼ Stop Open long. If RC declined to or below 17¼, the member holding it from the moment it was entered would then sell it out at the market.

A second use of a sell stop order is to clinch or protect a profit on a long position. Let's use the same situation — the customer already long 100 RC at 18—but in this case, let's assume RC has risen to 21. The customer thinks it will go higher, and if it does, will later decide to enter an ordinary sell market order or a sell limit order. But, right now, he wants to protect some of his indicated profit. He selects 20⅛ as the price level, which if reached through a decline from the current price of 21, would be where he would want his stock sold at the market. His order will read: Sell 100 RC 20⅛ Stop Open Long. Nothing will happen until and if RC sells at 20⅛ or lower. If RC sells down to 20¼, then rallies to 23, this customer might decide to raise his stop order price from 20⅛ stop to perhaps 22⅛ stop, protecting or clinching thereby the greater portion of his profits in the event of a sudden decline.

The third use of a sell stop order is to go short below the current market price. To illustrate, let's say a customer is "even" in JKL which is currently selling at 77. He believes JKL is selling too high and wants to make money on the short side, but hesitates to enter a sell at market short or sell at an ordinary limit price short somewhere around 77. In watching the stock's fluctuations, he noticed 75 was a lower resistance level. Every time the stock had declined, it had met good support (buying) around the 75 level. The customer feels that should the day come when JKL sells through 75 during a market decline, say to 74½, he would want to have 100 shares sold short at the then prevailing market price. Strictly from the mechanical side, it appears that if the stock should penetrate its 75 resistance level by ½ point or more, the customer would be going short while the stock is declining and, theoretically, at least, begin to show a profit on his short sale from the moment his sell stop short order was executed, presumably not too far from the 74½ stop price. But, as with all orders to sell short, the SEC's short selling rule cannot be violated and, if you'll recall just one part of this rule, it prohibits short sales below the price of the last sale.

Thus, the very action the customer is expecting may defeat his purpose in using a sell stop short order to go short below the current market price. If not aware of the possibilities, he may find that his short order was executed at approximately the level he had anticipated covering at a profit! If he expected to go short somewhere between 74 and 74½, actual market action, once the stock broke through 75 and sold down to 74½, might continue in a series of minus tick sales, or at best zero minus tick sales occasionally, until reaching 70, the first plus tick sale occurs! Since the member holding the stop order, which becomes a market short order following the 74½ sale, could offer at best ⅛ point above each successive minus tick sale, he could not possibly execute the order until around 70 when the first plus tick sale occurs. To avoid this possibility, the customer may instruct the account executive to enter a limit short order instead of a market short order, once the stop price of 74½ has been reached. This type of order is called a stop limit order. Stop orders such as we have been discussing up to this illustration are, in effect, "stop market" orders, though they have never been termed such, the buy or sell at the market angle being implied in the plain term, stop order. Using a stop limit order in this illustration would result from the customer's instruction say to sell 100 JKL at 74 or better, short, when and if the stock sells at or below 74½. The account executive would write this order as follows: Sell 100 JKL 74½ stop limit 74 Open Short. Thus, when and if JKL sold down to or below 74½, the member holding this stop limit order would immediately consider he had just received an order to sell 100 at 74 or better short. If he could execute this now ordinary limit order at 74 or higher, without violating the short selling rule, he would, of course, do so. But, if sell long orders continued to force the stock down, the member could offer the short seller's order no lower than 74.

The principle of stop limit orders can be applied to the other five purposes of stop orders, at the customer's discretion.

The Route of an Order

When an account executive receives an order in say a stock listed on the New York Stock Exchange, he writes it on his firm's order blank detailing the instructions in much the same manner we have illustrated in our various examples, and adds the customer's account number and/or name to identify the order with the customer for whose account it is to be executed. The account executive immediately hands the order over to a teletype operator who speedily transmits the order in one of the abbreviated forms we have seen, to the member firm's home office in New York's financial district. There, without delay, it is at once relayed by direct

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telephone wire to one of the firm's telephone booths nearest to the floor post at which the particular stock is traded. A clerk at the booth hands it to a member who proceeds quickly to the proper post to be "in the market" for the stock the customer wants to buy or sell. Approaching the post, the member notes the last sale price on an overhead price panel and simultaneously requests a quote by saying, "How's Radio?" The highest bid and the lowest offer is speedily furnished by other members. The newly arrived member then proceeds to bid or offer in accordance with his customer's instruction. If he is able to execute the order, a floor reporter, an Exchange employee, reports the transaction to the ticker operators who cause the sale to be printed on approximately 3,000 tickers throughout the country. If, by this sale, the quotation is changed, the new quote is telephoned from the floor post to a central quotation room to which member firms call by direct wires to obtain quotes on request of their customers.

Meantime, both brokers involved in the transaction have written reports of their order executions, buy and sell, and a telephone clerk of each of the two member firms relays the reports back to the Home Office "Order Rooms" where the reports of the executions of both orders are teletyped back to the account executives and the customers, arriving at approximately the same time confirmation of the transaction appears on the ticker tape.

As for elapsed time in transmitting an order from any out-of-town office to the Exchange floor, less than half a minute is consumed, and this regardless of the distance from New York. Teletyping, telegraphing and telephoning travel at the speed of light—186,000 miles per second. Where orders, such as market orders, are executable at once, usually only two minutes elapses from the time the customer gives his instruction to the account executive until the report of the executed order is returned. Speed in handling orders is necessary because of the constantly fluctuating nature of stock and bond prices.

Members and Their Functions

There are 1,375 members of the New York Stock Exchange, of whom somewhat less than 1,000—perhaps between 800 and 1,000—work on the floor every market day. They are divided as follows: There are about 325 commission house brokers, that is, partners of member firms, such as, Merrill Lynch, Pierce, Fenner & Beane, who have "seats" or membership on the New York Stock Exchange. There are an additional 100 or so members, partners of member firms, who reside outside New York and who for various reasons do not actively use their membership as floor brokers. Other members, frequently other member-partners of the same firms, can execute their customers' orders.

The second category is the so-called $2 brokers — members of the Exchange who are not partners of member firms offering brokerage facilities to the public. The function of $2 brokers is primarily to execute orders for other member firms as their services as extra or reserve brokers are needed. There are approximately 150 members in this category, and the term $2 broker arose many years ago when the floor broker's commission for executing 100 share orders was in most cases $2. Now, the floor commissions average a little higher, but the term $2 broker is still used to describe these members whose office is usually just desk space somewhere in the financial district. Then there are another 350 or so members called Specialists. They have two functions, one as a broker's broker, the other as a dealer. As a broker's broker, a specialist will execute orders entrusted to him by other members such as the commission house floor members and the $2 brokers. The orders will be in stocks traded at a particular section or sections of one of the posts at which a specialist stands during all market sessions. He has been registered (approved) by the Exchange as a specialist in the stocks at his portion of the post and, in most cases, is in competition with other registered specialists in the interest of better executions of brokerage house customers' orders. As a broker's broker, he receives the same floor commission received by any member executing customers' orders. To be continuously in the market, an order to buy or sell a given stock must be represented at all times at the section of the post where the stock is traded. Thus, another member, arriving at a post with an order just entered by a customer, and learning that the order cannot be executed at once, will turn the order over to the specialist, so that the customer's order will always be in the market for that stock.

As a dealer, the specialist's function is to maintain a fair and orderly market in each of the stocks in which he is registered as a specialist. This implies the maintenance of price continuity and the minimizing of the effects of temporary disparity between supply and demand. Thus, to maintain normal price continuity in a given stock, a specialist is frequently obliged to a reasonable degree, under existing circumstances, to bid or offer for his own account and risk. His dealings for his own account are restricted under Exchange rules which have as their basic philosophy the prior execution of customers' orders, where such orders exist, as market prices fluctuate.

Another type of member is the odd-lot dealer, of which there are slightly over 100. Averaging about five to each post, their job is to execute customers' orders for less than the number of shares in the unit of trading which is either 100 shares for about three-quarters of the 1460-odd stock issues traded, and 10 shares for the remaining one-quarter. Odd-lot orders in amounts from 99 shares down to one share in stocks that are traded in 100 share units, or nine shares down to one share in 10-share unit stocks, are executed in strict conformity to odd-lot order execution rules, approved by the Exchange. The odd-lot dealer must execute odd-lot orders when the rules so require. In order for odd-lot customers to sell, the odd-lot dealer buys from them, and when odd-lot customers buy, it is the odd-lot dealer who sells to them, all under definite rules governing the execution prices of customers' odd-lot orders.

Your next two lecturers, a specialist and an odd-lot dealer, will describe in much greater detail their functions and operations and the rules governing their execution of customers' orders. A fifth category of floor member is the floor trader. There are only about 20 of these members whose function it is to buy or sell for their own account. Their bids and offers narrow the spread in the quotations of stocks, thereby, despite the short-term profit motive, aiding in the maintenance of normal price continuity in stocks listed on the Exchange.

A sixth and final category is the bond brokers, members slightly over 30 in number, who handle the executions of orders in bonds, traded in other parts of the Exchange's floor. The New York Stock Exchange is in reality an auction market place for both stocks and bonds. And that leads us to auction market procedures in round lots.

Round-Lot Trading Rules

Round-lots means orders for amounts of shares equal to or multiples of the unit of trading designated by the Exchange for a given stock. As we mentioned earlier, the unit of trading in approximately 75% of the stock issues listed on the Exchange is in 100 share lots. The other 25% is in 10 share lots. Generally, the less active stocks are traded in 10 share units, and the more active stocks are traded in 100 share units. Since the round-lot rules apply to both units, we'll confine our discussions and illustrations to the 100 share unit stocks. General Motors, Radio, Pepsi-Cola, and hundreds of other common stock issues are 100 share trading unit stocks. Generally, the 350-odd 10 share unit stocks are preferred stocks, though not all preferred issues are so relatively inactive as to warrant trading in 10 share units.

There are three important rules governing the execution of round-lot orders where such orders, on the bid or offer side of a prevailing quotation, are held by two or more brokers in competition one with the other or others. If a single broker, say the specialist, held all the orders at the highest bid or lowest offer price, he would execute the orders in the order of receipt by him. But when relatively active stocks become even more active, because of a continuous flow of customers' orders into the market, the various types of brokers will cry aloud the bid or offer prices in their customers' orders, and will compete with one another as other brokers enter the "crowds" at the posts with executable orders on the opposite sides.

The first of the three important round-lot rules is priority. This means that the first broker announcing a new high bid price, or a new low offer price, has priority in the execution of his customer's order, over other brokers with similar orders who entered the "crowd" after the first broker. Let's suppose a stock is quoted 75-¼. Now, a broker approaches with an order to buy 100 at 75⅛. Upon learning the quote, he immediately announces, "⅛ for 100." This changes the quote to 75⅛-¼, and gives the broker who just bid ⅛ **priority** over any and all brokers who would later enter the crowd with similar bids. Let's call this first broker bidding ⅛ for 100, broker A. Of course, broker A wasn't able to execute his buy order at 75⅛ because the lowest offer was 75¼. Now, broker B walks in with an order he just received, reading to buy 100 at 75⅛—the same instructions but from another customer. Broker B adds his voice to broker A's and now two brokers are crying aloud every few seconds, "⅛ for 100." Broker C walks into the crowd now. He, too, has a buy order for 100 shares at 75⅛. No sellers at 75⅛ have yet arrived, and so all three brokers cry, "⅛ for 100." Now a broker hastens to the post with an order to sell 100 at the market long. Hearing the stock bid at ⅛ by the three brokers, A, B, and C, and hearing the offer at ¼ by the broker or specialist holding that order, the broker with the sell at market order, sizing up this relatively simple market situation, quickly cries, "Sold 100," signifying that he has executed his sell order at 75⅛ and now awaits a quickly-forthcoming identification of which of the three bidding brokers was on the opposite side of his execution. We said this was a simple market situation, and you have already correctly guessed the buying broker as broker A. You are right, because broker A was the first of the three brokers to announce his 75⅛ bid—because his customer had entered his order ahead of the other two customers—and being the first, he had priority, and was entitled, under Exchange rules, to execute his order. And so broker A did, without having to compete, that is, match with, brokers B and C. Brokers B and C quickly renewed their bids by crying aloud again, "⅛ for 100."

Now, we introduce another important round-lot trading rule. Every completed transaction clears the floor. That is, clears the floor of any priority or precedence in time, such as B's time over C. B and C are now on parity—neither has any precedence over the other. If now another seller entered the crowd willing to sell 100 at the 75⅛ bid price, brokers B and C now enjoying equal standing, would have to decide by some method between them, which of the two would be the buyer for his customer. The fastest, most unbiased method is by matching—flipping coins. The winner of the match executes his order and the loser renews his bid, awaiting another seller.

And now let's go back to the beginning again and look further into the second rule that says that every completed sale clears the floor—wipes out all priority and precedence in time.

Our starting quote, as you'll recall was 75-¼. Broker A walked in first and announced his "⅛ for 100" bid. He, thereby, established his priority—**if the next sale is at his bid price.** If it isn't, the sale clearing the floor rule would wipe out his priority, and he, broker A would be on a parity—in equal standing—with brokers B and C! This could happen through a buyer at the market, rather than a seller at the market, coming into the crowd. The buyer, hearing the quote 75⅛-¼, is interested only in the offer price, although he plainly hears the three brokers each bidding ⅛ for 100. The buying broker quickly says, "take 100 at ¼," thus creating a sale at 75¼. Our three brokers immediately renew their ⅛ bids, while whichever other broker holding the next lowest offer, say at 75⅜, announces, "100 at ⅜." The quote is now 75⅛-⅜, 300 wanted and 100 offered. The last sale was 75¼, just effected.

Now, let's say a selling broker, with a customer's sell 100 at market long order, enters the crowd. He notes the last sale at 75¼, hears the quote ⅛-⅜, and not disclosing the fact that he has market order instructions, tests the possibility of executing his sell order at a better price than the current quote would indicate. He cries "100 at ¼." He does this just as though he had a limit order to sell 100 at 75¼ instead of a market order to sell. Not getting any response in this situation, the selling broker quickly says, "Sold 100," and awaits identification of the broker, one of the three, who will buy from him at 75⅛. Brokers A, B and C match. One of them wins, the other two lose. The winner of the match buys the stock from the seller. The losers renew their bids, still on parity, because every completed sale clears the floor.

Now let's develop this priority rule and the sale clears the floor rule a little further. We'll start at the beginning again but this time we'll say that broker A, the first one to bid ⅛, has an order to buy 200 shares instead of 100 shares. Brokers B and C, as in the previous examples, then walk in and bid ⅛ respectively, each for his 100 share buy order. The quote is 75⅛-¼, and the size is 400 wanted and 100 offered. Broker A has priority—on the next sale, if it is at his bid price. Let's say the next sale is at his price, 75⅛, but the seller who created the sale had only 100 shares. Broker A would buy this 100 shares, to be sure, but would no longer enjoy priority on the remaining 100. A sale clears the floor! Now, bearing in mind the priority rule, and the sale clears the floor rule, let's bring in the third rule. We can conveniently describe it as the size-matching rule. Competing brokers in a given auction market situation will match coins with one another to determine which will win or lose a sale but, under the size-matching rule, it sometimes develops that only certain of the competing brokers will be entitled to match while others would be excluded from the matching. It depends on the amount of shares bid (or offered, as the case might be) of each of the brokers competing for a given sale.

The rule states, in effect, that all brokers holding amounts of shares *equal to or exceeding* the amount involved in a given transaction are entitled to match to see which will participate in the sale. This means that those brokers holding amounts less than the amount involved in the sale will not be entitled to participate in the match or the particular sale.

To give you an example, let's assume Broker A, the first bidder (or offerer) was the first to announce a new high bid price. Broker A's order is for 100 shares. Broker B then walks in with an order to buy at the same price but for 200 shares. Broker C then arrives with 300 shares, and broker D with 400 shares. No sale has yet taken place. Let's say a seller now arrives and, learning the quote, says, "Sold 400." Broker A will buy his 100 because he had priority, and no intervening sale had caused him to lose that priority. There are 300 shares remaining. Broker B wanted only 200 and is, therefore, excluded from a match. Brokers C and D, who equal or exceed the 300 would match, unless broker C could definitely establish his precedence in time over broker D.

Let's take another example. Brokers A, B, C and D are offering respectively, 100, 200, 300 and 400, and in this situation, let's assume a previous sale at another price had cleared the floor. All four of these brokers were therefore on a parity, subject only to the size-precedence rule. When a sale occurs at the price of their offers, matching will be determined by the amount involved in the sale—those equaling or exceeding the amount being entitled to match. So, let's say a sale is created by a broker wanting to buy 100 shares at the offer price. All brokers offering, namely A, B, C and D will match to see which one sells to this bidding broker. If, however, the bidding broker wanted 200 shares instead of 100, broker A would be excluded from the match because his 100 was less than the 200 involved. Brokers B, C and D would match, one of them winning and thus, selling the 200 shares to the broker creating the sale. If 300 shares were involved in the sale, only brokers C and D would be entitled to match. And, if 400 shares were involved broker D would execute his order because he would be the only one equaling or exceeding the amount involved in the sale.

Now just to add another factor in the size-matching rule not yet explained. If a broker wanted 500 shares, then none of the four brokers offering would have amounts equal or exceeding this 500 shares. In such a situation, the largest amount is entitled to execution first. This would be broker D who would sell his 400 shares. That would leave 100 of the 500 yet to be completed. We return to the equal or exceeding portion of the size-matching rule. Brokers A, B and C would match to determine which of them sold the remaining 100 to the broker who wanted 500 shares. In one of the mimeographed write-ups we will distribute after our lecture, you will find many additional examples further illustrating the priority and size-matching rules. In summary, we can briefly describe the round-lot trading rules as follows: The first bidder or offerer has priority on the next sale if it is at his price; if not, the priority is lost—a sale clears the floor. When a floor has been cleared or when a broker has been priority has executed his order, subsequent executions at the same price are determined by size-matching. All those equaling or exceeding match; if none, the largest amount executes first. Except for relatively minor technicalities these are the rules, in brief, governing auction market procedure—round-lot trading—on the New York Stock Exchange.

Now just a few minutes on the facility, "Stopping stock." Stopping stock bears no relation whatever to stop orders. Stopping stock is a facility, not an order, which is practiced by brokers whenever conditions permit. It permits a broker with the cooperation of another broker, usually the specialist, to guarantee to a customer the price at which the customer's order could have been executed at the time it reached the trading post. Having been so guaranteed, the broker or specialist then endeavors to obtain a better execution price for the customer. Usually, this will depend on what orders come in next in the given stock.

Let's give you an example. Let's say a stock is quoted 50-¼. The 50 bid is for 200 shares, represented by two orders, each for 100 shares. The offer is for 100 shares, but in this example we are going to be concerned with the bide side. Now a broker walks in with an order to sell 100 shares at the market, long. As the quote indicates, he can sell this 100 at 50, because 50 is the highest bid. After testing at 50⅛ to see if this sell market order could be executed at that price, and getting no response, the broker then asks the specialist if he would guarantee him an execution at the 50 price. The specialist agrees and, in effect, pairs off the sell at market order with one of the two buy orders at 50, but without effecting a sale. The specialist now quotes the stock 50 bid, offered at ⅛, 100 wanted and 100 offered. The 100 wanted is the remaining 100 of the 200 originally in the 50 bid. The 100 offered at 50⅛ is in reality the market order of the selling broker, being shown as though it were a limit order to sell at 50⅛.

One of two possibilities can now occur. The next broker walking in with an executable order in this stock will either want to buy or sell. If he represents a buying customer, he will buy stock at 50⅛. And the seller will be the market order which was stopped or guaranteed an execution at no worse than 50. The customer, through the facility of stopping stock, and the cooperation of the brokers concerned, received a better price than that which prevailed at the time his sell order was entered. The guarantee at 50 is no longer necessary because the sell order was executed at 50⅛. This won't disturb the status of either of the two 100 share orders to buy at 50 since no sale has yet occurred at the 50 price.

Let's take the other possibility now. A selling broker walks in instead of a buying broker. He is given the quote and size: 50-⅛, 100 and 100. Since there is only 100 shares wanted, and therefore no protecting for stopping stock, the selling broker—the second one who just walked in, immediately hits the 50 bid and executes his order at this price by selling his stock to one of the two buyers at 50. The first selling broker, whose customer's order was stopped at 50, is "stopped out" on this sale. In other words, it was not possible to get a better price, but he did not execute the order at a worse price. It is executed at 50, the originally prevailing bid price. It is sold to one of the two buyers at the same time the second selling broker sold his stock to the other of the two buyers. After this sale, involving 200 shares, the stock would be quoted 49⅞ bid (assuming this was the next highest bid), offered at 50¼, the price of the offer in the original quote.

Here, briefly, are the three conditions under which stopping stop is possible. The first requires that there be at least two orders on the side of the market opposite to the order that is to be stopped (guaranteed). This is necessary because stopped stock does not create a sale at the time the stock is stopped. Hence, the order against which it is stopped has not been executed. And unexecuted orders may be cancelled at any time. If instructions are received to cancel, this must be done since no execution had yet taken place. Hence, you need more than one order on the opposite as protection against this possibility.

The second condition is the stock will be stopped up to but not including the largest order on the opposite side. Thus, if a total of 500 shares was bid for, and this 500 shares was represented by two customer's orders, one for 100 shares and the other for 400 shares, the maximum that could be stopped by a seller would be 100 shares. This is because the 400 must be left free in the event one or the other of the two customers sends in cancellation instructions.

This third condition governing the stopping of stock is that, generally, stock will be stopped in an amount no greater than half the total available on the opposite side, the side against which a newly arrived order could be executed but which, if possible, would be stopped. This latter condition is observed primarily to avoid dilemmas that might occur if, following the stopping of a large quantity of stock, protected by more than half the total amount available on the opposite side, there next comes in an even larger order. Only a small portion of this larger order will be executed against the small amount remaining that was not used against the first order that was stopped.

With this execution will go the first large order, all of which was stopped. It will be "stopped out," that is, executed at the guaranteed price. To show the full amount involved in this large sale would cause the second customer—the one whose order could not be stopped—to complain about his execution price. This would be because he received a report for a smaller amount of shares executed at the first execution price than was printed on the ticker tape. No one would be at fault—in fact, all brokers involved, had done the very best under the circumstances, but the dilemma would nevertheless be there if more than half of the total amount were used to stop stock on an order coming in on the opposite side.

Joins J. M. Dain

(Special to THE FINANCIAL CHRONICLE)

MINNEAPOLIS, Minn. — Stephen H. Archer has become connected with J. M. Dain & Co., Rand Tower.

Continued from page 4

My European Trip in 1950

Sizes and frequency are limited in other markets, too.

Recognizing Value of Advertising

It is encouraging to see that European manufacturers and distributors are recognizing the value of advertising and merchandising as important adjuncts to sales. They do need help, however. I spoke with at least 60 of them and all were like sponges. When told how we integrated your advertising "on-the-spot" through our associate — that we were a bridge in helping to work out a sounder over-all merchandising and promotional plan—they leaned over backwards to cooperate. In their desire for help, many brought forth sales figures and asked us to stay extra days to help them lay promotion plans for the future.

Unless led by the hand, few of them really know how to coordinate and plan advertising, merchandising and sales. A surprising number of them work on an ad-to-ad or a month-to-month basis. When shown that the effectiveness of advertising is cumulative and that, therefore, it must be consistent, long-term, well-integrated and planned—and that statistics were available in the U. S. A. to prove it—they eagerly welcomed help.

I was never so enthusiastic about the future of our business—international advertising — as I was upon my return from this trip. I know our services, when properly understood, are needed—and wanted!

Broad social changes are taking place in these markets—not the least of which is a trend toward standardization, brought about, in part, by rationing. Because of greater uniformity in consumer goods, and their use, advertising will be increasingly called upon to build economic volume sales.

One of the primary objectives of my trip was to review the facilities of our associates, so as to better implement our policy of controlled, well-thought-out advertising campaigns and promotions. In this, I believe, we have been successful.

Let's take a quick look at each country that we covered. First, we went to Italy. I had a bit of nostalgia going into Naples, for it had been over 20 years since seeing this lovely port. The new dock, with its modern cranes, is more efficient than anything we have in the States. Naples proper is poor and dirty-looking as always; Capri as beautiful as ever, and all the old stones look exactly the same in Pompeii. Really, the only difference here is that the famous house of ill repute was so "admired" by the GI's that the tourists this year are going to have to forego the pleasure of seeing it because it is under repair.

The week before Easter, Rome was crowded, as was to be expected. You hear the same old stories, depending upon where you are in Italy. If in the north, the only trouble with the country is the Southern Italians; if in the South, everyone works except those in that separate universe called Rome. People are well-dressed and there certainly is an air of prosperity. Even in off-the-boulevard restaurants, which are filled 95% with Italians, a meal costs 600 to 1,500 lire, which is $1.50 to $3.50.

You see Italian-made nylons, spelled "nailons," everywhere. Unfortunately, these are generally misunderstood to be DuPont nylons. Cosmetics, luxuries—in fact, everything—can now be bought in Italy and import licenses, as you know, can be secured at a price. Thanks to a rent freeze, people in the cities are living on 60,000 lire per month, about $100, in spite of the inflation and the high cost of some foods. A kilo of veal, for example, costs a restaurant 275 lire.

We had the good fortune of being invited to the official opening of the Milan Fair, and attending a luncheon with our Ambassador Dunn. The Fair was a splendid testimony to the rapid recovery that the Northern industrial part of Italy has made—especially in turning out heavy machinery. The only complaints heard were that their costs were too high.

Whereas Denmark is a country of bicycles, I am sure that we could now say that Italy is the country of scooters. They scoot in all directions, and when you consider the speed at which these things travel, the low mortality rate is unbelievable.

Unfortunately, advertising in Italy is neither well-coordinated nor channeled. Real advertising agencies as such, are few. The majority are brokers, which operate for a group of publishers, and are really representatives, not service agencies. Radio is an important medium for consumer products.

Press, according to "Dosas," who conducts a "Gallup" poll, is second in importance, and movie shorts are third.

There is a great opportunity for more use of small displays. Italy, as you know, is a country of individual shopkeepers and their windows and counters are small. One thing that startled us in Italy, was the great waste of money by many Italian manufacturers, who simply plaster their names all over the country, or in press advertisements, without the slightest mention of what their product is, does or costs.

From this country, where advertising is so haphazardly handled, we went to that compact, business-organization called Switzerland. There, people work hard, live well and enjoy themselves in a quiet way. Contrary to common belief, hotel management comprises only 5% of Swiss business, 44% being devoted to industry; 70% of the people live in small towns. The Swiss businessmen, in spite of the market being filled with everything under the sun, are carrying on with a quiet optimism, but the boys still go out for their rifle practice, up to the age of 50 every Sunday morning.

Basel had a large sample fair while we were there and the general feeling was that the exhibitors had no illusions about easy sales and knew that the customer had to be persuaded and worked over to a far greater extent than was the case a short time ago.

Selling merchandise in Switzerland today requires more than display of a fair. It requires advertising, and Switzerland certainly has more per capita than any other country. Getting an honest appraisal of publications, however, is not easy. As advanced as Switzerland is in other respects, advertising-wise it still operates, with the exception of very few agencies, on the basis of brokers, who actually represent a group of newspapers. The better distributors, those who know our methods, realize that such agencies are inadequate to properly service a client. You cannot be a buyer and a seller at the same time.

Spain Depressed

From cold Switzerland, we flew by Swissair to Barcelona—a trip which took only 3½ hours. The weather in Barcelona was not much better, and, in addition, a heavy cloud of oppression seemed to hang over the people.

They did look well-dressed and food in the restaurants was ample—served with all the decorum and ritual of the 17th century. We had been warned that Spain was strict on currency regulations and that it was dangerous to bring in dollars—forms of various kinds being required and every check having to be recorded.

We had no sooner entered our hotel, and cashed a check at the tourist rate of exchange, when not more than 10 feet away from the cage, I was approached by a banker-type looking gentleman. In perfect English he offered to cash any currency I had at 45 pesetas to a dollar, and travelers' checks at 40 to a dollar. When one realizes that the common laborer makes approximately 50 pesetas a week, you get some idea of the problems in Spain.

In spite of severe import restrictions, one sees many luxury and cosmetic goods in the stores. Most are manufactured in Spain. Many bear American trademarks and are of good quality and reasonably priced to foreigners. If one remained on the boulevards and near the better hotels, he could well be deceived into believing that business was going on as usual in Spain. In the smaller towns and industrial districts, however, just keeping alive is quite a feat.

In spite of these conditions, our agency there is doing good business, and has a competent staff consisting of 25 people. In Madrid, the old Palace Hotel still offers courtly service and large rooms, the latter at a reasonable price. Their food, however, is something else again. The menus are all printed without prices and if one forgets to ask the waiter the price of a particular dish before ordering, he can be assured that its cost will jar his pocketbook.

Operating a business in Spain today would turn normal people's hair gray, but apparently the Spanish can take it. Everything seems to be black market. American cigarettes are not allowed to be sold, along with most other foreign products. Nevertheless on each street corner innocent little old women with voluminous black skirts sit on their stools selling papers. Step up and ask for a pack of Camels, Si Senor! They're yours for 12 or 14 pesetas, depending on your bargaining ability. Ask for a carton or 6 cartons and they will be produced from that same black skirt and at a discount.

Advertising in Spain is of good quality by and large. Window cards in Spain have high value. In spite of the hospitality of our many friends in Spain, it was a genuine relief to reach Portugal.

Lisbon is a sunny, picturesque place with hospitality that matches the charm of the city. The sardines forgot to run last year, and this, plus a slight drought, slowed down business somewhat, but everyone is optimistic for the coming year. This was one country where your distributors were particularly thirsty sponges, and sought advice on the most minute marketing questions. They wanted manufacturing advice too, but in this, I must confess, we do not profess to be experts.

The people are getting along well, they work like Portuguese have always worked, food prices are reasonable, and it is one country where there is an over-abundance of houses and apartments. Our friends were so hospitable that when we left there was a regular funeral procession with six loaded cars taking us to the airport. We almost missed our plane, saying goodbye to our friends and yours.

The dailies in Portugal are good and there are acceptable magazines. Commercial radio is available on the three stations other than the National, with the government provision that all in-

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My European Trip in 1950

come earned from commercials must go to improve the station.

Recuperation in France

We flew to Paris, which is only five hours away. It is the same picturesque Paris with its good food and all that goes with it. Perhaps from sheer bustle and spirit, France gives one the impression of recuperation faster than other countries. Much of this, I believe, can be attributed to the French character. Those of us who have lived there understand this, just as we understand the way the French take their politics.

The people we saw and the factories we visited were all hard at work, and optimism was everywhere to be seen, in spite of certain signs that business was tapering off after two years of remarkable recovery.

The price level is stable and high. The old dinners I used to buy for 8 francs "prixfix," now are 500, but there are still little holes-in-the-wall where the food is good and one can get a dinner of four courses for 275 francs. Incidentally, I won a bottle of champagne from a wealthy Frenchman who said an edible dinner could not be found at that price.

There is one little trick in France today which has proved quite profitable. If, by chance, you were renting an apartment before the war and were paying $200 a year for it, you could now rent it to an eager-beaver American for $200 a month and retire to a small villa in the south of France where the $200 would keep you in ample luxury—if you are a Frenchman.

Doing business in France is a question of know-how, but those that are now active, find business good. There still is a two-to-three year wait for a Frenchman to secure a Renault or Citroen, but if you have dollars you can walk in and drive one off the floor.

Advertising in France is not as chaotic as under the old Havas days when this government agency practically controlled publicity in the market. There now are four or five good service agencies. Although some of their executives have been trained in the States, it takes a good lead of guidance on our part to keep them to a well-planned, coordinated campaign.

In Germany

Germany: We arrived in Frankfurt at the lovely hour of 6 a.m. This was the first really thoroughly bombed city we had seen and it is rather a depressing sight. At least a quarter of the buildings on practically every block have been badly damaged.

In the Frankfurter Hof Hotel where we stayed, they have only repaired the servants' quarters and we had a six-flight climb to our hotel room.

In walking down the streets of Frankfurt, forgetting the damage, one might well be in the main street of Des Moines, finding in the store windows the same American products we have here. Few Germans, however, can afford them. Western Germany, particularly in the manufacturing towns around Frankfurt, has made a rapid recovery and plants have been rehabilitated more quickly than houses or stores.

Germany is making a strong comeback as we all know, they are recapturing a number of their European markets. This, not only because of quality, but because I've been informed they are underselling the U. S. and England by 30 to 50% in many types of goods.

The black market in currency has practically disappeared.

Our first impression of Hamburg was that it is even more active and has returned to normal faster than Frankfurt. As we were driving from the station to our hotel, we were delayed by a commercial parade which consisted of vehicles of all kinds, on which wholesalers and manufacturers from around Hamburg had built floats depicting their products with as many pretty girls as it was possible to find. Quite a job too! The center of Hamburg, around the lake district, gives the impression of not having been touched by the war. There is no destruction. As one goes to the northwest about six blocks, however, an expanse of 15 to 20 acres of brick and rubble meet his eyes. No reconstruction is in evidence. We were informed that this vast destruction was done one night in six hours.

Here the people are better dressed than they are in Frankfurt and along the main boulevards the stores are well stocked, but not with as much American merchandise as one finds in Frankfurt.

We discovered an odd quirk. A number of people informed us they had been sending food packages from Germany to their friends in England. This gives you some idea of the supply of edibles in this market.

While in Germany, I looked over the advertising and agency situation, and appointed two associates, one for the American zone and one for the British zone.

There are hundreds of dailies, trade magazines and trade papers available which, although restricted in size, are carrying a substantial amount of advertising.

Denmark

Copenhagen is lovely and clean. One soon becomes accustomed to the bicycles which swarm down the streets like a school of fish at noon and 5 p.m.

The people in Denmark, in spite of their geographical position and the hardships they suffered during the occupation are probably the most optimistic of all, perhaps because the Dane has a great sense of humor. I'm told more clowns are Danish than any other nationality.

Business within the country is active, although imports are highly restricted. For example, if you are running a business today and would like a new typewriter, you would be put on a list, and at the present rate of importation, you would get one in 3½ years. They are rapidly recovering, despite a shortage of dollars. There are stores throughout the town where you can buy all rationed items with dollars. In the famous glass and ceramic stores, a Dane is rather put upon, for most of the better items are marked for export only, which means that you can only buy them with dollars.

From a recent study conducted by the Copenhagen Business School, it is apparent that Denmark appreciates the power of promotion, as it invests 1.4% of the national income in advertising. This is a significant figure.

Sweden

In May, Stockholm had begun to feel the pinch of a real seller's market in some lines. One could get all the typewriters or other business machines, off-the-floor immediately. Although few American goods can be seen, there is much in the way of food from behind the Iron Curtain.

Here, the merchandising and stores are of the highest quality and prices are reasonable. Nylon stockings are available and we counted seven windows, in walking through Stockholm, filled with Kayser hosiery, featuring this brand at a reasonable price. Although these, unfortunately, were all imported from England, the Kayser name, which is known as American, was what made them important to the Swedes.

The socialization in Sweden is really effective. One of the most interesting things that struck us when taking tours through the canals, was that the guides, obviously intelligent young college students, could not help offering us their philosophy. It went something like this: As we passed the famous modern Swedish apartment houses, they would say: "We Swedes are proud of these apartments. We don't mind the government telling us how and where to live, and also take a large portion of our income. We have no poverty such as in America, where (if, by chance, there are Americans here, please pardon me) one can purchase anything he wishes, including a Cadillac car, and then starve or have no place to live. We prefer an apartment." Another example of their teaching! The guide was amazed when my wife spoke Spanish to a friend—as he had heard Americans speak English only and never learn other languages.

Frankly, the Swedes have so regimented themselves that they have almost regimented themselves out of humor, and certainly out of anything in the line of entertainment, with the exception of movies and opera. As a consequence, restaurants are filled from morning until midnight.

However, Sweden is one of the few European countries with efficient advertising statistics and can give us the best market data obtainable anywhere in Europe. Perhaps one reason for the advanced stage of the agency business—our associate has over 250 people and five offices—is that to sell to the Swedes, it is necessary to advertise heavily and consistently.

They have over 235 papers with a combined circulation of 3,000,000. The biggest single paper has a circulation of 235,000. They have 450 periodicals, including weeklies and trade magazines, plus all other forms of advertising—with the exception of radio, which is controlled by the state.

One feels a certain uneasiness in Sweden. Perhaps it is best displayed when they show you their beautiful new hospital, built on a hill, and upon inquiry you are told that a duplicate of what you see above ground is below ground. In case of emergency, the whole hospital can be moved underground and will fit exactly as it does above.

We took the day train to Norway in the hopes of seeing beautiful scenery. I was reminded, in every detail, of our own Northwest. The way the lumberjacks dressed, their saw mills and their camps were all duplicates of ours. (Or should I say, ours were duplicates of theirs!) Perhaps I've overstressed this detail, but my youth was spent in lumbercamps.

Oslo was celebrating its 700th anniversary and was gayly decked out. In spite of this, it was a rather somber place. Rationing is probably more severe here than in any other country, as it covers many foods, as well as clothing and most other items. This is one country where I doubt if you would find very many items that you would care to have. Their goods are either over-priced, or of inferior quality.

The ambition of most Norwegians today is to secure enough Swedish crowns to visit Stockholm and return with things that are impossible to get at home, such as clothing of all kinds. The government realizes this, and two delightful Norwegian women traveling on the train with us, were thoroughly searched upon reentering their country, down to the point of taking off their coats each square inch of which was patted to make such that no stockings or small items were sewn in the linings.

Here, one finds bitterness toward the Germans that can only be equalled by the Dutch. When you hear stories of the conditions under which these wonderful people lived during the occupation, you can well understand their hatred.

They are building a sound economy though, because the government policy has been to construct a substantial commercial fleet and their tonnage is now one of the world's largest.

Companies operating in-the-market are busy. Profits and business are both good. The advertising business, along with the others, is doing a big volume. Space is difficult to secure. Like Sweden, the advertising agency business is well organized and capable. This market will be a sound one as soon as import restrictions are lifted.

Conditions in England

London seemed to have the lid lifted when we arrived, as ceilings has been taken off restaurant prices just the week before. One could secure practically anything he desired in the restaurants.

Of course, they still ration certain scarce items in the homes and the purchase tax certainly is a retarding influence on trade.

At least, the British people now are enduring no hardships. There is an air of quiet optimism, for, as you know, their trade balances are rising and they actually have ended the last three months with a dollar surplus.

All the laborers interviewed and talked to in England, unanimously agreed they were better off than before the war, in spite of the high prices of much of their merchandise. The same underlying tone of confidence, that there will always be an England, and a free England, was felt by me . . . the same as when I was living in that lovely country years ago. Unfortunately, I feel that the laborers in England are not working as hard as those in many of the other European countries, and that sooner or later, greater work or greater production per man, through improved machinery, will be essential to keep England on her present scale of living.

Business, in general, is good, businessmen mildly optimistic in spite of the heavy taxation. They fully realize, however, and express it clearly, that the cost of the socialization taking place in England, is too great, and sooner or later somebody is going to pay the piper.

It was surprising to me to find that many of the old line businesses were still conducting their affairs in the same old-fashioned inefficient way that they were 25 or 75 years ago. A number of European distributors that represented both American and English firms, had already commented on this fact, and mentioned that although it was pleasant to do business with the British, they certainly lacked the efficiency of the American house. Quite a contrast to the old saw that Americans did not know how to do export business!

Advertising space is rationed as to size and amount and it is difficult to get. During our stay, the papers were cut back to four pages which will make space even more valuable. Other reasons besides small space allotments make advertising in this market a difficult problem. The tradesmen in the business are highly unionized; many were lost in the war and the guild system did not allow for sufficient training of apprentices.

To top it all, typographers cut out overtime when we were there. This meant it would take a week or more to get an ad set, and literally months for the printing of booklets and displays. I see no remedy for this in the immediate future. Yet, in spite of all these handicaps, agencies were doing the biggest volume in history.

Everyone talked freely about their opinions on solving the world problems, particularly those of England. Perhaps the very old sherry helped, but I assure you that an Englishman is confident of his future.

In case you order a Martini in London, I will save you the trouble of complaining to the waiter when he brings one tasting like water. It is simply impossible to make a dry martini to our taste, because the government allows no gin to be distilled higher than 68 proof. Consequently, we rushed to Brussels.

Belgium and Holland

It reminded us of New York in 1929. Business is booming, people are gay, people are working hard; above all, they are optimistic. Food prices are equal to those in New York or higher.

As we all know, this market has been on the up-grade longer than any other in Europe and, in spite of tightening conditions for certain of their industries, due to high costs, the gay spending Belgian doesn't appear to be worried.

Their salaries are high and they are living well. They were even boasting that the Belgian franc is practically ready for convertibility.

Following business in general, the advertising agency business is booming, handling a great volume.

We were fortunate in being driven from Brussels to Rotterdam. The contrast between the two cities is a noticeable one. Food in Holland is about half the price of what it is in Brussels, except in some of the fancier tourist restaurants.

Perhaps the greatest spirit of optimism and determination to rebuild their economy was exhibited in Holland.

When you see Rotterdam, with the center of the city completely bombed away, it gives the impression of a small town. The main stores that had previously been in the center have moved to temporary buildings on the outskirts of the bombed area. One can fully realize the terrific hatred they have for the Germans. We were told that the bombing had been done so accurately because German spies had been living in Holland for years and owned many shops. Many of these German stores and houses were spared as the bombers flew low enough to choose their targets. I was actually shown some of their buildings still standing, but not owned by Germans I assure you! Today, a German cannot enter Holland except for a specific technical job and then he is given a permit for a specific period and then returned to Germany.

We were there at the official opening, which the Queen attended, of the port of Rotterdam, called Rotterdam Ahoy. The city was gaily decorated, and in taking the tour around this largest port in the world, it was encouraging to see the reconstruction job which has been done. As you know, the port was completely destroyed by the Germans before they left.

Driving from Rotterdam to Amsterdam through Haarlem and The Hague was delightful, even though the tulips were not in bloom. Amsterdam was not touched in the last war and still retains its old charm and seems to be much gayer and more bustling than Rotterdam.

The businessmen are optimistic and have reasons for this, as shown in the statistics of their rapid improvement.

Although importation into Holland is a highly selective business, I know that at least one of our client's distributors is taking a very dim view of his future business unless restrictions are amended. Stores are well stocked. Quality items, however, are quite expensive.

With Waddell & Reed

(Special to The Financial Chronicle)

KANSAS CITY, Mo.—Jon Roberts is now affiliated with Waddell & Reed, Inc., 1012 Baltimore Avenue.

Joins Slayton & Co.

(Special to The Financial Chronicle)

ST. LOUIS, Mo.—Felix Garnier is now associated with Slayton & Co., Inc., 408 Olive Street.

With Thomson & McKinnon

(Special to The Financial Chronicle)

CHARLOTTE, N. C.—Moses S. Mahaley has become affiliated with Thomson & McKinnon, Johnston Building.

Saunders Stiver Adds

(Special to The Financial Chronicle)

CLEVELAND, Ohio — John M. Gorman has been added to the staff of Saunders, Stiver & Co., Terminal Tower Building, members of the Midwest Stock Exchange. He was formerly with Gottron, Russell & Co.

Joins Bache & Co.

(Special to The Financial Chronicle)

COLUMBUS, Ohio—Robert A. Poisson is now with Bache & Co., 5 West Broad Street.

Witherspoon Corp.

(Special to The Financial Chronicle)

PHILADELPHIA, Pa.—Witherspoon Corp. is engaging in a securities business from offices in the Witherspoon Building. Officers are Samuel S. Street, President and C. K. Voigtsberger, Secretary.

With Courts & Co.

(Special to The Financial Chronicle)

ROME, Ga.—Oscar H. McWilliams, Jr. is now affiliated with Courts & Co., 4 East Second Avenue.

Julien Collins Adds

(Special to The Financial Chronicle)

CHICAGO, Ill. — Thomas A. Watson has been added to the staff of Julien Collins & Co., 105 South La Salle Street, members of the Midwest Stock Exchange.

Geyer & Co. Adds

(Special to The Financial Chronicle)

CHICAGO, Ill. — Carol J. Etscheid has been added to the staff of Geyer & Co., Inc., 231 South La Salle Street. Miss Etscheid was formerly with Blair & Co.

John Baker Opens

(Special to The Financial Chronicle)

BATON ROUGE, La.—John W. Baker is engaging in a securities business from offices in the Masonic Temple Building.

Conway Co. Formed

(Special to The Financial Chronicle)

BOSTON, Mass. — Conway Co., Inc., has been formed with offices at 174 Federal Street to engage in a securities business. Officers are Pasquale Chiacchia, President and Treasurer, and Mary G. Mahoney, Secretary.

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we have not recovered our money yet, and that, after all, is the final test.

The point I am making is that if you are investing in an area where you can't be certain of the political stability, where there is a real risk, either of a deterioration of the government to the point that business cannot operate at all, or the emergence of some unfriendly government that might expropriate your properties, the thing you have to look at is not the profit in the ordinary sense, but the pay out, and you have to look for quite a short pay out. You have to look at the gross receipts that you can anticipate, less your current expenses and your capital expenditures, and see what you are probably going to be able to hold and keep within the next two, three, four or five years.

If you can't see the likelihood that the foreign investment may largely be returned within a fairly short period of time, in the present state of the world, it is an investment you shouldn't make. If you are considering an investment in the United States, you say, "All right. We will spend 10 million dollars." That is a more or less permanent stake, and if we can receive 6 or 7% profit on that 10 million dollars, consistently over a period of time, with the depreciation reinvested to keep our capital whole, that may be a good deal. You don't expect to get the stake back.

But if you are going to invest in the borderline trouble areas abroad, it is unrealistic to figure your profit until you have your money back. That is the pay-out analysis that you have to use in that kind of situation.

In China we worked purely on a market operation and we were able to go on a restricted investment, and we were able to get that investment out again. In Indonesia, we don't know, because we don't have it out, and we are still in business. If we get out of that one, it will have proved to have been wise exercise of our judgment. On the other hand, if you can get a large business going with most of your capital back out again, you can afford to take some rather special chances.

The Tax Problem

If you are interested in tax accounting, there are some angles which I think you will find interesting. Indonesia is a high-tax-rate area. They have a basic 40% corporation tax. On extractive business, oil or tin, there are government royalties that raise your total effective payment to the government at least to about 50%.

The Dutch, shortly after the war, put in the so-called accelerated or free depreciation plan, under which they let a taxpayer write off capital investment for tax purposes at whatever rate he wanted. It didn't have to tie in with any anticipated useful life, and it didn't have to be consistent from year to year. The only requirement was that the taxpayer kept his books and computed his income available for dividends on the same basis, as for tax purposes.

That meant that if an investor were worried about the outlook, he could do just what I said, and not figure that he had a profit until he had his investment back or until he had as much as he thought was the minimum for safety. That was certainly an important factor in convincing us that we ought to go back, and that we would be justified in doing so. I want to tie that up as an illustration of the enlightened attitude of a government in a backward, high-risk foreign investment field in taking steps that are necessary to induce investors to come in.

I could give you illustration after illustration of the risks of unfriendly governments or revolutionary governments, but you can develop and illustrate the point from the daily papers.

Non-Convertibility of Currencies

The second big special risk in the foreign field is the risk arising from the relatively non-convertibility of currency which is an outstanding feature of foreign trade in the postwar period and for a few years immediately prior to the war. It really started back during the period of the depression.

If you are considering making an investment in any particular area in which you are not already located, it means putting in dollars entirely; if you are already operating in the area, and it is a matter of increasing your investment, then you may be putting in dollars. You may be spending local currency, and in that case, it is either funds which you could have converted into dollars or funds which you could not have converted into dollars.

If it's funds which you could have converted, you are spending dollars. Don't confuse yourself by the local currency. It is funds you could not have converted, you don't have a problem. They are there and you don't want them lying around in the bank anyway. If you have a possible expansion program which otherwise appears to be sound, it is obviously going to be the thing to do.

To the extent that you put hard money in, you want to get hard money out again, and it is a matter of forecasting what the possibilities are in that regard.

There has been a tremendous lot said, in connection with the oil business specifically, about the dollar-sterling problem. It has stirred up controversy, I think, primarily because of the accusations by a number of persons that the British were artificially manipulating their exchange in order to increase the share in the world oil business of British oil companies at the expense of American companies.

Without considering whether or not that is true, you do have a currency problem in the British and sterling bloc countries. The British Treasury and the Bank of England have a rather stringent funds control program, and only under certain circumstances can English currency be converted into American. You may find yourself in a position where you are developing funds which will be permanently blocked in England.

However, the English pound is a comparatively desirable currency, and there are a lot of things you can do with the English pound. On the other hand, the English are much more particular about their currency than most foreign countries are, and they are concerned to see that the pound retains a certain amount of international respect.

British fiscal authorities are anxious that foreigners, and particularly American investors, should not accumulate non-convertible English currency—as anxious as the investor is that he should not—because the accumulation of nonconvertible pounds would put pressure on the value of the pound.

Everyone is aware of the fact that if a lot of foreign investors build up tremendous balances in London, there is pressure to convert those, and efforts will be made to convert them which leads to three-cornered trading below official exchange rates which tends to discredit the pound.

That type of manipulation was an important factor in producing the devaluation of the English pound last September. It wasn't the controlling factor, but it was certainly a factor.

When you get into some of the less plausible currency situations, you may find it easy to invest, but the outlook may be so grim that you will hesitate. Prospective investors are faced with precisely that situation in Japan. The authorities are quite pleased to see American investors buy yen with dollars in order to make capital investments in Japan, or bring in dollars and dollar services to establish a useful enterprise in that country, but there is today no really assured, established method of getting the money out again.

A set of regulations has recently been promulgated by which it should be possible to get profits back on approved investments. You can't tell what the rate of profit will be that you will be able to get, and the machinery is cumbersome, and up to date I know of no one who has gotten any, which makes one wonder if anyone is going to.

As far as I know, the situation in American-occupied Germany is substantially the same. In such cases, the trick is to see how much you can make do with how little, if you decide to go ahead at all. If it is possible to borrow local funds, the problem is one of ratio. Can you put to work $10 worth of local funds with $1 worth of dollar materials and services, so that for a dollar of investment and local currency in the equivalent of $10 you can get an $11 enterprise? On that basis you are getting into a large game at a low cost.

If you can't do that because the right type of services, the right type of materials, the right type of equipment, is not available for purchase in the local currency, or if you can't do that because there is no local source of financing, then you may be in the position of having to put in maybe $8 worth of hard money and maybe $3 worth of the local equivalent for an $11 operation.

If you can't see positively the basis on which you are going to get out your capital as such, or "pay-out" on your capital in the form of depreciation plus a reasonable profit, you are not going to make the investment.

When you are already operating in a soft-currency area, you have another group of problems. One is how to handle the devaluation of the local currency if it should occur. It may occur on a reasonably organized basis, like the devaluation of sterling and related currency last September. This can be met.

If you look at the balance sheet of your local subsidiary, or local branch in Country X, and you find that the current assets are substantially in excess of current liabilities, you have a devaluation risk in terms of United States dollars. If the local currency is devalued your assets and liabilities shrink pro tanto and your net is reduced.

There are essentially two things which you can do about this risk if they will let you. One of these is to build up your local liabilities by borrowing money, running an overdraft. That means you are taking your profits and costs out before you have actually received them. Another method, if they will let you, by which you can protect yourself fairly effectively is buying dollar exchange forward. It will cost you something every time you do it. It is very hard to guess the day or week or month or year when the devaluation is going to take place. If you try to protect that way, you will have a constant additional cost of operations, and the profits have to be large enough to carry that additional cost of foreign operations that wouldn't have been involved in a domestic operation. If the profits are adequate to support the cost, you can protect yourself against a reasonable degree of foreign currency instability.

Note how this devaluation problem ties in with the matter of remittance of funds. To the extent that it is fairly easy to remit your funds currently, you can hold down your local assets position and you can build up your local liabilities position. You can not gain the same protection if it is difficult to remit funds currently.

In general the British have been pretty decent to deal with, but if you get into one of the extreme devaluation situations, it becomes almost impossible to protect yourself.

I was out in China in 1946, and remember talking with the wife of one of our executives there. Her children were in the American school in Shanghai, and she said it was amazing how quickly they adjusted to a situation to which she was entirely unable to adjust. She was shocked when her daughter said that she and her brother each needed $50,000 for after-school treats, but when she stopped to think, she realized it was a perfectly reasonable request, so she gave it to them.

When they returned the little girl said that she had spent her $50,000 for a dish of ice cream and the brother had bought a candy bar which had cost $40,000. The mother asked, "What did you do with the other $10,000?"

The little boy said, "What *can* you do with $10,000? I made spitballs with it."

In such an inflation you are moving extremely fast because you are trying to stay ahead of something which if it catches up with you, is going to wipe out your profit.

The only good thing about it is that you pay practically no taxes. You figure your taxes on the prior period's earnings and by the time you have paid, it doesn't amount to anything out of current period income.

I said there are three principal types of exchange difficulties you can get into. There is the normal difficulty that you experience in dealing with an exchange controlled like the English one, in which they are attempting to operate a workable system within the limits of their own financial capability. For example, the British, and I mean the entire Sterling Area group, which clear their currency through the Bank of England, have never refused to convert into dollars the profits on a dollar investment.

They hold you down on the money they will let you invest, and particularly the foreign currency. If you need an item of capital equipment, let's say, you have to convince them first it is not a luxury, but something that you require for your business, and secondly, that it is simply not available from a sterling source. If you can convince them, they will give you dollars for that. They will not give you dollars for depreciation because they do give it for the current capital investment. It cost them less to give dollars for the current capital additions because, first, they can control the current additions which you make, and, secondly, the effect of the policy is to freeze whatever capital you had.

That sort of thing you can live with, but then you have the China type of situation where you have a runaway inflation and nothing that the government can

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do or tries to do is going to make any difference. They are dealing with a situation which has gotten entirely beyond their control.

In such cases, if you can talk to an official outside his office, he may be pretty realistic about your practical problem. We went along with China for a time. They would give us dollars just for the laid down cost of imported oil, nothing for overhead, nothing for profits, and we kept telling the Central Bank of China you can't stay in business that way.

Finally, we got hold of a leading private banker and talked to him and told him our problem. He talked to an official whom he knew and came back and told us, "I can't tell you anything. This is all in confidence, but if you are not including some profit in the laid down cost by padding your invoices, maybe you better start it."

Finally, you can run into a situation where the exchange regulations are rigged to produce a result of one kind or other. The present Indonesian regulations will do for an example.

The official rate of exchange between the Indonesian rupiah and the United States dollar is 3.8. Until a few months ago that was the rate upon which all official transactions were made. Then somebody came up with a system by which they preserved this 3.8 rate officially but they added to the regulations something known as the foreign exchange certificate.

Whenever you go to the central bank to buy foreign currency with rupiahs, you have to give them the official rate of exchange plus certificates in double that amount, and you buy the certificates from the bank, so the net effect is that you pay about three times the rate for hard currency. If you came to the bank to buy rupiahs, they would give you certificates, but not twice the amount, only a like amount. You see how that works out?

It has the effect of two other things. First, it means that the importer has to pay half again as much for currency by which he purchases imports as the exporter gets for foreign currency, the receipts of his exports. In effect, it operates as a rather high tariff on everything, without distinguishing between the degree of necessity of the item imported. (That is not quite true because they do have a small list of basic essentials where the importer gets the same as the exporter.)

Second, assuming you make a profit, if you are a foreign investor you then have to convert your profit back at this three-times official rate which means that you pay in effect an additional 50% tax in order to get your profits out again.

Now, that, I submit, is not the kind of system which has any tendency to encourage private investment in Indonesia, and that is the kind of system under which it is most difficult to do business because the hardships experienced by the foreign investor are not the accidential consequences of the system; they are the intended consequences of the system. It is one device out of many which might have been adopted to take a little more from the foreigner.

Anti-Foreign Regulations

That brings up the whole group of nationalistic or anti-foreign types of regulations which are constantly increasing in the very areas in which foreign investment is in fact most necessary—the so-called underdeveloped areas of President Truman's Point IV.

It started a long time ago in South America, spreading more and more in Asia today. You get it all the way from outright expropriation, as the celebrated case of the Mexican oil fields, for example, down to a constant niggling attack — either excessive import and export duties or exchange relations so rigged as to produce the same consequences as excessive duties, special taxes applicable to foreigners, either in form or in substance, regulations which operate as taxes against foreigners.

Of course, it is perfectly easy for most of these underdeveloped countries to rig a tax so that the foreigner pays, even without having it indicated on the statute books that there is any distinction between the foreign and the local taxpayer. One easy way is by classification. The big enterprises in most of these countries will be foreign owned, and simply adjusting taxes in accordance with the total volume of business, and automatically places the heavy rate against the outsider. However much that may be against the interests of the country in the long run, it is obviously extremely appealing politically in the short run.

Still more simply, you can do it by enforcing the taxes against some people and not enforcing the taxes against other people. That appears to be happening in China today from the little we can learn.

Then you can have limitations on the percentage of foreigners a business may have employed, and set categories by which the employers have to upgrade a certain percentage of local employees whether they are actually ready to take the responsibility or not.

You can do it by actually excluding categories of specialists. It is very difficult for an accountant to work, for example, in the Philippines today because of the regulations designed to limit accountants to persons licensed for that profession, which is denied to any but Filipinos.

A move which is quite popular in the case of the extractive industries particularly is to require a percentage of local capital participation, which may be all right if the local capital is bona fide, but if there are only a few persons who can put in that capital on an extremely preferential basis, such a policy can degenerate into a pure shakedown.

The sad part of all this is that you cannot but feel some sympathy with the theoretical objectives behind many such regulations. If you are operating in a given country, it should be your endeavor to train local personnel until they can take over more and more responsible positions in your organization. If local capital desires to invest, particularly if it is exploit local resources, probably you should welcome that capital into your organization.

If your wages are low, maybe they ought to be higher. They are low by the American standards in most foreign fields, and you can't feel a total lack of sympathy for a foreign government which presses this type of regulation against the foreign investor. Nevertheless, you must not fail to realize that if the thing is pushed too far, there will be no foreign investment at all.

Quite apart from discrimination, moreover, certain policies are unsuitable for underdeveloped areas. The tax rate in the United States, assuming no upstream dividend and no consolidation, is 38% at the moment. In India it runs around 54%, I believe. It is not particularly encouraging to take capital funds from the United States, move them to a foreign country, incur special risks that are necessarily involved, and then actually pay for the inferior government protection which you receive there—more than you would pay on a similar investment at home.

U. S. Taxation of Foreign Profits

Where the foreign tax rates are low, on the other hand, the American investor pays the United States rate anyway. That is to say, if you have a foreign branch operation, the income from that operation goes into your gross income and taxable net income and the United States rate of 38% applies. If you have a foreign subsidiary operation, the same thing will happen if you declare a dividend and bring the money in. So at best you can't get a tax advantage out of foreign investment today, and in a good many cases you are likely to run into an unfavorable rate differential.

Those are, I think, the principal considerations that have been operating to inhibit the large movement of capital funds to foreign areas where for some reason it isn't desirable.

That raises the question of what can be done about it, if anything should be done about it. It appears to be a national policy to encourage American investment abroad, and we have the so-called Point IV program designed for that purpose.

Unless there have been some legislative happenings recently that I haven't heard about, the present status of that Point IV program is that the implementing bill has been passed authorizing the expenditiure of funds for various types of projects designed to improve the economic status of the so-called backward areas. According to the pronouncements of Government spokesmen, that money will go primarily for surveys and technical advice, and to a limited extent, for such actual investments as are in their nature not attractive to private investors. Railroads, apparently, are in that category; some types of irrigation, crop control, agricultural development projects are also of that type.

I believe that the House has appropriated $35 million for the purpose and the Senate has appropriated $10 million, and unless something has happened very recently, that discrepancy has not yet been resolved. Neither $35 or $10 million amounts to anything very substantial on that type of program.

The second measure which is pending is a provision for limited guarantees of American investment in the so-called underdeveloped areas. As originally drawn, the guarantees' provisions might be quite broad. They were referred to as guarantees against the special risks inherent in foreign investment. The bill most prominently under discussion at the present time limits those, I believe, to the risk of nonconvertibility of a reasonable profit plus the recovery of capital investment in United States currency as distinguished from local currency, and a guarantee by the United States that dollar funds will be available in the event of actual expropriation.

As Mr. Austin Foster expressed it, neither are guarantees in the sense that a lawyer would recognize a guarantee because a guarantee is the underwriting by one individual of the promises of another individual. In these cases there isn't any basic promise. Our government is not the guarantor in this program but the principal obligor.

It is very questionable whether that type of program has much value. If you do not limit the type of risk against which your government guarantees or, more properly, which your government assumes on the behalf of the investor, you would get much too large a commitment, and it seems to me no government could undertake such commitments without also assuming very considerable authority over the direction of the investment which is to be guaranteed.

If you hold down to those two risks, expropriation and nonconvertibility of foreign currency funds, I think that what I have said indicates those are only a small proportion, although an important proportion, of the total special risks that are involved in making foreign investment.

Yet, even that would be potentially very large indeed, and is it to be restricted to future investments? In that case you are discriminating against the groups which have been investing abroad over a period of years and discriminating in favor of persons who have been induced now for the first time to send their funds abroad. But if it isn't so limited the potential liability on the part of the United States is enormous.

Furthermore, it seems to me that unless there is an additional implementation on the side, the very fact that the Government of the United States has underwritten the convertibility of profits and recovery of capital for the American investors abroad, will encourage the foreign government to take a tolerable nonchalant attitude about the supplying of funds.

I mentioned that American investors investing abroad are taxable in the United States on those foreign earnings. However, they get a credit against the tax payable in the United States for the tax payable abroad. As long as the tax isn't a rate higher abroad, it doesn't cost the American enterprise anything, but a number of countries have tried to take advantage of that to put money into their own treasuries.

Cuba once proposed a tax applicable specifically to foreign investors providing a fluctuating rate equal to the rate the investors paid at home.

Improved Commercial Treaties Needed

It seems to me that the thing which our government could most usefully do is to press with great vigor a program of improved treaties of friendship and commerce under which the foreign country would be required to guarantee convertibility of a reasonable profit, to be stipulated perhaps by the treaty, and the reasonable recovery of capital for United States investments made in those foreign areas, the execution of such treaties being made a condition precedent to the extension of any of the government-to-government aid, under the Point IV program by way of technical services, capital, or special governmental projects.

The second thing which I think our government might do to great advantage is not to tax the American investor abroad on his earnings abroad. That is a highly controversial subject, and I don't plan to spend very long on it, but I would like to sketch the basic argument for it developed by Charles Carroll, of General Motors, and a number of others in the National Foreign Trade Council.

There is a tendency for taxes in any particular country to adjust to the requirements of the community. When you are dealing in an area where you have an underdeveloped economy with high business risk, you will generally find relatively low taxes measured by income. They may make up for it to a considerable extent in indirect taxes of various kinds, but they will give the investor a run for his money because they have to.

As you get a more fully developed economy with greater security of capital and profit, you are more likely to find your mature tax system, as in England, for instance, where the rate will be higher than the United States rates, or as high.

If you put the American investor abroad in the position of paying the United States rate or foreign rate, whichever of the two is higher, and that is the net effect of the foreign tax credit, his investment carries the normal tax even in backward areas with high risk and low local tax rates. He should at least be free from taxes in the U. S. on the foreign profit until it is recovered. By recovered, I mean actually brought back in terms of dividends or remitted funds. So far as the American investor abroad is concerned, profit which is represented by fixed assets or cash in the bank or anything else in a foreign investment, is not a profit yet. Accountants have to show it as one according to the conventions of their trade, but from a point of fiscal management, it isn't a profit yet, and it seems that the tax collector in this country could wait.

Despite the extraordinary risks of foreign investment, I think that, barring the development of a large-scale international war again in the next few years, we could hope to see foreign investment moving out of the United States in a fairly good amount if three things were done.

If our government, instead of trying to a limited degree to underwrite the risks, put the pressure on the foreign government to lessen those risks to the extent that it was in their power to do so, you would have such an improved opportunity for foreign investments as to make it much more desirable. The foreign countries would have to realize this, and this point could certainly be brought home to them.

Second, you should not put a tax burden on a foreign profit in the United States unless the profit is realized. The most important point is that the foreign backward areas, desiring dollar investment, must realize that "you can't have your cake and eat it." You cannot simultaneously penalize an investment for the local political advantage which you might obtain by so doing and expect to have the money come in. If they want the money and if it is not available from government-to-government sources on a basis of competition with private investment, I think that most foreign governments can be made to see the point.

If those things could be done, I think there is very little doubt of the advantages to all concerned.

There has been a great deal of talk, a tremendous amount in the foreign countries, and some in the United States, about the exploitation of backward areas by the foreign, particularly the American and British, investors. Now, if by exploitation they simply mean the wages paid to a coolie in Canton are less than the wages paid to a day laborer in the United States, that, of course, is true. However, if they mean that the Shell Oil Company in Hong Kong pays less to a common laborer than the Chinese merchant that isn't true. The converse is true. The native who works for the industrial investors is uniformly better off than his neighbor who is not so employed. The customer of the foreign investor is uniformly receiveing a product which local effort could not have supplied, or at a more resonable price. The foreign government is benefiting from a more reliable source of tax income. But if these benefits are to be enjoyed, the country desiring foreign investment must minimize the special risks, so far as possible, and must afford opportunity for enought profit to encourage venture capital to assume these risks which cannot be eliminated.

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)	Aug. 6	100.7	99.3	92.6	81.3
Equivalent to—					
Steel ingots and castings (net tons)	Aug. 6	1,919,600	1,892,900	1,765,200	1,498,800
AMERICAN PETROLEUM INSTITUTE:					
Crude oil and condensate output — daily average (bbls. of 42 gallons each)	July 22	5,537,500	5,495,450	5,356,750	4,738,800
Crude runs to stills — daily average (bbls.)	July 22	¶5,757,000	5,803,000	5,636,000	5,148,000
Gasoline output (bbls.)	July 22	19,754,000	19,311,000	19,626,000	18,301,000
Kerosene output (bbls.)	July 22	1,848,000	2,147,000	2,001,000	1,431,000
Gas, oil, and distillate fuel oil output (bbls.)	July 22	7,166,000	7,179,000	6,868,000	5,807,000
Residual fuel oil output (bbls.)	July 22	8,056,000	8,026,000	7,461,000	7,489,000
Stocks at refineries, at bulk terminals, in transit and in pipe lines—					
Finished and unfinished gasoline (bbls.) at	July 22	108,915,000	111,739,000	115,036,000	110,569,000
Kerosene (bbls.) at	July 22	22,766,000	22,532,000	20,165,000	24,544,000
Gas, oil, and distillate fuel oil (bbls.) at	July 22	59,434,000	58,658,000	50,580,000	69,365,000
Residual fuel oil (bbls.) at	July 22	42,424,000	42,708,000	41,291,000	68,517,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	July 22	829,884	789,268	810,152	718,516
Revenue freight received from connections (number of cars)	July 22	662,416	570,886	667,761	556,456
CIVIL ENGINEERING CONSTRUCTION — ENGINEERING NEWS-RECORD:					
Total U. S. construction	July 27	$252,489,000	$343,307,000	$287,582,000	$131,819,000
Private construction	July 27	120,259,000	217,786,000	177,294,000	51,921,000
Public construction	July 27	132,230,000	125,521,000	110,288,000	79,898,000
State and municipal	July 27	122,756,000	91,187,000	88,994,000	61,870,000
Federal	July 27	9,474,000	34,334,000	21,294,000	18,028,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	July 22	11,205,000	*9,115,000	10,622,000	7,278,000
Pennsylvania anthracite (tons)	July 22	855,000	786,000	950,000	1,060,000
Beehive coke (tons)	July 22	136,400	*117,800	133,600	5,500
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100	July 22	302	*265	250	207
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	July 29	6,190,098	6,185,702	6,115,119	5,518,485
FAILURES (COMMERCIAL AND INDUSTRIAL) — DUN & BRADSTREET INC.	July 27	160	170	156	168
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	July 25	3.837c	3.837c	3.837c	3.705c
Pig iron (per gross ton)	July 25	$46.38	$46.38	$46.38	$45.91
Scrap steel (per gross ton)	July 25	$36.83	$37.17	$37.67	$19.33
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	July 26	22.200c	22.200c	22.200c	17.325c
Export refinery at	July 26	22.425c	22.425c	22.425c	17.550c
Straits tin (New York) at	July 26	97.500c	89.500c	77.500c	103.000c
Lead (New York) at	July 26	12.000c	12.000c	11.500c	14.250c
Lead (St. Louis) at	July 26	11.800c	11.800c	11.300c	14.050c
Zinc (East St. Louis) at	July 26	15.000c	15.000c	15.000c	10.000c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Government Bonds	Aug. 1	102.07	102.17	102.11	103.16
Average corporate	Aug. 1	115.63	115.24	115.04	113.89
Aaa	Aug. 1	120.63	120.02	120.22	120.22
Aa	Aug. 1	119.00	118.60	118.80	118.40
A	Aug. 1	115.04	114.66	114.85	112.93
Baa	Aug. 1	108.16	107.98	107.09	105.17
Railroad Group	Aug. 1	110.88	110.34	109.60	108.34
Public Utilities Group	Aug. 1	116.80	116.41	116.61	115.24
Industrials Group	Aug. 1	119.20	119.00	119.41	118.40
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Government Bonds	Aug. 1	2.34	2.34	2.34	2.27
Average corporate	Aug. 1	2.87	2.89	2.90	2.96
Aaa	Aug. 1	2.62	2.65	2.64	2.64
Aa	Aug. 1	2.70	2.72	2.71	2.73
A	Aug. 1	2.90	2.92	2.91	3.01
Baa	Aug. 1	3.27	3.28	3.33	3.44
Railroad Group	Aug. 1	3.12	3.15	3.19	3.26
Public Utilities Group	Aug. 1	2.81	2.83	2.82	2.89
Industrials Group	Aug. 1	2.69	2.70	2.68	2.73
MOODY'S COMMODITY INDEX	Aug. 1	449.1	447.9	406.0	341.1
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	July 22	227,940	188,355	208,738	152,210
Production (tons)	July 22	213,031	186,959	211,027	158,764
Percentage of activity	July 22	95	82	94	76
Unfilled orders (tons) at	July 22	501,212	489,490	390,879	274,741
OIL, PAINT AND DRUG REPORTER PRICE INDEX—1926-36 AVERAGE=100	July 28	125.1	123.5	121.1	121.7
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 15	43,206	25,093	27,376	16,205
Number of shares—Customers' total sales	July 15	1,255,795	722,305	833,176	471,820
Dollar value	July 15	$54,157,514	$30,976,066	$38,337,323	$17,508,389
Odd-lot purchases by dealers (customers' sales)—					
Number of orders—Customers' total sales	July 15	36,140	19,311	30,777	15,991
Customers' short sales	July 15	411	152	168	252
Customers' other sales	July 15	35,729	19,159	30,609	15,739
Number of shares—Customers' total sales	July 15	1,095,740	555,812	866,107	447,882
Customers' short sales	July 15	16,836	6,302	5,960	9,645
Customers' other sales	July 15	1,078,904	549,510	860,147	438,237
Dollar value	July 15	$42,832,672	$22,532,535	$35,526,685	$14,148,078
Round-lot sales by dealers—					
Number of shares—Total sales	July 15	279,460	135,810	306,310	158,020
Short sales	July 15	------	------	------	------
Other sales	July 15	279,460	135,810	306,310	158,020
Round-lot purchases by dealers—					
Number of shares	July 15	455,910	279,150	246,220	178,870
WHOLESALE PRICES NEW SERIES — U. S. DEPT. OF LABOR—1926=100:					
All commodities	July 25	163.7	*163.3	157.1	153.0
Farm products	July 25	177.0	*176.9	165.0	164.2
Grains	July 25	175.0	172.0	169.3	152.8
Livestock	July 25	241.0	244.2	217.5	207.8
Foods	July 25	173.8	*175.4	162.7	160.2
Meats	July 25	259.4	269.2	241.5	225.2
All commodities other than farm and foods	July 25	151.7	*150.6	148.7	145.1
Textile products	July 25	140.8	139.6	133.7	138.3
Fuel and lighting materials	July 25	133.8	*133.5	133.1	130.1
Metals and metal products	July 25	173.5	173.3	173.1	168.0
Building materials	July 25	207.2	*204.1	201.4	188.7
Chemicals and allied products	July 25	118.6	117.7	114.3	118.4

*Revised figure. ¶Includes 503,000 barrels of foreign crude runs.

	Latest Month	Previous Month	Year Ago
BANK DEBITS—BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM—			
Month of May (in thousands)	$112,075,000	$102,528,000	$99,280,000
BUSINESS INCORPORATIONS (NEW) IN THE UNITED STATES—DUN & BRADSTREET, INC.—Month of June	8,861	9,216	7,260
BUSINESS INVENTORIES, DEPT. OF COMMERCE NEW SERIES — Month of May (millions of dollars):			
Manufacturing	$31,500	$31,200	$33,600
Wholesale	9,500	9,400	9,200
Retail	14,300	*14,100	14,100
Total	$55,200	$54,800	$56,900
CASH DIVIDENDS — PUBLICLY REPORTED BY U. S. CORPORATIONS — U. S. DEPARTMENT OF COMMERCE — Month of May (000's omitted)	$210,600	$483,200	$188,200
COTTON SPINNING (DEPT. OF COMMERCE):			
Spinning spindles in place on July 1	22,977,000	21,101,000	23,779,000
Spinning spindles active on July 1	20,221,000	20,229,000	21,479,000
Active spindle hours (000's omitted) July	10,435,000	8,935,000	10,320,000
Active spindle hours per spindle in place July	452	473	461
HOUSEHOLD WASHERS AND IRONERS — STANDARD SIZE (AMERICAN HOME LAUNDRY MANUFACTURERS' ASSOCIATION)—Month of June:			
Factory sales of washers (units)	325,217	304,640	260,700
Factory sales of ironers (units)	27,100	27,400	21,100
Factory sales of dryers (units)	20,568	16,122	2,496
LIFE INSURANCE—BENEFIT PAYMENTS TO POLICYHOLDERS — INSTITUTE OF LIFE INSURANCE—Month of April:			
Death benefits	$128,731,000	$152,034,000	$124,889,000
Matured endowments	40,216,000	48,070,000	37,960,000
Disability payments	7,884,000	8,354,000	8,013,000
Annuity payments	19,888,000	21,704,000	19,256,000
Surrender values	52,620,000	63,116,000	48,837,000
Policy dividends	46,463,000	65,460,000	46,348,000
Total	$295,802,000	$358,738,000	$285,303,000
MANUFACTURER'S INVENTORIES & SALES (DEPT. OF COMMERCE) NEW SERIES— Month of May (millions of dollars):			
Inventories:			
Durable	$14,300	*$14,100	$14,100
Nondurable	17,300	17,200	17,600
Total	$31,500	$31,200	$33,600
Sales	20,400	18,500	17,700
MONEY IN CIRCULATION—TREASURY DEPT.			
As of May 31 (000's omitted)	$27,090,000	$27,048,355	$27,507,000
MOTOR VEHICLE FACTORY SALES FROM PLANTS IN U. S. (AUTOMOBILE MANUFACTURERS' ASSOC.)—Month of June:			
Total number of vehicles	856,626	696,893	593,640
Number of passenger cars	720,688	575,518	493,882
Number of motor trucks	135,332	120,963	99,126
Number of motor coaches	606	412	632
PERSONAL INCOME IN THE UNITED STATES (DEPARTMENT OF COMMERCE)—Month of May (in billions):			
Total personal income	213.3	*213.8	*207.6
Wage and salary receipts, total	136.4	*135.3	*132.7
Total employer disbursements	139.2	*138.1	*134.9
Commodity producing industries	60.3	*59.1	*57.1
Distributive industries	39.5	*39.7	*40.1
Service industries	18.3	*18.2	*17.6
Government	21.1	*21.1	*20.1
Less employee contributions for social insurance	2.8	*2.8	2.2
Other labor income	3.4	*2.3	*2.2
Proprietors' and rental income	41.5	*39.8	*42.6
Personal interest income and dividends	17.9	*18.2	*17.1
Total transfer payments	14.1	*17.2	*12.3
Total nonagricultural income	197.2	*198.7	*188.7
PORTLAND CEMENT (BUREAU OF MINES)— Month of June:			
Production (bbls.)	20,007,000	19,950,000	18,279,000
Shipment from mills (bbls.)	24,749,000	22,834,000	20,667,000
Stocks (at end of month) (bbls.)	15,302,000	20,043,000	19,785,000
Capacity used	93%	90%	87%
PRICES RECEIVED BY FARMERS — INDEX NUMBER — U. S. DEPT. OF AGRICULTURE August, 1909-July, 1914=100 — As of May 15:			
Unadjusted—			
All farm products	247	241	258
Crops	223	225	285
Food grain	230	227	229
Feed grain and hay	1[illegible]0	181	174
Tobacco	387	389	403
Cotton	246	242	252
Fruit	195	206	229
Truck crops	178	205	194
Oil-bearing crops	248	239	245
Livestock and products	269	256	271
Meat animals	342	312	319
Dairy products	230	235	235
Poultry and eggs	154	161	215
SELECTED INCOME ITEMS OF U. S. CLASS I RYS. (Interstate Commerce Commission) —Month of April:			
Net railway operating income	$62,216,875	$75,706,315	$64,462,096
Other income	17,013,627	16,459,294	15,918,189
Total income	79,230,502	92,165,609	80,380,285
Miscellaneous deductions from income	3,854,281	4,616,875	3,271,660
Income available for fixed charges	75,376,221	87,548,734	77,108,625
Income after fixed charges	40,657,317	52,752,210	42,638,613
Other deductions	3,127,369	3,315,608	2,971,984
Net income	37,529,948	49,436,602	39,666,629
Depreciation (way & structures & equip.)	35,033,571	34,920,312	33,138,022
Amortization of defense projects	1,366,965	1,371,026	1,374,616
Federal income taxes	26,546,039	31,548,927	26,001,351
Dividend appropriations:			
On common stock	4,585,789	11,595,049	2,968,177
On preferred stock	529,162	4,945,685	529,233
Ratio of income to fixed charges	2.17	2.52	2.24
UNITED STATES EXPORTS AND IMPORTS— BUREAU OF CENSUS — Month of May (000's omitted):			
Exports	$825,000	*$809.000	$1,092,000
Imports	659,800	583,304	540,630

*Revised figure.

Securities Now in Registration

• INDICATES ADDITIONS SINCE PREVIOUS ISSUE

• Alabama Power Co., Birmingham, Ala.
July 28 filed 64,000 shares of 4.20% preferred stock (par $100) to be offered in exchange for a like number of outstanding 4.20% preferred shares of Birmingham Electric Co. No underwriter.

• Alaska-Wrangell Mills, Inc., Seattle, Wash.
July 27 (letter of notification) 9,675 shares of non-voting preferred stock. **Price**—At par ($50 per share). **Underwriter**—None. **Proceeds**—To buy new equipment. **Office**—216 Third Ave., South, Seattle, Wash.

Alberta-Canada Oils, Inc. (Del.) (9/1)
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.

Allen Organ Co., Allentown, Pa. (9-1)
July 19 (letter of notification) 1,000 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 Diamond Mining Corp. (8/4)
July 28 (letter of notification) 299,000 shares of common stock. **Price**—At par ($1 per share). **Underwriter**—F. W. McDonald & Co., New York. **Proceeds**—For exploration and development of property operated in Murfreesboro, Ark. **Office**—99 Wall St., New York, N. Y.

• American Fire & Casualty Co., Orlando, Fla.
July 21 (letter of notification) 11,100 shares of common stock (par $10). **Price**—$27 per share. **Underwriter**—Guardian Credit Corp., Orlando. **Proceeds**—For working capital. **Office**—American Bldg., Orlando, Fla. Expected this week.

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. Statement effective July 26.

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.

• Anderson Farmer Corp., Cleveland, Ohio
July 14 (letter of notification) 3,000 shares of 4% cumulative preferred stock (par $100), to be offered to patrons of Anderson Elevator Co. **Underwriter**—None. **Proceeds**—For working capital. **Office**—1370 Ontario St., Cleveland, O.

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.

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.

• Axe-Houghton Fund B, Inc., New York
July 27 filed 1,000,000 shares of capital stock (par $5). **Underwriter**—Axe Securities Corp., New York. **Business**—Investment company.

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, $16.95 per share. **Proceeds** — To reduce a loan and for general corporate purposes. **Business** — Distributor of building materials. Statement originally effective July 10. Amendment effective July 26.

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.

• Carney (Tom) Associates, Inc., Great Falls, Montana
June 30 (letter of notification) 300,000 share sof common stock. **Price**—At par ($1 per share). **Underwriter**—None. **Proceeds**—To drill additional oil wells. **Office**—714 13th St. South, Great Falls, Mont.

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.

• Central Louisiana Electric Co., Inc.
July 19 (letter of notification) 9,888 shares of common stock (par $10). **Price**—$30 per share. **Underwriter**—None. **Proceeds**—For construction and property additions. **Office**—528 Monroe St., Alexandria, La.

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.

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.

• Coca-Cola Bottling Co. of St. Louis.
July 27 (letter of notification) 4,000 shares of common stock (par $1), to be offered to employees. **Price**—$25 per share. **Proceeds**—To benefit employees for services. **Office**—2930 N. Market St., St. Louis, Mo.

• Community Finance, Inc., Newark, N. J.
July 26 (letter of notification) $100,000 6% cumulative deferred debentures (in multiples of $100) due in 20 years from date of issue. **Underwriter**—None. **Proceeds**—To make loans. **Office** — 405 Seventh Ave., Newark, N. J.

• Conrac, Inc., Glendora, Calif.
July 28 (letter of notification) 96,000 shares of capital stock. **Price**—At par (50 cents per share). **Underwriter**—None. **Proceeds**—To pay debt and for working capital.

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.

• Continental Refrigeration Corp., N. Y. (8/3)
July 28 (letter of notification) $250,000 of 6% 5-year income notes dated June 1, 1950 in multiples of $1,000. **Price**—At 100 and interest. **Underwriter**—National Investors Service, New York. **Proceeds**—To pay expenses incurred in prosecuting infringement actions under patent and for commercialization of patent. **Office**—50 Broadway, 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.

• Darden Associates, Inc., Washington, D. C.
July 28 (letter of notification) 2,000 units of interest. **Price**—$150 per unit. **Underwriter**—None. **Proceeds**—For working capital. **Office**—830 Bowen Bldg., Washington, D.C.

• Dawbarn Brothers, Inc., Waynesboro, Va.
July 24 (letter of notification) 310 shares of capital stock (par $1) and $25,000 of debenture bonds. **Price**—Stock at par and bonds at $1,000 each. **Underwriter**—None. **Proceeds**—For operating expenses.

• Diesel Power, Inc., Pittsburgh, Pa. (8/5)
July 28 (letter of notification) 25,000 shares of common stock to be offered only to common stockholders during a 10-day period, up to 100 shares each. **Price**—At par ($1 per share). **Underwriter**—Graham & Co., Pittsburgh, Pa. **Proceeds**—To expand production and for working capital. **Office**—601 Granite Bldg., 6th Ave. and Wood St., Pittsburgh 22, Pa.

• Dividend Shares, Inc., New York
July 27 filed 6,000,000 shares of capital stock (par 25 cents). **Underwriter**—Calvin Bullock, New York. **Business**—Investment company.

Duquesne Light Co. (8/22)
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. (8/8)
June 7 filed 100,000 shares of capital stock (par $5) to be offered to stockholders of record Aug. 8 at the rate of one new share for each three held, with oversubscription privilege; rights are to expire Aug. 23. **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.

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.

• Federal Services Finance Corp., Washington, D. C.
July 21 (letter of notification) 3,000 shares of 5% convertible preferred stock, series B, to be offered initially in exchange, par for par, for 6% preferred stock. **Price**—At par ($100 per share). **Underwriter**—Mackall & Coe, Washington, D.C. **Proceeds**—To redeem 6% preferred stock and for working capital.

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.

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. Statement effective July 25.

• Georgia-Pacific Plywood & Lumber Co., Augusta, Ga.
July 27 (letter of notification) 4,000 shares of common stock (par $1). **Price**—$14 per share. **Underwriter**—Reynolds & Co., New York. **Proceeds**—For benefit of Julian North Cheatham, Winnetka, Ill., the selling stockholder.

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.

• Goldwaters, Inc., Phoenix, Ariz.
July 28 (letter of notification) 2,900 shares of 5% cumulative preferred stock. **Price**—At par ($100 per share). **Underwriter**—None. **Proceeds**—For working capital. **Office**—31 North First St., Phoenix, Ariz.

• Granite City (Ill.) Steel Co.
July 31 filed 99,446 shares of common stock (no par) to be offered common stockholders on basis of one new share for each four shares held. **Price**—To be filed by amendment. **Underwriter**—Merrill Lynch, Pierce, Fenner & Beane, New York. **Proceeds**—For general corporate purposes.

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..

● **Hirst-Chichagof Mining Co., Seattle, Wash.**
July 28 (letter of notification) 400,000 shares of common stock. **Price**—50 cents per share. **Underwriter**—H. B. Houston, license broker, Seattle, Wash. **Proceeds**—For working capital. **Office**—415 Seventh Ave. South, Seattle, Wash.

● **Indiana Gas & Water Co., Inc., Indianapolis, Indiana**
July 28 filed $9,500,000 of first mortgage bonds, series A, due Sept. 1, 1980. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; First Boston Corp.; Harriman Ripley & Co., Inc. and Blyth & Co., Inc. (jointly); Kidder, Peabody & Co. **Proceeds**—To redeem $9,440,000 outstanding bonds. **Offering**—Expected late this month.

Industrial Stamping & Mfg. Co. (8/15)
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 middle of this month.

● **International Lead & Copper Co., Idaho Falls, Idaho.**
July 27 (letter of notification) 300,000 shares of capital stock. **Price**—At par (50 cents per share). **Underwriter**—None. **Proceeds**—For working capital. **Address**—P. O. Box 325, Idaho Falls, Idaho.

● **International Uranium Corp., N. Y. City**
July 14 (letter of notification) 20,000 shares of capital stock. **Price**—25 cents per share. **Underwriter**—None. **Proceeds**—For mining operations. **Office**—11 West 42nd St., New York 18, N. Y.

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.

● **Kaye-Halbert Corp., Culver City, Calif.**
July 28 filed 100,000 shares of class A common stock (par $1). **Price**—$5 per share. **Underwriter**—Sills, Fairman & Harris, Inc., Chicago, Ill. **Proceeds**—For working capital.

● **Knickerbocker Fund, New York**
July 27 filed 1,000,000 shares of beneficial interest. **Underwriter**—Knickerbocker Shares, Inc. **Business**—Investment company.

● **Lennox Hotel Co., St. Louis, Mo.**
July 28 (letter of notification) 11,326 shares of common stock (par $1). **Price**—$6.04 per share. **Underwriter**—Mayfair Hotel, Inc., St. Louis, Mo. **Proceeds**—To pay off first and second mortgage bonds. **Office**—825 Washington Ave., St. Louis, Mo.

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.

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.

● **Metalpak Corp., Salinas, Calif.**
July 20 (letter of notification) 2,500 shares of class A stock (par $10) and 7,500 shares of class B stock (no par), the latter to be issued in exchange for property acquired. **Price**—Of class A stock, $10 per share. **Underwriter**—None. **Proceeds**—For working capital. **Office**—40 Los Lareles, Salinas, Calif.

● **Metro, Inc., Baltimore, Md.**
July 25 (letter of notification) 10,000 shares of 7% preferred stock. **Price**—At par ($100 per share). **Underwriter**—None. **Proceeds**—For working capital. **Office**—808 E. Fayette St., Baltimore 2, Md.

NEW ISSUE CALENDAR

August 3, 1950

Continental Refrigeration Corp.	Notes
Mutual Telephone Co.	Bonds & Preferred

August 4, 1950

American Diamond Mining Corp.	Common

August 5, 1950

Diesel Power, Inc.	Common

August 7, 1950

Treesdale Laboratories & Textile Processing Co.	Preferred

August 8, 1950

Eastern Stainless Steel Corp.	Common
Seaboard Finance Co.	Preferred

August 9, 1950

Chesapeake & Ohio Ry.	Equip. Trust Ctfs.

August 15, 1950

Industrial Stamping & Mfg. Co.	Bonds & Common

August 16, 1950

Maine Central RR., noon (EDT)	Equip. Trust Ctfs.
Pacific Petroleums, Ltd.	Common

August 22, 1950

Transvision, Inc.	Common

September 1, 1950

Alberta-Canada Oils, Inc.	Common
Allen Organ Co.	Pfd. & Common

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
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

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.

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.

● **Modern Supply Co., Inc., Pittsburgh, Pa.**
July 28 (letter of notification) 2,000 shares of 5% preferred stock (par $100) and 50,000 shares of common stock (no par—$1 declared value), of which 145 preferred and 15,055 com. shares were sold in Pennsylvania. **Price**—For preferred, $100 and for common, $1 per share. **Underwriter**—None. **Proceeds**—For expansion and development. **Office**—837 W. North Ave., Pittsburgh 12, Pa.

● **Mt. Carmel (Ill.) Public Utility Co.**
July 24 (letter of notification) 3,000 shares of 4% preferred stock. **Price**—At par ($100 per share). **Underwriter**—None. **Proceeds**—To retire short-term notes and expand facilities. **Office**—316 Market St., Mt. Carmel, Illinois.

Mutual Telephone Co., Honolulu, Hawaii (8/3)
June 27 filed $1,000,000 first mtge 3⅛% bonds, series G, due 1980, and 100,000 shares of preferred stock, series C (par $10), the new preferred stock being offered initially to common stockholders of record July 7 (with rights to expire Aug. 15) at rate of one preferred share for each 7.5778 common shares held with employees entitled to subscribe for unsubscribed shares. **Price**—For bonds: 102.46 and interest. For preferred, at par. **Underwriter**—Kidder, Peabody & Co. **Proceeds**—To pay short-term notes and toward 1950-1951 construction. **Offering**—Being made today.

● **New Hampshire Electric Co., Cambridge, Mass.**
Aug. 2 filed $3,600,000 of first mortgage sinking fund bonds, series A, due 1975. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Kidder, Peabody & Co., and White, Weld & Co. (jointly). **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.

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 or each 10 held. **Underwriter**—A. C. Allyn and Co., Inc., New York. **Price**—To be filed by amendment. **Proceeds**—For construction expenditures. Postponed temporarily.

● **Overseas National Airways, San Francisco, Calif.**
July 28 (letter of notification) 100,000 shares of class A preferred stock (par $1) and 200,000 shares of common stock (par 10 cents); also 30,500 shares of class B preferred stock (par $1) to be offered to Calasia Air Transport for certain rights. **Price**—Of class A preferred and common stock, at par. **Underwriter**—None. **Proceeds**—For general expenses. **Office**—291 Geary St., San Francisco,, 2, Calif.

Pacific Petroleums Ltd. (8/16)
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

● **Parks Air Lines, Inc., East St. Louis, Ill.**
July 26 (letter of notification) 100,000 shares of common stock (par $2). **Price**—$3 per share. **Underwriter**—None. **Proceeds**—For operating purposes. **Office**—Parks Metropolitan Airport, East St. Louis, Ill.

● **Pendleton (Ore.) Grain Growers, Inc.**
July 17 (letter of notification) $155,709 of series 18 capital reserve certificates to be issued to patrons for the year 1949 in proportion to their patronage. **Underwriter**—None. **Proceeds**—For capital purposes.

● **Phibian, Inc., Vancouver, Wash.**
July 17 (letter of notification) 9,650 shares of common stock (no par). **Price**—$25 per share. **Underwriter**—None. **Proceeds**—For working capital. **Address**—P. O. Box 464, Vancouver, Wash.

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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. and Bosworth, Sullivan & Co.; Kuhn, Loeb & Co. and Harris, Hall & Co., Inc. (jointly.) **Proceeds**—For construction. Temporarily postponed. It was stated on Aug. 1 that company plans to reduce new financing to $10,000,000.

● **Pueblo (Colo.) Medico Clinic Investment**
July 24 (letter of notification) $25,000 of bonds and 14,852 shares of common stock (par one cent), to be offered in units of one $1,000 bond and 91 shares of common stock. **Price**—$1,492.20 per unit. **Proceeds**—For working capital. **Office**—702 N. Main St., Pueblo, Colo.

● **Quinby Plan, Inc., Rochester, N. Y.**
July 28 filed $2,000,000 of Quinby Plans. **Underwriter**—Quinby & Co., Inc. **Business**—An investment company.

● **Raysol, Inc., Washington, D. C.**
July 24 (letter of notification) 10,000 shares of 6% preferred stock (par $10) and 5,000 shares of common stock, to be offered in units of two shares of preferred and one share of common stock. **Price**—$20 per unit. **Underwriter**—None. **Proceeds**—To install bottling plant in Niagara Falls, N. Y., and develop foreign markets. **Office**—415 Butternut St., N.W., Washington, D.C.

Raytheon Manufacturing Co.
July 12 filed 289,459 shares of common stock (par $5), being offered to holders of common stock of record July 31 at rate of one share for each five shares held; rights will expire on Aug. 14. **Price**—$6.75 per share. **Underwriters**—Hornblower & Weeks and Paine, Webber, Jackson & Curtis. **Proceeds**—For working capital. **Business**—Electronic tubes and equipment for television and radio sets.

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. May be placed semi-privately.

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 Juan Mining & Developing Co., Montrose, Colorado**
July 24 (letter of notification) 20,000 shares of common stock (par one cent) to be issued as a bonus, with no proceeds to company. **Address**—Box 18, Montrose, Colo.

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.

● **Seafood Products Corp. of Maryland**
July 27 (letter of notification) 4,000 shares of common stock owned by John Wexler. **Price**—At par ($10 per share). **Proceeds**—Net proceeds, less $1 per share, to be donated by John Wexler to the corporation, and used for working capital. **Office**—1520 Linden Lane, Silver Spring, Md.

● **Sears, Roebuck & Co.**
July 26 filed not more than 750,000 shares of capital stock to be purchased under "The Savings and Profit Sharing Pension Fund of Sears, Roebuck & Co. Employees," through not more than 25,000 memberships in the Fund which is voluntary.

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.

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.

● **Sinclair Industries, Inc., St. Louis, Mo.**
July 20 (letter of notification) 10,000 shares of common stock (no par). **Price**—$15 per share. **Underwriter**—None. **Proceeds**—For working capital. **Office**—1317 Kentucky Ave., St. Louis, Mo.

● **Slumbering Hills Mining Corp., Winnemucca, Nevada**
July 20 (letter of notification) 200,000 shares of common stock. **Price**—At par ($1 per share). **Underwriter**—None. **Proceeds**—For working capital. **Office**—333 Bridge St., Winnemuca, Nev.

● **Snoose Mining Co., Hailey, Ida.**
July 17 (letter of notification) 250,000 shares of common capital stock. **Price**—At par (25 cents per share). **Underwriter**—E. W. McRoberts & Co., Twin Falls, Ida. **Proceeds**—For mining development.

● **Southeastern Fund, Columbia, S. C.**
July 26 (letter of notification) 150 5% collateral trust notes of $1,000 each, maturing in one, two or three years from the dates of the respective notes. **Underwriter**—None. **Proceeds**—To purchase house trailers. **Office**—411 Liberty Life Bldg., Columbia, S. C.

● **Southern Co.**
July 28 filed 818,415 shares of common stock (par $5) to be offered in exchange for 254,045 shares of common stock of Birmingham Electric Co. No underwriter.

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 Industries Corp., Mobile, Ala.**
July 24 (letter of notification) 1,000 shares of common stock. **Price**—At par ($100 per share). **Underwriter**—None. **Proceeds**—To Gulf Shipbuilding Corp., selling stockholder. **Office**—61 St. Joseph St., Mobile, Ala.

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.

● **Sprague Devices, Inc., Michigan City, Ind.**
July 27 (letter of notification) $100,000 of first mortgage sinking fund convertible 5% bonds (in denominations of $500 and $1,000 each). **Underwriter**—City Securities Corp., Indianapolis, Ind. **Proceeds**—For working capital. **Office**—Huron St., Michigan City, Ind.

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%.

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.

● **Sun Finance & Loan Co., Cleveland, Ohio**
July 20 (letter of notification) 3,000 shares of class A 6% preferred stock. **Price**—At par ($100 per share). **Underwriter**—None. **Proceeds**—For working capital. **Office**—222 Republic Bldg., Cleveland, O.

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.

Texas Consolidated Oils (formerly Texmass Petroleum Co.)
July 24 filed voting trust certificates representing 25,500 shares of $5 cumulative preferred stock, class A (no par). **Voting Trustees**—John F. Chase, Lindsey Hooper and Forrester A. Clark. **Office**—Dallas, Tex.

● **Titan Explosives Co., Portland, Ore.**
July 20 (letter of notification) 1,000 shares of 4% cumulative participating preferred stock to be offered at par ($25 per share) and 6,572 shares of common stock (no par). **Underwriter**—None. **Proceeds**—To retire debentures and to purchase and install additional machinery. **Address**—P. O. Box 4304, Portland 8, Ore.

● **Toklan Royalty Corp., Tulsa, Okla.**
July 21 (letter of notification) 109,030 shares of common stock (par 70 cents) to be issued at $2.50 per share in exchange for assets of Petroleum Royalties Co. **Office**—Kennedy Building, Tulsa, Okla.

Transvision, Inc. (8/22)
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.

● **Treesdale Laboratories & Textile Processing Co. (8/7)**
July 27 (letter of notification) 100,000 shares of 5% cumulative preferred stock, convertible into common stock share for share, on or before Oct. 1, 1959. **Price**—At par ($3 per share). **Underwriter** — Graham & Co., Pittsburgh, Pa. **Proceeds**—To pay indebtedness, to acquire and install additional equipment and for working capital. **Office**—223 Fourth Ave., Pittsburgh 22, Pa.

● **Tri-State Oil & Refining Co., Denver, Col.**
July 27 (letter of notification) 4,000,000 shares of common stock. **Price**—At par (five cents per share). **Proceeds**—For working capital. **Office**—201 California Bldg., Denver, Colo.

● **United Mining & Leasing Corp., Central City, Colorado**
July 19 (letter of notification) 891,250 shares of common stock. **Price**—At par (10 cents per share). **Underwriter**—None. **Proceeds**—For working capital.

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.

● **Vanadium-Alloys Steel Co.**
Aug. 1 (letter of notification) 3,000 shares of capital stock (no par) to be offered employees. **Price**—$31 per share. **Underwriter**—None. **Proceeds**—To be added to general working capital.

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 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.

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. Terms may be revised.

● **Anton Oil Corp., Fort Worth, Tex.**
July 31 it was rumored that a registration statement will be filed covering $10,500,000 of preferred and common stock.

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.

● **Chesapeake & Ohio Ry. (8/9)**
Bids will be received until Aug. 9 for the purchase from the company of $5,370,000 equipment trust certificates, third issue of 1950, to be dated Sept. 1, 1950 and to be due in 30 semi-annual instalments from March 1, 1951 to Sept. 1, 1965, inclusive. Probable bidders: Halsey, Stuart & Co., Inc.; Salomon Bros & Hutzler; Harris, Hall & Co. (Inc.); Harriman Ripley & Co., Inc. and Lehman Brothers (jointly).

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.

● **Delaware Power & Light Co.**
Ang. 1 it was reported that company expects to be in the market this fall with an offering of bonds to complete its 1950 financing program. Probable bidders: Halsey, Stuart & Co. Inc.; Kuhn, Loeb & Co. and Salomon Bros. & Hutzler (jointly); First Boston Corp.; Union Securities Corp. Earlier this year, it was said that company planned to issue and sell $10,000,000 of bonds and 50,000 shares of preferred stock (par $100).

● **Duquesne Light Co.**
July 27 it was announced that the company plans the sale at competitive bidding of $7,500,000 of new preferred stock (par $50), following sale of $12,000,000 of first mortgage bonds due Aug. 1, 1980 (registration statement for latter issue was filed with SEC on July 25). Probable bidders: W. C. Langley & Co.; Kuhn, Loeb & Co. and Smith, Barney & Co. (jointly); First Boston Corp.; Kidder, Peabody & Co., Merrill Lynch, Pierce, Fenner & Beane and White, Weld & Co. (jointly); Lehman Brothers. Proceeds will be used for construction program.

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. Previous financing underwritten by White, Weld & 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.

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.

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.

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 27 it was announced that bids will be received at the company's office, 222 St. John Street. Portland 4, Me., at or before noon (EDT) on Aug. 16 for the purchase from it of $5,600,000 equipment trust certificates dated Sept. 1, 1950 and to mature in 20 semi-annual instalments from March 1, 1951 to and including Sept. 1, 1960. Probable bidders: Halsey, Stuart & Co. Inc.; Harriman Ripley & Co., Inc. 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.

● **Meck Industries, Inc., Plymouth, Ind.**
July 29 it was reported company plans sale of approximately 250,000 shares of common stock, subject to market conditions. **Underwriter**—Otis & Co. **Proceeds**—For working capital.

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.

● **MidSouth Gas Co.**
July 31 it was announced that this newly organized company may issue and sell publicly $2,800,000 of common stock and place privately with institutional investors $6,900,000 of 20-year 3⅝% first mortgage bonds, the proceeds to be used in connection with the acquisition of the gas distribution properties of Arkansas Power & Light Co. Probable bidders for stock: Lehman Brothers, Equitable Securities Corp. and White, Weld & Co. (jointly).

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).

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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 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.

● **Northern Pacific Ry. (8/8)**
Bids will be received until noon (CDT) on Aug 8 at the company's office in St. Paul, Minn., for the lowest interest rate at which bidders will provide $2,250,000 for financing approximately 90% of the purchase price of 430 box cars and 50 cabooses from Northwestern Improvement Co. at an estimated cost of $2,450,000 and to be sold under a conditional sale agreement. Under the agreement, the $2,250,000 is to be paid in either 96 or 120 equal monthly instalments beginning Sept. 15, 1950.

● **Northern States Power Co. (Minn.)**
July 29 it was reported that the company will be in the market probably this fall with an offering of $17,500,000 new preferred stock. Probable bidders: Lehman Brothers and Riter & Co. (jointly); Smith, Barney & Co. Proceeds would be used for new construction.

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, President, 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 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.

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.

● **Seaboard Air Line Ry.**
Bids will be received at the office of Willkie Owen Farr Gallagher & Walton, 15 Broad Street, New York 5, N. Y., up to noon (EDT) on Aug. 15 for the purchase from the railroad company of $3,570,000 equipment trust certificates, series H, to be dated Sept. 1, 1950, and mature annually from 1951 to 1965, inclusive. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Lee Higginson Corp. and Harris, Hall & Co. (Inc.) (jointly); Harriman Ripley & Co., Inc. and Lehman Brothers (jointly).

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.

● **Southwestern Public Service Co.**
Aug. 1 it was announced by Herbert L. Nichols, Chairman, that the company expects to raise between $17,500,000 and $18,000,000 through the sale of securities during the fiscal year beginning Sept. 1, 1950. This may include some additional common stock. The proceeds are to pay for construction costs.

● **Standard Coil Products Co.**
July 31 it was reported company plans sale publicly of 367,500 shares of common stock, with registration expected in mid-August. **Price** $15.25 per share. **Underwriter**—F. Eberstadt & Co., New York. **Proceeds**—Major part to selling stockholders and partly for working capital.

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.**

Continued from page 5

Forecasts Only Limited Rise in Food Prices

1949 stocks but this carryover is larger than in most years.

"Butter offers another example of the dampening of price increases by the existence of large surpluses. The price of butter did not advance at all until the fourth week of hostilities and then it was up by only 0.3%. The Commodity Credit Corporation has about 185 million pounds of butter in storage. In the case of perishable products the CCC may sell at any price it sees fit, but only when there is danger that these products will deteriorate. The threat of competition from oleomargarine, however, may also be a contributing factor in restraining price increases for butter.

"Price increases have been generally more pronounced in the case of those foodstuffs of which large surpluses are not available. However, since adequate supplies even of these foodstuffs are available, at least part of the price increases may be attributed to anticipatory buying. Hog prices on July 28 were 23% above their June 23 level, but steers were up only 6%. Seasonal increases in livestock prices had been under way, even before the Korean crisis, on the basis of supply and demand factors. By June 23, hog prices were 29% above their 1950 low and steers 6%. The smaller advance for steers can be attributed to the fact that their prices have been maintained at relatively high levels. Increased military purchases and sustained high-level consumer demand indicate that seasonal declines in meat prices will be smaller than usual this fall. Fats and oils, which experienced larger declines from postwar peaks than other foodstuffs, have rebounded sharply. In the month that has elapsed since the North Korean invasion, cottonseed oil has jumped 27% and lard 47%.

"Of the four principal imported farm products—cocoa, coffee, wool tops, and sugar—the first three have advanced very significantly, whereas for sugar the increase has not been so pronounced. Cocoa was up 18%, wool tops 14%, and coffee 13%, while sugar rose only 7%. Here again the variations in the availability of supplies apparently explain the differences in price increases. Supplies of sugar are more than ample, especially since the Department of Agriculture has contracted to purchase 600,000 extra tons of raw sugar from Cuba. This will provide the United States with the largest supply ever available in any single calendar year.

"The advance in cotton prices has been one of the most striking for domestic commodities, and it is affecting the entire textile market. This rise began in early June and was accelerated by the developments in Korea, but the main impetus came when the Department of Agriculture announced that a smaller cotton crop was in prospect for 1950-51 than had previously been expected. The report of the Department of Agriculture indicates that acreage this year is 31% below that of last year. As a result of the reduced acreage and crop damage, private sources estimate that the new crop will yield only some 10 million bales compared with more than 16 million bales last year. Consumption 'disappearance' in the 1949-50 crop year was about 14 million bales, and, if consumption in the crop year beginning August 1 is of the same magnitude, stocks on hand (7.3 million bales) will be substantially reduced. When the announcement of the Department of Agriculture was first made, many sellers of gray goods, yarns, knit goods, and other finished goods withdrew from the market entirely, in order to await further price developments or to prepare price increases. Some manufacturers have since returned to the market but with substantially higher prices. There are reports of eager buying even at these higher prices, but the volume of sales has been below the recent high pace. The mills are said to be solidly booked through the third quarter of 1950. Many have substantial fourth quarter bookings and a few have small amounts of business into the second quarter of 1951. To date (July 28) on the spot market, the price of cotton has increased 15% since June 23 and print cloth prices 28%."

Our Reporter's Report

Completion of Columbia Gas System's extensive financing program held the center of interest in the new corporate issue field this week, with the $90,000,000 offering bringing out bids by two nation-wide investment banking syndicates.

Competing groups evidently set their calculations close to the current market as the outcome proved. The winning bid brought the company a price of 101.88 for the new 25-year debentures as 3 per cents. The runner-up offered to pay 101.707. This was a differential of only $1.73 a bond with the issuer profiting to the extent of $155,700 on the overall transaction.

Columbia sold $110,000,000 of similar debentures in June with the winning group, at that time, reoffering publicly at a price of 102.488 to yield 2.86%. A brisk demand developed for that portion of the financial until the outbreak of hostilities in Korea. Thereafter some bonds, held in syndicate accounts, passed to buyers slightly under the original price.

The current issue is priced for reoffering at 102.308 to yield 2.87%, also as 3s, matching exactly the current yield for the initial debentures. But, although the market has stiffened meanwhile, it appears the current operation will entail greater selling effort.

Into the Doldrums

The Columbia flotation appeared likely to ring down the curtain on new corporate debt issues until well along toward Labor Day. And, of course, the trend of events in the interval will weigh heavily in contemplated plans.

On the prospective calendar the next piece of business in sight is Duquesne Light Co.'s $12,000,000 of 30-year first mortgage bonds. This piece of business is now scheduled to come up for bids on August 22.

Meanwhile, sponsoring bankers are making ready to open books the middle of next week on offering of 114,000 shares of $1.35 convertible preferred stock of Seaboard Finance Corp. Meetings with dealers have been held on the Coast and in Chicago, Philadelphia, Boston and New York in preparation for the undertaking.

Awaiting Proper Setting

Further appreciable recovery in the equity market might conceivably speed up the marketing of several large stock operations which have been deferred pending more propitious conditions.

Safeway Stores has plans to sell 253,064 shares of common and 110,000 shares of preferred. Rochester Telephone has 125,000 shares of common in abeyance and Consumers Power Co. plans to sell 499,923 shares of additional common.

These issues all involve "rights" to existing shareholders, with banking groups having agreed to underwrite any unsubscribed portions.

Big Borrowers

Natural gas pipe line firms are among the heaviest current borrowers in the new capital market. And at the moment the bulk of such financing is being done via the direct placement route.

Within the week two such companies have completed arrangements for a total of better than $152,000,000 of new money. Bankers placed directly with a group of institutions $32,000,000 of first mortgage bonds, due 1970, for Transcontinental Gas Pipe Line Corp.

And Texas Illinois Natural Gas Pipeline Co. completed placement of $120,000,000 of new issues. This affiliate of Peoples Gas, Light & Coke Co., placed $80,000,000 of first mortgage bonds with 13 institutions, also $12,000,000 additional in interim notes. Its stockholders subscribed in full for $17,500,000 of common stock.

Washington . . . And You

Behind-the-Scene Interpretations from the Nation's Capital

This question of long-range tax revision is being handled here with a care, deliberateness, and conscientiousness which is in sharp contrast with the "off the cuff" way things have been operated since the opening of the Korean war.

In the first place, what is being worked out IS a proposed overall revision of tax legislation in the interests of bringing about as much equity as possible consistent with boosting the total tax take. What is NOT being done is a scheme to cook up merely an excess profits tax and toss in several other things in addition.

Secretary Snyder has enlisted the services of A. Lee M. Wiggins, former Under Secretary of the Treasury, to pull this together. Wiggins is both a railroad executive and a small town banker. His personal inclination is at a pole a long way removed from the CIO line. He is getting some advice from Roy Blough of the Council of Economic Advisers, and one-time Treasury tax men.

The approach is to review and bring up to date the some 22 studies made of all principal facets of the tax problem by the Treasury's research staff, a study supervised by Mr. Wiggins when he was Under Secretary. In private conferences Wiggins is soliciting the advice not only from virtually the entire government, including the CEA, but of business and even labor groups. The Treasury is asking for advice and information. It is not telling these groups what it proposes to do and asking their reaction. The Treasury has not decided what it will recommend.

Thus what the Treasury is reported to have in mind is fundamentally a revision of the tax laws and the question of an excess profits tax as such, is therefore an incidental question, just one phase, if an important phase, of the whole question.

It is not planned at present to submit tax revisions until after the election, at the earliest, and perhaps not until January. If total or near total war is upon the country, then the recommendations will go down to the Capitol in November and perhaps will be considered after the election by the "lame duck" Congress sitting in special session. Otherwise the whole affair may not come up until January.

Hence it is premature to speculate about what the excess profits tax will be, either as to rate, base, or exemptions. Tax administrators have gone on the record in the past as indicating that an excess profits tax is probably a difficult thing to work out without leaving great inequities in many categories.

Nevertheless, something which can be sufficiently akin to an excess profits tax to be called one, is probably in the cards politically. This would seem to be indicated by the President's commitment and the shouting of the CIO.

On the other hand, while approximating an excess profits tax in burden, it might only be a type of such tax. It could even be a variation of the corporation income tax.

The overall revision of the tax laws which the Treasury is studying is separate, of course, from the "quickie" bill now being pushed, for boosting individual rates to around the 1945 level and the corporation rate to 45%, whilst at the same time taking in the loophole-plugging of the House passed bill minus excise tax cuts.

IF the Congress should tack on an excess profits tax on the floor, these careful plans for a long-range bill might be distorted somewhat. Senator George's plan to use a comprehensive renegotiation law in lieu of an excess profits tax might be scientific in that its operation would be tailored to each individual company's position, but it would not meet the need for corporation blood from the labor groups.

* * *

IF and when new plants are constructed to produce implements of war, accelerated amortization will be allowed. The amortization period probably will be five years, the same as in World War II. It is planned to tack this on to the "quickie" tax bill, with just about everybody's blessing. It will not have to await the overall revision.

New capacity, however, is a subject which is expected to get more attention in headlines than in performance. Neither Secretary Sawyer of Commerce nor President Truman favors it, with respect to steel. While the CEA in its most recent report to the President emphasized again the idea of "guiding" economic expansion, the President in his own mid-year Economic Report, threw this down—something which in the welter of news got little attention.

* * *

It is reported in several quarters that business echoes the Truman Administration belief that IF there is rigid control over consumer credit and IF the tax bill is passed quickly enough, the U. S. can have "guns and butter" too—so long as the scope of war does not expand beyond the presently-outlined program.

Hence automobile and other civilian production will be cut back somewhat but not drastically. A tentative estimate made here indicates that the new military program plus Marshall Plan plus military aid cannot take more than an outside of 13% of the steel production of the country, and the development of foreign military aid production will come much later in 1950. Total military requirements for the military other than MAP are said to require an outside of 9% of U. S. steel production.

But it is said to be important to control credit so that when there are some cutbacks of autos, TV sets, washing machines, and so on, that the stricter credit terms will hold effective demand to near the moderately reduced supply.

There will be deliberation in the approach toward deficit financing. Despite the feverish activity to get set for the war, it will be a few months before outpayments become so heavy as to call for anything unusual in the way of a volume of new borrowing. The Treasury will be conferring with bankers, insurance executives, and others during the first part of this month on this subject. It does not follow that the pattern of borrowing for the new war will be set by the end of this month, although it may be.

* * *

Ray Foley, the top housing executive of the government, has already confirmed that when mortgage credit is curtailed, the persons who pay 50% down and borrow for only 10 years are likely to get hit as hard as the little or nothing down boys who make take 30 years to repay.

BUSINESS BUZZ

"My present success came slowly—I started out as a Vice-President!"

In a letter to Chairman Maybank of the Senate Banking Committee, who had asked some pointed questions about real estate credit control, Mr. Foley related that control of conventional mortgage credit must be operated concurrently with government-subsidized credit.

"I should like to call the Committee's attention to the fact that, in the present situation," wrote Mr. Foley, "the control of housing credit, insured, guaranteed, or conventional, must be integrated with the basic housing responsibilities of the Federal Government. . . . Under current conditions it is of paramount importance that whatever restrictions are necessary are equitably applied without requiring undue sacrifice from those least able to pay for housing."

Mr. Foley added a new note. He said that the policy of "strategic dispersion" will require additional housing during the war. In other words, he doesn't go along with NSRB on using prefabs, trailers, tent cities, and compulsory billeting to save housing materials and labor during the war.

* * *

Republicans have been knocked completely off base as to what is the best strategy to use politically, because of the sudden development of the Korean war. They split into two sharply diverging schools as to what was best politics.

On the one hand there were those who tried to goad the Administration to adopting the all-out Baruch idea, controlling prices, wages, and instituting rationing. The thought behind backing this line was that once rationing and wage control came, the Administration would bear the blame of the consuming and labor groups, for the public would forget that Republicans aided and abetted these controls and would blame the officials who had to operate them.

On the other hand there were those who took the tack that the President was seeking virtually the same powers as he sought under the Spence bill—first to fight inflation, then to promote inflation, and now to promote the prosecution of the war. These Republicans, Senators Capehart and Bricker and Rep. Jesse P. Wolcott, demanded to know why such broad powers were needed if this is strictly a "10 per cent war."

Assuming that wage controls (never a hopeful prospect) price control, and rationing do not get enacted, industry had better prepare itself for another prolonged public relations beating. Even though the upsetting of the civilian economy will not be great IF the scale of the war is confined to its present scope, prices meanwhile will have risen, and labor will have secured not only wage increases but larger total wages in the bidding for help and in overtime and double time, sewing into the fabric the higher price level. Then labor will blame business and so will the Administration and there ultimately will come the clamor for a "roll back" of prices.

(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.)

With E. F. Hutton

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—Irving Hirsch is now connected with E. F. Hutton & Co., 623 South Spring Street.

Joins Witherspoon Staff

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—Franklin K. Koerner has joined the staff of Witherspoon & Co., Inc., 215 West Seventh Street.

Three With Hamilton

(Special to THE FINANCIAL CHRONICLE)

DENVER, Colo.—Ralph J. Harsha, William F. Jemison, and Eric & Payne have joined the staff of Hamilton Management Corp., Boston Building.

With Waddell & Reed

(Special to THE FINANCIAL CHRONICLE)

DENVER, Colo.—Jerome L. Bechter is now connected with Waddell & Reed, Inc. of Kansas City.

With Blair, Rollins

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass. — Warren B. Stetson has joined the staff of Blair, Rollins & Co., Inc., 50 State Street.

With Lloyd D. Fernald

(Special to THE FINANCIAL CHRONICLE)

SPRINGFIELD, Mass. — Norman C. Nagle has become affiliated with Lloyd D. Fernald & Co., Inc., 1387 Maine Street, members of the Boston Stock Exchange.