ESTABLISHED 1839

The COMMERCIAL and FINANCIAL CHRONICLE

Reg. U. S. Pat. Office

Volume 172 Number 4936 | New York, N. Y., Thursday, August 24, 1950 | Price 30 Cents a Copy

EDITORIAL

As We See It

"Our chief problem now," says the President, "is to increase defense production, in an economy already running close to capacity, without bringing on inflation." The Chief Executive then added somewhat cryptically that "our aim should be to check inflation at its source."

If we may be permitted to do so, we should like to rephrase the President's statement to read something like this: Our chief problem now is how to increase defense production as required in a situation which is already boiling as a result of the inflation of the New Deal and of World War II, and yet avoid catastrophic economic explosions.

This is indeed a problem, a problem which would tax the best ability in the land. It is a problem, moreover, the nature of which is still not understood by the powers that be, as is clearly indicated by steps so far taken and so far proposed by the Administration. The beginning of wisdom in this matter is a realization that the difficulties now faced, inevitably great enough in any event, have been immensely swollen by policies of the past decade or two, particularly during World War II. That this elementary fact is not understood in Washington may be clearly seen from the fact that we are proceeding with plans for making the identical blunders again. And it must be said that even those who appear to be opposing the Administration from time to time often reveal no more understanding.

Natural Forces Ignored

Generally speaking, it is, we believe, fair to assert that the Administration is, as heretofore, intent upon ignoring natural forces. It chooses

Continued on page 20

Auto and Accessory Industry Securities

By ARTHUR W. WARDE*

Merrill Lynch, Pierce, Fenner & Beane, Members of New York Stock Exchange

Specialist in auto securities reviews growth of industry and its progress through war and peace. Points out growth of automobile industry has been characterized by fluctuations and instability, leading to concentration of production into fewer and stronger concerns. Looks for continued growth of auto demand, due to shifting and increasing population, combined with rising incomes. Ascribes favorable auto earnings to postwar situation and vulnerability of auto shares to fear of lower profits.

In approaching this subject, it is felt that a few highlights of the past 30 or 35 years should be emphasized, in order to show how far the industry has come in that period.

It was a small industry until after the First World War. Production in 1914 was 573,000 cars and trucks, which had a wholesale value of about $435 million. In 1941, just before we entered World War II, output exceeded 4,800,000 units which had a value of $3.6 billion.

Art Warde

These figures may be compared with the 1949 volume which established a new all-time high up to that point. Last year, there were about 6¼ million cars and trucks built, valued at about $8.2 billion.

One other reference to World War I and then we can leave that in the past. In 1914, this country had fewer than 1,800,000 vehicles registered. At the end of 1941, there were 34½ million cars and trucks in registration.

Continued on page 20

*A lecture given on July 28, 1950, the 9th 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 & Economics.

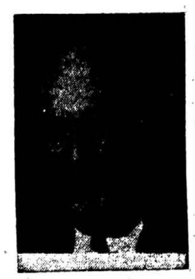
Inflation—And the Price-Earnings Ratio of Equities

By ALLEN M. BERNSTEIN

President, Bernstein-Macaulay, Inc., Investment Counsel

Economist maintains historically inflation has never been bullish influence on stock prices, and instead they have been governed by actual and prospective earnings. Concludes, in absence of complete change in mass psychology, further inflation will be fully offset in stock market by increased taxes and contracting profits.

The Korean situation and all its ramifications make it obvious that no longer are we to be a free nation engaged, without restraint, in improving our standard of living and unhampered in the pursuit of happiness—but a nation that will more and more be dominated by the military with all the restrictions and complications inherent in a military state.



Allen M. Bernstein

Necessary and essential as such a condition may be, we must realize that the more important become the military, the less important become the civilian population. The more involved the international situation becomes the more stringent will become the restrictions.

We shall, we hope, still—through the ballot—have the privilege of choosing our executives and representatives in Congress, but we now know that these will be either Socialists functioning under the Democratic banner, or Democrats flying the Republican escutcheon. But if it is to be the latter, and the type of Republican administration will be the democracy of a Wilson or a Cleveland, our liberties and freedoms may be retained without too much government interference. If, however, we shall have a socialistic form of government coupled with the influence of the military, we may well be on the way to duplicate either a Russian oligarchy or a German dictatorship. It has never been simple to retain individual freedoms when the military have become a dominant force in a nation. And thus our coming Congres-

Continued on page 19

SECURITIES NOW IN REGISTRATION—Underwriters and dealers in corporate securities are afforded a complete picture of issues now registered with the SEC and potential undertakings in our "Securities in Registration" Section, starting on page 30

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.

(The articles contained in this forum are not intended to be, nor are these to be regarded, as an offer to sell the securities discussed.)

This Week's Forum Participants and Their Selections

BENJAMIN GOODNEY
Partner, Tobey & Kirk, N. Y. C.

(Blaw-Knox Company)

The Blaw-Knox Company is one of my favorite companies which will bear watching. Its stock is now selling at approximately 15½, and, based on the yearly dividend of $1, the yield to the investor is 6.5%. Moreover, the company paid an extra dividend of 25 cents in each of the past two years. I believe this company's stock has promise of greater things to come.

Benjamin Goodney

Here is a company which is nationally known for its manufactures of a variety of steel fabricated equipment for use in general manufacturing besides special types of machinery and steel and alloy castings for all types of purposes.

Blaw-Knox serves the steel, nonferrous, road building, engineering construction, railroad, utility, chemical, oil refinery, food and general process industries in its fabricating, machinery and alloy divisions.

Blaw-Knox operates through nine divisions, viz.: Blaw-Knox Company; Lewis Foundry and Machine; Buflovak Equipment; National Alloy Steel; Pittsburgh Rolls; Union Steel Castings; Chemical Plants; Blaw-Knox Sprinkler, and the Power Piping Division.

To June 30, 1950, the company earned a net profit of $1,301,530, or 92 cents a share, of which $1,024,872, or 72 cents a share, resulted from operations in the second quarter. First quarter earnings were affected by the coal and steel strikes. According to W. P. Witherow, President of the company, products and services billed in the half-year period were $26,450,933, made up of $11,257,060 in the first quarter and $15,193,873 in the second.

The above half-year figures may be compared with earnings of $1,952,858, or $1.38 a share, and billings of $35,518,828 in the first half of 1949.

Orders booked in the 1950 half-year amounted to $33,210,000, or $6,759,000 in excess of shipments and increased the company's unfilled order backlog from $20,970,000 at Jan. 1 to $27,729,000 at June 30, 1950.

In reporting the financial conditions of the Blaw-Knox Company, Mr. Witherow revealed that working capital at mid-year amounted to $12.39 a share and the ratio of current assets to current liabilities was 3.63-to-1 at that date. The book value or net worth of the capital stock increased from $21.05 to $21.47 a share in the half-year period.

Dividends of 25 cents a share were paid in March and June and another dividend, also of 25 cents a share, has been declared payable on Sept. 12 to stockholders of record on Aug. 14.

The rehabilitation program of the company's principal foundries, which has been underway for the past 15 months and will soon be completed, should be of material benefit in the expanding military requirements indicated by current conditions, said the company's head executive.

In the special building, engineering and design projects the company seems to have a bright prospect. With output now running at a higher rate than in the first quarter, 1950 sales may not be far below the 1949 level.

The company, incorporated in 1906, is capitalized with 1,411,468 no par shares and owned by 11,757 stockholders, has no bonded debt and *its stock has, in my opinion, interesting future speculative possibilities for enhancement.*

It should be borne in mind that the present war effort is a factor which will affect Blaw-Knox favorably and further preparedness and future expansion by industry are additional important factors which will also affect Blaw-Knox Co.'s future business growth.

RAYMOND C. O'DONNELL
Senior Partner, R. C. O'Donnell & Co., Detroit, Mich.

(American Metal Products Co.)

Certain minimum standards must be met by any company that merits favorable investment and speculative attention. Many companies do meet such requirements. "The Security I like Best," however, must do more than meet such minimum standards. It must have certain additional strong qualifications. For example, it should have a powerful growth potential—it must be ably managed—be a leader in its field—occupy a strategic position to contribute importantly either to our peacetime or wartime economy. Its securities should be reasonably valued and widely enough held to permit ready marketability.

Ray. C. O'Donnell

A careful study of the relative merits of many corporations leads this writer to recommend American Metal Products Company for the most favored security. Currently selling around $16 per share or less than four times indicated minimum earnings for 1950 and yielding better than 12%, American Metal Products has the above named qualities that should give it popular appeal.

During the past decade, its management has clearly demonstrated unusual ability and resourcefulness to operate successfully under the strain of World War II and the economic boom since then. During the war, the company was a leading producer of rocket tubes for the armed forces. It also was an important supplier of torque and axle tubes and axle housings as well as other equipment for the Ordnance departments of the armed services. Because of similarity between products manufactured for civilian and military uses, only a minimum of retooling would be necessary for a change-over to either type of production.

Management of American Metal Products also is energetic and resourceful in pioneering products for the automotive industry. As a result, it is now one of the largest independent manufacturers and fabricators of tubular seat frames and welded steel parts for the automobile industry. The company was one of the first to develop and manufacture tubular seat frames for automobiles, using the "Zig Zag" or flat sinuous spring instead of the conventional coil spring. The newer type of built-in spring has won wide acceptance in automobile circles because it has fewer parts, is lighter in weight and costs less. Development of this product brought several new customers of substantial proportions to the company.

Until recently, this leading supplier of parts to the automobile industry was not very widely known; its shares were closely held. Last June, however, several large stockholders sold a substantial part of their holdings. As a result, the company now has more than 4,500 shareholders, located in virtually every State in the Union. The 859,920 shares of common stock outstanding represent the total capitalization; there is no funded debt.

Since the end of World War II, operations and earnings of American Metal Products have expanded rapidly. It has steadily increased its share of the available market. This is clearly indicated by the rapid climb in sales since 1946. In that year, sales and net profits amounted to $9,598,000 and $1,417,000, respectively. During 1949, sales rose to $20,188,000 and net income reached $3,031,000 or $3.53 per share.

This improvement has continued thus far in 1950. During the first half of the year, sales approximated $15,500,000 or about 75% of the entire 1949 sales, an increase of 55%. A similar gain was shown in net profits, which rose from $1.77 a share in the first half of 1949 to $2.38 a share in the same period this year. Results for the third quarter are likely to approximate those of the record second quarter. Any shift as a result of the semi-mobilization situation imposed by the Korean action, it is believed, could be accomplished with a minimum of interruption.

The company also is in a strong financial position. At the end of June, current assets amounted to $9,700,000 as compared with current liabilities of $4,072,000, a ratio of 2.4 to 1. Cash and equivalents exceeded all liabilities by $1,700,000.

With much of its expansion already financed out of earnings, the company has pursued a more generous dividend policy. During 1950, the company raised its quarterly dividend on two successive occasions. It now pays 50 cents quarterly or $2 annually.

Briefly stated, American Metal Products possesses all the attributes necessary to make it attractive both as an income and a capital appreciation issue. On Aug. 16, the stock was listed on the New York Stock Exchange. The current price of around $16 is less than four times indicated earnings; its yield is highly satisfactory; and its management enjoys the experience and maturity essential to meet rapidly changing conditions. This writer believes that all of these, plus the factors outlined above, should contribute to further growth of American Metal Products.

Continued on page 22

Regulating the Sale of Investment Company Shares

No need for SEC "Statement of Policy" on literature and advertising used in sale of investment company shares. Preexisting powers of Commission adequate to prevent legal infractions. Increased costs and diminished returns to public seen as a result. Fear of reprisal prevents unchained expression of opinion. Our American way of life imperiled.

In the "Chronicle" of Aug. 17 (page 15) we published verbatim the "Statement of Policy" of the Securities and Exchange Commission, by the terms of which it seeks to regulate the contents of advertisements and literature used in the sale of investment company shares.

The SEC accompanied this Statement of Policy with its release No. 1503 which is a partial explanation of how it was prepared and will be enforced.

At the same time, the National Association of Securities Dealers sent to its members a communication, dated Aug. 14, 1950, which enclosed a copy of the SEC Statement of Policy and, among other things, agreed to review all advertising and sales literature used in the sale of investment company shares "as part of its practice of *self-regulation.*"

One thing that pleases us about the Statement of Policy and the other literature above referred to relating to it, is the frank declaration that it resulted from cooperation and conferences between representatives of the SEC and the NASD.

How we have tried on many occasions to invade the *in camera* proceedings of these two bodies working together as policemen out of the same precinct, and insisted that a clear declaration be made to the public of the conferences held and what took place at them. We always felt and still feel that minutes should be kept of those proceedings which would be open for public inspection. It will be recalled that we took that attitude on the "5% yardstick interpretation." We railed against the secrecy which characterized the internecine joint activities among representatives of the SEC and the NASD and urged that these be made public; but to no avail.

This frank declaration of working together, therefore, comes as an agreeable surprise and we hope that it presages a practice which will be uniformly indulged in hereafter by the Commission and that the public will have access to minutes which will be made of conferences in which the representatives of the SEC and the NASD participate.

We have endeavored to get from issuers, underwriters, and dealers in investment company shares, a cross-section of opinion on the need for this newest Statement of Policy, the advisability of having issued it, and whether it will prove helpful (a) to the public, and (b) to those selling investment company shares.

Of course, there is a wide divergence of opinion but wherever our representative went one thing was common to those whom he interviewed. Each one directed that his name was not to be used and that he was not to be quoted. It was all to be "off the record." Everywhere, there was apparent a fear complex, and one man of standing said that, if he spoke openly, both he and his company would be put out of business quickly.

Some literature has been used in the past to effect sales of investment company shares that one could take exception to, but such literature, or most of it, no doubt came about from eagerness rather than an attempt to mislead or deceive, and all of it could have been stopped on the basis of the existing powers of the SEC before its new Statement of Policy.

The broad powers given the Commission by the Securities Act of 1933, particularly Section 17 thereof,

Continued on page 27

INDEX

Articles and News

Regular Features

*Not available this week.

THE "CHRONICLE" WILL BE THERE!

Throughout the Annual Convention of the National Security Traders Association, which will be held Sept. 26-30 at Virginia Beach, the "Chronicle" photographer will be very much in evidence. And the results of his endeavors will be one of the many features in the "Chronicle's" Special Convention Issue.

Published Twice Weekly

The COMMERCIAL and FINANCIAL CHRONICLE

Reg. U. S. Patent Office
WILLIAM B. DANA COMPANY, Publishers
25 Park Place, New York 8, N. Y.
REctor 2-9570 to 9576

HERBERT D. SEIBERT, Editor & Publisher
WILLIAM DANA SEIBERT, President
WILLIAM D. RIGGS, Business Manager

Thursday, August 24, 1950

Every Thursday (general news and advertising issue) and every Monday (complete statistical issue — market quotation records, corporation news, bank clearings, state and city news, etc.).

Other Offices: 135 South La Salle St., Chicago 3, Ill. (Telephone: State 2-0613); 1 Drapers' Gardens, London, E. C., England c/o Edwards & Smith.

Reentered as second-class matter February 25, 1942, at the post office at New York, N. Y., under the Act of March 8, 1879.

Subscription Rates

Subscriptions in United States, U. S. Possessions, Territories and Members of Pan-American Union, $35.00 per year; in Dominion of Canada, $38.00 per year. Other Countries, $42.00 per year.

Other Publications

Bank and Quotation Record — Monthly, $25.00 per year. (Foreign postage extra.)

Note—On account of the fluctuations in the rate of exchange, remittances for foreign subscriptions and advertisements must be made in New York funds.

Bond Ratings

By EDMUND L. VOGELIUS*

Moody's Investors Service

Though maintaining bond ratings should not be used as sole determinant of investment policy, and should not be accepted as perfection, Mr. Vogelius defines such ratings as mere "judgments of gradations of investment quality." Says ratings are not indicators of price trends, but should express "protective judgments" and aim to be constant, stable and unvarying, and thus reflect long-term risks. Reveals procedures in setting up ratings.

As you know, the chief reason for the increased interest in recent years in bond ratings has been their use by certain government agencies in Washington in a manner which tends to influence the investment practices of the banking system.

Edmund L. Vogelius

The Banking Act of 1935 made it mandatory for the Comptroller of the Currency to issue regulations governing the investments of National Banks and of State Banks which are members of the Federal Reserve System. In other words, it was necessary for the Comptroller to rule as to what constituted an investment and what was not an investment.

Now, this was quite an undertaking and the Comptroller naturally had no desire to set up an arbitrary yardstick to determine the investment grade of securities. Somebody had the inspiration, however, to light upon the ratings as a suitable aid in this dilemma.

Subsequently, the Comptroller issued a ruling in which he said that banks were prohibited from buying securities which were distinctly or predominantly speculative and went on to say that if the purchaser was in any doubt as to whether or not a bond was distinctly or predominantly speculative, he could resolve such doubts by reference to the recognized rating manuals.

*A lecture given on July 26, 1950, the eighth in a series of seventeen on The New York Securities Markets and their Operation, sponsored jointly by the New York Securities Industry and the University of Vermont's Department of Commerce & Economics.

In any event, the effect of the rulings of the Comptroller's office has been that banks are practically prohibited from buying bonds which are not within the four highest rating classifications.

This was followed in July, 1938, by a joint regulation governing bank examination procedure by the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Executive Committee of the National Association of Supervisors of State Banks.

I want to make that clear. This is different from the legality of buying. This second ruling covered entirely the procedure in bank examination. In other words, if a bank could buy a bond under the first ruling, the second ruling applied as to how it would be applied as to bank examination purposes.

This joint agreement provides that for bank examination purposes, neither appreciation nor depreciation will be taken into account in figuring the net sound capital of banks of marketable obligations in which investment characteristics are not distinctly or predominantly speculative, and that this group includes obligations in the four highest rating grades.

Naturally, this situation has caused a great deal of discussion and considerable criticism. However, I wish to state that the rating organizations had no part whatsoever in setting the standard of a suitable bank investment under these regulations. We do not believe that ratings should be used as a sole determinant of investment policy.

Many other factors need be considered for the proper conduct of a bank's investment portfolio. While ratings are of definite aid in this respect, we do not think that purchases of investment securities should be based on ratings alone, much less on a general rule of thumb. We recognize that a certain degree of increased responsibility has been placed on the rating organizations because of rating usage by the banking authorities. Also, we are keenly aware of the increased demands made upon us by those issuing and selling securities as a result of this situation.

Ratings are a subject with which I have been closely associated for about 20 years. In this discussion, when I speak of ratings, I shall be referring to Moody's ratings. This is not intended to be a "plug" for Moody's Investors Service, because, in all truthfulness, I can say that my knowledge of ratings is confined to Moody's ratings and that they are the only ratings of which I have any intimate knowledge as to their purpose and the procedure which is followed in determining them.

In so far as our organization is concerned, we have no illusions as to the perfections of ratings, or, in fact, the infallibility of any of our investment judgments. We know we have made some mistakes in assigning ratings to securities in the past, but we also know that the record shows that, if properly used, ratings have a considerable degree of validity. I stress this phrase, "properly used," because the misconceptions which exist as to the purpose of ratings and the way in which they are misused are surprising.

What Are Ratings?

What are ratings that they have caused such discussion and interest in recent years? We define ratings as judgments of gradations of investment quality of securities. That is judgments and not some other statistical expression. We express ratings by symbols which designate the intrinsic risks which exist in a security. By "intrinsic risks," we mean the degree of security of principal and the likelihood of prompt payment of interest over a term of years.

Tersely stated, they represent a view as to the ability of the obligor to conform to the terms of all contracts which he has negotiated with those from whom he has borrowed money.

I might mention here that, in the bond record that I have given you, on page 5 we give our ratings. They are nine in number, running from the highest Aaa down to the lowest C. We give our definitions of those ratings in that book. I would rather you read them than for me to go over them here.

Ratings are not indicators of price trends. Price trends are caused by monetary factors and economic developments. Ratings are not designed to indicate attractiveness. Attractiveness depends upon the suitability of the investment for the purpose for which it is intended and a comparison of prices, yields, etc., with other available issues. Ratings are not indicative of transient risks. Such short-term risks are often well expressed by the market price.

Over a period of years, we have developed a set of basic principles which we constantly refer to in all our rating work. These principles are, first, that ratings must express protective judgments. Inasmuch as bonds play a defensive role in the battle to preserve capital, it follows that bond ratings must at all times be protective symbols that seek to answer for investors this question: What degree of risk exists in this bond as a protective investment instrument?

The second principle which we attempt to follow is that ratings must aim to be constant, stable and unvarying. The reason for this is that as protective judgments ratings would be useless if they measured merely transient risks.

Naturally, we recognize that fact that complete stability is not attainable, but all effort is expended in seeing that the higher ratings are unchanging. For instance, a bond rated Aaa should be so rated only if there is no question as to its maintaining such quality for a considerable period of time.

In the lower-rated bonds, such rating stability is not as imperative, for, by their very definition, the lower ratings represent issues likely to experience changing degrees of risk.

The next princple is that ratings must reflect long-term risks. It is natural to ask just what "long-term" means. What we have in mind is the situation as we visualize it over a long term of years and at least relating it to a concept of the possible low point in the business cycle. Ratings must not be fair-weather risks or even average-weather risks, but should be based on the judgment of the ability of the company to stand up during periods of strain.

The fourth principle of our rating guide is that, while we recognize that some changes in ratings are necessary, changes should be effected only if certain essential conditions exist.

Changes in Long-Term Risks

Everyone agrees that no one can assess long-term risks perfectly, and hence there will

Continued on page 18

No Tower Reaches the Sky

By EDWARD W. STERN

Herzfeld & Stern, Members, N. Y. Stock Exchange

Mr. Stern maintains stock market now is overbought, and warns against blind optimism. Advises careful piecemeal liquidation, and building up of cash reserves.

The days of panic lie behind us. During the week ending July 14, unreasoned fears drove the market down in a vicious shakeout. The Dow Industrials reached 196, eight points lower than reasonable expectations indicated. The following week brought a complete recovery of the down-thrust, with the index at 208, or two points above the bottom of the preceding support zone. Rails kept inching up throughout both of these weeks.

Edward W. Stern

The shakeout and its immediate recovery put the market in a very strong technical position. Since then, reactions have been small and shortlived. At this writing, the Industrials stand at 219.23, about 2½% below their close just prior to the Korean invasion. With Rails and over half the industrial list well above June 23 closing levels, the Industrials seem to understate the level of the entire market.

Right here, the market seems a trifle overbought; in many issues the advances have been abrupt and consolidation has been lacking. There may be some faltering, some profit-taking, but the rise has not been completed.

However, this is no time for blind optimism. The year is not 1929; this upsurge is not going on forever. It is likely to top out in a range 223-226 in the Industrials, and under 66 in the Rails. No wave of enthusiasm is likely to carry the market much higher than that, nor to sustain it long if higher levels are reached. The objectives are not far off; now is the time to think of large cash reserves.

The current upsurge may be followed by massive distribution and a strong downtrend. Even if the market is only going to react to a support zone and be reaccumulated for another upthrust, practically all stocks will react a significant amount. A reaccumulation broad enough to result in a worthwhile upmove will take enough time to allow for easy, orderly replacement of any desired positions at satisfactory prices. With the objectives of the move so close, portfolios should be thinned down. Stocks should not be dumped; selling should be on an issue-by-issue basis, and only done on exceptional bursts of strength.

Reviewing the fears that hagrode the market in July, all seem forgotten, but not all were groundless. Increased corporate taxes already promise to slice something of the dividend-paying power of stocks, and excess profits levies offer a graver threat. Our productive economy is inevitably (even if falteringly) shifting to fuller war mobilization. As the process continues, many companies will be faced with the choice of going on short rations for labor and materials, or accepting munitions contracts at greatly reduced profit margins. War — and the threat of war—is not bullish. Governments have learned from Hjalmar Schacht that inflation can be taxed out of the stock market.

In selling to build up cash reserves, price and market action should be the first considerations. For example, many of the "war baby" stocks have already been bid up to prices that reflect profits that will not be earned for a long time to come. In any wave of general liquidation, these will sink too—there are no exempt stocks.

Quiet, careful, piecemeal liquidation and building up of unusually large cash reserves should be the prime consideration, here, of all investors.

Wants U. S. to Buy More Crude Rubber

Nations that control, or have great influence in the rubber producing areas of the Far East, should discontinue the sale of crude rubber to Russia and its satellites, John L. Collyer, President of the B. F. Goodrich Company, announced on Aug. 18.

John L. Collyer

"Crude rubber, a vital strategic material, is being received in diminishing tonnage in the United States although this nation is the world's largest consumer of rubber of all types. Meanwhile, Russia has been buying substantial quantities of crude rubber since the close of World War II," Collyer declared.

"Principal supplier of rubber to Russia has been, and continues to be British Malaya with Indonesia and other producing areas also unquestionably supplying rubber for stockpiling and consumption behind the iron curtain.

"It is significant that nations controlling 80% of the world's crude rubber are either beneficiaries of the Marshall Plan or are today receiving American aid through governments that are sponsored by the United States.

"These nations are standing with the United States in the action of the United Nations in Korea and have pledged moral, and to some extent, material assistance, to our nation and our armed forces in this present war against communism.

"Recent statistics on the distribution of crude rubber show for example, that in July of this year only 27,000 tons of the 102,000 tons shipped from Malaya came to this country. Our country, which normally consumes 55% of the world's new rubber, received 55% of Malayan rubber in 1940 before World War II and 37% for the first six months of the current year. The July, 1950, figure of only 27% emphasizes the urgency of our present rubber position.

"Due to our nation's present inability to obtain crude rubber in sufficient quantities for necessary stockpiling and to continue to fill the legitimate needs of American consumers, it may be mandatory for government to exercise controls on rubber usage. Diversion of rubber supplies from Russia to the United States would be in the highest interest of all free peoples at this critical period."

The State of Trade and Industry

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

A fractional increase was noted the past week in country-wide industrial production with total output holding noticeably above the level for the comparable week of last year.

High points for the year were recorded by the electric light and power industry, automotive manufacturers, the oil producers and freight carloadings. In the steel industry, steel ingot production registered a rise of a fraction of a point to slightly more than 100% of capacity.

In keeping with the higher tempo of trade and industry, over-all claims for unemployment insurance, it is reported, continue to dip slightly.

In retail trade last week a noticeable increase in the purchase of soft goods occurred, which aided the upswing in total consumer spending for the period. On the other hand, abnormal wholesale buying showed a gradual falling off in the week, but notwitstanding this, the high orders level was sustained through a sizable influx of advanced bookings in durables.

* * *

On Monday of this week the Trainmens' and Conductors' unions set into motion a scheduled five-day strike at three rail terminals, extending the strike on Tuesday to two smaller roads in the dispute, in order to effect a speedy end to the 17-month-old wage and hour dispute between the rail unions and most of the major rail carriers. The strikes are called for five days, but the unions threaten a nationwide strike if a satisfactory settlement is not reached. The unions demand a cut in the work week from 48 hours to 40 hours with no loss in pay for yard service workers and changes in the pay scale for rail service employees.

* * *

Inflationary pressures are beginning to force steel product prices upward says "Steel," national metalworking magazine, this week. While the large producing interests are holding firmly to established quotations and indicate no early change is contemplated, some of the smaller steelmakers have taken the bull by the horns and are effecting increases. The undertone of the entire steel market is buoyant with scrap and other raw material prices rising and consuming demand pouring into the market in tremendous volume.

Significance of price advances by a number of producers over the last week or so is not readily determined and action by the smaller interests could forecast a general advance in the making. But in present circumstances, with government price control a definite threat, such an assumption would seem unjustified especially since the larger producers are likely to move slowly in effecting upward revisions in published lists, this trade paper adds.

Consumers, "Steel" magazine notes, increasingly indicate a willingness to pay premium prices for tonnage, adding, demand for high-priced conversion steel is insistent and offerings in the gray market are receiving more attention from buyers.

Despite near record production pace, mill order backlogs continue to mount. Tonnage carryover into the fourth quarter will be so large that at least one month's output may be blanked out to care for the overflow.

Consumer quotas for the last quarter will be smaller, this trade authority indicates, with the mills warning customers further cuts in allotments may be necessary to care for military orders. So far emergency demands have been relatively small, but they are increasing steadily. General market opinion, "Steel" observes, is that sufficient steel will be available for all normal civilian consumption into the foreseeable future.

Due to current railroad strikes which began on Monday of this week and are scheduled to spread, scheduled output of steel mills has been cut to 90.6% of capacity for the week beginning Aug. 21, 1950.

* * *

Should the expectations of the gas utility companies be realized they will add more than 3,000,000 house-heating customers in the four years 1950 to 1953, inclusive, according to a national survey by the American Gas Association. One-half the estimated new customers the Association states, will represent conversions from coal or oil heat, with the remainder coming from new residences.

* * *

Building permit volume held at a high level during July. Although down from the record heights of May and June, the total valuation of building permits in 215 cities for July represented a new high for that month at $525,578,358. This was a drop of 7.5% from the June sum of $568,023,104, but it was 66.7% more than the $315,236,164 for July last year and it marked the eleventh successive month to register an increase over the corresponding month of the previous year, according to Dun & Bradstreet, Inc.

Steel Output Cut to 90.6% of Capacity by Rail Strikes

The war's impact on "civilian" steel is going to be terrific before this year ends, states the "Iron Age," national metalworking weekly, in its current summary of the steel trade. Plates and sheets will be hit hard. By next year, when programs now in the planning or talking stage are rolling, as much as a third of all flat-rolled steel production will be ear-marked for war (hot and cold) and essential civilian use.

Some war orders are now being placed and the pattern of product-mix is beginning to shape up, the magazine declares. Direct military orders now include landing craft, tanks, some addi-

Continued on page 25

Snyder Explains Debt Mgt. Program

In a statement issued on Aug. 21, Secretary of the Treasury John W. Snyder announced the continuation of the policy to maintain the current level of interest rates as a protection to holders of Federal securities. In his statement, Secretary Snyder said:

John W. Snyder

"Friday's announcement of the refunding of the September and October maturities and the extension of the purchase limitations on Series F and G bonds was one more step in the debt management program which the Treasury has followed since the first of the year. Developments in the Government bond market have repercussions which fan out through the entire economy. Both the present size and the wide distribution of the Federal debt are unprecedented in comparison with what faced us at other periods of international crisis. We have an obligation of the highest order not only to maintain the finances of the Government in the soundest possible condition, but also to fulfill our responsibilities to the millions of Federal security holders throughout the nation. A stable and confident situation in the market for Federal securities is our first line of defense on the financial front.

"The debt management program which the Treasury has followed since the first of the year has been fashioned to meet the requirements of the economy. During the first six months of this year, Government securities held by the commercial banking system declined $1.7 billion, while the holdings of private non-bank investors increased $3.4 billion. The decline in bank holdings was accounted for by a $1.1 billion decline in holdings of commercial banks and a decline of $553 million in the holdings of Federal Reserve Banks. From the data now available, it is apparent that this trend was continued in July. Holdings of weekly reporting member banks declined by $656 million in the four weeks ended Aug. 2 and holdings of the Federal Reserve Banks declined $362 million from June 30 through July 31.

"The private non-bank investors who have been the primary buyers of marketable Government securities have been principally industrial, commercial, and mercantile corporations, State and foreign accounts. They have been buying short-term securities mainly. Another part of the increase in the holdings of private non-bank investors is due to the purchases of individuals—substantially in the form of savings bonds. Longer-term institutional investors, such as insurance companies and savings banks, however, have not been acquiring Government securities on net balance. Instead they have been buying corporate bonds and home mortgages. They have been providing the funds necessary for new housing construction and new plant and equipment for industry. It is now expected that institutional investors may have some funds available for investment in Government securities during the last quarter of the year. For this reason, the Treasury Department has lifted the limits on Series F and G savings bonds to absorb these funds as they accrue."

Observations . . .

By A. WILFRED MAY

Democracy's Workings in Wartime

Of course there are great flaws in the operation of dictatorships, be they headed by a Stalin or a Hitler. But they constitute no valid excuse for de-emphasizing the politics-playing in a democracy such as ours.

A. Wilfred May

This disastrous cancer of the otherwise healthy and desirable democratic system, which has been growing throughout the years, is particularly harmful at times of war and inflation.

As is being again brought home to us, no single party has a monopoly on the seeking of selfish political advantage irrespective of its nation's interest. For we have just seen the Republicans, fastening on a war situation to gain a fancied political advantage, outdoing the planners in plumping for all-out controls. In their attempt to embarrass Mr. Truman by assuming the ludicrous position of claiming his and Keyserling's timidity, the Republican Congressional spokesmen's demands for all-out controls at this time surely are against the national interest, are wholly inconsistent, and obviously insincere.

The majority party also has fulfilled its political "responsibilities" in controls legislation. In passing the Economic Mobilization Bill this week it saw to it that price ceilings set for farm commodities shall be equal either to the parity price, or to the average price received by producers during the period May 24 to June 24, whichever is higher.

Surprising, but quite significant, in the present political trafficking is the utter frankness of the President. Witness his recent pronouncement on the prospects for excess profits tax legislation, wherein he frankly and cynically stated that the legislation would be passed only after the lawmakers' election-time jitters.

While this writer denies the wisdom of a so-called excess profits tax at any time, the ideological followers of Senator O'Mahoney et al., to be consistent, should believe it to be needed now rather than later, to save the Republic.

Priority of Democracy (With a Capital D)

Quite run-of-the-mill presumably was the action of Senator Neely in forcing a three-day postponement of the vote on the crucial Economic Mobilization Bill, because of a conflicting party rally in his home State. "The success of the Democratic Party in the coming elections is more important to the United States and to the world in general than any other consideration," was the decisive "statesmanlike" pronouncement of the Senator from West Virginia.

Intensified Santa Claus-ism

At the present time of the beginning of our all-out war on inflation, the various vagaries of the *Subsidy State* become highlighted with particular odium. The Government's persistent and continued price-raising activities through the Commodity Credit Corporation, such as it operations in butter and cotton, are ludicrously antithetical to our fundamental wartime aim of preserving some equilibrium on the economic front. The increasing evidences of success in vote-getting from assumption of the Santa Claus role, make it quite certain that this subsidy technique will be abandoned during neither war nor peace.

More in line with the traditional "bi-partisan" subsidization of special political interests was last week's rejection by the Senate Finance Committee of a bill to suspend the import duty

Continued on page 11

We Don't Need an Excess Profits Tax!

By PETER GUY EVANS

Lawyer and Certified Public Accountant

Formerly Acting Chairman of the Excess Profits Tax Council

Former tax official traces past excess profits levies, citing their inequities, imponderables, and complexities. Asserts consideration of relief cases involves wide knowledge of economics, marketing, and engineering. Maintains no matter how well Congress frames new law, the relief provisions will be inadequate. Concludes under present conditions, there is no fiscal or economic necessity for any excess profits tax.

The complicated and dynamic developments of the Korean War and Stalinism are dominating our military and economic life. Many are clamoring not only for higher taxes but also for an excess profits tax.

Peter Guy Evans

Our tax history reveals three excess profits taxes. The excess profits taxes accompanying the previous World Wars had the stiffest rates. Of the first excess profits tax (from 1917 to 1921) we still have a faint recollection around 1940 when the last few of the cases from that period were being closed.

About a dozen years later, the National Industrial Recovery Act gave us another excess profits tax effective after June 30, 1933. It was a companion to the capital stock tax but in no way did it compare to the excess profits tax as we conceive of it now. In 1940 renamed the declared value excess profits tax, it was repealed for 1945.

In 1940, however, the most recent excess profits tax was enacted; it stayed with us six years through 1945. The rates for 1940 and 1941 were comparatively low and ranged between 25% and 60% depending on the excess profit net income, with a $5,000 specific exemption. For 1942 and 1943, the rates were hiked to 90%. For 1944 and 1945, the rate was increased to 95%. For these two years the specific exemption was $10,000.

In order to eliminate some hardships, Congress (1) allowed a 10% postwar refund credit (the rates of 90% and 95% became 81% and 85.5% net, respectively), and (2) placed an 80% ceiling on the overall corporation tax.

Former Inequities

Congress knew that a mechanical and automatic levy of the excess profits tax would result in inequities and hardships. It provided several methods of computing the base for the excess profits tax; the four years, 1936 to 1939, became the base period, and the tax was figured after arriving at a credit based (1) on the average income for the four years with certain automatic benefits, such as the "75% rule" and the "growth formula," or (2) on the invested capital.

In addition, a special relief section was enacted—the well known Section 722; it provided ways and means of securing relief from the payment of excessive and discriminatory taxes, resulting from the levy on the excess above so-called "normal earnings." The "normal" theory sprung from the idea that the years 1936 to 1939 were normal and that they were the closest to the high tax years, 1940 to 1945.

In time, taxpayers became dissatisfied with the administration of the relief section. Few relief refunds were made. The situation got so bad that Senator George, Chairman of the Joint Committee on Internal Revenue Taxation, held hearings in February, 1946. Testimony was given by the Commissioner of Internal Revenue, tax practitioners, association heads and business leaders. After studying this testimony another hearing was held on May 7, 1946. This hearing called for the creation of a Board of Experts (later called the Excess Profits Tax Council) 15 in number, with at least ten members from the outside (non-government men) and five from the Bureau of Internal Revenue itself, to review and speed up the disposition of the claims for relief.

In July, 1946, the Excess Profits Tax Council was organized with 15 members. Claims started to roll into Washington to the Council members for processing and review. The members held hearings, awarded relief or rejected the claims. To complete the work by January, 1952, Council membership was recently enlarged to 25. Taxpayers dissatisfied with Council decisions have the right to file petitions and be heard solely and finally before the Tax Court.

Imponderables

Excess profits tax relief cases are most difficult to prove because of the many imponderables. A taxpayer must prove not only what actually happened in 1936 to 1939 but in addition must "prove" what might have happened. For example, a corporation owned one plant with a capacity of 1 million units, on a one-shift operation and during the base period years, 1936 to 1939, it averaged $100,000 a year of profits. Assume that late in 1939 a second plant, similar to the first one, was acquired; it is obvious that had the corporation owned two plants (instead of one plant) from 1936 to 1939 its earnings would have been greater than $100,000 a year. On an arithmetical basis the corporation would have earned $200,000. But since there would have been savings in certain fixed, overhead, administrative costs, and the like, the profits would have exceeded the average of $200,000 a year. This would be undeniably true if we did not have to give consideration to the factor of demand and market for the added production. If the market couldn't absorb the added production then there could be no additional profit from the second plant. Therefore, cases of this kind boil down to the problem of the size of the market available to the corporation for the extra production. This is where we run into trouble.

The $64 question is: How many units of product could have been disposed of by the corporation from its second plant? Most answers, whether a half million units or three-quarter million units are merely opinions and have to be carefully considered.

Complexity of Relief Cases

The presentation of relief cases involves not only tax talent but economics, engineering and the like; it involves the economics of marketing and demand, engineering, productivity and efficiency of plants and equipment, marketability of new products, and the like, all or some of which were actually present for only a short time in the tail end of 1939, or those under commitment like new plants started or about to be started in 1939, but not completed until 1940 or 1941.

It requires a sound common-sense businessman's approach to the problem of making certain clean cut assumptions and following them through to just and logical conclusions. Tax officials, Senators and Congressmen, tax practitioners and executives with whom I have discussed tax relief are keenly interested in its equitable and just administration — a most difficult job.

As a member of the Council, I processed claims of hundreds and hundreds of taxpayers. Some were well-prepared and properly presented; others were adequate; but many were poorly presented and inadequate. Even the best and most meritorious relief claim, if improperly prepared or poorly presented, will not be accorded its justly entitled relief. From World War I we have the reminder of attempts to settle excess profits tax cases somewhat liberally and Senator Couzens' blast at the Bureau for wasting public funds.

Present Outlook

During the past weeks queries have arisen with regard to the possibilities of a new excess profits tax. Only if current developments lead to an increased war tempo or the war economy is stepped up, is there a possibility that another excess profits tax will be enacted. The rates will not run as high 90-95%; the consensus is about 70-75%.

The legal monstrosity of "normal earnings" will appear again. A base period will have to be adopted. The terms: standard of normal earnings, normal operation, normal times, etc., will be defined. Some want 1947 to 1949 to be the base period while others also want to include 1946. Many object to these years because they are not normal due to high post-war production and spending abnormally stimulated by backlogs and shortages.

Many fear that the government might reinstate the old base period credit of 1936 to 1939. This would be unfair as economic conditions in the past 10-15 years have changed dramatically. At that time our national income was around $80 billion while in past years it was about three times that. The inflationary effects have resulted in increased costs and prices with greatly reduced purchasing power. To levy an excess profits tax on the earnings base of 1936 to 1939 would be inequitable and unrealistic.

There are still others who feel that it would be proper to use the old credit, but with certain corrective adjustments. One way would be to increase it through the application of some multiplying factor. Some would apply the percentage of increase: in the price level, in national income, in the particular industry level, etc., between the old base period and the current. Another would use the ratio of old base period profits to current base period profits for each industry.

Statements were made in my hearings in Washington that the case was being closed or settled with the hope that there will not be another excess profits tax which would require the use of the old credit which the taxpayer reluctantly accepted merely because it wanted to close its case and get its refund. Correction factors which would tend to compensate for the differences between the two periods would tend to alleviate the situation.

Difficulties With the Concept "Normal"

The Bureau and taxpayers are plagued with the meaning of the word "normal," as is used in:

Continued on page 26

From Washington Ahead of the News

By CARLISLE BARGERON

Two elections coming up in what used to be referred to as staid New England are attracting the attention of Washington political observers. Politics is the industry of Washington and those of us whose business it is here to observe the antics and conduct of those who have been successful in this industry usually come to have a sense of humor as our amazement at the American scene increases.

Carlisle Bargeron

That engaging old Barnum of American politics, Senator Tobey of New Hampshire, comes up in a primary election next month. In political Washington we have been laughing at what his younger opponent, Wesley Powell, hero of World War II, recently pulled on him. It seems that the two were speaking on the same platform, and Tobey in his usual demagogic way, demanded to know who paid for the new home which Powell had just bought. What sinister interests, he asked, were giving this money to Powell to defeat him, Tobey, long the friend of the common people.

Well, Powell got up in his turn and said he had paid $1,500 down for a home for himself and children and the rest was being financed through the GI Bill of Rights, "which you, Senator Tobey, were not present to vote on."

This sort of stuff tickles political Washington, knowing Tobey as he is, and being tolerantly amused at his political success heretofore. In 1944 he was opposed by Foster Stearns, then a member of the House, and a member of a famous New England family. Foster, always a gentleman of the type you hear a lot about in New England, was no match at all. A highly conscientious man, he had been an internationalist before Pearl Harbor and Tobey had been an "isolationist" as the term was being loosely applied. But with the war now on, so help me goodness, if Tobey didn't turn it around and make the less glib Foster Stearns, the isolationist and he the internationalist.

Tobey has been embraced by the Leftist group of Washington columnists as a Republican "liberal" and to the amazement of his colleagues, they are always blowing him up as an influence. He is not that. Mostly he is a source of perpetual amusement; he is looked upon as the prototype of Radio Comedian Fred Allen's famous Senator Claghorn.

I heard him once on a Town Hall radio program. A sharp question was addressed to him from the audience. It stumped him momentarily, then he said:

"A most arresting idea which I shall communicate to my colleagues in Washington."

More recently he has been a member of the Senate Committee Investigating Crime, generally looked upon in Washington as just about the best publicity junket any Senator has ever embarked upon, not because there isn't a lot of crime and it is tied up with politicians in high places, but that the members of the committee, while spending at least $150,000, do not intend to do anything about it but get publicity. Although headed up by a Democrat, Senator Kefauver of Tennessee, Tobey has stolen the show. He has done this, not by questioning the gamblers who appear before the committee, with a view to getting information, but by delivering a sermon on the wickedness of gambling which for some reason, peculiar to newspaper editors, gets the headlines.

He is unquestionably a card, and in less serious times would be a luxury we could afford, but young Wes Powell, we are told, has his number.

Senator Green is one of those rare specimens that only the New Deal revolution could produce. He is a multimillionaire bachelor, now in his eighties, but so spry that he proudly tells how he bounces around a medicine ball in the morning and how he rides to his office on a bus.

Apparently he never had any attention with all his millions, but paid his way to the politicians of his State to come to the Senate early in the New Deal. Down here he met another multimillionaire in the same boat, Senator Murray of Montana seemingly the two most lonely multimillionaires in the world, two Orphan Annies.

The Commies and the radicals were quick to realize their predicament and came to fawn upon them. I am not suggesting that either was ever a Commie but they welcomed this crowd of fawners as a baby receives a man with candy in his hand. You get the impression that these people were the only friends Murray and Green ever had. These people made them feel an importance they had never enjoyed and, as a result, you would be amazed at how much these two financially well-endowed men have played their game.

The United States Senate has been described as the most exclusive club in the world. This is because the Senators, notwithstanding the heatedness of their debates, will gather in the cloakroom or at dinner and exchange pleasantries and talk frankly of their political problems. Presumably it must be so where men must live together in a lawmaking body and have to give and take, day after day. It would be impossible living if they were to follow up their debates with fisticuffs or duels off the floor.

But neither Tobey, Green nor Murray is a member of the club. They are simply not understood or regarded highly by their colleagues: neither has any of them rendered any service to his country.

Scare Buying

By ROGER W. BABSON

Mr. Babson, pointing out hoarding by both businessmen and consumers is foolish and breeds inflation, says there are few real shortages and many important items are in excess supply. Lists coffee and cocoa as only food items in light supply.

The day-to-day news from the fighting front in Korea does not always give us a very clear picture of what is happening there. But recent price rises in farm products, foods and non-durable raw materials leave little doubt as to what is happening here, where heavy "scare buying" seems to be the order of the day.

Roger W. Babson

I suspect that much of this so-called "scare buying," which is just plain hoarding, is being done by businessmen who believe they are using foresight in piling up huge reserves of items scarce during World War II. Such heavy buying has already resulted in price advances some of which might not have otherwise occurred. It has also started a wave of consumer hoarding which, if it become too bad, will certainly hasten price controls and rationing. Such hoarding is foolish and, at the same time dangerous because it breed inflation. This does not mean we should not always—war or no war—keep reasonable supplies on hand.

Few Real Shortages

We have learned a lot as a result of World War II and I hope we have learned that one of the most terrible things that could happen to us, in or out of wartime, is wild inflation. Fortunately, few civilian items are really in short supply today. Actually we have surplus supplies of many items. However, the quickest way to change all that and to invite disaster is to permit ourselves to be carried away by foolish fears. Besides being unpatriotic and anti-social, the goods which were in shortest supply during and after World War II may not become scarce as a result of the present conflict.

Holders of unreasonably overlarge stocks of those items which do become critically short will almost certainly have to give up the surpluses they went to such lengths to obtain. Also note this: Here at Babson Park, our economists are continually studying the supply and demand ratios in nearly 100 basic commodities, including the principal foodstuffs and farm products. Each month we issue price forecasts and clear-cut buying advice for each of these commodities. Thus I am always in close touch with developments in the important commodity markets. It is my opinion, based on this carefully gathered information, that most commodities are now in good current supply. Perhaps our greatest weakness lies in metals, because we are so dependent on foreign sources for the huge amounts we need to keep our great industrial machine rolling in high gear. Certainly, foods are plentiful generally.

Cocoa and Coffee

Much of the "scare buying" of foods has centered on cocoa and coffee, and with some excuse. Both are now in tight supply, but there should be no immediate stringency in either if abnormally heavy buying is cut down at once. Cocoa beans now in the U. S. may not suffice for all needs between now and next fall when new supplies will arrive from Brazil's mid-term crop. The consumption of cocoa and cocoa products in this country has risen sharply in recent years and is now very heavy. A moderate, voluntary cutback would not entail any great hardship.

The coffee situation is this: Owing to past neglect of the coffee plantations in South America, supplies are not much in excess of growing world consumption. Total U. S. stocks on hand and afloat do not compare very favorably with last year, and we must admit that 1949 was not an especially good year. Yet high prices could curb U. S. consumption to such an extent that current and anticipated supplies might suffice. But here again, the situation does not justify further hoarding.

No Need For a Sugar Panic

Sugar was in surplus supply on June 25 when the trouble began in Korea. It still is in surplus supply, despite the buying rush of the past few weeks. Cuban and Puerto Rican output is running above 1949 levels, while both beet and cane production here in continental U. S. exceeds year-ago totals by a substantial margin. Only destruction of shipping can cause a shortage of sugar. Hoarding, whether by wholesalers, retailers or consumers could create a temporary shortage. If this should push prices too high, it could result in sugar price controls and, perhaps, rationing; but not so long as the war is confined to Korea.

Adds to Staff

Oppenheimer, Vanden Broeck & Co., 40 Exchange Place, New York City, members of the New York Stock Exchange, announce that Stephen A. Lieber is now associated with the firm.

Pure Oil Company and Ocean Natural Gas

By J. WALTER LEASON
Research Statistician, Shields & Company
Members New York Stock Exchange

Writer contends discoveries of natural gas in Gulf of Mexico may provide basis for development of additional reserves and earning power for oil companies in region, one of which is Pure Oil Company. Says pending contracts for utilization of new discovery indicate expectancy of about 5 trillion cubic feet of natural gas in addition to large amounts of oil. Says Pure Oil Company's expansion and modernization program, with increased natural gas capacity, portends higher earnings.

Though considered of medium size in the giant petroleum industry, Pure Oil is one of the larger American businesses. Total assets are $290 million and gross operating income in 1949 was $263 million. Its activities are those of an integrated oil company and include the production of crude oil and natural gas, refining, transportation and retail marketing. These operations are free from international complications by virtue of being completely within the United States.

J. Walter Leason

A brief discussion of the various operating departments will indicate the progressive nature and scope of the company's business.

Production

The oil business starts with underground resources. Ownership of proven reserves of oil and gas are considered a hedge against inflationary tendencies and a protection against increasing costs of finding and developing oil. In this respect, Pure Oil is fortunate. While no official estimates have recently been made by the company, outside sources have estimated crude oil reserves to be substantially in excess of 500 million barrels—over 125 barrels per share of common stock—and natural gas about 2½ trillion cubic feet—about 625,000 cubic feet per share of stock—excluding recent discoveries in the Gulf of Mexico. After deducting all debt and preferred stock, these reserves could be valued conservatively at about $70 a common share assuming 50 cents a barrel for crude oil and 3 cents per Mcf for natural gas. Approximately 250,000 acres of developed land is held in diversified sections of the United States on which about 6,000 oil wells and 250 gas wells are producing. More than 2 million undeveloped acres are held for exploration and possible later development. Much of the acreage is held in large blocks.

Due to severe restrictions on allowable rates of production imposed by state regulatory authorities, the 25,070,852 barrels of crude oil produced in 1949 was 10.8% less than in 1948. Since May, 1950, however, the demand for petroleum products has been steadily increasing, and the Korean situation has tended to increase these demands further. It now appears fairly certain that 1950 production will exceed that of 1949.

Pure Oil's greatest production is derived from the State of Texas. Here, the company has producing acreage in many fields of which the best known are:

(1) Scurry County, Texas, the largest proven oil discovery of recent years, where considerable productive acreage is owned. Over 20 producing wells are in operation and additional drilling is in progress.

(2) The Dollarhide field of West Texas, a recent discovery, which has four producing horizons of which the fourth has just been brought into production. In this field, the company plans to drill 50 additional wells in 1950, and recently participated in the construction of a jointly owned gas processing plant that is now coming into initial production, and

(3) The Van field of East Texas, discovered in 1929 and still producing prolifically.

Producing fields are also located in eleven other states which, in order of importance, include Oklahoma, Illinois, Louisiana, Michigan and Wyoming. The 25,000-acre Worland field in Wyoming is a recent discovery in which the company has a triple play: it produces substantial quantities of natural gasoline, propane, and butane in its gas processing plant; it receives from the surphur extraction plant operated by the Texas Gulf Sulphur Company a proportion of its production; and the clean dry gas remaining after these two operations is sold to the Montana-Dakota Utilities Company for resale.

Exploration in the Gulf of Mexico

Pure Oil is one of several companies that has continued exploration for oil on the submerged coastal lands of the Continental Shelf off the coasts of Louisiana and Texas. Drilling rigs have been set up miles offshore over the Gulf of Mexico itself. Though a costly operation, success has crowned the efforts of the company.

Two wells drilled in the Gulf in the Eugene Island area, Block No. 32, off the coast of St. Mary's Parish, Louisiana to a production depth of 9,600 feet, have revealed extensive natural gas and condensate reserves. Another rig operating off the coast of Vermillion Parish, Louisiana, Block No. 39, has had a strike at a production depth of 8,200 feet. Despite the limiting effect of the comparatively small size of the drilling platform, diagonal drilling will permit operation of many additional wells.

These reserves will gradually be piped ashore. On June 16, 1950, a newly formed company, the Marine Gathering Company, was organized to build the world's first ocean-going natural gas pipeline. It will extend nine miles into the Gulf of Mexico to the Pure Oil drilling platform, from the Rollover Bayou field, and will have a capacity to deliver 50 million cubic feet daily to the Tennessee Gas Transmission Company through 8⅝-inch pipe. Work is scheduled for completion by Sept. 15.

United Gas has applied to the Federal Power Commission for authorization to extend its natural gas transmission by 1,005 miles at an estimated cost of $111,510,000. Hearings are scheduled to begin Sept. 11, and it appears that a large part of this project is made feasible by proposed utilization of offshore reserves. This project contemplates construction of 244.5 miles of line, including 211.9 miles of 30-inch line, extending from the Pure Oil Company's offshore platform in the Gulf of Mexico off the coast of Louisiana in a northeasterly direction through southeastern Louisiana to United's Jackson, Mississippi compressor station. In addition, the company would build about 215 miles of line connecting the proposed 30-inch line with various producing areas and extending to a delivery point with Texas Eastern Transmission Corporation's facilities near Kosciusko, Mississippi. These pipelines would have a delivery capacity of about 390 million cubic feet per day at the Kosciusko delivery point.

Importance of Discovery in the Gulf of Mexico

It is probable that these high pressure reserves situated on the Continental Shelf will be a major addition to proven national reserves. Pipeline construction of the magnitude contemplated would obviously be warranted only by an exceptionally promising structure. Only further drilling can disclose how extensive reserves may be. However, gas reserves alone could develop between 5 trillion and 15 trillion cubic feet or more. On the basis of proposed gas contracts aggregating 440 million cubic feet per day, a 25-to-30-year reserve of about 5 trillion cubic feet would have to be proven to satisfy the strict Federal Power Commission requirements. United Gas probably would not plan a pipeline unless this quantity seemed reasonable from present knowledge of the structure of the field.

Natural gas in the Gulf Coast area is now selling at 10 cents per Mcf and reserves in the ground are considered to be worth 4 cents per Mcf. Should Pure Oil's reserves prove to be 5 trillion cubic feet, such reserves figured at only 3 cents per Mcf would have a value of about $150 million or $37.50 a share on an asset basis. Probable oil and distillate reserves and additional gas reserves could reasonably increase the value of this discovery to $50 a share.

Refining

Refinery runs in 1949 were within 2% of the record year of 1948, while a record production of gasoline was attained. During the year, 38,857,732 barrels were processed, of which 36,111,168 barrels were put through the company's own refineries and 2,746,564 through facilities of others. Lower production allowed by state regulatory authorities in 1949 caused crude oil production to decline to a level only 65% of refinery requirements—the lowest since 1937. However, with allowables increasing, the company will probably purchase a smaller proportion of crude during 1950.

Five refineries with an aggregate crude capacity of 111,100 barrels per day are operated by the company at Smiths Bluff, Texas; Toledo and Newark, Ohio; Charleston, West Virginia; and Midland, Michigan. Until recently, three gasoline plants were operated. Addition of the new Dollarhide and Worland plants will substantially increase the sale of liquid petroleum products heretofore produced by the company on a very limited scale.

Considerable flexibility has been added to operations by completion of the company's postwar refinery and modernization program. Production of the new lubricating oil and grease plant facilities at the Smiths Bluff refinery has exceeded specifications. Greater quantities of specialty products are being manufactured, of which the most important is wax. The company is now in a position to manufacture a smaller percentage of the heavier low-

Continued on page 28

Dealer-Broker Investment Recommendations and Literature

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

Common Stocks for the Under-Invested Portfolio—List in current issue of "Gleanings"—Francis I. du Pont & Co., 1 Wall Street, New York 5, N. Y.

Current Federal and State Stock Original Issue and Transfer Tax Rates—Booklet—Arthur G. Bisgood, Registrar and Transfer Company, 50 Chuch Street, New York 7, N. Y.

New Orleans Bank Stocks—Analytical brochure—Scharff & Jones, Inc., 219 Carondelet Street, New Orleans 12, La.

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.

* * *

Allied Stores—Bulletin—Newburger & Co., 1342 Walnut Street, Philadelphia 7, Pa.

American Chain & Cable Co., Inc.—Study—Stanley Heller & Co., 30 Pine Street, New York 5, N. Y.

Chicago, Rock Island & Pacific Railroad—Memorandum—Sutro Bros. & Co., 120 Broadway, New York 5, N. Y.

General American Transportation Corp.—Analysis—Dreyfus & Co., 50 Broadway, New York 4, N. Y.

Also available is a bulletin on **American Telephone and Telegraph** 2¾% convertible debentures due 1961.

General Public Utilities—Memorandum—Josephthal & Co., 120 Broadway, New York 5, N. Y.

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

In the same issue also is a brief study of **Nekoosa-Edwards Paper Co.**

Lea Fabrics—Information—Aetna Securities Corporation, 111 Broadway, New York 6, N. Y.

Also available are data on **Winters & Crampton, Plywood Inc., Douglas & Lomason,** and **Copeland Refrigeration.**

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

Pittsburgh Coke & Chemical Co.—Analysis—Eastman, Dillon & Co., 15 Broad Street, New York 5, N. Y.

Pure Oil Company—Current study discussing the substantial values added by continuing expansion and development and by the recent oil and gas discoveries on the Continental Shelf of the Gulf of Mexico—For a copy write on your letterhead to Shields & Co., 44 Wall Street, New York 5, N. Y.

Purolator Products, Inc.—Analysis—H. M. Byllesby and Co., Inc., Stock Exchange Bldg., Philadelphia 2, Pa.

Purolator Products, Inc.—Memorandum—G. A. Saxton & Co., Inc., 70 Pine 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.**

Ryan Aeronautical Co.—Report—Walston, Hoffman & Goodwin, 265 Montgomery Street, San Francisco 4, Calif.

Also available is a memorandum on **American Car & Foundry Co.** and **Durez Plastics & Chemicals.**

United Paramount Theatres—Analysis—Abraham & Co., 120 Broadway, New York 5, N. Y.

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

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. 14, 1950 (New York City)
New York Curb Exchange Golf Tournament at the Garden City Country Club, Garden City, L. I.

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).

Joins Farwell, Chapman

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill.—John A. Carrick has become associated with Farwell, Chapman & Co., 208 South La Salle Street, members of the New York and Midwest Stock Exchanges. Mr. Carrick has recently been with Hugh T. Brothweick & Co. of Toronto. In the past he was with Langill & Co. and Baker, Walsh & Co.

Hicks & Price Add

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill.—Leo E. Murray has joined the staff of Hicks & Price, 231 South La Salle Street, members of the New York and Midwest Stock Exchanges.

With Harris, Upham

WINSTON-SALEM, N. C.—J. Albert Snelling has joined the staff of Harris, Upham & Co., Pepper Building.

Why I Oppose Another OPA

By ROBERT A. TAFT
U. S. Senator from Ohio

Republican party leader contends if government pays its way by balancing budget and preventing expansion of credit, an all-out control bill is not necessary. Says another OPA will cause renewal of black markets.

Should Congress authorize the President to establish another OPA, the power to fix all prices and all wages, and ration all commodities? I supported the Price Control Act at the beginning of the second World War and served in the Food Administration during the first World War. In all-out war, such controls are necessary, for one reason because the government cannot possibly pay for the tremendous expenditures required out of current taxes. But I agree with President Truman that the present situation does not justify a completely controlled economy. The Controls Bill contains many necessary powers, among which the most essential and undisputed are those to control the expansion of credit. Government has always found it essential to control credit, even in time of peace, because unrestrained expansion of credit has caused dangerous economic depressions since the days of John Law.

Robert A. Taft

In my opinion, if the Government pays its way as it goes by balancing its budget and does not permit credit to expand, there will be no increase in prices. With a vigorous use of credit control policies, most of the recent price rise can be undone.

The Controls Bill also contains powers relating to the production of materials for the Armed Forces and the stimulation of increased production. There is no dispute about the necessity of giving the Government every power to get the necessary materials required by our Armed Forces in Korea and elsewhere throughout the world.

But general price and wage control powers over the economy are a very different matter. They involve a complete abandonment of the free economic system under which this country has been built up. After a reasonable length of time, they interfere seriously with increases in production. They are much harder on the small businessman than on the large businessman. It seems clear to me that they should not be adopted or even authorized until the time has come when they are absolutely necessary to prevent a runaway inflation.

In my opinion, the appropriations requested by President Truman up to this time, which propose a doubling of our expenditures on military forces, can be handled by increased taxes and restraint of credit.

Most people seem to think that price control is an easy matter and all the Government has to do is to step in and order lower prices. But this a complete delusion. We found in 1942 that we could not begin selective price control unless we were willing to extend it to practically every product purchased by consumers. Then we found that we could not fix prices unless we were also willing to fix wages.

All this is an infinitely complex operation, and there is no one in the world who knows enough to do it without serious mistakes. There are nearly a billion individual transactions a day, purchases and wage payments. OPA control undertakes to make a regulation applying to every one of these transactions. This involves a tremendous detailed operation with perhaps five hundred thousand employees and volunteers before the whole project is completed. It has to be handled arbitrarily, because the orders issued have to be effective immediately if they are to be effective at all, and so there is no real appeal from injustice or inequality. During the World War, I had case after case brought to my attention where arbitrary rulings ruined patriotic citizens.

The system tends to produce tremendous shortages because if a price is a little too low, it increases demand and decreases supply. Under OPA, at different times there was no butter, no meat, no canned goods, no sheets, no white shirts, no shoes.

Above all in the United States we face the danger of a complete breakdown of controls. While war continues, a national morale develops which makes it possible to enforce controls. We hope that the Korean war may be brief. What we really face is a long period of preparation in which there will be little inclination to sacrifice.

* * *

After the Second World War ended, we had one black market after another. Corn and lumber and meat sold all over America at black market prices, if they could be bought at all. Eighty per cent of the meat was slaughtered on farms or in small packing houses. At one time there was practically no lumber in responsible lumber yards. The American people don't like to be regimented for long and the system inevitably leads to lawlessness and profiteering.

The position I have taken is in accord with that of the President's economic advisers and also of the Federal Reserve Board.

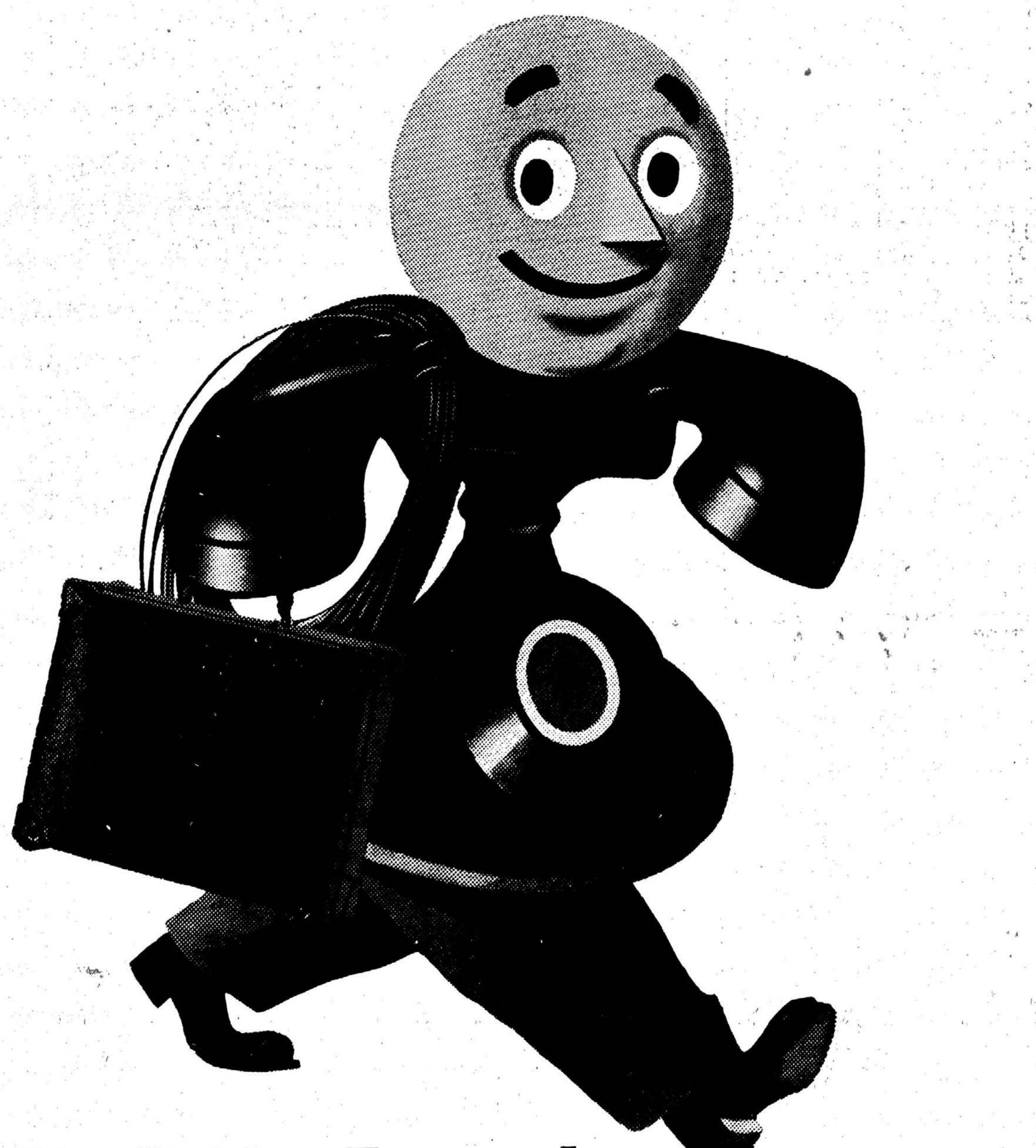
New York Stock Exchange Weekly Firm Changes

The New York Stock Exchange has announced the following firm changes:

Transfer of the Exchange membership of H. Gates Lloyd to Clarence W. Bartow will be considered on Aug. 31.

Transfer of the Exchange membership of M. Dorland Doyle to Morris David will be considered Aug. 31.

On Aug. 31 Sydney Lewinson, member of the Exchange, will retire from partnership in Lewinson & Sacken, and on Sept. 1 Joan S. Lewinson, general partner, will become a limited partner.



Men, Money and Marketing

By EATON V. W. READ*
Dean, College of Business Administration,
University of Bridgeport, Bridgeport, Conn.

Dr. Read traces historically the function and interrelationships of money, banking and marketing. Stresses importance of marketing in our modern economy and describes facilities of banks in various marketing processes. Urges banking officers and employees to increase their knowledge of marketing and other economic processes and extols work done by the American Institute of Banking.

One of the most famous misquotations in history is the statement that "Money is the root of all evil." Actually, St. Paul wrote to Timothy 1800 years ago: "For the love of money is the root of all evil." We'll all agree that selfishness, greed, covetousness and avarice are evil and that they have been altogether too common through the ages, but money in itself is no more evil than the bread or buttons or books or buildings for which it may be exchanged.


Eaton V. W. Read

Money—that is a generally recognized medium of exchange—is as essential to complex economic life as are men and marketing—the other two elements in the title of this talk. It is impossible to visualize a $250 billion economy such as ours operating without money. It could not do so. When one considers that bank debits to individual accounts exceed one thousand billions of dollars a year, it is obvious that we could not have the division of labor and the exchange of goods and services which give our country the highest physical standard of living in the world through any barter system. Men can exchange huge quantities of the products of their hands and brains and machines through the process of marketing only if they use some medium of exchange.

The approximately five hundred thousand of you men and women working in the fifteen thousand banks of this country serve our seven million farms, three hundred thousand manufacturing establishments, and two million retail and wholesale concerns in three major ways. One of these, of course, is the debiting and crediting of demand deposits. The other two principal services are the extension of credit and the purchase of investment securities. At the end of 1949, when deposits of commercial banks were $141.5 billion, loans were $42 billion and investments were $78 billion—including mortgages and government bonds.

So much for a quick, broad view of the current situation. These tremendous phases of economic activity—banking and marketing—obviously did not develop overnight, over a year, or over a century. Let me sketch broadly and briefly the historical perspective. In anthropological terms—hundreds of thousands of years—finance and commerce are young indeed, but the history of banking and marketing and money does go back through many centuries of the history of man.

In the history of banking we find that money changing — a service made necessary by the chaos of varied coinages—was the principal activity from Biblical times up through the Roman empire and into the 12th century. We later find the famous men of Lombardy and the goldsmiths of London, the medieval pawn shop, and the house of Rothschild. We learn that King Charles the First seized two hundred thousand pounds sterling that local merchants had lodged for security in the Tower of London and that the ill-fated monarch thus drove deposit business to the goldsmiths. The latter soon found that their deposits far exceeded current demand and exchanged unearning assets for earning assets in the form of interest-bearing loans. And their receipts for deposits circulated in nearly the same manner as modern bank notes. Finally, we find the Governor and Company of the Bank of England established in 1694 and, a century later, the First Bank of the United States and "Bancomania" — the speculative frenzy of starting independent state banks. Later came the National Banking Act of 1863, The Federal Reserve System, the Federal Deposit Insurance Corporation and other recent developments.

In the history of marketing we find the Phoenicians—the world's first truly commercial people—sailing their tiny vessels on the Mediterranean 12 centuries before the time of Christ and even venturing into the Atlantic so that they might trade with the western coasts of Spain and Africa. The Greeks were not so ambitious in commerce, but Alexander founded a city named for himself at one of the mouths of the Nile which soon became the chief commercial center of the world. Later, the Romans considered trade beneath the dignity of their military nature and left commerce largely in the hands of subject peoples.

So far as retailing is concerned, the Greek's god Hermes was the deity of "roads, commerce, invention, cunning and theft." Apparently, the "kapelos" or small retailers of the Greeks were not held in high esteem or governed by the ethics of better business bureaus. We also find the Roman wine shops, from which eventually get our word broker, since the wine merchant tapped or broached the kegs so that he might sell in small quantities. Further along in the history of commerce comes the rise of Italian towns and of the Hanseatic league in northern Europe and the eventual development of England into what Napoleon called "a nation of shop keepers"—a nation of shop keepers that proved too much for Bonaparte's grandiose ideas of conquest.

In the same line of the history of marketing we find the Yankee peddler carrying his wares from the sea coasts into the interior, the trading posts with the Indians, the general store of the small town and, eventually, the two million wholesale and retail establishments that now serve the people of this country.

Function of Money

How about *money?* There's a word that has an interesting history. Through the French it comes from the Latin, *moneta*, meaning mint or money. And there's a woman in the story, albeit no mortal, but a goddess. The top god of the Romans was Jupiter and his senior and legal wife's name was Juno. One of her titles was Moneta, the adviser, and money (moneta) was coined in one of her temples in ancient Rome.

In the history of money we find sea shells, beaver pelts, cattle, iron bars and even large stones used as mediums of exchange and finally gold and silver. Merchants first issued coins; later the priests took over minting, as in Rome, and finally the state assumed the privilege and responsibility. Our word, "dollar," traces its ancestry back through other spellings to the little town of Joachinsthal in Bohemia. The Joachinsthaler came to be the name of a coin first minted there in 1519 and now the United States dollar, its etymological descendant, is the leading and most sought after medium of exchange, having out-run the pound sterling which was unable to stand the onslaught of two great wars in which its country took more than its share of death and disaster.

So far I have talked of men and money and marketing, today and down through the centuries. Let us now examine more closely how the five hundred thousand men and women, in fifteen thousand banks, contribute to marketing—the distribution of goods and services from the farms and forests and mines and factories of America to the ultimate consumer, the institutional users and the industrial concerns of our country.

What Is Marketing?

What is marketing? To the housewife it means going to the grocery store every few days to buy—for cash or credit—the food and drink her family needs. To the advertising agency it covers largely the use of the printed or spoken or televised word in attempting to sell goods and services, to the salesman it means personal-contact selling. Actually, marketing is a much more complex process. The American Marketing Association, composed of university and businessmen, has defined it as *"the performance of business activities directed toward, and incident to, the flow of goods and services from producer to consumer."* Professors Agnew, Jenkins, and Drury of New York University in their useful little volume called "Outlines of Marketing," break down the study of marketing into six major divisions. They say that the study of marketing comprises:

(A) People in various places who are able and willing to purchase.

(B) Goods and services for business use or home use.

(C) The functions involved (to which I will soon return).

(D) The middlemen who perform these tasks—individuals or groups in the market place who use

(E) The available techniques of selling and sales management, advertising and public relations, research and forecasting, under,

(F) Conditions involving governmental regulation and physical, psychological and sociological change.

What are the "functions of marketing"—those major specialized activities performed in the whole process? Let us look at the relationship between you men and women in banking, and the money and credit in which you deal, and these marketing functions. There is some disagreement among authorities in the field of marketing about the functions of marketing, as there typically are differences of opinion among specialists in any field of science or business, but the most widely recognized functions of marketing are buying and selling. The former includes four steps: deter-

Continued on page 23

*Address by Dr. Read before the New England Regional Conference, American Institute of Banking, Bridgeport, Conn., Aug. 5, 1950.

Bank and Insurance Stocks

By H. E. JOHNSON

This Week—Bank Stocks

Considerable attention has recently been focused upon Bankers Trust because of its activities in acquiring other banking institutions and expanding its operations into areas not formerly served.

The most recent development in this connection was the proposal announced last week to merge the Lawyers Trust Company and Bankers Trust Company under the name of Bankers Trust Company. The merger is subject to the approval of two-thirds of the stockholders of both institutions, which are meeting for this purpose on Sept. 14. Also to consummate the final consolidation, approval must be obtained from the New York State Superintendent of Banks.

Providing the merger receives the necessary approvals and there appears to be little doubt that it will, stockholders of Lawyers Trust Company will be paid $68.09 a share. This figure represents the adjusted book value based upon an appraisal of assets and liabilities at the finish of business on Aug. 10, 1950.

Also as part of the merger, County Safe Deposit Company, an affiliate of Lawyers Trust, will be merged with the Bankers Safe Deposit Company.

According to the letter to stockholders, the merger will bring Banker Trust approximately $75,000,000 in additional deposits, additional banking personnel, 14,000 new customers and four new offices. The business of the main office of Lawyers Trust at 111 Broadway will likely be absorbed by other offices of Bankers Trust in the same area. Two branch offices of Lawyers are located at Fifth Avenue and 34th Street—Empire State Building—and the other at Eighth Avenue and 14th Street, and represent new areas of operation. The other office is in Brooklyn at 203 Montague Street.

This proposal by Bankers Trust to expand its banking facilities follows closely the acquisition of certain banking functions and operations of Title Guarantee and Trust Company on Aug. 7, 1950.

Under terms of the agreement made on July 6 Bankers Trust assumed Title Guarantee's commercial banking and deposit and trust functions and obtained certain of the banking premises, facilities and other assets for an undisclosed cash consideration. According to comments made at the stockholders meeting of Title Guarantee which approved the action, no premium was involved on the transfer of the institution's assets and liabilities with the exception of a small premium on certain furniture and fixtures.

As part of this transaction Bankers acquired approximately $50,000,000 of deposits and over 20,000 new customers. In addition Bankers Trust obtained six banking offices in the Bronx, Brooklyn, Jamaica, Long Island City, and two in Manhattan.

Upon the completion of the merger with Lawyers Trust and after the consolidation of some of the offices of the merged institution, it is expected that Bankers Trust will operate 13 offices in the four boroughs of New York City.

When these recent activities are considered against the historical background of Bankers Trust, it is evident that a major change in policy has taken place.

Bankers Trust was organized in 1903, as a "Bankers Bank" to accept fiduciary business and act as a depository for other banks. Changing conditions limited the need for a bank of such a restricted nature and Bankers changed its operations to correspond to more of a commercial bank.

Its policies have been designed, however, to service relatively large "dowtown" accounts. Savings deposits and consumer credit activities have not been a factor until recently and up until now its activities have not been designed for small or neighborhood accounts. The recent acquisition of approximately nine branch offices in areas not formerly served and doing business of a kind not heretofore handled would indicate that Bankers is expanding the character of its operations. Recent changes in personnel including the addition to the staff of a Vice President from Bank of America, which has specialized in branch banking, would seem to bear this out. How far any future expansion will be carried and its timing can only be determined by subsequent events. However, it would not be surprising if further expansion along these lines was accomplished.

In the meantime there are indications that other mergers or consolidations will take place among some of the New York City banks within the near future. Banks which have been mentioned prominently as candidates for such action have been Brooklyn Trust, Commercial National and Public National. While such rumors cannot be confirmed, the action of the stocks of some of these institutions would indicate that there is some justification for the current talk.

These mergers offer the bank stockholders an opportunity to withdraw his capital. Inasmuch as the low rate of earnings has resulted in most bank equities selling at substantial discounts from book value and because mergers or consolidations result in the stockholders obtaining at least book value, we would expect this withdrawal of bank capital in New York to continue.

Financing Utility Expansion in Northwest

By JOSEPH E. MUCKLEY*
Vice-President, Seattle-First National Bank

West Coast banker, noting possible advent of natural gas to that area, points out though credit standing of utilities is relatively high it will tend to deteriorate unless allowed more liberal rates to increase values of their equity securities. Warns of utilities' trend toward larger ratio of indebtedness in their capital structures, and calls for higher returns for stockholders.

Most of the time at these meetings has been spent in exploring the various problems connected with the possible advent of natural gas to the Pacific Northwest. You, of course, know that there is widespread public interest in this subject. It is the general hope and belief that natural gas will be made available from one source or another to the consumers of Oregon, Washington and British Columbia in the not too distant future. To those of you who have struggled for many years to finance manufactured gas operations in the Pacific Northwest, I have no hesitancy in stating that with the advent of natural gas you will have far readier access to capital markets than at any time in your history. The pattern of growth in revenues and earnings has already been well established in other parts of the country, and the experience of investors on converted properties has been most satisfactory. You will therefore find commercial and investment bankers, and institutional and private investors ready and willing to provide you with any of your reasonable needs for capital.


Joseph E. Muckley

Under the circumstances, you might well anticipate that my remarks would be devoted to advice and recommendations concerning possible financing in connection with conversion to natural gas. However, with your permission, I would like to turn to the broader and more fundamental aspects of such an important subject as "Financing Utility Expansions in the Northwest," or in any other part of the country for that matter.

Credit Standing of Utilities

The basic fundamental in the financing of any venture is the availability of capital and the attractiveness of the field in which it is to be invested. As members of the utility industry, you are indeed fortunate in the fine credit which your industry enjoys. I wonder if you fully appreciate the exceptionally high regard in which utility securities are currently held by investors. Last year the average yield on United States Treasury long-term bonds was 2.31%, while the average yield on AAA utility bonds was 2. 67%. Prime utility bonds were yielding only 15% above United States Government obligations, contrasted with 36% in 1930. Over the last 20 years the differential has been consistently narrowing. The investor today will loan $1,000 to the United States Government for an annual return of $23.10. He will loan $1,000 to a prime utility for $26.70, a differential of only $3.60 per year per thousand dollars of capital. When you consider the added risks inherent in any industry, regardless of its record and background and its future prospects, as opposed to the relative stability of the United States Government itself, it is apparent that the utility industry enjoys a phenomenal credit rating. The prospects of further improvement are practically negligible. It is much more likely that the risk factor in the industry will be appraised less favorably in the future.

Gentlemen, good credit is your greatest asset. In recent years it has come to be accepted as a matter of course in the utility industry, but it is most appropriate to caution you to exercise every effort to continue to maintain it.

It takes a much longer time to build such a reputation than it does to lose it. Let us not forget that in 1929 when AAA public utility bonds were selling on an average yield of 4.67%, New York Central Railroad Refunding and Improvement 4½s of 2013 were rated AAA and sold above par. In the short space of three years the bonds were selling in the thirties and the rating had dropped to BA, which rating incidentally persists to this day. There is an example of credit deteriorating and many, many more can easily be found. Those of you who in the past five years have had the responsibility for raising well over $1 billion on the Pacific Coast to finance postwar utility development might well pause to consider your situation had any such loss of confidence in your industry taken place.

Trend Toward Larger Bonded Indebtedness

In the five-year period from 1945 to 1949 new corporate issues in the United States absorbed over $20 billion of investors' capital. Your industry had one of the greatest demands for such capital, taking some $8 billion of this total. It is most noteworthy in viewing the longer range aspects of utility credit that over $6½ billion of this $8 billion was raised by the sale of debt securities and only $1½ billion by the sale of equity securities, or a ratio of debt to total of 80%. You are sufficiently familiar with the capital structure of the utility industry to know that it runs approximately 50% debt and 50% equity, and that any continuation of the trend of the last five years must ultimately react adversely on your credit. I do not know, nor does anyone else, whether you will first start to witness such a reaction when debt becomes 55%, 60%, or 65% of your capital structure, but I urge you not to try to find out at what point this loss of confidence starts to take place. I happen to be a member of the group consisting of banks, insurance companies and institutional investors who provide you with the bulk of these much needed funds for the expansion of your industry. I assure you that this group, practically all of whom operate in a fiduciary capacity, watch with keen interest the environment in which their funds are invested They can become quite nervous and move rapidly at times, as witness their almost complete withdrawal from the field of railroad financing in the late twenties and the fact that they have never subsequently reentered it in any substantial fashion.

It is a matter of general knowledge to those of you in the utility industry charged with the responsibility for arranging financing, as well as to investors and most regulatory bodies, that a broad and sound equity base is an essential prerequisite for good credit. The company which cannot finance a major part of its requirements by the sale of additional common stock from time to time faces a deteriorating situation. In those companies where the common stocks are of high quality and well regarded by investors, senior securities such as preferred stocks and bonds automatically qualify as prime investments. It is therefore most important to maintain the attractiveness of your common stocks as mediums of investment.

Importance of Increasing Equity Values

Common stock investors, as you well know, taking as they do the bulk of the risk in any venture, properly expect to receive some reward in a successful business. This should come to them in the form of some increase in earnings and dividends over a period of time and concurrently some appreciation in the value of their holdings. Investment trusts and investment counselors, who play an important part in directing capital into industry, regard growth as almost a fetish. Your industry has been properly popular in such circles. The record of growth in number of customers, output, and gross revenues has been steady and consistent. However, the investor is primarily interested in growth in earnings, and this has not been so conspicuous. As a matter of fact, two of the largest utilities on the West Coast, the Pacific Gas & Electric Company and Pacific Telephone & Telegraph Company, earned considerably less per share on their common stock in 1949 than they did 20 years earlier. The following tabulation on earnings per share is interesting and significant:

Earnings per Common Share

	1929	1949	Change
Pacific Gas & Electric	2.85	2.06	— 28%
Pacific Telephone & Telegraph	11.51	5.80	— 50%
General Motors	5.49	14.65	+167%
General Electric	2.24	4.36	+ 95%

Please bear in mind that although the investor is a patient and long-suffering individual, he will not continue indefinitely to invest $100 in the public utility business if he finally concludes that $100 is all he can ever get back under favorable circumstances, and that under unfavorable circumstances he faces possible serious depreciation in the value of his capital.

Any loss of credit in the utility industry, serious as it might be to those who have invested billions in it, would nevertheless be far more serious to the general public. It has certainly been most important in the public interest that the Pacific Telephone Company enjoyed sufficient access to the capity markets to be able to raise $500 million in the last five years to install 1,386,000 new telephones. It has likewise been in the public interest that the Pacific Gas & Electric Company has been able to raise over $500 million in this same period to provide over one million horse power of new generating capacity. On that day when large amounts of capital are no longer available to your industry on easy terms, the customers in the areas you serve will be the chief losers.

During the last several years we have seen the regulatory process develop to a very high degree, to the point where after long and extensive hearings rates of return are calculated to 1/100 of 1%, and the general trend of allowable rates of return has been downward. During the past year the

Continued on page 26

*An address by Mr. Muckley made at the 57th Annual Convention of the Pacific Coast Gas Association.

Continued from page 5

Observations . . .

of two cents a pound on copper, in the face of the prospective need to import about 50,000 tons per month; and in the face of concurrent legislation avowing the purpose to keep prices down.

Politics vs. the International Front

But it is outside the domestic economic field, and even more seriously in the sphere of actual waging of war, that sabotaging from political bickering is being revealed. The importance of Senator Wherry's widely-publicized statement of last week that "The blood of our boys in Korea is on his [Secretary Acheson's] shoulders, and no one else," lay not in any internal rift or interparty squabble which it might imply. The damaging factor was that it elicited from Wherry's political opponent, Senator Tydings, speaking as Chairman of the Armed Services Committee, a heretofore "top secret analysis" by the Department of Defense. Reading of this document in the Senate revealed to all the world the exact amounts ($495,700,000) which this country has spent to strengthen Korea militarily and economically; an itemization of the sums spent for military equipment; and the number of the different kinds of weapons furnished by us to the Koreans (49,000 carbines, 43,000 rifles, 43,000 rockets, 170,000 rifle grenades and 25-yard mine sweepers). Irrespective of whether the disclosure of such information is harmful to us militarily, it most assuredly sabotages us on the diplomatic front—giving Mr. Malik and his Soviet colleagues just the ammunition they most desire for their propaganda machine representing us as the mighty aggressors.

Apart from other playing-of-politics within and against the State Department, probably the *reducio ad absurdum* there is the naming of New York's Mayor O'Dwyer to the important post of Ambassador to Mexico, at the behest of Boss Flynn and the local political exigencies.

"Politic-ing" as part of the democratic process is of course not limited to any particular territory. Ironically, the very same day on which the above-cited Wherry-Tydings revelations took place, in London Prime Minister Attlee was denying the request by the Conservative and Liberal party leaders that, in view of the world crisis, Parliament be re-convened before the previously-scheduled date of Sept. 12—both the demand and reply presumably harboring political motivation.

* * *

Under the democratic process the damaging results of subsidy-statism and general vote-grabbing no doubt can never be eliminated. But it might be presumed that in "Hot Wartime" they can at least be somewhat reduced.

M. J. Meehan to Admit

George S. McNamee will acquire the New York Stock Exchange membership of Samuel K. Harris on Aug. 31 and be admitted to partnership in M. J. Meehan & Co., 30 Broad Street, New York City, members of the New York and Midwest Stock Exchanges.

Mutual Funds

By ROBERT R. RICH

Funds Losses Heavy on "Obsolete" Sales Material

A certain loss of nearly one hundred thousand dollars in mutual funds' sales material, made osolete by the Securities and Exchange Commission's Policy Statement, was computed by "The Chronicle" in a spot check of mutual funds' sponsors and distributors.

Individual inventory losses of as high as twenty-eight thousand dollars in funds' promotional material have been reported to "The Chronicle" by sponsors and distributors smarting under what is considered an unreasonably short time in which to distribute "obsolete" sales material in inventory and in which to prepare new sales pieces.

In some cases, the necessary changes were insignificant and these funds were disgruntled about destroying thousands of pamphlets because of "two or three words" which didn't violate the spirit of the new Statement, but only a literal adherence. An example of this is the necessity by one fund for changing "dollar averaging" to "dollar cost averaging."

Although the Securities and Exchange Commission's Statement of Policy and its Release Number 1053 mention no specific date of enforcement, the key phrase "It will be materially misleading *hereafter* . . ." occurs in the Policy Statement. [*Editor's note: The full Statement of Policy issued by the Securities and Exchange Commission was carried in "The Chronicle" of Aug. 17, page 15.*]

However, the industry is acting on the basis of a letter sent to members by the National Association of Securities Dealers, Inc., dated Aug. 14, which states, "The use of advertising and sales literature which does not conform should be discontinued as soon as practicable and in no event later than Oct. 1, 1950."

Sponsors and distributors with light inventories in sales pieces are not seriously affected by the early date of enforcement, but those which normally carry a three- to four-month normal inventory will experience a substantial loss. They are particularly disturbed by the mere six weeks in which they must prepare, process and distribute to dealers the new sales pieces which will conform to the new SEC policy.

Since inventories will have to be refilled, and dealers' stocks replaced, the cost will be about double the original loss, in order to achieve the status quo, one executive noted. On this basis, the loss to the industry may be figured adequately at two hundred thousand dollars.

National Securities Annual Report Anticipated SEC

National Securities and Research Corp., which, in its annual report for the fiscal year ending April, 1950, anticipated much of the full disclosure contemplated in the Aug. 11 SEC Statement of Policy, has notified dealers that it is reviewing all of its sales literature, with necessary revisions to be completed no later than Oct. 1, 1950.

National's Industry Groups, particularly Automobile, Aviation and Railroad Equipment Shares are reported to have outlooks well worth considering in view of the "special industry situations" created by the Korean crisis.

Wellington Fund Releases Retirement Plan Booklet; Dealer Opportunity Stressed

Wellington Fund has just released to dealers its new booklet, "The Mutual Fund in Retirement Plans." Wellington, pointing out that this is a rapidly growing field with "new and repeat business" possibilities for dealers, notes that there are 13,000 companies today which have qualified retirement plans with the Treasury Department. Over seven million employees are now covered, Wellington reports, and five million are expected to be covered in the next three years. Retirement plans now total about five billion dollars, with current contributions being made at the rate of $1.2 billion dollars annually.

Dealers were informed that they need only a working knowledge of retirement plans in order to present their program to manufacturers. Pension plan costs, when computed in detail, require the competency of an actuary. Wellington Fund has prepared a special memorandum, which will be sent to dealers on request, outlining the basic principles of retirement plans.

The Fund feels confident that the material it can supply is an entirely sufficient background for dealers who wish to help an employer set up an individual program for his retirement fund.

The advantages of mutual funds were strongly underscored because of their flexibility. Mutual Funds were described as particularly suitable in profit-sharing plans where no fixed benefits are specified for the worker.

Qualified retirement plans are, of course, free from Federal income tax and capital gain taxes, which, with the consequent boost in yield from a balanced portfolio, makes funds even more valuable in retirement plan use.

Wellington Fund remarked to dealers that an actuary wasn't necessary in setting up a profit-sharing plan, but that it could be drawn up by an attorney who could qualify it with the Treasury Department. A typical small company, it was noted, will have average contributions of about $50,000 a year to a retirement fund which will provide benefits of $100 a month to employees at the age of 65.

Putnam Fund Advises Dealers on Sales Material

Putnam Fund, in a letter to its selling group, underscored the NASD Oct. 1 deadline on current sales material which may be violative under the recent SEC Policy Statement, and then commented: "We assume that you can continue to use the present Putnam Fund material until Oct. 1 without running any unreasonable risk, although some dealers may wish to avoid any possible question in this connection by confining themselves for the time being to the official Prospectus."

Putnam Fund reported that it was proceeding as quickly as possible with the preparation of new sales material.

Axe Securities Makes Distribution Changes

Axe Securities Corp. has announced three major changes in the distribtuion of the investment companies managed by E. W. Axe & Co., Inc., in order to make mutual funds more useful and attractive to both large and small investors.

To meet the problem of larger investors, institutions, pension funds and fiduciaries, the selling commission has been reduced to 1% on sales of $250,000 or more.

To meet the problem of investors with moderate capital who feel that their objectives would be better met by having several Axe-managed funds, arrangements have been made so that the lower discounts which formerly applied to single orders for one fund for $25,000 or more, will now apply on concurrent sales aggregating $25,000 or more divided among various Axe funds.

An Axe Investment Plan has been started for the purchase of shares of Axe-Houghton Fund, Inc. and Axe-Houghton Fund B, Inc.

The two main features of these systematic investment plans are flexibility, and the fact that the mechanics are entirely administered by banks at no additional cost to the investor.

There is a minimum for the initial investment of $200. Subsequent investments must not be less than $50, but these subsequent investments may be made monthly, bi-monthly or quarterly. Any plan may be terminated at any time without penalty to the investor. A special point of the Axe investment plans is the "investomatic" feature. By using this feature, an investor who so desires may instruct his own bank to send the stipulated monthly or quarterly investments for the purchase of shares and merely charge the investor's account for the payment. The National City Bank of New York, principal transfer agent for the Axe-Houghton Funds, and Bank of America National Trust & Savings Association, of San Francisco, West Coast transfer agent for the Axe-Hougnton Funds, will be agents under the plans. City Bank Farmers Trust Co. has been appointed custodian of the Axe-Houghton Funds.

United Funds Files

United Funds, Inc., Kansas City, Mo., on Aug. 15 filed a registration statement with the Securities and Exchange Commission covering $5,000,000 of periodic investment plans to acquire United Accumulative Fund shares, 400,000 United Science Fund Shares and 520,000 United Accumulative Fund shares to be offered at principal amount for the plans, and at market for the shares, through Waddell & Reed, Inc. The proceeds will be used for investment.

Quinby Plan Effective For du Pont Stock

Registration of the Quinby Plan for accumulation of common stock of E. I. du Pont de Nemours & Co. became effective on Aug. 17, it was announced by H. Dean Quinby, Jr., President of Quinby & Co., Inc., of Rochester, N. Y.

This Plan will be almost identical with the Quinby Plan for accumulation of common stock of Eastman Kodak Co. which was originated by Mr. Quinby in 1938 and which has enabled nearly 2,000 men and women of every age and income group to accumulate more than 40,000 shares of KODAK.

The Look Ahead for Government Securities

By ROBERT VAN CLEAVE*
Assistant Vice-President, C. F. Childs and Company

In forecasting trends in Federal Government finance, as affected by Korean crisis and consequent rearmament program, research specialist in government securities sees renewal of efforts to control inflationary effects of government borrowing and wartime shifts in the economy. Expresses doubt government revenues, in case of all-out war, can be increased sufficiently to avoid borrowing and holds "pegged price" policy for government securities has harmful tendencies. Reviews anti-inflation proposals, and concludes it is impossible to escape inflation in wartime.

Even if the Korean situation does not now explode into a full-scale war with Russia, it is only the beginning of what beyond doubt will be a continuing rearmament program. The whole economy will be shifted, at greater or lesser speed toward a war basis. Government expenditures (and deficits) will mount, and will become progressively larger components in the gross national product.

One by-product of the war will be an acceleration in the trend toward socialism. We shall not here take time to debate the definition of socialism. It is enough to note the growing tendency in recent years toward increasing governmental direction of everything. The present war will give to those anonymous economists and technicians in the government service a splendid opportunity to advance their schemes. That these schemes and their promoters exist is beyond question. Being anonymous, they cannot be pointed out, but this is hardly necessary. If we see our lawn defaced by a pattern of arched tunnels criss-crossing it we are perfectly justified in asserting the presence of moles, whether we can see them or not.

At present, and probably for some time to come, current popular debates will be concerned with whether the Treasury should campaign for the sale of savings bonds to individuals, or issue a restricted market security to insurance companies, or create additional issues of Treasury bills for sale to commercial banks. The familiar arguments about the inflationary effects of the latter, and the non-inflationary effects of the former, will be rehearsed. Commercial, industrial and agricultural loans of banks probably will recede, as will mortgage and other loans with the possible exception of loans on government securities. Consumer credit loans will fall more or less sharply, in line with the progressive reduction in the availability of consumer goods. This naturally will be related to the length and intensity of the conversion to war. For similar reasons offerings of new securities by corporations and by states and municipalities will tend to decrease as supplies of civilian production materials and the permitted output of civilian goods falls off. By means of direct loans and guarantees the government no doubt will resume the practices of the last war in financing war production.

At the same time, savings will increase. Profits of corporations, even after taxes, will be large. Savings of individuals will grow, not only because of increase earnings at higher rates for more hours but because the supply of things to buy with the extra money will be smaller. In some manner these profits and these savings will be channeled into the hands of the Treasury Department.

More Borrowing to Come?

Much talk will be heard about the possibility of raising tax revenues to very high levels—of a "pay-as-we-go" war.[1] Unless the war is held to quite small proportions and lasts quite a short time, this is not a real probability.

On the whole, it is more likely that a large part of war-connected expenditures will be covered by borrowing—or by the creation of new money.

The Federal Reserve System many times has pointed to the difficult problems of debt management created by the wide gap between short-term and long-term rates frozen into the structure during the last war. It has advocated the closing of this gap, and to a quite considerable extent this has been done. To raise the long-term rate, as some have suggested, would be simply to restore this wide gap, besides increasing the interest cost substantially.

But if one is interested in going beyond the merely technical details—such as what will be the date and maturity of the first nonmarketable bonds offered; whether a long-term bond should be for a term of 18 or 22 years; whether or when a bond should be offered to commercial banks, and should it be for 8½ or 9 years, at 1⅝% or 1¾% — one must give some thought to the work of technicians and theorists referred to above. They have advanced several new ideas in recent years, and they have by no means exhausted their ingenuity. Innovations in financing methods of the last war now have been accepted as orthodox but that does not mean that still others will not be proposed and some of them tried. Assuming always, of course, that we do not return rather quickly to the ways of peace. Let us consider some of these innovations.

There is the "compartmentalization of the debt." An official phrase is "tailoring the securities to fit the needs of the investor," but it results in dividing the debt into segments, several of which are thus removed from the influence of the market.

Savings bonds were not an innovation of the last war, since they were introduced first in 1935, but their material growth was a product of the war years. Savings notes were first devised after the war started. Together they compose (with a few other insignificant items) the segment called nonmarketable debt. They are a peculiar hybrid having some of the characteristics of a security and some of a savings deposit carrying variable rates of interest. This nonmarketable debt now constitutes 26.2% of the total gross public debt. In all our prior history the government had issued its securities with an eye on conditions in the market; investors decided which of them best suited their needs, yield and maturity considered, and thus which they wished to buy, if any.

Another large debt compartment contains the government securities held by the trust and other government investment accounts. These are mainly "special" issues, which may be owned only by the account to which they are specifically issued. They are about 12.6% of the gross public debt at present, and are almost completely insulated from the influence of the market.

After deducting several miscellaneous items, rather small in total, there remains a part of the debt called marketable—that is, bills, certificates, notes, bonds, which may be dealt in between investors. It is only 60.3% of the total. As recently as November, 1941, it was 72.1% of the total, and after World War I it was, to all intents and purposes, 100%. There was no other kind but marketable securities.

But this is not all. The so-called marketable debt now includes a sort of second-class security — marketable only with certain restrictions. By fiat, the eligible owners exclude commercial banks. This fiat is expressed on the face of the bond, and so far as is known no specific legal authority for this discrimination ever has been cited, nor has the point been tested. No doubt it rests upon that vast body of "inherent," "implied," or "residual" powers of government.

The over-all debt limit is comparatively recent. As late as World War I every new loan issued had to be authorized by Congress. Through various measures more direction as to type of issue was lodged in the Treasury Department, subject to an over-all limitation. Early in 1941 this limit was $65 billion. It was raised by successive steps to $125 billion, $210 billion, $260 billion, and finally to $300 billion in April, 1945. It was reduced to $275 billion in June, 1946, but we shall shortly learn from the newspapers that it has been raised again.

Taxation of government securities made rapid progress during World War II. Before World War I they were tax-exempt; during that war new bond issues were made subject to surtaxes while retaining their exemption from normal tax, and by the Public Debt Act of 1941 even this exemption was removed.

The Pegged Price Policy

Probably the most significant innovation of all was the adoption of fixed or "pegged" prices and rates for both long-term and short-term securities, although the most pronounced effects of this war-time expedient were not felt until 1947-1948. Its epoch-marking character lies in the principle that when the rate is to be maintained, control over the volume of credit is abandoned. As to whether such a policy is wise and beneficial, or the reverse, argument and dissension will go on for many years to come. It scarcely will be disputed that the harmful tendencies are present, or that we escaped the worst potential evils more by good fortune than by planning. It was the minor recession of 1949 which reversed the flow of securities into the Federal Reserve Banks and started it back into the hands of the public.

It is a little puzzling to reflect that pegged prices for long-term government bonds were never considered either essential or feasible in Great Britain, even under a socialist government. Fluctuations there were of such scope as to make movements in our own securities almost invisible by comparison. Yet none of Britain's troubles, so far as we know, have been attributed to fluctuating government securities markets.

These are the principal past innovations. We may expect that all of them will be employed hereafter. For the new ones, we shall confine ourselves to those

Continued on page 27

*Section of a paper prepared by Mr. Van Cleave and read by Mr. F. N. Childs before the 1950 Class of the Graduate School of Savings and Loan, convened at the University of Indiana, Bloomington, Ind., Aug. 18, 1950.

Prospective Tax Rises And the Utilities

By B. S. RODEY, Jr.*
Manager Tax Dep't, Consolidated Edison Co.

Tax expert of leading utility company emphasizes greater importance of future excess profits tax than raising of flat corporate tax rate. Citing impossibility of utilities accumulating earnings for expansion which is demanded by national interest, Mr. Rodey warns overly severe excess profits tax will seriously jeopardize their ability to raise money needed for new facilities. Maintains last excess profit law reduced earnings below fair return as set by regulation.

You, of course, want to know, as every utility financial man wants to know at this time, what the impact of additional Federal taxes, and especially an excess profits tax, will be on the earnings of particular companies whose securities are being sold on the open market. In other words, you want the best technique available for gazing into the crystal ball for future earnings per share, which will thus enable you to advise others.


B. S. Rodey, Jr.

Now, I am not going to insult anyone's intelligence by trying to tell them what the immediate impact will be per share, as the result of going from 38% to a 45% rate. The important point to consider is the question of whether such a decrease in earnings under normal conditions is recoverable through the utility rates and how fast. The answer probably is in the affirmative subject to expected regulatory inertia, inasmuch as growth and decreased unit costs may offset part of the increased tax cost. However, the impact of an excess profits tax along the pattern of the last one is quite another matter.

Imponderables

Unfortunately, there are a lot of variables and "ifs," "ands," and "buts" in this particular field.

First of all, the excess profits tax is not what its name connotes; many people confuse excess profits tax with a tax on excessive earnings. The excess profits tax, at least if it follows the pattern used during the last war, is one of three steps in our Federal corporate income tax setup. The other two steps are the normal income tax and the surtax. The word "profits" has no place in the name. The adjective really modifies the noun "tax" and not the noun "profits." We often speak of a three-part rate in the utility business; namely, the demand component, the energy component and the customer component. The excess profits tax is merely one component of a three-part tax rate, that is again, of course, if it follows previous patterns. Earlier statutes, I believe, concerning excess profits tax, really had as an objective the elimination of excessive earnings, but unfortunately such a tax did not produce enough revenue; thus

Continued on page 24

*An address by Mr. Rodey before the New York Society of Security Analysts, New York City, Aug. 16, 1950.

By CHARLES WIGAND*
Commonwealth Services Inc.

Mr. Wigand declares effective regulation eliminates possibility of excessive profits as well as possibility of any wartime profiteering. Warns against law framed to raise tax revenues according to formula in lieu of siphoning off true excessive profits. Concludes while popular pressure probably makes war profits levy inevitable, it should be enacted only after fullest consideration of specified fundamental principles.

As you know, the utility industry is a regulated industry in that Federal, State and/or municipal agencies fix the price which the industry may charge for its services. Effective regulations preclude a regulated industry from having excessive profits. It also eliminates the possibility of any profiteering as mentioned in President Truman's recent message to Congress.


Charles Wigand

You also know that it is a rapidly expanding industry, not alone as a matter of choice, but one of compulsion. To provide service to the constantly growing number of customers in ever increasing volume, large amounts of new capital are required to construct new facilities.

Under previous excess profits tax laws, utilities have paid substantial so-called excess profits taxes, not because they had excessive profits, but because of the basis of calculation prescribed by law.

The law provided two methods of determining the excess profits credit and the earnings in excess thereof were subjected to excess profits tax, namely, the Invested Capital and the Average Earnings methods. The Invested Capital method was not used extensively by utilities because the Average Earnings method generally was somewhat less harsh. Under the Invested Capital method the money or property paid in for stock and the accumulated earnings and profits had to be calculated on an income tax cost basis, which, only in the most unusual circumstances, represented the real cost of the taxpayer, due to the fact that utility systems were usually developed through merger and other tax free transactions in which the cost to the predecessor carried through in determining the invested capital for tax purposes. Furthermore, only 50% of borrowed capital was included and, as you appreciate, all utilities have a high proportion of debt.

The Average Earnings Method

Under the Average Earnings method the excess profits credit consisted of 95% of the average base period excess profits net income with a growth factor, plus 8% of net capital additions, and minus 6% of net capital reductions. The base period, 1936 to 1939, included years when industry was recovering from the worst depression we ever had, and base period earnings did not represent a fair measure of credit for appli-

Continued on page 24

*An address by Mr. Wigand before the New York Society of Security Analysts, New York City, Aug. 16, 1950.

Korean War: A Small Down Payment on Tragic Mistakes

By HON. JOSEPH W. MARTIN, Jr.*
U. S. Congressman from Massachusetts

Republican House Leader, scoring tragic mistakes of Tehran, Yalta and Potsdam, which have permitted, through stupidity, a huge colossus to threaten our national life, condemns Administration for unpreparedness and waste in defense expenditure. Says people are fed up with such incredible bungling, and pledges Republican party support to our forces in Korea and Formosa. Says present Administration can't achieve peace.

I come to speak briefly upon some of the problems which confront our nation. That we are in a most precarious position no one who knows the facts can deny. Frankly, we are faced with a danger that the America of freedom and of opportunity may be lost.

Hon. J. W. Martin, Jr.

The American people are bewildered. Never before has the average American felt so insecure; never before has he been so lacking in confidence in the men who dominate our government.

I ask you, can any man, woman or child in this country plan intelligently for the future? I have talked with many boys and girls. They ask, can we plan a college career? I have talked with many parents. They feel they can make few plans for the future of their children. I have spoken to many businessmen who are unable to determine whether they should expand their business and provide more employment for the people. Colleges are uncertain as to their future. Some industries are not sure whether or not they will be snuffed out. The young men are unable to foresee whether they can have a job or must carry a gun. We are — I repeat — bewildered.

This, just five years after being a decisive factor in winning the world's greatest war.

People have a right to ask, "How come?" How did we get to this position of peril? And we have a right—yes, a solemn duty—to go over the events which have transpired.

Today we are engaged in a little war—I beg your pardon, police action—in Southern Korea.

Now, a nation with all the power and might of the United States cannot fear this little puppet nation of imperialist Russia. No, our future is imperiled because we do not know what are the intentions of Soviet Russia—the nation our government so warmly embraced 17 years ago; the nation we saved from destruction when Hitler marched to the outskirts of Moscow; the nation we appeased at Tehran, Yalta and Potsdam; the nation we permitted to appear as the rescuer of the Balkans and Berlin, thus making the Soviet Union the dominant power of Europe; the nation we favored by allowing them to enter the Asiatic war in the final week; the nation we gave Manchuria, Port Arthur, Darien, Outer Mongolia, the Kuriles and Northern Korea.

Our National Life Threatened

Yes, our whole nation's life is threatened by the nation we permitted through stupidity to become the huge colossus of today.

We are now making a small down-payment on the tragic mistakes of Tehran, Yalta, and Potsdam, and we can only pray that the payments will diminish instead of grow even greater.

But the folly of our appeasement policy offers only one explanation of the perplexing situation which we face today in the world. To understand our predicament thoroughly, we must attempt to find out how a small, Russian-trained army could strike in such strength that we would be pushed into a pocket in South Korea at enormous cost to our military prestige and at unnecessary loss in human casualties.

Since the end of the war in 1945, the Federal Government has expended $95 billion on the armed services. This figure does not include economic and military aid which has since gone to many nations of the world.

The 64-dollar question today is, where did the money go? The American people are demanding to know how we could suffer a "little Pearl Harbor" in Korea?

The American people are demanding to know how we could be almost pushed back into the sea by a little puppet nation of only 10,000,000 people?

They want to know why our troops went into the conflict on President Truman's orders June 27, poorly equipped and without proper tactical air support?

They want to know what the money has been spent for.

I think every American is entitled to answers to those questions. It is bad enough to follow a line of appeasement that inevitably leads to war, but is is a sad multiplication of the error when we enter such a conflict woefully lacking in proper arms.

I think the American people are entitled to a few plain facts—an appraisal of how we stood militarily on June 27 with respect to Asia.

The American public was aghast at the ease with which the North Korean Communist forces, employing Russian-Made T-34 tanks, rolled across South Korea, bowling over the combined South Korean-American forces like so many matchsticks. Very properly, they ask: Where were the 88,000 tanks we had when World War II was over?

Let me give you some measurement of our unpreparedness.

When the Korean Communists struck, we had only 6 tanks (General Pershing model) in Japan that were considered an equal to the Russian T-34.

Instead, we had approximately 350 light and medium tanks, none of which matched the Russian T-34 on a tank-for-tank basis, and of these, 70% were immobilized in the repair shops and were not available.

We had only one aircraft carrier in the Far Eastern theater—the Valley Forge.

We did not have a single Marine in the Far Eastern theater, except for a mere handful doing patrol duty in front of embassies.

We had only 4 divisions of troops in Japan, and they were only at 60% of fighting strength.

We had only approximately 30 propellate-type combat aircraft—that is, planes which can give ground troops tactical air support, so necessary in the type of war-

Continued on page 28

*Partial text of an address by Rep. Martin at Oak Bluff, Mass., Aug. 19, 1950.

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

Refunding of the September and October maturities with 13-month, 1¼s was unexpected and this keeps intact the Treasury's record of having some kind of a surprise for the money markets. It seems as though the old policy of what is cheap (in interest cost) is good. Opening up of the F&Gs to larger purchase by non-bank investors was a minor concession. However, the raising of the discount rate by the Central Banks shows the monetary authorities do not see eye to eye on the trend of interest rates or the importance of the inflationary forces.

The financial community had been looking for a 1¼% certificate for part of the refunding, with either a 1½% or 1⅝% issue for the balance. There was even talk of a 1¾% obligation being used. They got the 1¼% alright, but for 13 months, and nothing else. The deposit banks, the largest holders of the maturing issues, again have "Hobsons Choice," and they can either take it or leave it. There is considerable self-refunding being done in the market by these institutions, because there is need for a higher yield than is available in certificates or 13-month notes. Another refunding operation comes along but there is still only one eligible issue which yields more than 2%.

Long Bank 2½s in Demand

The longest bank obligation, the 2½% due 9/15/67-72, continues to be the favorite issue in the eligible list. Despite the sizable premium, which many banks do not like to pay, this bond is being bought in fairly large amounts (when grouped together) by the smaller institutions because they must have a return of at least 2%. Commercial banks which have savings deposits have no other alternative but to put idle funds into the September 1967/72s. The floating supply has not been large at anytime recently, but enough bonds seem to come into the market at intervals, to take care of the demand which does not mind waiting until the needed amounts are available. Switches by non-bank owners of the most distant eligible obligation have also helped in more ways than one to keep market quotations of this bond from getting too far out of line. Profit-taking has likewise had a stabilizing influence upon the price trend of this security. Federal, under unusual conditions, has sold bonds to keep the market on an even keel.

Country Banks Principal Buyers

Although the larger banks enter the market from time to time to pick up the 2½s of September 1967/72, the real buying almost invariably comes from the smaller out-of-town institutions. Country banks have been the largest takers recently and there is no doubt about these bonds going into permanent homes. It seems as though the real estate picture is not quite as promising as it has been for some of these institutions, and as a result they are putting funds into the most distant eligible obligation. Banks in reserve cities are also in there competing for the September 2½s and not a few of the 2s, which they will lose next month, have already been refunded by way of the longest taxable bank issue. From the quick turn side of the situation, traders have not done too badly either with some of them being able to pickup quite a few thirty-seconds by moving in and out of the 2½s of 1967/72s. Until there are issues which will directly affect this bond, it seems as though demand will be sufficient to keep it pretty much in the upper reaches of the trading area.

Good Markets for Restricteds

The restricted bonds have a good tone, despite selling by the Central Banks, which means they are being well bought by non-bank investors. Also there is some spread trading between the various maturities in the group. Nonetheless, the Vics are the obligations which yield buyers are most interested in, and this results in considerable volume in the longest restricted issues. Pension funds, according to reports, have again stepped up their buying and this has taken a considerable amount of securities out of the market. Savings banks have been small buyers on balance although they have been doing quite a bit of selling and switching. These institutions along with pension funds have been moving into the highest yielding issues. Fire insurance companies seem to have assumed a more cautious attitude in their investment policies (in some instances), and this has meant somewhat larger purchases of the most distant ineligible obligations.

Most Active "Tap" Issues

The next most active issues in the tap list seem to be the 1959/62s with opinions somewhat divided as to the attractiveness of these bonds. Those that are buyers of the restricted 2¼s make quite a case for them with the 1952 eligibility being one of the strongest points in the argument. On the other hand, where yield is of greater importance, there is no hesitancy to sway from the 2¼s into the longest 2½s.

The 1962/67s likewise are not without followers, especially where near eligibility is one of the items. However, the larger premium involved when compared with the 2¼s has detracted some of the eligibility buying from the 2½s. The 1963/68s seem to be giving the 1962/67s greater competition with swops being made from the latter into the former. The 1964/69s which have been on the select list appear to have lost some of their glamour, with volume and activity declining in the past week. Evidently the time of the eligibility of the tap issues is becoming more important to many buyers of the restricted issues.

With Mitchum, Tully

(Special to The Financial Chronicle)

LOS ANGELES, Calif.—Harry L. Lee has become associated with Mitchum, Tully & Co., 650 So. Spring Street. Mr. Lee was formerly with Pacific Company of California.

With First California

(Special to The Financial Chronicle)

PASADENA, Calif.—Edward G. W. Bruce-Kingsmill is now affiliated with First California Company, 112 So. Los Robles Avenue. He was formerly with E. D. Baring-Gould.

N. Y. City Housing Bond Issue Marketed

Offering of $11,180,000 New York City Housing Authority Colonial Park Houses 1¼%, 5%, 1½%, 2%, and 2¼% bonds was made on Aug. 22 by The National City Bank of New York and associates. The bonds are due March 1, 1952 to 2000 and are scaled from a yield of 1% to a dollar price of 97½, according to maturity. Bonds due on and after March 1, 1959 are callable March 1, 1958.

Other members of the offering group are Halsey, Stuart & Co. Inc.; C. J. Devine & Co.; The First National Bank of Portland, Ore.; The Philadelphia National Bank; R. H. Moulton & Company; Mercantile-Commerce Bank and Trust Company; C. F. Childs and Company, Incorporated; Hayden, Stone & Co.; W. H. Morton & Co., Incorporated; Fidelity Union Trust Company, Newark; F. S. Smithers & Co.; Laird & Company; Andrews & Wells, Inc.; Robert Winthrop & Co.; Rand & Co.; Wheelock & Cummins, Incorporated; Courts & Co.; Ellis & Co.; Gordon Graves & Co., Inc.; R. H. Johnson & Company; Raffensperger, Hughes & Co., Incorporated; Seasongood & Mayer; Sulzbacher, Granger & Co.; E. M. Newton & Company, and Edw. Lowber Stokes Co.

John E. Miller & Co. To Be Formed in N. Y.

John E. Miller & Co. will be formed shortly with offices at 30 Broad Street, New York City. The new firm will hold membership in the New York Stock Exchange. Partners will be George R. Cooksey, Jr., the Exchange member, John E. Miller and Joseph Weinberg. Mr. Cooksey has been active as an individual floor broker; Mr. Miller was with Newburger, Loeb & Co.

Stewart, Scanlon Adds

(Special to The Financial Chronicle)

SAN FRANCISCO, Calif.—Charles N. James has become affiliated with Stewart, Scanlon & Co., 216 Montgomery Street, members of the San Francisco Stock Exchange. He was previously with Henry F. Swift & Co.

Irving Gersten

Irving Gersten, partner in Gersten & Frenkel, New York City, died suddenly Aug. 20 at the age of 43.

Canadian Securities

By WILLIAM J. McKAY

It is possible that we are now at the threshold of a new phase of foreign exchange procedure. For this reason the conclusions to be reached at the forthcoming annual meeting in Paris of the International Monetary Fund are likely to be just as momentous as those of last year that put the seal of approval on the series of currency devaluations. On this occasion, however, it is likely that any adjustments decided will be in the direction of the appreciation of certain currencies vis-a-vis the U. S. dollar.

It is possible moreover that there will be a departure from the previous form of arbitrarily fixed new valuations, which in the past have produced fresh complications, and which at times have almost immediately induced renewed pressure at the revised parity. This method of adjustment also places an undue degree of responsibility on the monetary authorities of the country concerned. The difficulty of assessing the proper level at which a currency should be placed in order to assure maximum stability has often led to avoidable delay that has resulted in undue depletion of exchange reserves. In place of this hit-or-miss method of currency valuation that so far has not permitted a simultaneous abandonment of exchange restrictions it is probable that considerable attention will be devoted at the Paris meeting to the question of controlled free exchange markets. France has made considerable progress along these lines: multiple rates have been largely eliminated and the authorized dealer banks are now permitted more latitude in inter-bank trading, both in spot and future exchange. Recent reports suggest that Britain is likewise contemplating the establishment of a controlled flexible rate for sterling.

No other country, however, is in such a favorable position as Canada to take the plunge of exchange freedom. Never before has the Dominion foreign trade situation been in a healthier condition; the influx of foreign investment funds is established as a steady trend; the war emergency throws into sharper relief than ever Canada's pre-eminent position as a world supplier of basic raw materials; the Canadian potential for industrial expansion based on World War II Crown plants is unrivalled elsewhere.

According to recent reports there is now popular support north of the border for bold action of this kind. It would appear that the Dominon's recent economic upsurge has created a widespread feeling that the Canadian dollar on a discount basis vis-a-vis the U. S. dollar reflects detrimentally on the national prestige. There is perhaps an even more powerful popular sentiment in favor of the removal of bureaucratic restrictions and controls, for which it is now believed there is no longer justification. Although a more cautious body of opinion leans toward postponement of what could prove to be precipitate action in this direction in view of unsettled world conditions, there is apparently a majority viewpoint that as a result of the Korean incident the Canadian position has been immeasurably strengthened. The reasoning behind this belief is that, unlike the situation which existed at the outbreak of World War II, Canada's role in the present emergency is comparable to that of this country during the previous war period.

There is every reason to believe therefore that Canada in the course of the Monetary Fund deliberations will give strong support to the proponents of exchange freedom. In the case of the Canadian dollar in particular a decision in favor of permitting the Canadian dollar to find its own level in a free market would be preferable to arbitrary revaluation and the retention of exchange restrictions if only for the following reasons:

(1) Natural economic forces would determine a truer valuation.

(2) The exchange reserves would cease to bear the brunt of exchange movements caused by a vulnerable rigid parity of exchange.

(3) The influx of foreign investment capital would be further stimulated following the removal of exchange restrictions, and existing foreign capital in the Dominion would be encouraged to remain.

During the week there was a steady demand for external bonds but activity was limited by the scarcity of supply. Volume of turnover in internal bonds on the other hand continued on a large scale and especially in the case of the Dominion 3s of 1954-57. Free funds were also firm but readiness on the part of U. S. banks to exchange U. S. for Canadian dollars on a swap basis led to a narrower premium on future deliveries. There was little activity in the corporate-arbitrage market and the rate remained unchanged at 10½%-9¾%. Stocks on the Toronto board continued their upward course with the papers, liquors, and heavy industrials still leading the advance. The base-metals and Western oils were also strong but the golds continued to remain in the doldrums.

Kemp With Taylor Co.

(Special to THE FINANCIAL CHRONICLE)

BEVERLY HILLS, Calif. — F. Thomas Kemp has become associated with Taylor and Company, 170 South Beverly Drive. Mr. Kemp was formerly with J. Barth & Co., Jones, Cosgrove & Co., and Paine, Webber, Jackson & Curtis. Prior thereto he conducted his own investment business in Pasadena under the name of Thomas Kemp & Company.

Organize to Expand Trade With Haiti

Frederick E. Hasler, New York banker, assumes presidency of group of commercial and industrial interests formed to promote Haitian-American relations.

Announcement of the organization of the Haitian American Association, Inc., composed of representatives of leading business interests here and in Haiti with Frederick E. Hasler, New York banker, as President, has been made.

Frederick E. Hasler

M. A. Kerwin of Standard Fruit & Steamship Co.; Chandler S. Mackey, of C. A. Mackey & Co., Inc., and O. B. Small, of The Texas Co., were elected Vice-Presidents. David E. Grant, of Grant & Hermann, representing Pan American World Airways System, was elected Secretary, and Robert D. Merrill, of American Cable & Radio Corp., was elected Treasurer.

Gustave Laraque, Ambassador from Haiti to the United States, was elected Honorary President of the new association, and Luc Grimard, Haitian Consul General in New York, Honorary Vice-President.

Directors of the association are the above officers and George A. Meckes, United States Steel Export Co.; Gerald T. McCarthy, Knappen Tippetts Abbett Engineeding Co.; Louis Naetzker, National City Bank; Elias A. Noustas, of the Haitian American Development & Trade Corp.; Charles E. Rance, Chemical Bank & Trust Co.; J. R. Rinehart, Westinghouse Electric International Co.; Kenneth Schmolze, Funch, Edye & Co., Inc., and J. T. Wilson, IBM World Trade Corp.

Mr. Hasler, who was Chairman of the Continental Bank & Trust Co. before it was merged into the Chemical Bank & Trust Co., is now on the Board of Directors of the latter institution. He is a Past President of the New York State Chamber of Commerce and Honorary President of the Pan American Society of the United States. He is Chairman of the Haitian American Sugar Co., which has large interests in the West Indian republic.

The new association has offices at 60 Wall Street, telephone HAnover 2-5878, with Douglas Bradford, Executive Secretary, in charge. "The initial membership in the Haitian American Association comprises a sufficient number of representative commercial and industrial interests here and in Haiti to insure a permanent constructive body which can make a valuable contribution to Haitian American relations," Mr. Bradford said.

No Need for Direct Price Controls Now!

Harry A. Bullis, Chairman of General Mills, tells stockholders, although some allocations and priorities may be needed in present situation, general and direct price controls would simply "bottle up" inflation temporarily. Says cost of Korean crisis could be offset by government economies.

Addressing the annual stockholder's meeting of General Mills, Inc., at Wilmington, Del., on Aug. 22, Harry A. Bullis, Chairman of the Board, decried the need for present all-out price controls.

Harry A. Bullis

"The impact of the Korean crisis upon our economy has already resulted in consumer hoarding and an upward movement of prices with accompanying shortages in some lines of product," Mr. Bullis told the stockholders. "Apparently there have been similar hoarding drives by many businesses with the result that certain items have been added to inventories beyond reasonable prospective needs. As a result, the cost of living has risen moderately and wholesale prices are up close to their all-time high. There seems to be some evidence that consumer hoarding is slackening, although retail sales are still at a high level."

Continuing his analysis of the situation, Mr. Bullis remarked:

"These price increases have led to an effective demand for price control powers and rationing powers on an available 'standby' basis for the President. Will he have to put them into effect at once?

"When we examine the facts of our economy, it does not appear that such controls need to be made effective at the present time. We are producing extraordinarily large quantities of goods. Steel, automobiles and housing were making new records when the crisis came. The hoarding which has taken place has not changed the total product. The diversion to military materiel is taking only a small percentage of production away from civilian needs.

"Rising prices are inducing people to buy. People are willing to buy if they have money. Inflationary pressure will continue to mount unless effective steps are taken quickly. Price controls and rationing do not relieve inflationary pressures but merely bottle them up and suppress them unless the purchasing power which causes the pressures is drained away. If that purchasing power is diverted at once, as it should be, to pay for the military requirements, the pressure will be relieved without the need for controls and rationing. Consumer purchasing will decline and so will prices until a balance is found where the money available will purchase the product available in consumer channels.

"The government should take several steps to halt inflation before resorting to controlled prices and rationing. It should make drastic cuts in all unessential expenditures. It should increase taxes sufficiently to pay for the increased armament. The added taxes should take purchasing power away from all income groups and not be confined primarily to high incomes and corporations. Excise taxes on a broader base and income taxes which reach all brackets will aid materially in inflation control, especially if we can pay as we go and not materially increase the national debt. We need increased taxation quickly because we began the war under conditions of boom, tightness in markets, and almost complete employment of labor. This time we should get most of what we need for war by diversion of resources. Action on taxes should be taken at once before inflation progresses further. Inflation is an unfair way to finance war because it reduces the value of the dollar, and the people who will suffer most are those whose incomes are from wages, salaries, pensions, interest, and rents, which never go up as fast as prices. It is fairer to assess each group for the amount it should pay, and collect that amount by taxation.

"Tighter terms for consumer instalment credit, with larger down payments and shorter terms, would discourage some of the demand for cars and other consumer durables, thus releasing steel and other materials for military purposes.

"Credit for housing can be cut substantially and the labor and material diverted to the furtherance of the defense effort.

"The government has already asked its banking agencies for effective restraint of credit to business and others for the purchase of inventories or plant facilities. Expansion of private business for civilian production should be curtailed in order to give the green light to expansion of facilities, inventories, and production needed for military purposes.

"Since the additional amount needed to carry on the present conflict is not excessive in relation to our national production, these indirect controls should be effective in stopping the inflation which has already started. Demands for increased wages are already beginning so that labor may purchase out of higher wages the standard of living which it has been enjoying. The spiral of alternate wage increases and price increases must not be permitted to get under way.

"We have a great advantage in our adequate supplies of food and our productive power to increase food supplies. Therefore food prices need not rise materially. Inasmuch as the cost of food is the most important single component in the cost of living, it should be possible to hold wage demands down if food prices do not increase.

"Even though it may be necessary to have some allocations and priorities, I am convinced that indirect controls will do the job if we do not delay in making them effective. Direct controls will be necessary only if a much larger part of our national product must go for military purposes and civilian consumption needs to be curtailed drastically."

J. F. Schoellkopf, Jr. Elected by Firm

BUFFALO, N. Y.—The election of J. F. Schoellkopf, Jr., as a director and Chairman of the Board of Schoellkopf, Hutton & Pomeroy, Inc., 70 Niagara Street, was announced following a special meeting of the board of directors. The office of Chairman has been vacant for some years. Mr. Schoellkopf is President of Niagara Share Corporation.

At the same meeting, George K. Coggeshall, formerly a Vice-President, was elected Executive Vice-President and J. Fred Schoellkopf IV was elected a Vice-President of the investment firm.

Mr. Coggeshall is a director of Shoellkopf, Hutton & Pomeroy, Inc. and of Insurance Shares Certificates, Inc.

Mr. Schoellkopf IV, also a director of the investment firm, will continue as Executive Vice-President of Niagara Share Corporation. He is a director of Marine Midland Corporation.

NSTA Notes

NATIONAL SECURITY TRADERS ASSOCIATION, INC.

The Nominating Committee of the National Security Traders Association, Inc., has selected the following members as new officers for 1951:

John F. Egan

H. Russell Hastings

Harry L. Arnold

Morton A. Cayne

John M. Hudson

President: John F. Egan, First California Co., San Francisco.

First Vice-President: H. Russell Hastings, Crouse & Co., Detroit.

Second Vice-President: Harry L. Arnold, Paine, Webber, Jackson & Curtis, New York.

Secretary: Morton A. Cayne, Cayne & Co., Cleveland.

Treasurer: John M. Hudson, Thayer, Baker & Co., Phila.

They will be voted on at the National Convention to be held Sept. 26-30 at the Cavalier Hotel, Virginia Beach, Va.

The Association reports that about 70% of available space at the Cavalier Hotel has been reserved, but there is still some space at the Cavalier and arrangements have been made to take care of the overflow at the Gay Manor.

AD LIBBING

And now we come to the last two members of our National Advertising Committee, Henry J. Blackford, A. M. Law and Company, Spartanburg, S. C., and Early F. Mitchell of the First National Bank, Memphis, Tenn. Chairman Blackford, representing the Security Dealers of the Carolinas, one of our youngest affiliates, has contracts already to his credit, even though he was at first rather dubious as to the results of his local efforts.

Early F. Mitchell

Early F. Mitchell, of our Memphis Security Dealers Club, informed us early in our campaign he would make a real effort to develop local advertising. At this writing he is but a few dollars below his quota. Our Memphis affiliate is also one of the latest groups to join the NSTA but it has made known its marvelous cooperative spirit and still has the opportunity of adding to the volume of advertising in hand.

It was indeed most gratifying to your committee to observe the response of members to the recent letter sent out by our national President, Frank Burkholder, asking for the names of advertising prospects. He also made mention of this support in his letter of Aug. 18, 1950.

Jack Egan, our next President, has sure gone all out for corporate ads and in the past few weeks has been in daily communication with me. Jack, many thanks. I am positive results will more than compensate for your efforts.

Col. Oliver Troster, of Troster, Currie & Summers, New York, one of our local members and perhaps one of the most outstanding supporters of the Unlisted Dealer, has placed our largest ad to date on the inside cover, which covers their wire system and group of out-of-town correspondents. My thanks Olly for your continued support.

May we all now make a double effort during our last four weeks and mail in contracts direct to the "Commercial & Financial Chronicle." We are improving our gross every day and hope we can all pass our quotas. To date—$13,692.

HAROLD B. SMITH, Chairman
NSTA Advertising Committee
Pershing & Co.,
120 Broadway, New York 5, N. Y.

SECURITY TRADERS ASSOCIATION OF NEW YORK

All indications point to a Gala Summer Outing and Dinner as the STANY Arrangements Committee, under the capable guidance of Charles O'Brien Murphy III, Merrill Lynch, Pierce, Fenner & Beane, hit the stretch in their preparations for the Annual Party to be held at Travers Island on Friday, Sept. 8, 1950.

A record turn-out is expected as reservations pour in, a tribute to the hard-working committee members, who have planned an elaborate day filled with fun and frolic, as well as to John Mayer, Merrill Lynch, Pierce, Fenner & Beane, popular president of the Security Traders Association.

The Annual Golf Tournament between the Philadelphia gang and our own New Yorkers, for the coveted STANY TROPHY, inaugurated last year by D. Raymond Kenney, D. Raymond Kenney & Co., and his committee, is in the capable hands of J. Addison Donnelly, Reynolds & Co., and Lawrence Wren, Allen & Co., and promises to be a hard-fought match.

Horse-shoe pitching, the surprise of last year, is again under the supervision of that old reliable Hoosier Horse Shoer, Harry Casper, John J. O'Kane, Jr. & Co., assisted by W. D. O'Connor, Fitzgerald & Co.

Another popular event, the Annual Soft Ball Game, which is, for the most part, participated in by practically everyone in attendance who can walk or trot, will be in the hands of the competent Harry Arnold, Paine, Webber, Jackson & Curtis, as Umpire Par Excellence, and our bet is that they are going to have to tie him down to keep him from taking his cut at the ball.

Tennis, as usual, by Rickie Goodman, Shields & Company, Julie Bean, Singer, Bean & Mackie, and last year's winner, Al Marcusson (if he is back from Floyd Bennet).

A beautiful assortment of prizes has been corralled by that professional shopper, Les Barbier, G. A. Saxton & Co.

Free beer will be plentiful as of yore and a promise from the committee that the dinner will even excel the wonderful and plentiful meal served last year.

Reservations should be mailed to Charles O'B. Murphy, III, Chairman, Suite 801, 41 Broad Street, New York 4, N.Y. The price? Eight dollars, and time payments can be arranged.

North Korean Economy Seen Incapable of Waging Modern War Without Outside Help

From the sketchy evidence available, it would appear that North Korea lacks the essentials for the warfare of power and thrust it is reported to be waging, according to an economic profile of Korea which has just been completed by the National Industrial Conference Board. The amount of sustaining assistance being rendered (apart from original equipment) may, therefore, "be of large proportions indeed."

It is common knowledge, the Board points out, that the tanks and planes in use are Russian produced. "Self-propelled artillery and anti-tank rifles alluded to in some dispatches are doubtless also from the same source. And as estimates of North Korean troop strength increased from 100,000 to double or better, the United Nations became aware that Soviet or Chinese communist-trained Korean divisions, composed of escapees from the Japanese occupation, were in action."

Behind these apparent facts, the Board sees longer-range issues such as: How much outside support will have to be forthcoming if gathering United States power in Korea is to be matched? And of what kinds? Men as well as weapons? And further, if the munitioning on the current or even larger scale is to continue, how large a drain on Soviet or Chinese military and economic resources is entailed?

Behind an Army

"To begin with, an armored army of 100,000-200,000, or more, requires large numbers of relatively skilled technicians—drivers, repairmen, gunners, communications personnel, etc., not to mention the staff work involved. Moreover, it calls for both large numbers of noncombat soldiers and civilian producers behind the lines in an equally technical and complicated network of supply."

Yet, the analysis notes, Korea is a country where mass education was still at so low a point in 1944 that only 10% of the population had had a formal education. "Further, until 1945, the Japanese occupied more than 80% of all top technical administrative posts in the nation, and even 50% of the minor civil service positions. These Japanese, numbering nearly one million, have been repatriated. In 1946, only 500 experts and 3,000 skilled laborers were trained by the North Koreans for a year or even less. In the following year the numbers were 1,500 and 20,000, respectively. Even if this rate has since been accelerated, it is difficult to see how the new state of North Korea could have filled, out of its own resources, both its military and civilian needs for skilled personnel."

Because it possesses the bulk of the hydroelectric supply and heavy industry, North Korea has been described as "the key industrial sector of the divided nation." This is only half-truth, according to the analysis.

"Industry is important in North Korea, but the area is nonetheless heavily agricultural. South Korea is the chief source of the staple food, rice; North Korean agriculture is in wheat, millet, corn and vegetables."

Shorn Industry

Moreover, the analysis points out that both agriculture and industry were left in truncated and distored form after both the division of the country and the separation of Korea from the Japanese economy, with which it was previously integrated. "More than 80% of Korean foreign trade was formerly carried on with Japan. That commerce, especially for North Korea, has long since been virtually ended. North Korea formerly produced semimanufactures of metals, chemicals, and other heavy goods, which were exported to the Japanese. All major capital equipment in finished product form, and some consumer supplies, were in turn imported from Japan. Hence, even North Korean heavy industry, limited as it was, never had been integrated or self-sustaining enough to provide a ware base."

As for light industry, it was "almost nonexistent" in North Korea. "Textile, clothing, footwear, food processing and other light production was concentrated in South Korea. And Korea, as a whole, has no domestic resources of petroleum or rubber."

Korean plants and equipment, moreover, were "badly run down as a result of supplying Japanese requirements" during the war. South Korea, "in many ways faced with identical problems, has made large strides toward recovery in the past few years. But its production, in almost all cases except food, remains below prewar or midwar levels, despite more than $300 million of American postwar assistance actually supplied. And it is still well short of furnishing its own peacetime needs, much less military requirements."

North Korea, the analysis continues, with large supplies of hydroelectric power and anthracite coal, a sterner government and a checked inflation, had some basis for making a faster industrial comeback, and probably has. "Yet, back in 1947, planned coal output was only about one-half of the 1944 total; steel and pig-iron production goals were likewise only a fraction of the war peak; and cement tonnage was only 17% of prewar capacity."

What further recovery has been made, the Board points out, is unknown, "but even the 1914 peak tonnages for coal were less than one-fourth as large as in this country, on a per capita basis; and those for iron and steel perhaps as little as one-twentieth as large as here (per capita)."

North Korea "has had to round out its facilities by developing capacity for the fabrication of its semimanufactures into finished heavy goods products. It has also had to start making consumer goods formerly produced in Japan or South Korea. And it had to do so without the benefit of Japanese industrial machinery, which was the basis for Korea's original development. It hardly seems likely that North Korea could have very readily overcome all the problems of separation from Japan, of recovery, and of industrial expansion, to be now in a position where it could supply more than a fraction of its requirements for modern armored warfare."

In 1948, the restoration of facilities "still had priority. An amazing expansion since then, as well as stock piling, would have been necessary for the North Korean war machine's current consumption, let alone original equipment, to be met from domestic resources."

North vs. South Korea

North Korea has "possibly made a better production comeback" than South Korea in the past few years. It is thought to have shown a greater improvement partly because a strong and determined central government was able to carry out a program of greater autarchy and capital investment. "It has not had a refugee problem with which to cope. On the other hand, the outward flow of people testifies to political dissatisfaction as well as to agricultural deficits."

South Korea, on the other hand, has had "a severe inflation, a super-abundance of people, and the loss of power, minerals, fertilizer, and heavy goods supply from the North." Food supplies, the analysis notes, have improved somewhat, a variety of new industries has been developed, and old ones rehabilitated or expanded. Production has increased greatly in the past few years, but prewar levels have in most cases not been reached.

Frank M. Dunn

Frank M. Dunn, Vice-President of the firm of Douglass, Van der Naillen & Co., Inc., San Francisco, and a member of the San Francisco Stock Exchange since 1935, died suddenly Aug. 15. Mr. Dunn had been associated with the securities business since his graduation from Stanford in 1928, except during the years 1942 to 1945 when he served as a Lieutenant Commander in the U. S. Navy.

Business Man's Bookshelf

Agricultural Requisites in Latin America—United National Publication 1950. II. G. 1—Columbia University Press, 2960 Broadway, New York 27, N. Y.—Paper—$1.25.

Eating the Seed Corn — F. H. Harper—Foundation for Economic Education, Inc., Irvington-on-Hudson, N. Y. — Paper — Single copies free of charge—10 copies $1.

Catalogue of Economic and Social Projects 1950—United Nations Publication—Columbia University Press, 2960 Broadway, New York 27, N. Y.—Paper—$3.75.

Economic Development of Latin America and Its Principal Problems—United Nations Publication 1950 II. G. 2—Columbia University Press, 2960 Broadway, New York 27, N. Y.—Paper 40c.

Economic Development in Selected Countries: Plans, Programmes and Agencies (Volume II) — United National Publication 1950. II. B. 1—Columbia University Press, 2960 Broadway, New York 27, N. Y.—Paper—$2.

Economic Survey of Europe in 1949—United Nations Publication 1950. II. B. 1—Columbia University Press, 2960 Broadway, New York 27, N. Y.—Paper—$3.

Effects of Corporate size on Efficiency and Profitability—Richards C. Osborn—Bureau of Economic and Business Research, University of Illinois, 358 Administration Building, Urbana, Ill.—Paper.

Guidebook to Labor Relations Law—Employer Union Relations under Federal Regulation—Commerce Clearing House, Inc., 214 North Michigan Avenue, Chicago 1, Ill.—Paper $3 (lower price on quantity orders).

Human Use of Human Beings, The—Norbert Wiener—Houghton Mifflin Co., 2 Park Street, Boston, Mass.—Cloth—$3.

Retal Credit Manual—J. Gordon Dakins—Credit Management Division, National Retail Dry Goods Association, 100 West 31st Street, New York 1, N. Y.—$4.50 ($3.50 with order of 10 or more).

Firm Name to Be Baum, Hollander & Co.

Charles M. Newman and Clement M. Stuart, members of the New York Stock Exchange, will retire from partnership in Newman, Baum & Hollander, 59th St. and Fifth Ave., New York City, Exchange member firm, on Aug. 31 and on Sept. 1, the firm's name will be changed to Baum, Hollander & Co.

On Sept. 1 Alfred M. Morris, member of the New York Stock Exchange, will become a general partner in the firm and Etta L. Baum and Florence A. Mansbach, limited partners. Mr. Morris was formerly active as an individual floor broker.

Conover Director

Hubert S. Conover, Vice-President of F. S. Yantis & Co., Inc., Chicago investment bankers, has been elected a director of Scott Radio Laboratories, Inc., it was announced Aug. 18 by John S. Meck, Scott President. A director of several other companies, Conover has been active for a number of years in the underwriting of securities of firms in the electronics industry and other fields.

How Europe Views Dollar Situation

By PAUL EINZIG

Commenting on renewed speculation in Europe regarding possible devaluation of dollar, Dr. Einzig ascribes it to Korean conflict and resulting rise in gold premium. Foresees change in U. S. balance of payments arising out of rearmament program but holds this will not lead to policy of devaluation, and, thus, a possibility of devaluation is extremely unlikely.

LONDON, Eng.—For the second time within a little over 12 months there is talk in Europe about the possibility of a dollar devaluation. Last year the talk originated from the moderate trade recession in the United States, which, together with the devaluation of sterling and other currencies, threatened to develop into a deflationary spiral. It was suggested in many quarters that, to avoid this the United States might conceivably devalue the dollar. As a result of the business recovery in the United States, this wave of distrust, which was never very strong, disappeared by the end of last year. Its present revival in a more acute form is due to a totally different set of circumstances.


Dr. Paul Einzig

Since the beginning of the conflict in Korea, many quarters in Britain and Europe have been inclined to speculate on the possibility of a dollar devaluation. In the free markets on the continent the premium on gold against the dollar, which until recently tended to disappear, has risen considerably. Even though the dollar is still regarded as the strongest currency, its relative strength compared with many currencies within and outside Europe is no longer assessed to be as high as it was two months ago.

The reasons for this wave of distrust, are as follows:

(1) The United States had to embark on rearmament on a very large scale. Expenditure of many billions of dollars on rearmament and on military assistance to foreign countries is expected to result in a certain degree of inflation; prices and costs in the United States are expected to rise considerably.

(2) It is assumed that Britain and other countries will not increase their military expenditure to an extent comparable to the increases decided upon by the United States and that in any case part of the burden of their rearmament would be borne by the United States. On that assumption it appears possible that the price level in the United States would rise to a higher degree than in other countries.

(3) The disequilibrium between prices within and outside the United States is expected to affect unfavorably the American balance of payments.

(4) The American balance of payments would be affected adversely also by the engagement of American industries in rearmament as the result of which their capacity to export will suffer, and there will be more scope for European industries to expand their sales in the American domestic market.

(5) Since in addition to supplying European countries with arms, the United States is expected to grant also military assistance in the form of dollars, this, together with increased American imports, will tend to mitigate the present dollar scarcity abroad,

(6) There is also a feeling that notwithstanding the assistance given and promises by various members of the United Nations, the Korean war is primarily an American war. The psychological effect of this consideration also gravitates against the dollar.

It is argued that the United States Government might decide to devalue the dollar in order to correct the disequilibrium that is expected to be caused by rearmament, and thus to safeguard the American balance of payments from deterioration. The alternative would be, it is suggested, the using up of the large gold reserve in settlement of the adverse trade balances that are expected to develop.

There is no reason to suppose, however, that the United States will proceed according to the above suggestions. Admittedly it is conceivable and even probable that as a result of the factors enumerated above the large American export surplus might decline and even disappear altogether. It is even conceivable that the United States might develop a trade deficit. Even so, the situation is not one which would call for a devaluation of the dollar. The United States can well afford a deficit on her trade balance. Such a deficit could be covered to a large degree without having to use the gold reserve, by collecting some of the American claims against other countries. The amount of dollars that could be mobilized through calling in foreign credits granted either direct or through the International Monetary Fund, and through liquidating American investments, is very considerable. Many countries which are expected to develop an export surplus in relation to the United States as a result of American rearmament are debtors of the United States and the payment of their export surpluses can assume the form of the collection of American claims against them.

Moreover in some instances the trade balance of countries which are at present receiving Marshall Aid or military aid from the United States may turn favorable, in which case Marshall Aid or military aid could be reduced to the countries concerned, or terminated altogether. This assumes of course that other countries will not follow the American example to an extent comparable to the American rearmament drive. If this assumption is not accepted, on the other hand, there is no reason to suppose that the relative position of the dollar will weaken in relation to European and sterling currencies, even though it may weaken in relation to South American currencies.

Taking the long view it seems highly probable that the Western European countries at any rate will follow the American example in respect of rearmament. At present they are reluctant to do so because they do not want to cause a deterioration of their standard of living. Before very long, however, it will be realized by everybody that sacrifices have to be made in the interests of national defense. Even though the Western European countries are not likely to catch up with the pace of American rearmament, the increase of military expenditure is likely to affect their economies to a relatively higher degree. They have not the same safety margins and ample reserves as the United States. This means that even though the relative extent of their rearmament may remain smaller, its effect on their price levels is likely to be more pronounced than in the United States. In any case such is the importance of American economy in the world that any inflationary trend in the United States is bound to stimulate a world-wide rise in prices.

It would indeed be unwise if the rising trend of American prices were to be accentuated through a devaluation of the dollar. There appeared to be a strong case for such devaluation in 1949 for the sake of preventing the development of a dangerous deflationary trend. It would be a fatal mistake, however, to devalue the dollar at the present stage when the trend is already inflationary. It is not even certain by any means that such a step would materially affect the American balance of payments. The international rearmament drive is bound to result in a universal return of a sellers' market. Once more the volume of exports of the United States, and of all other countries, will be determined, not by their relative price levels, but by the volume of goods available for export. In such circumstances a devaluation would simply mean giving away part of the proceeds of the exports without necessarily being able to make up for the loss by an increase in the volume of the exports. Allowing for this consideration, it is safe to disregard the possibility of a devaluation of the dollar.

Railroad Securities

Chicago & North Western

Chicago & North Western has one of the most pronounced seasonal patterns to be found in the railroad industry. Strong dependence on iron ore, which does not begin to move until the Great Lakes open in the spring, and on late grain crops, normally means low traffic in the opening half. On the other hand, severe winter weather in the Northwest is apt to impose unusual operating burdens during part of the low traffic period, with a consequent rise in expenses. With this combination it is common to see substantial deficits for the first half of the year. This year has been no exception. Results so far, however, are not to be taken as any criterion of what the company may do in the way of earnings for the full year 1950.

Last year the road was particularly hard hit during the winter months by unprecedentedly heavy weather. This year the weather has generally been much more kind to the road. The one major exception was that ice conditions postponed opening of the Great Lakes to one of the latest dates on record. Even with this handicap, which adversely affected iron ore movement, the road has been off to a far better start than in 1949. Gross for the six months through June was just nominally higher than for the like 1949 interim. This was a better showing than that of the industry as a whole.

More important than the revenue showing was the ability of the company to get its operating expenses under better control. Transportation costs are traditionally high for North Western, particularly during the seasonally poor traffic months. They have still been relatively high in the current year but at least the ratio was cut by approximately three points in the half year. The overall operating ratio was reduced by more than six points, from 98.2% to 92.1%. The magnitude of this cut is apparent when it is considered that each point drop in the operating ratio at the 1949 level of revenues is equivalent to more than 50% of a full year's fixed charges. With the high leverage in the company's capitalization each point in the operating ratio is equivalent to more than $2.00 a share of common, before Federal income taxes.

The deficit before fixed charges in the first half of 1950 amounted to only $638,000, off sharply from the deficit, before charges, of $4,247,000 sustained a year earlier. The management has estimated that July results will at least equal those of June, and may well be better. Thus, the cumulative pre-charge loss of the first six months will give way to at least a modest balance available for charges for the seven months. Last year the statement showed a net loss of $3,581,240 before fixed charges for the first seven months. Profits during the subsequent five months were sufficient to leave the company at the year-end with income of $7,224,836 available for charges, or close to $11 million earned in the August-December period.

The management also stated that it expected that all charges will be covered this year, but would not predict full coverage of the 5% preferred dividend. Actually, such a statement at this time appears just as overly conservative as previous years' management estimates have proven overly optimistic. The general feeling among railroad analysts is that not only will the preferred dividend be covered by a good margin, but, also, that there will be fairly good share earnings reported on the common stock. Before sinking and other reserve funds such earnings could well run to as much as $4.00 a share, keeping in mind the substantial leverage inherent in the small amount of stock outstanding.

Fundamentally, North Western is still a high cost operation, reflecting the heavy terminal costs, the short average haul on freight, the large amount of branch line mileage of low density, and the large passenger business. On a long-term basis, therefore, considerable risk attaches to its securities. Nevertheless, under prospective conditions, including indications of a substantial all-rail movement of iron ore this year to meet the demands of the steel mills, the stocks have considerable speculative appeal. The management has always been quite liberal with dividends and there has been no indication of any important change in this respect. As a matter of fact, liberal policies are fully justified by the company's conservative debt structure and its strong finances. Payment of the full $5.00 preferred dividend late this year is therefore looked for by most analysts. If earnings come up to expectations a relatively large distribution on the junior equity is also expected. On earnings, before funds, of $4.26 in 1948 a dividend of $2.00 was paid.

NEWS ABOUT BANKS AND BANKERS

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED CAPITALIZATIONS

In a joint statement, on Aug. 16, S. Sloan Colt, President of **Bankers Trust Co., of New York**, and Orie R. Kelly, President of **Lawyers Trust Co., of New York**, announced that both banks would submit to their stockholders a proposal for a merger of Lawyers Trust Co. with Bankers Trust Co., upon approval of the merger agreement by the State Superintendent of Banks. The announcement was made following meetings of the directors of both institutions. The stockholders of record Aug. 16 of the two institutions will meet on Sept. 14, to act on the proposed merger, and if approved, it is planned to become operative as a single institution on Sept. 18. Stockholders of Lawyers Trust will be paid $68.09 per share, which is the adjusted book value based on an appraisal of assets and liabilities at the close of business Aug. 10 At the same time, it is planned to merge **County Safe Deposit Co.**, which operates vaults at three Lawyers Trust Co. offices, with the **Bankers Safe Deposit Co.** Officers and employees of Lawyers Trust Co. will join Bankers Trust Co. Mr. Kelly is to become Vice-President in charge of New York City business and a member of the Board of Directors of Bankers Trust Co. It is anticipated that James C. Brady, President of Brady Security & Realty Corp., and Howard S. Cullman, of Cullman Brothers, Inc., both of whom are presently directors of Lawyers Trust Co., will be named directors of the Bankers Trust Co.

By this merger Bankers Trust Co. will gain approximately $75,000,000 in deposits, 14,000 new customers, and four new offices. The offices of Lawyers Trust are located at 111 Broadway; Eighth Avenue at 14th Street; Empire State Building, Fifth Avenue at 34th Street, and 203 Montague Street, Brooklyn. It is expected that the present Brooklyn office of Bankers Trust, recently acquired from **Title Guarantee & Trust Co.**, will be consolidated in the quarters now occupied by Lawyers Trust Co. Within the past month the Bankers Trust Co. acquired the deposit liability and certain assets of the banking division of the Title Guarantee & Trust Co., references thereto having appeared in our issues of Aug. 3, page 448; Aug. 10, page 544 and Aug. 17, page 641.

* * *

Arthur S. Kleeman, President of Colonial Trust Co. of New York, announces the appointment of Charles F. Bailey to the newly-created post of Comptroller. Mr. Bailey, previously Auditor, has been with the banking house since 1941. John Van Tassell succeeds Mr. Bailey as Auditor. He has been a member of Colonial's staff since 1948. Both men are graduates of the American Institute of Banking.

* * *

T. Arthur Nosworthy, President of **The Bronx Savings Bank of New York** has announced the election of Wilford W. Cuddeback as Assistant Comptroller and Walter H. Schelle as Auditor.

* * *

Approval by the New York State Banking Department has been given to plans of the **South Side Bank of Bay Shore, N. Y.**, to increase its capital from $150,000 to $200,000. The stock is in shares of $100 each. The new capital became effective Aug. 4.

* * *

The capital of the **Port Washington-Manhasset National Bank, of Port Washington, N. Y.**, was increased, effective Aug. 15, from $413,100 to $620,000 as a result of the sale of $206,900 of new stock.

* * *

The Chittenden County Trust Co., of Burlington, Vt., announces the death on Aug. 18, of Frank E. McIntosh, President and Chairman of the Board of the trust company.

* * *

Robert J. Rendall, President of the **Hudson City Savings Bank of Jersey City** died on Aug. 18. He was 82 years of age. Born in Edinburgh, Scotland, Mr. Rendall came to this country in 1888. After serving as President for two years of the International Association of Dry Goods Importers during World War I he became President of the Hudson City Savings Bank in 1918, having been a member of its board of directors since 1901. He was a former President of the Hudson County Safety Council.

* * *

An increase of $180,000 is reported by the Comptroller of the Currency in the capital of the **First National Bank of Mercer, Pa.**, raising the capital from $120,000 to $300,000. The enlarged capital, effected by a stock dividend, became operative Aug. 4.

* * *

The appointment of Richard R. Findlay and Paul F. Smith as Assistant Vice-Presidents of the **Union Savings & Loan Co. of Cleveland, Ohio**, has been made known by A. C. Findlay, Executive Vice-President, according to the Cleveland "Plain Dealer" of Aug. 17. Mr. Findlay has been with the Union Savings since March, 1949, and Mr. Smith since October, 1949.

* * *

The Ottoville Bank Co., of Ottoville, Ohio, has become a member of the Federal Reserve System, it was announced on Aug. 16 by President Ray M. Gidney of the Federal Reserve Bank of Cleveland. Member banks in the Cleveland Reserve District now total 697. They hold more than 86% of the total bank assets and about 85% of the total bank deposits in the district. The Ottoville Bank Co., organized in 1903, is capitalized with $35,000 common stock, has a surplus of $45,000 and deposits totaling approximately $1,376,000. The President of the Ottoville Bank Co. is Leo E. Romer.

* * *

Effective Aug. 8 the capital of the **City National Bank & Trust Co. of Chicago** was increased from $4,000,000 to $5,000,000 by a stock dividend of $1,000,000.

* * *

The name of the **Merchants National Bank of Sauk Centre, Minn.**, was changed as of Aug. 9 to **The First National Bank of Sauk Centre.**

* * *

W. Dean Vogel, formerly Vice-President of the **Live Stock National Bank of Omaha, Neb.**, has been elected Vice-President of the **United States National Bank of Omaha**, advices in the Chicago "Journal of Commerce" of Aug. 15 stated.

* * *

As of Aug. 9 the capital of the **Commercial National Bank of Spartanburg, S. C.**, was raised from $300,000 to $600,000; $150,000 of the increase resulted from a stock dividend of that amount, while the sale of $150,000 of new stock made possible the further enlargement, it is learned from the Aug. 14 Bulletin of the Comptroller of the Currency.

Continued from page 4

Bond Ratings

always be some changes. However, changes should be made only if there is convincing evidence of a change in the protection of the investment itself outside of ordinary business cycle reasons.

Generally speaking, the protection of bonds always increases in good times and always decreases in bad times. It is not this kind of change which makes rating readjustments necessary; rather, it is the type of change which occurs when there are evidences that the company is gaining or losing ground in relation to other parts of industry or in relation to the economy as a whole.

Moreover, there may be reasons to change a rating if definite improvements occur in the security itself, such as often takes place when the amount of debt is substantially reduced or senior securities eliminated.

The final principle which we follow is that changes in ratings should be made more readily on the down side than on the up side. We have no hesitation in reducing ratings, because the harm due to delay may be important. However, we are cautious in raising ratings, because a raised rating may induce an investor to buy a security on the assumption that it occupies an improved position.

Hence, we must be absolutely certain of improvement in fundamental status before raising the rating on an obligation.

I have related in some detail these principles because they indicate the approach which we take in rating determination, and also because I believe that they will help to allay misconceptions which may exist as to the purpose and function of ratings.

How Ratings Are Determined

It is natural for you to wonder, about this time, just how ratings are determined. It is unnecessary for me to attempt to explain or to enumerate the usual statistical tests, with which you are perhaps well acquainted. I refer to such tests as ordinary income account and balance sheet analysis.

We go beyond this, however, in testing the statistical position of bonds by the study of certain ratios ordinarily utilized for the purpose of credit determination, such as the sales to property account, the per cent earned on net worth, per cent earned on total assets, margins of profit, and figures of like import.

The reason why arbitrary standards cannot be set up in this regard is that, in the case of sales to property, the proper ratio depends on the type of business. For example, a chain store business has large sales per dollar of property because they own little fixed assets, and, conversely, the ratio of a steel, railroad or utility company would be low because they own large fixed assets.

Therefore, I cannot explain with desirable brevity or clarity the complete rating process any more than anyone can enumerate all the mental processes involved in the determination of judgment or opinion on any subject.

I would like to emphasize the fact, however, that our ratings are not mechanical ratings, for we know of no mechanistic means by which a true investment judgment can be determined. There are too many nonstatistical factors involved to permit of a worthwhile mechanical rating. Therefore, we shun the mechanistic device for ratings, believing that such is most unrealistic.

In addition to the usual statistical analysis, we are quite careful in our rating process to investigate nonstatistical factors, as, for example, industry trends. By "industry trends," we mean the long-term cycle of a particular industry, not the ordinary cycle which occurs in a short period such as a business recovery.

Another factor which we believe most important in determining ratings is a study of the financial practices and policies of the particular corporation. By this we do not mean a casual study of statistical calculations, but an attempt to obtain a more or less intimate view as to the motivating financial practices of the management. Quite often, property account analysis is illuminating in this regard and, also, matters of dividend policy in relation to the financial needs of the business.

Another nonstatistical factor which we examine with considerable interest is the degree in which the business of the particular corporation is subject to the vicissitudes of general industry. You all realize that some businesses experience wider fluctuations of sales and profits than do others. For example, companies which supply consumers' wants ordinarily suffer a smaller loss in volume during depressions than do companies which supply articles of a more permanent type, the fluctuations in demand for which are often wide, tobacco companies, for example, and sales of various commodities. Even in depressions, the amplitude in the swing of sales is very small, as compared with, say, the steels and railroads or others in the heavy industries. Not only do such businesses experience varying degrees of fluctuation, but the amplitude of such swings in activity often brings financial problems of important character, as, for example, the problems which sometimes arise from expanded inventories and receivables may be quite detrimental to the status of individual corporations.

Intangibles, such as knowledge of franchises, leases and patents cannot be numerically expressed but, nevertheless, must be carefully examined. It stands to reason that, even though a company may be reporting adequate earnings protection for its indebtedness, such historical experience is valueless unless there is assurance of its continuance. Certainly, in the case where a patent might be expiring or a franchise about to be lost, permanency of earning power can be questioned. Leases of various kinds are quite vital.

In this connection, I recall looking at a reorganization plan not long ago which involved the extension of a bond issue for ten years from 1945. Now, these were first mortgage bonds secured on a number of warehouses throughout the country. These warehouses were leased to a well known and financially strong chain store organization. However, the important thing about the investment position of the bonds was a determination of the duration of the lease.

The bondholders were being asked to extend their obligations for a period of ten years, but the fact of importance was that the lease with this well-known chain store organization expires in 1951. Therefore, while the position of the bonds was well assured up to the expiration date, there was no certain assurance as to the investment position of the obligation beyond the date of the expiration of the lease.

This was a case where historical record of income was of no import to the investor because there was justifiable doubt as the continuance of profitable operation.

Management is vital to an understanding of investments. By this I mean that it often makes the difference between good results and poor results to have an able, conscientious and honest management.

You all recognize that some managements are characterized as builders, some as operators and some as manipulators. Examples that readily come to mind are the du Pont dynasty in comparison with the speculative empire which was erected by the Insulls, Hopsons and others during the 1920s.

A study of competitive factors within an industry frequently brings out interesting industry information. All of you are acquainted with the migrations to the South of many textile and paper businesses this movement being caused by certain operation advantages with respect to raw material and labor costs. Now, all such companies did not move to the South, and those still remaining in the old areas frequently are competitively at a disadvantage in conducting their operations.

Another example of competition between different phases of an industry is the record of the anthracite coal business over a period of years and the inroads made into this business by competitive fuels, such as oil natural gas, et cetera. I might add another one, which hasn't really had the opportunity to be very effective, and that is the steel industry. With the doing away of the basing points, the location of steel in relation to the size of the market is going to be very important at some future time when we get into peacetime, where competitive factors really become important.

The Bond Indentures

I have left to the last a feature of investment analysis which our organization, at least, considers most important and essential for the determination of proper investment judgments. I refer to the indentures of bonds.

We are most meticulous in examining such documents, for, after all, this represents the actual contract which is being entered into between the borrower of the money and the loaner thereof. In addition to an examination of the usual factual material, such as sinking fund, call features, the description of the security, etc., we examine the indenture for other items, such as whether or not the company can create additional indebtedness and under which conditions, whether such indebtedness can be created by its subsidiaries, whether the instrument has an equal and ratable clause and a hereafter-acquired property clause, whether there are suitable restrictions on the payment of dividends, whether the indenture may be modified in a fair and reasonable manner, and whether the company can sell and lease back its property.

Just how vital this indenture study is can be ascertained from a few examples which I shall mention.

Not so long ago, a company issued a large amount of debenture bonds. At the time of the filing of its registration statement with the SEC, a copy of the proposed indenture was filed as an exhibit.

Now, this indenture contained a provision that neither the company nor any of its subsidiaries would mortgage or pledge its assets without equally securing the debenture bonds. A few days later, an amendment to this registration statement was filed, the amendment, among other things, containing certain changes of the indenture, among which was one to the effect that the company would not pledge or mortgage its assets without equally securing the debentures.

It is to be noted in this case that the word "subsidiaries" was eliminated in this new covenant. This company is a holding company, the only things which it owns being the stocks of numerous subsidiaries. The prospective buyer of these debentures was, therefore, vitally interested in this modification of the indenture for the reason that there was a fundamental change in the security of the issue, for, if the subsidiaries were privileged to mortgage or pledge their assets without equal security for the debentures of the parent, then the purchaser of the debenture bonds would have occupied a position where he might, at some future time, be in a definitely subordinate position with respect to such mortgage or pledge.

A few days later, the company again amended its indenture, this time canceling the clause which many thought objectionable and reverting to the original wording, which was that neither the company nor its subsidiaries were allowed to mortgage or pledge their assets without giving equal security to holders of the debenture bonds.

Now, this is rather an involved case, but it nevertheless illustrates a point which I want to emphasize, and that is that care is necessary in studying indentures of new issues of bonds in order for one to know all of their provisions and thus be in a position to appraise properly their actual investment positions.

In similar manner, other restrictions of a novel nature are sometimes necessary in investment instruments. Another company, quite a while back, issued first mortgage bonds for the purpose of raising several millions of dollars of new capital. Now, the necessity for such financing was, to a large extent, caused by the company having a subsidiary which was not a profitable enterprise and whose expansion had consumed considerable amounts of capital, thus depleting the parent company's liquid resources. The desire of the company to borrow money to replenish its treasury was, of course, perfectly natural, but how could the bondholder feel sure that the money which he was loaning the corporation would not be dissipated in the manner of the previous cash resources of the company —that is, by continued large advances to an unprofitable subsidiary?

This doubt was resolved by including in the indenture of the bond of the issuing company a covenant which said that an additional contribution of no more than $600,000 was to be made by the issuing company to this subsidiary. In this way, the purchaser of the first mortgage bonds of the company received some assurance that the large additions to the capital of the company would not be devoted entirely to finance the operations of an unprofitable subsidiary enterprise.

Another instance where it was vital to carefully examine the indenture in order to ascertain the fundamental intrinsic position of a bond was that of a certain oil company. It is a strong petroleum enterprise and the usual statistical analysis indicated a strong position. However, careful study of the indenture resulted in a much less favorable impression of the strength of the contract itself.

In this case the indenture permitted the issuance of securities, either secured or unsecured, ranking ahead of the debentures. One need have little imagination to realize the importance of such a provision in the event that a period of financial strain was encountered some time in the future. The existence of a provision of this kind naturally places the investment instrument in a position distinctly subordinate to that which it would otherwise occupy.

It can be seen from the above remarks that a multitude of factors entering into the rating of a security. Not long ago the remark was made that properly to appraise an investment today one had to employ the judgments expected of a combination of statistician, lawyer and economist, and, truthfully, this statement is not overdrawn.

Importance of Statistical Data

While my remarks have been primarily on factors which are not of the usual statistical type, I hope that you do not infer that we subordinate statistical data or in any way overlook their importance. Financial analysis is most vital, but the financial analysis which we think important is the careful searching for knowledge which quite often exists behind the actual statistics. Such facts are most illusive and difficult to uncover but are vital to proper judgment.

I should like to reiterate that we have no single formula for rating bonds. What we do have is an organization with specialized ability which devotes all its time and attention to the study of investments. With such a background we have a right to express investment judgments.

An aspect of our business which is not generally recognized is that rating services perform certain valuable and nonpublicized acts which are often most beneficial to the bond buyer. Because of the importance of a good rating, quite often improvements to the fundamental security of bond are made so as to achieve such a good rating, by means of strengthening the indenture, by reducing the amount of the proposed outstanding bonds, or by methods which make the instrument a more desirable one for the investor and, incidentally, one which is more easily saleable by the underwriter.

One of the most important things to remember about securities is that they are bought not for what they give today but for what they will return over a period of years ahead. Similarly, the risks are not imminent risks but the risks which lie in the future. Everyone will admit that there is no such thing as a riskless investment for the reason that no one can see into the future clearly. If this is fully realized, successful use of ratings is possible.

Some "Don'ts"

Therefore, I should like to suggest a few "don'ts":

(1) Don't assume that the highest ratings represent riskless investments. There is no such thing.

(2) Don't fail to check ratings frequently. A ratings change should be a signal to investigate.

(3) Don't assume that similarly rated bonds are identical. There are only nine rating symbols and there are thousands of bonds.

(4) Don't misuse the lower ratings. By their very definition they represent investments subject to change.

(5) Don't assume that ratings indicate short-term risks or business cycle swings. They are long-term judgments.

In conclusion, I would like to state that ratings are protective devices and are to be utilized as such. Their purpose is not to show one how to make money. We do know, however, that they will help to preserve capital if used properly. They have a definite value to the true investor.

Therefore, I believe that an understanding of ratings is greatly to be desired, for, if used properly by the buyer as well as the seller of securities, the results should be beneficial to all.

Continued from first page

Inflation—And the Price-Earnings Ratio of Equities

sional elections, and our Presidential election two years hence, assume particular significance.

Stock Market Effects

All of the above is obviously to have its influence on stock market prices. Of this we may be confident—there is little prospect of important unemployment; there is every prospect of high level of production. There is, of course, a question of net profits after taxes, as there is much more than a prospect that taxes will be infinitely higher than at present for an indefinite period. It is at the moment impossible to say how these additional taxes will be applied and administered. Everything is guesswork and the guesswork becomes more involved by the uncertainty as to how much of the production of any particular industry will go for military purposes and how much for civilian use. The government will not allow the profits on its purchases that corporations have been accustomed to expect from normal operations.

While there will be—as there always has been — a deviation among industries, in view of high production and in spite of onerous taxes, over-all profits should be substantial during the next 18 months at least. But even though they be substantial they may be from 40-50% below present levels after taxes. Dividends, too, may show some shrinkage—but possibly less in relation to profits — but should be large in relation to interest returns on bonds of comparable grades.

However, the extent that lower profits and dividends will affect stock prices is even more difficult to determine at this moment than is the type of additional taxes to be imposed.

Pre-1946 Ratios

Prior to 1946 all groups of stocks had capitalized earnings on a more or less fixed price-earnings ratio. When better earnings were anticipated the ratio was somewhat higher; when lower earnings were in prospect the ratio declined. But in spite of these variations there was a rather constant norm. For example, chemicals sold at 20 times earnings, steels and metals about 10 times, motors of the better grade 10 to 12 times, oils approximately 15 times, etc. But since 1946 these ratios have just about halved, and in some cases are even less than half what they normally were. On an historical basis, it has been argued time and again that stocks were cheap. Below we shall enlarge upon this subject. But now we raise the question: Will stocks capitalize earnings on a prewar or on a post-war basis? Disregarding all other factors for the moment, the answer to that question will forecast the course of stock prices.

Typical Examples

We mention a few typical examples; General Motors will earn approximately $20 per share this year. Its high of the year was slightly under 100—or five times earnings. Pre-war $20 earnings would have seen the stock selling at 200 or over. Considering the probability that at least 25% of its production will go for war work, and that taxes will be considerably higher, its earnings may drop to $10 a share on the present stock. Will these earnings be multiplied by 5 or by 10? Union Carbide should earn approximately $3.75 per share this year. It is selling at 45. If, due to causes enumerated above, its earnings may only be $2.50 in 1951 will the stock sell at 30 or, if at 20 times earnings, at 50? United States Steel should earn somewhat over $6.00 in 1950. It is selling at 38. During the last war its average earnings were slightly under $1.50. If we credit it with $3.00 after taxes next year, will the earnings be capitalized at 6 times or 12 times?

We are, of course, disregarding any depressing or favorable influences that may affect the market due to any change—good or bad—that may occur in the international situation. Obviously, either might cause a complete metamorphosis in any calculations based solely upon statistical factors.

Aside from that, if we may hazard a guess, we should say that earnings will be capitalized **inversely** to the amount of additional inflation that appears in the economy. We realize full well that this is a totally unorthodox statement. We have heard for many years that, due to the lessening of the purchasing power of the dollar, it is much better to have equities than cash. But it is noteworthy that in spite of all the inflation since the Armistice, earnings have been capitalized at a continuing lower ratio.

Small Inflation Influence

As a matter of fact, there is little or no evidence that inflation *per se* has ever been a bullish influence on stock prices. Stocks have gone up during the past year and a half on the basis of earnings. Early in 1949 they declined as the outlook was for lower earnings. That the purchasing power of the dollar was half what it was in 1939 did not cause stocks to sell at a materially higher level in June, 1949, than they did in September 1939. Also, in 1920, while suffering from World War I post-war inflation, we saw equity prices decline sharply. Moreover, in spite of our present inflation we have what might almost be termed a veritable scramble for fixed income bearing securities of the highest grade—preferred stocks, corporate bonds and tax exempt bonds. True, the fear of higher taxes has given an additional fillip to tax exempt securities, but we doubt if a man would refuse 6%-7% on a high grade equity, solely because he could obtain a slightly better net yield on a high grade municipal if he believed that the tax exempt security would decline sharply in price, and the equity advance due to the constant shrinkage in the purchasing power of the dollar.

It may coincidental, it may be factual, but apparently a certain type of reasoning has influenced investors rather more than the fear of inflation. For, it would seem that they are transmuting present earnings and enlarged assets of corporations into 1939 dollars, and capitalizing them on that basis. If we apply that formula to present-day profits we shall find that stocks are selling at a normal price-earnings ratio.

There seems every reason to believe that a reasonable amount of further inflation is in the offing. Deficit financing and increasing commercial loans will increase our already swollen currency and deposits. On the other hand, the demands of the military will tend to cause shortages in civilian goods, at least for the coming 12 months. The combination is bound to result in higher prices.

Due to increased taxes and lower profits, we face a contraction of earnings. The past does not encourage us to believe that further inflation will compensate, and cause higher stock prices. Historically, this seems unlikely, unless there be a complete change in mass psychology.

N. Y. Savings Banks' Deposits Decline

State Savings Bank Association contends, however, $36.7 million drop in July was less than expected in view of Korean crisis.

Deposits in savings banks in New York State declined in July for the first time since July, 1948, but the $36,704,000 drop was considerably less than might have been expected, according to the State Savings Banks Association, in view of the Korean situation, the sharp rise in retail sales, and the normal withdrawals for vacations and other purposes which take place following July 1 dividends. The loss in accounts during the month was only 3,500. Total accounts at the end of July were 7,551,000, and total deposits, $11,476,000,000.

The drop in deposits in July, 1948, when there was no crisis of any kind, was $11,108,000 and the gain in July, 1949 was $32,433,000.

"Total new deposits of $337,000,000 in the savings banks were just about the same as for July a year ago. However, withdrawals increased from $305,000,000 to $374,000,000, a trend which was in evidence in May and June," the report states. "Spot checks indicate that these withdrawals were in large part the effect of the general optimism regarding the prosperity of our economy and to high level consumer buying during the second quarter. The Korean situation had some effect in accelerating withdrawals but certainly not to the extent that might have been expected. In terms of the savings banks' 7½ million depositors, the drop amounts to only $4.90 per depositor and about 0.3% of the $11½ billion total deposits."

The Association further reports that while withdrawals continued to exceed deposits during the first two weeks of August in many savings banks, the gap is narrowing substantially.

"Just as many people are saving as much as they did prior to Korea, but it is only natural that a certain percentage of depositors would draw on their accumulated balances for accelerated purchases. Based on past experience, the latter is a temporary situation which will rapidly be overcome. For example, heavy withdrawals in January, 1942, following Pearl Harbor, were supplanted by net gains in deposits as early as May of the same year."

George O. Muller

George O. Muller, associated with Peter P. McDermott & Co., and formerly a partner in the New York Stock Exchange firm of Tate & Hays, died at his home Aug. 17.

Continued from first page

As We See It

rather to depend upon fiat to thwart the forces it itself sets free as well as those which emerge from the situation itself. This basic idea is implicit in the President's request for limited powers, it is clearly to be seen in the insistence of Congress upon the grant of other powers, and the President's acceptance of them. It is evident in the action of the Treasury in its first major move to finance itself since the Korean outbreak. If the President has any other basic concept of the management of public affairs in such a situation it is not even hinted at in any of the suggestions he has ever put forward on the subject of taxation.

Let it be carefully noted from what direction the threat of "inflation" approaches. It comes, perhaps, first of all from consumers who have been living high of late, and who at the first outbreak of trouble in Korea, began to lay in stores of many kinds of goods. But it approaches also from the side of the labor unions, which have never been bashful about demanding all sorts of things for their membership, but which had for a time been more or less obliged to disguise their exactions in the form of pensions and the like. They are now beginning to go back to their favorite pastime, and are, one by one, asking for more cash on the barrel head. Obviously, if one defines inflation as having anything at all to do with higher prices, then the disease is also approaching from the farms.

Now first the consumers. How does it happen that they can so steadily and so persistently demand such a variety of goods? How does it come to pass that they are—or have been—in such a rush to get goods ahead of trouble? It is common practice to say that the housewife is foolish, and so is the head of the house, when he rushes into the market for a car and the like. But such explanation explains nothing, of course. The enlargement of the volume of mortgage and consumer credit is likewise a common scapegoat. Now, of course, no one in his right senses would deny that with the situation developing the threat that is now obvious, it is rather natural for many people (whether wisely or not is another question) to rush into the market and make sure.

The Why and the How

But there are two essential facts which must not be overlooked. The first is that the controls, the rationing and all the shortages, sometimes quite needless and sometimes not even actually existing during World War II, are responsible for no small part of the hoarding now going on. It is true, too, that there has for a good while past been a growing volume of loans both to consumers and to home buyers on mortgage. It is certain that an appreciable part, a material part of the demand for these things, is an outgrowth of this fact. Yet, when one stops to think of it, he realizes that except where the funds loaned originate with the commercial banks, the lending is in essence from one consumer to another. One man borrows what another has saved when he obtains a mortgage loan from a savings bank, or an insurance company; the same is true even when he buys on credit, or on "the instalment plan" with a finance company supplying the funds—provided of course that the lender in turn has not obtained the funds from a commerical bank.

The fact of the matter is that the consumer, that is to say the ordinary man or woman, built up a huge supply of "liquid assets" (currency, bank deposits and government obligations) during the inflation days of World War II, and while he has been spending freely for the past three years or more, his supply of cash or assets instantly convertible into cash at fixed values has been increasing. There is little room for doubt that the consumer of today could stage, and is in fact in large degree staging, an overwhelming demand for many, many types of goods without borrowing a dollar. Loans as between consumers are inflationary only in that they tend to increase the speed of turnover of deposits, and they are possible on an inflationary scale only if the volume of "liquid assets" has been inordinately enlarged by inflationary tactics in the past.

And the Unions

Then take the labor situation. Who could deny that the aggressive, grasping union of today is in very considerable part a creation of the New Deal and a darling of the Fair Deal? Whether the situation has reached a stage where the government is unable to do very much directly and at once with these labor leaders, we are unable to say, but we are quite certain that the difficulties, whatever they are and whatever magnitude they have now reached, are in large part the product of New Deal and Fair Deal policies.

Now apart from direct action in any of these areas, the tactics of the Administration in preparing to finance the situation in Korea and related developments, has shown no realization that the blunders of World War II must be avoided at all costs. Its ideas about taxes seem to be directed at the "rich," not at those who buy most of the consumer goods being hoarded at present. And late last week the Treasury announced financing plans which could hardly have been more inflationary if that had been the object.

We learn slowly—if we learn at all.

Continued from first page

Auto and Accessory Industry Securities

A little more history. In the 1920s the industry had its really big growth. That is the time when, despite a few interruptions, there was a sharply rising underlying trend for most of the decade ended in 1929. After that, of course, the country went into the big depression and the automobile industry more than shared the troubles of the over-all economy.

Comparing the production records by 10-year periods will bring out some interesting points. In the 10-year period 1920-1929 inclusive, the United States built nearly 36 million cars and trucks. In 1930-1939, which counted in the worst depression in our history, production was about 31 million units. In the latest ten years, 1940-1949, output was just short of 32 million vehicles.

In the 1920s, therefore, the industry produced more automobiles than in either of the following two decades. Of course, the explanation for the poor comparison of the most recent ten years is World War II, when passenger car production was suspended for close to four years and civilian truck output was substantially curtailed.

We can break down those periods further as follows: The biggest single 5-year period was the one ending in 1929 with almost 22 million vehicles then assembled. There were 19 million units turned out in the five years ended in 1939. In the half decade through 1949, a little over 20 million vehicles were built, but practically all of this volume was realized after Jan. 1, 1946; the 1945 contribution was very small.

In the year 1929—which established a record that prevailed until last year—United States production totalled a little less than 5,400,000 cars and trucks (which had a wholesale value of \$3.4 billion). The 1949 volume was, as previously stated, around 6¼ million units. Just before Korea, Mr. Wilson, President of General Motors, estimated that some 8 million vehicles may be completed during the present 12 months. There have been other estimates by trade leaders, and these average in the 7-7½ million range. Attainment of these forecasts will depend upon how much military needs may interfere with civilian production. For the immediate future, the demand side of the automobile picture should certainly hold up.

Growth Characterized by Instability

It is desirable to stress the violent fluctuations that have frequently taken place in this industry — stability is not one of the characteristics of the motor vehicle division. For instance, between 1929 and 1932, there was an extreme drop in unit volume of approximately 75%. In the late 1930s, another severe decline occurred. Thus, in 1937 automobile volume was the second largest in history up to that time, with about 4,800,000 cars and trucks assembled in that year. During 1938, a little less than 2½ million units were completed—in other words, a decrease of 48% in a single year.

The industry, then, is a highly "sensitive" one. If a marked change takes place in the general business situation or in the psychology of consumers, you are very likely to witness a still sharper change in sales of passenger cars; and, to some degree, for trucks too.

Those are a few of the main factors that seemed worth touching on at the outset. Later on, it will be feasible to go into more detail on certain other factors, some of fundamental significance and some of shorter term import.

One point to be kept in mind is that the automobile business depends almost entirely on the domestic market for its sales volume. It is true that back in the 1920s there were some fairly big years for export shipments but these have been seldom approached in the meantime. Except for one or two years in the postwar period, exports recently have not been a substantial factor in the total U. S. output. Last year, for example, which witnessed a declining trend in the foreign division, only about 3% of the passenger car production was sent abroad. The ratio of truck exports to U. S. output, on the other hand, was measurably higher—around 11%.

Basic Long-Range Factors

One of the basic long-range factors, naturally, is the growth of the domestic population. In 1930, there were something like 122 million people in this country and at that time, total passenger car registrations amounted to about 5.4 persons per car. Back in 1920, for each passenger car there were about 13 persons. By 1940, registrations had increased to the point where the ratio was about 4.8 people for each car. Last year established a new record in density of car ownership—at the end of 1949 the ratio was 4.1 persons per passenger car.

Here are some of the basic registration data that should be reviewed with the foregoing in mind. The country had only 8,100,000 passenger cars registered in 1920, and in 1930 the total had climbed to practically 23 million units. In 1940, nearly 27,400,000 cars were registered, while in 1949, over 36 million were counted.

Now among other developments over the years, an increase in the number of so-called "two-car families" has been in evidence—that is, families owning more than one car (a relatively few family units have three, four or even more cars but these are grouped in the "two-car" category). According to the Crowell-Collier studies, 3% of the urban families in the United States had more than one car in 1946. During the last year or so, however, this percentage has risen to more than 6% and it seems that if prosperous business conditions hold up, the proportion of multiple car owners will continue to expand in coming years.

In addition to the rise in population, the shift of population has been important in the automobile picture. A large part of recent years' growth has taken place in the West and there has simultaneously been a vast expansion of suburban areas, in contrast to the big cities. All this helps to swell the market for cars. California, for example, now has the largest number of passenger cars in use of any state in the Union, though it is not the first in total number of residents. The same trend is noted in Texas and some other areas which do not have the tremendous metropolitan centers. In the latter, dependence upon local transit systems, lack of parking space and jammed traffic lanes tend to limit the daily use of private cars.

The large number of superannuated vehicles still rolling has been frequently mentioned in connection with prospects for automobile sales, and from present indications, this factor will probably be with us for quite a time further—especially if the country enters upon another shortage period caused by military demands. While the industry for many months now has been setting up new high records both in respect to car sales and in the total number of vehicles in use, it is significant that there still remains a very substantial number of prewar automobiles on the road. The ancient cars still account for an abnormal ratio of total cars registered.

A few figures will help to point that up. An estimate made at the end of 1949 indicated that passenger cars over ten years old amounted to some 14 million units or 39% of the total in use. That may be compared with 1941, when there were five million cars of similar age; that was 17% of total registration at that time.

Since pre-war days, a substantial redistribution of age brackets has taken place and this represents an important aspect of the demand outlook. The car population has a large proportion of "young" cars—that is, four years of age or less. In this category, there were about 14 million at the beginning of this year, or 39% of the whole care population. In 1941, there were 12 million cars or about 41% of all those then registered, in the "young" bracket.

The great deficiency, then, comes in the middle-age brackets. Naturally, this condition stems from the cessation of production in the 1942-1945 period. This same factor is tied into the demand prospects for good used cars, and should be kept in mind when consideration is directed to the inter-relationship of used car demand and new car sales trends.

Still a Large Potential Market

The high average age of vehicles in use suggests that there is still a large potential market to be satisfied for passenger cars. For example, in 1941, the average age of passenger cars was 5½ years; for trucks, it was about 5.6 years. At the end of 1949, on the other hand, the average age was about 8.4 years in the case of passenger cars, and for trucks it was estimated at 7.4 years. In other words, the average vehicle now in use is roughly two to three years older than the typical unit at the end of 1941. That in itself implies a large replacement demand, even with allowance for the greater life span of cars today than in earlier periods.

Considering long-term changes, it is worth emphasizing at this point that a very substantial increase in average car life has been shown. In the mid-1920s, passenger cars were estimated to have a life of around 6½ years. The average mileage on the speedometer when the car was scrapped was estimated at around 25-26,000 miles a generation ago. By the middle 1930s, average car life had risen to more than eight years and the mileage was 58,000 at the "junking" stage.

At the present time it is estimated that cars last something like 11 to 11½ years and the average unit runs at least 100,000 miles before it is scrapped.

Effects of Higher Price Level

Although the industry has been reporting astronomically high revenue figures for some while past, a major portion of the dollar expansion comes from the much higher general price level now prevailing. The gain in unit terms reflects such factors as larger population and purchasing power, the wartime gap in production, the rise in two-car families.

It is helpful to review the trend of wholesale value of passenger car production as related to the disposable income of the country over a period of years. Back in 1929, the income figure was around $82 billion and passenger car production was valued at about 3.5% of that figure. To show how volatile this industry is when things get really bad, note that in 1932, the relationship of car sales to disposable income was only 1.3%. Obviously, that was a grossly subnormal interval but it helps to look at the dark side of the picture to maintain perspective. By 1937, car volume had recovered to a 3.2% relationship to income; but it sank again below 2% in 1938. In 1941, the ratio was 2.8%.

In 1949, 3.2% of disposable income, which was around $191 billion, was represented by the wholesale value of car output and a new peak has probably been maintained for a number of months past. For example, it is estimated that something like 3¾%-4% would represent the relationship for the initial six months of 1950. Thus, it is evident that the passenger car industry has enjoyed a very substantial uptrend over the last few years, both in absolute terms and relative to other economic measures.

The Department of Commerce has listed a "sensitivity ratio" of 2.0 to represent the rate at which purchases of new cars (plus net purchases of used cars) vary with income fluctuations. The only durable goods that the Department has found to have greater sensitivity, interestingly enough, are boats and pleasure aircraft, radios, pianos and other musical instruments. All other durables show less volatility than do passenger cars. These indices mean, in effect, that if there is a 10% change in the country's over-all income, you are likely to see a 20% change (up or down) in the rate of passenger car buying.

It has been frequently remarked that while sales in this industry shift radically from time to time, the use of the product, once it is out into the consumer market, is one of the most stable elements in the economic scene. In the early 1930s, despite a tremendous drop in most lines of business (including the production of vehicles) usage actually increased in most years. For example, 1930 car use was greater than in 1929, it rose again in 1931, and even in 1932 there was only a very slight decline in motor vehicle usage. That same trend has been true in most recent years with the notable exception of World War II when, as we all remember, gasoline rationing, tire rationing and other restrictions threw all normal yardsticks temporarily into the discard.

Used Car Market

At this point, it is in order to say a few words about the used car market and its important effect upon the trend of new car sales. Although subject to qualification depending upon other surrounding factors, a big change in used car prices is likely to have a distinct impact on the demand for new cars. For example, if a glut in the used car market develops and prices slide badly, there is a strong tendency for new car sales to drop. That is because most new cars are bought by trading in a used car as part of the purchase price. If the owner cannot get a decent price for his old unit, he is less inclined to purchase the new car. In periods of high used car prices and demand, as in recent years, the reverse takes place.

During the entire post-war period, the used car market has been in an abnormal condition. There is still a strong demand for second-hand vehicles with many miles still left in them, as production of new vehicles has not met all of the nation's automotive requirements. Today, good used cars still command prices relatively higher, when related to new car price levels, than was normal in the pre-war years. This condition is taken as still another index of the wide potential market still offered to the motor car industry. In this connection, before the war, there were something like 1¾ to 2 used cars sold for every new car sale. In 1949 it is estimated that there were about 1⅓ used cars marketed for each new car sold.

Individual Company Situations

And now a look at individual company situations:

First, it should be noted that this industry has its "Big Three" in the passenger car field—General Motors, Ford and Chrysler. These companies are the dominant factors and they average about 85% or 90% of all the unit car sales during an average year.

General Motors and Ford have a somewhat different plant set up than most of the companies in this field. General Motors is quite widely decentralized and Ford also operates many factories, both assembly plants and parts plants, in sections removed from its headquarters in Michigan. GM and Ford not only have many assembly plants throughout this country but they dikewise own numerous plants in foreign countries.

It is probable that this dispersion of manufacturing facilities provides the big organizations with a definite edge competitively. Economies and other advantages accrue from a network of plants which are situated to obtain maximum benefits from their proximity to major marketing areas.

The degree of integration differs with the individual concern. General Motors is usually regarded as the most highly integrated, with the production of many of its own parts requirements that feed the assembly plants. It is worth keeping in mind, too, that a company's policy in regard to parts production or purchases from vendors will modify the ratio of payroll to sales figures.

For example, last year General Motors' payroll was 26% of its total sales dollar. Chrysler, which buys a much larger proportion of its requirements from outside suppliers, had a 17% ratio. Two of the leading independents, Studebaker and Nash-Kelvinator, each showed up with about 22% payroll to sales. Comparable Ford figures are not available; as a privately-owned enterprise, Ford releases very little in the way of financial data.

Despite the concentration of business in a few corporate hands, the automobile field is keenly competitive. While the Big Three have their problems, however, the independents really have to worry constantly about just what GM or Ford or Chrysler may be planning in regard to product improvements and merchandising practices, particularly with regard to price.

Since the industry was started around the end of the last century, it is estimated that about 1,500 companies have entered the competitive lists. As compared with upward of 2,000 different makes of vehicles that have been attempted at one time or another, there are at present only fifty-odd makes still in active production. There was a great mortality in this industry in the 1920s and 1930s; likewise in the industry's earlier years. Relatively few new companies have been launched in the motor vehicle division for an extended interval, although Kaiser-Frazer is a newcomer formed since the Second World War ended.

Back in 1929, the Big Three had 75% of the entire industry's unit business. During the depression years and most of the time to Pearl Harbor, they took about 90% and in some years, an even higher share of the total. That meant, of course, that as a group, the smaller companies "took it on the chin."

In the early days, Ford had been the biggest factor in the field. In the late 1920s, GM came ahead and captured first place and that corporation has maintained a commanding lead until now they are far bigger than Ford or any other company in the field. Chrysler Corporation had 9% of the passenger car volume in 1929, but by the early 1930s, was obtaining 22%-24% of the business. Before the recent costly strike. Chrysler had been selling over 20% of the total cars marketed in the U. S. However, for several months past, Ford has been in second place as the strike drastically reduced Chrysler's share beginning with last winter. Moreover, the Ford and Mercury cars have been gaining in popularity.

Concentration in the "Big Three"

To reveal the concentration of demand in another way, it may be pointed out that of the seven cars which sold in the heaviest volume during 1949, GM made four of these cars: two of the Chrysler-built makes were among the first seven leaders and Ford accounted for the other one.

In the popular priced field, which is the big-volume market, of course, Chevrolet, Ford and Plymouth have normally realized upward of 50% of the business. During the early post-war period, with a shortage of materials a chronic factor, some of the companies favored their higher-priced makes because they could sell almost any product on wheels. That was the case back in 1948 when the "Little Three" accounted for only about 44% of the total unit volume. But Chevrolet and Ford and Plymouth began to come back when the competitive going became harder for some makes a year and one-half ago and these three leaders took 49% of the market for 1949 as a whole.

It is interesting to observe some other aspects of recent competitive trends as individual companies have been affected. In 1948, Kaiser-Frazer was the largest single factor among the independents, with about 4¾% of all cars sold bearing the K-F label. Studebaker came next in that year with 4.1%. However, a radical shift took place in the Kaiser-Frazer position last year when the company garnered only 1½% of the domestic car market. Studebaker, on the other hand, held its position of slightly better than 4% during 1949.

During 1950, there has been a further drift toward the products of the Big Three, if allowance is made for the temporary distortions of the strike at Chrysler. The three major corporations obtained 86% of car sales in the period to June this year, with GM alone accounting for about 48%, Ford some 27% and Chrysler—due to the 100-day factory shutdown—limited for the time being to only 1/10 of passenger car business. In the corresponding months of 1949, the Big Three got 84% of the car market. The trend, then, has been toward the products of these major manufacturers for an extended time past, after a "field day" for a number of the independent assemblers.

In the truck division there is also a substantial concentration of business in a few big hands—in this division there is what is known as the "Big Four." The fourth member, besides the three major concerns of the passenger car division, is International Harvester, which, of course, is a power in the agricultural equipment field as well as an important producer of commercial highway vehicles. At times, International Harvester has stood in third position in terms of unit truck sales, at other times they have been fourth largest, jockeying with the Dodge Division of the Chrysler Corporation.

General Motors is the biggest factor in the truck end of the business. Chevrolet, for example, gets something like 35% of unit business and another General Motors Division, GMC, sells about 8% of all trucks. Ford averages between 20% and 25% in this market.

A company that has come up pretty well in the truck end of the business in late years is Studebaker. Previous to World War II, that company was of very little consequence in the commercial division, but now Studebaker averages about 5% of all truck business in the country, and this is a nice adjunct to their passenger car operations.

Another concern which has benefited from its World War II experience is Willys-Overland, with its Jeep line of vehicles. There are numerous independents in the truck end of the business and these generally concentrate on the large sizes of trucks, and in several cases they also produce buses for public transportation interests. Mack Trucks and White Motor, although leaders in the independent part of the truck business, have averaged only about 1% or 2% each of all unit truck sales over a long span of years. By far the larger proportion of truck output is centered in the lighter-weight vehicles where the Big Four have a virtual stranglehold.

The financial news currently features the spectacular earnings of General Motors for the first half of this year, and also Chrysler's showing, which—considering the labor troubles of that company—was a comparatively excellent report. These latest figures again point up the tremendous earning power and financial resources of the major concerns in the automobile field and reveal their continued good profit margins.

On this latter topic, it is worth dwelling for a few moments. As a rule, General Motors has made by far the best margins in this industry and frequently has shown roughly twice the margin that Chrysler realizes. In 1949, GM had a pre-tax margin of around 20%, Chrysler's was some 10%. 1949 was a very good earnings year for Nash-Kelvinator, with 12% margin before deducting taxes. Studebaker in 1949 showed 9½% carried down as pre-tax earnings.

On the latest showing, GM in the first half of this year showed a further gain in margins to some 23%, with the second quarter alone accounting for almost 24% (and that was after allowing for substantial bonus provisions). Chrysler had a 9½% pre-tax ratio in the first six months of the year, but was able to raise it to 14% for the June, 1950, quarter.

In the case of General Motors, the higher degree of integration has shown up in the profit margin and other factors have likewise contributed to this showing; for example, costs are spread over five different passenger car divisions and the greatest unit volume of the industry, and the company has many different truck models to carry its expense burden. Substantial diversification outside the automobile industry is another big operating factor for GM, although the contribution profit wise of any single division is not publicly reported.

Abnormal Situation and High Earnings

It should be emphasized that the abnormal conditions of recent years, especially in the case of a number of the independent car makers, have inflated both margins and final earnings figures. In fact, the industry has not had a really normal situation for something like ten years past. Quite evidently, the stock market has refused to regard the recent high level of earning power for most of the passenger car companies as one likely to be indefinitely maintained. Price-earnings ratios of three or four to one for a number of these equities are a sufficient commentary on the market's evaluation of future prospects.

Another financial measurement worth considering is the percentage of net income realized on net worth. In the year 1949, General Motors earned over 31% on its net worth position; Chrysler, 23%. Studebaker made 32% in the past year but as a contrast, White Motor, reflecting difficult conditions for the independent truck makers, earned only 2½%. Mack Trucks sustained a sizable loss last year.

Industry-wide comparisons on the same basis also prove interesting. In good years, the automotive branch of the economy is a definitely more profitable field than the average manufacturing enterprise. In 1929, automobile and truck manufacturers as a group earned 22% on net worth, the automobile equipment division in the same year accounted for 23%, while the total for manufacturing companies as a whole was less than 13%. Again in 1941, automobiles and trucks had a ratio of about 18%, automobile equipment about 20% vs. all manufacturing companies with 12%. Finally, in 1949, the vehicle group—reflecting the heavy weight provided by GM and the other big passenger concerns—showed 31% net income on net worth, automobile equipment was 19% and the manufacturing field in general was under 14%.

The Taxation Outlook

There is currently much interest in the average earnings experience of corporations and how this might affect their position under a new excess profits levy. Recent years' high profits for numerous manufacturers of vehicles and parts should afford some shelter against all but the most extreme forms of taxation. Some companies in the automotive branch of activities, however, might find it preferable to use an invested capital base, if their operating results in late years have been on the low side.

One reason why automobile stocks proved so vulnerable in the recent general market break is the fear of drastic taxation later on. Also, since stocks like General Motors and Chrysler had been selling virtually at their all-time highs just before the Korean War began, prices of their securities have been sensitive to the new appraisal of things to come.

But motor vehicle producers would be quite vulnerable on

Continued on page 22

Continued from page 21

Auto and Accessory Industry Securities

other counts. They could not be expected to make the wide profit margins on government business in a war economy that they have enjoyed during recent prosperous periods. General Motors during World War II showed margins lower by about 50% compared with its previous peacetime level.

The tremendous financial resources of the big auto manufacturers have been underscored by the mid-year statements now in the headlines. GM again makes financial history with its June figures. That corporation now has close to $1.7 billion of net working capital, considerably more than three times the 1941 level. During the first six months of this year alone, GM added well over $400 million of working capital in spite of sizable outlays for dividends. Chrysler has also shown vast growth in its financial strength over the years. Thus, in 1941, this concern had a working capital status of $127 million. Chrysler also has been paying adequate dividends and has invested many millions in new and improved plant facilities. Nevertheless, working capital has gained almost steadily and now is not much under $340 million.

Several of the independent car makers, for that matter, have substantially bettered their financial positions both during the war years and in the post-war period. Companies like Studebaker, Nash-Kelvinator, Hudson and Packard now enjoy about the best working capital positions they have had since 20 or more years ago. While independent producers have a severe competitive struggle ahead of them in any reasonably normal economic situation, they certainly have far more to compete with—both as to plant resources, dealer organizations and working capital—than they had back in the 1930s.

As far as the truck companies are concerned, the more important units in this division have substantial working capital holdings and relatively large invested capital bases. These extensive asset positions could help to shield truck producers from too drastic taxation in a military economy.

With the present emphasis on wartime records, a few items from the early 1940s are pertinent. General Motors' earnings were $4.45 a common share during 1941 (when higher taxes already were beginning to bite). They dropped to about $3½ a share in 1942. In spite of the fact that the gross volume of business for this corporation headed strongly upward through the war peak of 1944—when sales were about $4¼ billion vs. $2.4 billion in the year 1941—earnings leveled off to an average of roughly $3½-$3¾ a share for the entire wartime interval. GM was hit both by the reduced operating profit ratio and by heavy taxation. On the other hand, many independent producers were able to make more money during wartime than they had in the previous few years. The much heavier volume of business and the lack of normal competitive pressures offset the high rate of taxes and limitations on government contracts. In other words, war is not an unmitigated evil from the standpoint of financial results of some companies.

Turning to recent market trends, here are a few comparisons of group performance in the first month of the Korean hostilities: Since June 23, the truck group has shown a price advance of 5%. Independent passenger car issues went down 7½%. GM and Chrysler dropped about 14% and the automobile accessories group fell nearly 9%. Our index of 540 stocks of all descriptions was off 7% in the same period. Truck equities thus have benefited from the recent interest in "war babies," although improving demand for civilian products has also aided this division. The fact that for a long time, the truck issues had been making a poorer showing in the market than the leading passenger car stocks has naturally contributed to their better price performance of the past few weeks.

Automobile Accessories

Time requirements make it necessary to reserve additional comments on the automobile branch of the business for the question and answer period. Meanwhile, certain phases of the automobile accessories division may be briefly reviewed.

This branch takes in a very large number of companies, but none is of the size or scope of General Motors or Ford or Chrysler.

Some of the equipment producers have sales volumes ranging in the $200 million or $300 million bracket, although the proportion of companies of this size is rather small. As a broad generalization, the principal element that most of these companies have in common is that they manufacture for one or another branch of the automotive business, either for original equipment or for replacement needs or both. From that point on, there are frequently more differences than there are similarities between particular companies.

While suppliers in this field are tagged as automotive parts fabricators, in numerous cases they are far more than that. Certain manufacturers also make aircraft equipment, household appliances, building and farm equipment, radios, television sets, railroad equipment and still other products, which are in addition to the engines, bodies, wheels, brakes, batteries, frames or other lines made for motor vehicles.

A parts company must be examined in detail to learn whether it is diversified as to products, customers and major marketing divisions; also, whether it is chiefly affected by conditions in the motor vehicle assembly division or is mainly governed by the replacement parts market.

As suggested previously, any of several nonautomotive activities may likewise be a vital factor for the particular organization. A few examples should bring out contrasting situations.

Borg-Warner has received some 50% to 60% of its business from vehicle companies and the automotive replacement field in late years. Briggs Manufacturing has probably obtained about 9/10 of its revenues from the automobile industry, practically all of which business is dependent upon the prevailing rate of car assemblies. Briggs, moreover, has one major customer accounting for two-thirds or more of its total volume whereas Borg-Warner supplies virtually every car builder in the United States and besides that, it has a very large volume in household appliances, agricultural equipment, steel products, aircraft equipment.

Electric Auto-Lite Company has a wide range of products and reasonable diversification of customers, although Chrysler Corporation is by far the biggest single outlet, averaging two-fifths of this supplier's business in late years. As one of the leading battery producers, Electric Auto-Lite also has an important replacement parts market (spark plugs are likewise a good contributor in this division). On balance, nevertheless, Auto-Lite is chiefly influenced by original equipment demand which provided over 70% of its 1949 dollar sales. Another large battery company, Electric Storage Battery, is understood to obtain somewhat more of its automotive battery business in the replacement field than in the original equipment market as a normal condition. Concentrating on batteries for varied uses, this company also has large revenues outside the automotive field.

Bendix Aviation and Thompson Products are leading factors in specialized aircraft equipment as well as important manufacturers for the automotive industry. In fact, each of these companies for some time past has derived close to 50% of its aggregate revenues from aviation activities. The automotive original equipment market has thus become of comparatively less significance for these concerns than was true years ago.

It is said at times that the position of an independent parts producer is inherently uncertain, owing to the heavy concentration of business in the hands of the Big Three car builders and the changes in trade position that occasionally take place in the equipment branch. That generalization is true in numerous instances, but it obscures the underlying strength of certain specialists.

Many of the leading parts and accessory manufacturers have been in business for several decades and they have prospered in the face of the concentration of motor vehicle business in the hands of a few big companies. The intensive specialization characterizing this field in itself provides certain advantages. The supplier is able to center his research activities on a limited number of items, in contrast to the hundreds or thousands of different parts comprising the entire motor vehicle. This provides a "know-how" that only long and costly experience can produce. Moreover, numerous suppliers are able to service two or more automobile manufacturers and the resultant large volume may reduce the unit costs of engineering, tooling and production to a degree greater than the individual car assembler could realize.

Large-scale plant investments are needed for many components of the motor vehicle and even the largest of the assemblers would hesitate to duplicate the facilities needed for the full range of parts manufacture. Added flexibility at model change time is also available to a vehicle company utilizing, in part at least, the services of specialist suppliers.

In practice, therefore, leading automobile companies fabricate a sizable portion of their parts needs, but at the same time they lean quite heavily upon a broad list of supply sources. Except for specific variations that tend to develop from time to time, there is little evidence of a radical shift in policy that would affect the general parts and accessories industry's relations with the car makers.

Among other things, General Motors is the largest single producer of parts and accessories. As mentioned earlier, the corporation's structure calls for the provision of a large portion of its component requirements from parts divisions of GM itself. In addition, the corporation sells a substantial quantity of replacement parts and accessories and GM even makes a few items of original equipment for certain other vehicle builders. Chrysler and Ford and the independent vehicle producers also follow up the original sale of their products by offering replacement parts, which generally are understood to provide wider gross margins than original equipment items. Thus, individual suppliers may have vehicle companies both as customers and also as competitors for business in the replacement field.

The replacement parts and accessories market is big in its own right. In 1941, which was the peak pre-war year, over $700 million worth (at wholesale value) of equipment was sold in this division. During the wartime curtailment of assembly lines, the replacement division continued on a relatively active scale even in 1942-1943. By 1944, replacement parts and accessories sales had jumped to more than $800 million, reflecting the mounting needs of the aging vehicle population. Following years brought much greater volumes and in 1948, the peak of all time, more than $2.5 billion was sold in this field. In 1949, there was a decline to about $1.9 billion and in early 1950 a further recession occurred, followed more recently by a new uptrend. The increasing number of vehicles in use points to a continued active replacement demand over the period ahead.

Because of the extreme differences in company size, diversification and basic position, securities in the motor equipment field differ widely in caliber. At the top end of the scale, stocks like Borg-Warner, Libbey-Owens-Ford, Eaton and similarly well situated enterprises are relatively good quality issues, although none is rated fully on a par with the conservative investment equities found in certain other more stable industries. At the lower end of the scale, stocks of smaller parts companies whose trade positions are not well secured rank as little more than price speculations.

Whether in war or in peace, some of the automotive equipment issues should do comparatively well in the market place, although any drastic change toward a military economy would produce important changes in particular situations. By and large, equities in the accessories group are selling at a low ratio of price to current earnings, just as is the case for the leading automobile company issues. In addition to the recent war developments, this condition has reflected doubts on the part of the investment community over a long cotinuation of earnings at recent peak rates. It seems probable that this modest evaluation of profits and dividends goes a long way toward discounting the eventual adjustment to a reduced rate of automotive demand that most people expect.

Continued from page 2

The Security I Like Best

FRED N. OGDEN
Fred N. Ogden, Investments, New Orleans, La.

(Wesson Oil & Snowdrift Co.)

When I state that the security I like the best is listed on the New York Stock Exchange, of which I am not a member, hence cannot profit from plugging it; that it is not included in the portfolio of any investment company, to my knowledge; that the market is not supported by any "crowd"; that the shares are not widely distributed even though it has been listed and seasoned for 20 years—you might rightly ask, "Am I taitched in the haid?"

Fred N. Ogden

Well, the long and shortening of it is Wesson Oil & Snowdrift Co. common.

From its ailing parents, The Virginia Carolina Chemical Co., this child was adopted by a group of daring investors and nursed to strength and maturity over the years. From a simple salad oil and vegetable shortening outfit this company has expanded in the packaged food business to where its nationally advertized products are widely accepted.

Good products and good management will always win for stockholders. The Blue Plate Foods, which include mayonnaise, one of the best quality coffees on the market, wet packed shrimps and sea foods and a large line of jellies and jams and a new smooth peanut butter, augment the sales of Wesson Oil & Snowdrift.

The management is aggressive and successful in maintaining competitive position and growing unit sales. The President, whom I like to refer to as "The Great Dane," and his able associates quite adroitly handle a delicate inventory-of-raw-materials problem.

Plant and equipment have been maintained at the highest degree of modernity and efficiency, many of the older ones of aborning days having been scrapped and many of the newest and finest financed out of earnings.

The book value of the stocks has grown and grown to where now it is greatly in excess of the current market quotation. Earnings, while erratic at times, have permitted a generous dividend and a huge plough back into plant or reserves.

Two years ago a fat five dollars plus was paid on the common; last year, with a plummeting vegetable oil market, reserve were unused and earnings exceeded the dollar forty paid; this fiscal year just ending a total of two dollars and forty cents have been declared and guesses as to the final net even go as high as nine dollars a share. Selling under thirty, I feel that this orphan has been neglected and just isn't appreciated by enough hard headed investors.

Years ago I made my rule of thumb in selecting investments for myself and my clients, this—"Never buy anything you are not willing to be stuck with." Wesson Oil & Snowdrift Co. common is the stock I like best, even to be stuck with.

Hunter Goodrich Is With Merrill Lynch

Hunter Goodrich has been appointed specialist in cash vegetable oils and meals in the commodity division of Merrill Lynch, Pierce, Fenner & Beane, 70 Pine Street, New York City, members of the New York Stock Exchange, it was announced by A. C. Beane, commodity division director.

Before coming with Merrill Lynch, Mr. Goodrich was associated for 25 years with Archer-Daniels-Midland Co., most recently as Manager of their plant in Edgewater, New Jersey.

Percy R. Pyne, II

Percy Rivington Pyne II, retired investment broker, and one of the founders of Pyne, Kendall & Hollister, died at his home in Sepulveda, Calif., where he had resided for the past two years. Mr. Pyne was 68 years old.

Continued from page 10

Men, Money and Marketing

mining needs, finding sources of supply, negotiating prices and terms, and transferring title. And, of course, the other side of buying is selling, which involves the stimulation of demand, the finding of buyers, the giving of advice to buyers, negotiating price and terms, and the transferring of title. In a very large proportion of buying-selling transactions, credit is utilized. This credit may be extended by manufacturers and wholesalers as well as by banks, but it is certain that the men and money of commercial banks are essential to the carrying out of these two functions.

We must remember that the buying and selling functions of marketing—as a matter of fact the whole marketing process—may occur several times between the original production of raw materials in mines and factories and farms and the consumption, or utilization over a period of time, of the end product. For example, raw cotton is grown on plantations and farms and is marketed through the gin to the spinner. The spinner completes one production process and again markets his product to the weaver. The weaver's product in turn may go through a converter and to the garment factory. Finally, women's ready-to-wear clothes and accessories or men's clothing and furnishing are marketed through retail stores to the ultimate consumer. The men and money of banks may have been used several times before my wife buys a print dress or I buy a short or summer suit.

To be sure, we find increasingly in American industry what is called vertical integration in which several stages of the productive and marketing process are under the control of a single firm, so that the number of marketing processes may be less than that which I have indicated. On the other hand, in some cases, for example our automobiles, we may have even more separate marketing processes than in the case I have cited, all at the same level of production. Chrysler or General Motors may buy literally hundreds of parts and sub-assemblies from sub-converters before combining them into De Sotos or Buicks.

Storage and Marketing

Another function of marketing which involves the use of the men and money of banking is storage. Many goods are produced seasonally and used throughout the year. Others are manufactured throughout the year and sold mainly during certain seasons. In either event the producer of the goods is likely to use bank credit in carrying unusually heavy inventories during peak seasons. So will middlemen in many cases.

Two closely connected functions of marketing that are recognized by practically all writers in the field are standardization and grading, the setting up of grades and sorting commodities into those grades. Standardization and grading make possible the saving of much time and effort in buying and selling, since the goods may be offered for sale, considered, and bought, without actual physical inspection. In the case of agricultural goods, we are all familiar with the use of such terms as U. S. No. 1 potatoes, and No. 2 hard wheat, and increasingly rapid progress is being made in standardizing and grading a host of manufactured items bought by industry and household consumers. While these two functions of marketing do not directly involve credit, they definitely facilitate borrowing on stored goods. The banker or commercial credit house has a better basis for evaluating its security for loans if the collateral consists of standardized and graded commodities.

We have been examining the use of men and money in marketing because that is my topic and marketing is my field. However, I must point out that the men and money of banking are also essential to production on the farm, in the mine, factory, or the forest. Summing up this phase of the discussion, let us think of banking as one circle and marketing as another. Since you are bankers and I am a marketing man, let us be tactful and make the circles of equal size. We would see that they overlap considerably, but by no means entirely. On the one hand, much of banking is for purposes of production rather than marketing. On the other hand, much of marketing does not involve banking—the functions of transportation, physical assembly and physical dividing, plus buying and selling when they are done on a cash basis.

How Banks Aid Marketing

Now let us look at how the men and money of banking use marketing in selling their services to business, institutional, and individual customers. The 1948-49 reference book of the American Bankers Association devotes a whole chapter to "Public Relations," of which one section deals with bank advertising in 1948, pointing out that "the most significant finding of this study is the emergence of increased deposits as the top objective of 1948 advertising." Checking accounts were in first position, savings were second.

You and I know that banks have to compete for the consumer's dollar not only with one another but also with the whole host of American industries. In selling thrift and security—which amounts to the idea of foregoing present pleasure for future gain—banks have for years been advertising in newspapers, magazines, radio, billboards, etc. fighting for some of the purchasing power that would otherwise go into tangible and intangible goods and services for immediate enjoyment by the consumer.

Not only have banks been trying to market the idea of thrift and security, the postponement of pleasure from now until some time in the future, but they have made substantial progress in bringing to the public a better idea of their general services and importance in the economic scheme of things. This phase of activity is usually put under the heading of public relations, but it is, in the broad sense, a marketing job to persuade the public that the banker is not a usurer, but a human being, and that banks are not parasites, but useful social and economic institutions.

Another way banks have used marketing principles is by developing products to help them sell their product—thrift—to the American people. In this category fall parking facilities, drive-in banking or "sidewalk tellers," monthly billing of savings, specialization of teller's windows and increased use of machines to speed up customer lines, and even left-handed check books and nursery service for banking mothers.

In my opinion, perhaps the most important aspect of marketing by banks is the job done by each one of you who has any contact with the bank's customers. In the department store field, with which I am more familiar than I am with the ins-and-outs of banking, we refer to customer-contact departments. Perhaps that same term is used in your field. At any rate, every contact between bank officer or employee and customer or prospective customer is in one sense a selling transaction. In some cases, unfortunately, it is an *un*selling transaction.

The way in which the guard directs the uncertain old lady, the way in which the officer's secretary answers a question of the stranger across the marble rail, the way the assistant cashier opens a new account, the way the loan officer handles an application, the way the trust officer treats a client, the way the teller takes care of deposits, the way the savings vault attendant lets the box holder into the secret precincts, all of these are selling—or unselling—contacts.

The marketing connection of those of you who are behind the scenes in the clearing department, auditing, bookkeeping, investments, etc., may not be so clear, but you are indirectly involved in the "market reaction" to your bank's services. The efficiency with which you perform your duties has a direct relationship to the customer's attitude toward your institution—and before I leave this point I wish to put in a plug for telephone courtesy.

In a good many business enterprises, including banks, it has been found that behind-the-scenes employees with relatively few customer contacts are not trained, and have not trained themselves in the cheerful and courteous use of the telephone. A gruff or sluggish "HELL-O" or "Bookkeeping" and a grudging assent to a request for information may have a most adverse effect upon the people whose deposits the bank needs for its earning assets and its profits. When you pick up the telephone, no matter where you are, you can never be sure but that you are carrying in your hands, or perhaps I should say in your voice, the reputation of your bank. Therefore, I would make an earnest plea for the acquisition of good telephone habits for the utilitarian motive of dollars and cents. I would also urge good telephone manners for a higher motive—general courtesy to all with whom we deal, the broadly advertised but widely forgotten Golden Rule. As G. K. Chesterton said, "Christianity has not been tried and found wanting; it has been found difficult and not tried."

This afternoon, within the limits of my time, I have tried to give you a very brief historical perspective and to analyze with you the interrelationships of the men and money of banking with another major economic activity—marketing—the distribution of goods and services from producer to consumer or user. Banking in marketing and marketing in banking—two of the many overlapping circles of business in the modern world.

Perhaps it's because I'm descended from a line of clergymen, but whenever I have the privilege of giving a talk before a group—business or professional people, club women, faculty members, or students—I almost always add a few words of exhortation to the main body of analysis or interpretation in my remarks.

Value of Banking Education

Let me preface my adjuration by saying that I think it is a splendid thing, educationally and economically, that nearly 100,000 of the 500,000—more than one in every five—bank officers and employees of this country belong to the American Institute of Banking and that half of your members are actively studying professional subjects at any given time. I very much doubt that the practitioners in any other segment of our economy can come close to matching that record—I wish that others would make an effort to do so. . . . Now, after that sincerely complimentary preface, let me give you my adjuration, my exhortation, my "charge" as commencement speakers call it.

When you go back to your home communities and to your daily work and to your educational activities, I urge you to augment your technical studies by developing, through general reading and thinking, your sense of perspective, your sense of values. Please bear in mind these three propositions:

First, money is a highly useful invention of man, but its function is to serve, not to rule.

Second, banking is a highly useful economic process, but its function also is to serve, not to rule. It only complements production and marketing and would be useless without them.

Third, complex economic activity is only a relatively recent development in man's history and is only one aspect of man's existence. Our intricate economic system is necessary to the material comfort we now demand, but it is not more essential to the life of man than art, literature, science and religion.

By all means let us who are engaged in banking and marketing and production have a proper respect for our callings. Let us learn more about how our economic system works and about how to do a better job. But let us not lose our sense of perspective—our feeling for relative values. Let us not forget the vital importance of the intellectual and spiritual aspects of life.

Man must have bread to live. But, as Moses told his people 14 centuries before Christ, and as Christ remembered and repeated to the devil tempting him in the wilderness: *Man shall not live by bread alone.*

Securities Salesman's Corner

By JOHN DUTTON

The position of the unlisted dealer who cannot make a profit selling listed securities unless he charges an extra commission has been the subject of much argument throughout the securities industry for many years. There are many points of view and they vary entirely with the way each individual dealer conducts his business. Although merchandising of securities can successfully be carried out in a number of ways and by various methods of procedure as to pricing, commissions, etc., it may be helpful to review here some of the most generally accepted methods of handling listed business, and briefly outline certain of the advantages and disadvantages of so doing.

There are firms that sell only unlisted issues and act solely as principals. They also rely on mutual funds to a certain extent and feel that they will always have acceptable merchandise for their sales force by making some funds available. They do not specialize in any particular group of securities. They try and pick values and do some research work but carry relatively light positions. They may, or may not, have an active trading department. Usually they do not have a busy trading department, but if they do, they try, when possible, to coordinate the activities of both. This is a very difficult procedure but if timing is good, retail can augment wholesale and vice-versa. The advantage of this set-up is that salesmen can always have something to sell upon which they can make a profit. The disadvantage is that it is impossible to give a complete investment service to clients unless listed securities are made available to them. There are many other considerations which cannot be gone into in this space at this time.

There are firms that now handle Mutual Funds to the exclusion of all else. Specialization in this field brings about a high concentration of sales effort. Securities are only handled as trade-outs and on a straight Stock Exchange commission basis. The advantages here are that salesmen can learn one story and tell it well. The disadvantage of this type of business is that in the next depression many clients (in fact a complete clientele) may be wiped out. This could happen, however, to any firm unless care was used in building up sufficient stable assets in every account prior to the debacle, no matter if they sold funds or general securities.

Then there is the firm that sells both listed and unlisted securities. Sometimes listeds are sold as agents and sometimes with double commissions added or special service charges. An attempt is made to build up accounts on the basis of controlling all the business in that account. All securities are evaluated from the standpoint of what is best for the individual investor or client. Portfolios are studied with an eye to proper distribution of funds, diversification of industries, of locations geographically, of companies within industries, etc. The main disadvantage of this approach is that it takes a little longer to educate clients along sound investment lines. The advantage is that once salesmen start to sell programs that fit the client they begin to build a clientele. The choice of securities and the skill with which these portfolios are arranged, however, will determine whether or not this clientele will live. A plan for quarterly or semi-annual review of customer's holdings is helpful in making this plan continually acceptable to customers. A bad market break means that clients have to be resold—this is true of the business in general.

Then there are firms that are "special situation" minded. They work mostly in finding undervalued sleepers—bonds, preferred, common stocks, here, there and yonder. When they think a dollar can be made by buying and holding they advise purchase by clients. This type of business can be very profitable at certain times but when things are in the doldrums it can also be very slow. You have to make enough in the good years to tide you over the dull ones—but with taxes where they are today (on commission earnings) you had better make some of those capital gains yourself if you expect to keep much of your profit from such operations.

The reason I have written this is just to point out a few of the many variations of the investment securities business as it is conducted at the retail level. There is enough here for a good sized book. However, it seems apparent from this short outline that a plan and a set procedure are necessary, if a success is to be made of this highly complicated business we call retailing of securities. Some firms have made a success out of just going ahead and selling whatever they came across, sort of going along with the times and the tides, as the styles changed in public acceptance and demand for securities. These cases though seem to be in the minority.

Continued from page 13

Prospective Tax Rises And the Utilities

By B. S. RODEY, Jr.
Manager Tax Dept., Consolidated Edison Co.

—the pattern for what was later enacted and which is now the basis of our concern.

The Analyst's First Difficulty

The analyst's first difficulty in determining the impact of an excess profits tax is the lack of specific knowledge of what the exact formula, to be enacted, will be. An assumption, however, may possibly be made provided a look is taken at what kind of a tax formula may be necessary to produce the needed governmental revenues and if one listens carefully to the more reliable of the Washington grapevine news. For example, the old excess profits tax formula applied to the aggregate corporate incomes for 1949, it has been said, would produce as much as $8 billion from which it may be further inferred, from the higher income trends already evidenced in 1950, that the re-imposition of the wartime tax might produce in excess of $10 billion, obviously perhaps much more additional revenue than Washington might care to legislate at this time. Most analysts, I believe, appreciate this situation and are realistically looking toward a more liberal formula.

It is impossible to overstate here the far-reaching importance of the formula which any future excess profits tax law may include. Certainly, the financial community is completely informed as to the efficiency-discouraging effect of excessively high and inequitable taxing rates. We haven't yet forgotten the demoralizing effect of the 15 cent dollar days. Under the guise of increasing the yield, modifications or relatively small tax revenue effect, were introduced which proved to be merely penalties on sheer corporate size. Certainly, every effort should be made to obtain a more equitable setup for all corporate industry as well as for the utilities which otherwise might be seriously hampered in meeting their heavy future financing to care for the present rate of expansion as well as the prospective increases for any new defense effort.

Need to Distinguish Between Normal and Excessive Earnings

Any fair consideration of the income on which an excessive earnings tax is to be levied must carefully distinguish between *normal earnings* and *excessive earnings*. It is obvious that there can be no real *excessive profits* until provision has been made for the normal corporation income tax. The higher the rate of corporate tax, the more important does this become. For this reason, the income on which an excessive earnings tax is to be levied should be taxable income, reduced at least by the corporation income tax. With this basic principle embodied into an excess profits tax law, a start would be made toward making an excess profits tax more equitable and less capricious than it was during the war years.

The question naturally arises as to whether or not an excess profits tax law embracing the deduction of income tax in arriving at excess earnings would raise the necessary revenue. I believe that a real excess profits tax could be devised to raise at least $5 billion of additional revenue. Such a law would include the computation of excess profits tax either through the average earnings method of the invested capital method. For those corporations which would find the average earnings method more beneficial, the 1947 to 1949 average earnings could be used and adjusted for income tax at the rate applicable in the excess profits tax year. The adjustment for income tax should be at the corporate rate applicable to the excess profits tax year. If the income tax rate were 45%, taxable income in the base period years 1947-49 would be adjusted downward by income tax computed at 45%. For corporations electing the invested capital method, the base would include equity capital, accumulated earnings and 100% of borrowed capital. From this base, I would compute the excess profits credit by using a 6% rate or some similar rate, depending upon revenue needs. Incidentally, the avowed principal purpose of an excess profits tax is the elimination of excessively high profits during a national emergency when such earnings are repugnant to the public interest. Consequently, such a tax should not be the sole or perhaps even a principal source of wartime revenues.

Based upon Treasury statistics for the year 1947 and projecting them by the net income of leading corporations reported by the National City Bank, it appears that the total taxable income in the years 1947, 1948, and 1949 averaged about $34 billion. Based upon the most recent report of The National City Bank, the indications are that taxable income for the year 1950 will be somewhere in the neighborhood of $43 billion. By using 90% of the 1947-1949 earnings, the base period earnings would be, after a 45% income tax, approximately $17 billion. The $43 billion in 1950 reduced by income tax at 45% is $24 billion. As a result, the difference between the $24 billion and $17 billion, or $7 billion, would be income subject to excess profits tax. Were an excess profits tax imposed at a rate of 75%, the revenue raised would be approximately $5 billion.

It is recognized that this estimate of revenue is extremely rough because it neglects the alternative invested capital method and because it averages many companies. Yet it does give some idea of the revenue that might be raised through an excess profits tax that recognizes the principle that there can be no *excess profits* until income tax is first deducted from taxable income.

If additional revenues are needed later for the national defense or war effort, it would seem that sources other than the excess profits tax field might be fruitfully explored. Among those inviting attention would be the broader base manufacturing excises, the broader base normal and surtax corporate rates, personal income in lower brackets, and the present tax exempt categories.

The Second Difficulty

Second, having hurdled the first assumption; that is, the question of what the formula may be; our next difficulty lies in the differences between published book net income and taxable net income. I have had a short tabulation prepared which describes some of the more important variations between these two net incomes. With even your gifts of extra sensory perception, it is beyond most of us "bookkeepers" how an analyst can possibly get a correct answer, except by way of coincidence, out of the published corporate financial statements available to them.

This second difficulty, i.e., of book income versus taxable income, may be hurdled by the analyst, if, after making his first assumption as to the possible formula to be enacted, he applies the formula to the published statements and then submits his results to the particular corporation for its adjustments and corrections. Frankly, it is just plain common sense to do this if you want to be right.

The Analyst's Third Difficulty

The third variable is the matter of gazing into the crystal ball and determining what the future earnings of the corporation will be, either in the form of book net income or taxable net income. Of course, this should not be too difficult in the utility field, because of the long-term steadiness of their revenue trends, at least in the larger companies. However, there are some hazards in placing too much emphasis on past earnings and trends in view of the potential economic dangers of complete mobilization and further national complications.

Possible Degrees of Error

Now, having stated the principal difficulties in the path of a realistic determination of the excess profits tax impact, I would like to demonstrate how far off we might be from the answer if we were to apply an arbitrary, although possible, formula to the actual figures of five of our utility companies for the year 1949. For this purpose I have prepared simulated figures of five utility companies designated as A, B, C, D and E. I am confident that you may view the results as being reasonably significant of the possibilities for serious error.

The figures show in one case the application of this formula to the 1949 published income would indicate that the actual earnings of $2.22 per share might be reduced to $1.69 per share. Now this could be the picture the analysis would obtain by the use of published figures. On the other hand, you will also note that the realities of the situation will probably be that the $2.22 a share would be cut to approximately $1.82 a share, after recourse to reliable tax figures.

Conclusion

In my opinion, the public utility industry is keenly aware that all segments of industry must contribute their share of the financial sacrifices necessary to meet the needs of this country in any national emergency.

The private tax-paying utility industry, however, is not a static or declining industry. It is presently experiencing a tremendous growth. This growth is not alone a matter of choice but is one of compulsion since franchise requirements obligate utilities to provide service to the constantly growing number of customers who want such service in increasing amounts. Further, utilities are vitally essential to any national defense or peace effort and consequently their operating efficiency and financial stability must be adequately maintained.

According to a recent forecast of capital expenditures through 1953 prepared by the Edison Electric Institute, the electric utilities alone need $6¾ billion for new construction. The new money needed to be financed through the security market is nearly $3½ billion. Since the debt ratio has increased from 46.5% in 1945 to 49.8%, practically 50%, at the present time, it appears obvious that a substantial amount, perhaps as much as half of the new money must be raised through equity financing.

(In millions)

	1950	1951	1952	1953
Construction Expenditures	$2,100	$1,900	$1,500	$1,250
Treasury Cash	722	793	855	904
New Money	1,378	1,107	645	346

The effect of price regulations upon utility earnings by Federal, state and local commissions is to limit them to a stated return after normal taxes on the value of property devoted to public service. Out of these earnings the utility companies must provide for interest, sinking fund requirements on debt and dividends on capital stock. Because price regulation is continuous, public utilities cannot, even in normal times, accumulate any substantial excess earnings for expansion. It is clear, therefore, that any substantial impairment of earning power which will result from the imposition of an overly severe excess profits tax will seriously jeopardize their ability to raise money for new facilities.

Under previous excess profits tax law, utilities have paid very substantial so-called excess profits taxes—not because they had excess profits—but because the basis of calculation prescribed by law, among other things, failed to allow the deduction of normal tax and surtax in arriving at the amount subject to excess profits tax. In certain instances, state and local public utility commissions, seeing that companies were paying so-called excess profits taxes, caused refunds to be made to customers: As the result, the very purpose of the excess profit law was defeated and reasonable earnings were denied to the utilities. A repetition of this condition would tend to place the utilities in a precarious position because adequate earnings are essential in obtaining the large amounts of new capital necessary for current expansion.

The last excess profits tax law was improperly named because it did more than confiscate excessive earnings. In fact, with many utilities it reduced their earnings below the point of the standards set by regulation as constituting a fair return on the value of their property devoted to the public service. While the power of the government to do this and set any standard they wish during a national emergency cannot be challenged, the name of the tax, if this is done, should be correctly designated as a war or defense tax and the label excess profits tax abandoned.

By CHARLES WIGAND
Commonwealth Services Inc.

Continued from page 13

cation to the excess profits tax years. No matter what group of years is used as a base period it would not be representative of reasonable earnings for any subsequent year because of the lag between the time expenditures were made for plant additions and when the facilities started earning.

Under either the Invested Capital or the Average Earnings method the excess profits tax law previously in effect failed to allow a deduction for normal tax and surtax in arriving at the amount subject to excess profits tax.

While taxes are an element of cost and as such should be passed on to the consumer, regulatory commissions are reluctant, to say the least, to grant an additional seven dollars of increased revenue to produce one dollar of earnings. This was the situation with excess profits taxes in the neighborhood of 85½%. Therefore, any diminution in earnings, resulting from an excess profits tax, would fall on the investor.

Under the previous excess profits tax law, the very purpose of collecting additional revenues for the Federal Government was defeated by some regulatory commissions causing refunds to be made to customers when utilities were found to be subject to Federal excess profits tax. Although such taxes were created by the formula of calculation and were not true excess profits, such refunds were ordered even though the company was earning less than an allowed rate of return.

Regulation Creates Different Conditions

Because of the need for substantial increased revenues, all taxpayers must be expected to bear their reasonable share of increased taxes, but when excess profits do not exist and the base for determining what income is subject to excess profits taxes is created by formula, then a regulated industry is placed in the position where the excess profits tax is levied on income which the utility should be allowed to earn for its security holders. The result, as you will appreciate, is a diminution in earnings. Such a situation impairs the value of utility securities and makes difficult the sale of equity stocks at a reasonable price. This is a serious consequence to utilities particularly at this time when they are faced with raising so much new capital required for plant construction.

When an excess profits tax law is framed to raise tax revenues as a result of a formula, rather than to siphon off true excessive profits, regulated utilities are variously affected depending largely on their tax cost, their capital structures, and also the adequacy or inadequacy of earnings included in a base period.

Obviously, it is difficult to incorporate in any tax bill sufficient alternatives to protect all companies against payment of excessive taxes. The purport of statements which Senator George and Treasury Secretary Snyder recently made concerning an excess profits tax indicates that past experience proved the difficulties of writing an excess profits tax that will not be full of injustices. Those who oppose such a levy urge that it is inflationary, encouraging spending and waste; is difficult to administer and is not as big a revenue producer as appears on the surface. Recognizing that popular pressure probably makes a war profits levy inevitable, they urge that it be enacted only after the most careful consideration.

A subcommittee of the E. E. I. and A. G. A. joint Taxation Accounting Committee has been studying the matter of excess profits taxes and we can get as many differences of opinion as there are representatives present, because practically no two situations are affected alike. Nevertheless, there are certain fundamental principles on which agreement is general and these are:

Fundamental Principles

(1) That any excess profits tax law applied to regulated utilities should be applied on a formula which corresponds to the public utility's commission base for computing rate of return under such a formula, if utilities earned an excessive return because of increased earnings and economies which might result from a better load factor under war production conditions, any such excess would be subjected to Federal excess profits taxation.

(2) Under any method of determining excess profits net income, deductions should be allowed for normal tax and surtax in ascertaining the income which will be subjected to excess profits tax. This treatment was accorded under the second revenue act of 1940 but discontinued thereafter.

(3) Under the Invested Capital method of determining excess profits net income, borrowed capital should be included at 100% thereof instead of the 50% limitation provided in the prior law.

(4) Under either the Invested Capital method or the Average

Earnings method of determining excess profits net income, there should be allowed an increased credit of substantially 8% on all capital additions, whether equity, borrowed or earnings and profits made during the excess profits tax year and subsequent years.

(5) Due to the time lag in placing substantial amounts of construction into service an additional credit should be given for capital additions created within two years prior to the effective date of an excess profits tax law.

(6) Under the Invested Capital method of determining excess profits net income, interest on 100% of borrowed capital, which is included in Invested Capital, should be added back to obtain excess profits net income.

(7) Adequate relief provisions should be incorporated in any law to take care of hardship cases.

World Bank and Fund To Hold Joint Meet'g

Fifth Annual Convention of Boards of Governors of both institutions to be held in Paris from September 6 to 14.

The Fifth Annual Meeting of the Boards of Governors of the International Monetary Fund and the International Bank for Re-

Camille Gutt Eugene R. Black

construction and Development will convene at the Annex of the Bank of France, Paris, Wednesday, Sept. 6, 1950, and will last through Thursday, Sept. 14.

The President of the French Republic will address members of the Boards and the public on Sept. 6 at 3:00 p.m., following which a formal joint session of the Boards will be held to begin the Conference's business. Chintaman D. Deshmukh, Chairman of the Boards of Governors and Finance Minister of India, will preside.

The Fifth Annual Report of the Fund will be presented to the Board of Governors of the Fund on Thursday, Sept. 7, at 10:00 a.m., in an address by Camille Gutt, Managing Director.

Eugene R. Black, President of the International Bank, will speak at the same hour on Friday morning, Sept. 8, when he presents the Bank's Fifth Annual Report to the Bank's Board of Governors.

During the remaining days of the meeting, the Governors will meet in closed session to discuss the annual reports and other matters on the agenda. The Bank's schedule this year will also include three informal panel discussions of its operations, policies and activities, to be conducted by the principal officers of the Bank. The Fund's schedule will include discussions by the Governors of exchange, monetary and fiscal problems faced by the member countries at the present time.

The Conference is scheduled to hold its closing session at 3:00 p.m. Thursday, Sept. 14, when the Bank and Fund Boards of Governors will meet in joint session to choose the site and date of the next annual meeting, to elect officers of the Boards of Governors for the ensuing year and to conduct closing arrangements.

Continued from page 5

The State of Trade and Industry

tional trucks, aircraft landing mats, blitz cans, field ranges, lockers, etc.—all heavy on flat-rolled steel.

A sharp increase in oil pipe line building is contemplated and freight car production soon will take a quarter of a million tons of steel (mostly plates and structural shapes) every month. Over 20,000 grain bins, costing $20 million, and requiring aluminum and galvanized steel sheets must be completed within 45 days.

The picture is one of mounting pressure for flat-rolled steel. It is true that total defense and essential civilian requirements will probably take only 15% of next year's steel production on a tonnage basis. However, notes the "Iron Age," this does not include expansion in pipeline construction which could boost the total considerably. But the way steel users will be affected will not be in any 15% proportion when these programs really get rolling. Plainly, the essential programs will require a proportionately larger share of some of the steel products which are already in shortest supply, this trade authority asserts.

Conversion business is booming, but running into bottlenecks. It's becoming more and more difficult to obtain space on rolling mills. But the chief obstacle is the blooming-slabbing mill. The purchasing agent's cry of joy over obtaining a supply of ingots turns to anguish when he can't find anyone to break them down for him.

The scrap market is still on a rampage with price increases this week boosting the "Iron Age" steel scrap composite price $1.33 a ton to $41.58 a gross ton, the magazine 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 90.6% of capacity for the week beginning Aug. 21, 1950, compared to 100.1% a week ago, or a drop of 9.5 points.

This decline in the rate of steel capacity the current week is attributed by the Institute to the railroad terminal strike which became effective on Monday.

This week's operating rate is equivalent to 1,747,400 tons of steel ingots and castings for the entire industry, compared to 1,930,600 tons a week ago. A month ago, based on new capacity, the rate was 98.?% and production amounted to 1,894,800 tons; a year ago based on the smaller capacity then prevailing, it stood at 84.8% and 1,563,300 tons.

Electric Output Attains Further New High Record

The amount of electrical energy distributed by the electric light and power industry for the week ended Aug. 19 was estimated at 6,369,830,000 kwh., according to the Edison Electric Institute.

Output for this period attained a fresh historical high record for the industry.

It was 116,689,000 kwh. higher than the figure reported for the previous week, 791,030,000 kwh., or 14.2% above the total output for the week ended Aug. 20, 1949, and 979,042,000 kwh. in excess of the output reported for the corresponding period two years ago.

Carloadings Advance in Latest Week

Loadings of revenue freight for the week ended Aug. 12, 1950, totaled 847,4?5 cars, according to the Association of American Railroads. This was an increase of 10,247 cars, or 1.2% above the preceding week.

The week's total represented an increase of 119,436 cars, or 16.4% above the corresponding week in 1949, but a decrease of 43,811 cars, or 4.9% below the comparable period in 1948.

Auto Output Improved the Past Week

According to "Ward's Automotive Reports" the past week, motor vehicle production in the United States and Canada increased to an estimated total of 192,511 units, compared with the previous week's total of 182,965 (revised) units and 149,359 units a year ago.

The agency said the week's showing was creditable in view of labor troubles and model changeovers by firms including Packard, Nash and Hudson. Although their respective dealers were short of cars, it declared that manufacturers were powerless to delay or postpone their changeovers since the dates were established months before the Korean situation developed. Key suppliers switched to the new model requirements long ago, it added, and are currently shipping components which could not be used on present models.

Total output for the current week was made up of 153,477 cars and 31,300 trucks built in the United States and a total of 5,560 cars and 2,174 trucks built in Canada.

The week's total compared with 142,663 cars and trucks built in the United States and 6,696 units in Canada in the like week of 1949.

Business Failures Turn Downward

Commercial and industrial failures dipped to 186 in the week ended Aug. 17 from 194 in the preceding week, Dun & Bradstreet, Inc., reports. Although casualties were slightly lower than a year ago when 193 occurred, they were almost twice as numerous as in 1948 when 94 businesses succumbed. Continuing below the prewar level, failures were 24% less than the 1939 total of 253 in the similar week.

Retail and commercial service casualties accounted for the week's dip; manufacturing and construction failures rose, while wholesaling remained unchanged. More retail and construction businesses failed than in 1949, but a decline from last year's level appeared in other industry and trade groups, with manufacturing mortality off most noticeably.

The Middle Atlantic and Pacific States reported a weekly decline. In all other regions, casualties increased or remained unchanged. The only market rise occurred in the South Atlantic States where 16 businesses succumbed as against seven a week ago. Five of the nine major regions reported more casualties than last year. These included the Middle and South Atlantic States, the East North Central, Mountain and Pacific States. Marked declines prevailed in New England and the East and West South Central States where there were less than one-half as many failures as in 1949.

Food Price Index Holds at Two-Year Peak Level for Third Week

The Dun & Bradstreet wholesale food price index for Aug. 15 continued unchanged for the third straight week at $6.53. This represents the highest level in almost two years, or since Sept. 28, 1948, when it stood at $6.70. It is 10.9% above the $5.89 recorded at this time a year ago.

Commodity Price Index Depressed by Prospects of Large Grain Crops

The daily wholesale commdity price index, compiled by Dun & Bradstreet, Inc., moved lower the past week to close at 278.80 on Aug. 15. This compared with 284.17 on Aug. 8, the highest level in over two years, and wtih 236.41 on the corresponding date a year ago.

Grain prices moved in a fairly narrow range last week.

The general trend of prices continued to be downward, largely reflecting prospects for large crops of grain in the United States and Canada.

The cash wheat market was also influenced by lagging demand from mill and export interests and a scarcity of storage space. Corn showed relative firmness, aided by buying against export sales and a good demand from industrial users. Oats prices worked lower in light trading; shipping demand was only fair.

A total wheat crop of 996,000,000 bushels for this year is indicated by the Aug. 1 report of the Department of Agriculture. Although below last year's yield of 1,146,000,000 bushels, the decline is more than offset by a larger carryover from last year's production. The 1950 corn crop is estimated at 3,168,000,000 bushels, comparing with 3,378,000,000 bushels last year, and well above the 10-year average of 2,901,000,000 bushels.

The undertone in coffee improved at the close following announcement that the Army was in the market for substantial quantities.

Cotton prices were irregular last week. After a weak start, values rose sharply following publication of the first official forecast of this year's crop, indicating a much lower yield than that shown by previous private forecasts. Prices receded somewhat in late dealings as the result of heavy hedge selling against CCC pooled stocks of cotton, and the movement of the new crop. Final quotations were up about 30 points over a week ago. Active mill buying helped to support the market at times. Sales in the ten spot markets remained in good volume, totaling 354,000 bales in the latest week, compared with 360,900 the week previous, and 69,900 in the corresponding week a year ago.

The 1950 cotton yield as forecast by the Crop Reporting Board, was 10,308,000 bales. This represented a reduction of 5,820,000 bales, or 36% below the 16,128,000 bales produced last season, and 11% below the 10-year average. Cotton textile prices remained firm with trading at a minimum and with both buyers and sellers hesitant in making new commitments.

Trade Volume Lifted by Heavy Buying of Soft Goods

A noticeable rise in the buying of soft goods during the period ended on Wednesday of last week helped to raise total consumer spending for that period. Aggregate retail dollar volume was moderately above the level for the comparable week in 1949, Dun & Bradstreet, Inc., reveals in its latest summary of trade.

There was a substantial increase in the retail purchasing of apparel the past week. A pre-seasonal interest in back-to-school children's clothing was noticeable in many sections of the country; boys' corduroy suits and girls' plaid dresses were among the items promoted in children's wear. In the adults' line, coats and suits were increasingly requested by shoppers. Promoted women's articles included wool jersey skirts and sweaters; men's promotions offered storm coats, pajamas and shirts.

The overall dollar volume in food rose somewhat last week, following price-rises in certain items.

An increase in the retail sales of housefurnishings continued the past week, but at a more moderate pace than formerly. Consumer interest was heavily concentrated upon television sets and large appliances in many communities. A sustained demand for floor-coverings was also noticed in scattered sections. Furniture buying was aided by nation-wide promotions of foam-rubber novelty pieces and modern bedroom suites.

Total retail dollar volume in the period ended on Wednesday of last week was estimated to be from 6% to 10% above a year ago. Regional estimates varied from last year's level by these percentages:

New England and Northwest +5 to +9; East and Pacific Coast +4 to +8; South +6 to +10 and Midwest and Southwest +8 to +12.

While abnormal wholesale buying gradually declined in the week, the high order level was sustained through a large influx of advanced bookings in durables. The total dollar volume of orders was slightly above the level for the corresponding week a year ago. The number of buyers attending various wholesale centers rose moderately last week, although it was slightly below the level for the similar 1949 week.

Department store sales on a country-wide basis, as taken from the Federal Reserve Board's index for the week ended Aug. 12, 1950, rose 26% from the like period of last year. An increase of 30% (revised) was recorded in the previous week from that of a year ago. For the four weeks ended Aug. 12, 1950, sales showed a rise of 36% from the corresponding period a year ago, but for the year to date register an advance of 4%.

Retail trade in New York last week remained active, stimulated as it was, by increased purchase of back-to-school and fall merchandise.

According to the Federal Reserve Board's index, department store sales in New York City for the weekly period to Aug. 12, 1950, advanced 30% from the like period of last year. In the preceding week a rise of 20% (revised) was registered from the similar week of 1949. For the four weeks ended Aug. 12, 1950, an increase of 30% was noted and for the year to date volume showed a decrease of 1%.

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

At this point, I wish I could sound off about things military if for no other reason than to impress readers with my ability in fields other than the stock market. Besides, to be perfectly frank, writing a column while vacationing in New Hampshire does present something of a chore. Nevertheless, duty calls, so here goes.

* * *

Last week and in previous columns, it will be recalled, I expressed the view that the market was going up. I purposely avoided mentioning specific stocks because I felt the market would advance as a unit. I did feel, however, that the resumption of an advance would be preceded by another reaction, or at best a backing and selling process.

* * *

The reasons for this view were in the market itself. Some weeks ago stocks broke sharply after a rally and in doing so caught a lot of buyers who came in just before the break. Stocks bought just before such a break are usually disposed of as they come back to the original purchase level. Approaching such levels, stocks either hurriedly back away or go through a long tiring-out process. During this period, various offerings are being nibbled at until they are more or less completely absorbed. If the news continues good the absorption is completed and the advance is resumed.

* * *

There is much to be said for the continued presence of obstacles to this advance. For example, a war threatening to spread is always a major deterrent. Yet, with stocks absorbing most offerings, it seems the advance has further to go before any retreat gets under way.

* * *

So, for the time being, hold all long positions. I'll be back at my desk in time for the next column and should then have a clear picture of the immediate future.

[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.]

Richards & Co. in Davenport, Iowa

DAVENPORT, Iowa—David N. Richardson is conducting his own investment business from offices at the Davenport Bank Building, under the firm name of Richardson & Co. Mr. Richardson has recently been with Lamson Bros. & Co. and in the past was President of Richardson, Lane & Co. of Davenport.

David Cowan Joins Shearson, Hammill

David Cowan, formerly a Vice-President of Geyer & Co., has become associated with Shearson, Hammill & Co., members of the New York Stock Exchange, in the firm's principal New York office, 14 Wall Street. In his new capacity, Mr. Cowan will specialize in dealer and institutional business. At his former association, he was in charge of the firm's public utilities department.

Warren & Carter To Be Formed in Boston

BOSTON, Mass. — Warren & Carter will be formed shortly to engage in a securities business. Bentley W. Warren, Jr., will be a principal of the new firm. He was formerly an officer of Chace, Whiteside, Warren & Sears, Inc.

Paul Young Joins Shearson, Hammill Co.

(Special to THE FINANCIAL CHRONICLE)

PASADENA, Calif. — Paul Young has become associated with Shearson, Hammill & Co., 348 East Green Street. He was formerly with Merrill Lynch, Pierce, Fenner & Beane and Reagan & Co., Inc. Prior thereto he was an officer of Leo G. McLaughlin Co.

Joins Paul Davis Staff

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill.—John H. Geddis, Jr. is now affiliated with Paul H. Davis & Co., 10 South La Salle Street, members of the New York and Midwest Stock Exchanges.

With Barclay Investment

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill. — Charles L. Turner has joined Barclay Investment Co., 39 South La Salle St.

Continued from page 6

We Don't Need an Excess Profit Tax!

normal conditions, normal operations, normal period, and the like.

A review of our history reveals very few "normal years" since 1905. After the panics and bank failures in 1907, followed by trust busting, realignments of business units and operations, we come up to 1913, when Europe was arming for war.

In 1914 through 1918 we witnessed World War I. The next year was not normal either. In 1920 we saw a big shakeout and severe price declines followed by a good year and a bad year and so on. Nor were the late 20's normal with the bull market in stocks, industrial boom, land speculation, high prices and good business.

In 1930 the depression was on us; hard times and foreclosures followed; plants were shut down, bonds in default, gold was sterilized, unemployment was high, etc. When prohibition ended bootlegging, some capital went into breweries and the liquor business; some savings were spent for household appliances. However, the unemployment and hardships helped create a new political economic theory—the pump priming theory; at this time the alphabetical agencies such as WPA, PWA, NRA and the like were set up.

1935 and 1936 witnessed other adjustments in business and industry. For years prior to 1941, there was the so-called defense boom with money and men channelled into defense and war purposes. The war years 1941 to 1945 were by no means "normal" unless wars can be regarded as normal, neither are the postwar years normal with the backlogs for housing, autos, and other goods. In the past half century normal years have indeed been very scarce.

A great deal has happened since the 1936-1939 base period. Thousands of new corporations have been organized. Then there are new industries like television; new products like nylon, etc. Certain corporations and industries have multiplied many, many fold. A special formula would have to be developed for such taxpayers. Though desirable it would not be possible to treat all taxpayers alike.

The Tax Not Needed

Presently there is absolutely no need for an Excess Profits Tax. The tax is a wartime instrument of fiscal policy and has no place in today's economy. Recently, Senator George plainly but boldly stated that the O'Mahoney amendment was not a war excess profits tax but a plan to saddle our economy with a permanent (peacetime) excess profits tax. War conditions might justify an excess profits tax which is supposed to capture the greater part of the excess above normal profits; its purpose is to take the profit out of war. So long as present conditions prevail, there is no fiscal or economic necessity for an excess profits tax.

However, should war conditions become more acute, then an excess profits tax will be enacted. Any new excess profits tax law should contain a better and more realistic relief provision. Those who spent large sums for legal, accounting and economic advice in connection with past relief claims without success feel that Congress should not enact a relief section because of the administrative difficulties involved. A lower rate and no relief provision, they feel would be more desirable. Congress will bear this in mind in enacting an excess profits tax.

When the time comes, Congress will enact an excess profits tax law, with accompanying relief provisions. Congress is familiar with the administrative problems and questions involved in the current disposition of relief cases. Therefore, I am confident that Congress will give us a more practical and workable relief provision to take care of a greater number of hardship cases. But no matter what Congress intends, or does, and how well, the relief is bound to be complicated and will not take care of every hardship and deserving case. As in the past it will be most difficult to administer.

Continued from page 11

Financing Utility Expansion In Northwest

regulatory authorities of the State of California have determined that a proper rate of return for the Pacific Gas & Electric Company was 5.9%. Likewise, the regulatory authorities of the State of Washington have determined that 6% is adequate for the Pacific Telephone & Telegraph Company, and a wide variety of similar examples can readily be found.

Satisfactory Rate of Return on Capital Required

Now, gentlemen, I respectfully submit that your industry cannot be financed for an indefinite period in the future on these rates of return of 6% and under, and the risk involved in attempting to continue to do so is too great to take. The security markets which reflect the cost of capital fluctuate more every day than these fractions of 1% about which many regulatory bodies concern themselves. The setting of a proper rate of return for utilities is a matter requiring considerable artistry, and I question that it can be fully resolved by detailed mathematical formulas. If a proper rate of return on a given property is 6½%, an allowed return of 6¼% can be very serious, as it tends to weaken confidence in the important equity base. On the other hand, a return of 6¾% can do no serious harm to anybody, and it serves to put a desirable margin of safety around your operations.

The moral here is that in an industry which will continue to require billions of new capital in order to render proper public service, it is far safer to err on the high side than on the low side. Otherwise, while your industry and the regulatory authorities are engaged in learned discussion as to whether investors should receive 6% or 6¼%, you may well discover that investors as a group begin to concern themselves as to whether returns should be 10% or 15%. This is not as fantastic as it may sound. The cost of capital to the majority of American industries today, including the banking and insurance businesses which are regarded as relatively riskless, is at least 10%.

It is most interesting to note that a 5% increase in total operating revenues in 1949 in the case of the Pacific Gas & Electric Company would have cost the average customer $4.81 per year, and yet it would have increased earnings available for the common stock by 40%. Likewise, a 5% increase in gross revenues of the Pacific Telephone Company would have been equivalent to $4.81 per year per telephone, yet it would have increased earnings available for the common stock by 50%. Perhaps the $4.81 per year which the customer of either of these utilities might have paid had their rates been slightly higher might prove to be a very excellent form of insurance that these companies would be able to continue to give the fine degree of service which they have in the past.

There is no better example of the point I am seeking to develop than the experience of the manufactured gas industry of the Pacific Northwest in the last twenty years. You know what an unsatisfactory medium it has been for investors. You likewise know that inability to readily raise new capital has seriously restricted the ability of these utilities to render the best public service at the lowest cost. This situation has resulted from facts peculiar to this area, and shows promise of being remedied with the advent of natural gas. However, it would be most unfortunate if at any time the utility industry generally found itself in any such plight as have the Northwest gas producers.

In conclusion, the most important responsibility which the members of your industry and the members of the regulatory commissions have to the public is to insure that the industry can continue to be financed on the very attractive terms which have been possible in the past. I suggest that this can best be done if investors are permitted some slightly greater degree of participation in the results of your steadily increasing business. It is your responsibility to lose no opportunity to convey this message to your colleagues, your customers, and the regulatory authorities, not primarily for the purpose of permitting investors to make modest profits in utility securities, but because in so doing you assure your ability to continue to render proper public service.

Norbert McKenna Director

DETROIT, Mich. — Norbert A. McKenna, a partner of Reynolds & Company in New York, has been elected a director of American Metal Products Company of Detroit, it was announced by Mr. F. C. Matthaei, President of American Metal Products. Mr. McKenna's election increases the company's board to seven members.

Mr. McKenna is also a director of Affiliated Gas Equipment, Inc., of Cleveland; Michael Brothers of Brooklyn, New York; William Cameron Company of Waco, Texas; Universal Windings Company of Providence, R. I.; California Eastern Airways of New York, and Roddis Plywood Corporation of Marshfield, Wisconsin.

Parrish Co. Adds

PHILADELPHIA, Pa. — Parrish & Co., 1421 Chestnut Street, members of New York Stock Exchange, announce that Richard Beardsley is now associated with them as a registered representative in their Philadelphia office.

L. Stowell Clark

L. Stowell Clark, formerly active in the securities business, died at his home at the age of 77. Prior to his retirement 20 years ago he was with Parker & Co.

Continued from page 3

Regulating the Sale of Investment Company Shares

and by the Investment Company Act of 1940, were and are wholly adequate to stamp out all illegal sales literature at which this statement of policy is aimed. A few prosecutions as a warning would certainly have had the desired effect of cleaning house. The objection is raised by one of the men whom we interviewed that this would have given the sale of investment trust shares a "black eye." How much better then, if at all, will the public fare as a result of the recent Statement of Policy?

In the first place, the statement is so rigid that a large percentage of the existing literature used in the sale of these shares will have to be destroyed and the cost superimposed upon the price or absorbed by the distributor. The delay in getting clearance of new literature will make for additional burdens, thus hampering issuers, underwriters and dealers.

The Statement of Policy is aimed at advertising and sales literature that "may violate the Securities Act of 1933 and the Investment Company Act of 1940."

Issuers, underwriters, and dealers who are no mere puppets, will find it necessary to call in counsel at times concerning SEC and NASD opinions on the literature which is intended for use. Counsel may differ with the Commission or the NASD or both. If a test is made, this additional cost, lawyers' fees and litigation, will again increase costs to the public and probably in the end reduce returns on investment company shares.

What a frightful mess all of this is turning out to be. Customary prospectus requirements as a "protection" to the issuer and underwriter and to the public is one thing; but when it comes to treating all sales literature as if it were, in fact, a prospectus or a part of one, then we think it is definitely time to rebel.

This paternalistic attitude in attempting eternally to take the public by the hand is becoming obnoxious. The trouble with bureaucracy is that it extends beyond the Bureau to the individual being dealt with and there is no telling how far the government will go in support of the individual representing it.

Investment company shares are intended to and do make available to all people an interest in our capital and free enterprise system which can have that diversity in portfolio and managment supervision which a small investor would not otherwise be able to afford. Government should encourage rather than hobble the purchase of such securities.

The despairing feature is that while the SEC and the NASD dictate what the spreads in certain security sales shall be, and do not consider the profit motif in arriving at such spreads, these bodies make doing business more expensive all the time.

All advertising and sales literature prepared after August 14, 1950 must conform with this Statement of Policy. The use of advertising and sales literature which does not conform must be discontinued as soon as practicable and in no event later than October 1, 1950. These are joint requirements of the SEC and the NASD. Even if the Statement of Policy were necessary at all, can it possibly be said that the time element is fair? Is it fair to give little more than a month in which to revamp all advertising and promotional material and do all the statistical work incidental thereto when the time is Summer and many of those in the industry are on vacation?

Instead of making an example of a few violators of the law, the Commission has again reverted to an unnecessary and far-reaching enlargement of its powers by the terms of which it and the NASD will review, as part of the latter's practice of self-regulation, all advertising and sales literature dealing with sale of investment company shares.

We now visualize trials on this subject by the Business Conduct Committee of the NASD, appeals to the Board of Governors of the NASD, appeals to the SEC and, finally, appeals to the United States District Court. Of course, this will only take place in those instances where defendants are financially able to "stand the gaff" and have the courage to buck the regulatory bodies besides. These, unfortunately, are few in number.

Administrative bodies via the medium of enlargement of their own powers, by rules, by interpretations and by statements of policy, are gradually and rapidly leading us away from that American system of free enterprise which was responsible for our emergence as a free and powerful nation. Unfortunately, we are tending more and more toward government participation in business, toward government interference with business, and toward driving the individual from the ability to thrive in and survive in business.

The end is not yet in sight. Administrative autocracy as a gradual and piecemeal destruction of our liberty is far-reaching.

We are due for a rude awakening.

Continued from page 13

The Look Ahead for Government Securities

which already have been proposed and received some discussion. No one can say what may be the scope of entirely new ideas yet to be produced.

For basic understanding it should be recognized clearly and at once that in the present-day practice of economics there is no difficulty whatever in supplying the Treasury with all the funds it needs. Mr. Beardsley Ruml put it in a nutshell when he declared that a modern central bank and an irredeemable currency have given the Treasury (i.e., any nation's treasury) final freedom from the market place for money.[2] For practical purposes there is no limit to the number of dollars which can be made available to the Treasury by the Federal Reserve Banks. Whether this is done directly, as under the recently renewed authority for direct security purchases, or indirectly, through the market, is relatively immaterial.

The justification for paying interest to commercial banks even during the last war was brought into question. No risk[3] or expense is involved in holding these government securities, it was pointed out; therefore why should banks be permitted large earnings from them? Since the government could finance itself by issuing greenbacks directly; since the banks merely supply funds in a more direct and less cumbersome manner, why should not a small fee for this service suffice?[4]

If banks will not hold sufficient quantities of short-term paper at nominal yields willingly, other means could be employed. One way of doing this was suggested by Reserve Board Governor Eccles.[5] His method would, in addition to holding down banks' profits from government securities, result in establishing still another compartment in which government debt would be insulated from market influence. It would require banks to maintain "special reserves" of low-yielding short-term paper; they would, however, be permitted to raise their rates to private borrowers.

To short-circuit the commercial banks completely has been recommended by Dr. E. A. Goldenweiser,[6] Representative Wright Patman of Texas, and others. By borrowing directly from Federal Reserve Banks the interest cost could be cut down almost to nothing, and the whole problem of debt management greatly simplified. The effect of the huge increase in Reserve credit could be nullified by imposing very high reserve requirements on commercial new deposits in commercial banks.

Reliance on Voluntary Bond Purchases

In the beginning of a new program of war borrowing there can be little doubt that voluntary purchases of new government securities will be relied upon. These would be of non-marketable or restricted market types, offered to individuals and to institutions holding saved accumulations.

Later, as inflation grows, means of controlling its symptoms must be decided upon. Here we find tax collections and controls such as Regulation W and rationing considered side by side with credit and money and interest rate controls. It is quite inconceivable that authorities will attempt a check through interest rates sufficiently higher, if at all, to be effective. It has been argued often that the principal borrower, the Treasury Department, cannot be expected to submit to any restrictions whatever upon its borrowing activities; hence to raise the interest rate on its borrowings would merely increase the cost while accomplishing nothing.

Decisions will have to be taken with respect to methods of maintaining the rate, particularly the long-term rate. The pegging of the rate by open market operations has been tried. In England "The Economist" in 1945 characterized thus the cheap money dilemma of the British authorities:

"They can regain their freedom of action only at the expense of the cheap money policy. From the moment that policy was adopted, the authorities in effect abdicated from the position of controllers of the volume of money."

The only visible escape is to induce, by persuasion or by coercion, holders of government securities not to sell them. The first has been suggested recently by a Federal Reserve Board spokesman.

When or if the possibilities of voluntary subscriptions by the nonbank public to new government issues are exhausted, compulsory lending or saving may be the next resort. It should be noted that there is a distinction. Compulsory lending can be accomplished very simply, as for instance, by a refundable tax. Excess profits tax refund bonds of the last war are an example.

But compulsory lending to the government does not necessarily mean compulsory saving. The lending may be done from existing balances or other assets, and thus results in no decrease in total spending for goods and services. Since one of the principal reasons for borrowing from the non-bank public is to curtail spending in wartime, compulsory lending by itself will not be considered wholly satisfactory.

Impossible to Escape Inflation in Wartime

The central fact is that to escape inflation in wartime is impossible, and all proposed "controls" are efforts to inhibit, or at least to minimize, the symptoms. Hence Treasury borrowing is inseparably linked with taxation and money-creation; Treasury spending with considerations of how much interest shall be paid on its borrowing, and to whom. In the new economics government taxing and spending, borrowing and repayment, are not permitted the meanings they used to have. They are solely methods by which the government may influence the re-distribution of existing wealth and the flow of current income.[7] Students of economics and government finance know this; practical men in private finance should know it, and form their own opinions on whether it represents progress or retrogression.

NOTES

1 Technicians have some reasons for not wishing to cover all war expenses by taxation, even if that were possible. One is to provide an immediate increase in the money supply, and another may be even more surprising. "The greater the amount of wartime borrowing the greater will be the load of postwar taxation. Despite this, a certain amount of wartime borrowing may be desirable for the purpose of providing individuals and corporations with postwar reserves of liquid assets." Henry C. Murphy, *The National Debt in War and Transition*, (McGraw-Hill, New York) p. 66.

2 In *Commercial and Financial Chronicle*, Jan. 19, 1950, p. 6.

3 This point recalls another minor innovation. At or shortly after the end of the war the several bank examining agencies developed the concept of "risk assets," defined to mean everything except Government securities and cash.

4 So moderate an economist as Dr. Abbott asked: "What shall be a fair rate of return on government bonds held by commercial banks—assets acquired by them with virtually no effort, held at little risk, and carried at negligible expense?" Charles C. Abbott, *Management of the Federal Debt*, (McGraw-Hill) p. 80.

Dr. Harris is more severe: "Disturbance of the money market is the main reason against recourse to greenbacks. Though the writer does not favor the substitution of greenbacks he does not subscribe to the view that public securities should be kept outstanding in order to maintain the earning power of banks. There is the need of keeping the rate of interest down; for that reason and others, banks should not be paid more than costs and a small profit for the relatively riskless task of buying government securities." Seymour E. Harris, *The National Debt and the New Economics*, (McGraw-Hill) pp. 40-41.

5 Marriner S. Eccles, Statement before the Joint Committee on the Economic Report, Nov. 25, 1947. *Federal Reserve Bulletin*, Dec. 1947 p. 1461.

6 His plan for financing emergency deficits, briefly:

"(1) Make the deficit as small as possible by raising as much as possible by taxation. (2) Offer non-marketable bonds to the public. If necessary, make their purchase compulsory, making the bonds redeemable only after the emergency has passed. (This is one method of compulsory saving.) (3) Raise the rest of the needed money by the sale of securities at a nominal rate of interest to the Federal Reserve Banks. To prevent the inflationary effects of this method of providing money, impose high reserve requirements on bank deposits created after a given time." E. A. Goldenweiser, long-time head of research for the Federal Reserve Board, *Monetary Management*, Mc-Graw-Hill) pp. 94-95.

7 "In order to secure this large a proportion (40%) of the community's income by taxation it must be taken where it can be found—that is, largely from the lower income classes. It is inevitable, therefore, that wartime taxation must be less progressive than that of peacetime. To the extent that this is considered to be an invasion of equity — which is a matter of opinion—it can be reduced by issuing borrowing instruments in exchange for part of the money taken from the lower income classes during the war and repaying (or servicing) these instruments after the war with taxes raised in large part from the higher income classes." Murphy, *op.cit.*, p. 63.

Just in case someone should bring up a question as to how many Government securities the Federal Reserve Banks could purchase, thus throwing doubt upon our earlier statement that there is no practical limit to the amount of funds the System can make available to the Treasury, let us note some facts.

The limit to the amount of funds the Reserve Banks can provide is the legal reserve ratio of gold certificate reserves to total liabilities, which are notes and deposits. At present this ratio is 25%; the actual ratio is above 55%. Until June, 1945, the legal ratio was 40% against notes and 35% against deposits. Because of our war-time loss of gold, the actual ratio fell rather close to the legal minimum. It may surprise some people to learn that serious official consideration had been given as early as 1944 to requesting the total elimination of reserve requirements for the central bank.

"The Federal Reserve ratio had, of course, lost its real economic significance * * * Nevertheless, it was agreed by both the Treasury and the Federal Reserve that it would be unwise to ask Congress for the total elimination of requirements so long embedded in statute and banking custom." Actually, it was not needed; the ratio never fell even to the new 25% limit. "But the passage of the legislation at that time seems particularly fortunate in retrospect. Had it been delayed until after V-J Day, it might very likely have become mired in controversy and this controversy might have seriously embarrassed the monetary authorities in carrying through their postwar policies." Murphy, *op.cit.*, pp. 214-215.

Mr. Murphy's book is written from the vantage point of one who was on the inside of Treasury war-time financing and planning. Some of its revelations may be surprising to those who do not customarily follow such subjects closely. It is recommended as fascinating reading.

Public Utility Securities

By OWEN ELY

Holding Company Securities

Did the recent severe decline in utility securities put holding company securities "on the bargain counter" again? It is of course impossible in this column to give any definite appraisals, but a brief sketch covering a few of the holding company securities—now reduced in number—may be of some interest.

The two situations which continue to attract most interest are American & Foreign Power and Standard Gas & Electric. For some months *American & Foreign Power's* management has been at work on a new plan, which may be filed in the near future. According to estimates prepared some time ago, and assuming the old plan as a working basis, the new common stock might have estimated earnings around $3.40 a share on the present income tax basis. Capitalizing the stock at four times earnings, which would seem conservative since the Company seems pretty well protected against EPT, the price would work out at 13. Again using the old plan (which may be materially changed) resulting values for the present stocks would compare with recent market prices as follows:

	—Sec. Recd. in Old Plan— Deb., Face Value	Shs. New Com.	Est. Value*	Recent Price
$7 Preferred	$110	2⅛	$138	80
$6 Preferred	100	1½	120	70
$4 Second Preferred	----	⅜	5	18
Common	----	1/50	1	3

*Debentures priced at face value, common stock at 13.

Standard Gas & Electric is still working on a complicated program to streamline Philadelphia Company and place it on an all-common stock basis. When this is completed a plan may be forthcoming for the top company, although rate questions affecting Duquesne Light, as well as the new tax problems, will probably delay matters until 1951. Using the recent price of 21½ for Philadelphia Company stock the parent company's 95% equity interest would amount to $107 million. Holdings in Oklahoma Gas are worth about $22 million, Louisville G. & E. $4 million, and Wisconsin Public Service may be estimated at $24 million. This makes a total figure of $157 million. Deducting the entire claim of the prior preference stocks for par and dividend arrears of $94 million, would leave $63 million for the $4 preferred and common stocks. If the so-called discount theory should be applied to the senior claim this might be increased to perhaps $77 million. If these amounts were allocated between the $4 preferred and the common stocks on an assumed 80-20 basis the results would be as follows:

	Estimated Break-up with $63 million	Estimated Break-up with $77 million	Recent Price
$4 Preferred	$66.50	$81.00	60½
Common	5.80	7.10	7¾

The case of *New England Public Service* (NEPSCO) has attracted less interest. While the earnings have been improving, the stocks of the three subsidiary companies — Central Maine Power, Public Service of New Hampshire, and Central Vermont Public Service—have not shown much net appreciation over the past year or more. The management has long delayed the sale of 200,000 or more shares of Central Maine despite pressure from the SEC. An allocation plan would seem to be still some distance off.

Developments in *International Hydro-Electric* also continue slow. The management finally sold about a third of the share holdings in Gatineau Power, and with the help of a $10 million bank loan has retired the debentures. Based on the past record, the long struggle between the preferred stock and the class A stock seems likely to continue for some time before an allocation plan can be developed and consummated.

Central Public Utility debentures declined from this year's high around 30 to 23½, and recovered to 26. The break-up value has been estimated by Wertheim & Co. to approximate 35 ($349.50). Because of the mixed character of the portfolio, however, accurate appraisal is quite difficult. While the SEC has been pressing for adoption of an all-common stock capitalization, there is a big tax advantage (now doubly desirable with the threatened EPT) obtainable as long as the debentures remain outstanding, since the Treasury Department permits deduction of accrued but unpaid interest from system earnings.

Middle West recently made a distribution of $2.50 cash and closed the transfer books. Wall Street analysts estimate that the final distribution, to be made around the end of 1951, might approximate 50c a share. The stock was dropped from the Curb, but is quoted over-counter around 2¾ bid, or about one-quarter ex the cash payment.

Federal Water & Gas proposes to distribute a half share of Scranton-Spring Brook Water to each share of Federal. Scranton is currently around 13½ and half a share would be worth 6¾. Federal is selling around 8½ or about 1¾ additional points. The distribution is held up pending a final SEC decision regarding the New York Water Service claim (rejection of which was recommended by the SEC staff some time ago). Remaining holdings of Scranton, nearly one-third of a share for each share of Federal or over $4 value, is held to meet the possible increase in awards to the Chenery group. These claims have been travelling back and forth through the Federal courts for some time, thus far without much success.

If neither claim is allowed, Federal would seem to have potential profit possibilities of about 2¼ points, based on the present price of Scranton-Spring Brook and disregarding brokerage.

For those who have faith that the Federal courts will continue to uphold the SEC, the holding company preferred stock "stubs" may be of interest. For example, the *Electric Bond and Share $4.20 stubs* can be purchased around 10 or 10⅛ whereas the SEC has decided that they should receive $10 plus interest. At present the interest approximates $1.82 and will continue to increase, it is understood, until the courts say the final word.

Continued from page 14

Korean War: A Small Down Payment on Tragic Mistakes

fare we now face. Instead, we had approximately 100 F-80 jet fighters which fly too fast to give tactical air support and which were not designed for that type of military operation.

The American public has been demanding to know: Where were the Marines, our traditionally highly-mobilized fighting units which were famous the world over as the "First to Fight"?

The answer is that the Marine Corps, which at the end of World War II had a strength of 486,000, had been decimated to a mere 75,000, and they were all in the continental United States — three weeks by transport away from the scene of action.

Misdirected Military Expenditure

Those are a few of the bare facts which disclose our lack of preparedness. They are symbolic of a governmental policy which deems it necessary to spend $4 where $1 would do the job, to load the payrolls with paper-pushers and brass, and to tie the whole operation up in red tape like a ribbon on a box of phony chocolates.

The truth is that for every $7 we spent on the military, only $1 went into combat equipment. The other $6 went for housekeeping, bureaucratic red tape, and pyramiding brass.

It is small wonder that the American people are fed up with such incredible bungling and such disastrous policies.

I said in 1948 that this Administration had no policies and that it was operating on a "Saturday night to Saturday night" basis. And if anybody in Washington can tell you today what our policy will be next Saturday night, I don't know who that person is. We can only thank our good fortune that the policy of appeasement practiced in Asia for five long years has finally been reversed, even though we must regret and deplore the fact that the reversal is costing us lives, turning our economy upside-down, and threatening our future peace. Better reversal today than none at all, late though the hour is.

The era of bankrupt foreign and domestic policies must be brought to an end. We face an implacable foe, a ruthless bunch of political gangsters indoctrinated with beliefs that deny human rights and even deny God. They are determined to conquer the world, and they have already subjugated almost one-half of it. In five years' time, we have seen the Soviet Union expand its domination from 170,000,000 people to more than 800,000,000 people. And we must face the fact that our own errors at Yalta, at Potsdam, and in the Orient have been largely responsible for the success of Soviet might.

The truth is that new blood is needed in Washington—needed at the State Department, in all branches of the Executive Department, and we could use a few, quite a few, new faces in Congress.

Spain Essential to Security in Europe

We need men with enough common sense to know that Spain, for example, is essential to our security in Europe; that the hand of General MacArthur in Japan must be strengthened to the maximum; that Formosa, which President Truman only six months ago declared to be of no military importance, is vital to our position in Asia.

In short, the American people are beginning to realize there is no hope for the peace under this Administration.

The Congress, and certainly its Republican membership, is completely committed to the support of our forces in Korea and Formosa today. We shall not waver in that support. But the wisdom of our forefathers in permitting the American people to give voice to their judgments every two years was never more strikingly justified than it is today. The American people have not lost their voice, and they are demanding that men with vision, with stability of purpose, and with leadership, take over. They know that this course is their main hope for the future, and in their God-given wisdom, they intend to pursue it.

Dean Witter Adds

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif. — John D. W. Morrill has become associated with Dean Witter & Co., 632 So. Spring Street. He was formerly with C. E. Abbett & Co.

Continued from page 8

Pure Oil Company and Ocean Natural Gas

value products from each barrel of crude oil. These developments not only increase the value of each barrel of finished product but broaden the market for company products.

New research and development laboratories at Crystal Lake, Illinois, were put into operation in the second quarter of 1950 and should enable the company to produce a greater variety of petroleum products.

Transportation and Marketing

An extensive transportation system connects the retail marketing operations which are conducted in 26 states throughout the entire South and large parts of the Middle West. The company has a crude oil pipeline system consisting of about 1,400 miles of trunk and gathering lines; 45 pumping stations; divided interests in nearly 4,000 miles of products pipelines; a modernized tanker fleet consisting of one lake and nine ocean tankers; 46 barges; 12 tugboats; and 49 terminals with storage capacity exceeding 200 million gallons, most of which are located on or adjacent to deep or inland waters. Three of the refineries are directly connected to water terminal facilities.

Distribution is achieved through 900 bulk plants, and sales of gasoline and other petroleum products are made to the public through more than 12,500 retail outlets. Marketing is concentrated in the most profitable areas, and modernization of stations is continuing. Products are sold under the "Pure" name and also the "Purelube," "Puritan," "Purol" and "Guardian" trademarks. The company has recently started an intensive sales campaign, particularly for its new lubricating oil sold under the name "Purelube."

Income, Dividends and Net Working Capital

The record of Pure Oil is one of constant development. Capital expenditures have been financed entirely from retained earnings, depletion, and depreciation accruals, and have greatly increased the company's earning power. Reflecting conservative dividends, more than $100 million of earnings have been reinvested in the last ten years, and book value per share has increased from $22.75 at the end of 1939 to $46.17 at the end of 1949. Since only the end of World War II, capital expenditures have been equal to approximately $40 a share of common stock. The historical record of earnings, dividends, and net working capital at the end of each year, follows:

		Gross Operating Income (000's)	Gross Profit Margin	Net Income (000's)	Per Common Share Earnings	Per Common Share Dividends	Net Working Capital (000's)
6 Mos.	1950	$138,243	17.9%	$12,516	$2.87	$1.00	------
Year	1949	263,388	18.2	26,977	6.22	2.00	$58,233
	1948	281,319	25.0	41,672	9.91	2.00	57,696
	1947	244,412	16.9	21,197	4.77	1.50	48,702
	1946	178,888	19.5	17,107	3.74	1.25	52,039
	1945	165,309	20.9	13,582	2.64	0.75	55,487
	1944	166,061	24.4	16,392	3.13	1.00	40,061
	1943	136,248	23.8	13,874	2.50	0.75	32,090
	1942	123,301	25.7	13,761	2.47	0.50	30,915
	1941	112,863	25.8	15,285	2.86	0.50	24,719
	1940	95,675	20.2	8,718	1.21	0.25	22,700
	1939	94,286	18.4	8,290	1.11	0.25	23,187

Consolidated Capitalization (Dec. 31, 1949)

Despite expenditures of well over $200 million in the last ten years, total amount of senior securities has shown little variation. In the same period, net working capital has actually increased by $35 million and now exceeds total long-term debt by about $30 million. Securities now outstanding:

Serial Notes 1.50% to 2.95%, 1951-1965	$24,750,000
Deferred Purchase Obligations	$3,616,321
Minority Interests in Subsidiaries	$3,439,333
Preferred Stock—5% Cum. ($100 par)	$44,243,400
Common Stock ($10 par)	3,982,031 shares

Current Outlook

The company should benefit from completion of its refinery modernization program, addition of natural gasoline plant capacity, increased demand and higher prices for petroleum products. Texas allowables for August, 1950, have recently been raised to an average daily production of 2,580,000 barrels — an increase of 32% from the March low. Since Pure Oil has a large proportion of its production in the State of Texas, it will be particularly benefited. Profits in 1949 were adversely affected because heavy fuel oil sales declined substantially with lower industrial activity, and household heating oil sales were restricted because of relatively warm weather. Present industrial activity assures a strong market for heavy oil, and more normal weather would stimulate sales of heating oil. Therefore, earnings for 1950 should easily exceed the $6.22 per share earned in 1949, and dividends later in the year may be more generous since financial position is strong and the peak of capital expenditures has passed. Over the longer term, the oil and gas discoveries on the submerged coastal lands of the Gulf of Mexico suggest the possibility of a substantially higher and more stable plateau of earning power.

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. 27	90.6	100.1	98.2	84.8
Equivalent to—					
Steel ingots and castings (net tons)	Aug. 27	1,747,400	1,930,600	1,894,800	1,563,300
AMERICAN PETROLEUM INSTITUTE:					
Crude oil and condensate output — daily average (bbls. of 42 gallons each)	Aug. 12	5,674,750	5,640,350	5,495,450	4,774,600
Crude runs to stills — daily average (bbls.)	Aug. 12	†6,044,000	5,944,000	5,806,000	5,227,000
Gasoline output (bbls.)	Aug. 12	20,305,000	19,783,000	19,311,000	18,383,000
Kerosene output (bbls.)	Aug. 12	2,121,000	2,055,000	2,147,000	1,383,000
Gas, oil, and distillate fuel oil output (bbls.)	Aug. 12	7,687,000	7,419,000	7,179,000	5,724,000
Residual fuel oil output (bbls.)	Aug. 12	7,787,000	8,079,000	8,026,000	7,282,000
Stocks at refineries, at bulk terminals, in transit and in pipe lines—					
Finished and unfinished gasoline (bbls.) at	Aug. 12	108,518,000	108,895,000	111,739,000	108,174,000
Kerosene (bbls.) at	Aug. 12	23,628,000	23,560,000	22,532,000	25,329,000
Gas, oil, and distillate fuel oil (bbls.) at	Aug. 12	63,053,000	*62,235,000	58,658,000	73,815,000
Residual fuel oil (bbls.) at	Aug. 12	41,810,000	41,791,000	42,708,000	67,818,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	Aug. 12	847,465	837,218	789,268	728,029
Revenue freight received from connections (number of cars)	Aug. 12	704,085	702,259	570,886	564,710
CIVIL ENGINEERING CONSTRUCTION — ENGINEERING NEWS-RECORD:					
Total U. S. construction	Aug. 17	$250,145,000	$164,018,000	$343,307,000	$137,173,000
Private construction	Aug. 17	169,697,000	87,469,000	217,786,000	55,657,000
Public construction	Aug. 17	80,448,000	76,549,000	125,521,000	81,516,000
State and municipal	Aug. 17	77,655,000	67,061,000	91,187,000	69,140,000
Federal	Aug. 17	2,793,000	9,488,000	34,334,000	12,376,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	Aug. 12	10,830,000	10,560,000	9,115,000	7,968,000
Pennsylvania anthracite (tons)	Aug. 12	962,000	935,000	786,000	697,000
Beehive coke (tons)	Aug. 12	147,000	*137,200	117,800	9,100
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100	Aug. 12	275	296	265	218
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	Aug. 19	6,369,830	6,253,141	6,185,702	5,578,800
FAILURES (COMMERCIAL AND INDUSTRIAL) — DUN & BRADSTREET INC.	Aug. 17	186	194	170	193
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	Aug. 15	3.837c	3.837c	3.837c	3.705c
Pig iron (per gross ton)	Aug. 15	$46.61	$46.61	$46.38	$45.91
Scrap steel (per gross ton)	Aug. 15	$40.25	$39.17	$37.17	$21.17
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	Aug. 16	22.200c	22.200c	22.200c	17.325c
Export refinery at	Aug. 16	22.425c	22.425c	22.425c	17.550c
Straits tin (New York) at	Aug. 16	107.000c	101.500c	97.000c	103.000c
Lead (New York) at	Aug. 16	13.000c	12.000c	12.000c	15.125c
Lead (St. Louis) at	Aug. 16	12.800c	11.800c	11.800c	14.800c
Zinc (East St. Louis) at	Aug. 16	15.000c	15.000c	15.000c	10.000c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Government Bonds	Aug. 22	102.37	102.02	102.15	103.69
Average corporate	Aug. 22	116.02	116.02	115.04	114.85
Aaa	Aug. 22	120.84	120.84	120.02	120.84
Aa	Aug. 22	119.61	119.61	118.60	119.00
A	Aug. 22	115.63	115.43	114.66	114.08
Baa	Aug. 22	108.88	108.70	107.62	106.04
Railroad Group	Aug. 22	111.62	111.62	109.97	109.42
Public Utilities Group	Aug. 22	117.00	117.00	116.41	116.02
Industrials Group	Aug. 22	119.82	119.82	119.00	119.20
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Government Bonds	Aug. 22	2.32	2.35	2.34	2.24
Average corporate	Aug. 22	2.85	2.85	2.90	2.91
Aaa	Aug. 22	2.61	2.61	2.65	2.61
Aa	Aug. 22	2.67	2.67	2.72	2.70
A	Aug. 22	2.87	2.88	2.92	2.95
Baa	Aug. 22	3.23	3.24	3.30	3.39
Railroad Group	Aug. 22	3.08	3.08	3.17	3.20
Public Utilities Group	Aug. 22	2.80	2.80	2.83	2.85
Industrials Group	Aug. 22	2.66	2.66	2.70	2.69
MOODY'S COMMODITY INDEX	Aug. 22	463.0	450.5	441.3	339.9
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	Aug. 12	237,995	334,123	188,355	169,424
Production (tons)	Aug. 12	224,414	219,000	186,959	181,138
Percentage of activity	Aug. 12	99	98	82	84
Unfilled orders (tons) at	Aug. 12	646,656	637,177	489,490	311,124
OIL, PAINT AND DRUG REPORTER PRICE INDEX—1926-36 AVERAGE=100	Aug. 18	129.2	128.1	123.5	129.2
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	Aug. 5	28,880	36,956	25,093	16,382
Number of shares—Customers' total sales	Aug. 5	864,172	1,096,323	722,305	473,645
Dollar value	Aug. 5	$36,852,830	$44,778,927	$30,976,066	$18,090,645
Odd-lot purchases by dealers (customers' sales)—					
Number of orders—Customers' total sales	Aug. 5	25,366	31,685	19,311	16,061
Customers' short sales	Aug. 5	191	256	152	145
Customers' other sales	Aug. 5	25,175	31,429	19,159	15,916
Number of shares—Customers' total sales	Aug. 5	727,097	942,885	555,812	446,864
Customers' short sales	Aug. 5	7,395	10,001	6,302	5,456
Customers' other sales	Aug. 5	719,702	932,884	549,510	441,408
Dollar value	Aug. 5	$27,193,488	$34,540,019	$22,532,535	$14,571,925
Round-lot sales by dealers—					
Number of shares—Total sales	Aug. 5	201,610	242,830	135,810	166,940
Short sales	Aug. 5	------	------	------	------
Other sales	Aug. 5	201,610	242,830	135,810	166,940
Round-lot purchases by dealers—					
Number of shares	Aug. 5	341,650	424,110	279,150	203,460
WHOLESALE PRICES NEW SERIES — U. S. DEPT. OF LABOR—1926=100:					
All commodities	Aug. 15	165.0	*165.6	163.3	152.7
Farm products	Aug. 15	175.4	177.5	176.9	161.0
Grains	Aug. 15	167.4	168.6	172.0	146.6
Livestock	Aug. 15	239.1	241.6	244.2	204.6
Foods	Aug. 15	174.2	174.7	175.4	160.5
Meats	Aug. 15	255.1	255.3	269.2	224.4
All commodities other than farm and foods	Aug. 15	154.2	*154.5	150.6	145.0
Textile products	Aug. 15	148.5	*147.9	139.6	138.0
Fuel and lighting materials	Aug. 15	134.0	134.1	133.5	129.6
Metals and metal products	Aug. 15	174.2	173.9	173.3	168.2
Building materials	Aug. 15	214.3	212.7	204.1	188.7
Chemicals and allied products	Aug. 15	121.7	120.8	117.7	119.5

*Revised figure. †Includes 507,000 barrels of foreign crude runs.

	Month Latest	Month Previous	Ago Year
COPPER INSTITUTE—For month of July.			
Copper production in U. S. A.—			
Crude (tons of 2,000 lbs.)	65,315	*96,754	62,449
Refined (tons of 2,000 lbs.)	96,734	113,961	85,638
Deliveries to customers—			
In U. S. A. (tons of 2,000 lbs.)	95,983	126,047	45,316
Refined copper stocks at end of period (tons of 2,000 lbs.)	48,266	50,327	212,817
COTTON AND LINTERS — DEPT. OF COMMERCE—RUNNING BALES:			
Lint—Consumed month of July	610,555	841,227	454,426
In consuming establishments as of July 29	1,307,560	1,429,178	884,730
In public storage as of July 29	4,847,009	5,268,258	4,146,398
Linters—Consumed month of July	112,358	137,968	103,663
In consuming establishments as of July 29	207,170	236,516	237,101
In public storage as of July 29	163,701	166,150	77,620
Cotton spindles active as of July 31	20,525,000	20,221,000	19,007,000
CROP PRODUCTION — CROP REPORTING BOARD U. S. DEPARTMENT OF AGRICULTURE—As of Aug. 1 (in thousands)			
Corn, all (bu.)	3,167,607	3,175,602	3,377,790
Wheat, all (bu.)	996,490	956,586	1,146,463
Winter (bu.)	740,537	720,545	901,668
All spring (bu.)	255,953	236,041	244,794
Durum (bu.)	35,518	30,633	38,863
Other spring (bu.)	220,435	205,408	205,931
Oats (bu.)	1,456,130	1,394,772	1,322,‚24
Barley (bu.)	285,402	264,726	238,104
Rye (bu.)	22,509	20,338	18,697
Flaxseed (bu.)	30,695	29,338	43,664
Rice, 100 lb. bag	36,237	35,201	40,113
Hay, all (ton)	104,991	103,498	99,305
Beans, dry edible (100 lb. bag)	16,733	17,186	21,554
Peas, dry field (100 lb. bag)	2,920	2,817	3,267
Potatoes (bu.)	407,342	390,431	401,962
Sweetpotatoes (bu.)	59,322	57,892	54,232
Tobacco (lb.)	1,932,611	1,932,146	1,970,376
Sugarcane for sugar & seed (ton)	7,597	7,597	6,796
Sugar beets (ton)	13,033	12,526	10,197
Hops (lb.)	57,765	56,112	50,730
Apples, commercial crop (bu.)	118,227	119,180	133,742
Peaches (bu.)	51,996	55,512	74,818
Pears (bu.)	28,607	28,488	36,404
Grapes (ton)	2,534	2,748	2,662
Cherries (12 States) (ton)	235	225	250
Apricots (3 States) (ton)	198	203	198
EMPLOYMENT AND PAYROLLS—U. S. DEPT. OF LABOR—REVISED SERIES—Month of May:			
All manufacturing (production workers)	11,837,000	*11,596,000	11,324,000
Durable goods	6,450,000	*6,196,000	6,057,000
Nondurable goods	5,387,000	*5,400,000	5,267,000
Employment indexes—			
All manufacturing	144.5	*141.6	138.2
Payroll indexes—			
All manufacturing	349.0	*357.2	312.6
Estimated number of employees in manufacturing industries—			
All manufacturing	14,416,000	*14,167,000	13,877,000
Durable goods	7,811,000	*7,554,000	7,441,000
Nondurable goods	6,605,000	*6,613,000	6,436,000
FAIRCHILD PUBLICATION RETAIL PRICE INDEX — 1935-39 = 100 (COPYRIGHTED AS OF AUG. 1):			
Composite index	138.4	137.6	137.7
Piece goods	128.0	127.6	130.5
Men's apparel	139.1	138.9	139.4
Women's apparel	130.4	130.1	131.2
Infants' and children's wear	129.7	129.3	130.1
Home furnishings	148.9	147.0	145.5
Piece goods—			
Rayons and silks	113.0	113.0	117.8
Woolens	138.5	138.3	140.2
Cotton wash goods	147.2	146.6	137.4
Domestics—			
Sheets	171.0	167.3	165.7
Blankets and comfortables	145.2	143.1	141.4
Women's apparel—			
Hosiery	102.4	102.1	103.3
Aprons and housedresses	142.0	141.9	142.4
Corsets and brassieres	130.8	130.8	131.9
Furs	135.2	134.0	139.2
Underwear	133.2	133.2	134.4
Shoes	141.1	140.8	140.5
Men's apparel—			
Hosiery	140.9	140.9	139.7
Underwear	152.2	152.2	153.9
Shirts and neckwear	129.5	129.5	129.6
Hats and caps	127.2	127.2	127.9
Clothing, including overalls	131.5	131.3	131.8
Shoes	168.7	167.7	168.5
Infants' and children's wear—			
Socks	130.4	130.4	131.1
Underwear	118.9	118.9	119.8
Shoes	144.4	143.5	144.6
Furniture	147.8	147.1	146.7
Floor coverings	167.9	162.7	154.1
Radios	117.9	117.9	118.7
Luggage	128.6	128.3	130.1
Electrical household appliances	136.8	138.4	139.9
China	132.9	132.9	134.9
HOUSEHOLD VACUUM CLEANERS—STANDARD SIZE (VACUUM CLEANER MANUFACTURERS ASSN.)—Month of July.			
Factory sales (number of units)	279,967	260,190	161,920
NEW YORK STOCK EXCHANGE—As of July 31 (000's omitted):			
Member firms carrying margin accounts—			
Total of customers' net debit balances	$1,208,326	$1,255,660	$689,611
Credit extended to customers	103,143	75,328	76,619
Cash on hand and in banks in U. S.	348,058	312,927	281,841
Total of customers' free credit balances	712,050	676,827	530,254
Market value of listed shares	82,000,115	80,651,507	67,279,033
Market value of listed bonds	125,209,399	124,632,841	132,812,944
Member borrowings on U. S. Govt. issues	222,849	115,752	170,383
Member borrowings on other collateral	713,650	*846,413	371,332
TREASURY MARKET TRANSACTIONS IN DIRECT AND GUARANTEED SECURITIES OF U. S. A.—Month of July:			
Net sales	------	$1,925,750	$60,700
Net purchases	$8,170,800	------	------
ZINC OXIDE (BUREAU OF MINES)—Month of June.			
Production (short tons)	19,338	19,688	Not avail.
Shipments (short tons)	18,955	19,589	Not avail.
Stocks at end of month (short tons)	16,126	15,743	Not avail.

*Revised.

Securities Now in Registration

• INDICATES ADDITIONS SINCE PREVIOUS ISSUE

• Ace Finance Co., Inc., Albuquerque, N. M.
Aug. 14 (letter of notification) $75,000 of 6% five-year bonds, to be issued in denominations of $100 each. **Underwriter**—None. **Proceeds**—To make small loans under the New Mexico Small Loan Act. **Office**—113 W. Central Ave., Albuquerque, N. M.

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) 1,500 shares of 6% preferred stock (par $100) and 750 shares of common stock (par $100). **Price**—At par. **Underwriter**—None. **Proceeds**—For expansion of plant and development of other electronic products. **Office**—8th and Pittston Streets, Allentown, Pa.

American 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) being offered to stockholders of record July 25 at rate of one new share for each three held; rights will expire on Sept. 25. **Price**—At par. **Proceeds**—For general corporate purposes. **Business**—Casualty insurance. Statement effective July 26.

American Natural Gas Co., New York (8/24)
Aug. 4 filed 334,934 shares of common stock (no par), of which 304,486 shares are to be offered to common stockholders of record Aug. 24 on basis of one new share for each 10 shares held; rights to expire Sept. 14. **Price**—To be filed by amendment (proposed maximum offering price $24.25 per share. **Underwriter**—None. **Proceeds**—To increase investments in stock of Michigan Consolidated Gas Co. and Milwaukee Gas Light Co.

American Oil Producers, Inc. (8/28-29)
Aug. 8 (letter of notification) 290,000 shares of common stock (par one cent). **Price**—$1 per share. **Underwriter**—S. W. Gordon Co., Brooklyn, N. Y. **Proceeds**—For drilling well, equipment and working capital. **Office**—5 Beekman Street, New York 7, N. Y.

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.

• Animas Minerals, Inc., New York
Aug. 18 (letter of notification) 3,000 shares of common stock (no par). **Price**—$10 per share. **Underwriter**—None. **Purpose**—For working capital for exploration, development and operation of mines. **Office**—115 Broadway, New York 6, N. Y.

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.

• Arlington (Va.) Loans, Inc.
Aug. 17 (letter of notification) $100,000 of 6% cumulative preferred stock. **Price**—At par ($25 per share). **Underwriter** — None. **Proceeds** — To increase working capital for loan balances. **Office**—2002 No. Moore St., Arlington, Va.

Associated Natural Gas Co., Tulsa, Okla.
March 14 (letter of notification) 2,500 shares of common stock at $100 per share. No underwriter. **Proceeds** to build a natural gas transmission line. **Office**—105 N. Boulder, Tulsa, Okla.

Avco Manufacturing Corp., N. Y. City
July 14 filed 1,500,000 shares of common stock (par $3) offered in exchange for shares of Bendix Home Appliances, Inc., at the rate of two Avco shares for each Bendix share. Offer expires Aug. 28. **Dealer-Managers**—Emanuel, Deetjen & Co. and Lehman Brothers. Statement effective Aug. 8.

Big Bear Markets of Michigan, Inc., Detroit, Mich. (8/29)
Aug. 3 filed 100,000 shares of common stock (par $1). **Price**—To be filed by amendment. **Underwriter**—J. G. White & Co., Inc., New York. **Proceeds**—To three selling stockholders who own approximately 69% of the outstanding shares. **Business**—Supermarket.

Blair Holdings Corp.
Aug. 8 (letter of notification) 15,000 shares of capital stock. **Price**—At market (approximately $2.75 per share). **Underwriter**—First California Corp., San Francisco, Cal. **Proceeds**—To Virgil D. Da.di, President, the selling stockholder.

Brewery Enterprises, Inc., Detroit, Mich.
Aug 10 (letter of notification) 150,000 shares of common stock. **Price**—At par ($1 per share). **Underwriter**—None. **Proceeds**—For working capital. **Office**—2343 Guardian Building, Detroit 26, Mich.

• Bristol Silver Mines Co., Salt Lake City, Utah
Aug. 14 (letter of notification) 1,000,000 shares of common capital stock. **Price**—At par (10 cents per share). **Underwriter** — None. **Proceeds** — For working capital. **Office**—218 Felt Bldg., Salt Lake City 1, Utah.

• California Convalescent Hospitals, Inc.
Aug. 17 (letter of notification) 17,000 shares of common stock, of which 12,000 shares are to be publicly offered. **Price**—$10 per share. **Underwriter**—Jack C. Miller, 95 Coronado, Ventura, Calif. **Proceeds**—For land, building, equipment, and operating capital. **Office**—309 South "A" St., Oxnard, Calif.

• Canada (Dominion of) (8/30)
Aug. 22 filed $50,000,000 of 25-year 2¾% bonds due Sept. 15, 1975. **Underwriter**—Morgan Stanley & Co. **Proceeds**—To redeem a portion of $100,000,000 outstanding 4% external bonds due Oct. 1, 1960, which have been called for redemption on Oct. 1, 1950.

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.

• Canyon Lode Mining Co., Missoula, Mont.
Aug. 10 (letter of notification) 500,000 shares of common stock (par 10 cents). **Price**—25 cents per share. **Underwriter**—None. **Proceeds**—For working capital. **Office**—425 Edith St., Missoula, Mont.

Capital Transit Co., Washington, D. C.
Aug. 10 (letter of notification) 2,900 shares of common stock (par $100). **Price**—At the market (from $34.50 to $35 per share). **Underwriters**—A. M. Kidder & Co. and Merrill Lynch, Pierce, Fenner & Beane. **Proceeds**—To two selling stockholders. To be placed privately.

• Centennial Turf Club Inc., Littleton, Colo.
Aug. 14 filed $320,000 of 6% sinking fund debentures due 1965 and 32,000 shares of common stock (par $5) to be offered in units of $100 debentures and 10 shares of stock. **Price**—$150 per unit. **Underwriter**—None. **Proceeds**—For unpaid construction costs and to repay 6% 90-day notes given to directors; the balance for working capital. **Business**—Operating horse racing plant.

• Central Maine Power Co., Augusta, Me.
Aug. 23 filed 260,000 shares of common stock (par $10). **Underwriter**—To be determined by competitive bidding. 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). **Proceeds**—To go to New England Public Service Co., the selling stockholder, who will use proceeds to pay its outstanding notes.

Central Telephone Co., Lincoln, Neb. (8/25)
Aug. 2 filed 97,000 shares of common stock (par $10) to be offered to common stockholders of Central Electric & Gas Co., the parent, of record about Aug. 25, at the rate of one new share for each 13 shares of Central Electric common stock held; rights expire about Sept. 20. **Price**—To be filed by amendment. **Dealer-Managers**—Paine, Webber, Jackson & Curtis and Stone & Webster Securities Corp., New York. **Proceeds**—To pay unsecured note held by International Telephone & Telegraph Co.

Citizens Credit Corp., Washington, D. C.
June 2 (letter of notification) 3,000 shares of class A common stock (par $12.50) and 1,000 shares of class B common stock (par 25 cents), to be sold in units of three shares of class A stock and one share of class B stock. **Price**—$44.50 per unit. **Underwriter**—Emory S. Warren & Co., Washington, D. C. **Proceeds**—For general funds. **Office**—1707 Eye St., N. W., Washington, D. C.

Citizens Telephone Co., Decatur, Ind.
April 27 (letter of notification) 3,000 shares of 4½% preferred stock, non-convertible. **Price**—At par ($100 per share). **Underwriter**—None. **Proceeds**—For plant additions and conversion to dial operations. **Office**—240 W. Monroe St., Decatur, Ind.

City Stores Co.
July 17 filed 149,317 shares of common stock (par $5) 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., at the following ratios: 1½ shares for each Oppenheim, Collins common share; two shares for each Franklin Simon preferred share and one share for each two common shares of Franklin Simon. Offer expires on Sept. 18. **Dealer-Manager**—W. E. Hutton & Co., New York. Statement effective Aug. 16.

• Cleveland Electric Illuminating Co. (9/19)
Aug. 22 filed $25,000,000 first mortgage bonds due Sept. 1 1985. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; First Boston Corp.; Blyth & Co., Inc.; White, Weld & Co.; Glore, Forgan & Co. and W. C. Langley & Co. (jointly); Dillon, Read & Co. Inc. **Proceeds**—To repay $8,000,000 bank loans and for construction program. Expected this fall.

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.

Columbian Enameling & Stamping Co.
Aug. 3 (letter of notification) 2,385 shares of common stock. **Underwriter**—Cohu & Co., New York. **Proceeds**—To selling stockholders.

Commonwealth Investment Co., San Francisco, California
Aug. 10 filed 4,000,000 shares of common stock (par $1). **Underwriter**—North American Securities Co. **Proceeds**—For investment.

Consolidated Engineering Corp., Pasadena, Cal.
Aug. 11 (letter of notification) 1,000 shares of common stock (par $1), to be issued upon exercise of option by Hugh F. Colvin, Treasurer. **Price**—$5 per share. **Proceeds**—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.
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.

• Cordillera Corp., Seattle, Wash.
Aug. 11 (letter of notification) 100,000 shares of common stock. **Price**—At 50 cents per share. **Underwriter**—None. **Proceeds**—For development and operation of mining properties and payment of royalties. **Office**—902 Seaboard Bldg., Seattle 1, Wash.

Credit Finance Services, Inc., Akron, O.
Aug. 4 (letter of notification) $300,000 of 2% to 4% certificates of investment. **Price**—$50 and up per unit. **Underwriter**—None. **Proceeds**—For working capital. **Office**—316 South Main Street, Akron, O.

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.

Crown Drug Co., Kansas City, Mo.
July 31 (letter of notification) $300,000 of 4½% convertible debenture notes (in denominations of $60, $100, $500 and $1,000) to common stockholders. **Price**—At par. **Underwriters** — Roger W. Babson, Wellesley Hills, Mass.; H. J. Witschner, Kansas City, Mo.; and Statistics Organization, Inc., Babson Park, Mass. **Proceeds** — To retire short term banking debt and for working capital.

Detroit Hardware Manufacturing Co.
Aug. 4 (letter of notification) 100,000 shares of common stock (par $1). **Price**—$3 per share. **Underwriter**—C. G. MacDonald & Co., Detroit. **Proceeds**—To expand facilities and for working capital. **Office**—1320 Mt. Elliott Avenue, Detroit, Mich.

Diesel Power, Inc., Pittsburgh, Pa.
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.

Duquesne Light Co. (8/28)
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. **Bids**—To be received by company up to noon (EDT) on Aug. 28. **Proceeds**—To repay bank loans and finance construction.

• Duquesne Light Co., Pittsburgh, Pa.
Aug. 17 filed 150,000 shares of preferred stock (par $50). **Underwriters**—To be determined by competitive bidding. Probable bidders: 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, W. C. Langley & Co. **Proceeds**—To finance contruction program and to repay bank loans. Expected late in September.

Eastern Stainless Steel Corp.
June 7 filed 100,000 shares of capital stock (par $5) to be offered to stockholders of record Aug. 10 at the rate of one new share for each three held, with oversubscription privilege; rights are to expire Aug. 25. **Underwriter**—J. Arthur Warner & Co. Inc., New York. **Price**—$12 per share. **Proceeds**—To pay bank loans and for working capital. Statement effective Aug. 10.

Equipment Finance Corp., Chicago, Ill.
Aug. 7 filed 10,000 shares of 4% cumulative preferred stock, to be offered to officers and employees of this corporation and of Curtis Candy Co., parent. **Price**—At par ($100 per share). **Underwriter**—None. **Proceeds**—To acquire equipment and real estate for its parent.

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.

Fleetwood-Airflow, Inc., Wilkes-Barre, Pa.
July 19 (letter of notification) 8,965 shares of common stock (par 50 cents). **Price**—At market. **Underwriter**—Howard O'Connor, 302 Cliff Avenue, Pelham, N. Y. **Proceeds**—To selling stockholder.

● **Fleetwood Airflow, Inc., Wilkes-Barre, Pa.**
Aug. 15 (letter of notification) 103,807 shares of common stock of which 75,807 will be for company and 28,000 shares for selling stockholders. **Price**—$1.25 per share. **Underwriter**—Jacquin, Stanley & Co., New York, for 93,807 shares; and J. Howard O'Connor, 302 Cliff Ave., Pelham, N. Y., to the extent of 10,000 shares. **Proceeds**—To company will be used for working capital and to reduce debt.

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 Aviation Equipment Corp., N. Y.
Aug. 9 (letter of notification) 60,000 shares of common stock (par $1). **Price**—$1.25 per share. **Underwriter**—John C. Kahn Co., Washington, D. C. **Proceeds**—For working capital. **Office**—2 East End Avenue, New York 21, N. Y. Issue subsequently cancelled and will not be distributed.

General Plywood Corp., Louisville, Ky.
July 17 (letter of notification) 101,500 shares of common stock (par 50 cents). **Price**—$2.11 per share. **Underwriter**—None. **Proceeds**—For working capital. **Office**—334 East Broadway, Louisville, Ky.

General Radiant Heater Co., Inc.
May 3 filed 170,000 shares of common stock (par 25c). **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.

● **Gosselin Stores Co., Inc., Oklahoma City, Okla.**
Aug. 15 (letter of notification) 27,000 shares of class A common stock (par $1) and 220,000 shares of class B common stock (par $1). **Price**—$1.10 per share for both issues. **Underwriter**—R. J. Edwards, Inc., Oklahoma City. **Proceeds**—To expand chain stores.

Granite City (Ill.) Steel Co.
July 31 filed 99,446 shs. of common stock (no par), being offered common stockholders of record Aug. 22 on basis of one new share for each four shares held; rights will expire on Sept. 5. **Price**—$35 per share. **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.

● **Graybar Electric Co., Inc., New York**
Aug. 23 filed 72,000 shares of common stock, to be offered for subscription by employees. **Price**—At par ($20 per share). **Underwriter**—None. **Proceeds**—For working capital.

● **Hancock Oil Co. of California**
Aug. 14 (letter of notification) 140 shares of class A common stock (no par). **Price**—$130 per share. **Underwriter**—Akin-Lambert Co., Inc., Los Angeles, Calif. **Proceeds**—To holders of outstanding scrip.

● **Hooper Telephone Co., Hooper, Neb.**
Aug. 18 (letter of notification) $30,000 of 3¾% bonds due 1970. **Price**—In excess of 102%. **Underwriter**—Wachob Bender Corp., Omaha, Neb. **Proceeds**—To retire temporary loans.

NEW ISSUE CALENDAR

August 24, 1950
American Natural Gas Co. .... Common

August 25, 1950
Central Telephone Co. .... Common

August 28, 1950
American Oil Producers, Inc. .... Common
Duquesne Light Co. noon (EDT) .... Bonds
Pacific Petroleums, Ltd. .... Common

August 29, 1950
Big Bear Markets of Michigan, Inc. .... Common
Indiana Gas & Water Co., Inc. .... Bonds

August 30, 1950
Canada (Dominion of) .... Bonds

September 1, 1950
Alberta-Canada Oils, Inc. .... Common
Allen Organ Co. .... Pfd. & Common

September 7, 1950
Plantation Pipe Line Co. .... Debentures
Vulcan Detinning Co. .... Common

September 11, 1950
Tennessee Gas Transmission Co. 11:30 a.m. (EDT) .... Bonds
Utah Power & Light Co. noon (EDT) .... Common

September 12, 1950
Pennsylvania RR. .... Equip. Trust Ctfs.
Virginia Electric & Power Co. 11:30 a.m. (EDT) .... Bonds

September 19, 1950
Cleveland Electric Illuminating Co. .... Bonds
New Hampshire Electric Co. .... Bonds

September 26, 1950
Delaware Power & Light Co. .... Bonds

September 27, 1950
New Bedford Gas & Edison Light Co. .... Notes

October 9, 1950
Utah Power & Light Co. noon (EST) .... Bonds

OFFERINGS TEMPORARILY POSTPONED
Canadian Superior Oil of California, Ltd. .... Common
Consumers Power Co. .... Common
Fedders-Quigan Corp. .... Common
General Radiant Heater Co., Inc. .... Common
Middlesex Water Co. .... Common
Northwestern Public Service Co. .... Common
Rochester Telephone Corp. .... Common
Safeway Stores, Inc. .... Pfd. & Com.
Southern Co. .... Common
Standard Coil Products Co., Inc. .... Common
Transvision, Inc. .... Common
United States Plywood Corp. .... Preferred

Idaho Maryland Mines Corp., San Francisco, California
Aug. 8 (letter of notification) 10,000 shares of common stock. **Price**—At market (about $1.40 per share). **Underwriter**—E. F. Hutton & Co., San Francisco. **Proceeds**—To a selling stockholder.

Indiana Gas & Water Co., Inc. (8/29)
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.; Kidder, Peabody & Co.; White, Weld & Co. and Shields & Co. (jointly); Lehman Brothers and Bear, Stearns & Co. (jointly). **Proceeds**—To redeem $9,440,000 outstanding bonds.

● **Indiana Telephone Corp., Indianapolis, Ind.**
Aug. 14 (letter of notification) 3,000 shares of 4.80% cumulative preferred stock, 1950 series. **Price**—At par ($100 per share). **Underwriter**—City Securities Corp., Indianapolis, Ind. **Proceeds**—For renewals, replacements and improvements to property and for working capital.

● **International Vangorr Corp., Palmer Lake, Colo.**
Aug. 17 (letter of notification) 6,000 shares of capital stock (par $50), of which 1,520 shares will be issued to incorporators, 1,000 shares to holders of certificates of indebtedness, 3,000 shares to be offered publicly and 480 shares in treasury. **Price**—$50 per share. **Underwriter**—None. **Proceeds**—To buy Angora cloth and blanket mill and to market product.

Interstate Finance Corp., Dubuque, Iowa
June 14 (letter of notification) 4,000 shares of common stock (par $5) and 2,000 shares of B common stock (par $5). **Price**—$25 per share. **Underwriter**—None. **Proceeds**—To increase working capital. **Office** — 1157 Central Ave., Dubuque, Ia.

Kauai Engineering Works, Ltd., Lihue, Hawaii
June 23 (letter of notification) 98,000 shares of common stock (par $1). **Price**—$1.10 per share. **Underwriter**—Ross & Co., Box 2665, Honolulu, T. H. **Proceeds**—For working capital. **Co.'s Address**—Box 1589, Lihue, T. H.

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.

● **Lead Zone Mining Co., Boise, Idaho**
Aug. 14 (letter of notification) 900,000 shares of capital stock (par 25 cents), of which 500,000 shares will be exchanged for lease on mining claims and the remainder offered to public. **Price**—At par. **Underwriter**—None. **Proceeds**—To acquire mining property and develop mines. **Address**—c/o Harold H. Fredriksen, R.F.D. 3, Boise, Ida.

Leigh Foods, Inc. (N. Y.)
June 30 (letter of notification) 300,000 shares of capital stock (par 10 cents). **Price**—$1 per share. **Underwriter**—None. **Proceeds**—For working capital and general corporate purposes. **Office**—630 Fifth Avenue, New York 20, New York.

Louisiana Power & Light Co.
May 23 filed 90,000 shares of preferred stock (par $100). **Proceeds**—To be used to redeem, at $110 per shart plus dividend accruals, the 59,422 shares of outstanding $6 preferred stock, and for construction and other purposes. **Bids**—Received by company up to noon (EDT) on June 19, but rejected. Three bids were made as follows: Union Securities Corp., $100.40 per share with a $4.65 dividend; Blyth & Co., Inc., and Equitable Securities Corp. (jointly), $100.10 with a $4.65 dividend; and W. C. Langley & Co. and First Boston Corp. (jointly), $100.30 with a $5.80 dividend. Statement effective June 12. No further decision reached.

Loven Chemical of California, Newhall, Calif.
May 31 (letter of notification) 282,250 shares of capital stock. **Price**—At par ($1 per share). **Underwriter**—Floyd A. Allen & Co., Inc., Los Angeles, Calif. **Proceeds**—To buy land, build a plant and equip it to produce so-called "impact" plastics. **Office**—244 S. Pine St., Newhall, Calif.

Merry Brothers Brick & Tile Co., Augusta, Ga.
June 15 (letter of notification) 1,250 shares of 5% cumulative preferred stock. **Price**—At par ($100 per share). **Underwriter**—Johnson, Lane, Space & Co., Inc. **Proceeds**—To Ernest B. Merry, Jr., Vice-President and General Manager, the selling stockholder.

Middle South Utilities, Inc.
June 1 filed 400,000 shares of common stock (no par) to be offered to preferred stockholders of three subsidiaries—Arkansas Power & Light Co., Louisiana Power & Light Co. and Mississippi Power & Light Co. **Underwriter**—Equitable Securities Corp will serve as "dealer-manager." (See also listings of Arkansas, Louisiana and Mississippi companies elsewhere in these columns.)

Middlesex Water Co., Newark, N. J.
Feb. 9 (letter of notification) 5,200 shares of common stock offered to common stockholders at $50 per share on a one-for-five basis. **Underwriter**—Clark, Dodge & Co. **Proceeds**—To pay notes and for additional working capital. Indefinitely postponed.

Miles Laboratories, Inc., Elkhart, Ind.
June 23 (letter of notification) 2,500 shares of common stock (no par). **Price**—$16.50 per share. **Underwriter**—Cohu & Co., New York City. **Proceeds**—To two selling stockholders. Offering date indefinite.

● **Miles Laboratories, Inc. Elkhart, Indiana**
Aug. 14 (letter of identification) 5,000 shares of common stock (par $2). **Underwriter**—Albert McGann Securities Co., Inc., South Bend, Ind. **Proceeds**—To selling stockholders.

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.

● **Mineral Mountain Mining & Milling Co., Tempe, Arizona**
Aug. 17 (letter of notification) 50,000 shares of common stock (no par). **Price**—$1 per share. **Underwriters**—Albert A. Tormohlen, 601 Tyler St., Tempe, and Fred C. Boyse, 411 Mill Ave., Tempe. **Proceeds**—For mining and milling equipment and operating capital. **Office**—330 E. 14th Street, Tempe, Ariz.

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.

Continued on page 32

Continued from page 31

Mt. Carmel (Ill.) Public Utility Co.
July 24 (letter of notification) 3,000 shares of 4% preferred stock being offered to common stockholders of record July 31 in ratio of one preferred for each six common held; rights to expire Aug. 30. **Price** — At par ($100 per share). **Underwriter**—None. **Proceeds**—To retire short-term notes and expand facilities. **Office** — 316 Market St., Mt. Carmel, Illinois.

New Hampshire Electric Co. (9/19)
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. **Bids**—Expected to be invited around Sept. 7 and opened on Sept. 19.

● **New York Observer Corp., New York**
Aug. 18 (letter of notification) 10,000 shares of class A stock. **Price**—At par ($10 per share). **Underwriter**—None. Officers and directors will supervise distribution. **Purpose**—For working capital. **Office**—440 Fourth Ave., New York, N. Y.

Norlina Oil Development Co., Washington, D. C.
March 28 filed 600 shares of capital stock (no par.) To offer only sufficient shares to raise $1,000,000 at $5,000 per share. No underwriter. Proceeds to be used to explore and develop oil and mineral leases. Statement effective May 22.

● **Normac, Inc., Huntington Park, Calif.**
Aug. 16 (letter of notification) $33,700 of 5% notes in denominations of $100 each (convertible at holder's option, par-for-par, for common stock, par $100). **Underwriter**—None. **Proceeds**—For working capital. **Office**—7339 Santa Fe Ave., Huntington Park, Calif.

Northern Illinois Coal Corp., Chicago
May 10 (letter of notification) up to 2,000 shares of common stock (no par) to be sold at the market price (between $20 and $22 per share) by T. Howard Green, a Vice-President of the company. **Underwriter**—Faroll & Co., Rogers & Tracy and Shields & Co., Chicago.

Northwestern Public Service Co., Huron, S. D.
June 9 filed 49,200 shares of common stock (par $3) to be offered to present stockholders at rate of one share for each 10 held. **Underwriter**—A. C. Allyn and Co., Inc., New York. **Price**—To be filed by amendment. **Proceeds**—For construction expenditures. Postponed temporarily.

Ohio Oil & Gas Co.
May 5 (letter of notification) 1,100 shares of common stock now held in treasury. **Price**—50 cents per share. **Underwriter**—None. To be offered through Preston, Watt and Schoyer. **Proceeds**—Toward repayment of bank loans.

Orchards Telephone Co., Orchards, Wash.
March 16 (letter of notification) 500 shares of common stock. **Price**—At par ($100 per share). **Underwriter**—None. **Proceeds**—To modernize plant.

● **Oxygen Products Co., Atlanta, Georgia**
Aug. 16 (letter of notification) 2,500 shares of capital stock (par $10), of which 1,234 shares are to be offered for subscription by present stockholders and 1,266 shares are to be offered to public. **Price**—To stockholders at par and to public at $12.50 per share. **Proceeds**—For operating capital. **Underwriter**—none. **Office**—83 Cain Street, N.E., Atlanta, Ga.

Pacific Petroleums Ltd. (8/29/30)
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.

Perlite Mines Co., Denver, Colo.
Aug. 10 (letter of notification) $150,000 of 5½% debenture certificates due 1955 (in denominations of $500 each) and 30,000 shares of common stock (no par). **Price**—For certificates, $400 each; for stock, $1 per share. **Underwriter**—Robert D. Bowers & Co., Denver. **Proceeds**—For working capital.

● **Pheoll Manufacturing Co., Chicago, Ill.**
Aug. 23 filed 112,500 shares of common stock (par $4). **Price**—To be filed by amendment. **Underwriter**—Blunt, Ellis & Simmons, Chicago. **Proceeds**—To four selling stockholders, part of which will be used to pay debt of some of shareholders to company.

Plantation Pipe Line Co. (9/7)
Aug. 10 filed $40,000,000 of 20-year sinking fund debentures due 1970. **Underwriter**—Morgan Stanley & Co. **Price**—To be filed by amendment. **Proceeds**—For construction of pipe line and other corporate purposes.

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.

● **Printz-Biederman Co., Cleveland, Ohio**
Aug. 16 (letter of notification) $100,000 of 3% first mortgage bonds in denominations of $500 each. **Underwriter**—None. **Proceeds**—To build factory for Bardstown Industries, Inc., a non-profit Kentucky corporation. **Office**—1974 East 61st Street, Cleveland, O.

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). Debenture financing reported abandoned, with Colorado P. U. Commission approving private placement of $10,000,000 4.20% preferred stock. **Proceeds**—For construction.

● **Quaker City Fire & Marine Insurance Co.**
Aug. 2 (letter of notification) 10,000 shares of capital stock (par $20) to be offered on a one-for-four basis to stockholders of record Oct. 20, 1950, with the rights expiring Dec. 4, 1950. **Price**—$25 per share. **Underwriter** — Unsubscribed shares to be offered publicly through Burton, Cluett and Dana, 120 Broadway, New York, N. Y. **Proceeds**—For working capital. **Office**—226 Walnut Street, Philadelphia 6, Pa.

● **Quarterly Distribution Shares, Inc., Kansas City, Kansas**
Aug. 23 filed 100,000 shares of common stock (no par). **Price**—83 cents in excess of the net asset value per share. **Underwriter**—Bonds, Inc., Kansas City, Kansas.

● **Repertory, Inc., Boston, Mass.**
Aug. 14 (letter of notification) 85 shares of 5% non-cumulative preferred stock (par $1,000) and 85 shares of common stock (no par), the latter to be issued to purchasers of preferred by owner without a consideration. **Price** — For preferred, at par. **Underwriter** — None. **Proceeds**—For purchase of equipment and operating capital for "a touring Shakespearean Repertory Co." **Office**—53 State Street, Boston, Mass.

Resort Airlines, Inc., Pinehurst, N. C.
June 19 (letter of notification) 13,547 shares of common capital stock. **Price**—At par ($1 per share). **Underwriter**—None. **Proceeds**—For working capital.

● **Rhinelander (Wis.) Telephone Co.**
Aug. 16 (letter of notification) 100,000 shares of common stock, to be offered first to stockholders and then to public. **Price**—At par ($1 per share). **Underwriter**—None. **Proceeds**—To pay for plant improvements and expansion.

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.
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.

Roper (George D.) Corp., Rockford, Ill.
Aug. 3 (letter of notification) 4,500 shares of common stock (par $5). **Price**—$22 per share. **Underwriter**—Merrill Lynch, Pierce, Fenner & Beane, Chicago, Ill. **Proceeds**—For benefit of Grace Y. Roper, a stockholder.

Royal Television & Electronics, Inc., Washington, D. C.
June 22 (letter of notification) 600,000 shares of common stock (par 10 cents). **Price**—50 cents per share. **Underwriter**—None. **Proceeds**—To buy television set components. **Office**—714 Fifth St., N. W., Washington, D. C.

● **Ryerson & Haynes, Inc., Jackson, Mich.**
Aug. 15 (letter of notification) 5,000 shares of common stock (par $1). **Price**—$13.87½ per share. **Underwriter**—None. **Proceeds**—To go to two selling stockholders. **Office**—2307 East Ganson Street, Jackson, Mich.

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 until after Labor Day.

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.

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.

Southwest Natural Gas Co., Shreveport, La.
June 26 (letter of notification) 13,500 shares of common stock to be sold by Ronald M. Craigmyle, at market (about $7.37½ per share) through Craigmyle, Pinney & Co., New York City.

Standard Coil Products Co., Inc.
Aug. 11 filed 367,500 shares of common stock (par $1). **Price**—$15.25 per share. **Underwriter**—F. Eberstadt & Co. Inc. **Proceeds**—To three selling stockholders. **Offering**—Postponed until after Labor Day.

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.

● **Sylvan Products, Inc., Centralia, Wash.**
Aug. 17 (letter of notification) 6,000 shares of 6% cumulative preferred stock. **Price**—At par ($25 per share). **Underwriter** — None. **Proceeds** — To establish plywood mill. **Address**—Box 449, Centralia, Wash.

● **Tappan Stove Co., Mansfield, Ohio**
Aug. 14 (letter of identification) 1,000 shares of capital stock (par $5). **Price**—$22.50 per share. **Underwriter**—Citizens National Bank & Trust Co., Mansfield. **Proceeds**—To a selling stockholder.

● **Television Equipment Corp., New York**
Aug. 16 (letter of notification) 76,500 shares of common stock (par 5 cents). **Price**—25 cents per share. **Underwriter**—None. **Proceeds**—To John B. Milliken, President, the selling stockholder. **Office**—238 William St., New York, N. Y.

Tennessee Gas Transmission Co. (9/11)
Aug. 10 filed $40,000,000 of first mortgage pipe line bonds due 1970. **Underwriters**—To be determined by competitive bidding. Probable bidders—Halsey, Stuart & Co. Inc.; Stone & Webster Securiites Corp. and White, Weld & Co. (jointly); Kuhn, Loeb & Co. and A. C. Allyn & Co. (jointly). **Proceeds**—To pay off $35,000,000 of short-term notes and for expansion. **Bids**—Expected to be received up to 11:30 a.m. (EDT) on Sept. 11.

Transvision, Inc.
June 13 filed 300,000 shares of common stock (par $1). **Price**—2.75 per share. **Underwriter**—Blair F. Claybaugh & Co., New York. **Proceeds**—To increase working capital and repay loans from RFC and Croydon Syndicate, Inc. **Offering**—Postponed until after Labor Day.

Unexcelled Chemical Corp.
Aug. 14 (letter of notification) 52,097 shares of capital stock to be offered to stockholders of record Aug. 21 on basis of one new for each five shares held; rights to expire in 30 days. Unsubscribed shares to be offered to employees and others. **Price**—At par ($5 per share). **Underwriter**—None. **Proceeds**—For expansion and working capital. **Office**—350 Fifth Avenue, New York, N. Y.

● **United Funds, Inc., Kansas City, Mo.**
Aug. 15 filed $5,000,000 of periodic investment plans to acquire United Accumulative Fund Shares, 400,000 United Science Fund Shares and 520,000 United Accumulative Fund Shares. **Price**—For plans, at principal amount, and for shares at market. **Underwriter**—Waddell & Reed, Inc. **Proceeds**—For investment.

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.

Utah Power & Light Co. (10/9)
Aug. 2 filed $8,000,000 first mortgage bonds due 1980. **Underwriters**—To be determined by competitive bidding. Probable bidders: 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. **Proceeds**—For construction program. **Bids**—Expected to be received up to noon (EST) on Oct. 9.

Utah Power & Light Co. (9/11)
Aug. 2 filed 166,604 shares of common stock (no par) to be offered to common stockholders of record Sept. 12 on basis of one new share for each eight shares held. **Underwriters**—To be determined by competitive bidding. Probable bidders: 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). **Proceeds**—For construction program. **Bids**—Expected to be received up to noon (EDT) on Sept. 11.

Vieh Co., Columbus, Ohio
May 8 (letter of notification) 19,500 shares of common stock at $10 per share. **Underwriter**—The Ohio Co. **Pro-**

ceeds—To buy the assets of Brodhead-Garrett Co. and for working capital.

Virginia Electric & Power Co. (9/12)
Aug. 9 filed $20,000,000 first and refunding mortgage bonds, series H, due Sept. 1, 1980. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Union Securities Corp.; Kuhn, Loeb & Co.; White, Weld & Co.; Stone & Webster Securities Corp.; Salomon Bros. & Hutzler; First Boston Corp. **Proceeds**—To pay $8,000,000 of bank loans and for construction program. **Bids**—Expected to be received up to 11:30 a.m. (EDT) on Sept. 12.

Vulcan Detinning Co. (9/7)
Aug. 15 filed 120,000 shares of common stock (par $10). **Price**—To be filed by amendment. **Underwriter**—Goldman, Sachs & Co. and Lehman Brothers. **Proceeds**—To Continental Can Co., Inc., the selling stockholder.

● **Watts Seed Co., Parma, Idaho**
Aug. 14 (letter of notification) 500 shares of 5% preferred stock. **Price**—At par ($100 per share). **Underwriter**—None. **Proceeds**—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 Uranium Cobalt Mines, Ltd., Vancouver, B. C., Canada
Feb. 28 filed 800,000 shares of common capital stock (par $1). **Price**—35 cents per share. **Underwriter**—None **Proceeds**—Exploration and development work. Statement effective May 23.

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.**
Aug. 22 it was announced company has filed with Alabama P. S. Commission an application covering a proposed issue of $10,000,000 preferred stock. **Underwriter**—To be determined by competitive bidding. Probable bidders: Morgan Stanley & Co.; Blyth & Co., Inc.; Union Securities Corp. and Equitable Securities Corp. (jointly); First Boston Corp.; Drexel & Co. **Proceeds**—For construction program.

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.

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 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.

Associates Investment Co., South Bend, Ind.
July 26, it was announced stockholders will vote Aug. 29 on authorizing an issue of 200,000 shares of preferred stock. May be placed privately. Traditional underwriters: F. S. Moseley & Co.; Glore, Forgan & Co.; and Merrill Lynch, Pierce, Fenner & Beane.

● **California Electric Power Co.**
Aug. 8, Albert Cage, President, announced that company is studying plans for financing and constructing a steam plant of substantial size at the earliest possible date. The following bid on $2,000,000 bonds last June: Halsey, Stuart & Co. Inc. and Kidder, Peabody & Co. Common stock financing in May was underwritten by William R. Staats Co., Pacific Co. of California and Walston, Hoffman & Goodwin.

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.

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.

Cleveland Electric Illuminating Co.
Aug. 1 it was reported that company this fall may issue and sell an issue of preferred stock, of which 495,011 shares of no par value are presently available, stockholders on April 25 having increased the authorized amount to 750,000 shares from 500,000 shares. The proceeds are to be used for construction program. Probable underwriter: Dillon, Read & Co. Inc. if negotiated sale.

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.

Consolidated Lobster Co., Inc.
Aug. 11 it was stated that company plans to offer additional capital stock (no par) for subscription by stockholders. At April 30, 1950 there were outstanding 34,393 shares out of 47,000 shares authorized.

Delaware Power & Light Co. (9/26)
Aug. 1 it was reported that company plans to issue this fall approximately $12,000,000 to $14,000,000 of new 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.; Lehman Brothers; Morgan Stanley & Co.; White, Weld & Co. and Shields & Co. (jointly); W. C. Langley & Co. Expected Sept. 26.

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.

● **Empire District Electric Co.**
Aug. 21 it was reported that early registration is expected of $7,000,000 bonds and 50,000 shares of common stock. **Underwriter**—Probably The First Boston Corp.

Florida Power Corp.
July 31 the company was said to be considering new financing in the form of bonds, preferred stock and common stock, the proceeds to be used to continue its construction program. Previous financing handled by Kidder, Peabody & Co.

● **Florida Power Corp.**
Aug. 21 it was announced stockholders will vote Oct. 2 on approving a new series of 40,000 authorized shares of preferred stock (par $100). **Underwriter**—To be determined by competitive bidding. Probable bidders: Kidder, Peabody & Co. and Merrill Lynch, Pierce, Fenner & Beane (jointly). **Proceeds**—For construction program and to repay bank loans.

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.

Georgia Natural Gas Co., Albany, Ga.
Aug. 2 filed new application with FPC for authority to construct a 335-mile pipeline system in Georgia and Florida to cost about $5,100,000, which would be financed through issuance of first mortgage pipe-line bonds and the sale of common stock. Previous application was withdrawn.

● **Hollingsworth & Whitney Co., Boston, Mass.**
Aug. 15, it was reported that the company plans to issue and sell $5,800,000 of new bonds and use the proceeds for its expansion program. Probable underwriters: Paine, Webber, Jackson & Curtis and Harriman Ripley & Co., Inc., and associates.

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.

● **Loyal Automobile Insurance Co., Los Angeles**
Aug. 14 company applied to California State Insurance Department for authority to issue a total of 100,000 shares of capital stock (par $1), of which 50,000 shares are to be offered to California stockholders at $2.50 per share, less a 10% discount if rights are exercised within 60 days. The remaining 50,000 shares are to be offered to bona fide California residents at $3 per share.

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.

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.
Aug. 7 it was announced company contemplates permanent financing will be consummated before maturity (Feb. 20, 1951) of proposed $25,000,000 bank loans which will include, during 1950, $20,000,000 of first mortgage bonds and $6,000,000 of common stock, and the sale, in 1951, of about $10,000,000 of preferred stock. **Underwriters for Bonds**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; White, Weld & Co. and Lehman Brothers (jointly); Smith, Barney & Co. and Blyth & Co., Inc. (jointly). **Proceeds**—To pay off short-term bank loans and for new construction costs. The additional common stock will be sold to American Natural Gas Co., parent. Expected this Fall.

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. Initially it is planned to sell $800,000 stock and $1,500,000 of bonds. **Underwriter for Stock**—Equitable Securities Corp., T. J. Raney & Sons and Womeldorff & Lindsay.

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). Some $27,000,000 of new bonds may be issued.

Continued on page 34

Continued from page 33

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 Bedford Gas & Edison Light Co. (9/27)**

Aug. 9 company applied to SEC for authority to issue and sell 10,631 additional shares of common stock (par $25) and $3,750,000 of 25-year notes, series B, due 1975, the latter at competitive bidding, with probable bidders including Halsey, Stuart & Co. Inc.; Coffin & Burr and F. S. Moseley & Co. (jointly); Kidder, Peabody & Co.; Harriman Ripley & Co., Inc.; First Boston Corp.; Whiting, Weeks & Stubbs. The common stock is to be offered for subscription by common stockholders at $67.50 per share, with New England Gas and Electric Association, parent, taking any unsubscribed shares. Proceeds from stock sale will reimburse Plant Replacement Fund Assets for construction expenditures, while proceeds from sale of notes will repay a like amount of bank loans.

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 Orleans Public Service, Inc.

Aug. 2 company applied to SEC for authority to issue and sell 160,074 additional shares of common stock (no par) to be offered to common stockholders at rate of 0.168 share for each share held. Middle South Utilities, Inc., parent, and owner of 906,671.823 shares of New Orleans stock, proposes to purchase 152,320 of the 160,074 shares to be offered. **Price**—$25 per share. **Proceeds**—For construction program.

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.

● **North American Car Corp.**

Aug. 15 it was reported that the company is to issue and sell publicly not exceeding 40,000 shares of common stock (par $10). Probable underwriter: Glore, Forgan & Co., New York. The proceeds are to be used for car rebuilding program.

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, had informed him of their intention to make a public distribution of these shares at earliest practical date, which may be sometime in October. A. C. Allyn & Co., Inc. and Bear, Stearns & 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 expected next month.

Packard-Bell Co.

Aug. 2 it was stated that following approval on Aug. 25 of an increase in the authorized common stock from 500,000 shares, par $1, to 1,200,000 shares, par 50 cents, to be followed by a two-for-one split-up, the company may issue additional common stock for the purpose of raising additional working capital. Traditional underwriter: Cruttenden & Co.

Pennsylvania RR. (9/12)

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 pippe 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.

Reading Co.

July 31 it was reported that company may in near future sell an issue of equipment trust certificates, series T. Probable bidders: Halsey, Stuart & Co., Inc.; Salomon Bros. & Hutzler; Harris, Hall & Co. (Inc.).

Reynolds Metals Co.

Aug. 9 stockholders increased the authorized common stock from 1,500,000 to 2,500,000 shares. The corporation has no intention of issuing any of the additional shares at this time. Traditional underwriters: Lehman Brothers and Reynolds & Co.

Roosevelt Mills, Inc., Manchester, Conn.

July 20 company was reported to be negotiating with a group of underwriters for a public stock offering of about $150,000 of additional capital stock at $1 or $2 per share. There are presently outstanding 1,381 shares of stock, which are closely held.

San Diego Gas & Electric Co.

July 31 it was reported that the company's original plan to issue between $8,000,000 and $10,000,000 of bonds late in September or early October may be changed to preferred stock, depending upon market conditions. If negotiated, Blyth & Co., Inc. may handle financing. If competitive, probable bidders are: Blyth & Co., Inc.; Lehman Brothers and Bear, Stearns & Co. (jointly); First Boston Corp.; White, Weld & Co. and Shields & Co. (jointly); Merrill Lynch, Pierce, Fenner & Beane; Union Securities Corp.; Salomon Bros. & Hutzler. Proceeds would go toward construction program.

Schering Corp.

May 4, it was announced that the company's entire common stock issue (440,000 shares) was expected to be registered with the SEC in the near future and offered for sale to the highest bidder by the Office of Alien Property. Probable bidders: A. G. Becker & Co. (Inc.), Union Securities Corp. and Ladenburg, Thalmann & Co. (jointly); Merrill Lynch, Pierce, Fenner & Beane; Kidder, Peabody & Co.; F. Eberstadt & Co.; Allen & Co.; new company to be formed by United States & International Securities Corp.; Dillon, Read & Co.; F. S. Moseley & Co.; Riter & Co.

Sierra Pacific Power Co.

June 2 company announced it plans to finance and permanently refund $2,200,000 of bank loans by the sale of debentures and common stock prior to Oct. 31, 1950. Probable bidders for bonds: Halsey, Stuart & Co. Inc.; Stone & Webster Securities Corp.

● **South Carolina Electric & Gas Co.**

Aug. 17, S. C. McMeekin, President, said the company expects to issue and sell later this year $3,000,000 of new bonds (in addition to private placement of $3,000,000 of 4.60% cumulative preferred stock, par $50), the proceeds to finance construction program. Probable bidders for bonds: Halsey, Stuart & Co. Inc.; The First Boston Corp. and Lehman Brothers (jointly); Kidder, Peabody & Co.; Union Securities Corp.

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.

July 31 it was reported proposed financing on a permanent basis has been increased from $10,000,000 to $24,000,000 first mortgage bonds, although company may decide to take this in two pieces, viz: $10,000,000 to $12,000,000 initially and the balance later on. On 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 which is estimated to cost $32,520,000 for 1950-1951. Probable bidders: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc. 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 bonds to be placed privately and the balance to be offered publicly as preferred and common stock with Dillon, Read & Co. Inc. underwriting. The proceeds are to pay for construction costs.

Tampa Electric Co.

April 25 it was announced company plans to raise $4,000,000 in new money through sale of additional securities, the proceeds to finance in part 1950 construction expenditures.

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.

● **Tobin Packing Co.**

Aug. 21 it was announced company plans to issue and sell 34,000 additional shares of common stock through underwriters. **Proceeds**—Estimated at about $260,000 for working capital.

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%. The new debentures were placed privately last week 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.

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.

● **Vanadium Corp. of America**

Aug. 21 company announced plans to offer publicly $5,000,000 of convertible debentures. Underwriting negotiations are being carried on with Kidder, Peabody & Co.

Victor Chemical Works

Aug. 1 it was announced company will build a new electric furnace phosphate plant at Silver Bow, Mont., to cost $5,000,000. Financing may be placed privately. Traditional underwriter: F. Eberstadt & Co., New York.

Warner-Hudnut, Inc.

July 20 change in company's name from William R. Warner & Co., Inc. was approved, but no action was taken on proposed recapitalization plan, due to market conditions. It is planned to file a registration with the SEC covering the sale of approximately 325,000 shares of the proposed 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 and Co. Inc.; Blyth & Co., Inc.; Lehman Brothers and Bear, Stearns & Co. (jointly); Union Securities Corp. and Glore, Forgan & Co. (jointly). **Proceeds**—To retire first mortgage 4% bonds and convertible income 4½% bonds due 2014, and over $5,000,000 "new money." Expected about middle of November.

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-Majestic Corp., the new company plans public offering of 500,000 shares of new stock. **Traditional Underwriter**—Gearhart, Kinnard & Otis. **Proceeds**—For working capital.

DIVIDEND NOTICES

AMERICAN POWER & LIGHT COMPANY
Two Rector Street, New York 6, N. Y.

CAPITAL STOCK DIVIDEND

A dividend of 24c per share on the Capital Stock of American Power & Light Company was declared on August 23, 1950, for payment October 2, 1950, to stockholders of record at the close of business September 5, 1950.

D. W. JACK, Secretary and Treasurer

J. I. Case Company
(Incorporated)

Racine, Wis., August 22, 1950

A dividend of $1.75 per share upon the outstanding Preferred Stock of this Company has been declared payable October 1, 1950, and a dividend of 75c per share upon the outstanding $25 per value Common Stock of this Company has been declared payable October 1, 1950, to holders of record at the close of business September 12, 1950.

WM. B. PETERS, Secretary.

The Colorado Fuel & Iron Corporation

DIVIDEND ON COMMON STOCK

At a meeting of the Board of Directors of The Colorado Fuel and Iron Corporation, held on August 23, 1950, the regular dividend in the amount of thirty-seven and one-half cents per share was declared on its common stock, payable September 28, 1950 to stockholders of record at close of business on September 8, 1950.

D. C. McGREW, Secretary.

CSC

COMMERCIAL SOLVENTS
Corporation

DIVIDEND No. 63

A dividend of twenty-five cents (25c) per share has today been declared on the outstanding common stock of this Corporation, payable on September 29, 1950, to stockholders of record at the close of business on September 11, 1950.

A. R. BERGEN,
Secretary.

August 22, 1950.

Bayuk Cigars Inc.

A dividend of twenty cents (20c) per share on the Common Stock of this Corporation was declared payable Sept. 15, 1950 to stockholders of record Aug. 31, 1950. Checks will be mailed.

John A. Snyder
TREASURER

Philadelphia, Pa.
Aug. 18, 1950

PHILLIES
America's No. 1 cigar

DIVIDEND NOTICES

E. I. DU PONT DE NEMOURS & COMPANY

DU PONT
REG. U.S. PAT. OFF.

Wilmington, Delaware, August 21, 1950

The Board of Directors has declared this day regular quarterly dividends of $1.12½ a share on the Preferred Stock—$4.50 Series and 87½¢ a share on the Preferred Stock—$3.50 Series, both payable October 25, 1950, to stockholders of record at the close of business on October 10, 1950; also $1.50 a share on the $5.00 par value Common Stock as the third interim dividend for 1950, payable September 14, 1950, to stockholders of record at the close of business on August 28, 1950.

L. DU P. COPELAND, *Secretary*

INTERNATIONAL HARVESTER COMPANY

The Directors of International Harvester Company have declared quarterly dividend No. 141 of fifty cents (50¢) per share on the common stock payable October 16, 1950, to stockholders of record at the close of business on September 15, 1950.

GERARD J. EGER, Secretary

INTERNATIONAL SALT COMPANY

DIVIDEND NO. 145

A dividend of ONE DOLLAR AND TWENTY-FIVE CENTS a share has been declared on the capital stock of this Company, payable September 27, 1950, to stockholders of record at the close of business on September 7, 1950. The stock transfer books of the Company will not be closed.

HERVEY J. OSBORN
Exec. Vice Pres. & Sec'y.

INTERSTATE POWER COMPANY
INTERSTATE POWER COMPANY
DUBUQUE, IOWA

PREFERRED DIVIDEND

A quarterly dividend of 58.75 cents per share has been declared on the 4.70% Preferred Stock ($50 Par Value), payable October 1, 1950, to stockholders of record at the close of business September 20, 1950. The transfer books will not be closed.

COMMON DIVIDEND

A dividend of 15 cents per share has been declared on the Common Stock, payable September 20, 1950, to stockholders of record at the close of business September 11, 1950. The transfer books will not be closed.

OSCAR SOLBERG,
August 16, 1950 *Treasurer*

DIVIDEND NOTICES

THE GARLOCK PACKING COMPANY

August 16, 1950
COMMON DIVIDEND No. 297

At a meeting of the Board of Directors, held this day, a quarterly dividend of 25¢ per share was declared on the common stock of the Company, payable September 30, 1950, to stockholders of record at the close of business September 15, 1950.

H. B. PIERCE, *Secretary*

CONSOL

The Board of Directors of
PITTSBURGH CONSOLIDATION COAL COMPANY

at a meeting held today, declared a quarterly dividend of 50 cents per share on the Common Stock of the Company, payable on September 12, 1950, to shareholders of record at the close of business on September 1, 1950. Checks will be mailed.

CHARLES E. BEACHLEY,
Secretary-Treasurer

August 21, 1950.

KENNECOTT COPPER CORPORATION
120 Broadway, New York 5, N.Y.

August 18, 1950

A cash distribution of One Dollar and Fifty Cents ($1.50) a share has today been declared by Kennecott Copper Corporation, payable on September 23, 1950 to stockholders of record at the close of business on September 1, 1950.

A. S. CHEROUNY, *Secretary*

O'okiep Copper Company Limited

Dividend No. 15

The Board of Directors today declared a dividend of three shillings per share on the Ordinary Shares of the Company payable August 28, 1950 to the holders of Ordinary Shares of record at the close of business August 21, 1950 subject to the withholding of the Union of South Africa non-resident shareholders tax in the amount of seven and one-half percent (7½%).

The directors authorized the distribution of the net amount of said dividend on September 8, 1950 to the holders of record at the close of business on September 1, 1950 of American Shares issued under the terms of the Deposit Agreement dated June 24, 1946. The net distribution after deduction of the Union of South Africa non-resident shareholders tax will amount to 38.625 cents per share, subject, however, to any change which may occur in the official rate of exchange for South Africa funds prior to August 28, 1950.

By order of the Board of Directors,

H. E. DODGE, *Secretary.*

New York, N. Y., August 21, 1950.

CHEMICALS
TEXTILES
PLASTICS

CELANESE
CORPORATION OF AMERICA
180 Madison Avenue, New York 16, N.Y.

THE Board of Directors has this day declared the following dividends:

FIRST PREFERRED STOCK
$4.75 SERIES

The regular quarterly dividend for the current quarter of $1.18¾ per share, payable October 1, 1950 to holders of record at the close of business September 5 1950

7% SECOND PREFERRED STOCK

The regular quarterly dividend for the current quarter of $1.75 per share, payable October 1, 1950 to holders of record at the close of business September 5 1950

COMMON STOCK

60 cents per share, payable September 25 1950 to holders of record at the close of business September 5, 1950

R. O GILBERT
Secretary

August 22, 1950.

DIVIDEND NOTICES

JOHNS-MANVILLE PRODUCTS

Johns-Manville Corporation

DIVIDEND

The Board of Directors declared a dividend of 60¢ per share on the Common Stock payable September 8, 1950, to holders of record August 28, 1950.

ROGER HACKNEY, *Treasurer*

SOUTHERN PACIFIC COMPANY
DIVIDEND NO. 131

A QUARTERLY DIVIDEND of One Dollar and Twenty-five Cents ($1,25) per share on the Common Stock of this Company has been declared payable at the Treasurer's Office, No. 165 Broadway, New York 6, N. Y., on Monday, September 18, 1950, to stockholders of record at three o'clock P. M., on Monday, August 28, 1950. The stock transfer books will not be closed for the payment of this dividend.

J. A. SIMPSON, Treasurer.

New York, N. Y., August 17, 1950.

TEXAS UTILITIES COMPANY

DIVIDEND NOTICE

The Board of Directors today declared a dividend of 32 cents per share on the Common Stock of the Company, payable October 2, 1950 to stockholders of record at the close of business August 31, 1950.

RICHARD BULLWINKLE
Secretary

August 18, 1950

UNITED GAS CORPORATION
SHREVEPORT, LOUISIANA

Dividend Notice

The Board of Directors has this date declared a dividend of twenty-five cents (25¢) per share on the Common Stock of the Corporation, payable October 2, 1950, to stockholders of record at the close of business on September 11, 1950.

J. H. MIRACLE,
August 23, 1950 *Secretary*

Edison

41st *year of consecutive dividend payments*

SOUTHERN CALIFORNIA EDISON COMPANY

preferred dividends

ORIGINAL PREFERRED STOCK
DIVIDEND NO. 165

CUMULATIVE PREFERRED
STOCK 4.32% SERIES
DIVIDEND NO. 14

The Board of Directors has authorized the payment of the following quarterly dividends:

50 cents per share on Original Preferred Stock, payable September 30, 1950, to stockholders of record on September 5, 1950.

27 cents per share on Cumulative Preferred Stock, 4.32% Series, payable September 30, 1950, to stockholders of record on September 5, 1950.

T. J. GAMBLE, Secretary

August 18, 1950

Two With McDonnell Co.

(Special to THE FINANCIAL CHRONICLE)

DETROIT, Mich.—Edward J. Diedrich and Arthur I. Rossier are now with McDonnell & Co., Buhl Building. Both were formerly with Merrill Lynch, Pierce, Fenner & Beane for many years.

C. W. Turner in Boise

BOISE, Ida.—C. W. Turner will shortly open offices here to engage in the securities business.

LIQUIDATION NOTICE

The Thomaston National Bank, located at Thomaston, in the State of Connecticut, is closing its affairs. All creditors of the Association are therefore hereby notified to present claims for payment to the undersigned at said Bank.

F. I. ROBERTS,
Liquidating Agent.

Dated August 18, 1950.

REDEMPTION NOTICE

OTIS ELEVATOR COMPANY

NOTICE OF REDEMPTION
of
PREFERRED STOCK
OF $62.50 PAR VALUE

Notice is hereby given that Otis Elevator Company, a corporation of New Jersey, by a resolution of its Board of Directors duly adopted at a meeting held August 23, 1950, has exercised the option granted it by Article Fourth of its Certificate of Incorporation, as amended, to redeem all of its Preferred Stock of $62.50 par value on October 1, 1950, at a price of $107. per share. All dividends accrued or accruing upon said stock will have been paid by separate check prior to the redemption date. Checks covering the dividend of One dollar ($1.) per share for the quarter ending September 30, 1950, will be mailed on the 20th day of September, 1950, to stockholders of record September 7, 1950.

From and after October 1, 1950, holders of the redeemed shares will have no right or interest therein, or in the company, except the sole right to receive payment therefor at the said redemption price without interest.

Certificate(s) for the Preferred Stock of Otis Elevator Company should be forwarded by registered mail to Bankers Trust Company, 16 Wall Street, Borough of Manhattan, New York City, New York, the Redemption Agent, accompanied by a letter of transmittal in the form being mailed to all holders of record.

No assignment of the stock certificate(s) is required where payment is requested to be made to the order of the registered owner. If however payment is to be made to an assignee of the registered owner, then the stock certificate(s) must be endorsed with signature(s) guaranteed or accompanied by properly executed instruments of assignment together with any supporting documents where required including payment of relative transfer taxes.

Arrangements have been made for Bankers Trust Company to mail on the redemption date checks for the redemption price of all shares, certificates for which are received by it on or before said date. Checks for shares represented by Certificates received later will be mailed when the certificates are received.

By order of the Board of Directors.

OTIS ELEVATOR COMPANY
By THOMAS M. LOGAN
Secretary

August 25, 1950

CITIES SERVICE COMPANY

Dividend Notice

The Board of Directors of Cities Service Company on August 11, 1950, declared a regular quarterly dividend of one dollar ($1.00) per share on its $10 par value Common stock, payable September 11, 1950, to stockholders of record as of the close of business August 25, 1950.

To assure prompt receipt of the dividend, stockholders should notify the Company, at its office, 60 Wall Street, New York 5, N. Y., of any change of address, giving both the old and new addresses.

W. ALTON JONES, *President*

Washington . . . And You

Behind-the-Scene Interpretations from the Nation's Capital

WASHINGTON, D. C.—What John Snyder in effect has made clear is that now is not the time to set the pattern of interest rates and maturities to guide the financing of this war. That time will come later.

Hence the Treasury has neither slammed the door on the possibility of higher official short-term rates, an always "on tap" bond issue or any other conjectured phase of long-range war financing. What the Treasury would appear to indicate is that the time will come later. That later time will be when deficit financing in heavy volume as a result of the expanding war effort actually materializes.

Congress will appropriate in the neighborhood of $57 billion. Even with the interim tax bill, maximum receipts are not expected to exceed $42 billion. However, there is a longtime lag before the swollen appropriations become translated into actual out payments. During that time lag the Defense Department will have to go through many stages of procurement planning before it lets contracts. Then industry will have to retool. Then war production will get under way. That is likely to be well into the new year.

When war production gets going in volume then it will have to be financed in volume. When that time occurs, the time to cast the die on maturities, types of issues, and interest rates, is reached. It will be decided in the light of the circumstances prevailing at that time. These circumstances may or may not call for higher interest rates; if higher interest rates, they may be at a different level than other officials are projecting this far ahead, perhaps as long as six months ahead.

This viewpoint is believed made clear by the combination of the Treasury's plans for September and October refinancing — the usual pre-Korean war pattern— and the statement Monday by the Treasury Secretary which followed the unprecedented action of the Federal Reserve Board in raising the discount rate from a nominal penalty rate which it has operated at, for years, to a ½ of 1% penalty. This was a most eloquent gesture of the Reserve Board's widely-known advice for a rise in interest rates, now.

* * *

The general disposition in this town is to credit the Federal Reserve Board with its customary deep sincerity in advocating an entire and balanced arsenal of weapons to fight inflation—now. Likewise there is little private disposition to dispute the Board's thesis that even though war production will be slow in starting, the country now is teetering on inflation, which just a little bit of a war effort could send spiraling. And the Board's recommendations stepped on just about everybody's toes indiscriminately in the Administration and in Congress.

However, the Board's memo is not taken seriously but as a sort of a Monetary Ten or Twenty Commandments which it would be desirable to adhere to if the Government Man or the Political Animal were perfect.

This is not the case, however. Congress on the brink of a war of unknown duration and magnitude, passed a social security program which raises by 77% the immediately-payable pensions and hastens the day when pensions for nearly all elderly people will compete with money to finance the war or reconstruction. Both the Congress and Administration have made it clear that the dear GI mortgage will be protected until the fort of inflation is utterly leveled. The President is gesturing loudly for economies where they will hurt Congress, but not the public housing, etc., etc., which would hurt the Administration.

Under the circumstances more power to curb bank credit—now —would put the heat on banks and their customers while other inflationary fronts boiled contentedly on.

* * *

How little the Rural Electrification Administration takes seriously the supposed "order" of the President that peacetime agencies shall cut back on programs which use scarce materials and cost money in wartime, is being demonstrated officially.

The Department of Agriculture, of which REA is a part, tells the story. The Department is sending around this year on the State Fair circuit, its exhibit, "A Telephone for Your Farm." The exhibit deals with the new activity of the REA in making loans to cooperatives for establishing rural telephone service.

As the Department itself describes its exhibit:

"The main panel of the exhibit says, 'A telephone is your link with the world. It's a necessity to the farm—For Business, For Emergency, For Better Living.' The spectator's activity is invited to a battery of dial telephones on a counter. Beside each telephone is an inviting sign, 'A Message for YOU.' When the spectator picks up the receiver it starts an electrically operated phonograph that delivers this message:

"'Hello, there! This is your rural telephone operator with some interesting news about how you can get good telephone service for your farm.

"'The Rural Electrification Administration can now make loans for expansion and improvement of rural telephone service. These loans are available to existing telephone companies or cooperatives to expand their facilities, or if necessary, REA will finance a new telephone cooperative. If you want phone service, or if you want to improve your present service, talk to your neighbors, form a committee.

"'For further information, help yourself to a leaflet to the left of this phone. Thanks.'"

This little direct sales campaign to "come and get it" the Department observed, "relies in part on the psychologically tested principle that an exhibit is likely to become more effective if the one addressed takes some active part."

The long-delayed report of the House Expenditures subcommittee on the operations of REA, in spite of an announced sympathy both with REA as an agency and with its program, packed something of a wallop if read carefully.

For instance, the report said that, not that REA statistics lied, but that they are "not fully informative with respect to either deficit cooperatives or delinquent cooperatives." Thus, when REA grants an extension of time for repayment to a delinquent borrower, that borrower is removed from the statistics as a delinquent. "Out of 991 energized borrowers (cooperatives actually in operation) 247, or almost 25% operated at a book loss in 1949." At another point: "In the 2-year period ended Dec. 31, 1949, the number of borrowers with yearly operating deficits on an accrual accounting basis increased almost 50%, and the average of the book loss per borrower almost doubled." The subcommittee report said that REA recognized the seriousness of the situation and has "intensified its efforts to improve management."

The subcommittee found one cooperative in Maryland that had perpetuated the same board of directors constantly, had never had a quorum for an annual meeting, and never bothered to tell its membership anything about the cooperative. The subcommittee report did not mention that this same project even announced a rate rise without asking the "members" to ratify it and, of course, the REA projects are answerable to no state commission in rate-fixing. The rates of this project are among the highest charged by REA projects in the U. S.

* * *

Officially the State Department is going ahead with the 39-nation conference Sept. 28 at Torquay, England, to consider tariff concessions upon thousands of additional U. S commodities, in alleged exchange for concessions to facilitate the export of U. S. goods into those countries, just as if the Korean war had never broken out.

In reality, however, informed circles are not privately sanguine of achieving any great round of tariff - cutting accomplishments, since with the war the main interest is in promoting the exchange of those commodities which are necessary for war.

* * *

When the President approves the Controls Bill, the Interior Department hopes to set up a big controls bureaucracy paralleling the projected "Defense Production Administration" which the Commerce Department will set up if the final version of the law permits it.

Tentatively it looks like Commerce will hold jurisdiction over steel, copper, tin, and most of the metals, despite the eagerness of Agriculture and Interior to get a cut into this business. On the other hand, Interior will naturally handle oil, coal, and a broad list of miscellaneous metals and minerals, when, as, and if these are controlled, if possible under the law.

* * *

Preliminary secret negotiations have begun between the U. S. and Great Britain on oil supply problems incident to the Korean war. It is believed that these will lay the foundation for later organizing world supply and allocations under broad schemes similar to those operating during World War II, for application in case of an expansion of the war. When this planning stage is reached in the negotiations, representatives of other oil supplying and consuming nations friendly to the US-UN stand, will be called in to participate.

* * *

Senator Joseph C. O'Mahoney's "stopgap" or interim scheme for handling the matter of off-shore leases following the Supreme Court decision in the Texas and Louisiana cases, was considered by State officials, the oil industry, and oil state Congressmen as nothing but a bare-faced effort to "sew up" dominant Federal control under the guise of an interim arrangement.

The Senator several weeks ago had promised to get out legislation on an interim basis that would more or less preserve the status quo until Congress next year could draft permanent legislation providing for Federal handling of the enlarged jurisdiction "legislated" by the Supreme Court.

The O'Mahoney bill was given such a drubbing by state officials and oil people in public hearings that its chances of passage this year are regarded as next to nil.

(This column is intended to reflect the "behind the scene" interpretation from the nation's Capital and may or may not coincide with the "Chronicle's" own views.)

BUSINESS BUZZ

"While we're going up in the elevator, you can explain the Stock Exchange to me!"

With Grimm & Co.

(Special to THE FINANCIAL CHRONICLE)

ORLANDO, Fla.—Lenox H. Rand is now affiliated with Grimm & Co., 65 East Robinson Avenue.

Courts & Co. Add

(Special to THE FINANCIAL CHRONICLE)

ATLANTA, Ga.—Elise A. Davis has become affiliated with Courts & Co., 11 Marietta Street, N. W., members of the New York Stock Exchange.

Ames, Emerich Adds

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill.—John Stephens has been added to the staff of Ames, Emerich & Co., Inc., 105 South La Salle Street, members of the Midwest Stock Exchange.