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The COMMERCIAL and FINANCIAL CHRONICLE

Reg. U. S. Pat. Office

Volume 172 Number 4938 | New York, N. Y., Thursday, August 31, 1950 | Price 30 Cents a Copy

EDITORIAL

As We See It

The present status of the question of German rearmament and related issues would be highly amusing were they not so deadly serious. Of course, a similar situation is developing around the question of rearmament and defense preparations in Japan. Both are part and parcel of the same strange war and early postwar notions about many things.

It is faintly amusing to say the least to recall the notions of a prominent and influential member of the Washington Administration who found a solution for then foreseen world problems, and a hope of universal and permanent peace, in a ruralized and agriculturalized Germany. That some such idea as regards Japan did not come forth at that time or soon thereafter appears to be an oversight.

The concept of a Germany eking out a living for its crowded population in agricultural pursuits obviously ignored the facts, which even to the casual observer made it evident that the idea was preposterous — unless indeed the plane of living of the German people were to be taken down to a bare subsistence, and even then it would be questionable whether such a scheme could be made to work. Almost equally patent was the fact that to remove German industrial work and output from the European economy would have been to necessitate a drastic change in the economic order of that Continent, and would have resulted in a general enfeeblement of the industries and the economies of virtually all of the Continental countries.

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Likely Characteristics of Our Defense Economy

By PROFESSOR SUMNER SLICHTER*
Lamont Professor of Economics, Harvard University

Professor Slichter maintains defense economy, which will prevail indefinitely, will be accompanied by record non-wartime government expenditures; higher corporate taxes which will be largely passed on; decreasing government debt burden because of higher prices; higher hourly wage-earnings; satisfactory profits; good dividends; unchanged individual savings; and expanding technological research. Calls for expanded plant expenditures. In absence of Government bond payable in dollars of constant purchasing power, commends investment trusts' shares to small investors.

My remarks will attempt to outline some of the principal characteristics of the defense economy, the economy which I believe will prevail in the United States for the indefinite future. Of course, it is early to attempt the task that I am essaying, in one sense. But in another sense, one can not begin too soon to attempt to define the characteristics of the defense economy.

Prof. S. H. Slichter

In particular, I shall attempt to throw light on whether or not this period of the defense economy will be a time when American industry should be a good investment for the savings of the country. The defense economy will be one in which the Armed Forces are at least two and a half millions and in which the expenditures on defense will run in the neighborhood of 10%, or a little bit more, of the net national product.

About a month ago Mr. Shinwell, the Minister of Defense for Britain, speaking before a session of Parliament, estimated that Russia with a per

*An address by Prof. Slichter at the Investment Dealers' Digest, Second Annual Mutual Fund Conference, New York City, Aug. 28, 1950.

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Fools' Paradise In Liquidation

By MELCHIOR PALYI

Dr. Palyi lists illusions U. S. has operated under in matter of Russian relations over last five years. Says Russia is endeavoring to mobilize against us in stirring up teeming millions of Asia and that it is a mistake to hold that Russian system does not provide incentives. Points out cost of long-range European armaments on large scale is prohibitive and a well-armed Europe is likely to turn into a neutral Europe. Concludes we can and should cure Europe of misconception that we are responsible for its prosperity and defense.

The Rude Awakening

It is not just one fools' paradise which is being liquidated in the fire of the Korean "incident." For five invaluable years, we have lived and operated under illusions, which must now be corrected at great human and material sacrifice, such as,

Dr. Melchior Palyi

(a) That the Soviets could be appeased into friendly "competition," if not brotherly love, and a magniloquent debating club could guarantee collective security, without a balance of power;

(b) That we possess a diplomatic and military leadership that knows what the score is: it defends the little toe of China (deemed indefensible a year earlier) for exactly the same reasons which had served to justify dumping the whole of China;

(c) That we are slowly but surely winning the cold war and can go on with business as usual;

(d) That we have built up (at enormous cost) a powerful and reliable system of alliances;

(e) That the bolshevization of China would burden Russia with indigestion and weaken Bolshevism;

(f) That our resources, physical and financial, are virtually unlimited and can be wasted indefinitely, whilst

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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 they to be regarded, as an offer to sell the securities discussed.)

This Week's Forum Participants and Their Selections

Hammond Instrument Company—Harold Barclay, Barclay Investment Co., Chicago, Ill.

E. I. du Pont de Nemours Common—Herbert G. Einstein, Einstein & Stern, New York City.

A. O. Smith Corporation—Raymond Sprague, Partner, Raymond Sprague & Co., N. Y. City.

HAROLD BARCLAY

Barclay Investment Co., Chicago, Illinois

(Hammond Instrument Co.)

When the "Commercial & Financial Chronicle" asked for my "Security I Like Best" I was at first surprised because I have been talking Hammond Instrument Co. Common since 1928 when the predecessor, Hammond Clock Co. was organized and I thought everybody knew it.

Harold Barclay

I advocated the purchase of Hammond when it was 3¼ in 1942, and again, more recently, early in 1950 when it was 11. Just prior to the outbreak of the Korean war, it got up to 25½, subsequently sold down to 15⅝ and at this writing is at 22, where it yields almost 10%. This "dog" has now reached investment status with 10 to 1 current ratio and with the growth trend firmly established through new products and forthcoming improvements in present models.

The Hammond Electric Organ is now almost as well known throughout the world as music itself. The Organ is recognized by music lovers as the leader in its field by long odds, because it does more for less.

Laurens Hammond, President, is an unusual sort of fellow, a combination of keen, inventive genius and astute business sense. I was amazed to learn quite recently that he can't play an organ or piano, but he invented the Electric Organ, and now plays the Chord Organ. The investor in Hammond is buying brains at a discount and can rest assured that Hammond's laboratory, now staffed with many younger men who live and breathe electronics, won't rest—they are "unsatisfied" men who never think the millenium has been reached and I'm beginning to believe they are right.

Quite recently a new instrument called the Hammond Chord Organ was added to the line. "Anybody" can play it. Lots of people can play the melody but the base stops them. The Hammond Chord Organ solves this problem and "dubs" become musicians over night, and are they thrilled. Eight hundred and eighty dollars is now the new low price of becoming an accomplished musician, in no time, via the Hammond Chord Organ. Think of the growth possibilities with a "machine" like this, less than the cost of a good piano.

Even though the dividend was recently doubled from $1 to $2 annually, the exceptionally strong financial position and increasing earnings make it logical to expect a continuing uptrend in annual distributions. For the fiscal year ended March 31, 1950, net income after taxes amounted to $4.94 per share and for the first quarter of this fiscal year were up about 25%, compared with the same three months in 1949.

This, of course, is all based on a presumption that there will be no serious curtailment in the output of the company's normal products which, I must admit, is a pretty big presumption. In World War II the production of musical instruments was stopped and Hammond produced electronic devices used in aviation and the woodworking plant made coffins. Earnings prior to the last war were relatively low and as a result the excess profits taxes hit hard, but this time the situation in this respect is greatly improved, as earnings have averaged $3.63 per share in the past four fiscal years, so that a better base of "normal" earnings has been established.

HERBERT G. EINSTEIN

Einstein & Stern, New York City
Members of New York Stock and Curb Exchanges

(E. I. du Pont de Nemours Common)

In an investment program, to name any one security is almost an unfair inquiry, in view of so many basic facts which must be considered in the selection of securities for any investment portfolio — namely: (1) The size of the estate; (2) The individual involved — to wit: businessman—retired individual — widow—trusts for minors (not restricted) — the employee (teacher, clerk, etc.) are all important in making a recommendation and/or selection for portfolio requirements; (3) The average income received and the amount of income required, as well as other income earned; (4) The tax obligation to be faced annually.

Herbert G. Einstein

After all of the above facts have been studied, there is the all important "Safety of Principal" to be considered. To protect principal I recommend that no more than 5% of any corpus should be invested in any one security—and no more than 10% in any one industry.

Space will not permit me to dwell upon such important factors as percentages of common stock, preferred stock and bond holdings, as well as Tax Exempt and U. S. Treasury investments needed. The change in type of investments to be held based upon trend and market quotations, must be given consideration over a period of months and/or years, are also limited by space in the present discussion.

Irrespective of all of the above factors, I feel that I must permit room for my selection of the one security that I am asked to name and my reasons for said selection.

I consider E. I. du Pont de Nemours common stock as the one security that is a **"must"** in any portfolio. This is irrespective of previous split-ups, the government antitrust suit and present price of the stock.

The management policy of obligation to stockholder and employee—the production of many products daily consumed by the public at fair and equitable prices—as well as continued development of new items in new fields, is the basis of continued future growth of the company, in addition to earnings received from its various chemical activities.

Still another factor in the assets and earnings of du Pont is its holdings in General Motors. (Note: the recent $4 dividend of General Motors is equivalent to about 83½ cents per share on each share of du Pont.

The financial position of the company is exceptionally strong; to wit: current assets $450,000,000 as against $88,300,000 of liabilities.

The following figures (received from sources deemed reliable) are of interest:

1940-49 average earnings: $2.22 per common share.

1949 earnings: $4.52 per common share.

12 months to March, 1950 earnings: $4.76 per common share.

6 months to June, 1950 earnings, $2.59 per common share.

6 months to June, 1949 earnings: $1.82 per common share.

1940-49 average dividends: $1.76 per common share.

1949 dividends: $3.40 per common share.

1950 paid or declared to date: $3.10 per common share.

In closing, let me add that I know of no stock that is any more of a **"must"** in any portfolio than du Pont, based upon past record and future growth possibilities.

RAYMOND SPRAGUE

Partner, Raymond Sprague & Co.
Members N. Y. Stock Exchange

(A. O. Smith Corporation)

For one who has been associated with the securities business for nearly 50 years, as I have, it is difficult to nominate "The Security I Like Best." Different times, different needs, different yardsticks, and above all, something that would make one security attractive above all others even though they meet all the other qualifications, must be considered. With this in mind, although I have many favorites, I have chosen the stock of the A. O. Smith Corporation as "The Security I Like Best."

Raymond Sprague

The stock of this company because of its comparatively limited market supply, roughly a half-million shares being available, has not received the market acceptance that it warrants, although more and more investors are being attracted by the progressively better years the company is enjoying. Above I have referred to a "something" that would make this security attractive to me. I believe that that "something" is the romance of its history and the perseverance on the part of the management through the years of continuous search for more and better ways to do things. The philosophy of the A. O. Smith

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Investment in a Part-War Economy

By THOMAS D. SEARS
Investment Counsel, Santa Barbara, Cal.

After reviewing economic and stock market effects of Korean War, writer outlines factors in situation, and advises maintaining a diversified portfolio and a "wait and see" attitude. Recommends restricted investment in concerns not participating in government contracts and whose raw materials are not in line of military needs.

Eight weeks have elapsed since the market buckled under the first impact of the Korean news. Following that date, events have moved at a startling pace. The Dow Jones Industrial Stock Average sustained an extreme reaction, approximating 13%, and subsequently the market enjoyed a rally amounting to about two-thirds of the early decline. Following the initial drop in which the Railroad Stock Average virtually duplicated the performance of the Industrial Average, the rail stocks turned about and rose steadily to establish a new high for the year. The Public Utility Stock Average, which suffered an initial decline fully as great as the Industrials, to date has not rallied as substantially.

Thomas D. Sears

These divergent movements in prices are significant in indicating the rapidly changing attitudes and responses of investors and speculators to the news. At the outset, it should be stated that the market, after an uninterrupted advance of approximately one year, was certainly ripe for a technical correction. Just how much of the break can be ascribed to a weak technical position in the market and how much to the character of the news itself is difficult to say. The fact that all types of stocks retreated simultaneously at the outset and that a more selective market began to develop two weeks later, suggests that the selling which took place in the early sessions was prompted by the usual urge for liquidity which seems to be characteristic in such periods, whereas the price trends which began to take form ten days or two weeks later represented a more calculated adjustment to the conditions which appear to be in prospect. The market is certainly still in this second phase. In all honesty, it must be said that the efforts to appraise future earning power are necessarily of a fumbling and conjectural variety. It is pretty difficult to build a structure without a foundation and cornerstones, and, in our present situation, we do not have most of the essential facts necessary in forming conclusions.

To date, the reactions of the investing public, as revealed in the price movements of individual stocks and industrial groups in the market place, seem to be as follows:

(1) The intensified effort at rearmament carries distinct inflationary implications for our economy.

(2) That transportation companies and companies supplying the raw sinews of war will fare relatively better, earnings-wise, than others.

(3) That the attraction of equities as investment media remains relatively undiminished.

These premises and attitudes may turn out to be justified, but, in the light of the record of stock prices, corporation earnings and living costs during World War II, a few observations seem to be in order. First, in estimating the inflationary potential, we should remember that major inflationary price movements do not usually take place during the war emergency; they tend rather to follow it. During World War II, the imposition of various types of controls kept commodity prices and living costs from getting out of hand, but the years of 1946 and 1947 witnessed terrific rises in response to the termination of these arbitrary restraints. From the time of Pearl Harbor until September, 1945, when the war closed, the Moody Index of Spot Commodity Prices rose only 17%. The rise in the Dow Jones Commodity Price Index was 18%, and the rise in living costs, as measured by the Department of Labor, was 16%. From that date until the end of 1947 the rises were 80%, 70% and 29.2%, respectively. During the two following years the price indices declined very substantially and the cost of living remained stationary.

Second, the degree of inflationary pressure in our post-Korean period will be in direct ratio to the magnitude of the war effort and the Treasury deficits incurred in financing it. The expenditures contemplated to date do not suggest anything resembling an all-out conversion of production facilities to armament output and, in all quarters, there is definitely a disposition to finance, to a very large degree, the expenditures by tax increases. The current expectation is that the military budget will be increased by $15 billion per year. The tax increases voted upon this week are estimated to add $5 to $8 billion per year to existing receipts. The speed-up of corporation income tax payments under the plan which will bring corporation payments to a current rather than to a year-behind basis, will add to Treasury receipts. If an excess profits tax is imposed, its take, under existing

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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 31, 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.

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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.

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The Marketing of World Bank Bonds

By DAVIDSON SOMMERS*
General Counsel, Int'l Bank for Reconstruction & Development

World Bank official describes procedures, problems and progress of marketing its obligations. Cites success of efforts to obtain wide distribution of these securities among all classes of investors by obtaining legislation making them eligible for purchase by national banks, insurance companies and trustees. Says World Bank bonds are now eligible for investment by banks in a number of countries and have been introduced into the Dutch market.

In financial circles the International Bank for Reconstruction and Development usually is thought of primarily as an instrument for raising funds in the American market. I shall try to give enough of a description of the Bank to furnish a background against which one can appreciate its marketing operations, and then mention a few of the principal problems that we have met in raising funds.

Davidson Sommers

The Bank was organized at the United Nations Monetary and Financial Conference held at Bretton Woods, New Hampshire, in 1944. There our charter, which is called the Articles of Agreement of the Bank, was formulated and agreed to by representatives of the 44 countries attending the Conference. The Bank came into existence in December, 1945, when 28 of the 44 countries signed the charter, and operations began on June 25, 1946. At the present time 48 countries are members of the Bank, including most of the important countries in the world except Russia, Spain, Argentina, New Zealand, and Switzerland. Sweden's application for membership is pending, Poland has just withdrawn from membership.

We are often asked what kind of an institution the Bank is. Is it a corporation, an association of nations, or some other form of cooperative association among nations? Technically, the Bank is an international institution, existing under an international agreement. The Bank has corporate form and status and the easiest way to understand its organization is to compare it to a private business corporation, which it resembles in many respects.

Like a private corporation the Bank is granted by its charter "full juridical personality," that is to say, full capacity to own property, to make contracts, to sue and, unlike most international organizations, to be sued in courts of law. It is owned by stockholders and its capital is raised by issuing shares of stock. In our case, since shares of stock can be subscribed only by governments and are not transferable, our stockholders, whom we usually call our members, are governments. They exercise ultimate control over our operations through their voting rights as stockholders.

The Bank's administration follows the usual corporate pattern. Its operations and policies are under the general supervision of a board of directors, or, as our Articles of Agreement call them, Executive Directors, who are selected by the stockholders. The chief executive and chairman ex officio of the Board of Executive Directors is the President of the Bank, who conducts its business and is responsible for selecting and organizing the operating staff. The President, officers and employees are recruited on an international scale, some 27 nationalities being represented at present, but they owe their duty to the Bank as an organization, not to any of the member governments.

Perhaps the most complex aspect of the Bank's organization is its capital structure. There we depart somewhat from the normal corporate pattern.

The Bank has an authorized capitalization of $10 billion, expressed in terms of United States dollars of the weight and fineness in effect on July 1, 1944, and divided into 100,000 shares of the par value of $100,000 each. Of this total authorized capital, approximately $8,400,000,000 has been subscribed. That does not mean that the Bank has over $8 billion available for its operations. The unusual feature of its capital structure is that each subscription to shares of stock is divided into three parts, each part being payable by the stockholder in a different manner.

The first 2% of the subscription price of each share of stock is paid to the Bank, in gold or United States dollars, when a country accepts membership. These funds are usuable by us for any of our corporate purposes—to make loans, to pay operating expenses, or to pay our debts. From that source we now have approximately $165 million.

The next 18% of the subscription price of each share of stock is also paid to the Bank when a country accepts membership, but in this case payment is made in the currency of the particular member. In other words, the United Kingdom, for example, pays in pounds sterling, France in francs. This 18% capital, as we call it, may be used by us for administrative expenses, and, if necessary, to pay debts, but its use by the Bank is subject to one important restriction. These funds may not be used in the Bank's lending operations except with the consent of the government whose currency is loaned.

The purpose of that rather unusual provision becomes clear when you consider the economic position of many of the Bank's member governments at the time of the Bank's organization. A loan by the Bank in any currency results in an export from that country without any immediate return in foreign exchange. From the economic point of view it is the equivalent of an export of capital on credit. When the Bank was organized it was recognized that very few of its member governments could afford to export capital on credit immediately after the war. Most of them needed all their domestic production for purposes of internal reconstruction or, if they had excess production, they needed the excess to acquire an immediate return in foreign exchange for purposes of importing food, raw materials or equipment. Consequently, as was contemplated when the Bank was formed, not all member governments have released their 18% capital for lending purposes. The United States has released its entire 18% capital, amounting to about $570 million and there is a growing tendency on the part of other members to permit us to use their currency for loans but the aggregate amount freely available in non-dollar currencies is still relatively small.

The third part of the subscription price of each share of stock, 80% of the total, is never paid into the Bank for use in its lending operations. It is subject to call by the Bank, but only when needed to meets its obligations on securities it has issued or guaranteed. In other words, this 80% liability, as we call it, is in substance a guarantee fund by which the member governments jointly and severally (but indirectly) guarantee the Bank's obligations to its security holders. This liability is payable either in gold, in dollars, or in whatever currency the Bank needs to discharge the obligation for which the particular call is made.

We have had a number of questions about the technical nature of that liability, which reflects the interest in the mechanics. If the Bank should need to meet a $50 million obligation on its bonds, and did not have liquid funds available for the purpose, it could of that liability, which reflect the make a call for $50 million to be paid pro rata by the various member governments in proportion to their stock subscriptions. If any members should fail to pay the amount due by them, the Bank could make a further call on the others, assessing against them the amounts which were not collected on the first call, and so on until the full amount was collected. The only limitation on the amount payable by any member government on a series of calls of that kind would be that no member could be required to pay in the aggregate more than the unpaid amount of its stock subscription. The amount of stock subscribed by our various member governments varies greatly. The largest stock subscription is that of the United States, $3,175,000,000, approximately 38% of the total subscribed capital. Next in order comes the United Kingdom, with a total subscription of $1,300,000,000, or about 16% of the total, and then the others in amounts ranging from France, with approximately 6%, down to Panama, with less than .005%.

The United States subscription is of particular importance not only because it is by far the largest but also because our marketing operations have been, and undoubtedly will be in the foresee-

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*A lecture given on July 31, the 10th in a series of 17 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.

Business Conduct and the New York Stock Exchange

By FRANK J. COYLE*
Vice-President, New York Stock Exchange

New York Stock Exchange executive reviews operations of its Department of Member Firms, which maintains supervision over conduct of members and member firms, together with their capital or financial positions. Describes methods of checking member firms' affairs through questionnaires and audits as well as the execution of the numerous rules of business conduct. Lists requirements for position of "customers' men" and outlines application of Stock Exchange laws and disciplinary procedure applying to allied members as well as to members.

I am sure that those who have preceded me have given you a good picture of the organization of the Exchange. It may, nevertheless, be appropriate for me to read to you section 2 of article I of the Constitution of the New York Stock Exchange, written originally in 1792.

Frank J. Coyle

"Its (the Exchange's) object shall be to furnish Exchange rooms for the convenient transaction of their business by its members; to furnish other facilities for its members and allied members; to maintain high standards of commercial honor and integrity among its members and allied members; and to promote and inculcate just and equitable principles of trade and business."

The only change since made in that section of the Constitution has been addition of the words "allied members."

The policy-making body of the Exchange, as you know, is its Board of Governors. Up until 1938, when the government of the Exchange was reorganized, the Board was divided, for management purposes, into committees and sub-committees. The organization of the Exchange now gives those functions, under the direction of a paid president who is not a member of the Exchange, to departments that are staffed professionally.

The Department of Member Firms

One of these departments is the Department of Member Firms. The work that department does is not very well described in its name. I think you will get a clearer picture if we give the names of the standing committees whose work was assumed by it. One was the Committee on Business Conduct, the name of which is clear. It maintained supervision over the conduct of members and member firms and their capital positions.

The department also assumed the work of the Committee on Quotations and Commissions, whose work was, as its name implied—supervision over the quotations of the Exchange; that is, the publicity given quotations by means of the ticker system or by private wires. It also enforced the commission law of the Exchange. The commission law, incidentally, is a basic agreement among the membership that, in doing business with non-members in securities which are admitted to dealings upon the Exchange, commissions shall not be less than certain minima.

Another committee succeeded by the department was the Committee on Foreign Business, Another was the Committee on Customers' Men, which had supervision over the qualifications and hiring of registered employees or so-called customers' men.

Perhaps the most important function of the Department of Member Firms is the supervision that the Exchange maintains over the capital positions of member firms who do business with the public.

Every member firm which does business with the public must meet the Exchange's requirement that it have a minimum capital of $50,000, or 1/15th of its aggregate indebtedness, whichever is greater. As the business of the firm expands, and its aggregate indebtedness grows, it must provide additional capital. That capital has a different meaning and definition from that ordinarily used in public accounting.

Slow assets are given no value whatever—such as membership in an exchange, real estate, and furniture and fixtures. Securities which are owned in proprietary accounts are given value only to the extent of 70% of their value, and then only if they have an immediate and general market. Securities which may be sterling in quality, but have no market, possess no value for capital purposes.

Exceptions to the 70% valuation are United States Government and municipal securities, which are valued at market. High grade bonds are given something less than 100%, but more than 70%, depending upon the quality of their rating.

Questionnaires and Audits

One method by which the Exchange checks upon observance of capital requirements is a system of questionnaires. Three times a year, once in every four-month period, each member firm is required to answer a questionnaire from the Exchange. No advance warning of the questionnaire's receipt is given. Firms know only that in each four-month period they will be asked to respond.

One of the three questionnaires is known as the "long form." The other is known as a "short form." The answers to the "long form"

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*A lecture given on July 28, the ninth in a series of 17 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.

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The State of Trade and Industry

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

The expected happened, when President Truman ordered government "seizure" of the country's railroads and instructed the United States Army to take over control of their operation at 5 p.m. Sunday. By this action, Mr. Truman averted a nationwide strike which would have paralyzed rail transportation throughout the U. S. A. The Brotherhood of Railroad Trainmen and the Order of Railway Conductors, the two unions which had called the strike to begin at 6 a.m. last Monday, promptly cancelled their strike threat and announced that they would "gladly" operate the roads for the government.

For 17 months, these two unions have waged a battle with the railroads for a 40-hour week and higher pay. Secretary of the Army Frank Pace was designated by the President's executive order to take over railroad control. Secretary Pace thereupon named Karl B. Bendetsen, Assistant Secretary of the Army, to carry out the assignment, who designated Maj. Gen. F. A. Heilman, Chief of Transportation, to supervise the government's fourth railroad seizure in four years, assisted by about 50 other Army officials, including some of the railroad presidents who served in a similar capacity in World War II.

One of President Truman's secretaries, Charles Ross, was reported to have said last week that the President would not negotiate with the unions for a new contract, nor would other government agencies. The reason ascribed for the Administration's refusal to become involved in the unions' interest is because of the union leadership's action in ordering a strike when there is critical danger threatening our American troops who are fighting our battles in Korea. It is also thought that in ordering a strike in defiance of the national interest and in rejecting a Railroad Labor Act adjudication, the unions can expect no sympathy from the President and his executive aides.

A Case of Pre-Allocation Jitters

This week industry is sweating out an advanced case of pre-allocation jitters. For more than two months they have known allocations were coming and they have tried to buy accordingly. The result has been one of the wildest scrambles for material ever experienced. And it has culminated this week in a state of utter confusion in many markets, according to "The Iron Age," weekly national metalworking authority.

The slow-motion probing of the Administration for a pre-election set of "painless" controls has compounded the industrial confusion. Industry and individuals have already had more than two months to speculate. Who can blame a man or a company for trying to buy what he has been told will be allocated? That he will try to buy scarce materials is as basic as self-preservation, observes "Iron Age."

Most steel producers are still trying to meet the torrent of demand on a hit-or-miss basis, says this steel authority. They are filling critical government orders as they come along, taking the tonnage out of the customers' regular allotment whenever possible. When they are unable to do this, everyone's allotments are cut back proportionately.

Some companies have a more definite plan. They have arbitrarily divided their October and November tonnage into two categories: (1) To fill government orders, and (2) to fill regular orders. They will book government orders against this tonnage until Sept. 15. If government orders total more than they estimated they will cut back on regular orders during November to fill them. If they underestimated they will increase some November allotments to regular customers.

Whether the freight car builders are getting enough steel seems to depend on what side of the fence you are on, notes "The Iron Age." Steel people say yes. Carbuilders say no. With railroads pledged to increase total freight cars by 122,000, carbuilders are all out competing for the orders, of which 60,000 have already been placed. Delivery dates are an important factor in this competition and the carbuilders want to step up operations to clean up orders on hand and go after new ones.

Structural fabricators are finding it more difficult than ever to obtain reinforcing bars and structural shapes. "If and when" bidding is back. That is in bidding they specify delivery if and when they can get the steel. Other fabricators with good mill connections refrain from bidding on jobs because their backlogs are already extended to the end of the year. They are afraid to bid because those letting the jobs will give them to fabricators more likely to be able to get steel—regardless of price.

Despite the fact that some big scrap consumers were staying out of the market this week, prices remained firm, even increased in some centers. The "Iron Age" steel scrap composite price rose $1 a ton to $42.58 per gross ton, another new high for the year. Steelmaking operations this week are scheduled at 97.5% of rated capacity, an upsurge of 6.5% from last week's revised rate which was affected by the rail strike.

"Steel" Magazine Reports Record Consumer Demand

Consumer pressure for steel shipments was never greater, says "Steel," the weekly magazine of metalworking. Apprehensive of early inroads by the military on steel supplies, civilian goods manufacturers are playing all the corners in attempts to build inventories. But not much success attends their efforts with mills booked up as far into the future as they care to go. Last week, due to the token rail strikes, particularly at Cleveland and Chicago, the national ingot rate dropped 10 points to 90% of capacity, lowest since March when operations were adversely affected by

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Schram Resigns as N.Y.S.E. President

After 10 years as President of the organization, he offers his resignation. Had been absent for some time due to illness, and will return to his farms in Illinois and Indiana.

It was announced on Aug. 25 that Emil Schram, President of the New York Stock Exchange for the last 10 years, will offer his resignation to the Board of Governors on Sept. 14. Mr. Schram has been absent from his office for some time previous to April of this year due to illness, his place having been filled temporarily by Robert P. Boylan, Chairman of the Board of Governors.

Emil Schram

Under the contract between Mr. Schram and the New York Stock Exchange, either party may invoke a six-months "escape" clause. The acceptance of his resignation would, therefore, mean that he would continue in office for that additional time or possibly longer if the six-months' clause is not invoked until Nov. 1

Upon actually leaving office he would, for a period of 10 years, receive a pension of $25,000 annually and be on call for consultation.

Mr. Schram was born in Peru, Ind., on Nov. 23, 1893 and was educated at the local high school. He early interested himself in land drainage and land cultivation and became connected with several land drainage and irrigation projects, along with elevator and other agricultural facilities. In 1931 he was elected Chairman of the Board of Directors of the National Drainage Association and two years later became the Chief of the Drainage, Levee and Irrigation Division of the Reconstruction Finance Corporation. From this position, he advanced by degrees to the Chairmanship of the Reconstruction Finance Corporation, a position he held, when in July, 1941, he was officially appointed President of the New York Stock Exchange at a salary of $48,000, subsequently increased to $100,000 per annum.

It is reported that Mr. Schram is not expected to accept any corporate post upon his retirement from the Exchange but will devote himself to his large farming interests in Illinois and Indiana.

Firm Name to Be Greenfield & Co.

Effective Sept. 1 the firm name of Greenfield, Lax & Co., Inc., 40 Exchange Place, New York City, will be changed to Greenfield & Co., I . Herbert Lax resigned as an officer on Aug. 24 and has become associated with Stanley Pelz & Co.

Bailey Davidson Adds

(Special to The Financial Chronicle)

FRESNO Calif.—Marley M. Darneal has been added to the staff of Bailey & Davidson, 2133 Fresno Street.

Hamilton Managem't Adds

(Special to The Financial Chronicle)

DENVER, Colo.—Joseph E. Lazzara and Rainsford J. Winslow have been added to the staff of Hamilton Management Corp., Boston Building.

Observations . . .

By A. WILFRED MAY

Korea's Atomization of Investment Principles

What is the motivation behind the market's interesting post-Korean behavior—reflected in an extraordinarily sharp rise making up two-thirds of its preceding June-to-July break, and in conflicting group-to-group movements?

Inflation?

Is the controllingly bullish atmosphere of the majority to be ascribed to carefully conceived expectations of inflationary phenomena that are relevant to securities; and to objectively reached conclusions that the inflationary factors are stronger than the counter-balancing deflationary and bearish elements, such as wartime taxation, interventionist measures, and the nation's enormous productive capacity?

A. Wilfred May

This writer happens to hold the long-term conviction that this country within the last decade has joined the world's other nations in a depreciation of the monetary unit—**but on a long-term basis.** However, as we have seen on several occasions since 1933, statistical evidences of inflation such as marked increases in the money supply, have been accompanied by bear markets, temporary but drastic. We must remember that in 1920 equities fell in the face of a postwar inflation; and that the cutting of the dollar's purchasing power by one-half between 1939 and June 1949 was not accompanied by any proportionate rise in stock prices.

We must conclude that the public is prone to realize the existence of inflation as an explanation of bull stock markets **after-the-event,** and that its "analyses" are short-term and generally ill-timed.

From Surplus to Scarcity?

A year ago the public envisaged a collapse in the price of copper due to "recurrently unmanageable" supplies, a situation that could be forestalled only by a protective tariff; and similarly it was calculated that petroleum production was about to flood the country and break the price structure. Now—the popular investing credo holds that not only will there be a "dollar-depreciation" rise in the price of metals and other commodities, but that there will be important shortages. Hence the current scramble for *wealth-in-the-ground.*

Toward steel, we have seen the same popular attitude reversals. Whereas until two months ago the fear of incipient return to the deflationary results of traditional steel over-capacity was controlling, reflected in the extraordinarily low price-earnings ratios of steel shares; now the market has to some extent there too joined the consumer in scare-buying. And this despite the fact that it has been pointed out clearly that foreseeable armament requirements will use less than 10% of our steel capacity; and in the face of the fact that steel industry economists have appraised investment managers that steel soon may well be "running out of the industry's ears."

Taxation?

Toward the factor of prospective tax programs also the Street blows hot and cold. During a bull market it is realized that higher corporate taxes get passed on to the consumer, with little long-term effects on net profits. In his formulation of judgment on the effects of prospective excess profits taxation, the investor is being fairly inundated under a tremendous variety of elaborate statistical projections of company net earnings calculated with decimal point precision.

Much of this calculation is conflicting. For example, the writer has on his desk such projections from two highly competent brokerage firms. Following are the differing calculations by the two firms (designated "A" and "B") stated as an average of net after tax price-earnings ratios for the leading stocks in various industries.

Industry	"A's" Projection	"B's" Projection
Automotive	7	11
Steel	7	11
Chemical	12	35
Merchandising	7	19
Non-ferrous metals	9	16
Food	9	20

Surely the investor—expert or amateur—is not basing his current investment decisions on confident conclusions about future

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Monetary Policy in Free Economy

By M. S. SZYMCZAK*

Member, Board of Governors, Federal Reserve System

Distinguishing between long-range and short-range problems of monetary policy, Governor of Federal Reserve System asserts a timely and appropriate flexible monetary policy can greatly assist in leveling off booms and depressions. Sees need of changes in interest rates in order to meet fluctuations in credit demands so as to create greater economic stability, and calls for close liaison between monetary policy and the fiscal and debt management policy in control of inflation.

I shall address my remarks to the basic issues of current monetary policy. Any discussion of this subject must take into account certain basic principles that underlie monetary policy at any time, whether it be a period of national emergency, the course of a business cycle, or a long-run peacetime period of economic growth. I would go so far as to say that thinking and rethinking of fundamentals are of maximum importance right now, for monetary policy, intelligently and flexibly administered, can and should play an important role in helping our economy to meet our defense emergency. My remarks, therefore, begin with consideration of basic principles. Then I shall go on to consider their application to the current situation.

M. S. Szymczak

For purposes of present discussion, the basic problems of monetary policy can be divided into two parts, (1) the long-range and (2) the short-range. The long-range problem can be put very simply. It concerns having enough credit and money to keep pace with the needs of economic growth and a steadily rising standard of living for all the people. Thus the total money supply, mainly bank deposits, has increased substantially during the last 50 years largely to accommodate the increased need.

Long-Range Monetary Problem

Economic growth and a steadily rising standard of living are basic features of our free-enterprise economy. No other society in the world's history has accomplished so much in so brief a span of years. One of the main reasons why this has been possible has been the inventiveness of our community in expanding its financial assets as its resources and productive power have increased.

In this development our private commercial banking mechanism has played a vital role. This role has been—and continues to be:

(1) To mobilize and safeguard the community's currency and bank deposits;

(2) To provide its own money in the form of checking accounts against deposits as the principal money form used in the country;

(3) To assist private enterprise and individuals to find appropriate development opportunities; and

(4) To expand the community's bank deposits on the basis of borrowing to realize such opportunities.

As government has grown to provide essential police, health, educational, and other public services, or to meet great national emergencies such as war, commercial banking has helped in financing governmental needs. Our private banking mechanism has been a propelling force in our country's dramatic economic growth.

Central banks are socially devised institutions, often quasi-public in character, for reenforcing private commercial banking. They have important supplementary functions to perform. Their task is:

(1) To help safeguard the general liquidity and soundness of private commercial banks;

(2) To facilitate exchange of the national currency into other national currencies;

(3) To provide elasticity to the currency and deposit mechanism; and

(4) To maintain supply conditions for credit and money in accordance with the over-all needs of the economy at high levels of activity.

Efficient performance of these related functions means encouraging enough expansion of credit and money to foster full utilization of expanding physical resources, technical skills, and manpower. "Enough" credit and monetary expansion means not so much as to foster inflationary pressures, and not so little as to induce deflationary trends. Maintenance of the right amount of credit and money is the heart of the monetary problem. It is what monetary policy, carried out through central banking operations, is designed to accomplish.

Central banks have grown up because of a need manifested by recurring monetary and banking problems. Our own Federal Reserve System was established in 1913 after a very extensive Congressional study of American banking and monetary experience, as well as of that of other countries. As experience since the Reserve System's founding has brought shortcomings to light, the Congress has authorized some modifications in the System's authorities and organization.

Short-Range Monetary Problem

From these remarks on the long-range monetary problem, I should like to turn to what I think is the short-range monetary problem. By short-range problem, I do not necessarily mean today's problem, but rather the short-range problem at any given point of time, regardless of the prevailing overall economic and financial conditions.

To express it in the fewest possible words, the short-range monetary problem is how to adjust credit and monetary conditions to current changes in the economic situation. In part, this means adjusting credit and monetary conditions in such a way that monetary policies do not in themselves contribute to economic instability. More particularly, it means that credit and monetary policy should seek to counteract or compensate for unstabilizing forces.

An essential consideration in credit and monetary adjustment is the avoidance of any weakening of the financial structure which would gradually undermine the soundness of the general credit situation. Avoidance of an unbalanced development of par-

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*A lecture by Governor Szymczak at the School of Banking, University of Wisconsin, Madison, Wis., Aug. 29, 1950.

Federal Reserve Board Presents Fiscal and Credit Policies

In confidential memo to Joint Committee on Economic Report, the Board urges curtailment of overall civilian spending, drastic restrictions on consumers and commercial credits, and as far as humanly possible taxation on pay-as-you-go basis. Says government borrowing should come from non-bank investors.

At the request of the Joint Committee on the Economic Report, the staff of the Federal Reserve System prepared a memorandum on fiscal and credit policies to be pursued in the present emergency.

The full text of the memorandum follows:

The sudden outbreak of war in Korea has called for a reappraisal of American economic developments and economic policies of the Government. Increased Government expenditures for military purposes are being injected into an economy already showing signs of bulging at its production and price seams. The impact of these new defense expenditures on all aspects of the economic situation under these conditions will go far beyond what the figures of $10 or $20 billion by themselves suggest. Unless incisive offsetting Government action is taken, substantial inflation seems inevitable.

The United States cannot successfully discharge its great responsibilities of world leadership; it cannot fulfill its function as an arsenal for the United Nations, unless we maintain the strength and integrity of our domestic economy. It is as imperative to maintain our economic strength as it is to provide for our military strength. Without the one, we cannot have the other. Inflation at home can be as deadly an enemy as the armed enemy abroad. We have to assure success on both fronts. Both require sacrifices of all of us.

The Nature of the Problem

In the broadest aspects, the objectives of economic policy are three-fold: (1) to assure that the military program obtains the goods and manpower needed to accomplish the task assumed; (2) to finance the increased Government expenditures in a way which will avoid or diminish the possibilities of inflation both *during and after* the emergency; and (3) to curtail or restrain private spending and investment, as well as non-military expenditures of Federal, State and local governments, to the extent necessary not only to assure essential supplies to the military but also to reduce the current and future possibilities of inflation.

Attainment of these objectives is essential to the maintenance of a sound economy. In determining policies directed toward them, the principal aspects of the current situation and of possible future developments to be taken into consideration are the following:

(1) The economy is already operating at close to capacity and the leeway for further expansion is limited. This situation is in sharp contrast to that existing in 1940 and 1941 when the previous defense program was commenced. In addition, holdings of money and other liquid assets by businesses and individuals are much greater relative to the national product than in 1940 and, together with existing potentials for credit expansion and growing current incomes, could provide the basis for a substantial increase in the volume of private spending and investment.

(2) The presently announced increase in the military program taken alone could be met by the economy with little change in the volume of goods and services available to the civilian sector of the economy. In particular areas expansion of capacity or contraction of consumption will be needed. A considerable expansion of the military program beyond what has yet been indicated would drastically change the situation.

(3) The major problem of economic policy *for the immediate future*, irrespective of the size of the military program and the rate of increase of expenditures, will be *to curtail overall civilian spending.* The increase in incomes resulting from the expanded military program, the diversion of goods to that program, and the various stimuli given to private spending by the psychological and other factors incidental to such a development will not only result in increased consumption and investment but also in speculative commitments. Inflationary pressures now already powerful will snowball.

(a) Businesses and individuals have been put on notice that they are insured against depression for some time to come. The general caution which tempered the postwar inflation cannot safely be relied on for the years immediately ahead.

(b) Businesses and individuals have been educated by recent experience regarding inflation. If a price rise becomes general, they can be expected to move quickly to spend vast amounts of liquid funds in an attempt to protect themselves against future declines in the value of the dollar. Some are already doing so.

(c) Prices will be under upward pressure from the cost side (aside from other pressures from increased demand). The increased cost of living and the larger profits, together with high employment and the attraction of labor into defense industries, will stimulate wage demands and some wage increases. In addition, labor costs per unit will tend to rise as overtime payments are required and as less efficient marginal workers are reemployed in an effort to maintain or expand production.

(d) The actual cash expenditures by the Government for increased military supplies will not be the measure of productive resources tied up in this work. Higher incomes will also be generated and scarce resources used up as work proceeds on producing planes, tanks, and guns and providing additional capacity even before actual payments are made by the Government.

(e) Speculative buying and investment activities can be readily financed either by available liquid assets or by borrowing from banks and other lending agencies.

All in all, the outlook for a serious inflationary spiral is foreboding. Such an inflation would cause great hardship to many groups of our people. It would diminish incentives and misdirect tremendous amounts of effort into non-productive areas. To prevent inflation is a matter of critical importance and urgency.

(4) Private credit expansion, which has already been substantial this year, is likely to be accelerated. This would provide the monetary means for an inflationary spiral. Banks, insurance companies and other lenders can readily obtain funds for new lending by selling low-yield government securities. If the Federal Reserve should purchase these securities to maintain stable rates in the market, there would be an increase in bank reserves which provide the basis for multiple credit expansion. Strong credit demands will undoubtedly continue in the housing field, for purchases of consumer durable goods, and for expansion of business inventories. Widespread demand for bank credit to finance speculative commitments of various sorts is also to be expected.

(5) The immediate need is for a well constructed, ably and firmly administered set of fiscal and monetary controls. Such controls are always preferable to direct ones if they can do the job. They are always needed to back up direct controls if inflation is to be avoided. At their best, direct controls do not prevent inflation so much as postpone some of its impact.

Fiscal and monetary controls involve less infringement upon individual freedom and choice, do not dispense with the price system as a guide to civilian production, are less difficult to administer, are less costly, and are more readily relaxed or otherwise adjusted flexibly to changing situations, thus creating fewer post-emergency problems. It will be necessary, however, for such controls to be applied wisely and courageously in a manner that will be genuinely restrictive. Their administration could not be painless.

Scope of Fiscal and Credit Policies

This is the time to resolve to finance the national defense program as far as humanly possible on a pay-as-you-go basis. Nothing could be as effective in combating and preventing inflation as taxes high enough to absorb surplus money competing for scarce goods. In retrospect, the gravest mistake we made in financing World War II, and the mistake which left the deepest mark on the American economy, was failure to tax enough. This failure left us with a huge burden of government debt and tremendous potentialities for inflation. As a consequence, we experienced great difficulty in maintaining economic stability in the postwar period.

After taxation, the least inflationary method of government finance is for the Treasury to confine its borrowing as much as possible to the current savings of the public and to avoid as far as it can borrowing from banks. Current savings of individuals and businesses would be sufficient to provide the Treasury with a substantial source of funds, particularly if limitations are placed on extension of housing and other investment not essential for the military program. Choice of securities offered to raise these funds is especially important.

The most important immediate task of credit policy is to curtail private credit for non-essential purposes. It will take time for a tax program to become effective. In the meantime, the only weapon at our command is restriction of private nonessential credit extension. In fact, it will be necessary to maintain a more effective set of restraints on private credit extension than has been undertaken in recent years.

The task of restraining private credit extension is much more difficult under existing conditions than it was in previous periods. The large volume of liquid assets, including cash and government securities, held by banks, other lending institutions, businesses and individuals constitute a large block of funds available for other uses.

Particular fiscal and monetary measures that might be considered for use in the present emergency will not be discussed more fully.

Taxation

In the present emergency, the most important measure in the fiscal and credit area is to assure a volume of Federal government

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revenue that exceeds expenditures. This will require a substantial increase in taxes and rigid economy in the less essential functions of government. Some cuts in expenditures, such as those in connection with the agricultural commodity support program, housing, and unemployment should come automatically. Others will be necessary and will require courageous action.

In considering an expanded tax program to finance increased defense expenditures, the following guides or principles are suggested:

(1) It is highly important to curb purchasing power throughout the private sectors of the economy.

(2) Purchases of certain civilian goods need especially to be curtailed to help prevent military procurement from creating price spirals in these areas.

(3) The tax program should hit war profiteering and speculative activity.

Financing the expanded military budget should not be limited to taxation of wealthy individuals and business enterprises. An across-the-board increase in income tax rates, including those on individuals in the lower and middle income tax brackets, is absolutely essential if income available for the purchase of goods and services is to be brought into line with the supply of such goods and services without price spirals.

Public acceptances of such an increase in individual income taxes would be considerably aided if groups that are known for their ability to avoid income taxes were subject to closer scrutiny and enforcement. The plugging of other tax loopholes, including certain tax free exemptions, would also improve the receptivity of the general public for higher income taxes as well as substantially increase revenues.

Use of selective excise taxes should also be expanded to divert private purchasing from critical sectors as well as for purchase of non-essential products and services that utilize scarce labor. Without such taxes or other controls [illegible] expenditures in these areas would be restricted only through higher prices with resulting higher business (windfall) profits. This would contribute to the development of an inflationary spiral. With an excise tax this money flows directly into the Treasury. Consideration should be given to levying excises as temporary measures with a definite expiration date related to the immediate and prospective situation.

Not only should there be a well conceived contract renegotiation policy applicable to business corporations handling military contracts, but all business corporations should share in carrying the burden of the increased tax program. A program of corporate tax increases designed for a relatively short emergency would place considerable reliance on an excess profits tax. The basic weakness of such a tax is the incentive given to nonessential and other cost increasing expenditures, which invite the very situation that the anti-inflation program is intended to prevent. New excess profits tax legislation should discourage extravagance resulting from unlimited allowance for nonessential expenditures, and may need to be accompanied by wage controls in order to restrain excessive wage and salary increases. Such cost increases, if left unrestricted would divert funds into the spending stream and defeat the purposes of the anti-inflationary program.

If the emergency is likely to be of long duration, it would be preferable to raise normal and surtax rates on corporations as well as to adjust individual income taxes rather than continue

Continued on page 15

From Washington Ahead of the News

By CARLISLE BARGERON

It is doubtful if President Truman is very much miffed with General McArthur's message to the Veterans of Foreign Wars because the latter, probably unwittingly, gave him an issue for the Congressional campaigns; that is, of course, if we have won a decisive victory by then or are definitely on the way to winning one.

Carlisle Bargeron

In the conclusion of his strong argument for the defense of Formosa, the General said that nothing had done so much to hearten the flagging spirits of Asia as the President's action in challenging Stalin in Korea. That's to be the Democrats' argument in the Congressional campaigns, assuming Stalin "has been stopped" by then, and it is an argument that is giving the Republicans no small amount of worry. From a man who has committed one of the most tragic blunders in our history, he will be transformed into a tremendous stature of courage and foresight—the man who stopped Stalin.

As I understand it, even a complete victory in Korea will not mean this at all; indeed, the Administration propagandists have been saying it will not. The Administration has asked for and has gotten some $16 billion additionally from Congress, although it is anticipated that but a small fraction of this will be needed for Korea. The rest is based on the proposition that Korea is but a starter, that there will be similar incidents, in Iran, in Eastern Germany, in the Balkans. So, manifestly, nothing conclusive will have been accomplished in Korea.

Strategically, no expert, military or otherwise, has argued, to my knowledge, that Korea was important, that it meant a thing in the world one way or the other. This was the line Truman followed until, on the spur of the moment, he changed his mind and ordered South Korea defended. Insofar as any of us in Washington can find out, no one of his official family, in or out of the military, pressed him to make this decision. Every indication is that it was his own.

It must be kept in mind that the argument over the Administration's policy in Asia has been around the defense of Formosa, an island more than hundred miles removed from the mainland, and a seemingly relatively easy job. Throughout the hearings before Congress, running back to 1948, the military is consistently shown as saying that Korea could not be defended. Occasionally there are some optimistic puffs by men having to do with the training of the South Koreans, designed to justify their appropriations for this work, that the South Koreans could take care of themselves, but nowhere, so far as I can find, has there been any suggestion that we defend Korea.

Under the circumstances it would be amazing, come November, that the voters of this country would feel grateful to the present Administration for having "stopped Stalin" or anything else. You would think their mood would be one of utter indignation. However, we are living in an amazing period.

We are up against in this country a tremendous ideological division. The Republicans' opposition consists of huge racial and labor blocs whose leaders are not concerned in the efficiency or inefficiency of the Washington Government. Their sole concern is that it is the government which gives them their power. The hordes of voters they control have ceased to be free to the extent they do any thinking of their own. They are incapable of becoming indignant over such as the Korean episode, over the whole tragedy of our conduct of foreign affairs the past 16 or so years. They are saturated with the belief that the government responsible for this is a government that is good to them. The Republicans are their enemies.

True also, is that the increased government spending will bring them what they consider are even better times. The Korean war probably will not hit into enough homes to offset this feeling on their part of greater "prosperity." Additional payroll tax deductions will be offset, you can rest assured, by demands for readjustment in the "take home" pay.

Indeed, this far ahead of November, the propaganda is putting the Republicans in a ghoulish light. They are pictured as gloating over the Korean episode because it will bring them votes.

There was a rather amazing spectacle in the Senate several days ago. Four Republicans joined in a statement criticizing the Administration's policy in Asia, saying it was responsible for the Korean mess. It was a rather mealy mouthed statement at best.

But the Democrats pounced upon it with the charge that the Republicans had come to stoop so low they were trying to make political capital out of a tragedy. Two of the signers of the statement, adherents of the Eastern internationalist press, were so unnerved that they apologized. They said, in effect, that they were not intending to be partisan at all, simply wanted to point out the errors that had been made so they could be corrected. Why, Republicans had been partly to blame, they said.

There is seldom a day that there is not an article by some pundit in the press that the Republicans hope to gain from Korea. The effect is to make the voters feel "oh, one politician is as bad as another."

The Republicans should work into the indignant mood, not permit themselves to be portrayed as callous seekers of voters. The reply of the signers of the foreign policy statement to the harangue thrown at them should have been that, of course, they hoped their conduct in office brought votes, that this was the way our government is operated. But what was important to the voters was whether their indictment was true. It was, but not nearly strong enough.

This announcement is neither an offer to sell nor a solicitation of an offer to buy any of these Bonds. The offer is made only by the Prospectus.

$50,000,000

Government of Canada

Twenty-Five Year 2¾% Bonds

Dated September 15, 1950 *Due September 15, 1975*

Price 101% and Accrued Interest

Copies of the Prospectus may be obtained from only such of the undersigned as may legally offer these Bonds in compliance with the securities laws of the respective States.

MORGAN STANLEY & CO.

THE FIRST BOSTON CORPORATION **SMITH, BARNEY & CO.**

HARRIMAN RIPLEY & CO.
Incorporated

WOOD, GUNDY & CO., INC. **DOMINION SECURITIES CORPORATION**

A. E. AMES & CO.
Incorporated

McLEOD, YOUNG, WEIR
Incorporated

August 30, 1950.

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LETTER TO THE EDITOR:

Best Security—Capacity To Provide for Oneself

James S. Westbrook, in telling story of security he likes best, contends this prime security is being deliberately destroyed.

Editor, Commercial and Financial Chronicle:

Thank you for your invitation to tell my story about the security I like best. Bear with me a moment.

Private property, the right to own, manage and use the avails of one's own labor, and the estate in which such rights are held to be the ends of government in organized society—that is the criterion by which the enlightenment and freedom of any society must be judged.

Until Englishmen compelled King John to recognize their rights to their own property no man could expect to benefit from his own toil beyond the needs of himself and his immediate dependents for the simple necessities of life.

Had it not been for the fact that the King became persuaded that his prerogatives extended into the bed chambers of the barons of his court, it is likely that monarchs would still deny their subjects property rights. There is an extreme of prerogative, or at least there was in that day.

Metaphorically speaking, King John is already in the bed chambers of this people.

"All power corrupts, and absolute power corrupts absolutely."

The administration of this government possesses power to tax the income of this people to an unlimited extent.

Government is in the hands of a gang which presents to the cold eye of reason a deliberate conscious conspiracy to perpetuate itself in that power. The evidences of that conspiracy are many, and not confined to the appointment to place of avowed enemies of the U. S. Constitution.

The only security that I care to discuss with you is being deliberately destroyed. The promise of security and protection (welfare) is no better today in the mouths of the powerful, than it was when men were vowing homage and fealty, and endowing the mighty oppressor with their goods (lands) in the dark ages.

The only security a man ever had lies in his own capacity to provide for himself. There is too much wealth, Sir. The virtue of manhood has given way to the vices of greed and avarice. Men are losing their virility as domesticated dogs lose their natural characteristics and become depraved and cloyed and sated beggars and willing slaves to their all powerful masters.

It is a pity that men have erected such a power. Until they resume their proper obligations security is a mere word in the dictionary.

This natural, ancient, and familiar concept is the security that I like best.

I am looking for others who feel the same way about it. I am hoping that a champion will somewhere emerge to rally around him whatever support survives for this outmoded and reactionary idea.

As things are going security will not even have an honorable burial.

Investment bankers ought to be the guardians of private ownership of property. If they acknowledge this obligation it is with a voice so faint that my ears have not detected it.

Unless I have overlooked it none of your contributors has touched upon this most essentially basic security of all securities, in the neglect of which no other thing dubbed by that name will exist.

I am sorry that I have nothing else to offer on this subject.

JAMES S. WESTBROOK

Aug. 23, 1950
955 Main St.,
Bridgeport, Conn.

Dealer-Broker Investment Recommendations and Literature

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

Aircraft Manufacturing Stocks in A World War III—Special review—John H. Lewis & Co., 63 Wall Street, New York 5, N. Y.

Branch Banking Builds a Golden Empire in the West—Illustrated brochure on Bank of America, N. T. & S. A.—Blair, Rollins & Co., Inc., 44 Wall Street, New York 5, N. Y.

Bond Yields and Money Rates 1911-1950 — Chart — C. F. Childs and Company, 1 Wall Street, New York 5, N. Y.

Common Stocks for Long-Term Commitments—Circular—Laidlaw & Co., 25 Broad Street, New York 4, N. Y.

Eastern Railroad Common Stocks—Leaflet on outlook — Vilas & Hickey, 49 Wall Street, New York 5, N. Y.

Insurance Stocks—Comparative tabulation for the 6 months ended June 30, 1950—Geyer & Co., Inc., 63 Wall Street, New York 5, N. Y.

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

Rail Earnings for the first half of 1950 — Goodbody & Co., 115 Broadway, New York 6, N. Y.

* * *

Central Public Utility Corporation—Card report—F. S. Yantis & Co., Inc., 135 South La Salle St., Chicago 3, Ill.

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

Also available is a bulletin on **Central States Electric.**

Eastern Air Lines, Inc.—Study—Hayden, Stone & Co., 25 Broad Street, New York 4, N. Y.

Also available is an analysis of **Ohio Oil Company, Inc.**

Electric Bond & Share—Bulletin—Coffin, Betz & Co., 123 South Broad Street, Philadelphia 9, Pa.

Also available are analyses of **Foote Mineral Co., Beryllium Corporation, Berry Motors, Inc., Filtrol Company, Consolidated Eng. Corp., Smith, Kline & French Lab., Tracerlab, Inc., Speer Carbon Company, Ultrasonic Corp.,** and **Thermal Research & Engineering.**

Electric Bond & Share Co. — Memorandum — Arthur Wiesenberger & Co., 61 Broadway, New York 6, N. Y.

Erie Railroad—Analysis—Bache & Co., 36 Wall Street, New York 5, N. Y.

Hartford-Empire Company — Analysis—Eisele & King, Libaire, Stout & Co., 50 Broadway, New York 4, N. Y.

Kendall Co. — Memorandum — Sutro Bros. & Co., 120 Broadway, New York 5, N. Y.

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.**

Newport Steel Corp.—Emanuel, Deetjen & Co., 120 Broadway, New York 5, N. Y.

Square D Company—Analysis—Eastman, Dillon & Co., 15 Broad Street, New York 5, N. Y.

U. S. Potash Co.—Memorandum—Lee Higginson Corp., 40 Wall Street, New York 5, N. Y.

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

Cites Opportunities in Securities Business For Young People

According to a special dispatch in the New York "Times" on Aug. 27, Homer P. Hargrave, Chairman of the Midwest Stock Exchange in Chicago, the securities business is in need of younger men, and the opportunities in that line are today greater than any time since 1929. Commenting on the situation, Mr. Hargrave pointed out that the average age of members of the Midwest Stock Exchange is 58, and this is probably 20 years higher than the average in the late 1920s. He noted that the number of securities traded in on the stock exchanges today are greater than in any previous period, and thus there is more opportunity for those performing broker and dealer services.

Homer P. Hargrave

"The business of the Midwest Exchange is growing and promises further expansion if more young men are recruited for membership," Mr. Hargrave said. "Fifteen to twenty years will see a great change in the makeup of the membership. Projecting the present average age of 58 for 15 years into the future suggests the extent of the change to occur.

"Events beginning in the autumn of 1929 blighted the hopes of many. Others stuck it out to make a livelihood in the field. The young men who entered the business and stayed are no longer young, to express it mildly. Few youngsters have been recruited since. The result: the business is advertising for recruits at a time when the opportunities are considered better than they were a generation ago when young men were clamoring to get in."

NSTA Notes

AD LIBBING

Those who have followed the "Ad Libbing" column for the past few months are now acquainted with the complete Advertising Committee of the NSTA and have seen some of the results of its work.

You have been informed that five affiliates had already exceeded their quota as compared with four last year. At no time had we expressed any definite amount or percentage in the gross figures produced by the four affiliates who have made their quotas and are now working for themselves in the "Take Home" or participation that is being accumulated for their local club.

Many weeks ago a chap by the name of Herb Blizzard made a challenge to all local chairmen and, having posted the necessary prize donation, claimed he would percentage-wise produce the largest amount of advertising. To my knowledge, this unheard-of confidence was not accepted, and yet at the writing he not only equalled his quota but has gone over by practically 100%. In my mind, it is typical of Herbert Blizzard when he accepted the Chairmanship of the Investment Traders Association of Philadelphia and simply told me he would try and do a good job.

Herbert H. Blizzard

I think the most admirable side of this work on Herb's part is the fact, he is represented on at least two other committees of the NSTA, and active ones also. I need not go into the time and effort I use in the developing of an Advertising Committee every year and the rejections I receive due to other pressing duties. Herb, you're swell, and I sincerely hope our national organization appreciates your serious endeavors in their behalf.

We are nearly $15,000.

Don't let up, but keep after contracts.

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

INVESTMENT TRADERS ASSOCIATION OF PHILADELPHIA

The annual meeting and election of officers and governors of the Investment Traders Association of Philadelphia will be held Friday, Sept. 15.

The Nominating Committee has presented the following slate for the 1950-51 fiscal year:

President: Albert Fenstermacher, M. M. Freeman & Co.; First Vice-President: James B. McFarland, III, H. M. Byllesby & Co.;

A. H. Fenstermacher

J. B. McFarland, III

William J. McCullen

Bernard Tobias

Joseph E. Smith

Second Vice-President: William J. McCullen, Hendricks & Eastwood; Treasurer: Bernard Tobias, Gerstley, Sunstein & Co.; Secretary: Joseph E. Smith, Newburger & Co.

Six members to serve on the Board of Governors will be elected from the following nominees: John L. Bradbury, Dolphin & Co.; William Doerr, Reynolds & Co.; Joseph R. Dorsey, Merrill Lynch, Pierce, Fenner & Beane; Edward J. Jennings, Jr., Boenning & Co.; James J. McAtee, Butcher & Sherrerd; Frank J. Morrissey, F. J. Morrissey & Co.; John W. Murphy, Hornblower & Weeks; Gordon Pfau, Stroud & Co.; Samuel K. Phillips, Jr., Samuel K. Phillips & Co.; Joseph A. Zeller, Bankers Securities Corp.

Thomas J. Love, George E. Snyder & Co., has been nominated to serve three years as Trustee of the Gratuity Fund.

The meeting and election, which will be followed by dinner, is for members only.

Continued on page 39

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The N. Y. Central— A Reexamination

By HUBERT F. ATWATER

Gammack & Co., Members of New York Stock Exchange

In an analysis of the 1949 Annual Report of the New York Central Railroad, Mr. Atwater finds some excellent showings, despite dire predictions to contrary. Points to sound working capital position and progress made in dieselization of its motive power and calls attention to improvement in New York Central's debt position.

By custom, the annual report of a corporation is addressed to its stockholders but the data and exhibits are for the information of its creditors. While usually less in number, the creditors, at least in railroad corporations, are more often than not long-term investors in the property, and collectively by their willingness to increase their investment from time to time, do more to set the credit of a given railroad property than its stockholders. An examination of the detailed statistical report of the New York Central Railroad should be made annually by the bondholders.

Hubert F. Atwater

The 1949 Report

In its annual report for 1949, the New York Central displays for the first time (at least in recent years) a consolidated balance sheet. This exhibit is informative and in the appended notes are found data of interest to bondholders that would not be available without considerable digging.

The parent company's net working capital is about $61 million, and of the consolidated companies $125 million, sums that appear adequate.

A most valuable table of the flow of cash through the New York Central Treasury is found on page 38 of the report. This table shows that by the application of non-cash charges to income, repayment of advance, sale of property, etc., all but $1,984,118 of the large expenditures for road and equipment and retirement of $18 million of debt were met last year.

This is an excellent showing, coming as it does at a time when dire predictions are being made that railroads as a class cannot afford the down payments on new equipment.

Equipment

The Association of American Railroads is planning to put in service 122,000 freight cars on the Class I railroads as soon as possible—some to be built and many to be repaired or rebuilt in railroad shops.

While the New York Central has made excellent progress in dieselization of its motive power, it does not intend to stop at the present level. At the end of 1949 freight service was 19.1% diesel or electric; passenger mileage 34% and yard switching operations 41%.

More diesel power units and more freight and passenger cars are on order. There have recently been put in service two Budd Cars operating between Springfield and Boston. Each car makes two round trips daily, is fast and well patronized, and this experience will probably lead to an extension of this service between Springfield and Pittsfield.

As a rule of thumb, a railroad is said to have an adequate supply of freight cars when it owns a number of diversified units equal to the number of cars (exclusive of private brands) normally on its line. Now that the per diem charge for freight cars is $1.75, it has been calculated that at this rate a general purpose car can amortize its cost, including interest, in 15 years.

Recently two life insurance companies have indicated a willingness to purchase freight cars for lease to the railroads. The first to undertake this form of investment was the Equitable Life Assurance Society of the United States and its first acquisition of equipment consisted of 1,500 box cars which were leased to the New York Central Railroad. These cars, built by the Pullman Standard Car Manufacturing Co., are the 50-ton capacity standard car designated PS-1. It is evident from the agreement, which is in almost standard lease form, that the insurance company is taking title to the cars and advancing a large part (probably 80%) of their delivered price to the manufacturer The railroad makes no down payment but enters into a lease with the insurance company, described as owner and not as vendor, and agrees to pay rental as follows for the primary period of 15 years:

3 years	$1.50 per day
3 years	1.35 per day
3 years	1.10 per day
3 years	.85 per day
3 years	.47 per day

At the end of 15 years the railroad has the option of renewing the lease, car by car, for another 10 years, or any part thereof, at 20 cents per day. It will be readily apparent that such a leasing arrangement leaves room for a saving to the lessee while providing a safe investment for the insurance company.

Depreciation, Etc.

In my contribution to the "Commercial and Financial Chronicle" of Aug. 4, 1949, the importance of the large annual charges for depreciation was stressed. In 1949 these charges were $35,981,728, a sum exceeded only in 1943, 1944 and 1945. Out of these charges the New York Central paid to its lessor companies the sum of $9,753,222 as depreciation applicable to their properties. It therefore is again evident that obligations of the New York Central maturing in the 10 years 1950 through 1959 are not a problem. We know that New York Central alone had a net working capital on Dec. 31, last, of $61 million and that since June 1 cash has been increasing. Its own funded debt, including that of Boston & Albany maturing in this period, is:

1950	$3,999,000	paid July 1
1951	3,024,000	
1952	1,368,000	
1956	14,193,000	
1950	13,297,000	
Total	$35,881,000	

The three principal lessor companies have set aside out of the respective depreciation amounts large sums which are invested in short-term issues of the U. S. Treasury and held in "other investments." Toledo & Ohio Central had $4,325,000 of such investments on May 31, 1950, whereas its maturities in the 10-year period aggregate $243,000.

Cleveland, Cincinnati, Chicago & St. Louis had $13,710,000. Other investments and its maturities in the same 10-year period are $3,164,000.

Michigan Central held other investments of $12,775,000 and has maturities as follows:

1951	$549,000
1952	12,004,000
1956	3,100,000
1957	1,500,000
1959	1,435,000
10-year total	$18,588,000

Summarized, the other investments of these three lessor companies aggregate $30,810,000, whereas all the maturing bonds of the three in this decade amount to $21,995,000.

Another point of accounting that brings about a considerable tax saving is the method by which the New York Central handles the payment of lease rentals. Since the Department of Internal Revenue has ruled that such portion of lease rentals as represents dividends on stocks is corporate income to the lessor and therefore taxable, the New York Central has modified all leases of railroads whose shares it owns in part so that the rental is paid only on publicly held shares. This has evidently amounted to a large saving over recent years and is something that the Pennsylvania Railroad decided to do only recently to save $2,000,000 annually.

The Stockholder

There is no more appropriate introduction to an annual report for 1949 than President Metzman's remark: "Again, in 1949, the New York Central performed a large volume of work for relatively little return." Compare the results of 1949 with 1929, a year when New York Central and Santa Fe both sold above 250. In the earlier year New York Central hauled 3,469,954 revenue tons of freight one mile for each mile operated. For this and other services it collected $397 million. Last year the density was 3,217,581 revenue ton-miles per mile of road and the gross take was $697 million.

Railway operating expenses rose from $302 million in 1929 to $597 million in 1949, so that on an increase of 75% in gross the net revenue from railway operations increased only $6 million. From this point onward the comparison is distorted by changes in accounting formulae. In 1929 we had no large charges for road depreciation or payroll taxes. We also had larger other income from investment in subsidiaries, hence a net of $16.88 per share and dividend payments of $8. Compared to net earnings of less than $1.50 per share last year this looks wonderful even when we realize all the interruptions of 1949.

But the stockholder as well as the creditor had less to comfort him in facing the future than he has today, for 20 years ago the railroad had a larger debt, bearing higher interest rates, less cash and a net working capital barely in excess of $2,000,000. It was an era when no attention was paid to the balance sheet for "look how the money rolls in."

The New York Central stockholder has over many years been a loyal and perhaps long suffering creature. He was accustomed to regular dividends with hardly an interruption from 1870 to the early 1930s. In the last five years he has received a total of $2.00, but look at what he has done for the property and the public. In 49 years the stockholders directly by subscription or indirectly through conversion of bonds have invested over $417 million in New York Central stock. Of this over 1,810,000 shares were issued since 1929.

When we marvel at the ability of Southern Pacific Co. to tap each share for a $10 subscription to a convertible bond and think of it as an unusual performance, it is well to remember that twice in recent years New York Central has successfully completed conversion of debentures. A 6% issue was converted into stock at 105 and a later issue of 3¼s at 40. The Pennsylvania is presently paying off in cash a similar 3¼% issue created at the same time which failed of conversion.

A Challenge to Management

This digression into the past is for no other purpose than to call attention to the recuperative powers of the New York Central. We all know the reasons for the poor showing in 1949 and overlook the efficient work of the management in holding the operating ratio at 85.62% last year, a rise of only .05 over 1948 in the face of so many interruptions.

For a parallel, it may be said that the volume of business of New York Central follows closely the level of business activity. In so important a property this cannot fail to be so. The problem is, shall we have activity and no profit, or can expenses be trimmed to carry an appreciable part of the current gross into net?

J. G. White & Co. Offer Big Bear Markets Stk.

J. G. White & Co., Inc., heads a group of investment firms which on Aug. 29 offered to the public 100,000 shares of Big Bear Markets of Michigan, Inc. common stock (par $1) at $9 per share. The stock is being sold for the account of a group of selling stockholders and none of the proceeds of the sale will be received by the company. The offering was well oversubscribed and the books closed.

Starting business in 1938 with one self-service supermarket, the company now has 19 units in operation and five additional locations have been leased. The corporation's outlets are in the Greater Detroit area. They sell at retail all products normally handled by chain store supermarkets, including groceries, meats, meat products, vegetables, fruits, canned goods, provisions, delicatessen, baked goods, dairy products, frozen foods, beer, wine, cigars, cigarettes and sundries. Sales are made on a cash and carry basis.

Sales for the first 20 weeks of 1950 were $7,978,939 and net income $253,126. For the full year 1949 sales amounted to $18,265,975 and net income $511,131. Dividends of $55,556 were paid on the common stock in 1949.

Capitalization of the company consists of $450,000 of notes and 400,000 shares of common stock of $1 par value.

FIC Banks Place Debs.

A successful offering of an issue of debentures of the Federal Intermediate Credit Banks was made Aug. 16 by M. G. Newcomb, New York fiscal agent for the banks. The financing consisted of $47,665,000 of 1.40% consolidated debentures dated Sept. 1, 1950, and due June 1, 1951. The issue was placed at par.

The proceeds, together with $4,530,000 cash in treasury, was used to retire $52,195,000 of debentures maturing Sept. 1, 1950.

As of the close of business Sept. 1, 1950, the total amount of debentures outstanding will amount to $564,725,000.

This announcement is not an offer to sell or a solicitation of an offer to buy these securities. The offering is made only by the Prospectus.

$9,500,000

Indiana Gas & Water Company, Inc.

First Mortgage 2⅞% Bonds, Series A

Dated September 1, 1950 Due September 1, 1980

Price 100.50% and accrued interest

The Prospectus may be obtained in any state in which this announcement is circulated from only such of the undersigned and other dealers as may lawfully offer these securities in such state.

HALSEY, STUART & CO. INC.

HARRIS, HALL & COMPANY (INCORPORATED) HORNBLOWER & WEEKS OTIS & CO. (INCORPORATED)

PAINE, WEBBER, JACKSON & CURTIS R. W. PRESSPRICH & CO.

WILLIAM BLAIR & COMPANY THE ILLINOIS COMPANY

CITY SECURITIES CORPORATION JULIEN COLLINS & COMPANY

MULLANEY, WELLS & COMPANY RAFFENSPERGER, HUGHES & CO. INCORPORATED

August 31, 1950

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The Outlook For Railroads

By DONALD V. FRASER*
President, Missouri-Kansas-Texas Railroad Company

Prominent railroad executive stresses magnitude of railroad industry and the important place it occupies in the economy. Warns, if nation is to progress, railroads must be kept in healthy condition. Is optimistic on outlook for railroad securities, despite need of enlightened public understanding of railroad problems. Points out railroad industry is a "growth industry," and, though less glamorous than auto industry, recent physical and operational improvements portend continued progress and expanded use. Cites improvement in financial structure of rails in last decade, and explains leading railroad financial statements.

(1) Introduction

While the subject of my discussion with you, gentlemen, today is "The Outlook for the Railroads," I want you to know that I am not unmindful of the purpose of the School of Banking of the University of Wisconsin. You are gathered here in this beautiful setting for the purpose of increasing your knowledge, through advanced study and research, of our nation's banking, economic and research problems as they affect the field of investment banking.

D. V. Fraser

What I have to say, and the opinions I express, are necessarily based upon my own experience of 34 years in the railroad industry, and on my own analysis of conditions within and outside the industry, weighted with facts and circumstances which I feel have a bearing on the future of the railroads.

I believe my subject can be one of your most interesting, depending upon my ability to make it so. This I will try to do.

(2) Responsibility of Commercial Investment Banker

(a) *Insight Into Health of Industry*

Since the securities of practically all industry are in the investment market, those engaged in the commercial investment banking business are charged with a responsibility to have an insight into the physical and financial health of industry generally.

(b) *Fair Appraisals — Minimize Uncertainty*

You must have this knowledge so you can give a fair appraisal of the value and the future prospects of these securities, and minimize uncertainty as much as possible. The investing public looks to you for advice and counsel in the investment of their money, and, in turn, your opinions must be based upon a sound analysis and appraisal of the financial and operating performance of industry.

(3) The Railroad Industry—What It Means to Welfare and Economy of Nation

Since I am honored to speak to you today on behalf of the railroad industry, I feel at the outset that we should consider briefly just what makes up this industry, and what it means to the welfare and economy of our country.

(a) *Investment*
(b) *Earnings*
(c) *Net Income*
(d) *Return on Investment*

The 132 Class I railroads of the United States comprise a transportation plant which has a valuation of some $23.3 billion, which, in 1949, produced operating revenues of $8.5 billion (and, I should parenthetically, that this $8.5 billion represents about one-third of the railroad industry's investment, compared to a turnover of several times investment in most industries). The railroads wound up the year with a net income of less than half a billion dollars, or approximately 2.9% return on investment.

(e) *Number of Employees*
(f) *Investment per Employee*
(g) *Earnings per Employee*

This $23.3 billion railroad plant in 1949 employed about 1,200,000 persons, and investment per employee averaged about $20,000. The average annual earnings per employee in 1949 was $3,709, a new high, and up from an average of $1,913 in 1940.

(h) *Tonnage Handled*
(i) *Passengers Handled*

In 1949 the railroads moved 2⅓ billion tons of freight an average of 228 miles each, and carried 555 million passengers an average of 63 miles each. The average revenue per ton-mile of freight hauled was 1.340 cents, about the same as in 1921, and the average per passenger-mile was 2.452 cents, or less than the return in 1931.

(j) *Railroad Purchases*

The railroads spend an average of $7,000,000 a day for the thousands of items of supplies and materials used in their operations, which support and help support many other kinds of businesses which employ additional thousands of persons.

(k) *Summary*

So much for industry statistics. I wanted to cite them, however, to impress upon you the magnitude of our industry, and the important place it occupies in the economy of the country. As I will discuss later, this also points up the need to keep this industry healthy and progressive for the good of our national welfare.

(4) Physical and Financial Health of Railroad Industry

(a) *Motive for discussion*
(b) *Clear analysis comes from clear understanding*

I am anxious to give you some insight into the physical and financial health of the railroad industry—including my opinions as to the outlook for this industry—and possibly express some thoughts which might be helpful to you in your future analyses of railroad securities. I have a selfish motive in doing this, because I feel that railroad securities as a whole merit close scrutiny by the investment banker—that a clear analysis of railroad securities comes only from a clear understanding of the accomplishments of the industry, its position in our economic picture, and of the problems with which it is faced.

(5) Basis for Optimism

(a) *Need for realistic approach to railroad problems*

I have a selfish motive, too, because I feel that the outlook for the railroad industry—and for railroad securities— is good. I am definitely optimistic about the future of our industry, while at the same time I realize the underlying need for a realistic approach to the problems confronting it, and particularly those phases of the problems that can be solved only through an enlightened public understanding.

(b) *Railroads—most economical form of mass transportation*

My optimism is based on the indisputable fact that mass transportation moving on wheels running on steel tracks is the most economical form of transportation yet devised. By way of illustration, to move 100,000 tons of freight by rail from coast to coast would require 3,500 man-days of train-crew time and some 90 tank cars of Diesel fuel. To do the same job by trucks would require more than 25 times as many man-days of truck-driver time (90,000), and about three times as much fuel (250 tank cars of Diesel fuel). In the air, you would use 15 times as many man-days of plane-crew time (50,000), and 30 times the number of tank cars of aviation gasoline (2,700). Furthermore, the average revenue collected by the railroads for hauling a ton of freight a mile is only about one-fourth as much as the average collected by motor carriers.

(c) *Industrial and population growth*
(d) *Improved standard of living*
(e) *Better public regard for railroad problem*

These facts, coupled with the tremendous industrial development of our nation, our population growth and continued improvement in our standard of living, assures us, I think, of a steady growth in rail tonnage.

Notwithstanding the attending difficulties in railroad operations today—aggravated by unfavorable public policies, high material and labor costs, competition that is wholly or partially subsidized, government regulations that restrict management prerogatives, — I repeat, notwithstanding these difficulties, there also is basis for optimism in the hopeful signs that we are approaching a turning point in the public regard for the railroad problem, and an opportunity to find at least a solution to some of the more acute difficulties. Certainly more and more attention is now being focused on railroad problems and the competitive situation in transportation generally.

(6) A Growth Industry

(a) *Technical advances*
(b) *Progress over years outstanding*

In discussing the outlook of the railroads, I think it important that we give due consideration to the fact that the railroad industry has been a growing industry from the day the first line was built, and that growth continues in major strides today. Railroad history covers a span of some 125 years, and from the outset its progress has been based upon improvement in the design, construction, maintenance and use of the many component parts which the railroads must use to perform the job of producing mass transportation with ever improving dependability, economy, safety and dispatch. Technical advances represent the contributions of engineering and technological skill in railroad development, and the progress over the years has been outstanding. This fact is sometimes overlooked, and may I say that part of the fault lies with management in not publicizing outstanding accomplishments.

(c) *Railroad progress not glamorous*
(d) *Research*

Railroad progress is less glamorous than say the automobile industry, for the railroads cannot close down, even for a few hours, for retooling, and come out with a "new model" every year. However, the railroads have steadily pushed operating efficiency and service standards on upwards to new high levels. Research and study are going on constantly to develop improvements in railroad equipment.

(e) *Increased life of rails and cross-ties*

Due to improvements in the design, metallurgy and methods of manufacture, steel rail now being installed is only one-fourth as liable to failure in service as rail which was installed in 1922. Better methods for preserving timber, developed through extensive research, have tripled the life of railroad cross-ties and bridge timbers.

(f) *Advent of Diesel-electric locomotive*

Without doubt, the advent of the Diesel-electric locomotive is the most important development that has occurred in the railroad industry for many years. The results from the operation of these superior locomotives, through greater efficiency, economy and availability, are truly amazing.

(g) *Other technological improvements*

Other improved methods that are producing operating economies include such items as: Modern signaling, which improves service and safety and speeds up operations; mechanized handling in freight stations; modern off-track equipment for track maintenance; ballast cleaners, cribbers and tampers; radio train control and communications; flood-lighted yards equipped with loud-speakers, car retarders, etc.; auxiliary truck service for handling merchandise freight—just to mention a few.

(h) *$7,000,000,000 capital invested in last 10 years*

In the 10-year period 1940-1949 the railroads have invested $7,000,000,000 of capital in their properties. Improvements to roadbed, tracks, yards and terminals, shops and other physical properties, have added to the capacity of the railroad plant and have increased operating efficiency and economy.

In 1949 alone capital expenditures amounted to $1,312,200,000, the greatest amount for any year on record, and this pace is not slowing down. In the first quarter of 1950 the railroads have placed orders for nearly four times as many new freight cars and more than three times as many Diesel locomotives as were ordered in the same period of 1949.

(i) *Operating efficiency reached new high records*

By virtue of these technological improvements and greater operating skill, and also because of the alertness of railroad managements to effect economies wherever possible, new high records are continually being made in operating efficiency.

(j) *Cars per freight train*
(k) *Train speed*
(l) *Improved utilization of rolling equipment*

In 1949 more tons of freight were moved more miles per train hour than ever before, and the average number of cars per freight train and the average freight train speed reached new high records. Tons of freight moved one mile for each hour of freight train operation averaged 19,023 ton-miles in 1949, compared with the previous high of 18,779 ton-miles in 1948, and 10,580 in 1929. The performance in 1949 was greater by 8% than the wartime record of 17,623 ton-miles per hour in 1944.

The average freight train moved 56.8 cars in 1949, compared with 54.5 in 1948 and 53 in 1944. Freight trains on the average moved more than 4% faster in 1949 than in 1948, and nearly 8% faster than in 1944.

These new records in freight train operating efficiency were achieved despite a lower volume of traffic in 1949.

(7) Improvement in Financial Structure

(a) *Reduction in non-equipment debt*

Another factor that has a great bearing not only upon the present position of the railroads in our nation's economy, but also a bearing on the future outlook of the railroads, is the remarkable record they made during the war period in the reduction of non-equipment debt. Taking advantage of the high wartime earnings and the privileges granted by modification of the income tax laws, the railroads in the period of 1942 through 1948 reduced non-equipment debt by $2,200,000,000, or 22.4%. Incidentally, our own railroad, the Missouri-Kansas-Texas Lines, reacquired and retired over $47,000,000 face amount of its bonds, which resulted in reduction of fixed bond interest of over $2,000,000 a year, or approximately 50%.

(b) *Financial house in order—basis for optimism*

This record of placing their financial house in order is another reason why the future of the railroad industry can be viewed with optimism.

(c) *Record of greatest efficiency — best service — lowest rates in history*

It is, therefore, a matter of record that never have the railroads of our nation operated at greater efficiency, with faster and better service or at lower rates in terms of the price level of the commodities they transport.

Never before has railroad management exercised greater ingenuity or been more alert in the improvement of rail transportation. The railroads' financial house is in better condition than for many years.

(d) *Railroads constitute virile, progressive and indispensable industry*
(e) *Railroad traffic as barometer of business activity*

I think this summary of railroad progress and development clearly indicates that the railroads of our country constitute a virile, progressive and indispensable industry, which will continue to play a great part in the growth and development of the nation. Rail traffic will continue, as in the past, to be regarded as a barometer of business activity—railroad carloadings will continue to reflect business trends and business cycles.

(f) *Railroad revenues fluctuate with business cycles*

Here it is interesting to note, as another growth factor, that railroad revenues have fluctuated with the major rhythms of business as a whole, reaching new peaks near the top of each major business cycle. Prior to World War I yearly increases in revenue were fairly regular. After World War I the fluctuations were more extreme, but the overall growth continued. Thus, United States railroad operating revenues in 1944 increased 50.3%, and in 1949 increased 36.6% over the boom year of 1929. As for volume of business measured by net ton-miles (lading only) per freight train-hour, tonnage in 1944 increased 66.6%, and in 1949 increased 79.8% over the 1929 figure.

(8) Railroad Rates and Fares

In any discussion or analysis of the railroad industry, consideration of course must be given to

Continued on page 20

*A lecture by Mr. Fraser at the School of Banking, University of Wisconsin, sponsored by the Central States Conference of Investment Bankers Association, Madison, Wis., Aug. 25, 1950.

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Korean Hostilities and Real Estate Trends

By A. M. WEIMER*
Dean, School of Business, Indiana University

Pointing out nation's productive capacity and potential expansion may make it possible for U. S. to develop a military and civilian economy side by side, Dr. Weimer warns, however, no great expansion can take place under rigid government controls. Looks for reduced home construction, even without controls, because of growing shortages of materials and rapidly rising costs. Reports "panic buying" on part of prospective home-owners and rush of mortgage lenders to make loans.

The Korean hostilities and subsequent events have set into motion a number of forces which will dominate business and real estate trends for the foreseeable future. Of primary importance is the rising tide of inflation. Prices and costs, which had been moving upward prior to the Korean developments, have advanced much more sharply since that time. For example, the price index of 28 sensitive commodities, published by the Bureau of Labor Statistics, advanced from 264.4 to above 300 in the month following the start of fighting in Korea.

Arthur M. Weimer

To date the upward pressure on prices appears to be the result of "panic buying" induced primarily by a fear of shortages of goods and, to a lesser degree, by a fear that prices will advance rapidly in the future. Advancing prices seem much more likely than serious shortages of goods, however, and steps to control inflation are at the moment more badly needed than measures to control material, manpower and production.

The most effective method for reducing inflationary pressures would be heavy tax increases. At the present time, however, it does not seem likely that sufficiently heavy tax programs will be adopted even though they are the most effective method for slowing down inflationary trends. Price controls and rationing systems might be imposed in the hope of "holding the line" against inflation, but such action would merely postpone certain price advances, since without heavy taxes the inflationary pressures would persist and would break out in full force when the price controls were removed.

Another approach to the problem of inflation is the imposition of rigorous controls on consumer, mortgage and business credit. Action of this type can be effective once the initial wave of "panic buying" has passed, but the credit controls must be sufficiently strong or the desired effect will not be achieved. To date, for example, the limited restrictions that have been imposed on mortgage credit appear to have accelerated house buying rather than to have retarded it.

1950 vs. 1940

The current condition of the economy contrasts sharply with the pre-World War II situation. This makes it difficult to draw on the experience of the prewar years of 1940 and 1941 for guidance in making plans to meet current problems.

In 1940 there were some 7½ million persons unemployed. At the present time only about three million persons are unemployed. In 1940 the index of industrial production stood at 125. Currently, it is over 200 and moving forward rapidly. In 1940 steel mills were operating at 82% of capacity. At the present time operations are above 100%. We have been producing automobiles at the rate of over seven million per year (nine million per year in recent weeks) while in 1940, 4,472,000 were produced. Housing starts totaled 602,600 in 1940 in contrast to a house building rate of more than 1,300,000 units per year during the first six months of 1950.

Thus, the entire adjustment process, even though our defense program turns out to be somewhat more limited than is currently expected, will be much more difficult than was the case prior to World War II.

The Changing Economic Outlook

Had it not been for recent international developments, there is a real possibility that the general level of business activity would have tended to decline this fall. Under the impact of the defense program and a firmer international policy, however, there is virtually no chance that the volume of business activity will decline in the foreseeable future.

While certain parts of the civilian economy may be slowed down in order to provide the materials and manpower required for the defense program, the economy as a whole faces a period of full employment of all its resources and manpower for some time. How long this condition will continue depends largely on international developments. Three possible assumptions may be made: First, it may be assumed that there will be a short period of active fighting; second, that there be a prolonged period of "border warfare" of the Korean type; and third, that the present situation will develop into World War III.

On the basis of the first assumption it is probable that the economy faces at least a year or two of intensive effort. On the basis of the second assumption a longer period of heavy production may be anticipated, perhaps running for five or six years or longer. If it is assumed that we are now in the preliminary stages of a third World War, there would undoubtedly be a drastic revision of the economy with the most rigorous types of controls being exercised in order to channel a large portion of our productive effort into the meeting of full-scale wartime requirements.

At the present time the second assumption appears to be the more realistic. In this case a prolonged period of expansion could be anticipated with a civilian and a military economy developing side by side. On the basis of this assumption, a fairly orderly period of expansion may be anticipated after the initial shock of readjustment has been absorbed.

Productive Capacity

One of the significant factors to consider in analyzing the problems arising from the necessity of meeting both military and civilian requirements is the tremendous productive potential of the American economy. The capacity of the economy for expanding production was demonstrated most effectively in World War II. In 1944 the Federal Reserve's index of industrial production reached 247% of the 1935 to 1939 average, the highest point in history. In June of 1950 the index reached a new postwar high of 199, still substantially below the levels reached during the war. It should be noted that the wartime production record was achieved when the civilian labor force totaled only 55 million in contrast to the present civilian labor force of almost 65 million.

More than a year before the end of the war there were frequent rumors to the effect that it would be possible to cut back some of the military production and to release productive capacity for civilian goods. Apparently those rumors had more than a little foundation in fact, emphasizing the tremendous output that had been achieved. With more plant and equipment than was available at that time and with a larger labor force, it would seem entirely reasonable to develop the productive capacity to support a military and a civilian economy side by side during the next few years.

House Construction

During the first half of 1950, 686,900 non-farm housing units were started in comparison to 449,000 units started during the same period of 1949. Housing starts in the first six months thus exceeded those of the first six months of last year by 237,900, or 53%.

Attempts to restrict the volume of house building by the imposition of restrictions on mortgage lending activity appear to have had relatively little effect to date. Indeed, there has been a rush on the part of builders to start additional housing units, and we have witnessed some "panic buying" on the part of prospective home-owners. Many mortgage lenders, assuming that the rate of house building will be reduced in the months ahead, have been trying to channel additional funds into mortgages, and there has been a greater tendency on the part of many mortgage lenders to hold mortgages rather than to sell them to other private investors or to FNMA.

Even if major controls are imposed on mortgage lending, it is entirely probable that over a million housing units will be started by the end of the current year. The main deterrents to house building currently are: (1) growing shortages of building materials and (2) rapidly rising costs. In addition, some proposals for new building projects are being abandoned because of the many uncertainties that have to be faced and because of the more conservative policies being followed by lenders with respect to construction loans.

Incomes and Savings

In the second quarter of 1950 personal incomes declined slightly from the first quarter but still remained at the high annual rate of $213.7 billion, after adjustment of seasonal factors. The decline from the first quarter was due chiefly to the reduced volume of GI insurance dividends paid to veterans.

Personal savings continued to be high in the second quarter but declined from the very high levels attained in the first quarter. Probably the GI insurance dividend was one of the main factors accounting for the marked changes in personal savings, which advanced from an annual rate of $6.2 billion in the fourth quarter of 1949 to $15.3 billion in the first quarter of this year and then receded to $10.1 billion in the second quarter.

The future trend of incomes and savings will be affected greatly by the enlarged defense program. Personal incomes will rise as more workers receive additional overtime pay, and as the number of unemployed persons is reduced to a minimum. It is not clear at the moment how soon, if at all, increased wage rates will become an important factor in determining total money incomes.

In the past few weeks many people have been drawing on their savings in order to purchase goods that they believe will become scarce. This trend probably will be reversed as "panic buying" eases off, certain goods become somewhat scarcer and prices advance.

*An address by Dr. Weimer before the Graduate School of American Savings and Loan Institute, Bloomington, Ind., Aug. 22, 1950.

With Baker Simonds

(Special to THE FINANCIAL CHRONICLE)

DETROIT, Mich. — Charles P. White is now affiliated with Baker, Simonds & Co., Buhl Bldg., members of the Detroit Stock Exchange.

With Hulburd, Warren

(Special to THE FINANCIAL CHRONICLE)

GRAND RAPIDS, Mich.—Richard C. Northrup has become connected with Hulburd, Warren & Chandler, Peoples National Bank Bldg.

With Minneapolis Assoc.

(Special to THE FINANCIAL CHRONICLE)

MINNEAPOLIS, Minn. — Glendin A. Timm has been added to the staff of Minneapolis Associates, Inc., Rand Tower.

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 Columbus Day Outing at the Northwood Club.

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 H. B. Cohle

(Special to THE FINANCIAL CHRONICLE)

CINCINNATI, Ohio—Lawrence G. Gessing has joined the staff of H. B. Cohle & Co., Union Trust Bldg., members of the Cincinnati Stock Exchange. He was formerly with Frederic Latscha & Co. and Horan & Grischy.

With McDaniel Lewis

(Special to THE FINANCIAL CHRONICLE)

GREENSBORO, N. C.—J. David Murray has become affiliated with McDaniel Lewis & Co., Jefferson Bldg.

With Reynolds & Co.

(Special to THE FINANCIAL CHRONICLE)

LUMBERTON, N. C.—Verna L. Sanderson has joined the staff of Reynolds & Co., 316 Elm Street.

This announcement appears for purposes of record. Contracts, negotiated by the undersigned, have been entered into for the purchase of these securities by certain institutions for investment. The bonds have not been, and are not being, offered to the public.

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Prospectus may be obtained from
The Keystone Company of Boston
50 Congress Street
Boston 9, Massachusetts

Mutual Funds

By ROBERT R. RICH

Keynotes Notes Record Industry Earnings

Higher earnings and higher dividends are indicated for the first half of 1950 than for any similar period on record, Keynotes, published by The Keystone Company of Boston, reported. The estimate is based on preliminary figures on the stocks making up the Dow-Jones Industrial Average.

Earnings for the first six months of 1950 topped the same period in 1949 by $.68 a share—$11.84 as against $11.16. Dividends of $6.00 a share compare to $5.40 for the same 1949 period.

The indicated record high earnings marks a continuation of a trend toward higher profits during a period when "recession" was widely feared, Keynotes notes. The all-time dividends high was achieved despite the plowing back of a large amount of earnings into plant and equipment. As was the case in the past three years, only about 50% of earnings was paid out in contrast to the 65% usually considered normal.

Distributors Explains Retirement Trusts

Dealers interested in the development of the ever-widening field of employees' profit sharing and retirement trusts as an opportunity for canalizing mutual funds sales should read Distributors Group's pamphlet "Employees' Profit-Sharing and Retirement Trusts."

Distributors, which began an active pioneering work on this subject in 1943, organized its own plan at the time which it has observed over a six-year period. Consequently, it feels it can speak from experience on such matters.

It has prepared, for the use of dealers and employers, a Standard Plan which can serve as a basis for constructing a particular employees' profit-sharing trust.

Institute Plots Trusts' Behavior

If the "average behaviour" of trusts is plotted against "interest compounded annually" curves of 20%, 15%, 10% and 6%, for the period from 1920 through the first half of 1950, one might be surprised to find out that the average performance of the trusts never fell below the 6% curve. Furthermore, from 1932 until the present, the average performance curve has closely followed the 10% annually compounded interest curve.

This data is revealed in a chart contained in the new edition of a book published by the American Institute for Economic Research, entitled "Investment Trusts and Funds from The Investor's Point of View," by E. A. Mennis and G. H. Wenzler.

Of course, such results would not obtain if the starting date were 1929, rather than 1920. But, even so, the performance of funds shows through strongly, particularly after the turning point of 1932.

Gas Industries Fund Assets Expand

Total net assets of Gas Industries Fund amounted to $11,116,912 as of June 30, compared with $8,491,009 as of Dec. 31. Its gas industry investments are distributed as follows: Producing companies, 35%; integrated companies, 20%; distribution companies, 25%; transmission companies, 18%; gas equipment companies, 2%.

Business Shares Has Enviable Record

American Business Shares, Inc., on June 23, just prior to the outbreak of the war in Korea, increased to 44.5% of net assets the securities which it was holding for stability of capital.

"From June 23 to July 31," H. I. Prankard, 2d, President, commented, "the securities in the capital stability section of our portfolio served their purpose well, for the decline in value amounted to only two one-hundredths of 1%, while the common stock we held declined 4.8%. As a result, the net asset value of the shares of our company declined only 2.5% in the period."

Commonwealth Assets Rise

Commonwealth Investment Company's assets have jumped 68.6% since the beginning of the year. On Aug. 17, the net assets of the Fund were approximately $19,650,000.

Nesbett Fund Reports

Nesbett Fund reported to its stockholders that the conservative investment position of the Fund during recent months provided ample buying power to take advantage of the low prices resulting from the Korean crisis. As a consequence, during the first three weeks in July when the Dow-Jones Industrial Average ranged between 210 and 197, common stocks were increased from 55% to 32% of net assets.

A well-balanced diversification was maintained by the purchase of "peace stocks" as well as "war stocks" and additional buying power remains to take advantage of further weakness, if it should develop.

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The Fish Industry

By ROGER W. BABSON

Mr. Babson, pointing out growing importance of fish as food, deplores waste in selling fish through large number of inefficient and poorly financed concerns. Says very few concerns have made money in long run and lists advantages of fish industry to nation.

Fish is almost the only universally used product of your home which continues to be "handmade." You are no longer wearing clothes from cloth woven by hand; you are no longer wearing shoes made by hand; all the canned goods used in your home are picked, processed and canned by machinery. Even the milk you drink was taken from the cow by machinery! Your bread is even a better illustration. The ground is plowed, planted, cultivated and the grain harvested by automatic machinery. The grain is then dumped into a mill and comes out the same baked and wrapped loaves you buy. One more thought: Think what you would pay for this newspaper if the newsprint was now made by hand as it was 100 years ago!

Roger W. Babson

In the case of most fish you eat it is very different. After being caught in a net, the fish are assorted by hand; the fish are headed and gutted by hand; fish are taken from the boat and weighed by hand forks; filleted by hand, packed by hand, etc. Some automatic machinery is used in connection with canning; but 90% of the fish you eat are handled in a way which is very expensive. In fact, the only "modern invention" is the use of big oil powered trawlers instead of sailing schooners, but these trawlers probably destroy almost as many fish as ever get to market.

Huge Waste Selling Fish

One difficulty is that the fish business is being carried on by a large number of inefficient and poorly financed concerns—no one of which is big or rich enough to operate a modern plant and afford continuous national advertising. If the little fish concerns would combine, using Robert Steel's newly designed vessel hulls, erecting one large new automatic filleting plant and have one sales force, you would get better fish for less money. As a result, the national consumption of fish would greatly increase; more people would be employed at good wages; and every seaport could be very prosperous. The waste of money on selling fish today is very great. For instance, I was recently in a western city where five salesmen sold all the bananas eaten; ten salesmen sold all the steel used; while over one hundred salesmen were selling fish!

No wonder our seaport fish workers strike for more wages and the local merchants suffer therefrom. The employers so insist, in a childish way, upon their own brands and sending out their own salesmen that it costs them more to sell than to catch the fish. They truly cannot afford to pay more wages under present conditions. In fact, very few fish concerns have made money in the long run; while most have ended in bankruptcy. Yet, potentially the industry has great possibilities.

(1) The ocean is free to all. A farmer must buy land and pay taxes on it; but not so with the fisherman.

(2) Fish are the only "livestock" which do not need raising and feeding. If you raise cattle, hogs, sheep or chickens they need care and feeding; but not so with fish.

(3) Whole salt water fish are the most perfect and complete food procurable. Someday, on Bromfield's factory boats, these will be ground instantly after being caught, and delivered to you chocolate sealed and orange flavored for half what you now pay for fillets but containing double the health building qualities.

(4) Fish builds up our brains; and it is brains today that make our families good earners. Hence, eat much more salt water fish.

(5) Due to rains and winds, our soils and their products of grains, vegetables, and livestock are constantly being reduced in food values. Every day the equivalent of 200 40-acre farms, with their vitamins and minerals, are washed down rivers into the sea. Millions of bags of fertilizer and the human waste and garbage from city sewers are likewise washed into the sea. Hence, the ocean products of fish, lobsters and other sea foods are constantly becoming richer, while grain, vegetables, poultry, eggs, etc., may constantly be getting poorer. The time is perhaps coming when your descendants must regularly depend upon fish for proteins and minerals. The fishing industry is the hope of mankind; it needs only capital and United Nations supervision. Yet, our government spends only one dollar to protect our fisheries for each one hundred dollars to help agriculture.

With Edgerton, Wykoff

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif—Bertram S. Urbach has become associated with Edgerton, Wykoff & Co., 618 South Spring Street, members of the Los Angeles Stock Exchange. He was formerly with John B. Dunbar & Co. and R. F. Ruth & Co.

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Current SEC Policy Regarding Investment Companies

By DONALD C. COOK*
Vice-Chairman, Securities and Exchange Commission

SEC official reveals Commission's recent statement of policy regarding supplemental literature does not imply indictment of investment company idea or of companies or dealers. Maintains, although funds can never serve same purposes as savings banks, government bonds, insurance companies and loan associations, they can become "institutionalized" to play useful part in any comprehensive investment program. Explains in itemized detail the reasons for the current regulations.

I have been asked to discuss with you the Commission's recently published Statement of Policy which sets up reasonable standards of form, use and content of supplemental literature used in the sale of investment company shares. I particularly welcome this opportunity because most of you are in the direct sales end of the business. The success or failure of the industry's cooperative effort with the Commission to maintain its practices consistent with both the requirements of the Securities Act and the Investment Company Act on the one hand and appropriate standards of commercial honor on the other, in large measure depends on your appreciation and understanding of this aim in your contact with investors or with the salesmen under you who do have such direct contact with the public.

Donald C. Cook

It should be helpful, therefore, for you to have some of the background on the discussions with the NASD committee of undewriters and dealers which resulted in this Statement of Policy and the joint administration of it that is now getting under way. Moreover, I think you should know some of the reasons why the Commission and the industry felt impelled to undertake this venture in the belief that by applying first aid now we would avoid serious surgery later on.

Forestalled More Drastic Sanctions

And right here I want to make two points clear to you: one, that had the industry, through the NASD, not intervened in this situation and worked with the Commission on a cooperative basis to find a reasonable and workable solution, the sanctions the Commission was considering invoking would have had a far more drastic, far more restrictive effect than the new standards for the future that have been set up. There should be no doubt about this. Unquestionably, the NASD, on behalf of the industry, by working with us and volunteering to undertake curative action as a measure of self-regulation, has rendered you a real service. It could have been worse, gentlemen: of that I assure you.

My second point is equally important: This Statement of Policy and the reasons I will give you for its adoption constitute no indictment of the investment company idea as a sound and useful medium of investment neither does it constitute a general indictment of all investment companies or of all dealers selling their shares. There is no spirit of hostility in the Commission against investment companies, and there is no implication in anything I say to you today or in the Statement of Policy that all investment companies or all dealers have encouraged, or has all literature contained, the various abuses we are attempting to correct and will correct.

Minority Behavior Selfish

What has happened is what unfortunately so often happens in many industries — a relatively small group, by their practices, have lowered the standards of the industry to a point where remedial action was necessary. This group has attempted to push even the real sales points in favor of investment companies past the point of reason; and many firms that otherwise would have refused to indulge in such extravagances have, undoubtedly because of competitive factors, thought they were forced to go along. It became a sort of chain reaction, set off by the selfishness of the few with a resulting impact upon all.

Since, as is well known, I personally firmly believe in the theoretical soundness of the investment company concept and, indeed, if practice follows theory, in the real potentialities for ultimate institutionalization of investment companies as an integral part of the nation's financial structure, I obviously also believe that the benefits to the industry in greater public confidence and acceptance that should stem from strict adherence to the spirit as well as the letter of the Statement of Policy will make well worth while any effort involved either in its formulation or in compliance with it.

Codification of 1933 Act

One further point of considerable significance, particularly to your lawyers, is the fact that the Statement of Policy, in substance, is simply a partial codification of the fair intendment of Section 17 of the Securities Act of 1933.

That rather broad section of the law has been made considerably more specific by the formulation of the policy statement. It is, then an earnest effort to give specific content to the general terms of the law by setting up standard to govern literature used in the sale of these very important securities.[1] It is distinctly not some sort of "government crackdown" designed to make it more difficult for you to do business.

Moreover, the Statement of Policy should be considered a living document; one that can be amended as necessity is indicated by that good teacher, experience. It most certainly is not an attempt to supply all the answers and it certainly is no policy of insurance against liabilities for violations of Section 17 that may have been overlooked or unforeseen in its drafting. But it certainly should make it easier for those in the business to avoid liabilities through adherence to both its letter and its spirit.

Above all, I think you should look on this document as a means of assistance in the better discharge of the real responsibilities that membership in the securities business entails. And I think you should look on the NASD's efforts to administer these standards as being truly cooperative with you and for your benefit. Those of you who are not NASD members, of course, will be dealing directly with the Commission both in Washington and through our regional offices, and we shall make our administration as it applies to you just as cooperative.

I would end these prefatory efforts at setting the record straight as to our feelings about this venture in what we think and hope is enlightened regulation, with this further note of caution:

The "Seamy" Side

Bear in mind that in the following discussion of some of the reasons leading up to adoption of the Statement of Policy, we are looking only at what we might call the "seamy" side. And, since this is so, all the illustrations are drawn from this "bad" side. These are the worst instances. They are by no means all of them; but equally, by no means does all literature contain all or even some of these objectionable features.

The continuing increase in the size and importance of investment companies has been paralleled by an increasing use of supplemental sales literature. Such literature may, of course, be used provided it is not used as a substitute for the statutory prospectus and is not misleading.

The Commission has noted in recent years a growing use of sales literature which, if not actually designed to do so, at least tended to mislead prospective investors in investment company shares. For instance, while sales literature emphasizes one or more advantages to be gained by the purchase of investment company shares, rarely is there any mention that the acquisition of such shares involves the payment of a sales charge. Likewise, little or no mention is made of management fees and other expenses chargeable against the investor's interest in the company. Investors sometimes complain to the Commission that they were unaware of these deductions and charges and would not have bought the shares in question had they realized the substantial amount of charges involved.

Investment companies all too frequently offer to free the investor of any worries in connection with his investments. "Peace of mind and freedom from investment worries," is the promise.

The nature of the statements and sales appeals embodied in the large volume of supplemental literature prepared and used by underwriters and dealers has been a matter of concern to the Commission and to the investment company industry for some time. The Commission, therefore, undertook, with the assistance and cooperation of the National Association of Securities Dealers a broad and thoroughgoing survey of such literature to determine what the principal abuses are and to establish standards which might serve as a guide to the industry. After several months of intensive work and frequent consultation between the Commission and the NASD, the Statement of Policy was evolved and published on Aug. 11, 1950. I will not pretend that there was complete unanimity of views between the Commission and the industry at all times during the progress of the survey. There was at the outset a considerable divergence of views, but, as the work progressed, the area of disagreement was continually narrowed, and, at the completion of the survey, the Commission and the NASD were in complete agreement on all matters covered by the Statement of Policy. The Commission and the Association are now working out procedures whereby the Association will assist the Commission in carrying out the Statement of Policy as a measure of self-regulation.

It will be noted that most of the policy statements begin with the phrase "to represent or imply." It frequently happens that supplemental sales literature used in the sale of investment company shares is misleading not so much because of the express representations made but by virtue of the skillful use of language to imply something that is not expressly stated. Thus, it has been necessary in the Statement of Policy to deal not only with express statements but also with statements designed to lead the investor to draw inferences unwarranted by facts. Since not all implications are misleading, it seemed wise to include in the Statement of Policy a definition of the types of implications to which reference is intended. The definition is based upon the standard of disclosure set forth in Section 17 of the Securities Act. It is, in substance, that sales literature is deemed to be materially misleading if it contains either an untrue statement of a material fact or if it omits to state a material fact necessary to make the statement made, in the light of the circumstances of its use, not misleading.

Factual Statements

While the Commission and the NASD were working on the Statement of Policy, the industry expressed some fear that the principles laid down in the various policies might operate to hamper the impartial description of investment companies and their shares. As an example, some investment companies liken their investment policies to those of insurance companies. In some cases, this is misleading since the investment companies in question do not operate under the same legal restrictions as insurance companies. In general, the Statement of Policy would forbid such comparisons, but where a company is limited by its charter to investments similar to those of insurance companies, it is clearly proper for the investment company so to state. Accordingly, the Statement of Policy contains a provision that nothing in it is intended to prevent the use of factual statements, fairly presented, concerning the fundamental investment policies and objectives, investment restrictions and other characteristics of a particular investment company.

I will turn now to the various specific provisions of the Statement of Policy.

In these days of low return on many types of high-grade securities, it is not difficult to imagine the great appeal of a liberal percentage return frequently promised, expressly or by implication, in the sales literature of investment companies. A single example taken from a recent advertisement will illustrate what I mean. It read, in part, as follows:

"Security: A million people who are interested in buying security and a dependable monthly income have turned to Mutual Funds which pay a current return of 5½% or more."

Rather inviting, don't you think? Such generous rates of return are frequently computed upon the basis of net asset value and do not represent a return upon the investor's cost. Furthermore, where there has been a decrease in the per-share asset value during the period, this fact is not always brought to the attention of the investor. Accordingly, it will hereafter be considered materially misleading to represent or

Continued on page 24

*An address by Mr. Cook before the "Investment Dealers' Digest" Second Annual Mutual Fund Conference, New York City, Aug. 29, 1950.

1 The Statement of Policy provides, in part, that:

"It will be considered materially misleading hereafter for sales literature . . . (r) to employ material in whole or in part from published articles or documents descriptive of or relating to investment companies unless such material, or the literature including such material, complies with this Statement of Policy and in addition such material is not taken out of context in a manner which alters its intended meaning."

All of this stock having been sold, this announcement appears as a matter of record only, and is under no circumstances to be construed as an offering of this stock for sale, or as an offer to buy, or as a solicitation of an offer to buy, any of such stock.

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Bank and Insurance Stocks

By H. E. JOHNSON

This Week—Insurance Stocks

Operating statements of most of the major fire and casualty insurance companies for the first half of the current year are now available.

Geyer & Co., 63 Wall Street, New York, specialists in insurance and bank stocks, have just recently issued a cimpilation covering the operations of forty-seven companies for the six months to June 30. Some of the figures presented in the report include the estimated asset values, net premiums written in the first half of 1950, the percentage gain in premium volume so far this year as compared with 1949 and current market price and dividend rates. In addition the per share earnings are shown, with a breakdown as to their source, and the Federal income tax liability.

For purpose of this column we have selected eighteen of the better known companies from the tabulation and present below in two tables the per share earnings. Also a comparison of the net results with those of the comparable period of last year are shown in the final column.

	Earnings Before Taxes				
	Under-writing Profit (Tax basis)	Acquisition Exp. Incurred on Unearned Premiums	Adjusted Under-writing Profit	Net Invest-ment Income	Operating Profit Before Taxes
Aetna Insurance Co.	$1.04	$1.56	$2.60	$1.95	$4.55
Agricultural Ins.	5.35	0.66	6.01	3.07	9.08
American Insurance	0.76	0.49	1.25	0.85	2.10
Camden Fire	0.53	0.35	0.91	0.78	1.69
Continental Insurance	1.61	0.14	1.75	2.00	3.75
Federal Insurance	2.09	0.97	3.06	1.54	4.60
Fidelity Phenix	1.81	0.21	2.02	2.08	4.10
Fire Association	2.47	0.83	3.30	2.39	5.69
Fireman's Fund	3.50	1.17	4.67	2.55	7.22
Fireman's Insurance	1.91	0.23	2.14	1.18	3.32
Glens Falls	2.53	0.98	3.51	1.41	4.92
Hanover Fire	1.28	0.71	1.99	1.20	3.19
Ins. Co. of North Am.	1.10	1.06	2.16	3.52	5.68
National Union	—0.02	0.88	0.86	1.53	2.39
Northern Insurance	—0.01	1.70	1.69	1.47	3.16
Pacific Fire	9.22	3.16	12.38	3.88	16.26
St. Paul F. & M.	3.09	0.31	3.40	2.89	6.29
Security Insurance	1.45	0.61	2.06	1.18	3.24

	Federal Income Taxes		Operating Earnings After Taxes Six Months Ended	
	Actually Incurred	Saved By Tax Deductible Acquisition Costs	6-30-50	6-30-49
Aetna Insurance Co.	$1.25	$0.22*	$3.08	$4.34
Agricultural Insurance	2.53	0.25	6.30	5.74
American Insurance	0.40	0.16	1.54	2.02
Camden Fire	0.34	0.13	1.22	1.53
Continental Insurance	0.96	0.06	2.73	3.52
Federal Insurance	0.88	0.37	3.35	3.38
Fidelity Phenix	1.06	0.08	2.96	3.76
Fire Association	1.23	0.32	4.14	5.79
Fireman's Fund	2.22	0.44	4.56	4.50
Firemen's Insurance	1.17	0.09	2.06	2.44
Glens Falls	1.11	0.38	3.43	3.50
Hanover Fire	0.43	0.27	2.49	3.50
Ins. Co. of North Am.	1.66	0.34*	3.68	5.84
National Union	0.41	0.29	1.69	2.40
Northern Insurance	0.14	---*	3.02	3.62
Pacific Fire	4.05	1.20	11.01	12.74
St. Paul F. & M.	1.10	0.08	5.11	6.20
Security Insurance	0.81	0.15*	2.28	2.35

*Additional Federal income taxes of indeterminable amount would have been incurred if the Company had not had benefit of deducting (for tax purposes) the acquisition costs on increased amount of premium in force at end of period.

Geyer & Co., in accordance with the policy adopted at the end of last year, have in their current compilation endeavored to make allowance for the tax liability which, although not specifically incurred, was deferred to a later date as a result of the deductibility of expenses for increased premium volume. Thus in addition to the regular income tax liability incurred on statutory underwriting profits and investment income, a deduction from operating earnings of the amount of Federal income taxes saved by the deduction for tax purposes of acquisition costs on any increase in business is shown.

Operating earnings after taxes for the period are therefore lower than they would be under some of the more usual methods of computation by approximately this amount.

Final comparisons between the two periods are of primary significance and considering the difficulties experienced, net operating results are in most cases relatively favorable.

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Can Western Europe Rearm?

By PAUL EINZIG

Dr. Einzig recounts economic and political progress in Western Europe since War's end, and points out in last year or so, productive capacity there has risen above prewar level along with higher living standards. Foresees likelihood of lower living standards and more work if full rearmament is called for, and stresses need of all-out cooperation of people with governments in facing stern realities.

LONDON, Eng.—The gloomy picture of the military unpreparedness of Western Europe is somewhat relieved by growing evidence of economic strength. Indeed, from an economic point of view, Britain and most Western European countries may be said to be better prepared in many ways for rearmament and war then they were in 1939. We have to thank our lucky star that the present dangerous international situation did not arise some three years earlier. By then the democratic powers were demobilized, and their military weakness would have been aggravated by their economic weakness. Rearmament on a large scale would then have caused economic disaster and social upheaval with incalculable political consequences.

Dr. Paul Einzig

It is only during the last two years that reconstruction in Western Europe has made good progress. In 1947, industrial productive capacity was considerably under prewar level. A large proportion of industrial equipment destroyed or worn out during the war was not yet replaced. Productivity was adversely affected by the acute housing shortage. Consumers' good were in short supply. Worn out household goods and clothing were not replaced. The populations were underfed, their vitality was low. They had not been able to recover physically or mentally from the prolonged strain and privations of the war years.

Transport conditions were unsatisfactory. There was a shortage of rolling stock and shipping tonnage. Most Western European countries were more or less in a state of acute inflation. Their budgets were unbalanced and confidence in monetary stability was weak.

Had it become necessary in 1947, or even a year later, at the time of the Berlin airlift, to make a supreme economic effort in the interest of rearmament the result would have been advanced inflation, industrial unrest, leading to disturbances that would have largely handicapped rearmament and would have largely offset its effect on the military strength of Western Europe. Productive capacity would have been far from sufficient to cover vital civilian requirements, and the half-hearted workers would not have made the best use of the limited industrial equipment and raw material stocks available.

It is true, the economic situation in the USSR during the early postwar years was, if anything, even more unsatisfactory then in Western Europe. In Russia the maintenance of strong military power was only possible through maintaining the standard of living of the population at its low wartime level. In a totalitarian state this is possible. The secret of the economic efficiency of Communist dictatorship lies in its ability to persuade or compel the workers to work extremely hard on an extremely low standard of living. This is politically impossible in democratic countries except during brief periods of acute danger. In Western Europe the war and postwar conditions have changed the political and economic balance of power strongly in favor of organized labor. It has become a political necessity to raise the standard of living of the working classes, at the expense of national defense.

Thanks to the progress of reconstruction, productive capacity in Western Europe has now risen well above prewar level. Factories have been largely re-equipped and modernized. Rolling stocks and merchant fleets have been rebuilt. Housing has made good progress. Supplies of consumers' goods have been replenished both in wholesale and retail business and in homes. Workers of all classes had five years during which to rest, and thanks to this and to improved food supplies their vitality is now restored. Inflation has been checked and budgets are more or less balanced. Materially, the Western European nations are now in a position to rearm. This is, however, only half the battle.

The question is, is Western Europe mentally ready to rearm? It would mean accepting considerable reductions in the standard of living, and working much harder. Thanks to the progress of reconstruction, the sacrifices called for by rearmament in 1950 would not be nearly as drastic as they would have been three years earlier. If proper use is made of the increased productive capacity it should now be possible to have guns as well as some butter—though not as much of the latter as the Western European peoples have grown accustomed to have during recent years. Under the existing democratic regimes the populations are politically in a position by majority vote to refuse their approval of a policy under which they would have less butter and they would have to work harder for it. Or the industrial workers could refuse their whole-hearted cooperation in the rearmament effort, in which case its results are doomed to be inadequate. The success of the rearmament drive depends on the ability of the governments concerned to persuade their nationals that there is a grave danger threatening their security and that the danger could be averted through their whole-hearted efforts. A happy medium must be struck between complacency and defeatism.

Many of the governments are not yet aware of the need for facing realities. They still think in terms of limiting their rearmament drives to the extent to which it is possible without sacrificing postwar standards of living. The sooner they discard such ideas the better. So long as Ministers continue to speak in such terms they cannot expect the ordinary man to realize the extent and urgency of the efforts and sacrifices called for by the situation.

Wriston Public Gov. Of N. Y. Stock Exch.

The election of Dr. Henry M. Wriston, President of Brown University and President of the Association of American Universities, as a public Governor of the Exchange was announced by Emil Schram, President. Dr. Wriston's election brings the Board of Governors to full membership of 33. The two other Public Governors are Gale F. Johnston, President of the Mercantile-Commerce Bank and Trust Company of St. Louis, and Thomas S. Nichols, Chairman of the Board and President of Mathieson Chemical Corp.

Henry M. Wriston

Dr. Wriston, in accepting the post, said: "It is my hope, as a public governor of the Exchange, to aid in bringing about the broad understanding of investment processes that is essential to an informed public ownership of American industry. The desirability of achieving those objectives has long interested me. Our nation's industrial strength requires a healthy flow of private funds into productive enterprise.

"I have noted with special satisfaction the program of the Exchange, in cooperation with other segments of the financial industry, that is enabling faculty members of American universities, students and others, to study its true position in our economy. To represent the point of view of the public and of the collegiate world in this and other activities of the Exchange is a gratifying opportunity."

Dr. Wriston has long been prominent as an educator. Born 61 years ago in Laramie, Wyoming, he received degrees from Columbia University, Harvard University, New York University, Princeton University, Rhode Island State College, Rutgers University, Tufts College, Wesleyan University and Western Reserve University. Following 11 years of teaching at Wesleyan University, he served as President of Lawrence College from 1925 to 1937, when he became President of Brown University.

Dr. Wriston is a trustee of Northwestern Mutual Life Insurance Co., Carnegie Endowment for International Peace, World Peace Foundation, Educational Records B[illegible] and Teachers Insurance and Annuity Association Stock.

Phila. Bond Club To Hold Field Day

PHILADELPHIA, Pa.—The 25th annual field day of the Bond Club of Philadelphia will be held at the Manufacturers Country Club on Sept. 15. A special silver jubilee program is being arranged by Lawrence Stevens, Hemphill, Noyes, Graham, Parsons & Co., Chairman of the Outing Committee. An effort is being made to renew the series of golf matches between the New York and Philadelphia bond clubs.

Midwest Exch. Members

CHICAGO, Ill.—The Executive Committee of the Midwest Stock Exchange has elected to membership Lloyd I. Miller of Cincinnati, O., and Edward M. Harkness of Mason, Morgan & Co., Chicago. Mr. Miller plans to come to Chicago and act as a broker on the Exchange Floor.

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Federal Reserve Board Presents Fiscal and Credit Policies

indefinitely a system of heavy excess profits taxes.

Government Borrowing from Nonbank Investors

Even Government expenditures were fully covered by taxation, it would be highly desirable under present and prospective conditions for the Treasury to obtain as large a volume of excess investment funds as possible by borrowing from real savings. Every effort should be made to sell bonds to the public, including individuals, corporations, and nonbank financial institutions, thus absorbing money that would otherwise be spent on current consumption or new private investment. Such a program would not only absorb redundant funds but also make it possible to reduce the volume of securities held by banks which would be a further anti-inflationary influence.

The success of a defense bond financing program should not be judged in terms of the dollar amount of bonds sold. The program should be judged mainly by the extent to which purchasing power is really diverted from the public to the Federal Government. It should have the effect of curtailing current purchases of goods and services. If new bonds are sold to investors who in turn sell existing holdings to banks, the major purpose is not accomplished.

In order best to accomplish this purpose, the program of borrowing from nonbank investors should vary somewhat from that followed during the last war. The main aspects of a program that might give most effective results would be as follows:

(1) Efforts to sell Series E, F and G bonds to individuals should be continued and intensified. These funds come directly from individuals and the bonds are of a nature that discourages their liquidation, although permitting redemption at some penalty.

(2) Sales of savings notes, which are largely purchased by corporations, should be pressed

(3) Continuous (or tap) offering should be made of a nonmarketable redeemable 2½% bond to nonbank investors (perhaps with limited purchases permitted by banks in relation to savings deposits). The maturity of the bond, the scale of redemption values, and limitations upon purchases would be determined in the light of market conditions. This bond should be continuously available in the same manner as Series E, F and G bonds. Purchases might be limited in accordance with the accumulation of new funds available to investors, in order to discourage buying by sale of outstanding securities to the banks. Opening up of Series bonds to institutional investors on a similar limited basis might be considered instead of offering a new type of bond.

Such an issue would offer a means of tapping current savings as they become available. With limitations on mortgage credit and perhaps on other types of private and public financing, and with appropriate selling efforts, these bonds should attract a substantial amount of funds.

(4) So far as possible, sales of marketable securities should be limited, and large-scale loan drives of the kind used during the war should be avoided. Vigorous selling campaigns inevitably encourage a certain amount of free-riding (oversubscription in order to sell later at a profit) and result in substantial switching from existing holdings to new issues. Such practices are profitable to subscribers and cannot be entirely prevented so long as short-term rates are lower than long-term rates. Since the securities sold by subscribers would be largely bought by banks, the indirect effect of these practices is to increase bank credit.

Continuous offering of a long-term nonmarketable bond of the type proposed would help accomplish certain desirable purposes. (1) It would always be on tap to absorb investment funds as they become available; (b) it would establish a level of long-term interest rates at a sustainable basis reasonably related to rates on outstanding bonds; and (c) it would provide, both for the emergency period and for later years, a security that would discourage widespread liquidation such as occurred in 1947 and 1948 with upsetting effects on the economy. The bond would be redeemable, but at some loss of interest, which would provide an inducement to hold; also, demands for redemption would not be reflected in market prices of outstanding securities. No other type of issue would contribute so greatly to stability in the long-term market, and lighten so materially the burden of the Federal Reserve System in its open market operations, both during and after the war emergency.

Two objections have been raised to non-marketable issues of this sort: One is that they are not popular with large financial investors, who naturally would prefer to be able to sell their bonds on a supported market when they wish without loss. Their ability to make such sales, however, would require continuous support operations which exert highly inflationary effects at times when prevention of inflation is most essential. The second objection is that such securities present at all times a potential demand obligation upon the Treasury of indeterminable magnitude. Because of the penalty involved, however, redemption of nonmarketable obligations is less likely to occur than is the sale of marketable securities.

Limitations on Bank Credit Expansion

In a situation where inducements for expansion and speculation are substantial, where capacity for expansion is limited, where the bulk of economic decisions continue to be privately motivated, and where new and adequate taxes have not yet become effective, vigorous measures of restraint on private credit extension constitute the most important instrument immediately available for holding the line against an inflationary price spiral. As previously pointed out, however, that task is necessarily complicated by the large volume of public debt outstanding, which makes it possible not only for individuals, businesses, and financial institutions to obtain needed funds by liquidation of government securities but also for banks to obtain reserves needed for credit expansion in a similar manner. The various means available for restraint on credit expansion are as follows:

(1) *Selective Credit Instruments*—Some types of credit can be restrained by government regulation imposing conditions as to the nature of the credit advanced. The outstanding examples are margin requirements on security loans, maturity and down-payment requirements on consumer instalment credit and payment limitations on other types of consumer credit, and various types of requirements as to real estate credit. These are important supplementary instruments but they cannot by themselves be relied upon to meet the present anti-inflation problem.

Expanding credit in the housing field during recent years has been greatly stimulated by governmental policies and is currently very inflationary in character. Current construction activity and the expansion of mortgage credit as well as the outstanding volume of such credit are at the highest level of all times. Recent action by the President to reduce governmental stimulants is an important step toward curtailment in this field, but additional action will be required. The authority requested in the proposed "Defense Production Act of 1950" would provide the means for applying further restraints and this authority is necessary.

Authority to regulate consumer credit, including particularly instalment credit, is provided for in legislation before Congress. Under that authority restrictions could be imposed on new extensions of such credit. Previous experience with regulation of consumer credit indicates the procedures for accomplishing this purpose.

Present laws and regulations as to margin requirements appear adequate to deal with any situation which may arise. Margin requirements, which are now 50% of the current value of stocks held as collateral, are moderately restrictive. The present authority is adequate to restrain credit in this area if speculative developments in the stock market should require more restraint.

Selective controls are not suitable to most other types of credit, such as loans to businesses and farmers to provide working capital or carry inventories because specific rules as to repayment are not generally applicable. Expansion of these credits, as well as of those subject to selective regulation, can be restrained to an important degree through the voluntary cooperation of banks and other lenders, through bank supervisory policy applied cooperatively by the State and Federal authorities, and through the use of general credit instruments which limit the supply of reserves available to banks.

(2) *Open Market Operations*—Under existing conditions, with the large volume of government securities outstanding, the principal source of funds for credit extension is the sale of government securities to the Federal Reserve. Such sales create bank reserves which can be used for multiple credit expansion. The Federal Reserve could impose definite restrictions upon the potential expansion of bank credit by limiting its purchases of securities to the amount necessary to maintain orderly conditions in the market. Under such a policy some flexibility in short-term interest rates would be necessary. Some proponents of easy and cheap money advance the thought that it is more important for the government to have access to unlimited Federal Reserve funds at very low interest rates than to use open market operations to combat inflation and maintain the basic strength of the American economy.

It is important to remember, furthermore, that the government no longer issues tax-exempt securities so that some portion of what it pays out in interest is recaptured through income taxes paid by corporate and individual recipients of the interest payments. Hence, the cost to the government of an increase in short-term rates, for example, ought to take account of what is recaptured by taxation and not be measured simply by the additional charge against the current budget.

(3) *Discount Rates*—In earlier years, changes in discount rates on member bank borrowing were the principal instrument of Federal Reserve policy. In recent years, the effectiveness of discount rate changes has been diminished by the very large bank holdings of Government securities which enable them to obtain needed reserves by the sale of such securities instead of by borrowing. Discount rate changes, however, still have a considerable psychological influence and are used on appropriate occasions. The discount rate at Federal Reserve Banks is now 1½%, compared with a current market rate of 1¼% on one-year certificates and slightly less on three-month Treasury bills. With this spread in rates, banks prefer to sell Government securities rather than borrow to obtain needed reserves, but a narrower spread in rates might encourage some increase in the amount of borrowing as a means of adjusting temporary shifts in bank reserve positions. Under present conditions, changes in discount rates must of necessity be related in some degree to changes in short-term rates on Government securities.

There is a well-established, and on the whole desirable, tradition on the part of banks against continuous borrowing which results in restraint when banks are in debt. Consequently, adjustment in bank reserve positions by rediscounting is more restrictive in its effects on the credit situation than is adjustment by sales of short-term Government securities in the market. Penalties on borrowing, of course, can be varied in accordance with credit conditions by changing the discount rate.

(4) *Reserve Requirements*—One means of decreasing or increasing the supply of reserves available to banks as a basis for extension of credit is to change the amount of reserves that banks are required to hold with the Federal Reserve Banks. Changes in reserve requirements are particularly adapted to bringing about broad adjustments in the reserve position of member banks so that monetary policy may be carried out through the flexible instruments of open market operations and discount rates. An increase in reserve requirements can be used to absorb excess reserves that banks might hold in order to make them unavailable as a basis for further credit expansion. Its application at a time when banks do not hold excess reserves makes it necessary for banks to liquidate assets in order to obtain the additional reserves needed. Under the circumstances, the additional reserves would have to be supplied by Federal Reserve purchases of securities or advances to member banks. The restrictiveness of the action would depend in large part upon whether banks

Continued on page 16

This advertisement is neither an offer to sell, nor a solicitation of offers to buy, any of these shares. The offering is made only by the Prospectus.

100,000 Shares

Big Bear Markets of Michigan, Inc.

Common Stock

Par Value $1.00 Per Share

Price $9 per share

Copies of the Prospectus may be obtained from any of the several underwriters, only in states in which such underwriters may legally offer these shares in compliance with the securities laws of the respective states.

J. G. White & Company, Inc.

Paine, Webber, Jackson & Curtis | **Watling, Lerchen & Co.**

Baker, Simonds & Co. | **A. M. Kidder & Co.** | **Straus & Blosser**

George A. McDowell & Co. | **R. C. O'Donnell & Co.** | **White, Noble & Company**

Wm. C. Roney & Co. | **Stoetzer, Faulkner & Company** | **A. H. Vogel & Co.**

McDonald-Moore & Co.

August 29, 1950.

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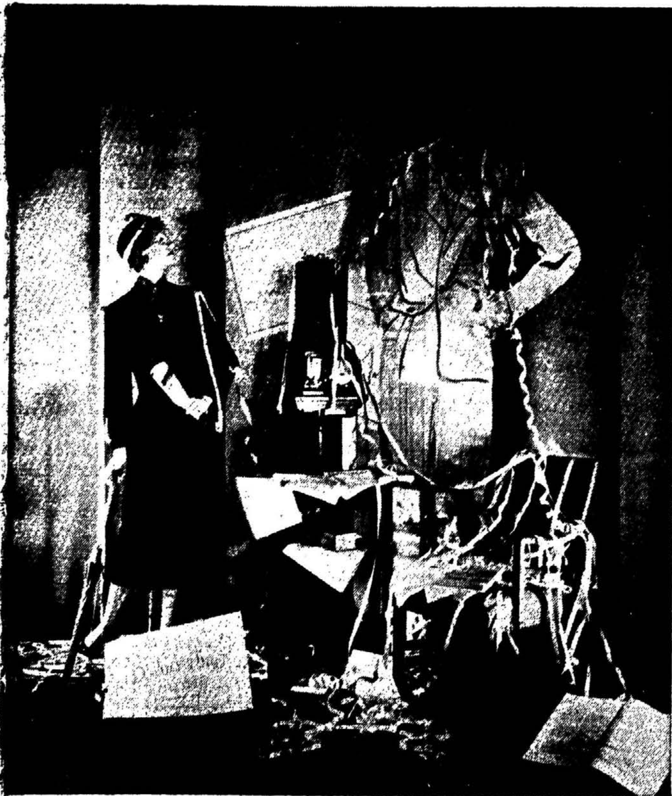
Federal Reserve Bank of St. Louis

"Broker's Grey" – Assisted by Tyson



PHILADELPHIA, Pa.—An alert investment firm and one of the largest and most fashionable women's apparel stores here are jointly sponsoring a unique promotion this week (Aug. 28 to Sept. 2) designed to stimulate the securities business and the sale of women's wear at the same time. What they have in common for the week is "broker's grey." For the uninitiated "broker's grey" is a new shade that The Blum Store is introducing to milady for the Fall season and the introduction is being made with a strong assist from Tyson & Co., Inc., security dealers.

The latter firm suggested to The Blum Store that the new fabric be promoted by dressing all 12 of The Blum Store windows on fashionable Chestnut Street as sections of a brokerage house. When the problem arose of where to get the material for the window dressing, Tyson & Co. solved it by virtually turning over all the paraphernalia in their offices to The Blum Store. So, when you walk along Chestnut Street near Juniper this week, don't be surprised if you see The Blum Store mannikins against a background of stock tickers, ticker tape, charts and manuals. And by the way, those smart suits on the mannikins are in that new Fall shade—"broker's grey."

$50,000,000 Canada Bonds Placed Here by Morgan Stanley Group

Morgan Stanley & Co. and 82 U. S. and Canadian underwriters on Aug. 30 offered $50,000,000 25-year 2¾% bonds of the Government of Canada, priced at 101%.

The bonds which will mature Sept. 15, 1975, will be direct obligations of the Government of Canada, with principal and interest payable in U. S. dollars.

Proceeds of the issue will be used to retire part of a $100 million issue of 4% bonds which are payable in U. S. dollars. These bonds have been called for redemption on next Oct. 1. The remainder of the funds required will be provided out of the Treasury of the Government.

The refunding of half of the issue and the payment of the remainder will result in a reduction of $2,625,000 in annual interest charges payable in U. S. dollars.

Canada has enjoyed a budgetary surplus during each of the past four fiscal years ended March 31 despite substantial reductions in personal income and excise taxes since the end of World War II. Canada, like other members of the North Atlantic Pact, is undertaking an expansion of its military and preparedness program which will mean a substantial increase in its national defense budget and may well require increased taxes.

This advertisement is neither an offer to sell, nor a solicitation of an offer to buy any of this stock. The offering is made only by the descriptive circular.

NOT A NEW ISSUE

37,500 Shares

Kimberly Corporation

Common Stock
(no par value)

Price $4 per Share

Copies of the descriptive circular may be obtained in any State only from such of the undersigned as are registered dealers in securities in such State.

Morgan & Co. 634 S. Spring St., Los Angeles 14

Blair F. Claybaugh & Co. 52 Wall St., New York 5

August 31, 1950

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Federal Reserve Board Presents Fiscal and Credit Policies

have sufficient Government securities to part with some of them and still meet their liquidity standards. The interest yield rate at which the Federal Reserve bought securities would also influence the response of the banks to the action.

One of the disadvantages of an increase in reserve requirements is its unselective application to banks. It affects all banks alike in relation to their respective deposits without regard to the nature of their assets or their current credit policies. In contrast, open market operations exert their influence indirectly through the money market without an obvious and direct effect upon individual banks. Under present law, the authority to increase reserve requirements applies only to member banks of the Federal Reserve System which, in general, are already subject to higher requirements than non-member banks. In a critical period of inflation, it would be of less than maximum effectiveness as well as inequitable to impose higher requirements on member banks without giving consideration to some similar limitations on non-member banks. Such limitations could take various forms and could be administered through the State bank supervisors.

The existing unused authority for the Board to increase requirements under the present law is limited. For banks other than central reserve city banks, which are in New York and Chicago, requirements against demand deposits can be increased by only 2% and against time deposits by 1%. For banks in New York and Chicago, the increase could be as much as 4% on demand deposits. These banks have not shown the same increase in resources in recent years as have other banks and would be unduly penalized relative to other banks if subjected to disproportionate increases in requirements. Altogether the remaining authority to increase requirements would amount to about $2.4 billion of reserves. This small authority could be used with some degree of effectiveness under circumstances when short-term interest rates could be permitted to reflect the operation.

There are certain inequities in the existing system of reserve requirements which are based upon the needs of situations prior to establishment of the Federal Reserve. It would be highly desirable to revise the methods of computing reserve requirements so as to relate them more specifically to types of deposits and eliminate the arbitrary classification of cities and also to permit cash holdings and to some extent interbank balances to count as reserves. Means for bringing about such changes have been under consideration within the Federal Reserve System for several years and a staff study on the subject was presented to the Joint Committee on the Economic Report some time ago. Since then, the System has extended its studies in consultation with the Federal Advisory Council, but these studies are not yet concluded.

(5) *Supplementary Requirements*—In view of the large holdings of Government securities by banks, which can readily be liquidated to meet other types of credit demands and the difficulty of restraining such liquidation without upsetting the Government securities market, proposals have been made for immobilizing portions of the bank's holdings. It is the object of such measures to assure retention of a stable demand for short-term Government securities at relatively low rates and at the same time make it possible to restrict the availability of other types of credit.

These measures would not prevent expansion of the money supply as a result of Government financing through the banks, but would be designed to reduce its multiple effects, particularly in the post emergency period. For them to be effective, the Treasury would have to limit the eligible securities which it issues to minimum amounts required to meet the needs of the situation. It would also be necessary for the Federal Reserve System to follow a flexible open market and discount policy which would permit rates in the money market to fluctuate.

Following are the principal objections advanced against requirements of this nature:

(1) In view of the large holdings of Government securities by banks, very high requirements would be needed to exert an effective degree of restraint.

(2) Because of wide variations among banks, such requirements might seriously restrict some banks while not restricting others.

(3) They could be used as means of forcing banks to purchase Government securities.

(4) Effective restrictions could be applied if the Federal Reserve would refuse to buy, or would sell, Government securities, rather than follow the policy of buying any amounts needed to keep interest rates from rising.

Government Borrowing From Banks

As previously suggested, the increased military program as now scheduled can and should be financed through taxation with no resort to inflationary borrowing from the banking system. Vigorous fiscal action should be supplemented by Government borrowing from nonbank sources in order to absorb funds that would otherwise be spent on consumption and new private investment and to reduce the volume of Government securities held by the banks. Any borrowing from banks should be held to the irreducible minimum needed to finance the increased monetary requirements of a wartime economy.

In the case of an all out military program, every effort should be made to carry the financial burden through pay-as-you-go taxation. The most inflationary method of financing the government's military deficit would be to borrow needed funds from the banks. Even if special methods are employed to keep down the secondary credit expansion potential of such borrowings, the method is still inflationary. Over the past few months, the government has secured most of its new funds from banking sources, but this borrowing has been partly counterbalanced by Federal Reserve sales of long-term bonds to nonbank investors.

Experience of the last war demonstrated that it was relatively easy to sell any amount of government securities either directly to banks or to nonbank investors who in turn sell other securities to banks, as long as the Federal Reserve bought enough securities to supply the banks with needed reserves. It also showed that the maintenance of short-term rates at a level substantially below long-term rates is a great encouragement to the shifting of government securities, as they approach maturity, to banks and then to Federal Reserve Banks. Another situation of this sort should be avoided as it is an inducement rather than a discouragement to government financing through the banks. Such a situation is highly inflationary in character.

Continued from page 5

Observations . . .

net-after-tax earnings. Nor are such estimates applied to individual companies determining his back-and-forth shifts between heavily capitalized enterprises as the railroads on the one hand and growth companies on the other.

The Market a Military News Bulletin?

Nor do the day-to-day fortunes of the UN's troops and planes in Korea really furnish the valid explanation of our stock market's gyrations. In addition to the evidenced non-correlation of these two phenomena, it must be remembered that prospects for peace are as likely to presage bearish as bullish market action—witness the investing public's recurrent "peace scares" accompanied by market declines during World War II.

* * *

The writer is convinced that the market's current movements are not motivated by factors that are political, military, economic, financial, or technical—but, to an even greater extent than usual, by the *PSYCHOLOGY OF THE CROWD*. He holds the conviction that the monetary, political, and value elements truly necessitate the devotion of a major portion of one's capital to equity investment, but with a 10-year in lieu of a 10-minute outlook!

Herman Veneklasen With Dempsey & Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill. — Herman W. Veneklasen has become associated with Dempsey & Co., 135 South La Salle Street, members of the Midwest Stock Exchange. Mr. Veneklasen was formerly with Voss & Co., Reynolds & Co. and L. F. Rothschild & Co.

Walter Devlin Joins First California Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—Walter E. Devlin has become associated with First California Co., 647 South Spring Street. He was formerly with Dempsey-Tegeler & Co., and prior thereto was Vice-President of Conrad, Bruce & Co.

Gerard B. Hoppin

(Special to THE FINANCIAL CHRONICLE)

Gerard Beekman Hoppin, retired investment broker, died at the age of 80 after a long illness. One of the founders of Hoppin Brothers & Co., he was a limited partner in the firm at the time of his death.

With Waddell & Reed

BEVERLY HILLS, Calif.—Donald B. Dreager has been added to the staff of Waddell & Reed, Inc., 8943 Wilshire Boulevard.

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First Security Bank Advances Five

SALT LAKE CITY, Utah—Five Salt Lakers were advanced this week to high positions in the First Security Bank of Utah, National Association, according to an announcement made by George S. Eccles, Bank President.

A. J. West

A. J. West was elected Vice - President in charge of the investment department, head office.

V. R. Steffenson, Vice-President, was given general supervisory authority over all mortgage loan activities of the 40 banking offices of the First Security Corporation System in Utah, Idaho and Wyoming and was also elected to the board of directors and the advisory board of the First Security Bank of Utah, N. A.

At the Exchange Place Branch, S. R. Nielson was elected Vice-President and placed in charge of the mortgage loan department; R. G. Willie was advanced to Assistant Vice-President and Denzil Petterborg was named Assistant Manager in the mortgage loan department.

Mr. West, who has been affiliated with First Security and its predecessor banks for more than 25 years, first joined Central Trust Company as a salesman in the bond department in 1925. After this organization was merged with Bankers Trust Company to form the First Security Trust Company, he was elected Assistant Treasurer, becoming Treasurer in 1937. In 1948, he was elected Assistant Vice-President of the Exchange Place Branch of the First Security Bank of Utah and in 1949 was made Assistant Vice-President of the head office of the banking organization.

Mr. West received his training in accounting and finance at New York University and has served as a member of the board of governors of the Salt Lake Stock Exchange for the past 15 years. He is married and the father of two sons, Dr. James S. and John N. West, both of Los Angeles. Mrs. West, active in civic affairs for a number of years, is a former State President of the Parent-Teachers' Association and has served on numerous national and local committees of the American Red Cross, P. T. A. and Visiting Nurses' Association.

Mr. Steffenson joined the old Central Trust Company in 1927. He was named Assistant Secretary of the First Security Trust Company in 1937, advanced to Secretary in 1942 and became Vice-President in 1946. After consolidation with the First Security Bank of Utah, N. A., in 1948, he became Vice-President of the Exchange Place Branch in charge of the mortgage loan department. He received his schooling at the University of Utah and has served two terms as President of the Utah Mortgage Bankers' Association. At present he is a member of the committee on real estate mortgages of the American Bankers Association and a member of the Society of Residential Appraisers. He belongs to the Alta Club, the Ambassador Athletic Club and Sigma Alpha Epsilon, national social fraternity. He is married, the father of one son and resides at 1107 East South Temple.

Mr. Nielson has been affiliated with First Security and its predecessor banks since 1920, having served at various times as Chief Loan Appraiser and Manager of the real estate departments. He was made Assistant Vice-President of the Exchange Place Branch in 1948. He attended the University of Utah and has served as President of the Salt Lake Real Estate Board and as President of the Salesman's Division of the Board. He is married, the father of two sons and two daughters and makes his home at 1107 East South Temple.

Mr. Willie, who becomes Assistant Vice-President, began his career with the banking firm as messenger for the National Copper Bank in 1929 while a student at the University of Utah. Later, after completing his schooling and passing the State bar examination, he joined the First Security Trust Company in the mortgage loan department in 1937. He is married, the father of two sons, and resides at 1404 Westminster Avenue.

Mr. Petterborg was employed by First Security Trust Company in 1941 in the mortgage accounting department. In 1947, he received special schooling in mortgage loan procedures at the University of Illinois. He is married, the father of one daughter, and lives at 540 East 1st South.

Trunkline Gas Bonds Placed Privately

Trunkline Gas Co. announces, on Aug. 28, that it has sold an issue of $61,000 000 first mortgage pipe line 3¼% bonds, due July 1, 1970. The bonds were sold privately to a group of life insurance companies. Carl M. Loeb, Rhoades & Co., negotiated the sale.

Trunkline Gas Co., formerly known as Trunkline Gas Supply Co., is building and will operate a pipe line approximately 1,300 miles in length from Trunkline's gas supply in Texas and Louisiana to Tuscola, Illinois, where it will join with the transmission system of Panhandle Eastern Pipe Line Co., which is Trunkline's sole customer at present. The line is expected to be completed in October, 1951.

In addition to the $61,000,000 bond financing presently announced, Trunkline Gas has sold $6,500,000 of $5 convertible preferred stock of $100 par value, and $14 000,000 of $5 par value common stock. Panhandle Eastern purchased 60% of each stock issue. The remaining 40% of both issues has been subscribed privately. No public financing is presently contemplated.

Eastern Stainless Steel Offering Oversubscribed

The offering to stockholders of Eastern Stainless Steel Corp. of 100,000 additional shares of stock ($5 par value) at $12 per share has been substantially oversubscribed, according to an announcement made on Aug. 28 by John M. Curley, Chairman and President of the Steel company, and Thomas C. Kehlenbach, Vice-President and General Manager of J. Arthur Warner & Co., Inc., underwriter of the offering. The successful completion of the offering marked the entry of the securities firm into the underwriting field.

The subscription offer, which expired Aug. 25, gave stockholders of record Aug. 10 the right to subscribe for the new stock on the basis of one share for each three shares held.

The net proceeds from the financing, estimated at around $1,030,000, will be utilized for the retirement of current bank loans and the prepayment of term loans maturing in 1951 and 1952.

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

The government market is still at sixes and sevens over the Treasury refunding and the lack of agreement among the monetary authorities. Until these differences are worked out, conditions will be uncertain and prices will most likely reflect the nervousness that seems to be in the market. After a rather sharp rise in quotations, the longest maturities of Treasury issues have given up most of their gains on lighter volume. Buyers seem to be inclined to wait and see what is going to happen in the current dispute, before taking on more securities.

The short-term market is all out of gear, and it is believed in some quarters that it will not be back in line until after the refunding is over. There is considerable activity in this section, with holders of the called 2s and 2½s selling these issues to Federal and using the proceeds mainly for higher yielding obligations.

Federal Primary Market Force

The "Battle of the Money Markets" continues in full force, with Federal buying and selling large amounts of government obligations. Issues that are being refunded are being pushed into the Central Banks because it is possible to get more favorable yields through self-refunding operations. This has created a demand for the intermediate and longer eligibles although there seems to be a tendency now not to reach for issues as was the case last week. If short-term rates are to go higher, as some money market followers believe, yields of the middle maturities of the eligibles could be vulnerable at present levels. While the longest bank obligations would also be affected by such a development, the scarcity factor might have a favorable influence upon the return of this security.

What will be the outcome of the controversy between the monetary authorities, over the level of interest rates, is anyone's guess at this time. This problem may have to be decided by President Truman in the not distant future, probably before the refunding operation is completed. If the Treasury is to continue the policy of financing at low interest cost, there must be help from the Central Banks. There cannot be divergent policies in the money markets, particularly at a time like this.

So far in the refunding operation, Federal has been the principal buyer of the issues which holders want to get rid of, and the Central Banks may end up with most of the new issue. This is not a favorable development and will no doubt have more than a passing effect upon the money markets. It is inflationary in more ways than one, and has some of the earmarks of the "Goldenweiser Plan," especially if reserve requirements should have to be raised in order to curtail the credit base, which would be enlarged by Federal's purchase of the called issues, or the new securities.

Money Market Dilemma

The dilemma of the money markets has resulted in some unusual situations, particularly in the near-term end of the list. Federal is supporting the 1¼% operation of the Treasury, by purchasing the called 2s and 2½s to keep the yield at 1.25%. Yet Treasury bills, a three-months' obligation, are available at a yield that does not make the refunding issue attractive. Other certificates are likewise yielding more in the open market than the ones that are being offered by the Treasury in the refunding. In time this condition will be resolved, but probably not without some adverse effect upon the principal operators in the money markets.

The ineligible issues had been in demand and moved up from the lower reaches of the recently established range. Federal, according to reports, has been supplying these bonds, and seems to have stemmed the price-rise for the time being. The Vics are nonetheless not without a sizable following although there is not as much enthusiasm or desire to step up and buy bonds as was the case recently. Switching has been a factor in the market action and volume in the taps with the 1952 eligibles getting a not important play. The 1959/62s seem to be the favorites of those that are looking for the near-term eligibility in the restricted issues.

The 1956/58s and the 1956/59s have been well bought, but these securities have also backed away after the initial strength, because of the uncertain trend of short-term rates. The bank 2½s of 1967/72—the only issue which yields more than 2%—have been quoted down following the early rise caused in no small way by self-refunding operations. Demand for this obligation is still large, especially among the smaller banks.

"Canada Today"

A booklet worth reading

The Bank of Montreal, head office Montreal, has issued a revised version of its very comprehensive hand-book entitled "Canada Today."

This 100-page illustrated reference booklet presents a descriptive and entertaining account of: (I) The Country; (II) The People, and (III) the Resources, of our northern neighbor. A map and other features are included.

Messrs. C. T. Aulph, A. S. Nichol and F. W. Hunter are the New York Agents of the Bank's New York branch at 64 Wall Street. A complimentary copy of this booklet will be mailed to readers of The "Chronicle" on application to Mr. W. E. Howard.

The Municipal Bond

It is the touchstone of safe investment because

It is a prior lien on the Homes of America.

It builds schools that we may know our past and plan the future

It builds roads that we may know our neighbors near and far

It builds hospitals that we might enjoy better living

It builds harbors that ships might sail

It is the financial worth of your community

It signifies progress

It means a better tomorrow by providing these things today.

HOWARD K. SMITH,
Starrett-Smith Company,
67 Wall Street, New York City

John Latshaw Member Of Detroit Exchange

DETROIT, Mich.—The Detroit Stock Exchange announces the admission of John Latshaw as a member of the Exchange and the registration of Uhlmann & Latshaw, Kansas City, Mo., as a member firm. They are also members of the New York Stock Exchange, New York Curb Exchange and Midwest Stock Exchange.

John Latshaw

Increased interest in the Detroit market developed, Mr. Latshaw said, with the recent announcement offering of preferential commissions to members of the National Association of Securities Dealers. Detroit members have noted a broader local market since the announcement of this plan several months ago as dealers from coast to coast recognize the advantages it offers them.

John Latshaw is a national Vice-President of the Securities Traders Association and the firm Uhlmann & Latshaw is engaged in a general stock brokerage and commodity business in the Kansas City area.

Halsey Stuart Group Offers Ind. G. & W. Bds.

Halsey, Stuart & Co. Inc. and associates, yesterday (Aug. 30), publicly offered $9,500,000 Indiana Gas & Water Co., Inc., first mortgage 2⅞% bonds, series A, due Sept. 1, 1980 at 100½% and accrued interest. Award of the issue was won at competitive bidding on Aug. 29.

Net proceeds of the sale, together with other funds on deposit with the trustee, will be applied to the extent required to the refunding of all of the company's outstanding first mortgage bonds.

With Burton, Cluett

Burton, Cluett & Dana, 120 Broadway, New York City, members of the New York Stock Exchange, have announced that Frank Reed Hanson has become associated with the firm.

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Canadian Securities

By WILLIAM J. McKAY

A survey of recent statistics leaves little wonderment with regard to the persistent flow of foreign funds into Canada. Although it is true that a proportion of the capital influx represents speculative activity based on expectation of a higher valuation of the Canadian dollar it is insignificant in relation to the imposing total of more permanent investment in the Dominion's industries and natural resources. This practical demonstration of faith in Canada's economic future is not confined to foreign believers for in recent years Canadians themselves have participated to a sharply rising extent in the Dominion's economic development.

Foreign investment in Canada has now reached a record level of approximately $8 billion. Of this total the U. S. interest comprises nearly $6 billion and since 1939 has increased sharply as follows:

	Millions
1939	$4,150
1945	4,990
1948	5,590
1949	5,890

During the current year and the past few months in particular the rate of increase has been even more accentuated. Indeed the recent heavy influx of U. S. funds has presented the Bank of Canada with an embarrassing problem of financing the heavy volume of foreign funds. Moreover as the exchange reserves mount at an increasing tempo foreign speculative anticipation of an upward revaluation of the Canadian dollar is further stimulated. The steady rise in the level of prices is already the cause of serious concern to the Dominion authorities who hitherto have achieved remarkable success in maintaining Canadian living standards on a stable basis. It would appear that the only measure immediately available to brake the current movement is the raising of the exchange rate.

Resort could be made to the imposition of restrictions on the entry of foreign capital but drastic action of this kind would run counter to the general policy of encouragement of foreign participation in Canadian economic development. Strong foreign investor confidence in Canada which has been laboriously built up since 1939 would be seriously impaired and the Canadian authorities would be faced with the more difficult task of preventing a probable movement in the opposite direction. The current problem on the other hand could be described as an embarrassment of riches and it will be surprising if the conservative and capable managers of the Canadian economy can not find the appropriate solution.

Without question a 10% upward adjustment of the Canadian dollar would serve as a brake on the inflow of speculative hot money but would not discourage the movement of external investment in Canadian industry and natural resources. Revaluation of the currency would also provide a simple means of checking the inflationary forces that are now stimulated by the present undervaluation of the currency unit.

Whereas in 1946 the taking of this step appeared to involve certain risks, the recent developments now almost dictate action in this direction. The Dominion's exchange reserves at the end of last July had already reached a total of approximately $1,400 million, and since then the Bank of Canada has been obliged to issue certificates of deposit for an additional $200 million, presumably to finance the influx of U. S. dollars during August. If such is the case the exchange reserves will now have reached a level surpassing the record total that was reached prior to the 1946 devaluation. Since 1946 also the spectacular discoveries of Alberta oil, Quebec titanium, Gaspe copper, and the realization of the potential wealth of the Labrador iron deposits have fired the imagination of foreign holders of venture capital. Likewise in comparison with 1946 the question of inflation in this country at this time leaves little room for doubt, whereas four years ago opinion on this subject was divided.

There is little doubt therefore that the question of revaluation is now a principal preoccupation of the authorities in Ottawa especially in view of the forthcoming International Monetary Fund meeting in Paris. Whether the matter will be left for study by the international authorities on currency matters is a moot point. In any case the probability of the return of the Canadian dollar to its original parity with the U. S. dollar has been anticipated for some time in the world's leading financial centers; this matter therefore should not give rise to lengthy debate or confliction of opinion.

During the week the attention in the external section of the bond market was centered on the new $50 million 2¾% Dominion of Canada refunding issue which was immediately oversubscribed. The internals continued in persistent demand with the Dominion 3s of 1954/57 still the most popular issue; as a bond callable in less than four years, with a yield in Canada of nearly 2½% compared with the customary 1¾% on a three-year note this special attention is hardly surprising. Free funds were also in steady demand at a slight premium above the official rate. The corporate-arbitrage market on the other hand was quiet and neglected at 10¾%-10%. Stocks after establishing new highs in earlier sessions led by the industrials, subsequently reacted in sympathy with the lower trend in New York and possibly as a result of the railroad strike, the settlement of which is expected momentarily. Before the turn in the market Western oils and base-metals had also met with steady investor support and the golds, after their long period of stagnation, had also shown signs of greater animation.

CANADIAN BONDS

GOVERNMENT
PROVINCIAL
MUNICIPAL
CORPORATION

CANADIAN STOCKS

A. E. Ames & Co.
INCORPORATED

Two Wall Street
New York 5, N. Y.

WOrth 4-2400 NY 1-1045

Fifty Congress Street
Boston 9, Mass.

Continued from first page

Fools' Paradise in Liqudation

(g) The Russian colossus is an economic and psychological monstrosity that may die of its own crudeness, so to speak;

(h) That our moral record in international affairs is beyond reproach, although we have followed Europe's amorality in sacrificing other nations on the altar of appeasement.

The reaction of the righteous to the disappointment which is Korea took here the form of jitters about a Russian near-term thrust, while Europe remained fairly calm. This is characteristic of the immature tendency to swing from one extreme to another: from the fools' paradise of assured peace to the near-hysterical expectation of an impending world war; from an unwarranted sense of global supremacy to a shocking inferiority complex. In reality, the immediate objectives of the Soviets are more limited and more insidious.

Mobilizing Asia

What they are in the process of carrying out is to mobilize aginst us the teeming millions of Asia. We may never have to fight a single Russian, but may "bleed white" in fighting Koreans, Chinese, Annamites, Burmese, Philippine, Hukbalahaps, etc. After sovietizing Tibet, which is under way, they might ignite something in India, too, where the fire of civil war is simmering. That is what our "commitments" imply.

One big surprise to our wishful thinkers is the enthusiasm with which the ignorant Asiatic masses, once in Communist hands, embrace Bolshevism. They are ready to die for it. The Washington experts (Lattimore!) who favored abandoning China, contending that her "agrarian reformers" would become a headache to Russia, ignored the fact that the Asiatics are a "natural" for Bolshevism. They are sufficiently civilized to be fit for mechanized slave labor and modern warfare, but not enough so to absorb the A-B-C of democracy.

The Soviets direct their native agents by remote controls, without ever appearing as invaders or exploiters. The native Bolshevists, in turn, take good care to ingratiate themselves with the peasants whose territory they invade, and manage to canalize the nationalistic xenophobias (founded on colonial history) against the West. To the Chinese, in particular, an authoritarian system is the obvious way of "civilized" life; in all their history, anything else meant either pure anarchy or some form of inefficient arbitrariness. Like all Orientals, and many Occidentals, they respect nothing like naked Power. War is a way of life to them, in which they have tremendous experience and which serves to alleviate their unbearable population pressure. As the British have learned in India: Western technique reduces mortality while nativity does not decline, which makes for an unprecedented rise in numbers and for more misery.

The Long-Run Contest

Furthermore, the Soviets must bide their time. For one thing, it takes time to consolidate their hold over the 600 million Satellites. Time, too, is of the essence for industrialization. Of course, we should be able to maintain the initial advantage in equipment and know-how. But that does not mean that the Russians are incapable of developing high-class production on a modern scale.

This is another of our smug illusions: that they are semi-barbarians, lazy and inept; that lacking the incentive of the profit motive and having no free "price mechanism," their system does not even possess objective standards by which to gauge its productivity. (As if our own farm prices, interest rates and wages were determined in undiluted free competition!) All that drivel has become an accepted part of our international outlook, ignoring the tremendous economic potential of the enemy.

The Russian system does provide incentives of a sort—"sticks" which fit slaves into mechanized production; but also "carrots": promotions, consumer goods, and social standing to the technically efficient. It provides a further incentive, especially for the youth, though an irrational one: a quasi-religious, nationalistic uplift founded on reckless promises.

Above all, Bolshevism enforces a labor discipline which offsets much of its bureaucratic shortcomings, serious as these are. (How much more could we produce if we had no strikes or labor conflicts?)

As to the know-how, not only have the Russians their own and Central Europe's brains at their disposal, but also ours. Economic espionage is a prime purpose of their world-wide Trojan horse practice. Their footholds in Austria, Germany and Finland serve the same purpose (among others). The East-West trade of Europe and Hong Kong, which our Allies use even for such unethical purposes as to divert ECA materials, also permits drawing upon our store of technology. Actually, the Satellites are conquering the markets of the Middle East, which shows their commercial adaptability. *The blockade of the Soviet Empire is slowly getting under way—at last.*

Inferior as the Eastern economic potential may be to the Western, the comparison between them is misleading from the outset. The latter is primarily consumption-orientated; the former strives for guns rather than for butter, which greatly simplifies the problems of economic planning by eliminating demand fluctuations, reducing the number of products, and permitting the ruthless exploitation of human and physical resources.

And "guns" are what matter in this contest. Surely, we could outdo the Russians along that line, too—even if they allegedly spend an annual 180 billion rubles (nominally $40 billion) on armed forces—if we are willing to go with less "butter." But can we take on the chin a permanent reduction of living standards — which is what is at stake — or their "freezing"? Otherwise, we will in due course either lag behind Russian military preparedness; or else, the attempt to provide both "guns and butter" could bring about fatal strains and stresses in our system. Our social and political set-up may not stand the strains either of a severe inflation or of protracted, incisive controls to check inflation.

Why, then, should the Kremlin risk a premature head-on conflict? The German precedents are totally misleading. Hitler and the Kaiser never would have dared to unleash world wars had it not been for their expectation that Britain would stay neutral, to say nothing of America, and that a quick knock-out was a practical certainty. No such assumptions can be made at present. If war against the U. S. were planned, Moscow would scarcely leave its Korean satellite without air support. It should be apparent that it did not expect us to engage actively in South Korea. Not only did we evacuate that country and neglect its defense, but General Marshall has announced that it is neither defensible nor worth defending (just as Mr. Acheson urged Congress in 1946 to equip the "agrarian" — communist — Chinese). Small wonder that Korea was expected to fall without our intervention, as Czechoslovakia and China did.

As aggressors, the Soviets would face a war of exhaustion against an industrially superior coalition. The advantage of surprising a relatively unprepared opponent is virtually lost already. Besides, they would be hampered by the disloyalty of a vast, subjugated and dissatisfied population.

Anyhow, they do not have to attack. Neither domestic nor international circumstances impel them to do so (unless we squarely challenge them). They can rely on an eventual crisis of the capitalistic and semi-socialistic economies, which would soften the resistance to Bolshevist infiltration. And they have other, even stronger aces in their hands. Stalin is in the process of realizing the Grand Strategy of Lenin: the coalition of proletarian revolution in (Central) Europe with colonial revolution in Asia. In the meantime, he tightens an Empire that stretches from Berlin to Canton, organizes its internal division of labor and keeps the West in a tension that promises to undermine its economy as well as its morale.

Containing Russia

"Containing" Russia, as practiced thus far, might turn under the circumstances into an illusion of a disastrous kind. *Policing the Soviet perimeter may weigh heavier* in the long run than it would to slug it out with Russia. At any rate, this totally unstable situation is the greatest challenge this country has ever had to face. Several answers are being offered.

Sword rattling should not be one of them. It is irresponsible to propose, as some prominent individuals have, that we should threaten with a preventive war. (All wars are "preventive"; as Hugo Grotius put it 300 years ago: "every war is waged for peace.") Nothing suits the Politburo better than such loose talk. That is exactly what its ideological machine grinds relentlessly: that we are preparing to attack. That is the strongest weapon in its propaganda arsenal, the one which annuls much of our efforts to win public opinion in Europe and Asia to our side.

Moreover, bluffing in international affairs is a risky enterprise, especially so in a sad state of unpreparedness such as ours. The bluff may be called—what then? Backing down may cost mor ethan just losing face. On the other hand, we are not ready for war. We would have to fight a long one (despite atom bombs), which never pays, and without major allies, who would most certainly refuse to become partners in aggression. Their leftist groups alone would take care of that by sabotage and even active resistance. And what an army is worth that does not believe in the cause it is fighting for, the French have shown in 1940.

Arming the Allies?

As a matter of fact, short of open aggression by Russia, we have no allies to count on for actual war. Western Europe is disarmed physically as well as psychologically. Its economic structure is cramped by welfarism, bureaucratism, exorbitant taxation, open or latent inflations, price-wage rigidities, cartelized commercial warfares. It would be in the financial doldrums again, notwithstanding Marshall aid, were it not for our domestic inflation and shortages (of which it makes the most).

The Atlantic Pact nations claim to be incapable of major military preparations unless financed by us. Characteristically, their help in Korea is of the token type, and their rearmament efforts are little more than symbolic. Supposedly, even in peacetime, they are not capable of standing on their own

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feet. Indeed, the $35 billion operation to restore Europe's self-reliance will end in 1952 with what Eisenhower officially calls now, "a splendid start . . . but only a start." What is more disappointing: it did not add anything to Europe's military preparedness or to its will to be prepared. In the end, our multi-billion "investment" might be taken over, or bombed out, by the enemy.

In short, the cost of long-range European armaments on a large scale is prohibitive (if we have to shoulder most of it), to say nothing of the claim that we then should still offer a major portion of the armed forces even in Europe.

In reality, Europe single-handed should be capable of matching the Soviets. It is stronger in basic raw materials, including Middle East oil, and in industrial capacity. As to manpower for war, the best available figures, based on *adult male population—minus the estimated manpower needs for* wartime *production*—which proportionately are much larger in the East—give the following picture:

	Mobilizable Manpower for the Armed Forces	Actual Strength of Armed Forces
U.S.S.R. & East Europe (without Germany)	14,000,000	4,500,000
West Europe (without Germany)	24,000,000	2,000,000
Yugoslavia, Turkey, Greece	2,000,000	1,500,000
U. S. A.	15,000,000	1,500,000

This, of course, does not include China or Japan. As to Germany her West has three times the population and at least five times the machine-power of her Eastern sector.

The trouble is that Europe is not willing to give up "opulence" in favor of defense. By and large, it is determined to let Uncle Sam carry the burden of both. He, in turn, pretends to be able to do so abroad as well as at home.

Rearming for—Neutrality?

The worst of it is that a well-armed Europe is likely to turn into a neutral Europe. The vast majority of its people favors neutrality in case of a Russo-American conflict. *Already, both Britain and France make it unmistakably clear that they do not share our Formosa policy; they insist on a "negotiated peace" and on appeasing Mao.*

Actually, even non-communist Europeans worry more about the danger that we might blunder into war — though for an admittedly worth-while cause—than that Russia would do so.

Rearming Germany and Japan may backfire: it may provoke war. Besides, both refuse to supply infantry alone; they make their military cooperation dependent on all-round equality. But once fully equipped, which would take some time, who could stop them from dealing directly with Russia? Her willingness to make territorial deals in an emergency has been amply documented. Be that as it may: Allies are to cost so much, and perhaps to offer so little in exchange, that they are of little help against the basic risk we are incurring, the risk of impoverishing this country into totalitarianism—either by a long war or by even longer war preparations.

Dollar vs. Bolshevism

On top of all military outlays, we are supposed to meet the challenge of *Bolshevist encirclement by raising* the *living standards* of 500 million people in Asia, without forgetting the dollar needs of 300 million Europeans, plus millions of downtrodden Africans and Latin Americans. The two spending policies must go hand in hand: spreading prosperity abroad is useless unless protected by arms; and arms are futile unless the natives' good will is bolstered by billions of dollars. Such is the last word of globalist wisdom, emanating from the UN Economic and Social Council and other high places.

We are being told that if Europe has not gone Bolshevik as yet, so because of the Marshall Plan; that Malaya is saved from Chinese guerrillas not just by the 140,000 British troops, but by the record high price of rubber, etc. The implication is obvious: we must keep humoring the world by pouring out assistance and paying fantastic prices for imports, in addition to providing all or most of the arms, if not the troops as well.

What's the Answer?

What, then, can be done to meet the challenge? The number one fact to realize is this: that the problem is by no means of such magnitude as we are being made to believe. If it were true that Russian aggression is impending, we would have to mobilize at once 12 million men and "go at it." No one suggests that seriously.

Nor is it proved as yet that Korea would not be a lesson to the Soviets. Surely, they will continue to stir up trouble, but the British Empire grew rich for a century with colonial troubles virtually every year. No doubt, we must prepare for the possibility of a World War; but the armaments — properly directed, administered and financed—need not go to the limit of bankrupting the nation.

And we could cure Europe of the misconception that we are responsible for its prosperity and defense—which is the true purpose behind the propaganda for Atlantic Union—by simply not continuing to subsidize it beyond an irreducible minimum. As to Germany and Japan, it should not be difficult to devise a compromise to solve their armament dilemma.

In any case, the Trumanian Welfare State must be ditched before we reach the alternative between throwing overboard either the dollar or the democratic system of life, or both.

And our foreign policy has to be reversed: *instead of waiting for the next move of Russia, we have to turn the table on her.* That is a chapter in itself. So is the problem of domestic mobilization that has to be tackled accordingly—with less hysteria and more reliance on reasonable preparedness.

Continued from page 2

The Security I Like Best

Corporation that "Nothing is good enough today if a better way can be found tomorrow" is exemplified in its history. From a humble beginning in 1874, the concern then known as C. J. Smith & Sons, founded by Mr. C. J. Smith, was engaged in general machine shop work and made parts for baby carriages. To this they added bicycle frames and by the 1890s they were the largest maker of bicycle frames in the United States. Illustrative of the ability of the management of the company to find better ways of doing things is the story of the development of the bicycle frame. The early bicycles were cumbersome, had solid frames and weighed about 125 pounds. The cost was excessive. C. J. Smith & Sons, after extensive experimenting, produced a frame of hollow steel, formed from flat sheets into tubes and brazed, stronger, lighter and less expensive. These frames replaced the solid ones, bringing new efficiency and lower cost to the bicycle, and consequently making the bicycle available to thousands who had not been able to afford one. This method of rolling tubes was to become the germ of future techniques.

At about the turn of the century, Mr. Arthur O. Smith, one of C. J. Smith's sons, took over the management. The new automobile industry was then coming into being and the company applied its knowledge and technique to the making of frames for automobiles. In 1903, they made the first pressed steel frame in the United States. Since then they have made more than 35,000,000 frames. From the original tubular brazed frame designed and built for the early makes of automobiles there followed the production of pressed steel frames for Cadillac, Packard and others. In a short time the company fabricated the first heat-treated alloy frame for the famed Locomobile. One development followed another, all the product of engineering and research. The Ford Motor Cohpany ordered 10,000 pressed steel frames and housings for its original Model "N." This was an unheard of quantity for these days and marked the advent of quantity production. Early in this work it was found that cold riveting provided tighter and more solid joints and this eliminated rattling and squeaking in the frame. A. O. Smith turned its skill to the task of manufacturing special rivets for this purpose and with their own equipment finally turned out 1,500,000 a day. Working with the various automobile companies it served, a high degree of cooperation and confidence was engendered. The demand from the automobile industry for frames grew so great that in 1915 Mr. L. R. Smith, a son of A. O. Smith, who had joined the company in 1905, called upon his engineering staff to produce a plant that would turn out frames automatically. Again the progressiveness and perseverance of management was rewarded. After six years of labor and an expenditure of $8 million the plant became a reality. It was a "machine" nearly two city blocks in length. Nothing like this had ever been seen before. Flat sheets of steel were fed automatically into one end of the machine and black painted frames came out of the other end at the rate of one every eight seconds. More than 10,000 frames a day, millions per year, light, strong and at minimum cost. A better way had been found.

In 1916, the present corporate structure was established with Mr. L. R. Smith as President. As improvements in car designs were made by the makers of automobiles it was vitally necessary for A. O. Smith to keep apace of the changes and to this end their engineers worked constantly on the problems. All of the frame design problems had to be met for each model of each make of car each year. This was a challenge that A. O. Smith met. As the need for specialized frames developed A. O. Smith set up three separate automotive divisions. One dealt only with the problem of passenger car frames. Another concentrated on frames of trucks and tractors. The third specialized on vital individual control arms, etc. All three divisions operate as a unit.

If I have seemed overly long with this descriptive matter on one phase of the operation of the A. O. Smith Corporation, it is because I am trying to emphasize the character of the company, the progressiveness, the imagination, the research and skill of application, the know-how that goes into its operations.

The company's growth in the welding field is little known. Experience was gained in World War I when it was asked to weld small aerial bombs for our air force. Electrodes were then imported from Great Britain, but interruptions in the supply due to the sinking of ships set the A. O. Smith researchers and scientists to work on the problem and the result was an electrode that opened new fields to welding. A. O. Smith became one of the largest makers of electrodes. Millions of electrodes were used by the company in its own fabrications. Then A. O. Smith's electrodes were made available to any industry which needed them. Today, the company's electrodes and welding machines are in use all over the world.

The knowledge gained in the experience with electrodes and welding was to lead to the important part played by A. O. Smith in the manufacture of pipe for the growing oil industry. Twenty-five years ago all the mills of the nation could produce only three miles of large diameter pipe in a day. There was a need for pipe that could be made light, fast and at low cost. The training with the tubular bicycle frames came into play, so in the middle 1920s the company's research and engineering facilities were set against this problem. Special machines were designed and built, endless hours were spent over many problems until today a 40-foot length of large diameter pipe can be welded in approximately 30 seconds. Up to 15 miles of pipe, 3,000 tons, have been turned out in a single day. New processes were designed. Among them the process of stretching steel with water pressure. This process produced pipe so much lighter that in many cases more than 100 tons of steel were saved in every mile. Today the company is equipped to make pipe ranging in diameter of 8⅝ inches to 30 inches and even larger and to make casing from 5½ inches in diameter and up. In order to service the oil and pipeline industries, the A. O. Smith Corporation has joined with the Sheffield Steel Corporation in creating a new corporation, the A. O. Smith Corporation of Texas. This new corporation jointly owned, is building a new pipe mill at Houston, Texas. The A. O. Smith Corporation will operate and distribute all of the new corporation's output of pipe and casing. A large part of the steel will be furnished by the Houston plant of Sheffield. Thus the A. O. Smith Corporation is operating the two largest mills in the world producing large diameter steel pipe.

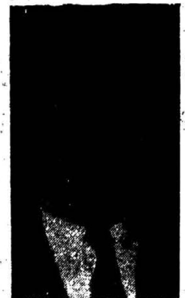
There are many other examples of the progressiveness and the pioneering spirit of the company: The designing and building of the first arc welded "pressure cooker" for the oil industry in 1925. The building of pressure vessels and the process of fusing glass on metal. The building of these vessels for the brewing industry and for hot water supply. All these are accomplishments of perseverance and careful research. The growth of the company and the demand for its products brought about the decision to erect or acquire plants in favorable locations throughout the country. Today the Milwaukee works produce automobile frames, control arms, pipes and other tubular goods, railroad products, pressure vessels, heat exchangers, welding electrodes and equipment. The Kankakee works devotes itself to automatic storage water heaters and a new product the "Harvestore," a glass lined and coated automatic silo for the farming industry. Normally this plant turns out approximately 1,000 water heaters a day and has produced as high as 2,000 a day. The home water heater has been a popular item and many innovations and improvements have resulted from constant supervision and study. The Los Angeles works produces motors, meters, pumps and pressure vessels. The Houston works turn out liquid gas systems, vertical turbine pumps and pressure vessels. The new steel mill at Houston has already been described. The Toledo works produces volume water heaters and heating equipment and the Succasunna, New Jersey, plant produces gasoline dispensing plants.

The company enjoys excellent employee relations. The story would be incomplete without mentioning the very heart of the company which is the Research and Engineering group. Here in a modern building at the Milwaukee works is the reservoir of knowledge and skill vitally necessary to the company's growth and ability to serve industry. The substantial reserve set aside in the balance sheet for research and development attests to this fact.

The company's financial position is good. The company has never done outside financing and the growth during the past 10 years has been outstanding. The year 1940 showed sales of $29.9 million with working capital at $5.7 million. In contrast with this, in 1949 sales had increased to $152.4 million and working capital to $29.2 million. Earnings per share in 1940 were $1.69 and in 1949, $7.02. Long-term debt as of July 31, 1949, was $6,562,500 and there were 1,00,0000 shares of common stock with a book value of $47.70 a share. Current assets of $41.8 million, including $7 million cash, as against current liabilities of $12.6 million disclose an excellent current position. The dividends of $1.60 per share per year are modest and leave room for future anticipations. Substantial increases in sales for the current year are probable with favorable earnings for the stock.

To summarize: Because of the history and character of the company and the management, the attractive picture of the present and the future exciting possibilities of research and engineering, together with its growth possibilities, I name the stock of the A. O. Smith Corporation as "The Security I Like Best."

Edgar A. Christian With Janney & Co.



Edgar A. Christian

PHILADELPHIA, Pa.—Edgar A. Christian has become associated with the trading department of Janney & Co., 1529 Walnut Street. For the past 15 years he has been associated with the Philadelphia office of E. H. Rollins & Sons and Blair, Rollins & Co.

New Directors

Leroy A. Lincoln, President of the Metropolitan Life Insurance Company; Arthur B. Lawrence, Senior Partner of F. S. Smithers & Co., and Henry V. B. Smith, Partner of H. J. Baker & Bro., have been elected to the Board of Directors of Commercial Solvents Corporation, it was announced by Major T. P. Walker, Chairman of the Board.

S. Sacks in New Office

Samuel Sacks has opened offices at 120 Broadway, New York City, to act as broker and dealer in obligations of the United States Government. He was formerly at 1874 Third Avenue, N. Y. City.

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The Outlook For Railroads

the price the railroads can charge for the transportation product they sell. In railroad language, these charges are called "rates" as to freight and "fares" as to passengers.

(a) *Increases less than general price trend*

While railroad rates and fares have increased since the end of World War II, they have increased to a much lesser degree than either operating costs, as measured by increased wages, material prices and taxes, or increased prices of commodities and services generally.

At the end of the World War II, railroad freight rates were no greater than they were at the beginning of the war. Beginning in July, 1946, postwar freight rate increases authorized by the Interstate Commerce Commission have totaled 57.3%. However, because many States have not yet allowed increases in rates on intrastate traffic corresponding to those the Commission has authorized on interstate traffic, and due to downward adjustments to meet subsidized competition which have already been made in some of the increased rates, the actual level of freight rates today is something less than 57%.

Since the beginning of the war passenger fares have increased about 34%, mail pay is up only 25%, and express rates and charges have advanced about 75%.

(b) *Ratio of freight rates to wholesale value of commodities transported*

A striking illustration of the lag in railroad freight rates behind the general price trend in the postwar period comes from a comparison of total freight charges with the *wholesale* value of commodities transported. Studies of the Bureau of Transport Economics and Statistics of the Interstate Commerce Commission show that in 1946 (the latest year covered) total railroad freight charges were but 5.46% of the *wholesale* value of commodities shipped by rail, as against a ratio of 7.26 in 1941; 8.43 in 1939 and 10.66 in 1933.

Since 1946, a small part of the lag in freight rates behind general prices has been made up, but a wide gap still remains between the current and prewar relationships of railroad freight revenues to wholesale value of commodities transported. The 1949 ratio is estimated at 5.85%, which is one-fifth below the 1941 ratio, nearly one-third below the 1939 ratio, and little more than half the 1933 ratio.

And to the extent that retail prices are higher than wholesale, freight charges are an even smaller part of retail prices.

(c) *Rate and fare structures*

Railroad freight rates and passenger fares are closely regulated by the Interstate Commerce Commission and the various state commissions. Most of the orders of the Commissions provide for maximum rates, which leaves to the railroads a certain latitude in arriving at charges that they consider fair and reasonable.

The procedure for establishing rates and fares is complex and exacting, and the result of many conflicting transporation and commercial forces. While all of the different moves necessary in the preparation of rates and fares have the appearance of much red tape, the system has the merit of giving all interested parties an opportunity to see what is transpiring, and all railroads an opportunity to meet competitive conditions. Although the operation of the machinery for publication of rates seems in many instances unduly slow, great improvements have been made in the handling of rate matters, especially when emergencies arise.

(9) Difficulties Involving Railroad Operations

(a) *Serious competitive disadvantages created by taxes paid by public, including railroads*

In spite of this notable progress and evidence of faith in the future, rail transportation is today faced with the most serious competitive disadvantage in its history. The irony of that disadvantage is that it is created and maintained largely out of the taxes paid by the American people, including the taxes paid by the railroads themselves.

(b) *Handicaps jeopardize future of industry*

One of the most important objectives in my discussion with you today is to lay emphasis upon some of these critical problems and handicaps that confront railroad management, and which jeopardize the future development of the industry if they are not corrected.

(10) Returns on Investment—Financing

In 1949 the railroads earned a return of 2.9% on net investment, after depreciation. In the years 1946 and 1947, when industrial corporation profits were the greatest on record, they earned only 3.1%. In the postwar years, 1945 through 1948, the average return was about 3.5%.

(a) *Financing out of earnings, equipment trusts, conditional sales agreements*

(b) *Definite limit without new equity capital*

The return on investment in the railroad industry has been too low to attract equity money, and, consequently, there have been no new stock issues of railroads for twenty years. This is not a healthy situation. I think you will agree that it is a credit to railroad management that they have been able to put the railroads in the best physical condition in history, and greatly to improve operating efficiency, by the installation of new cost-saving equipment, largely on borrowed money. It has been necessary to finance this new equipment partly out of earnings, and through equipment trusts or conditional sale agreements, but there is a definite limit to which they can go without the aid of new equity capital.

(c) *Opportunity for greater improvements*

Splendid opportunities are present for still greater improvements in the railroad plant, but to carry out these programs properly it will be necessary to raise many more millions of dollars from investors.

(d) *Earnings must assure solvent, self-supporting rail industry*

For the past quarter century, at least, the problem has been how the railroads might make money enough to enable them to finance the improvements they had to have if they were to stay in business as solvent, self-supporting enterprises. That is the real railroad problem of modern times —how railroads can make a living. During World War II, and again at the present time, the increase in traffic volume arising from rearmament and military demands, has lightened the pressure of the problem, but when traffic volume falls once more, it will be back, sharpened and intensified.

(e) *Rail stock prices below industrial averages since 1906*

Railroad credit and financial strength as measured by the average prices which investors were willing to pay for railroads stocks as compared with stocks of other industries, was at its peak in 1906. In that year the Dow-Jones averages of market prices for rail and industrial stocks were together—for the last time. Since then, the averages have gone up to great peaks and down into deep valleys, and have climbed up again and relapsed and climbed again, but always the industrial average has held above the average for rails.

(11) The Railroad Problem

(a) *Primarily a credit problem*

The present railroad problem, therefore, is primarily and possibly exclusively a railroad credit problem. The prudent spending of money on improvements is the chief means by which American Industry decreases costs and improves products. The railroads have not had ample funds to carry forward a full-grown modernization program, and, accordingly, the opportunity to render their best service to the public has been somewhat stultified.

(b) *Same conditions do not apply to competitors*

(c) *Ample funds furnished by taxpayers for competing facilities*

Curiously, this lack of funds for the modernization of plants does not seem to apply to other agencies of transportation. Pipe lines have been built as fast as the pipe could be produced; there has been no lack of investment funds for transport on the Great Lakes nor for the coastwise shipment of oil in tankers. More trucks are being built than ever before for operation over the highways, and ample funds seem to be available for the airlines and the artificial inland waterways. Funds are being made available for these purposes, although most of the money is furnished by the taxpayers. It is the railroads, and only the railroads, that have been without adequate funds for thorough modernization.

(12) Subsidized Competition

(a) *Country's over-all transportation bill increased*

(b) *Railroads collect all economic costs*

(c) *Government subsidies not part of transportation charges*

In order to improve the credit standing of the railroad industry, we must dissipate some of the common misapprehensions of the public about railroad transportation. One such misapprehension is that concerning subsidized competition. Federal, state and local aid in supplying facilities used by the trucks, airlines and inland waterways users, reduces the costs of those agencies, compared with the railroads, but at the same time such action tends to *increase* our country's overall transportation bill. In other words, in the transportation industry, as it exists today, we have, on the one hand, a privately owned railroad transportation plant which must directly collect all costs for its service from customers. On the other hand, we have publicly owned, or partially owned, transportation plants which are supported in whole or in part by government contributions which do not enter into the picture when arriving at charges that are exacted of the customers who use these publicly supported plants.

(d) *Unfair to shippers and public, as well as to railroads*

The existence of this unfair, unequitable condition in the transportation industry is of concern to all taxpayers—the public generally—and especially to the users of rail transportation who are penalized because they are assessed an additional transportation charge through the taxes they pay which support these subsidies.

(e) *Government objective should be assessment of full charges for facilities furnished*

The objective of government should be that each form of transportation pay its fair costs for the facilities it uses. The public will become sufficiently interested to influence a fulfillment of this objective if and when it can be shown convincingly that the change will benefit the users of transportation and the taxpayers.

(f) *Public recognition—"Readers' Digest" articles*

I am going into details concerning the damaging competition confronting the railroads today, particularly by the heavy-duty, long-haul, intercity truck operator, and also by the inland waterways, the airways, etc. These matters have been discussed at length in the press and in many important periodicals. Two splendid articles appeared recently in "Reader's Digest Magazine," one in June, on the subject of "The Rape of Our Roads," and the other in the July issue on the subject, "All the Railroads Want Is a Fair Deal." These articles give a splendid, objective description of the plight of the railroad industry, and I commend them to your reading.

(13) Further Basis for Confidence

(a) *Public aware of excessive tax and highway costs*

There is evidence of a growing public rebellion against the excessive use of tax money for subsidies and other uneconomical use of public funds for the purpose of providing expensive facilities that benefit only certain private transportation agencies.

The public is becoming keenly aware of the staggering cost of our public highway systems which are being ruined by heavy truck use.

(b) *Need for preserving modern, self-sustaining rail system*

The American people are recognizing the absolute necessity not only for peacetime but in the eventuality of another World War for the preservation of a modern, progressive and serviceable rail transportation system, operating as a self-sustaining agency under our American system of free enterprise.

(c) *Official recognition of railroad problem*

There is growing evidences that public bodies, including regulatory commissions, the Congress of the United States and State Legislatures, are waking up to the fact that rail transportation today is a highly competitive business, is in no sense a monopoly, and that laws and regulations based on a monopolistic concept do not now apply to the conditions of modern rail transportation. Greater flexibility for the railroads to meet the new conditions now becomes essential and the growing recognition of this need by public bodies is beginning to find expression in their actions.

(d) *Secretary Sawyer's statement*

In a recent address, Secretary of Commerce Sawyer suggested that a system be developed of adequate user charges whereby private transportation operations which use facilities provided by the government will help pay the cost of those facilities. "Today all forms of domestic transportation, except railroads and pipe lines, receive help either from subsidies or from Federal provision of facilities, such as airports and airway markets, highways, inland waterways, harbor developments, weather reports, maps and charts, and other aids to navigation," Secretary Sawyer said. "It is our policy," he continued, "that no competitor, or class of competitors, should have special privileges or undue advantages. The great difficulty with giving Federal funds is knowing when to stop."

(14) The Income Account

Before ending my discussion of the railroad industry, I believe you will be interested in a brief review of the railroads' income account, because it is quite different from income statements, earnings statements or profit and loss statements of manufacturing and merchandizing industries.

(a) *Railroad accounting regulated by Interstate Commerce Commission*

Railroad accounting is regulated by the Interstate Commerce Commission more completely than any other phase of railroad operations. The Commission prescribes the form in which the Income Account and the Balance Sheet shall be stated. The Commission also prescribes accounting classifications, defining expenditures which shall be charged to capital (investment accounts) and those which shall be charged to expenses. It has determined what items of roadway property and structures shall be considered as depreciable property, and prescribes the depreciation rates. And, incidentally, the depreciation rates set by the Commission are not always acceptable to the Internal Revenue Department for income tax purposes, which is confusing and burdensome—necessitating two sets of depreciation records.

(b) *Purpose of Income Statement*

The railroad income statement is designed with a two-fold purpose. First and foremost, for determining the net result from operations—Net Income. It is set up in sections with intermediate net results so that it also serves as a general statistical analysis of operations.

(c) *Total Operating Revenues*

The first section of a railroad income statement consists of the various classes of revenues, the principal items being Freight Revenue; Passenger Revenue; Mail and Express Revenue. These revenues, combined with other incidental revenue such as dining car revenue, switching revenue, etc., represent what is called in the income statement "Total Operating Revenues."

(d) *Operating Expenses—Ratio*

Next in the income statement is Operating Expenses—divided between six classes of expenses:

(1) Maintenance of Way and Structure—This is the cost of maintaining the track structures, rail, ties, ballast, signals, depots and similar structures including depreciation on depreciable structures. (Depreciation is not accrued on rail, ties and ballast.)

(2) Maintenance of Equipment —The cost of maintaining locomotives, cars and other rolling equipment, also machinery necessary to make such repairs, including depreciation.

(3) Traffic Expenses—The expense of providing freight and passenger tariffs, solicitation of business and information service to patrons.

(4) Transportation Expenses — The expense of operating trains over the rails; salaries of train crews, yard crews, station employees; cost of fuel, station and train supplies; payments for employees injured in train service, for personal injury or property damage of others; for loss or damage to property in transit, and all

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other expenses directly connected with running trains over the rails.

(5) Miscellaneous Operations—Primarily the expense of operating dining cars, but includes other incidental operations, such as stock pens, etc.

(6) General Expenses—The expense of all general office employees, from the President down to the office boy, other than those in the traffic, engineering, operating and purchasing departments. It includes rent of offices, stationery and office supplies and other expenses.

These six classes of expenses combined represent total "Operating Expenses."

The ratio of total operating expenses to total operating revenues is an index of operating performance.

This ratio, of course, can be regulated to a degree by the standard of maintenance of both way and structures and equipment. By that I mean if a low standard is maintained, the ratio to revenues would be lowered; while a high standard would raise the ratio. The expenditures for maintenance can, within reason, be regulated according to volume of traffic without disturbing the standard of maintenance generally followed.

(e) *Transportation Expense—Ratio*

The vital measure of operating efficiency is the ratio of Transportation Expenses to Operating Revenues — the expense of handling the trains from the time they are set for loading until the transportation job is completed.

This expenses fluctuates primarily with the number of trains run and the number of engines and crews used to switch cars in yards. Of almost equal importance is getting trains over the road without unnecessary delays.

If three trains are used between terminals when two could have done the job, that is inefficient operation. Added train miles are sometimes caused by delayed train arrivals or failure of classification yards to get cars ready for departure.

Because of these facts the transportation ratio, more than any other single factor, indicates the degree of operating efficiency.

(f) *Income account also a statistical statement*

A comparison of expenses of the current year with the preceding year enables a high degree of control directly from the income statements. That is why I said in the beginning that a railroad "income account" is also a statistical statement.

(g) *Net Operating Revenue*

After deducting operating expenses from operating revenues, we have what we call "Net Operating Revenue."

(h) *Railway Operating Income*

The next item is taxes—ad valorem, payroll, franchise, income and all other taxes—which is deducted from Net Operating Revenue, the balance is called "Railway Operating Income."

(i) *Net Railway Operating Income*

The next group of accounts are the rent accounts—the rent credits represent amounts received from others for use of locomotives, passenger cars, freight cars and joint facilities such as stations, yards or main line tracks owned by one carrier and jointly used by another. The rent debits are amounts paid by the debtor line.

Net of the rent accounts, debit or credit as the case may be, is deducted from or added to Railway Operating Income to arrive at "Net Railway Operating Income."

Net Railway Operating Income is an important item in the income account of the railroads because it represents the amount earned from operation of the transportation properties of the company. In other words, the net return on the amount of money invested in the facilities necessary to provide transportation. The Interstate Commerce Commission has said that a return of 6% on the value of property used in transportation is a reasonable return. It is this figure that the Interstate Commerce Commission uses for railroads as a whole in its regulation of freight, passenger and other rates.

(j) *Total Income*

After Net Railway Operating Income, we have a group of credit accounts representing income from owned property not used by reporting carrier, rented to others, and income from securities owned by the reporting carriers. The total of these added to net railway operating income produces "Total Income."

(k) *Income Available for Fixed Charges*

Next comes Miscellaneous Charges to income, such as rents paid and taxes on property not used for transportation purposes. The total of these, deducted from Total Income leaves "Income Available for Fixed Charges."

(l) *Income Available for Contingent Charges*

Next comes Fixed Charges—consisting of fixed interest and discount on borrowed capital, rent for leased road and equipment used exclusively by the reporting carrier (which as you can see is analagous to use of borrowed capital, and for some railroads closely approximates the amount paid for interest on borrowed funds). The total of fixed charges deducted from Income Available for Fixed Charges leaves "Income Available for Contingent Charges."

(m) *Net Income*

Contingent Charges are charges for interest on bonds, improvement funds, etc., which are payable only if earnings permit. The sum of these charges, deducted from Income Available for Contingent Charges, leaves "Net Income" — which is available for such corporate purposes as the Directors of the company may determine.

While the Income Account of a railroad may, at first glance, appear involved, it is in fact a rather easily read, easily understood, informative statement and statistical analysis of the affairs of the company.

(15) Utility Value of a Railroad Property

There are, of course, many statistical and physical analyses presented from which conclusions are drawn pertaining to the operating efficiency, financial structure and investment possibilities of a railroad property. I have presented a few statistics pertaining to the industry as a whole.

There is, however, one thought that I should like to leave with you, which has to do with your appraisal of any individual railroad. That is—the railroad's importance from the standpoint of its real utility value to the territory it serves. I feel this factor is too often absent from analytical reports.

(a) *Basic Utility Worth*

I mean by this that possibly we sometimes overlook that basic, though Utility Worth of a railroad to a territory, which is depended upon to move harvests, such as wheat and cotton; is the chief transportation agency for the the distribution of steel, coal, ores. etc., or must be able to immediately move perishable traffice, like fresh vegetables, fruits livestock, and so on.

We must not discount the worth of a railroad with these basic utility values because of a current poor statistical record, compared with more spectacular statistical performances of roads with less utility value.

(16) Summation

(a) *Influence of Commercial Investment Banker*

I hope that I have been able to give you gentlemen some food for thought concerning the railroad industry, and especially respecting its outlook for the future. I am especially pleased to have this opportunity to discuss such an important subject with this group of Commercial Investment Bankers. Obviously, the Commercial Investment Banker renders indispensable services to the railroad industry, but over and above their capacities as bankers, there are other ways in which you can serve the railroads, and through the railroads, our system of private enterprise. This, of course, is in your personal capacity as an informed and influential citizen.

(b) *Understanding and interpretation of railroad problems*

By education and by training, you have the capacity to understand the problems of the railroads, and of more importance, you have opportunities to interpret these problems to others.

(c) *Relation of adequate net income to collateral problems*

Of course, the railroad problem from the standpoint of the banker and the investor in railroad securities is one of adequate net income. Adequate net income, however, involves the other collateral problems that we have discussed, and the misapprehensions of the public concerning these collateral problems are of prime concern to all of us. Because the fallacies of these misapprehensions may seem evident to you, you must not dismiss them as being equally evident to the public at large.

(d) *Public Education*

The railroads can be helped not only by clarifying their problems, but also by carrying the resulting ideas to public opinion—and this is the big job ahead of us; one of public education. The banker is interested in seeing private capital invested in private industry —shall we keep it so, or permit a socialistic government to take over, which will destroy private capital and private industry.

(e) *Railroads must be supported*

I firmly believe that the railroad industry must have the support and understanding of the public if it is to remain as a symbol of American freedom of enterprise—as a bulwark against the encroachment of socialism in our country. Every taxpaying citizen —every user of rail transportation—must determine to his own satisfaction whether or not he feels that the railroads, as private, selfsustaining enterprises, are a valuable asset to the economic health and well-being of the nation. If he is convinced of this fact, then he must, for his own good, support the industry. If the railroads are, like the Church, something you believe in, then they must have your full support.

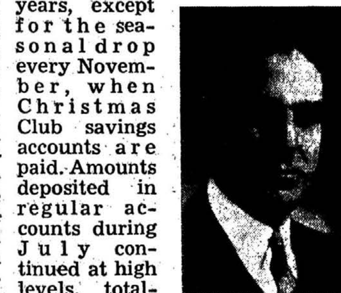
(17) Conclusion

I want to reemphasize that I am optimistic regarding the outlook for the railroad industry. The great technical advances that are being made; the general upward business trend in our country; the recognition and more favorable thinking by high government officials. the press and the public, and the alertness and abilities of railroad management, all, I am convinced, point the way for continuing increased volume of traffic and better gross and net earnings for most of our railroads.

Nation's Savings Deposits Off $43 Million

First decline in two years recorded in July, ascribed to vacation withdrawals and slowed up rate of deposit growth. Savings banks mortgage holdings now exceed $7 billion.

During July, deposits in the nation's 530 mutual savings banks declined $43,000,000, to a total of $19,896,000,000. This was the first decline in two years, except for the seasonal drop every November, when Christmas Club savings accounts are paid. Amounts deposited in regular accounts during July continued at high levels, totalling $515,000,000, or 2% above the corresponding month of 1949, but withdrawals increased sharply, rising to $594,000,000 in July, 1950 or 21% more than in July, 1949. Despite the drop in the amount on deposit, the number of regular deposit accounts increased 6,000 in July.



A. Livingston Kelley

The decline in deposits, stated A. Livingston Kelley, President of the National Association of Mutual Savings Banks, and President, Providence Institution for Savings, Providence R. I., reflects the normal seasonal pattern of withdrawals for vacations, collection by depositors of semi-annual dividends, some public apprehension over the Korean situation, and the high level of consumer buying that had already been evident in recent months and that had been evidenced previously in a lessened rate of deposit growth.

Portfolio policy during the month was featured by a further spurt of record proportions — $126,000,000—in mortgage holdings, to reach $7,291,000,000 on July 31. To provide the funds for this purpose, as well as to meet withdrawals, the banks reduced their holdings of cash by $76,000,000 and of U. S. Governments by $82,000,000. Holdings of corporate and municipal securities remained virtually unchanged.

Railroad Securities

Carrier Earnings Outlook Excellent

Railroad securities have been pretty much marking time recently, despite the appearance during the past week of July earnings reports. Almost without exception these reports have been highly favorable and it had been expected in many quarters that they would supply the incentive for further general strength throughout the group. That they did not respond to the continuing improvement in earnings may probably be attributed at least in large part to the still unsettled labor situation. The long drawn out wage and hour controversy was impressed on the consciousness of the public by a series of small strikes and then driven home by the call for a general strike.

A general strike on the railroads could not, of course, be tolerated at this time, if it could be tolerated under any conditions. The alternative was government seizure which was resorted to over the weekend when all attempts at mediation had failed. Seizure by the government does assure continued operation of the railroads. They will be run and managed by the same people and in the same manner as they were before seizure. Financial decisions will still rest with the management and there is no question of confiscating profits. Nevertheless, the controversy that brought on the threat of a general strike remains.

Fundamentally, the necessary action taken by the government to prevent the strike is disturbing to investors. There is considerable apprehension, supported by the Administration's record in other labor controversies, that any settlement reached with the unions while the carriers are under government control will be more favorable to the workers than that suggested by the Fact Finding Boards. Despite the past record, there are reasons to hope that this will not be the case in the present instance. For one thing, the unions weakened their case with the public and antagonized the Administration by authorizing the strike a bare hour or so after giving assurances that no general strike was contemplated. Also, there is very great pressure on all sides at this time to resist an inflationary spiral.

Nervousness over rail securities may well continue until the wage-hour dispute is finally settled. This should not be long delayed. If it should be settled along the lines of the original recommendations of the Fact Finding Board, or the somewhat better offer made by the carriers in recent weeks, the market should react favorably in the opinion of many railroad analysts. Even if the unions should get more than has already been offered them, as has been the case many times in the past, it should have no more than a temporary adverse market influence at worst. Investors will presumably again turn their attention more to current and prospective earnings and the dividend outlook.

Earnings are good. Net income of all Class I carriers in June was estimated at roundly $72 million. This compares with net income of $42 million in June 1949. The June net railway operating income amounted to $90,046,000. Going back over a period of 21 years there were only six periods in which net operating income topped $90 million. They were the five years from 1941 through 1945 and the one year 1948. The 1948 results, however, were distorted by certain credits taken in that month which, incidentally, was the best month of the year.

The roads got off to a poor start this year due to the prolonged strikes in the coal industry. On a year-to-year basis this early drag has now been fully offset. For the full half year net income amounted to $210 million compared with $174 million a year ago. There is no question, based on the trend of individual reports that have been coming in, that results in July were also well above those of the like 1949 month. Even with the proposed higher taxes it seems likely that net for the full year may come close to the $698 million reported in 1948. That level has been topped in only two years (1942 and 1943) since 1929. Moreover, the carriers appear assured of a peak volume of traffic so far ahead as can now be seen—a couple of more years at least.

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NEWS ABOUT BANKS AND BANKERS

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED CAPITALIZATIONS

Rene H. M. Masson has been appointed Auditor of the Paris Office of **Guaranty Trust Co. of New York**, effective Sept. 1, it was announced on Aug. 30. He succeeds Gustave Pressac, who retires after 31 years' service with the company.

* * *

William G. Wickman, Jr., has been appointed Assistant Vice-President of the **West Side Trust Co. of Newark, N. J.**, while Edward J. Smith has been named as Assistant Treasurer and Assistant Secretary, it was announced on Aug. 23 by Ray E. Mayham, President and Chairman of the board. The Newark "Evening News" in reporting this, states that Mr. Wickham joined the trust company in 1929, and after various promotions became Assistant Secretary and Treasurer in 1946. Mr. Smith has been with the company since 1927; he was appointed Chief Clerk in 1944 and Executive Assistant in 1948.

* * *

In noting the death in Montclair, N. J., on Aug. 25 of Mellville W. Terry, retired Vice-President of the **Guaranty Trust Co. of New York**, the Newark "Evening News" in its issue of Aug. 26 said:

"Mr. Terry had spent his entire career in the banking business. He rose to the position of Assistant Trust Officer in the Columbia Trust Co. of New York, leaving in 1925 to accept the same position in the National Bank of Commerce, New York. He later was named Second Vice-President of that institution, and when it merged with Guaranty Trust Co. in 1929, he held the same position there until his retirement in 1946."

At his death, Mr. Terry was 62 years of age.

* * *

Announcement of the advancement of three members of the staff at **Pullman Trust & Savings Bank of Chicago** was announced on Aug. 25 by Bartholomew O'Toole, President. Justin O'Toole, formerly Assistant Cashier and Manager of the Instalment Credit Department, was named Assistant Vice-President. Before joining the staff of Pullman Bank in 1948, he was with Chicago Construction Equipment Co.; Carl A. Brink, Manager of the Bookkeeping and Proof Departments, and Robert H. Costello, Instalment Credit Loan Interviewer, were named Assistant Cashiers. Mr. Brink joined the staff of Pullman Bank in 1940 after previous service with Inland Rubber Co. and Guarantee Trust & Savings Bank. Mr. Costello entered the Pullman Bank in 1949 after serving with General Motors Acceptance Corp. and Commercial Credit Corp.

* * *

According to the Chicago "Journal of Commerce" of Aug. 26, Robert O. Brown has joined **Mercantile National Bank of Chicago** as Auditor.

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The laying of the cornerstone for the new building of the Detroit Branch of the Federal Reserve Bank of Chicago occurred on Aug. 24, at which time Ben R. Marsh, Detroit branch Chairman of the board of directors, presided at the ceremonies.

Mr. March was quoted in the Detroit "Free Press" as saying that "the dedication expressed the faith of the Federal Reserve System in the future of Detroit." "Next year," he continued, "Detroit will mark the 250th anniversary of its founding by Cadillac in 1701. The settlement he built to protect and encourage trade was not far from where we dedicate the structure to the same protection and encouragement."

The "Free Press" went on to say:

"The Federal Reserve Bank of Chicago first opened a branch here in 1918 in the Congress Building.

"But its operations were not housed under one roof until the present offices at Fort and Shelby were ready for occupancy in 1927."

* * *

Henry E. Atwood, President of the **First National Bank of Minneapolis** since 1945, was the victim of a heart attack at his home, Lake Minnetonka, on Aug. 27. Recently returned from an extended vacation, Mr. Atwood, who was 57 years of age, had resumed his duties at the bank within the past three weeks. Mr. Atwood was a native of Keeseville, N. Y. He graduated from Dartmouth College in 1913 and took a master's degree in Romance Languages at Harvard in 1914. In 1917 he left the faculty of the University of Minnesota, to enter military service in World War I. Completing his service with the rank of Captain, he returned to Minneapolis and entered the investment business. In 1924 he joined the staff of Minneapolis Trust Co., formerly affiliated with and now merged with First National Bank of Minneapolis. He became its Bond Officer and later served as Vice-President of First Securities Corp., investment affiliate of First Bank Stock Corp. Following the merger of First National Bank and First Minneapolis Trust Co. in 1933, Mr. Atwood served as Vice-President of First National Bank until January, 1936 when he resigned to become Vice-President and director of the B. F. Nelson Manufacturing Co., Minneapolis. In April, 1943 Mr. Atwood was elected a director of First National Bank. On June 29, 1945, he returned to active service in the banking business when he was elected President of First National Bank. Mr. Atwood was a Vice-President and director of First Bank Stock Corp., a group banking organization which owns the controlling interest in 75 bank affiliates in the Ninth Federal Reserve District.

Among his various other connections he was a director of the Federal Reserve Bank of Minneapolis, and has represented the Ninth Federal Reserve District on the Federal Advisory Council of the Federal Reserve Bank. He was also a member of the Credit Policy Commission of the American Bankers Association, and was active in the Association of Reserve City Bankers.

* * *

The **City National Bank of Lawton, Okla.**, increased its capital on Aug. 15 from $100,000 to $150,000 through a stock dividend of $50,000.

* * *

A stock dividend of $100,000 has served to increase the capital of the **National Bank of McAlester, at McAlester, Okla.**, as of Aug. 11 from $100,000 to $200,000.

* * *

An increase of $500,000 has occurred in the capital of the **First National Bank in Albuquerque, N. M.**, raising it, effective Aug. 17, from $1,000,000 to $1,500,000; of the $500,000 increase, $375,000 resulted from the sale of new stock, while a stock dividend of $125,000 made possible the further increase.

* * *

Appointment of Selden Clark to the position of Vice-President in the corporation and bank relations department of **Bank of America National Trust & Savings Association of Los Angeles** has been announced by A. J. Gock, Chairman of the board. The appointment will require Mr. Clark to divide his time between Southern California, New York City, and eastern states. Mr. Clark joined the bank's staff in 1930.

* * *

Lester T. Bartman, Assistant Cashier of **Crocker First National Bank of Oakland, Cal.**, having just completed 25 years of service with the institution, is now a member of the bank's Quarter Century Club it was announced on Aug. 27. Mr. Bartman joined the bank's offices in San Francisco in 1925, as a messenger boy; in 1932 he entered the credit department and in 1947 was transferred to the Oakland office in charge of the credit department. He was promoted to Assistant Cashier in 1948 and placed in charge of loans and credits.

* * *

Reporting the return of Frank L. Buell to Seattle, after a lengthy absence, the Seattle "Times" of Aug. 19 stated that Mr. Buell, Cashier of the **Miners & Merchants Bank of Chelan (Wash.)** the past five years, is returning as Assistant Vice-President of the Seattle-First National Bank, which he served from 1939 to 1942 on the staff of its Wenatchee Valley branch. The "Times" in part added:

"His appointment was announced by Lawrence M. Arnold and Thomas F. Gleed, Chairman and President of the Seattle-First, respectively, who said Mr. Buell would be assigned to duties at the bank's main office here."

Courts Sails for Int'l Bank Meeting

Richard W. Courts, Senior Partner of Courts & Co., is sailing on the Queen Mary, Aug. 30 to attend meetings in Paris of the International Bank for Reconstruction and Development. Mr. Courts is attending these meetings at the invitation of the bank and of U. S. Treasury officials. This is his first visit to France since he attended the Faculte de Droit, University of Paris, in 1919 on leave from the U. S. Army. Before returning, Mr. Courts expects to visit in Germany, Norway, Sweden, Switzerland, Italy and England.

Richard W. Courts

New York Stock Exchange Weekly Firm Changes

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

Warren G. Hamer, limited partner in Faroll & Company, retired from the firm Aug. 31.

Vose & Co. has been dissolved as of Aug. 31.

George L. Langreth retires from partnership in Wood, Struthers & Co. Aug. 31.

George J. Hanley

George J. Hanley, partner of Walter Stokes & Co., Philadelphia, died on Aug. 23 at the age of 46. Mr. Hanley was a graduate of the University of Pennsylvania and the Law School of Temple University. He was President of the Municipal Bond Club of Philadelphia. He became associated with the Stokes firm in 1928 and was admitted to partnership in 1937.

Continued from first page

As We See It

Evidence of Misunderstanding

But the proposal as respects Germany, and the broadly similar attitude toward Japan (although never, so far as we recall, expressed in quite the same words or in so bald a fashion) is even more striking as an evidence of a complete want of understanding of the true inwardness of the world political situation at the end of the fighting. It would be impossible to say what went on in the minds of officialdom at that time, but every informed citizen of this country, and of other countries, should have been well enough aware of the absurdity of any supposition that Germany, Italy, and Japan were the only sources of danger.

Many of us did our best to delude ourselves during most of the war days, at least after our entry into the conflict, with the idea that Russia was a true ally of the democracies, so-called. Doubtless, official propaganda, Communist preachments and wishful thinking led all too many to some strange ideas in those dark days. There does, however, scarcely seem to be any excuse for self-deception by the time the fighting ceased or within a very few months thereafter. By that time, it should have been plain as a pikestaff even to a wayfaring man though a fool, that World War II involved a conflict between two tyrannies or types of tyrannies not altogether unlike, and that to destroy one of them and leave the other in full flower was to invite disaster.

About five years have elapsed since firing ceased. During that time, we and some of the other former foes of Germany have had good reason to come to a realizing sense of the true inwardness of this situation. Indeed, much if not most of the diplomacy of that half-decade has in essence been maneuvering between Soviet Russia and its satellites on the one side and the so-called democracies of the west on the other. Throughout it all, however, the silly supposition appears to have persisted that the Kremlin could understand some language other than force.

Grown Weak

The peoples who have been arguing and pleading with that dictatorship have permitted their armed strength to ebb into startling ineffectiveness at the same time that their words were growing increasingly strong. The possibility, not to say the advisability or even the necessity of making allies of our former enemies—real allies with a punch—appears to have been wholly out of the minds of the powers that be, at least until Korea brought the world face to face with facts which it had previously preferred to ignore.

Mr Churchill in a characteristic utterance the other day called the attention of his countrymen and, for that matter, of the world to the hazard in the existing situation, particularly the helplessness of Western Europe should the Kremlin decide to march. From such of his remarks as were contained in the dispatches reaching this country, we gather that the former Prime Minister did not go very much into detail as to precisely what ought to be done about it all or what can be done about the danger his country is exposed to from the Continent. There are, of course, the Atlantic Pact and various other understandings, explicit and implicit, but we are now face to face with the question of how Western Europe can be defended against Russian might without the industrial power for war and the manpower for war which Germany has time and again revealed in years past.

It has been said over and over again that no force now in Europe could hope to stop the Soviet army short of the Atlantic. Korea has shown how little we could do without a relatively long period of preparation. Indeed, it would appear rather more than doubtful whether we could do very much in time even if we were ready on this side of the Atlantic. And once Russia has enveloped all of Europe, the Kremlin, not its enemies, would be in command of the Saar and the Ruhr. No notions about a disarmed Germany, a ruralized Germany, or any fear of a rearmed Germany, would blind the Soviet to the value of this asset.

Nor can we dismiss as absurd the notion that the Kremlin could make very extensive use of the professional soldier element within Germany or of a very substantial part of the German population at large. One can scarcely suppress the wish that this were the kind of world in which peaceful policies could hope to succeed. It is equally difficult to avoid the conclusion that the Soviets have

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been much more the postwar realists than we—and for that reason, if for no other, the more to be feared.

A Dilemma

We are plainly on the horns of a very uncomfortable dilemma as regards both Germany and Japan. We are on the horns of that dilemma because of our faulty understanding of what was going on in the world in 1939, 1941 and in 1945. What is clear beyond any doubt is that if we must—and apparently we think we must—defend the world against Communist aggression in the years ahead, we must not fail to make prompt and full use of all tools available to us.

The people of this country must go to the polls this autumn. They must not fail to study all these questions carefully meanwhile.

Continued from page 4

Business Conduct and the New York Stock Exchange

must reflect information gained pursuant to and ordered by an independent outside auditor, who comes into the firm's office at a date selected by himself and, as I have mentioned, unknown to the firm. It is a surprise audit.

The Exchange has a corps of examiners, all of whom are expert accountants. Heading this group is a chief examiner and an assistant chief examiner. Their duties are to call upon each member firm of the Exchange at least once a year.

Their visit is not an audit. It is an examination. In many respects it is more inclusive than an audit. The purpose of the examination they make is to determine whether any rules of Federal or State authorities, or of the Exchange, have been breached. Reports are made to the Exchange by the examiners and any aspect of them that merits further examination is explored carefully; exhaustively, might be a better word. The Exchange is, understandably I think, proud of the solvency record of its members and member firms. Incidentally, it is superior to that of banks. I want to tell you more about this record later on.

Another method employed by the Exchange to watch the capital position of its member firms involves weekly reports on underwriting positions. In years past, financial difficulties frequently reflected positions in underwritings. The reports that come to the Exchange today are examined minutely in relation to the reporting firm's capital.

Going back, for a minute, to responses received by the Exchange to its questionnaires, a list of securities held in firm positions or proprietary accounts is studied. In markets such as we have seen during the past month, where there are sharp fluctuations in the Dow-Jones averages, our staff works unlimited overtime. The lists of security holdings of member firms must be evaluated in relation to capital immediately available.

Sometimes, but not often, it is necessary to call some firms the following morning to tell them that we have noted a decreased value in positions and to ask them for current capital figures. In almost all cases we find that this situation has been properly observed.

Numerous Rules

The Exchange has many rules. I know of no other organization, or business, that is so rigidly and completely regulated. The principal rules dealing with the conduct of the member firms are the so-called Five Hundred rules. Among those rules is one that requires segregation of customers' fully paid or excess margin securities. Firms may not commingle such securities with other securities.

Two methods of segregation are employed; a direct method of placing the name of the customer on an appropriate identification attached to the certificate, or a bulk system of segregation which provides for a card record of ownership setting forth detail as required by rules.

Every member firm is required to learn the essential facts in connection with every account carried by the firm. The Exchange does not try to be paternalistic, the Exchange does say to its member firms that "If you have John Jones' account on your books, you should know who John Jones is, what he does for a living, when you enter into financial relationship with him." Member firms must know their customers.

The opening of each account must be approved by a partner of the firm. Partners are required to exercise supervision over accounts handled by registered representatives. An account must be carried in the name of its beneficial owner or, if it is designated by a symbol or a number, there must be evidence in the files to show that it is the property of, say, John Zilch, and that the firm knows the essential facts.

The account of an employee of a bank, an insurance company, the Exchange itself, or other fiduciaries must have the approval of that employee's employer before it may be accepted. A discretionary account, where the discretion is vested in an employee of the firm, must received careful scrutiny by a partner of the firm. Transactions in such an account must be approved by a partner of the firm.

Customers must be informed periodically of the condition of their accounts. Monthly or other periodic statements of account are provided for that purpose. Confirmations of all transactions must be sent to the account at a designated business or home address.

For the purpose of a record of transactions for customers' accounts, members are required to preserve every order or wire taken or given directly or indirectly to the floor, and any cancellations.

Financial Statements Furnished Customers

Members are required to offer copies of their financial statements to their customers. Every monthly statement from a member firm carries the notation that the customer may call upon his broker for a statement of his financial position. That statement must be as of the most recent questionnaire date. Within 35 days after the annual audited questionnaire has been completed, the member is required to send to every customer either a copy of the financial statement or a notice that one has been prepared and is available for his inspection.

Another rule requires the reporting to the Exchange of all loans of partners of member firms in excess of $2,500. That provision is to assist the Exchange in getting a full picture of partners' commitments even though, in some instances, unrelated to their obligations as partners of the firm.

We have a rule which prohibits excessive trading on the part of members of the Exchange; either excessive in relation to the financial resources of the member or excessive in relation to the market for the securities he is trading in.

We have a similar rule with respect to discretionary accounts carried by member firms. If a discretionary account appears to reflect heavy volume of trading in relation to the resources of the account and the market, the member of the firm will be asked to explain and to defend what has occurred.

There is a rule that prohibits a member firm doing a public business from carrying on margin the proprietary accounts of the partners or of the firm itself. In other words, if you carry customers' margin accounts, anything you personally buy must be paid for in full. An exception covers arbitrage transactions, where there is a purchase and an immediate, or almost immediate, sale of the same or equivalent securities for the profit resulting from the difference in prices existing at the time. Participation in underwritings constitute another form of exemption.

Short Sales

You are familiar, I know, with the Securities and Exchange Commission's short-selling rule which prohibits the short sale of a security except at a price higher than the last different sale on the Exchange. That rule covers round lots. The Exchange has a complementary rule covering odd lots.

As I mentioned earlier, the Exchange supervises the employment and activities of registered employees—customers' men, producers of business—the link between the customer and the firm. The registered representative in many cases acts in a quasi-fiduciary position, being the instrument of handing over securities and cash from or to the customer. He must be a person of good character and qualifications.

Many persons who might be able to qualify as a registered broker under the Securities and Exchange Act, because it is difficult to bar a man from such registration unless he has a criminal record, can be barred from membership in the Exchange or from becoming a regular representative of it without reference to a violation of a law of the land.

Supervision of "Customers' Men"

As qualified as you are at the moment by educational standards, none of you, incidentally, could become customers' men immediately. You would have to serve as an apprentice or trainee in the business and, in addition, pass an examination to prove your knowledge of the business. It is a broad comprehensive examination, and we treat it for the value that it has as an examination. We do not think it broad enough to be the sole indication of whether a man is qualified, any more than you would consider the examination in any one of your courses as being the sole standard of whether a person has done the necessary work to qualify for a degree.

No non-member of the Exchange may enjoy the collateral facilities of the Exchange, such as continuous quotation service or by having offices or private wires with a member of the Exchange, unless he measures up to what the Exchange considers high moral and ethical standards.

Allied Members

Prior to the reorganization of the Exchange, in 1938, its Constitution did not provide for allied members. The member of the Exchange was the person against whom any disciplinary measures were taken in the event one of his partners was guilty of misconduct or of violations of rules. That was the rule and, as a result of it, in more than one instance, members were suspended or expelled for acts of their partners over which they had no control.

Under the Constitution, as revised, each general partner of a member firm must agree to abide by and be amenable to all provisions of the Constitution and Rules of the Exchange; he thus subjects himself, in other words, to the same discipline as do members. The Exchange today is enabled to bring charges against an allied member, rather than against the partner who owns a seat.

Customers' Complaints

The Department of Member Firms also receives and explores the complaints of customers. One would suppose that, with the volume of business done on the Exchange, the number of complaints would be sizable. Here are some facts that may interest you:

Over the past year, 136 customer complaints against member firms were received. Most were complaints as to whether the customer got as good a price as he was entitled to, or whether he was entitled to an execution because some shares sold at his limit and, as a consequence, his order should have been executed.

In the majority of those cases, the facts were readily ascertainable and the complainants, getting a clear picture of what occurred, are satisfied with the handling of their orders. In the event, I should add, the investigations leave any degree of doubt, the member firm will invariably effect a satisfactory settlement with the customer. When there is a clear-cut disagreement between the customer and the member firm as to the facts that obtain, the parties are referred to either a court of law or to a board of arbitrators set by up the Exchange. The arbitrators consist of members of the Exchange and outsiders. The arbitrators will hear the complaint, hear the answer to it, and render a decision based upon their findings. We have perhaps a dozen cases of arbitration a year. Only once in a great while does a member find himself defending his position in court.

In 86 of the 136 instances mention previously, it was possible to give the customer a complete explanation which terminated the matter. In 15 cases the parties were referred to law or arbitration. In 10 instances, upon reviewing the facts, the firm settled with the customer. The remaining cases were not, to our knowledge, completed because the customer did not communicate again with the Exchange after having been given the position of the firm.

Disciplinary Procedures

I mentioned that I would give you a little more information about some of the disciplinary procedures taken against members of the Exchange. I wouldn't want you to go away believing that because we have these controls, rules and methods of inspection and examination, that nothing wrong ever occurs. Members of the Exchange are just as human as the 12 Disciples.

The Constitution confers broad powers upon the Board of Governors in the handling of disciplinary proceedings involving members and allied members. There are provisions for the presentation of written charges against members and partners and for the hearing of such charges before the Board of Governors. The accused member may not be represented by legal counsel. In other words, the charges as presented by the Exchange are presented by laymen. In cases brought by the Department of Member Firms, I present the facts to the Board in the presence of the member charged with the offense.

In arriving at a decision the Board has the power to expel, suspend or censure. While many of the sections under which a member may be charged are specifically enumerated, such as fraud, fictitious transactions, and so forth, there is a catch-all section which reads:

"A member or allied member who shall be adjudged guilty by an affirmative vote of the majority of the Governors then in office of a violation of the Constitution of the Exchange, or a violation of a rule adopted pursuant to the Constitution or a violation of a resolution of the Board of Governors regulating the conduct of business of members or allied members . . ."—and here is powerful language to which I want to draw your attention—". . . or of conduct or proceedings inconsistent with just and equitable principles of trade, may be suspended or expelled as the Board may determine."

From 1938 to the present time, a period of over 12 years, the Board has heard 17 cases resulting from charges of misconduct or of failure to use the diligence expected of members. Five members were expelled; eight were suspended for periods ranging from two months to three years, and four cases were terminated by censure and fines.

I mentioned previously that the Exchange is proud of its solvency record and promised more information. Here are the facts:

Since 1899, covering a period of 50 years, the solvency record of Stock Exchange members has been 99.73%, which is better than the record of all United States banks, all national banks, and of commercial houses for the same period, and since 1938 our record has been 100%.

Maine Investors

WATERVILLE, Me.—Arthur B. Levine has formed Maine Investors Service with offices at 76 Main Street.

Harris, Upham to Admit

Harris, Upham & Co., 14 Wall Street, members of the New York Stock Exchange, will admit Lewis B. Harder to partnership on Sept. 7.

Edgar Andrews Opens

(Special to THE FINANCIAL CHRONICLE)

ROWLEY, Mass.—Edgar J. Andrews is engaging in a securities business from offices on Wethersfield Street. He was formerly with Boardman, Freeman & Co.

Stator Company

CAMBRIDGE, Mass. — Stator Company has been formed with offices at 1430 Massachusetts Avenue to engage in a securities business. Officers are Daniel F. Comstock. President and Treasurer, and William Creamer, Secretary.

Frank A. Shea

Frank A. Shea, partner in McManus & Mackey and a member of the New York Stock Exchange, died at his home at the age of 56 after a long illness.

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Securities Salesman's Corner

By JOHN DUTTON

Having Trouble Opening Up New Accounts? Then Read How Philadelphia's Tyson Brothers Do It!

A comparatively new investment firm in Philadelphia is opening 60 new accounts each month and has been doing it for nearly a year. Officers of the firm make no secret of how it is being done. They describe their methods as the application of sound merchandising practices to the securities business.

The firm is Tyson & Co., Inc., whose top officers are the brothers Albert and Joseph Tyson, President and Vice-President, respectively.

Both were experienced in different aspects of the business. Joseph in his early forties and junior to his brother by a few years, knew the selling, administrative and analytic end of the business. Albert, widely known in Philadelphia as a direct mail expert, numbered many brokers among his clients. Both Tysons had long had the feeling that the promotional and selling problems of the securities business differed little from other fields.

It was on Oct. 1, 1949, that Tyson & Co. opened its doors. The firm had no prospects and no salesmen. The brothers decided to put their convictions to the test from the very beginning.

First, a long-term direct mail program was launched. Its function was and is to get prospects. At the same time the firm set out to get salesmen. The brothers knew how difficult it was for a new firm to get experienced securities salesmen. Their program called for salesmen preferably without securities experience, on the theory that, if a man could sell, he could make more money in the securities business than in most other fields.

Albert Tyson handled the direct mail work. Since the firm first opened its doors, it has made mailings every two weeks for a total of 10,000 pieces of literature each month. Mailings are limited either to a report on a timely market situation or a market letter. When a report on a timely situation is distributed an order blank is enclosed. Quite frequently salmon-colored two-way postal cards are used to call attention to a special situation. In the past 10 months the firm estimates that its direct mailings have reached upwards of 100,000 people in the southeastern Pennsylvania, South Jersey and Pittsburgh areas.

To obtain salesmen the firm has advertised on both the financial and classified pages of the newspapers. Such advertisements have been factual, down-to-earth statements minus all the glowing promises that are so typical of so many salesmen "ads." The only thing Tyson & Co. promises salesmen are leads.

Gradually a sales force was built up. True to their convictions the Tyson brothers have favored the inexperienced securities salesman, and it has paid off.

Today, out of a force of 14 salesmen, only two had previous experience in the securities field. Paradoxically, the firm's best salesmen are an ex-accountant and a former engineer. Neither had any experience in selling prior to going with the Tysons.

The Tysons do not depend exclusively on mail order promotion. Ever since its organization, the firm has been a consistent newspaper advertiser using the financial pages. But the firm looks upon newspaper advertising as a prestige builder and supplement to its mail order work.

"We look upon newspaper advertising as necessary. It is vital in building a healthy business," Albert Tyson says, "but in our scheme of things it is a secondary means of promotion. We use newspaper advertising to supplement our direct mail advertising."

The elder Tyson explained it this way: "As we added salesmen we stepped up our newspaper advertising on the financial pages. We did it with the thought in mind that it would increase the percentage return on our direct mail advertising—it really pays off. For instance, when we have a special situation that we are going to make a mailing on, we time it so that our prospect receives it on the day we advertise the special situation in the financial columns of the local newspapers. Invariably our percentage return on the mail order rises while at the same time we receive numerous inquiries as a result of our newspaper advertisement."

Salesmen, even experienced securities salesmen, must go through a short training period when the firm takes them on. Where men have little or no knowledge of the securities business, the training period is longer. Moreover, the latter type salesman is permitted, for the first several weeks, to sell only mutual funds, preferably one of the better known balanced funds.

There is good reason for this, according to Joseph Tyson. "New salesmen, especially the real green ones," he says, "want to go out and sell right away and frequently they want to sell their friends. Well, we want them to sell too, but not before they have some idea of what they are selling. So, to give them an outlet for their energy, we let them sell the better known balanced funds. By studying such funds and reading the excellent literature supplied by the funds they get a birdseye view of the distinction between investment and speculation. They learn about yield, diversification, quality, etc."

To date the Tyson theory that a good salesman in another field will be a good salesman in the securities field has worked out very well. A case in point is a former insurance salesman. He took a post with the Tysons, went through the training period and has become a steady producer for the firm. "What is more," Joseph Tyson says, "he has none of the usual inhibitions that so many of the men long in the business develop."

Albert Tyson believes that a good salesman should make a sale to one out of every four prospective clients. "We like our salesmen to shoot for that mark," he says. "Frequently, on a monthly basis the goal will be reached."

Right now Tyson & Co. is expanding. Some six months ago the firm opened a Pittsburgh office. Now it is planning large-scale expansion throughout western Pennsylvania with representation in seven more cities in this area.

Of course, with its expansion, it is stepping up its promotional activities. "We've tried out our ideas for 10 months in Philadelphia," Albert Tyson says. "They work. We think they will work in any city in the country."

Both Tysons are convinced today that a huge new market for securities has been created in the past 10 years by the shift in wealth that has occurred as the result of inflation, taxes, and union organization. "The middle class today is greater in proportion than ever before in the history of our country," Joseph Tyson claims. "Most of the people in this class are potential securities buyers. They are only waiting for someone to approach them. We think this market can be reached more economically and more directly by direct mail, backed by timely newspaper advertising, than by any other means. In telling our story, we tell it simply and plainly. We have a product to sell and people both want and need it. The response to our efforts confirms our thinking."

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Current SEC Policy Regarding Investment Companies

imply a percentage return except as a ratio of dividends paid from net investment income for one or more immediately preceding full fiscal years to both a stated average offering price and a stated and dated offering price current at the date of publication. This information must be accompanied by a statement to the effect that the return is based upon dividends in the period covered and is not a representation of future results. There must also be disclosed any increase or decrease in asset value during such period.

A practice similar to that referred to above is to combine distributions from net income with those from profits on the sale of securities and distributions from capital surplus. The so-called "yield" represented by these combined distributions is misleading because it hides the fact that the distribution is in part a return of capital, in part a distribution of security profits, and *only in part* a dividend paid from investment income. To correct this practice, the Statement of Policy declares that it will be considered misleading in the future to combine into any one amount distributions from net investment income and distributions from any other source.

A further misrepresentation frequently appearing in sales literature in this field is that the generous yields indicated are continuous and dependable. There is constant repetition of phrases such as

"A dividend check every month"

"Dependable income"

"You receive continuous income."

Since the income on investment company shares is dependent upon the company's income from its portfolio securities and is subject to deductions for management fees and other expenses, it is obvious that the claimed liberality and dependability of the investors' return is open to serious question. Accordingly, the Statement of Policy declares it to be misleading to represent or imply an assurance that an investor will receive a stable, continuous, dependable or liberal return, or that he will receive any specified rate or rates of return.

Claimed Growth of Capital

One of the favorite attractions claimed for investment company shares in much of the sales literature reviewed is the possibility of growth of capital investment. Though the particular words or phrases may differ, the same appeal to potential investors is nearly always couched in such terms as to lead the investor to believe that his capital will increase, without pointing out the risk factors involved or that his capital may diminish. It is the uptrend that is emphasized, not the downtrend.

Investment company shares are held out as a means through which the investor can build an estate or become financially independent. Obviously, general claims of this nature are misleading since rarely is an open-end investment company in a position to make any prognostication of an assured increase of principal. Accordingly, the Statement of Policy declares that it will be deemed misleading to represent or imply assurances that an investor's capital will increase or that the purchase of investment company shares involves a preservation of original capital and a protection against loss in value. Furthermore, these matters may not be discussed without pointing out or explaining the market risks inherently involved in the investment.

Much of the sales literature reviewed employed as a major sales appeal the claim or implication that the Federal or State Governments or the Securities and Exchange Commission actually regulate the management practices of the companies or supervise them in such a way as to provide Federal protection to investors. Typical of these is the statement "safeguards offered by government regulation of investment management." There are many variations of this general theme, but running through them all is the implication that the Commission or the Federal Government is constantly supervising investment company management, its assets, its portfolio practices and policies and its operational activities. Nearly all of these statements go beyond the statements permitted by the Securities Act of 1933 that the securities to be offered are registered, or by the Investment Company Act of 1940 that the company is registered under that Act. The Statement of Policy, therefore, declares it to be misleading to make any reference to registration or regulation of any investment company under Federal or State authority without explaining that this does not involve supervision of management or investment practices or policies.

Over-Emphasis of Banking Functions

As you know, it is quite customary for investment companies to employ banking institutions to act as custodian of securities, transfer agent or dividend disbursing agent. There is, of course, no objection to the functions of these institutions being accurately described in the sales literature of investment companies. However, it has frequently occurred that the role of these institutions has been over-emphasized. It is implied that these institutions in some manner provide protection to investors against possible depreciation of assets, against management mistakes and, in addition, have some supervisory functions over management in such matters as purchase and sale of portfolio securities and the payment of dividends. To correct this practice, the Statement of Policy prohibits such misleading statements and requires, where the functions of banking institutions are referred to, that the limited role which they play be accurately set forth.

The Redemption Process

One of the principal sales appeals with respect to the securities of open-end investment companies is the redemption feature. Investors are generally assured that one of the best protective features which they can obtain is the ability to get back their money at any time. However, the prospective investor is rarely told, or is told in a wholly inadequate manner, that the sales load will not be returned but merely the then net asset value, less any redemption charges. Moreover, there is a general failure to explain that as a result of market conditions the value of his investment at the time of redemption may be less than the price at which it was originally purchased. The Statement of Policy requires that these factors be brought to the attention of the investor in connection with any discussion of the redemption features of investment company shares.

It is an old saying that people are known by the company they keep. Investment companies are no exception and are frequently given to comparing their securities with investment media generally regarded as highly conservative. Most common are statements which compare open-end shares with government bonds, annuities, savings accounts and life insurance. The implication is that investment shares are similar to these fixed contractual obligations and, in addition, offer higher yields and opportunity for appreciation. As a matter of fact, investment company shares are in no way similar to securities representing contractual obligations to pay fixed amounts of money on demand or at definite periods. To prevent these misleading implications, the Statement of Policy flatly prohibits the representation or implication that shares of an investment company are similar to or are as safe as government bonds, insurance annuities, savings accounts or life insurance or have the fixed income, principal or any other features of a debt security.

A similar device is the use of language implying that the managements of open-end companies handle their investments in a manner similar to insurance companies or savings banks or operate under similar investment restrictions. Investment companies have no such restrictions except as recited in their stated objectives and by the quantitative restrictions in the 1940 Act. Moreover, the portfolios of banks and insurance companies are continually supervised by Federal and State authorities, and no such supervision is exercised over the portfolios of open-end companies. The Statement of Policy, therefore, forbids the making of such comparisons except to the extent that a particular company is so restricted or limited by the statement of its policies filed with the Commission.

Performance Claims

Perhaps the most difficult problem in this field is the comparison of the performance of a particular company with some other security or medium of investment or with some security index or market average. Investment company shares are frequently compared with those of a particular security in the industrial or commercial field. Comparisons are also made with market averages such as the Dow-Jones Industrial Averages or Standard & Poor's 90 Stock Index. The comparison of an investment company's shares with shares of any other company may be misleading unless carefully qualified or explained. The comparison of the performance of an individual investment company with some

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selected market index is likewise apt to be misleading if not properly qualified or explained since the comparison may or may not fairly indicate a claim of expert management. The Commission and the industry attempted to work out an explicit Statement of Policy as to what would be considered a fair comparison and what would be considered misleading. However, because of the great variety of such comparisons and the many factors involved in determining whether or not a particular comparison is fair, it was ultimately determined that, certainly at this time, the working out of explicit rules is not feasible. The Statement of Policy, therefore, does no more than lay down certain general rules to be followed. One of these is that the particular security or index or average was selected by the person making the comparison and is, therefore, not necessarily generally recognized as a proper basis for comparison. Secondly, it is to be pointed out that the results disclosed should be considered in the light of the company's investment policy, the character and quality of its investments and the period selected. Finally, but very important, the comparison must include any factor which is necessary to make the comparison a fair one from the standpoint of the investor.

The romantic appeal of investment company shares is frequently enhanced by representations that investment companies generally are important sources of new capital for industry. Actually, with few exceptions, they simply invest the funds of the shareholders, after deducting the sales load, in outstanding corporate securities. In general, their contribution of new so-called "venture capital" and their purchases of new unseasoned issues are limited, as perhaps they should be. The Statement of Policy requires such statements to be limited to particular companies where the extent to which such investments are made is disclosed.

Misleading Comparisons

The misrepresentations and misleading implications resulting from the improper comparison of investment company securities with other corporate securities or with other media of investment or security indices or averages referred to above are duplicated by visual presentation in chart form. Since this graphic method necessitates considerable over-simplification, its undesirable impact on the investor is obviously intensified. An illustration of the misleading character of such charts is the case of a chart which recently came to our attention which compared the shares of an investment company with those of a leading public utility company. The chart reflected the growth of an investment in the investment company, including all dividends and capital distributions. However, in showing the growth of a similiar investment in the shares of the utility company. all dividends were omitted. The comparison, therefore, indicated that shares of the investment company were a better investment, whereas if the dividends of the utility company had been included, its performance would have been greatly superior to that of the investment company. Furthermore, the performance of the investment company as reflected by a three-dimensional chart, from a not too careful perusal, would indicate a better performance than was actually the case.

The Commission and the industry in 1948 devoted considerable time to the question of charts used to show the history of an investment in a particular investment company and has published a release pointing out certain respects in which such charts appeared to be misleading. It was found that these charts usually covered a period arbitrarily selected to show a substantial growth of the company. In addition, the charts were prepared so as to include in the growth of the investment not only increases in net asset value but also all distributions made during the period covered, whether from investment income, security profits or capital surplus. The charts were based upon net asset value and did not, therefore, commence with the investor's true cost. Furthermore, it was impossible for an investor to ascertain what his investment experience would have been had he purchased shares of the company at any time after the beginning of the period covered by the chart. In subsequent letter to the NASD, the Commission set forth in some detail certain standards which these charts should meet in order not to be considered misleading. I assume that you are all familiar with these standards and will not, therefore, stop to discuss them at this time. The Statement of Policy merely refers to the Commission's release and to the above-mentioned letter and adopts the standards set forth in the letter.

High-Sounding Phrases

The sales literature of investment companies contains many high-sounding phrases and generalities regarding management results, policy and performance. General statements such as "the excellent performance record" of investment companies and "efficient and skilled management" of such companies are quite common. These general laudatory statements, unrelated to any particular company, are misleading because they lead the investor to infer that the management of the company whose shares he is asked to buy possesses the qualities referred to. Any discussion of management should be limited to the management of particular companies and should be reasonably related to the skill and performance of that particular management. The Statement of Policy therefore forbids the making of any extravagant claims regarding management ability or competence.

There is an increasing tendency to refer to open-end companies as "investment cooperatives" which creates the impression that such companies are operated as nonprofit organizations. This obscures the fact that in essence they are privately established ventures conducted not alone for the benefit of shareholders but also for the profit of promoters, managers and underwriters. The Statement of Policy declares it to be misleading to represent or imply that investment companies are operated as or are similar to cooperatives.

Another favorite claim is that open-end company shares generally have been selected for investment by trustees, institutions, estates, charitable organizations, insurance companies and other fiduciaries and that their selection is evidence of their investment quality and merit. These claims are misleading when used generally since only a relatively few funds have been declared legal investments for such fiduciaries and only in a limited number of states. Accordingly, the Statement of Policy declares it to be misleading to represent or imply that investment company shares generally have been selected by fiduciaries.

One of the most important factors in successful investing of funds is the correct timing of purchases and sales. Many formulas and timing plans have been evolved for the purpose of avoiding commitments at the wrong time. How successful they have been, I leave to you. In addition, continuous investment plans, usually referred to as "dollar averaging," have been increasingly advocated in the sales literature. The basic argument in support of this continuous system of investment is that dollar averaging solves the problem of timing purchases and is a scientific means of turning price fluctuations to an investor's advantage.

Flaw in "Dollar Averaging"

This supposed scientific approach to continuous investment of fixed amounts of money over a period of time has been used in a manner that distorts and exploits a simple mathematic truism for the purpose of promoting sales. As now used, it ignores the realistic fact that in a declining market only an investor of ample means could afford to continue the fixed payments necessary to obtain the increasing number of shares at reduced cost. Only such an investor could afford to leave his depreciating principal unliquidated over the full life of the "program" or ignore the fact that when, by choice or necessity, he discontinues the plan, the cost of the total amount of shares purchased may well exceed the asset value of his investment. Yet this sales tool is often used to attract persons of moderate means who can least afford depreciation of capital and who would be the first to discontinue the plan at a loss.

The descriptions of dollar averaging have been misleading in the past because they have highlighted the advantages accruing from the operation of such a plan under ideal conditions without pointing out the inherent weaknesses in the plan and the probable effect upon investors of average or limited means. Furthermore, the very term "dollar averaging" is misleading since there is no averaging of dollars, but only an averaging of the investors' cost. The Statement of Policy, therefore, requires that the term "dollar averaging" or "averaging the dollar" shall not be used, although the phrases "dollar cost averaging" or simply "cost averaging" are deemed to be fairly descriptive of such plans and are, therefore, not objectionable. The Statement of Policy also provides that in the discussion of any such plan it must be made clear that the investor will incur a loss if he discontinues the plan when the market value of his investment is below his cost. It must also be pointed out that the investor is investing his funds primarily in securities subject to market fluctuations and that the method involves continuous investment at regular intervals regardless of price levels. Furthermore, the investor must be warned to take into account his financial ability to continue the plan under all conditions of the market and that such plans cannot protect him against loss in value in declining markets. Where any table is used to depict the operation of a plan of continuous investment, it must be based upon the actual offering price of the shares of the particular company and must include the total cost and liquidating value of the investment at the end of each year or shorter period shown in the table. It is not permissible to use hypothetical data in such tables.

The Sales Load

The purchase of investment company shares of most companies involves the payment of a substantial sales load which is added to the net asset value of the shares purchased. These loads range up to more than 9% of the net asset value, and the greater number of companies charge between 7% and 8% of the net asset value. In nearly all of the sales literature currently in use, there is almost a complete absence of any mention of the sales load and, in the few instances where it is mentioned, the descriptive statements made are wholly inadequate. Only through the prospectus is the investor able to ascertain what an investment will cost him. In order that the investor may be forewarned of the sales load when reading favorable descriptions of investment company securities, the Statement of Policy requires all sales literature which does not state the amount or rate of the sales load to include a statement that there is a sales charge to the investor included in the offering price of the shares of the company and to include a reference to the prospectus where detailed information in regard to the sales load and other information is set forth.

The Switching Evil

It has long been a favorite device of some in the investment fraternity to stimulate business by encouraging investors to switch from the securities of one company to those of another company or to other securities of the same company. Some investment companies are no exception to this rule, and the sales literature of such companies frequently seeks to persuade investors to switch from the securities of one investment company to those of another or to other securities of the same investment company. It is seldom indeed that there is any mention of the fact that each switching transaction involves the payment of an additional sales load. The Statement of Policy requires that all sales literature urging investors to switch from one security to another contain a statement disclosing the fact that an additional sales load must be paid and cautioning the investor to measure the cost against the claimed advantage of the switch.

There is an increased tendency by some open-end companies which have a large portion of their portfolios invested in a particular industry or in several related industries, to use literature "puffing" the general industry concerned, thereby implying that whatever spectacular advantages are foreseen for the industry will automatically be reflected in increased value for the investment company shares. The electronics industry is frequently chosen because of its currently popular appeal.

Such statements are misleading unless fully qualified by adequate explanation that what an industry may do generally has no automatic direct effect on the value of investment company shares invested therein, since what individual mnagements within an industry may accomplish is not necessarily comparable to what the investment company involved may accomplish. The Statement of Policy, therefore, forbids the representation or implication that the performance of any particular company may be measured by or compared with the performance of a particular industry unless the extent and scope of the portfolio of the particular company is such that its performance will generally approximate that of the industry.

There has been a widespread use as sales promotion literature of reprints of articles appearing in various publications. Such material is usually disseminated in an apparent attempt to "educate" investors in investment companies generally, but in actual practice we are certain that it is used by dealers and others to sell particular funds. This material seems to be used only when, and to the extent, that it encourages the purchase of investment company shares. The disadvantages and pitfalls of such investment are usually ignored. The Commission felt that where such material is used it, or the literature including it, should conform to the same standards as other sales literature, and the Statement of Policy so requires.

And there you have it. While it certainly isn't perfect, there is a reason for every word in the Statement of Policy; each was carefully weighed and re-weighed by your representatives on the industry committee and by the Commission before it was agreed upon.

A Living Amendable Document

As I mentioned earlier, it is a living document; one that can be amended to cover new situations or corrected to remove any unfair applications that may possibly show up during its administration.

I believe the standards it sets forth will do much to eliminate the difficulties we have had with this literature. I sincerely hope so, for I believe in the soundness of the investment company idea. But I am anxious that its operation be consistent with its sound theory, so that its real purpose, which is to provide a sound investment instrument for the smaller investor, will be served rather than subverted.

This very useful instrument was nearly destroyed in the 1920's by the financial excesses of that period. It has experienced, in more recent years, a kind of renaissance with the expansion of the open-end companies. This rebirth was threatened by the abuses I have been talking about. For, if the excesses of sales literature were not corrected, they could ultimately discredit the open-end companies, and thus destroy this useful instrument.

Our desire for correction, therefore, arose not from hostility to the investment medium or to the industry, but, rather from the conviction that this instrument should be properly used and preserved. Far from being hostile, I believe that investment companies, if wisely cared for, can ultimately become "institutionalized" — though they can never serve the same purposes as savings banks, building and loan associations, insurance companies and government bonds. Nevertheless, their function can be such as to play a useful part in any comprehensive investment program. Thus, they can achieve the permanent and useful place in our economy that their basic theory contemplates. The problem, then, is to make the practice consistent with the theory and not permit the selfish insistence of some on quick and easy returns for the present, to divert the industry from concentrating on the realization of these highly desirable and entirely attainable long-term goals.

James Halbkat With W. R. Morgan Co.

PHILADELPHIA, Pa. — James E. Halbkat, formerly Vice-President of Sidlo, Simons, Roberts & Co., investment bankers of Denver, Col., has joined the staff of W. L. Morgan & Co., national distributors of Wellington Fund.

James E. Halbkat

Mr. Halbkat has been associated with the investment banking business since 1927, first in the Midwest and later in Colorado. He has specialized for a number of years in the merchandising of mutual funds.

Wilredge Gorman

Wilredge H. Gorman, stockbroker of Portland, Ore., died at the summer home of his daughter, in Ogdensburg, N. Y. He was 76.

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Investment in a Part-War Economy

business conditions and price levels, could easily range between $7 and $15 billion per year, depending upon the rates set. Thus, a Treasury deficit need not be taken for granted unless, of course, the war effort exceeds greatly anything now in prospect. As a matter of fact, "Barron's Financial Weekly" in its leading article for the Aug. 14 issue, suggests that a Treasury surplus rather than a deficit is in prospect by the end of 1951.

As a corollary to the statement that the degree of post emergency inflation will be in direct ratio to the magnitude of our rearmament effort, it can be stated that corporation earnings during the emergency period are almost certain to develop in inverse ratio to the magnitude of the program. In other words, should the Korean conflict spread to other areas on the periphery of Soviet influence, and our responsibilities increase, there will be a corresponding increase in taxes and in Federal controls of all types to the detriment of corporation earnings. It would appear, therefore, that there are grounds for doubt that inflationary forces will necessarily be generated from our war effort, or, if such forces are set up as a result of greatly increased effort, as to how and when they may become effective influences in the market place. This is particularly true since the current emergency situation gives every evidence of continuing indefinitely, even after the Korean campaign may close. Throughout the past 17 years the inflation threat has blown hot and cold. Inflationary forces have been operative throughout that period, but the investing public has almost invariably caught the fever at the wrong time. The corrosive effect of taxes and controls and special executive powers has not usually been fully or accurately appraised, and one is tempted to think that such may again be the case.

It also appears a bit early to begin the division of stocks into "war" and "peace" groups, or to develop convictions as to what industries will benefit or will lose revenues as a result of the emergency. In the first place, on an overall basis, war is no boon to business. There will be very few companies able to earn as much in a war economy as in a time of peace. Our productive facilities are already operating at virtual capacity, so no great upsurge of activity in the basic industries is possible. Output for war will be achieved only by decreasing output for civilian consumption in those lines making large claims upon critical materials, and one does not need to be much of a mathematician to figure the effect upon earnings of the increase in the normal tax rate and the imposition of a stiff excess profits tax. In many cases such taxes could reduce earnings by as much as 40%, and they might be further reduced by profit limitations on government contracts. In the second place, very few people have any idea of how much or how little of a given company's output will be directed into war use. Guesses in 1940 and 1941 as to what companies would benefit most, or be hurt least, by the war effort were almost 100% wrong. Few, for instance, guessed that from 1942 through 1945 the steel industry would earn progressively less money in each successive year, or that in the nonferrous metal group the next three out of four years would show progressively lower earnings. Fewer still thought that the most consistently prosperous groups would be the distillers, the motion picture producers and the publishers. It can be doubted if many of the current predictions will turn out to be much more accurate.

The foregoing is not intended to be a Jeremiad, nor does it connote that the shadow of a maze of conflicting potential forces precludes the advisability of continuing the search for answers. The point is that to date we simply do not have any solid ground upon which to build firm conclusions, while the uncertainties are legion. How can one predict the imminent or the eventual temperatures of the "cold to hot" war? How can one estimate its duration? What proportion of our productive capacity will ultimately be required for rearmament? To what extent will the increased expenditures be covered by tax increases, and what form will the latter take? If deficits are incurred, how will they be financed? What controls will be established over prices and wages? And what materials may be subject to allocation? What will corporations be permitted to earn upon government contracts? How can extreme doubts on all of these matters be poured into a hopper with the expectation that they will blend and emerge as a smooth ribbon printed with the answer in the shape of an investment program?

The fact of the matter is that we presently are in possession of only a few basic facts:

(1) We are now entering upon a period to be characterized by active efforts at rearmament and, simultaneously, conducting a minor war.

(2) Inasmuch as the U. S. economy is now producing at virtual capacity it will be necessary to fit the armament requirements into the existing productive framework. Such a process will almost certainly involve cut-backs in production for civilian use in certain lines.

(3) Whereas there had been some rather good reasons for expecting a tapering off of the very high level of industrial activity by the close of the year, there is now little or no prospect of a general recession in business.

(4) For the present at least, we face a mixed type of economy. The major share of activity will continue to be for civilian consumption with only a portion to be devoted to output for war. Unless our involvement increases greatly, it is not likely that automobile manufacturing will be suspended, or that other major industries will have to undergo wholesale conversion. Indications now are that it will be a partial conversion, that the imposition of production controls, rationing, allocation of materials and possible price and wage fixing will await further developments. There is every indication, however, that they will be invoked as rapidly as occasion demands.

(5) The normal and surtax rates on income, both personal and corporate, will be increased almost immediately. Indications are that tax boosts will be severe. The rate now agreed on for normal corporate taxes exceeds the rate in effect during World War II. An excess profits tax is rather generally expected after the first of the coming year.

(6) Curbs upon further extension of long-term and instalment credit are in early prospect. The outlook of war has furnished a cogent reason for administrative action in this regard which, without much doubt, would have been taken even if the Korean episode had not occurred. The expansion of credit has been proceeding at a dangerously high rate for over a year, and has contributed very materially to the industrial boom in progress. The objective in tightening consumer credit is that of controlling the housing boom and the purchase of double consumer goods, principally automobiles and household equipment. It is hoped that by making credit less freely available to the consumer, demand for such goods will slacken, and free essential materials and labor for armament use.

(7) Initial consumer response to the Korean news has been one of anticipatory buying. This has temporarily produced an illusion of scarcity and resulted in some rather sharp price advances. Actually, scarcities exist in only a few fields, and reports from various sections of the country indicate that the initial scare buying has subsided. In a great many cases prices have turned lower after their initial advance.

The foregoing facts afford some indication of the general direction in which the wind is blowing. They do not, however, make it possible to classify, with any certainty, the various major industries and individual companies according to their degree of vulnerability in a part-war economy. It will be some little time before we can measure the extent to which the demand for durable consumer goods and housing will be restricted as a result of credit controls. It is unlikely that, as a result of conversion to war work, any appreciable dislocation of durable goods manufacturing processes will be felt before the final quarter of this year. The vulnerability of earning power to increases in the normal tax rate has already been appraised, but one must await the crystallization of sentiment in regard to plans for an excess profits tax before arriving at anything other than broad conclusions regarding its effect upon corporation earnings. In addition, one must also conjure with the distinct possibility that corporation earnings in this emergency will not be restricted by tax increases alone. There is a very defnite and strong feeling in government circles that, in this emergency, business should not be permitted much profit on war orders. In all probability such business will be done on an extremely thin margin and will be made subject to renegotiation.

As events unfold it may be feasible to attempt to adapt investment portfolios to realities in a changing economy. At the present writing, however, it appears to be a time for more than ordinary reliance upon the simple principle of diversification and the maintenance of a "wait and see" attitude. A straddle seems to be the only intelligent course at the present. Investment accounts should be carrying liberal reserves in bonds or cash. The stock commitments should be in the strongest companies and spread over a rather wide list of industries.

It does not seem to be a propitious time to take on any extensive new commitments in stocks. The market is in a high area. It has proved itself vulnerable to shock from foreign developments and I do not believe it would be able to keep its present position in the event that the Korean War should expand into a major struggle, or if aggression should break out in another quarter.

It is true, however, that conditions sometimes make it imperative to put cash to work in investments. In such cases, as well as when investment switches are being contemplated, my preference would be for companies which give prospect of having little or no participation in government contracts, whose raw materials are not likely to be restricted by military needs, and are not from foreign sources, whose margins of profit seem unlikely to be pinched if prices and wages are frozen at some later date, whose volume of sales gives promise of being well maintained in an atmosphere of credit restraints and war influences, and whose earnings record or invested capital situation suggests that an excess profits tax could be borne without a devastating effect upon earnings.

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The Marketing of World Bank Bonds

able future, concentrated largely in the United States market. As I mentioned previously, the United States has subscribed to $3,175,000 000 worth of stock, $635 million of which has been paid in. The remainder, the United States' 80% liability, is $2,540,000,000. The Bretton Woods Agreements Act, under which the United States joined the Bank, authorized the Secretary of the Treasury to pay the United States subscription to the Bank when and as due and to use for that purpose "as a public debt transaction," proceeds of securities issued under the Second Liberty Bond Act. In view of that provision no Congressional appropriation or further Congressional action is necessary to enable the Secretary of the Treasury to meet the United States' obligation on its capital subscription.

The capital structure is the basis of our credit and defines the scope of our operations. It was devised with two objectives in mind: First, to insure that the Bank's obligations would be of high investment quality; and second, to insure that in its operations the Bank would have to rely very largely on the private market as the source of its loanable funds.

I should like to discuss briefly the job which the Bank is supposed to do. You will remember that during the decade before the war private capital, which had previously played an important role in stimulating world trade, had practically disappeared from the international scene. Private foreign exchange credit was almost unavailable to countries and businesses that needed imports to expand their productive facilities and resources.

The International Bank was created to fill the gap left by the disappearance of private capital from the field of medium- and long-term productive foreign investments. Its job is, first, to stimulate the return of capital to that field by participating in and guaranteeing loans for productive purposes made through the usual market channels; and second, when private capital is not available on reasonable terms, to supply the capital itself by making loans, to governments or to private businesses, out of its own capital and other funds or use of funds raised in the market. In carrying out these objectives, the the Bank may engage in three principal kinds of financial activities. First, it may participate in and guarantee loans made by private lenders. Second it may make direct loans for productive projects in the territories of its member governments. Third, it may raise money for these purposes by issuing securities. It is the third phase that I will discuss in some detail.

First I must mention a requirement that applies to all our marketing activities. Before we can sell securities in the market of any of our member countries, we must have that country's approval. Accordingly, you must assume, in the discussion that follows, that in every case such approval has already been obtained. In the case of the United States the approval is given by a body called The National Advisory Council, which was created to coordinate the United States Government's activities in the field of foreign financial and monetary transactions. It consists of the Secretaries of the Treasury, State and Commerce, the Chairman of the Board of Governors of the Federal Reserve System, the Chairman of the Export-Import Bank and the ECA Administrator.

Turning to our actual marketing operations, I should mention two misconceptions as to their potential scope and nature, which prevailed at the time of the Bretton Woods Conference. At that time it was widely believed that since the Bank's unpaid capital, its 80% capital, would amount to $6.5 billion, the Bank would have no difficulty in issuing securities in the American market up to approximately that total. As it turned out, that was a highly optimistic view. By 1947, when our first bond issue appeared, the world economic and political picture was much darker than had been generally anticipated in 1944 and the American market placed less confidence in the obligations of the Bank's other member governments than had originally been expected in some quarters. In fact, in judging the Bank's securities American investors tended to look primarily at the United States capital. As a result, it was evident even as we opened for business that for the first years of our operations, at least, and in the present state of the world, we could not expect to raise funds substantially in excess of $2.5 billions, the amount of the unpaid United States subscription.

That presented no immediate problem to us. In fact, we have not yet needed in our lending operations anything like $2.5 billion. The other misconception however, did involve a policy problem. At the time of the Bretton Woods Conference, the Bank was thought of primarily as a guaranteeing agency, one which might perhaps make a few loans itself and issue some of its own securities, but would concentrate on guaranteeing loans floated in the public market. It was thought that the bulk of the Bank's operations would consist of placing its guarantees on bond issues floated in this country by foreign borrowers through the usual underwriting mechanism.

We gave a good deal of thought to this matter at the time we commenced operations and we decided that guaranteed public loans could not be made the main feature of our marketing operations. We feared that guaranteed obligations might not be generally acceptable or, if they were acceptable, would tend to confuse, rather than establish, our credit. We felt, for example, that if the bonds of a country with a good credit standing, sold with our guarantee, should sell on a different yield basis than bonds of another country with a poor credit standing and that if this situation persisted in the market during the early years of our operations, it might be difficult to prove to ourselves and to potential investors what our own independent credit was worth. Accordingly, at an early stage we rejected guaranteed public bond issues as the

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principal type of public marketing operation, although we have used the guarantee technique in connection with one or two private placements of securities and may very likely continue to resort to that technique from time to time in the future. We decided that our first marketing operation should consist of an issue of the Bank's own unconditional unsecured obligations, and that appears to be the probable pattern for the future.

With that background in mind, I should like to summarize what we had to offer when, in July, 1947, we went to the American market with our first bond issue, consisting of $150 million of 3% 25-year sinking fund bonds and $100 million of 2¼% 10-year term bonds. At that time we had made one loan of $250 million to France. That constituted our loan portfolio. We had assets of about $475 million entirely apart from a much larger sum in non-dollar currencies. We had the right to call on the $6.5 billion which our member governments were obligated to pay on their 80% liability, including over $2.5 billion for which the United States was obligated.

All that constituted a substantial backing for a $250 million issue. But we faced many serious problems. First and by far the most important, was the fact that very few potential investors or securities dealers knew anything about the Bank. Hardly any of them were familiar with its purposes or its capital structure, even to the extent of the brief explanations I have given you this morning. Those who had heard something about the Bank were very suspcious as to the way in which it might conduct its business, as to the type of lending operations in which it might engage. They were afraid that instead of making loans for sound and productive projects, on the basis of full economic, financial and technical investigations and analysis, it might throw its money away without knowing the purposes for which the funds would be used or whether the alleged purposes had any basis in economic or technical reality. It was widely said that the Bank was just another relief agency, a device to give money away without worrying about the prospects of repayment.

Experience thus far has shown that those apprehensions were rather wide of the mark. Actually, under the Bank's Articles of Agreement we are required to operate in a very different way. Our loans must be for productive purposes and made without political motivation. We must investigate carefully, and particularly pay attention to the prospects of repayment. But in 1947 these requirements were not widely known.

Accordingly, our first job was to explain to the public by sessions of this kind throughout the country how the Bank was organized and how it intended, in fact how it was required by its Articles of Agreement, to operate.

The Eligibility Problem

The next major problem that faced us was the so-called eligibility problem, the legal restrictions governing investments by institutional investors, principally savings and commercial banks insurance companies, trust funds and pension funds. Since our bonds are high grade taxable bonds these institutional investors constitute by far our largest potential market. The market afforded by private investors, excluding those who prefer tax-exempt security bonds, such as state and municipal obligations, or government savings bonds which can be redeemed at par at any time, is relatively small. If our marketing operations were to succeed, we had to reach the institutional investors.

But at the time we opened for business there were practically no important states in the country in which institutional investors could legally buy any substantial amount of our bonds. Most states, particularly those in which large volumes of institutional funds are available for investment, have so-called legal lists, and statutes governing the types of investments that are permissible for insurance companies, savings banks, etc. These stautes are usually detailed and specific. Since the Bank is an unusual institution, not a government on the one hand or a private corporation on the other hand, and since it had not previously had securities outstanding on the United States market, it did not fit into any of the usual categories contained in the various statutes authorizing institutional investment.

Before we could go to the market, therefore, we had to try to get legislation or administrative rulings authorizing investment in our bonds at least in a few of the more important states. That involved an extensive legislative program. As you may know, in many states it involves a separate statute for each type of institutional investor, each involving reports by a different administrative official and hearings before a different legislative committee. And, more important than the complexity of the task was the fact that state legislators, state insurance commissioners and state banking commissioners were at least as unfamiliar with the Bank and its purposes and operations as was the general public. In addition, many of these officials, with memories of the thirties in their minds, wanted no further dealings with foreign bonds and until they had an opportunity to analyze our securities, were unable to appreciate how the United States subscription in effect insulates the American investor from the risks of foreign lending.

In spite of these difficulties we undertook the legislative program and during the last three years have met with considerable success, more success than we anticipated in the early days. Almost thirty separate pieces of legislation making our bonds eligible for institutional investment have been enacted by the various states and in even more instances the same result has been achieved by administrative rulings. At the present time I think it is fair to say that almost all the institutional market is open to our securities.

However, at the time of our first bond issue in 1947, that was not the case. We could not even consider a bond issue until we had obtained a ruling from the Comptroller of the Currency permitting national banks to invest in our securities and until New York, Connecticut and a few other important institutional states had similarly authorized investment in our bonds.

Problem of Ratings

Closely related to the problem of eligibility was the problem of ratings. In 1947 none of the recognized rating services had established a rating for our securities. At that time they knew very little about the Bank. We had engaged in no operations and they had no experience pattern to judge by. Here again we were faced with the job of trying to familiarize others with the Bank, its structure and operations.

Ratings were of importance to us for two reasons. First, ratings would give the market the benefit of a judgment by experienced securities analysts as to the quality of our obligations. Second, some of the state investment laws make ratings by recognized rating services a test of eligibility. Accordingly, we discussed the rating question with the leading services and, by the time of our first bond issue, had achieved a rating of "AA" by Fitch and "A" by Standard & Poor's. This was sufficient for our purposes at that time. Since then each of these organizations has raised its ratings and a third, Moody's, which did not rate our bonds at all in 1947, has now given them a rating of "A." Next, we had to choose the method by which we would offer our securities. We had a choice of several methods. We might have had a negotiated sale to an underwriting group. That would have given us the advantage of obtaining the sponsorship of some of the leading investment banking houses, but it would have presented obvious difficulties in the matter of selecting one group rather than another. We thought that, as a public institution, our first issue should be open to investment dealers generally, with all having a fair opportunity to participate, particularly if, as seemed likely at that time, the offering would be successful. For this reason we rejected the technique of a negotiated sale to an underwriting group. For the same reason we rejected selling on a commission basis through a small sponsoring group although that would have involved the same general technique.

Competitive bidding was another possible method of offering but that, we thought, presented difficulties in connection with our first public issue. We finally chose the technique of selling the bonds on a commission basis through dealers. We fixed the price ourselves, as well as the commission, and permitted all recognized dealers to participate.

There was a very broad participation, with over 1,700 dealers sharing in the distribution, the largest group that ever took part in any bond issue in this country aside from government issues. In other respects, too, the issue was successful. It was oversubscribed and sold quickly. A strong demand developed for the bonds and they rose in price, somewhat faster in fact than we would have liked since a certain amount of buying for a quick turnover occurred. For a time the market was disorderly. At the peak the long-term bonds went to a price of 103.

Shortly after our first bond issue a decided weakness developed in the government bond market, which affected the entire market. Bond prices generally fell, our bonds following the others. At the low point our long-term bonds sold under 95.

Throughout this entire period the market performance of the International Bank issue compared favorably with the performance of the high grade bond market as a whole. Subsequently, the market strengthened generally. By the end of 1949, International Bank bonds were selling above their call prices. The long-term bonds are now selling above 103.

After this first issue the Bank considered various means of improving marketing methods for subsequent issues. One of the factors that appeared of most importance was that the National Banking Act, as it then existed, did not permit commercial banks to deal in or underwriter International Bank bonds. As you know, several of the large commercial banks in this country have bond departments and are a very large, if not the largest factor, in the market for government bonds, state bonds and municipals. Although these banks were permitted to invest in International Bank bonds or to buy them for their customers on order, they could not deal in the bonds for their own account or participate in any underwriting or bidding syndicate.

It seemed to us of great importance that the commercial banks should be permitted to participate in the distribution of our securities. In the first place, we desired that result for its own sake since the participation of the commercial banks would substantially broaden our potential market. But there was also an important psychological factor. Since the separation in the early thirties of the commercial banking and investment banking functions of United States banks, the bond business in this country has tended to fall into two separate patterns. On the one hand there is the government, state and municipal bond business and on the other the corporate bond business. These two types of business are usually dealt with by separate departments in the various securities firms and, since the corporate bond business is subject to the Federal securities laws, are carried on in a very different manner. We thought our bonds had the character of government, rather than corporate obligations, and felt that it was important that they should be handled by the same people and traded in the same way as government, state and municipal bonds.

For these reasons we requested the United States Government to introduce into Congress legislation permitting national banks to deal in International Bank bonds and classifying those bonds as exempt securities under the Federal Securities Law. That legislation was enacted in 1949. It was of great advantage to us since it not only broadened the market for our bonds by allowing national banks to participate in their distribution but also solved a number of technical problems under the securities laws which we had encountered in our first issue.

Our next public issue in this country took place early in 1950. That was an issue of $100 million for the purpose of refunding the 2¼% ten-year bonds which we had issued iin 1947, and which were blocked by their call price from any further market rise. For this issue we chose a different kind of marketing technique. We determined to offer the bonds at competitive bidding and encourage the formation of large syndicates with national representation and including both commercial banks and securities dealers. Four such syndicates were organized, each including a large number of securities dealers and banks. The result was favorable to us. We received a very good price for our bonds due to the broadened market, our improved credit standing and the fact that the offering was made at a time when the government bond market was at a high point.

This offering resulted in our refunding a 2¼% coupon bond with a 2% coupon bond having the same average maturity and in addition receiving a premium of over $500,000.

Markets in Other Countries

I should like to add a few words about the Bank's efforts to establish markets in other countries. We are only beginning our efforts in that field but we intend to push those efforts during the next few years.

The Bank has placed two issues of Swiss franc bonds in Switzerland but has not yet tried to borrow non-dollar currencies in any of its member countries. Obviously, as long as we have unused capital available to us in sterling and French francs, for example, we have no need to borrow those currencies in England or France. What we have tried to do in member countries outside the United States is to open a market for our dollar obligations and we have met with an encouraging degree of success.

Our bonds have been made eligible for investment by banks in a number of our member countries and substantial amounts have been bought in Canada, Mexico, Cuba and Western Europe. Recently, our bonds have been introduced into the Dutch market and we expect that similar transactions may take place in several other European markets.

We do not expect that this process will bring us a very large volume of dollars. We value it from another point of view. In the first place, we think it strengthens the international character of our organization. We wish all the Bank's member countries to have an interest in our credit standing and to contribute, within the limits of their economic conditions, to our lendable funds.

In addition, we believe that having our bonds established in the markets of a number of countries not only broadens and strengthens our potential market, but the American bond market is very sensitive and the markets in other countries will not always respond to current events in the same way as the American market. We have already seen cases where foreign institutions have stepped in during a period of relative weakness in the American market and provided buying power for International Bank bonds, which has given a real support to the market. For these reasons we intend to continue and intensify our efforts to introduce our dollar bonds into markets outside of the United States.

That gives a very general summary of our market operations to date. At the present time we have outstanding in direct and contingent obligations only about $280 million. Against this we have some $800 million outstanding in loans and nearly $300 million in uncommitted liquid dollar funds and over $6 billion in unpaid 80% liabilities of our member governments, including over $2.5 billion representing the obligations of the United States. As you can see there is a big margin before we will run into credit limitations. Our loan operations are expanding and we look forward to an expansion of our marketing operations.

Barrett Herrick Adds

ST. LOUIS, Mo. — George W. Harris has been added to the staff of Barrett Herrick & Co. Inc. 418 Locust Street.

Business Man's Bookshelf

Eighth Report to Congress of the Economic Cooperation Administration for the quarter ended March 31, 1950—Superintendent of Documents, U. S. Government Printing Office, Washington 25, D. C.—paper—40c.

Gas Facts—Statistical record of the gas utility industry in the United States 1949 — American Gas Association Bureau of Statistics, 420 Lexington Avenue, New York 17, N. Y.—paper—$1.00.

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Public Utility Securities

By OWEN ELY

Utah Power & Light Co.

Utah Power & Light recently moved from the Curb to the Big Board. It is also the first electric utility company to do equity financing since the "Korean crisis" break in the market (which proved rather damaging to utility stock prices because of fears of EPT). Stockholders of record Sept. 12 are to be offered subscription rights to 166,304 shares of common stock on a 1-for-8 basis, at a price to be determined by competitive bidding Sept. 11 by underwriting groups. The company will also offer competitively $8 million mortgage bonds due 1980.

Utah Power & Light serves an area of about 20,000 square miles extending south from Ashton, Idaho, to the center and southeastern border of Utah. It services about 300 communities at retail, of which Salt Lake City and Ogden are the largest, and also has 32 wholesale customers serving various communities. A subsidiary, Western Colorado Power Company, serves an area of 3,000 square miles in Colorado, including 15 communities. The total population served by the two companies exceeds 632,000. The more important industries in the area are copper, lead, silver, coal, and other mines; smelters, cement plants, packing houses, a steel mill, sugar mills, flour mills, oil refineries, irrigation systems and railroads. Large and only partially developed iron and coal deposits, plus oil shales (from which oil can now be produced experimentally at reasonable cost) hold potentialities for future expansion. Loss of the Utah Copper contract has been more than offset by the larger demand from other industries, and affords safer diversification of output.

Electric revenues of the Utah and Colorado companies for the 12 months ended May 31, 1950, were approximately 42% residential and farm, 22% commercial, only 26% industrial, and 10% other utilities and municipal and miscellaneous customers.

Contrary to the possible impression that the company is closely tied in with the mining industry, the company in the first five months of 1950 did not sell any power to Utah Copper or Kennecott Copper, but probably bought power from the latter company. Dollar sales to smelters and metal mining companies were only about 6% of total revenues, and sales to coal mining companeis were less than 3%.

At the present time, Utah Company produces approximately 60% of its electric energy requirements, the remainder being purchased principally from Idaho Power Company, Montana Power Company, Geneva Steel Co. and Kennecott Copper Corporation. The Colorado subsidiary generates substantially all of its energy requirements. The two companies have about 190,000 kw. hydro capacity, 112,000 kw. steam, and 2,000 kw. Diesel. Utah Power's residential average rate per kwh. was only 2.2c. in 1949, reflecting low hydro costs.

The company and its subsidiaries expect to spend $17 million in 1950, $13 million in 1951, and $10 million in 1952, for construction. The program when completed will include 176,000 kw. new generating capacity, of which 44,000 kw. was installed this year, 66,000 kw. in 1951, and 66,000 kw. in 1952. The company is evidently looking forward to continuation of rapid growth since the construction program and will reflect an increase over 1949 capacity of over 68%. Present financing includes the sale of $8 million bonds, in addition to the sale of stock.

The company has enjoyed steady postwar growth, with system revenues increasing steadily from $14 million in 1945 to $20.4 million in the 12 months ended July 31, 1950, or 45%. Gross income increased from $3.8 million to $5.0 million, and net income doubled from $1.9 million to $3.8 million. The current trend of earnings is also favorable: net income for the seven months ended July 31 gained 41%, and for the month of July 81%. Share earnings for the 12 months ended July 31 were $2.54 compared with $2.10 in the previous period (both based on the increased number of shares to be outstanding).

Utah Power & Light was originally a subsidiary of Electric Power & Light, but was over-capitalized in relation to earnings. The old preferred stocks (with arrears) received the new common stock issued in January, 1946, the old common held by EL being cancelled, with control thus passing to the public. Present capitalization (including the new issues of bonds and stock) is approximately as follows:

	Millions	Percent
Debt	$59.0	64%
*Common Stock	33.6	36
	$92.6	100%

*Excluding intangibles.

Utah Power & Light is currently selling around 25 and paying $1.55 to yield 6.6%. The 1950 range to date has been 27½-23.

Donahue & Mugler

PERRY, Okla.—H. C. Donahue, J. H. Mugler and R. C. Donahue have formed Donahue & Mugler with offices at 607¼ Delaware Street to engage in a securities business.

Spokane Securities Corp.

SPOKANE, Wash.—Spokane Securities Corp. has been formed with offices in the Radio Central Building to engage in a securities business. Officers are J. R. Meek, President; M. L. Lee, Vice-President, and Thelma Meek, Secretary-Treasurer.

Virginia Securities Co. Adds Clyde H. Jacob, Jr.

(Special to THE FINANCIAL CHRONICLE)

NORFOLK, Va.—Clyde H. Jacob, Jr. has become associated with Virginia Securities Co., Royster Building. Mr. Jacob was formerly with the Norfolk office of Abbott, Proctor & Paine.

Moyer Admits

PHILADELPHIA, Pa.—Moyer & Co., 1500 Walnut Street, members of the Philadelphia-Baltimore Stock Exchange, will admit Lena W. Moyer to limited partnership Sept. 1.

Continued from page 6

Monetary Policy in a Free Economy

ticular categories of credit is also crucial.

How Monetary Policy Functions in General

Timely and appropriate monetary policy can greatly assist in leveling off booms and recessions. Thus it can help to keep the economy on a stable and smooth functioning basis. A case in point is the action of the monetary authorities in easing credit in early 1949, when downward trends in business activity, employment, and prices appeared. Monetary action that is taken before isolated unsettling economic changes set in will often avert such developments. It does this by influencing the volume of spending.

In part this influence is exerted by pressure on the volume of spending which is financed through credit extension. For the most part, the available policy instruments do not directly influence credit spending; rather, their effect is general and indirect. Their immediate impact is on the cost and availability of short-term credit. In other words, they make it easier and cheaper (or more difficult and more costly) to borrow for the short-term.

Monetary influence is also exerted by moderate upward or downward pressure on the value of marketable assets. Such pressure increases (or decreases) the amount that individuals, businesses, and financial institutions would receive for their assets; that is, it makes them feel more (or less) disposed to sell assets in order to obtain cash. These changes necessarily alter the willingness of those affected to spend.

A third avenue of influence is through the regulation of terms on which borrowers obtain credit. This method of influence is, of course, limited to types of credit which are customarily extended on a standardized pattern, which, accordingly, can be singled out by statute for regulation, and are of sufficient current importance to the economy to warrant special regulative treatment. Loans on stock exchange collateral are an example that immediately comes to mind. Consumer credit and real estate credit also lend themselves well to special regulative treatment.

A fourth avenue of influence on spending is through the effect of credit policy on the total volume of money and other liquid assets. In other words, as a result of credit policy changes, the economy as a whole has somewhat more or somewhat less than otherwise to spend. This effect is in addition to the one previously mentioned of supplying the original borrower with new buying power. It relates to the secondary and other uses of money as it is spent and re-spent. This effect may continue for some time.

Monetary policy, lastly, is a potent factor for affecting the financial climate of the economy. When the financial climate is favorable, that is, when, in the language of the market place, credit and money are "easy," the effect is to invite business, investor, and consumer expenditures. When the financial climate is unfavorable, that is, when credit and money are "tight," a degree of caution comes to certain sensitive business areas and then spreads to others. By having this kind of an influence, monetary policy further helps to buoy up (or dampen down) the total level of spending.

The Meaning of a Flexible Monetary Policy

Flexibility in monetary and credit policy means readiness to move quickly in response to changes in economic conditions. The main advantage of monetary policy over some other policies to influence economic conditions is that it can be promptly enacted and can take effect quickly. No other instrument approaches its capacity for prompt and timely action.

As business begins to slacken off, action to ease credit is usually indicated. As the economy returns to higher levels of activity, measures that permit credit to tighten are usually in order. Monetary and credit medicine is something to be taken promptly as various symptoms develop—that is, taken in moderate, timely doses. As such, it can temper inflation and deflation. In an inflation, for example, it can help to restrain price increases before they become embedded in cost structures and before they give rise to an inflationary spiral that inevitably leads to deflation and losses.

Drastic monetary measures naturally catch public attention. Unfortunately, drastic measures applied in the past are what the public associates with credit and monetary policy. But they are not the monetary measures that make the greatest contribution to the smooth functioning of a free enterprise economy. For normal conditions, monetary policy is best thought of as a snubbing operation, dragging somewhat against rapid upward movements in activity and cushioning rapid downward movements.

Over the years, the slight monetary and credit action taken from time to time to moderate excessively sharp movements of contraction or expansion in the economy makes major contributions to our well-begin. An illustration of how it works with particular effectiveness, unnoticed by most people, is its role in relieving seasonal tensions in the money market. Before the Federal Reserve System we had abrupt and disruptive seasonal changes in the supply conditions for credit, due in part to large geographical shifts in funds. Today, we are scarcely aware of the existence of seasonal tautness or slackness of credit, so smoothly does our financial mechanism absorb these "road shocks."

Another noteworthy feature of well implemented monetary policy is its quick reversibility. It is susceptible to rapid changes in tempo. For example, early in 1949 the monetary authorities eased credit as business slackened off. Later in the year, they shifted their policy from credit ease to restraint as inflationary forces strenthened again.

In a free economy, flexible credit and monetary policy to prevent "booms and busts" is bound to be reflected in some change in interest rates, particularly short-term rates, which are the market's expression of the cost of credit. Thus, short-term rates have been firming since the last half of last year as the monetary authorities have attempted to restrain credit expansion. Expanding demand for credit will naturally result in higher interest rates unless additional supplies of funds are made available. Putting limitations on credit availability tends to be reflected in a firming of short-term interest rates; and easing of credit tends to soften short-term interest rates.

Certainly it is true that if changes in interest levels are prevented from occurring in response to changes in credit demands, monetary policy directed toward greater economic stability is very difficult, if not impossible, to manage.

What a Flexible Monetary Policy Can Do

In the 1930's it was apparent that monetary and credit ease was not adequate to lift us out of a major depression. It was an easy step for some to reach the conclusion that monetary measures had little or no influence at any time, either on expansion or contraction of credit. It was asserted, and in many quarters accepted as a fact, for example, that somehow borrowers would borrow just so much and only so much, virtually irrespective of whatever action might be taken either to ease or to restrain the availability of credit. The level and the movement of short-term interest rates came to be rather widely regarded as having little or no economic significance.

In the present era, when the world is so divided between those who would control every individual decision and those of us who would maximize the area of individual choice and initiative, I believe it is appropriate to take another look at the virtues of monetary policy. We should ask ourselves what monetary action can do to help us keep our free enterprise economy functioning fully. In what specific way can monetary action serve to promote economic progress and stability?

To throw light on these questions, I should like to consider with you some principal areas where monetary measures do influence individual spending, but only indirectly and without direct governmental control of individual decisions.

Before I do this, it may be worth while to stress a point that is frequently forgotten. It is that credit and monetary action primarily influences decisions with respect to credit spending — and influences only a relatively small margin of these decisions. It is just those marginal decisions, however, that are taken quickly in times of economic change and that have a disproportionate effect on prices. It is not necessary to touch all points in order to contribute to the maintenance of a stable economy. It may well be sufficient for monetary measures to influence only a fringe of 5%, or 10%, or 15% of credit spending decisions to be a very effective stabilizing factor, particularly if that influence is properly timed.

One of the areas where monetary measures can have a marginal influence is in connection with decisions not to spend but to save. It is true that a large part of our saving today is made through contractual arrangements such as by the payment of premiums on life insurance, the regular repayment of mortgage and consumer instalment debt, and the "bond-a-month" savings plans of banks and business enterprises. On this saving, monetary policy has little effect. On other types of individual saving, tighter supply conditions for credit and higher rates of return may stimulate more saving. On the other hand, easier credit conditions and lower rates of return may lead to less saving.

Business saving may also be significantly increased in total when monetary policy becomes restrictive, since some businesses may tighten dividend and profit-withdrawal policies. Companies that have begun an expansion program will tend to retain more of their earnings and to use these funds rather than credit, as money from the capital markets or from banks becomes harder to get and more costly. Stockholders and owners will not have a chance to spend this money themselves; it will be saved for them by their businesses. Thus, while the effect of monetary policy on the total volume of saving is admittedly

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not general, it should not be neglected entirely.

Can monetary and credit action have any significant effect on borrowing? Do restrictive monetary policies, for example, influence any significant number of persons or businesses to postpone or reduce the spending of borrowed money? It probably can be agreed that the decisions of a large bloc of borrowers may be little affected. Consumers, for example, borrow at retail and the retail credit market is not particularly responsive to restrictive monetary policies. We found in the twenties that stock market speculation is likewise insensitive to moderate restraint exercised through traditional monetary measures.

It is in such areas that instruments of selective credit control are called for when over-all economic and financial conditions require restrictions on specific types of credit. The regulation of loan margins against stock market collateral, and of such credit terms as down-payment and maturity requirements in the case of consumer borrowing, has been found to be very effective in regulating the volume of credit extended.

But what about the businessman? His business expectations are certainly affected by changes in monetary policy, if for no other reason than that these changes signal changes in the availability of credit. The fact that the money he needs is harder (or easier) to borrow, and perhaps dearer (or cheaper) is a concrete fact—a change in the business climate. He proceeds more cautiously in his working capital commitments. From the monetary standpoint he uses less credit and does less credit spending.

This is particularly true in the case of commerce, where the cost of carrying inventories is an important element in the total cost of merchandise, and in the public utility industry, where the cost of amortizing a huge plant and equipment is greatly influenced by the rate at which money can be borrowed.

Underwriters of new securities are particularly conscious of the influence of credit and monetary policies on the market for new issues. When credit policies are restrictive, for example, these middlemen between borrowers and lenders encounter difficulties in distributing new issues. They become reluctant to commit themselves on proposed new offerings. They are likely to discourage inquiries about security flotations and cause some issues which may be ready for sale to be withdrawn pending a more favorable market situation. These actions cause postponement of some capital expenditures by businesses and even local governments, which is exactly what is needed when existing demand for goods is pressing on our capacity to produce.

Finally, monetary action has an important influence on lenders themselves. Total lending power of Federal Reserve member banks can, of course, be very closely circumscribed if the Federal Reserve is disposed to take such action. Bankers are aware of this and even moderate credit tightening action is carefully watched and has its impact on the amount of lending banks are willing to do. What happens is that if bankers see restraining monetary measures underway, they tend to cut back the credit lines available to their customers and they may even refuse some marginal credit applications altogether.

All of the effects of restraining monetary action in particular financing areas that I have outlined here, taken together, can add up to important dimensions. If monetary measures are vigorously and appropriately applied they can be positive stabilizing forces, operating to influence the volume of spending and saving and thus to moderate sharp changes in economic activity. To all who prize a high degree of freedom in economic and political life, it is most desirable that this be done without direct government intervention in a single individual decision. Results effected through credit and monetary policy came about through general influences on the market place, where millions of judgments can still be freely made and tested every day. Such results continue to be the composite expression of the individual decisions and wishes of all of us who buy and sell.

Relationship between Monetary Policy and Fiscal and Debt Management Policy

Monetary and credit policy has always been closely related to fiscal and debt management policy, but this relationship has been much closer and more important as a result of the huge expansion of the public debt during World War II. The Treasury has always had such monetary powers as the issuance of currency against silver, the minting of coin, and the ability to make changes in its cash balances with the Federal Reserve System. More recently, however, the magnitude of its public debt operations and the rate of interest paid on refundings have come to have a much more important effect than formerly upon Federal Reserve policies to influence the supply, cost, and availability of money to private as well as public borrowers.

The greater influence of fiscal policy on monetary policy comes about as a result of the responsibility of the Federal Reserve System to maintain orderly conditions in the market for Government securities. At times that responsibility involves some sacrifice of positive influence over the supply of bank credit. During much of the postwar period, for example, the Federal Reserve System purchased a large volume of U. S. Government securities. This action operated to create bank reserves which in turn tended to ease the private credit market at a time when price inflation was occurring. During some of this period, however, the Treasury had the benefit of a budgetary surplus which was used to retire bank-held public debt and thus affect the inflationary impact of Federal Reserve open market operations.

It stands to reason, in the kind of financial situation we have had since World War II, that monetary policy and fiscal and debt management policy must maintain a close liaison. Both monetary policy and fiscal and debt management policy have a primary responsibility to make a maximum contribution to economic stability. Consistency with the objectives of the Employment Act of 1946 means that these respective policies should be coordinated and tailored to the economic situation.

For example, at high levels of employment and production, when inflationary dangers are greatest, fiscal policy should aim to produce a budgetary surplus so that monetary policy may operate freely, if necessary, to restrain excessive credit and monetary expansion. Debt management policy, in these circumstances, needs to play either a neutral role or a role of supporting monetary policy by emphasizing borrowing from nonbank investors.

When economic activity recedes from high levels, another arrangement of policy may be appropriate. Fiscal policy at such times may permit a Government deficit and debt management policy may need to stress financing through the banks. Monetary policy while adapted to discouraging credit contraction and encouraging the expansion of credit, may at that time favor deficit financing through the banks.

Monetary Policy in the Current Situation

On the basis of this broad background of the role of monetary policy in a free economy, what can be said regarding the role such policy can and should play in helping to solve the economic and financial problems that have arisen as a result of the invasion of South Korea? Prior to that invasion, inflationary pressures had already gained considerable momentum as a result largely of heavy peacetime consumer and business buying. This buying was financed by a substantial expansion of credit and by an increased use of our very large supply of currency and bank deposits, as well as by high levels of current income. Following the Government announcement of a larger military program, the tempo of private spending accelerated greatly, credit demands increased substantially, and commodity prices rose sharply. From the end of June to the middle of August, the prices of basic commodities rose 17% and the loans and holdings of corporate and municipal securities at member banks in leading cities alone expanded by $1.7 billions. Inflationary forces have become so strong that the public has clamored for effective action to stop them.

In recognition of the inflationary situation into which the Korean developments have catapulted the country, President Truman on July 18 directed the Federal agencies concerned with real estate credit operations to tighten the terms on which Federally aided credit is available. A day later he requested the Congress to authorize emergency powers to limit the use of essential materials; to regulate consumer, real estate, and commodity trading credit; and to assure adequate financing for defense production and productive facilities. Still later in the month he presented to the Congress a tax program to increase Federal revenues by approximately $5 billions. When this lecture was being written, the Congress was considering in conference the Defense Production Act of 1950. This bill was intended to provide the President not only with the powers he requested, but in addition standby controls over price and wage stabilization and rationing. Legislation to raise taxes was also receiving active consideration by the appropriate Committees of the Congress at that time. Indications are that the added revenue will come mainly from higher levies on personal and corporate incomes.

The two principal means that were advocated for preventing indefinite and cumulative price increases were (1) imposing a comprehensive harness of direct controls, including price and wage fixing and rationing, and (2) undertaking a vigorous credit and fiscal program to limit the total demand for goods. It is outside the scope of my talk today to embark upon a discussion of the problems involved in imposing an inclusive set of direct controls.

It is relevant to note, however, that an adequate mechanism for administering such a set of controls does not now exist. Even if the establishment of an adequate mechanism could be accomplished within a reasonable period of time, I do not believe direct controls are the present answer to our immediate inflation problem. They deal only with effects and not with basic causes. The basic cause of our inflationary problem is continuing rapid credit and monetary expansion, abetted by current Government deficits which threaten to grow larger and larger.

Some people look upon direct controls as a practically painless way of meeting the emergency financial problem. No more serious error could be made. There is no painless way of controlling inflationary pressures. Either we meet them head on and overcome them or we wage a losing rear guard action against them. If the fuel of inflation is provided, all that direct controls can do is to drive the inflationary pressures under ground and to postpone some of their effect.

Therefore, even if direct controls eventually become necessary, broad, basic monetary and fiscal measures will be essential to make them effective. Price and wage fixing and rationing are much more difficult to administer in a protracted period of partial mobilization than they are in a limited period of all-out war effort. Civilian goods will still be available in large amounts but the total demand for such goods will far exceed their supply. The job that direct controls can do, which is to cushion the pressure of military demands on supplies of goods and services and distribute available civilian goods at equitable, administered prices, can only be accomplished if some of the civilian demand is drained off by higher taxation and if new private credit creation is prevented.

It is my belief that the proper method of dealing with our immediate inflationary situation is to adopt a coordinated program of monetary policy, fiscal and debt management policies, and a system of selective priorities and allocations of strategic materials. The cornerstone of our anti-inflation program must be bold fiscal measures including across-the-board increases in personal and corporate income tax rates, selective excise taxes, and taxes on war profits and speculation. Financing the expanded military budget cannot be limited to the taxation of wealthy individuals and business enterprises if it is to be useful as an effective anti-inflationary measure. It must restrict spending, and most spending is done by the vast number of individuals and families with low and middle bracket incomes. In an emergency situation like the present, our tax changes must be designed primarily to meet the danger of inflation.

In addition to higher taxes, the Government should make every attempt in its debt management policies to tap as large a volume of available private investment funds as possible. Concerted efforts should be made to sell non-marketable bonds and tax savings notes to individuals, businesses, and nonbank financial institutions, thus absorbing money that would otherwise be spent on current consumption or on new private investment. Such a program would not only absorb redundant funds but would also make it possible to reduce the volume of Government financing through banks, which is highly inflationary.

Monetary and credit controls to deal with our immediate inflationary situation can and should be broad in scope, restrictive in character, and vigorously administered. They involve, for one thing, the application of effective curbs on consumer and real estate credit. There is no doubt that the recent large increases in consumer and mortgage credit have added fuel to the inflationary fires. Since the end of 1945, consumer credit has been increasing by about $3 billion a year. The increase in May and June of this year was about a billion dollars, the largest on record for those two months. Home mortgages made by all lenders in the first half of 1950 exceeded $6.5 billion. By the end of June, total home mortgage debt outstanding exceeded $40 billion, a new peak and more than double the volume outstanding at the end of the war.

In addition to effective consumer and real estate credit regulations, general measures to curb the availability of credit to other types of borrowers are called for. On August 4 a joint statment was made by the Board of Governors of the Federal Reserve System, the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Home Loan Bank Board, and the National Association of Supervisors of State Banks urging that banks and all other institutions engaged in extending credit exercise special care in their lending and investment activities. Somewhat earlier, the American Bankers Association had issued a similar statement, and, more recently, President Peterson of that Association has further urged bankers to cooperate in restricting nonessential credit. I should like to underscore the importance of your own support of these efforts to encourage voluntary restraint in bank and other lending.

On Aug. 18, the Federal Reserve System took further restraining action in the area of monetary and credit policy. The Board of Governors then approved an increase in the discount rate of the Federal Reserve Bank of New York from 1½ to 1¾%, and within a few days approved a similar increase at other Reserve Banks. Also, on Aug. 18, the Board and the System's Open Market Committee issued a joint statement indicating that both bodies were prepared to use all the means at their command to restrain further expansion of bank credit consistent with the policy of maintaining orderly conditions in the government securities market. On the same day, the Treasury announced that it had temporarily increased the volume of Series "F" and "G" savings bonds available to nonbank financial institutions.

It is to be hoped that all these efforts may prove effective in curbing loans to businesses and individuals which might be used for speculation or other purposes that would have adverse effects on our defense effort. If they are not, monetary policy will need to resort to even more restrictive use of one or more of the general instruments of credit control at its disposal, namely, open market operations, changes in the discount rate, and changes in bank reserve requirements. In case these measures prove inadequate, the Congress might very well need to consider the desirability of authorizing additional powers over bank credit expansion in some form of supplementary reserve requirements. Such powers might include a secondary or special reserve requirement similar to that the Federal Reserve requested in 1947, or some ceiling or dual reserve plan about which I have spoken to this group on previous occasions.

Summary

My remarks today reflect a sincere belief that monetary and credit measures, taken together with appropriate fiscal measures, are invaluable weapons in our economic and financial arsenal for use in the battle to maintain economic stability within the framework of a free enterprise system. This is true not only over the long run when we look forward to normal peacetime activity again, but also in the short run when military and inflationary pressures seem almost overwhelming. Fiscal measures, particularly higher taxes, must be our main line of defense, but monetary and credit action is also necessary to restrict private credit expansion and, moreover, can be applied more promptly to hold the line until fiscal measures take effect. Financial instruments therefore must be among our major weapons against economic instability as long as we value our freedom.

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Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

I've been away from my desk for the past few weeks, though not out of touch with the stock market. Practically every place I stopped at, whether upper New York State or in New Hampshire, either had a stock ticker on the premises or there was a branch office nearby with direct lines to the main offices.

* * *

The main difference between New York boardroom habitues and those in the resorts is the length of the conversations. In New York, I can cut off "inside" information easily. In the resorts one becomes acquainted with people who have nothing to do except to boast of their financial acumen and to quote at length "inside" information that is at once boring and amusing to listen to. If people in high places knew how their names were being bandied about as having told soandso things of vital importance they'd be shocked. Anyway I'm back at my desk and once again taking a look at the market.

* * *

Before I left on my trip, a combination of vacation and lecture tour, I felt the market was headed up, subject to minor diversions. The major picture which led to this opinion hasn't changed. But while I was bullish I felt that any new buying should await periods of reaction for the simple reason that buying on strength seldom gives the buyer any room to move about. That situation still exists.

* * *

In the past few weeks you have seen the industrial averages go up to better than 222, while the rails managed to cross 63 by a large fraction. It is interesting to note that while the rails established themselves at a new high, the industrials still had some distance to go to duplicate that performance. What is perhaps more significant is that the industrials got up to just under a "breakaway level" (about 225) established the latter part of June before backing away. At the same time the rails, though making a new high, leveled off. Such action is always suspect. It brings to the fore suspicions that lack of confirmation may bring about reversals and the cautious trader acts accordingly.

* * *

From the action of the past few days it looks like a setback of some kind is ahead. The major decline should come in the rails mostly because their advance has been the sharpest. Any reaction in the industrials, however, should be limited to about 215. Should the averages go lower, look out for storms.

[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.]

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Elected Director

V. F. Palmer, former Treasurer of the Standard Oil Co. of California, has been elected a director and member of the executive committee of Blair Holdings Corp., it was announced by V. D. Dardi, President.

Mr. Palmer is a director of Southwest Lumber Mills, one of the nation's largest Ponderosa lumber organizations. He is also a director of Western Industries, Inc., recently formed by Blair Holdings Corp. and the Golden State Co., Ltd., for the purpose of investing in the food and food processing industries.

Daniel Beatty Opens

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass.—Daniel Beatty is engaging in a securities business from offices at 26 Allston Street.

Joins Hodgdon Staff

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass.—Harvey L. Keller has joined the staff of Hodgdon & Co., 10 State Street.

Three With E. E. Mathews

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass. — Paul W. Hatch, Jefferis Stetson and Harold E. Winn are now associated with Edward E. Mathews Co., 53 State Street.

J. A. Warner Adds

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass.—William J. Romero has been added to the staff of J. Arthur Warner & Co., Inc., 89 Devonshire Street.

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Chrysler	@ 68¾	Oct. 14	$275.00
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Republic Steel	@ 38⅛	Nov. 28	325.00
Amer. Woolen	@ 34¾	Oct. 16	237.50
Southern Ry.	@ 40¾	Nov. 3	225.00
Montg. Ward	@ 54¾	Nov. 3	237.50
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Continued from first page

Likely Characteristic of Our Defense Economy

capita income substantially less than ours, substantially less than the British, is expending about 13% of her national income on defense. The British have been spending about 7½% of their national income. They have been spending considerably more than any other country of Western Europe. The United States has been spending a little bit less, in relative terms, than the British, a little bit less than 6% of our national income.

But this new period, this period which I call the period of defense economy, will be one in which expenditures on our armed services and on military aid to other countries will exceed 10% of the net national product. They will run somewhere between $25 and $30 billion a year, during most years. There may be a little bulge while we are reequipping our military services, but I suspect that expenditures will settle down to somewhere between $25 and $30 billion, out of a net national product which in 1949 was around $240 billion, and which normally increases around $7½ billion a year.

Record Non-Shooting War Expenditures

Well, I have already made, really, the first point that I was going to make, namely, that government expenditures will be considerably larger than ever before, in the absence of a general shooting war.

These defense expenditures of $25 billion to $30 billion a year will be in the neighborhood of three times as large as the entire outlays of the Federal Government for all purposes immediately prior to World War II. The net increase in the Federal Budget, even assuming substantial curtailment of civilian expenditures, will be $10 billion a year, and a more realistic figure is probably $15 billion a year.

The second characteristic of this defense economy is that the tax rates will be up. Of course, the necessity for raising taxes will be limited by the greater yield of existing taxes. The greater demand for goods will raise incomes, and existing taxes will yield $1½ billion to $2 billion more a year than they have been yielding. But at least $5 billion a year in additional taxes will be levied, and probably close to $10 billion a year.

The Corporate Tax

Fortunately, a large part of the increase in taxes will fall upon corporate income. It will be simply an increase in the general corporate income tax. The desirable feature of a corporate income tax is that it is passed on fairly quickly and does not fall on the corporation. The record of the last 10 or 15 years will convince you, I think quite plainly, how promptly corporations have been willing — have been able — to pass on an increase in the general corporate income tax.

A third characteristic of the defense economy will be that the budget of the Federal government will be in the red by several billions a year. That is a political observation rather than an economic observation. Perhaps I don't have any right to make it, because I am not a political expert. But I do not think that the Congress will be willing to increase taxes sufficiently to keep the budget in balance.

If I may inject an economic observation, it would be a blunder to attempt completely to balance the budget at this time, even though a deficit had appeared. A very high point is something one does not ordinarily desire, but one must take into account the fact that taxes are already quite high, and one must take into account that inflation, moderate inflation, despite all of the things which quite properly may be said against it, is not a bad method of taxation. It makes a lot of people pay taxes whom the politicians are not willing to tax.

Decreasing Debt Burden

A fourth characteristics of the defense economy is that the debt burden of the Federal government will decrease. I don't think that the deficit will be as high as $7½ billion a year. The increase in the net national product, with prices not rising, ought to be in the neighborhood of $7½ billion. With prices rising, it ought to be greater. With the Federal debt increasing substantially less than $7½ billion a year, with the net national product rising by $7½ billion, or more. the burden of the Federal debt will slowly drop.

A fifth characteristic of this defense economy is that the bargaining power of unions will be strong, and wages will rise fairly rapidly, probably by 5% or more a year. It is interesting to note what has happened to wages as measured by hourly earnings in recent years.

I take as representative of all wages the wages in manufacturing. That is not always a safe thing to do, but in this particular period, the wages in manufacturing have gone up about the same rate as all wages. Hourly earnings in manufacturing in the three years 1939 to 1942—that was the period immediately preceding the institution of wage controls in World War II—in that three-year period, hourly earnings in manufacturing rose 35%.

And then came the period of so-called "wage control," from 1942 to 1945, when hourly earnings rose 20%. Then came 1945 to 1947, when hourly earnings in manufacturing rose 21%. And then came 1947 to 1949, when hourly earnings rose a little bit more than 13%.

So, I think the record shows that my suggestion that hourly earnings will rise at least 5%, and probably more, is a conservative one.

Now, of course, output per man hour will increase also. Ordinarily, in a 10-year period, output per man hours will increase around 35%. It did in the 10-year period, 1939 to 1949, for the economy as a whole, and it increased around 35% in the 10 years of the twenties. In the 10 years of the thirties, output per man hour did not do so well. It increased a little more than 20%.

So the rise in hourly earnings is only partly a rise in labor cost, but it does represent some increase in labor cost.

A Rising Price Level

The sixth characteristic of the defense economy will be a rising price level. With a deficit in the budget and with labor costs rising, one doesn't have to be a specialist in economics to see that prices are, as a whole, pretty certain to be moving upward.

It is interesting to look at the record. I'll take wholesale prices, except farm products and foods. During the period, 1939 to 1942, preceding the controls, wholesale prices, outside of farm products and food, rose 17½%, in that three-year period. Then came the period of controls, 1942 to 1945, when wholesale prices rose a little more than 4%. Then came the period 1945 to 1947, when wholesale prices shot up 36%. Then came the last two years during which time wholesale prices have risen 9%.

The rise in the last two years was interrupted only for a brief period beginning about August of 1948 and running until, well, running for about a year. But since the middle of Spring, about three months before the Korean War, the rise of wholesale prices had resumed, and a very substantial rise in wholesale prices had occurred in the two months immediately preceding the outbreak of hostilities in Korea.

The story of the consumer prices is pretty much the same. I will not burden you with the figures which I have before me, but in the ten-year period when wholesale prices doubled, the consumer price index rose 70%.

In this defense economy, profits, corporate profits, I think, will be moderately good. That is a seventh characteristic of the economy. It seems to me conservative to assume that corporations as a whole should make, after taxes, including after an excess profits tax, around four cents per dollar of sales, and perhaps as much as 4½ cents per dollar of sales.

Sales of corporations should run $400 billions a year, or a little better. These sales were $350 billions in 1949, and they were $381 billions in 1948, with allowance for some expansion in fiscal output, and the index of fiscal production is now above the peak of 1948, and when one allows for some rise in the general price level, corporate sales of $400 billions or more a year seems a conservative estimate.

Well, at four cents per dollar, after taxes, that would mean corporate profits of $16 billions, and at 4½, it would mean corporate profits of $18 billions.

You might be interested in the records of recent years as a means of enabling you to test the realism and the reasonableness of my 4 to 4½ cent figure. I have corrected corporate profits, for the improper accounting methods almost universally used by American corporations. They persist, most of them, in counting an increase in the cost of replacing inventories as a profit. Well, obviously, if you are going to count increases in costs as profits, you can make your profit figures look pretty nice, and I am shocked and amazed that high-paid managers of corporations don't know any better than to allow ignorant accountants to mislead them into believing that an increase in the cost of replacing inventories is a profit. It is not a credit to the astuteness of highly-paid business executives.

1949 Profits Exceeded 1948

So I have corrected the corporate profit figures. When you correct them, incidentally, you discover that corporate profits in 1949 were greater than in 1948, and also when you correct them you discover that corporate profits in 1946 and 1947, in particular, were substantially less than the reported profits. But here are the profits, per dollar of sales:

In 1942, 4 cents. In 1943—a period of controls, in the period of the excess profits tax of the second World War—4.2 cents. 1944, 4.3 cents. 1945, 3.8 cents. 1945 was the year when we began to feel the effects of transition from a war to a civilian economy. The worst year in recent years, though the published figures would not indicate it—only the corrected figures will indicate it—was 1946, when most of the transition occurred, and when production was held up by strikes to an unprecedented extent. In 1946, profits per dollar of sales, after taxes, were 3.2 cents. In 1947, 3.9 cents, though the reported profits were substantially larger. 1948, 4.9 cents. In 1949, 5.3 cents, though the reported

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profits for 1949 were somewhat smaller.

I should not expect the 5.3 cent rate to be continued indefinitely, but I think, on the basis of this record, one is justified in assuming that profits per dollar of sales ought to hold above 4 cents, and perhaps maybe as high as 4½ cents.

An eighth characteristic of this defense economy is that individual savings, personal savings, available for investment in industry, will probably be little changed, either upward or downward. Tax increases will cut into the total volume of individual savings to a certain extent. On the other hand, shortages of various kinds will tend to increase the volume of individual savings available for investment in industry.

For example, one of the surprising things of this post-war period has been the high rate of individual savings. A little bit higher proportion of income after taxes has been saved than before the war. As a matter of fact, a little bit higher proportion of income before taxes has been saved than before the war, despite the very great increase in taxes and despite the fact that this great increase in taxes has reduced the absolute volume of savings among the group in the higher brackets.

Nevertheless, for individuals as a whole, the proportion of incomes before taxes, and also the proportion of incomes after taxes, saved, has been a little bit greater than before the war. The explanation of that somewhat surprising fact is very obvious and very simple. People have been buying houses on a very big scale and the money which they spend on buying houses is partly, of course, their personal savings. So, it is the housing boom, more than any other single influence, I think, which has raised the individual saving rate, as compared with pre-war.

Well, shortages will limit the number of dwelling units put up. It may drop a fifth, or a fourth. Furthermore, the expenditures on durable consumer goods will be limited by shortages.

So the effective higher personal income taxes on the quantity of savings available for investment in public utilities and in manufacturing and in railroads and in oil companies, and so on, the limiting effect of taxes will be offset by the effective shortages.

No Great Change

I don't know what the net result will be. It seems one is justified simply in saying that the change, whether up or down, will not be a great change and that the volume of individual savings, of personal savings available for non-house uses, will not be very different from what it has been.

An eighth characteristic of the defense economy is that corporate profits after dividends will be less than during the last two years, but larger than in 1947 or before. Now, in 1948, slightly more than $11 billion of corporate profits was available for reinvestment, after payment of dividends, and in 1949, $11.2 billion of corporate profits were left after the payment of dividends.

I don't think corporate profits before dividends will be quite as large as they were in 1949, during the next several years. Dividends will be a little bit higher; instead of around $11 billion of corporate profits being available for reinvestment, it is my guess that the figure would not be more than around $9 billion. Of course, that is just a very rough kind of a guess.

In 1947, the figure was $7.1 billion. You go back to 1939, and it was only half a billion. In 1940, $2.3 billion. So, $9 billion would be fairly large. I'm not sure that it will be large enough. I will have something to say about that in just a moment.

Expanding Technological Research

A ninth characteristic of this defense economy will be that technological research will continue to expand and will be limited by the shortage of personnel. As you know, a technological research has been expanding quite rapidly. It ought to expand faster than ever, but whether with universal military training that will be possible remains to be seen.

One of the most important decisions to be made, I think, in connection with universal military training, will be how to prevent this training from reducing, in the short run, our capacity to turn out engineers, biologists and bacteriologists, and doctors, chemists, physicists, agronomists, and a great many other types of scientists, whose services will be needed more than ever to help develop substitutes at points where there are shortages, and to help us keep our capacity to produce going rapidly enough to meet the competition of Russia.

The country must not overlook that this is not as narrow a competition as a mere military competition. It is a competition in capacity to produce, and we must not permit universal military training to limit our ability to increase the rate at which our technology improves.

I think as far as craftsmen are concerned, at least most types of craftsmen, as distinguished from professional workers, I think universal military training will probably help us to increase the numbers of most types of craftsmen, machinists, electricians, various types of repair and maintenance men required for the equipment of the Army, the Navy, and the Air Force. The skills of all of those men are of great use in industry as well as in the military services, so that universal military training will help us develop a better-trained labor force, as far as craftsmen are concerned.

The difficult problem is going to be how universal military training can be planned so it will not hold back by one year, for instance, the time that men are ready to practice medicine, or so that it will not hold back by one year the time within which men are ready to go out as trained engineers.

Technological change will be rapid, and probably a little more rapid than ever. That is one of the good things about a high tax. Of course, a high corporate income tax means among other things that the government is financing a very large part of the cost of doing research, since research is a deductible expense under the corporate income tax; and another good feature of a high corporate income tax is that it encourages more rapid replacement of equipment; since a replacement of the old equipment is scrapped, that gives the concern deductible expenses.

Will the volume of investment-seeking funds be adequate? Perhaps it is a little early to undertake an answer to that question, but certainly it is not too early to ask it, and certainly it is not too early to attempt to answer it, to give at least a piecemeal answer, an answer which may be inadequate. I have suggested two things:

One, that the volume of personal savings available for investment in industry will not be greatly changed, up or down. I have suggested that the volume of plowed back earnings in corporations will be down moderately. I think there is real reason to feel concern over the adequacy of the volume of investment-seeking funds.

Curtailment of Dividends

I would expect the shortage of investment-seeking funds to deter a good many corporations from distributing a higher proportion of their profits in the form of dividends. It seems to me that the outlook for further dividend increases regardless of the rate of corporate—the volume of corporate profits—the outlook for dividend increases is not too bright.

Furthermore, it does not seem to me that it would be in the national interest for corporate profits to be made out to the stockholders, rather than plowed back into the business. One of the important things that must be guarded against is preventing this defense economy from having the same effects upon capital formation that the Second World War had. Before the Second World War, in the years 1939, 1940 and 1941, before we became real participants in the Second World War, 8% of the gross national product went into private expenditures on plant and equipment. That does not include any private expenditures on the housing. It does include private expenditures on plant and equipment in agriculture as well as in non-agricultural industries.

In other words, it is the total figure for industry. Eight percent of the gross national product in those three prewar years went into making our plant larger and more modern. Then came the four years, 1942, 1943, 1944 and 1945, the war years, and what happened to capital formation, and capital replacement in the industries? These private expenditures on plant and equipment dropped to 3.8% of the gross national product. In other words, the proportion of our gross national product that we devoted to enlarging and improving our plant, that proportion more than dropped in half.

Now, it would be a calamity in this production contest with Russia if the defense economy were to exhibit the same effect, or to have the same effect, on capital formation that the Second World War had.

Let's look at the post-war period, the four years, 1946, 1947, 1948 and 1949. In that period, we stepped up the proportion of our gross national product that we spent on increasing and improving plant to 13.6%. Now, in the last couple of years, it was not quite so high. In 1949, it was 10.7%, but the average for the four-year period was 13.6%. That's a little high by normal standards.

In 1929, which was not far above normal, perhaps a little bit, 10½% of the gross national product went into private expenditures on plant and equipment. Ten and one-half percent. Well, certainly we should keep spending during this production contest with Russia, I should say, at least 12% of our gross national product, on capital replacement and increase. Well, obviously, we shall not have too large a quantity of investment-seeking funds to do that if personal savings remain about the same and if corporate savings drop a little bit. We could prevent our coming even close to 12% by the wrong kind of excess profits tax. While an excess profits tax is about the worst kind of tax one could normally have, because it penalizes the pursuit of profits, I suppose, nevertheless, in a period of great national calamity it is not good for business to be making a windfall of profits out of the national misfortune, so some kind of excess profits tax—a temporary excess profits tax—is probably good for business, as well as for the rest of the country.

But the points where profits are very large are usually the points where industrial capacity needs most to be expanded. Now, if you think about that for just half a second you will see that that is the way the profit system is supposed to work. High profits are a signal that supplies are not adequate to meet the demand and if the profit system works as it should, capacity will be expanded most rapidly at those very points.

Excess Profits Tax Dangerous

If the excess profits tax is so stiff that the industries which are making very large profits are not able to use a substantial part of those profits to expand their capacity, the excess profits tax can be a very dangerous obstacle to our winning the production race with Russia.

Conclusions

I conclude these observations on this defense economy by pointing out two problems: One is that rising prices will create the problem of seeing that everyone gets his fair share of inflation. I think it is plain that the American people prefer a moderate amount of inflation to the controls that would be necessary to prevent it, and I am quite frank to say that I am one of them. I don't see how you can prevent a moderate amount of inflation without slapping down very complicated controls upon wage fixing, for example.

I don't like to see that attempted. If wages are going to rise faster than output per man hour, a moderate amount of inflation is necessary, but if we are going to have a moderate amount of inflation, I want to be sure that the professors get their share of it.

They didn't, in the last inflation. We were trying to get the Little Steel formula on salaries at Harvard long after Mr. Truman had said everyone ought to have 18-cents an hour; in the Spring of 1946, we didn't have a Little Steel formula and so I want to be sure that the professors and the other white collar workers get their share of inflation, and that we have a fair chance for it, and not an inequitable inflation.

The landlords fared pretty badly—not as badly as the figures indicated, because they cut down on maintenance—but while the consumer price index went up 70%, rents went up 16%. You can't defend singling out the landlords for that type of treatment.

Inflation and the Investor

And the other problem that this inflation which the country evidently prefers as a lesser evil to these other evils, the other problem is an investment problem for the small savings. If you put money in a savings bank, or if you put money in a postal savings deposit, you are making a bet that the price level will not rise. Now, we ought to get pretty good odds to make that kind of bet today. It is not an attractive bet.

If you put money into a government savings bond, you are making the same kind of a bet. I think that an investment counsellor who advises a client to put money in the savings bank or in the postal savings, or into any kind of bonds, whether government or private, he is assuming a very heavy responsibility. His client may have some liabilities which are fixed in dollar terms and when the client is buying bonds or adding to his savings account, or his postal savings account, obviously these traditional outlets for the small savings are not suitable when the prospect is for a rising price level.

Now, what can he do? For many small savers, the best solution of the problem may be to buy a home. But, of course, real estate is not a particularly liquid asset, and if a man is not sure of holding on to his job, if he figures he may have to be moving to another community before many years, buying a home is not a satisfactory solution.

The government would help the small saver if it were to bring out a savings bond payable in a fixed amount of purchasing power, rather than a fixed number of dollars. I do not think it is ethical for the government to approach small savers today and urge them to buy the type of savings bond which the government is today offering. It isn't right. It is taking advantage of the people. I don't think it is anything to be laughed about. I don't think the SEC would permit it, if the SEC had authority.

Another solution for the small saver would be to pick high-quality stocks, but that is fine only for the person who has the time and the background and the training to distinguish between good and medium and poor stocks. The small saver can not ordinarily afford the help of an investment counsellor. Perhaps until the government brings out a suitable savings bond, the best solution for the small saver is to put a large part of his funds into the securities of well-managed investment trusts. Certainly, the prospect that the price level will be a rising one during this defense economy makes it quite pertinent to examine more closely than ever before the suitability of investment trust securities for the small saver.

Now, one can't get away from the fact that the small saver has got to choose. I suppose he can make mistakes in selecting investment trust securities just as he can make mistakes in selecting securities in the retail field, or in the public utility field, or any other field. Is it not fair to say that the investment trust which embodies the principle of diversification diminishes the magnitude of the mistake which the small saver is likely to make in selecting his securities?

Cruttenden Co. Adds

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill.—Harry A. Zeldes is with Cruttenden & Co., 209 South La Salle Street, members of the New York and Midwest Stock Exchanges.

With Robert Showers

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill.—Edward J. Hennessey has joined the staff of Robert Showers, 10 South La Salle Street.

Two With King Merritt

(Special to THE FINANCIAL CHRONICLE)

PORTLAND, Me.—Alphy F. Cyr and Armand A. LeBlanc are now with King Merritt & Co., Inc., Chapman Bldg.

With Mannheimer Co.

(Special to THE FINANCIAL CHRONICLE)

ST. PAUL, Minn.—Louis Klima and Richard P. Egan have become associated with Mannheimer-Egan, Inc., First National Bank Bldg.

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With E. F. Hutton & Co.

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, Calif.—William E. DeWitt, Jr., has become associated with E. F. Hutton & Co., 160 Montgomery Street. He was formerly with Walston, Hoffman & Goodwin and Dean Witter & Co.

Richard S. Morrow

Richard S. Morrow, associated with Blyth & Co., Inc., Philadelphia, was drowned in a heavy surf at Duxbury, Mass., near Boston. Mr. Morrow had been with Blyth & Co., Inc., in New York City before going to the Philadelphia office.

With Paine, Webber Co.

(Special to THE FINANCIAL CHRONICLE)

PASADENA, Calif. — Frank H. Hall is now affiliated with Paine, Webber, Jackson & Curtis, 50 North Garfield Avenue.

Joins Pledger Staff

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—Albert J. Rubenstein has joined the staff of Pledger & Co., Inc., 210 West Seventh Street, members of the Los Angeles Stock Exchange.

With McNear & Willard

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, Calif.—Charles F. Kirchen is now connected with McNear & Willard, Russ Building, members of the San Francisco Stock Exchange.

With King Merritt Co.

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, Calif.—Quentin W. Babcock has been added to the staff of King Merritt & Co., Inc., Russ Building.

With Paul C. Rudolph

(Special to THE FINANCIAL CHRONICLE)

SAN JOSE, Calif. — Don R. Davis and Charles H. Gorrill are with Paul C. Rudolph & Co., 40-D South First Street.

With Robert Bowers

(Special to THE FINANCIAL CHRONICLE)

DENVER, Colo. — Harold O. Wales has joined the staff of Robert D. Bowers & Co., Cooper Building.

Joins Mitchum, Tully

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—Paul J. Finney is now connected with Mitchum, Tully & Co., 650 South Spring Street.

Allan Blair Officers

CHICAGO, Ill. — Clifford A. Gueutal has been appointed Vice-President and Secretary and Henry E. Reichart Vice-President of Allan Blair & Company, 39 South La Salle Street.

With Raffensperger Co.

(Special to THE FINANCIAL CHRONICLE)

INDIANAPOLIS, Ind. — Robert J. Myers is now with Raffensperger, Hughes & Co., Inc., 20 North Meridian Street, members of the Midwest Stock Exchange.

Mordecai Cohen Opens

BROOKLYN, N. Y. — Mordecai Cohen will engage in a securities business from offices at 16 Court Street.

Benjamin Grody

Benjamin Grody, of Stanley Pelz & Co., New York City, died on Aug. 27.

With State Bond & Mfg.

(Special to THE FINANCIAL CHRONICLE)

NEW ULM, Minn. — William Krell, Jr., has joined the staff of State Board & Mortgage Co., 26½ North Minnesota Street.

Continued from page 5

The State of Trade and Industry

the coal strike. The drop represents production loss of about 190,000 tons.

Military and related steel requirements will take only a small proportion of total steel output over remainder of the year. Defense officials forecast military needs in fiscal 1950-51 will run to no more than 4,000,000 tons, about 4% of the nation's 100,000,000-ton production potential. Peak consumption year of World War II in 1943 saw 22.8 million tons or 33% of total steel production going into direct war uses. Steel buyers, nevertheless, anticipate acute supply shortages in the various products since military demands will adversely affect supplies and production of certain important products for the general market, says "Steel" magazine.

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 97.1% of capacity for the week beginning Aug. 28, 1950, compared to 90.6% a week ago, or a rise of 6.5 points.

This week's operating rate is equivalent to 1,872,800 tons of steel ingots and castings for the entire industry, compared to 1,747,-400 tons a week ago. A month ago, based on new capacity, the rate was 99.5% and production amounted to 1,919,600 tons; a year ago based on the smaller capacity then prevailing, it stood at 86.3% and 1,591,000 tons.

An increase of $10,893,341 income tax collections for July to $2,263,499,437 represents the first full month's collections since the Korean War started June 25, 1950. Corporation and individual income taxes dropped to $1,330,056,665 last month from $1,488,-894,111 in July, 1949. Excise taxes increased in July by $1,517,148 to $29,765,373, reflecting increased buying of luxury items because the Korean War has eliminated any early revision of World War II retail excise taxes.

Auto Output Declined Last Week

According to "Ward's Automotive Reports" the past week, motor vehicle production in the United States and Canada of 180,540 units compared with the previous week's total of 190,879 (revised) units and 149,469 units a year ago.

Total output for the current week was made up of 141,142 cars and 31,304 trucks built in the United States and a total of 5,867 cars and 2,227 trucks built in Canada.

August should be the industry's second highest month, with an estimated 660,000 cars and 140,000 trucks assembled in United States plants, Ward's said. The record high was 720,197 cars and 135,731 trucks in June.

Last Monday the United Auto Workers won a five-year contract including a wage rise from Packard Motor Car Co. and a pay increase from Briggs Manufacturing Co.

From Packard the union obtained for its members a four-cents-an-hour immediate wage hike and additional four-cents-an-hour increases at the end of each year of the contract. They would also get on Sept. 1 the same five-cents-an-hour cost-of-living wage increase that will go to General Motors workers on that date.

The Chrysler Corp. announced it was giving its hourly-rated workers a 10-cent wage increase, with a further boost of five cents to approximately 7,000 skilled workers in the tool, die and maintenance departments.

The National City Bank is the eighth major New York City bank to raise the rate on call loans secured by Stock Exchange collateral from 1½ to 1¾% following the lead of the Federal Bank's increase of the rediscount rate to 1¾% from 1½%. The other New York banks which have increased their money rates include: Chase National, Bankers Trust, Guaranty Trust, J. P. Morgan & Co. Inc., Chemical Bank & Trust, Central Hanover Bank & Trust and the First National Bank. Other city banks are likely to follow suit. By stiffening the loaning rates it is hoped to check credit inflation.

The Commodity Credit Corporation reports that it had $3,538,-125,000 tied up in farm price support operations on June 30, or $259,000,000 less than a month earlier. The corporation had a loss of $249,000,000 in disposing of farm surpluses during the fiscal 1950 year compared with $254,000,000 in the fiscal 1949 year. As of June 30, 1950, three-fourths of the surplus fund was invested in three commodities, viz.: corn, $1,064,000,000; wheat, $825,000,000 and cotton $701,000,000.

Weekly Carloadings Highest Since November, 1948

Loadings of revenue freight for the week ended Aug. 19, 1950, totaled 851,025 cars, according to the Association of American Railroads, an increase of 14,600 cars over the preceding week.

The week's total represented an increase of 119,810 cars, or 16.4% above the corresponding week in 1949, but a decrease of 49,638 cars, or 5.5% below the comparable period in 1948.

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. 26, was estimated at 6,345,503,000 kwh., according to the Edison Electric Institute.

It was 24,327,000 kwh. lower than the figure reported for the previous week, 822,187,000 kwh., or 14.9% above the total output for the week ended Aug. 27, 1949, and 867,762,000 kwh. in excess of the output reported for the corresponding period two years ago.

Wholesale Food Price Index Scores Moderate Advance

After holding unchanged for three weeks, the wholesale food price index, compiled by Dun & Bradstreet, Inc., advanced three cents last week to stand at $6.56 as of Aug. 22. This compares with $5.83 on the corresponding date a year ago, or an increase of 11.9%. The current level represents a new high since Sept. 28, 1948, when the index registered $6.70.

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

Weekly Business Failures Continue Downward

Commercial and industrial failures declined to 176 in the week ended Aug. 24 from 186 in the preceding week, reported Dun & Bradstreet, Inc. While casualties remained at the same level as in 1949 and were considerably more numerous than in the comparable week of 1948 when 96 occurred, they were 33% below the prewar total of 264 in the similar week of 1939. Failures involving liabilities of $5,000 or more decreased to 128 from 136 and compared with 149 of this size a year ago.

The week's decline was concentrated in manufacturing and trade; manufacturing casualties dipped 6 to 35, wholesaling 2 to 16, and retailing 8 to 87. Construction failures remained at 23 and commercial service rose 6 to 15. Both of the latter lines had more casualties than a year ago, while the three other groups reported fewer failures than in 1949.

In the Middle Atlantic States, the East South Central and West South Central, failures declined during the week. Failures in the Pacific States were down to 42 from 48, in the East North Central to 26 from 32, in New England to 10 from 17, and in the South Atlantic to 9 from 16. A decline from 1949 appeared in five of the nine regions, amounting to less than eight in any area. Increases were reported in the Middle Atlantic, East North Central, East South Central and Mountain States. The rise from last year was sharp only in the Middle Atlantic Region, which reported 70 as against 51 last week and 52 last year.

Record 17 Month Business Failure Decline

Business failures continued to decline in July, dropping 4% to 694, the lowest number reported in 17 months, Dun & Bradstreet reports. The number of failures remained less than in prewar years, however, with only three-fifths as many businesses failing as in the comparable month of 1939.

The casualty rate, as indicated by Dun's Failure Index rose to 33.5 failures per 10,000 concerns in operation. In July, 1949, the annual failure rate was 34.6 and in June, 1950, the index was at 31.5.

Liabilities increased slightly in July to $19,538,000. Although this liability total was exceeded in July, 1947, and July, 1949, it was larger than in any prewar July since 1935.

Most of the failures in July represented concerns which began operations in the past five years.

Weekly Wholesale Commodity Price Index Slightly Higher

The daily wholesale commodity price index, compiled by Dun & Bradstreet, advanced moderately this week to close at 281.34 on Aug. 22. This compared with 278.80 a week earlier, and with 238.54 on the corresponding date a year ago.

Grain prices showed little net change for the week. Sales volume on the Chicago Board of Trade totaled 167,478,000 bushels last week, or a daily average of 28,000,000 bushels, as compared with 34,200,000 the preceding week and 35,000,000 in the same week last year. Cash **wheat** was quite steady with demand from mills and elevators limited to the availability of their storage space. Country movement of **corn** was fairly large with holders offering more freely.

The domestic **flour** market continued a routine affair, except for fair amounts bought by several leading baking interests. **Cocoa** prices moved lower as a result of liquidation prompted by lagging demand and more favorable war news. **Coffee** developed a firmer tone with active trade buying lifting prices to new high ground for the season. Demand for refined and raw **sugar** continued good at steady to firmer prices.

Trading in **lard** was not as active as in recent weeks. Lard prices at mid-week went to the highest levels since December, 1948, reflecting an advance in hog values and a substantial drop in stocks of lard during the first half of August. As a result of sharply curtailed receipts, prices for **beef steers** turned upward at the close, reversing a downward trend of three weeks. With **fresh pork** meats showing further strength, prices for **live hogs** scored substantial advances this week. **Sheep** and **lamb** prices developed a stronger one, aided by increased shipper demand from the East.

The **cotton** market strengthened as the week progressed, closing about 30 points higher than a week ago. Supporting influences included increased mill and commission house buying, less favorable crop news and a tightening supply situation. Reported sales in the ten spot markets last week totaled 337,100 bales, as against 354,900 the previous week and 95,800 in the corresponding week a year ago. Sales of 1948 pooled cotton and repossessions of 1949-loan cotton were reported as continuing at a good rate. Domestic mill consumption of cotton, according to the Bureau of the Census, totaled 8,870,000 during the 1949-1950 season, as compared with 7,795,000 bales consumed during the previous season, and 9,354,000 two years ago.

Consumer Sales Dip

Summarizing trade volume for last week, Dun & Bradstreet stated: Despite the prevalence of favorable shopping weather over many parts of the nation, consumer purchasing in the week ended this Wednesday dipped slightly from its former high level. Aggregate retail dollar volume continued to be moderately above the level for the corresponding week a year ago.

Last week's increased interest in apparel continued into this week.

There was a slight drop in the buying of food in many of the nation's stores this week.

The sales volume of house-furnishings generally decreased this week, partially reflecting the over-selling of the past few weeks.

Total retail dollar volume in the week ended last Wednesday was estimated to be from 5% to 9% above a year ago. **Regional estimates varied from last year's level by these percentages: New England, Midwest and Northwest +4 to +8; East, South and Pacific Coast +5 to +9; and Southwest +7 to +11.**

According to the Federal Reserve Board's index, department store sales in New York City for the weekly period to Aug. 19, 1950, advanced 7% from the like period of last year. In the preceding week a rise of 29% was registered from the similar week of 1949. For the four weeks ended Aug. 19, 1950, an increase of 22% was noted and for the year to date volume showed a decrease of 1%.

Department store sales on a country-wide basis, as taken from the Federal Reserve Board's index for the week ended Aug. 19, 1950, rose 12% from the like period of last year. An increase of 25% (revised) was recorded in the previous week from that of a year ago. For the four weeks ended Aug. 19, 1950, sales showed a rise of 26% from the corresponding period a year ago and for the year to date registered an advance of 4%.

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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:

	Date	Latest Week	Previous Week	Month Ago	Year Ago
AMERICAN IRON AND STEEL INSTITUTE:					
Indicated steel operations (percent of capacity)	Sept. 3	97.1	90.6	99.5	86.3
Equivalent to—					
Steel ingots and castings (net tons)	Sept. 3	1,872,800	1,747,000	1,919,600	1,591,000
AMERICAN PETROLEUM INSTITUTE:					
Crude oil and condensate output — daily average (bbls. of 42 gallons each)	Aug. 19	5,707,580	5,674,750	5,537,500	4,774,650
Crude runs to stills — daily average (bbls.)	Aug. 19	¶6,099,000	6,044,000	5,757,000	5,241,000
Gasoline output (bbls.)	Aug. 19	21,319,000	20,305,000	19,754,000	18,195,000
Kerosene output (bbls.)	Aug. 19	2,265,000	2,121,000	1,848,000	1,634,000
Gas, oil, and distillate fuel oil output (bbls.)	Aug. 19	7,380,000	7,687,000	7,166,000	6,042,000
Residual fuel oil output (bbls.)	Aug. 19	8,311,000	7,787,000	8,056,000	7,496,000
Stocks at refineries, at bulk terminals, in transit and in pipe lines—					
Finished and unfinished gasoline (bbls.) at	Aug. 19	108,274,000	106,518,000	108,915,000	107,612,000
Kerosene (bbls.) at	Aug. 19	24,413,000	23,628,000	22,766,000	25,822,000
Gas, oil, and distillate fuel oil (bbls.) at	Aug. 19	65,107,000	63,053,000	59,434,000	75,312,000
Residual fuel oil (bbls.) at	Aug. 19	42,008,000	41,810,000	42,424,000	68,157,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	Aug. 19	851,025	847,465	829,884	731,215
Revenue freight received from connections (number of cars)	Aug. 19	705,661	704,085	662,416	569,694
CIVIL ENGINEERING CONSTRUCTION — ENGINEERING NEWS-RECORD:					
Total U. S. construction	Aug. 24	$198,771,000	$250,145,000	$252,489,000	$147,684,000
Private construction	Aug. 24	106,138,000	169,697,000	120,259,000	79,788,000
Public construction	Aug. 24	92,633,000	80,448,000	132,230,000	67,896,000
State and municipal	Aug. 24	87,879,000	77,655,000	122,756,000	48,024,000
Federal	Aug. 24	4,754,000	2,793,000	9,474,000	19,872,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	Aug. 19	11,235,000	*10,875,000	11,240,000	7,524,000
Pennsylvania anthracite (tons)	Aug. 19	961,000	962,000	855,000	795,000
Beehive coke (tons)	Aug. 19	142,500	147,000	138,300	9,200
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100	Aug. 19	282	*273	303	252
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	Aug. 26	6,345,503	6,369,830	6,190,098	5,523,316
FAILURES (COMMERCIAL AND INDUSTRIAL) — DUN & BRADSTREET INC.	Aug. 24	176	186	160	176
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	Aug. 22	3.837c	3.837c	3.837c	3.705c
Pig iron (per gross ton)	Aug. 22	$46.61	$46.61	$46.38	$45.91
Scrap steel (per gross ton)	Aug. 22	$41.58	$40.25	$36.83	$21.92
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	Aug. 23	22.300c	22.200c	22.200c	17.325c
Export refinery at	Aug. 23	22.425c	22.425c	22.425c	17.550c
Straits tin (New York) at	Aug. 23	103.000c	107.000c	93.000c	103.000c
Lead (New York) at	Aug. 23	14.000c	13.000c	12.000c	15.125c
Lead (St. Louis) at	Aug. 23	13.800c	12.800c	11.800c	14.925c
Zinc (East St. Louis) at	Aug. 23	15.000c	15.000c	15.000c	10.000c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Government Bonds	Aug. 29	102.10	102.37	102.14	103.73
Average corporate	Aug. 29	116.22	116.02	115.43	114.85
Aaa	Aug. 29	120.84	120.84	120.22	120.84
Aa	Aug. 29	119.61	119.61	119.00	119.00
A	Aug. 29	115.63	115.63	114.85	114.08
Baa	Aug. 29	109.24	108.88	107.98	106.21
Railroad Group	Aug. 29	111.81	111.62	110.70	109.60
Public Utilities Group	Aug. 29	116.80	117.00	116.41	115.82
Industrials Group	Aug. 29	120.02	119.82	119.00	119.41
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Government Bonds	Aug. 29	2.34	2.32	2.34	2.23
Average corporate	Aug. 29	2.84	2.85	2.88	2.91
Aaa	Aug. 29	2.61	2.61	2.64	2.61
Aa	Aug. 29	2.67	2.67	2.70	2.70
A	Aug. 29	2.87	2.87	2.91	2.95
Baa	Aug. 29	3.21	3.23	3.28	3.38
Railroad Group	Aug. 29	3.07	3.08	3.13	3.19
Public Utilities Group	Aug. 29	2.81	2.80	2.83	2.86
Industrials Group	Aug. 29	2.65	2.66	2.70	2.68
MOODY'S COMMODITY INDEX	Aug. 29	473.5	463.0	449.2	339.6
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	Aug. 19	265,558	237,995	227,940	186,039
Production (tons)	Aug. 19	229,349	224,414	213,031	188,028
Percentage of activity	Aug. 19	101	99	95	87
Unfilled orders (tons) at	Aug. 19	679,065	646,656	501,212	310,125
OIL, PAINT AND DRUG REPORTER PRICE INDEX—1926-36 AVERAGE=100	Aug. 25	131.1	*129.3	125.1	132.9
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. 12	30,715	28,880	43,206	19,296
Number of shares—Customers' total sales	Aug. 12	923,969	864,172	1,255,795	567,437
Dollar value	Aug. 12	$41,459,142	$36,852,830	$54,157,514	$21,453,998
Odd-lot purchases by dealers (customers' sales)—					
Number of orders—Customers' total sales	Aug. 12	27,918	25,366	36,140	19,279
Customers' short sales	Aug. 12	269	191	411	198
Customers' other sales	Aug. 12	27,649	25,175	35,729	19,081
Number of shares—Customers' total sales	Aug. 12	801,513	727,097	1,095,740	544,392
Customers' short sales	Aug. 12	9,653	7,395	16,836	7,537
Customers' other sales	Aug. 12	791,860	719,702	1,078,904	536,855
Dollar value	Aug. 12	$31,198,271	$27,193,488	$42,832,672	$17,485,755
Round-lot sales by dealers—					
Number of shares—Total sales	Aug. 12	237,540	201,610	279,460	191,590
Short sales	Aug. 12	------	------	------	------
Other sales	Aug. 12	237,540	201,610	279,460	191,590
Round-lot purchases by dealers—					
Number of shares	Aug. 12	345,750	341,650	455,910	206,550
WHOLESALE PRICES NEW SERIES — U. S. DEPT. OF LABOR—1926=100:					
All commodities	Aug. 22	166.1	*164.9	163.7	152.7
Farm products	Aug. 22	176.4	175.4	177.0	160.6
Grains	Aug. 22	165.5	167.4	175.0	149.1
Livestock	Aug. 22	245.2	239.1	241.0	203.4
Foods	Aug. 22	174.4	174.2	173.8	160.4
Meats	Aug. 22	259.3	255.1	259.4	224.8
All commodities other than farm and foods	Aug. 22	155.3	*154.1	151.7	145.0
Textile products	Aug. 22	149.6	*147.6	140.7	138.6
Fuel and lighting materials	Aug. 22	134.3	134.0	133.8	129.6
Metals and metal products	Aug. 22	174.9	174.2	173.5	168.2
Building materials	Aug. 22	215.2	214.3	207.3	187.6
Chemicals and allied products	Aug. 22	121.6	121.7	118.6	120.8

*Revised figure. ¶Includes 507,000 barrels of foreign crude runs.

	Month Latest	Month Previous	Ago Year
BANKERS DOLLAR ACCEPTANCES OUTSTANDING — FEDERAL RESERVE BANK OF NEW YORK—As of July 31:			
Imports	$210,624,000	$170,467,000	$116,656,000
Exports	80,160,000	66,486,000	44,179,000
Domestic shipments	11,788,000	10,658,000	9,650,000
Domestic warehouse credits	9,811,000	10,472,000	9,289,000
Dollar exchange	500,000	638,000	456,000
Based on goods stored and shipped between foreign countries	22,065,000	20,721,000	13,429,000
Total	$334,948,000	$279,442,000	$193,659,000
BUILDING CONSTRUCTION—U. S. DEPT. OF LABOR—Month of July (in millions):			
Total new construction	$2,653	*$2,500	$2,119
Private construction	1,960	*1,846	1,481
Residential building (nonfarm)	1,215	*1,134	757
New dwelling units	1,110	*1,030	659
Additions and alterations	90	*90	81
Nonhousekeeping	15	14	17
Nonresidential building (nonfarm)	325	306	273
Industrial	83	78	72
Commercial	118	110	93
Warehouses, office and loft building	32	28	26
Stores, restaurants and garages	86	82	67
Other nonresidential buildings	124	118	108
Religious	35	33	31
Educational	24	23	23
Hospital and institutional	30	30	17
Social and recreational	23	21	24
Remaining types	12	11	13
Farm construction	113	108	138
Public utilities	296	285	305
Railroad	29	28	33
Telephone and telegraph	45	42	43
Other public utilities	222	215	229
All other private	11	13	8
Public construction	693	*654	638
Residential building	30	*28	32
Nonresidential building (other than military or naval facilities)	198	*193	176
Industrial	16	*16	12
Educational	95	*92	83
Hospital and institutional	45	44	44
All other nonresidential	42	*41	37
Military and naval facilities	12	*10	12
Highways	275	*250	256
Sewer and water	54	*53	54
Miscellaneous public service enterprises	20	17	22
Conservation and development	96	*94	78
All other public	8	9	8
BUILDING PERMIT VALUATION — DUN & BRADSTREET, INC.—215 CITIES—Month of July:			
New England	$31,662,778	$22,506,004	$13,207,159
Middle Atlantic	87,269,536	140,734,615	54,302,982
South Atlantic	44,119,420	51,648,183	34,741,205
East Central	118,101,739	133,475,938	66,580,063
South Central	99,571,771	83,527,519	57,816,490
West Central	47,404,159	39,556,473	25,681,059
Mountain	13,793,625	15,949,526	11,383,426
Pacific	83,655,330	80,624,846	51,523,780
Total United States	$525,578,358	$568,023,104	$315,236,164
New York City	37,123,541	102,562,255	26,941,739
Outside of New York City	488,454,817	465,460,849	288,294,425
BUSINESS FAILURES—DUN & BRADSTREET, INC.—Month of July:			
Manufacturing number	151	167	188
Wholesale number	73	67	77
Retail number	343	363	344
Construction number	65	61	61
Commercial service number	62	67	49
Total number	694	725	719
Manufacturing liabilities	$8,533,000	$7,244,000	$10,183,000
Wholesale liabilities	2,640,000	2,569,000	2,754,000
Retail liabilities	5,251,000	5,154,000	5,629,000
Construction liabilities	1,619,000	1,533,000	1,845,000
Commercial service liabilities	1,495,000	1,572,000	1,393,000
Total liabilities	$19,538,000	$18,072,000	$21,804,000
CONSUMER PURCHASES OF COMMODITIES—DUN & BRADSTREET, INC. (1935-1939=100)—Month of July	366.7	*328.8	296.2
DEPARTMENT STORE SALES—SECOND FEDERAL RESERVE DISTRICT, FEDERAL RESERVE BANK OF N. Y. — 1935-1939 AVERAGE=100—Month of July:			
Sales (average monthly), unadjusted	188	234	*155
Sales (average daily), unadjusted	192	230	*159
Sales (average daily), seasonally adjusted	274	242	*227
Stocks, unadjusted	194	209	*192
Stocks, seasonally adjusted	218	222	*216
EMPLOYMENT AND PAYROLLS—U. S. DEPT. OF LABOR—REVISED SERIES—Month of June:			
All manufacturing (production workers)	12,072,000	*11,840,000	11,335,000
Durable goods	6,598,000	*6,452,000	6,021,000
Nondurable goods	5,474,000	*5,388,000	5,314,000
Employment indexes—			
All manufacturing	147.4	144.5	138.4
Payroll indexes—			
All manufacturing	362.2	*348.8	315.7
Estimated number of employees in manufacturing industries—			
All manufacturing	14,681,000	*14,421,000	13,884,000
Durable goods	7,971,000	*7,813,000	7,392,000
Nondurable goods	6,710,000	*6,608,000	6,492,000
FABRICATED STRUCTURAL STEEL (AMERICAN INSTITUTE OF STEEL CONSTRUCTION—Month of July:			
Contracts closed (tonnage)—estimated	265,771	*266,612	126,255
Shipments (tonnage)—estimated	132,367	*172,096	147,960
HOUSEHOLD WASHERS AND IRONERS — STANDARD SIZE (AMERICAN HOME LAUNDRY MANUFACTURERS' ASSOCIATION)—Month of July:			
Factory sales of washers (units)	282,261	325,217	200,900
Factory sales of ironers (units)	25,100	27,100	17,700
Factory sales of dryers (units)	23,588	20,568	2,775
INTERSTATE COMMERCE COMMISSION—			
Index of Railway Employment at middle of July (1935-39 average = 100)	119.5	119.8	116.0

*Revised.

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Securities Now in Registration

• INDICATES ADDITIONS SINCE PREVIOUS ISSUE

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-Marietta Co., Chicago, Ill.**
Aug. 25 (letter of notification) 6,000 shares of common stock (par $2), to be sold to underwriter at $16 per share. **Price**—At market. **Underwriter**—H. M. Byllesby & Co., Chicago, Ill. **Proceeds**—To Grover Hermann, President of company, the selling stockholder.

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
Aug. 4 filed 334,934 shares of common stock (no par), of which 304,486 shares are offered to common stockholders of record Aug. 24 on basis of one new share for each 10 shares held (with an over-subscription privilege); rights to expire Sept. 14. **Price**—$22 per share. **Underwriter**—None. **Proceeds**—To increase investments in stock of Michigan Consolidated Gas Co. and Milwaukee Gas Light Co. Statement effective Aug. 24.

American Oil Producers, Inc. (9/5-6)
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.

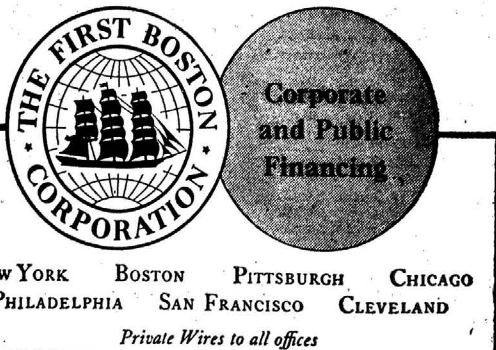
Arkansas Power & Light Co.
May 23 filed 155,000 shares of cumulative preferred stock (par $100). **Proceeds**—To be applitd to (a) redemption on Aug. 1, 1950, at $110 per share plus dividend accruals, of all the 47,609 shares of outstanding $7 preferred and 45,891 shares of outstanding $6 preferred; and (b) the carrying forward of the company's construction program. **Bids**—Received by company up to noon (EDT) on June 19, but rejected. Only one bid was made of $100.003 per share, with a $4.95 dividend from Lehman Brothers, Equitable Securities Corp. and White, Weld & Co. (jointly). Statement effective June 12. No further decision reached.

Associated Natural Gas Co., Tulsa, Okla.
March 14 (letter of notification) 2,500 shares of common stock at $100 per share. No underwriter. Proceeds to build a natural gas transmission line. **Office**—105 N. Boulder, Tulsa, Okla.

Avco Manufacturing Corp., N. Y. City
July 14 filed 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 Sept. 15. **Dealer-Managers**—Emanuel, Deetjen & Co. and Lehman Brothers. Statement effective Aug. 8.

• **Bank Building & Equipment Corp. of America.**
Aug. 28 (letter of notification) 1,000 shares of common stock (par $3). **Price**—To net company $8 per share. **Underwriter**—Scherck, Richter Co., St. Louis, Mo. **Proceeds**—For corporate purposes. **Office**—9th and Sidney Streets, St. Louis 4, Mo.

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. Dardi, 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.

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.

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. (9/19)
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); First Boston Corp. and Coffin & Burr, Inc. (jointly); Harriman Ripley & Co., Inc. **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.
Aug. 2 filed 94,035 shares of common stock (par $10) being offered to common stockholders of Central Electric & Gas Co., the parent, of record Aug. 11, at the rate of one new share for each 13 shares of Central Electric common stock held, with an overscription privilege; rights expire Sept. 20. **Price**—$10 per share. If any balance is publicly offered terms will 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. Statement effective Aug. 22.

• **Chase Candy Co., St. Louis, Mo.**
Aug. 28 filed 147,861 shares of common stock (par $1) to be offered first to common stockholders other than F. S. Yantis & Co., Inc., on the basis of one share for each two shares held. Unsubscribed shares to be publicly offered. **Price**—To be filed by amendment. **Underwriter**—F. S. Yantis & Co., Inc., Chicago, Ill., who had in June, 1949, purchased 200,000 shares at $2.50 per share. **Proceeds**—To selling stockholder.

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. **Bids**—Expected to be opened at noon (EDT) on Sept. 19 at company's offices, Room 710, 75 Public Square, Cleveland, Ohio.

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) 2,885 shares of common stock. **Price**—$25 per share. **Underwriter**—Cohu & Co., New York. **Proceeds**—To selling stockholders.

• **Consolidated Engineering Corp., Pasadena, California**
Aug. 23 (letter of notification) 1,000 shares of common stock (par $1) to be issued to three persons upon exercise of stock options. **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.

• **Copper Canyon Mining Co., N. Y. (9/5)**
Aug. 25 (letter of notification) 500,000 shares of capital stock (par 10 cents). **Price**—15 cents per share. **Underwriter**—None. **Proceeds**—To increase capacity and for new equipment and working capital. **Office**—25 Broad St., New York 4, N. Y.

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. Statement effective Aug. 22.

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.

• **Daily Compass Publishing Corp., N. Y. City**
Aug. 21 (letter of notification) 30,000 shares of class C non-voting common stock. **Price**—At par ($10 per share). **Underwriter**—None. **Proceeds**—For promotional and developmental activities and for working capital. **Office**—164 Duane St., New York 13, N. Y.

• **Delaware Power & Light Co. (9/26)**
Aug. 29 filed $12,000,000 of first mortgage and collateral trust bonds due Sept. 1, 1980. **Underwriter**—To be determined by competitive bidding. 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. **Proceeds**—For construction program.

Detroit Hardware Manufacturing Co.
Aug. 4 (letter of notification) 100,000 shares of common stock (par $1). **Price**—$3 per share. **Underwriter**—C. G. McDonald & Co., Detroit. **Proceeds**—To expand facilities and for working capital. **Office**—1320 Mt. Elliott Avenue, Detroit, Mich.

• **Dow Chemical Co. (9/6-7)**
Aug. 24 filed 45,000 shares of common stock (par $15). **Price**—To be filed by amendment. **Underwriter**—Smith, Barney & Co., New York. **Proceeds**—To the estate of the late Ruth D. Doan.

Duquesne Light Co., Pittsburgh, Pa. (9/12)
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. **Proceeds**—To finance construction program and to repay bank loans.

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.

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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.

General Plywood Corp., Louisville, Ky.
July 17 (letter of notification) 101,500 shares of common stock (par 50 cents). **Price**—$2.11 per share. **Underwriter**—None. **Proceeds**—For working capital. **Office**—334 East Broadway, Louisville, Ky.

General Radiant Heater Co., Inc.
May 3 filed 170,000 shares of common stock (par 25¢) **Price**—$3 per share. **Proceeds**—For plant and warehouse, advertising research, working capital, etc. Temporarily postponed. Amendment may be filed.

General Shoe Corp., Nashville, Tenn.
June 30 filed a maximum of 32,885 shares of common stock (par $1) to be offered on a share-for-share basis in exchange for outstanding preferred stock of W. L Douglas Shoe Co. No underwriter. 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., Oklahama 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. Statement effective Aug. 22.

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.

● **Hammond Instrument Co., Chicago**
Aug. 24 (letter of notification) 2,500 shares of common stock (par $1). **Price**—$24 per share. **Underwriter**—Paul H. Davis & Co., Chicago, Ill. **Proceeds**—To selling stockholder.

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.

● **Horton-Wilbert Vault, Inc., Conneaut, Ohio**
Aug. 24 (letter of notification) 500 shares of 7% cumulative preferred stock. **Price**—At par ($100 per share). **Underwriter**—None. **Proceeds**—To construct factory. **Office**—316 Chestnut Street, Conneaut, Ohio.

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 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.

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.

● **Kerk Guild, Inc., Whitesboro, N. Y.**
Aug. 25 (letter of notification) 9,000 shares of common stock. **Price**—At par ($1 per share). **Underwriter**—None. **Proceeds**—To reduce certain current obligations. **Office**—30-40 Main St., Whitesboro, N. Y.

● **Kirk Uranium Corp., Denver, Colo.**
Aug. 24 (letter of notification) 200,000 shares of common stock. **Price**—10 cents per share. **Underwriter**—None. **Proceeds**—For mining properties and development. **Office**—405 Interstate Trust Bldg., Denver, Colo.

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.

NEW ISSUE CALENDAR

September 1, 1950

Alberta-Canada Oils, Inc.	Common
Allen Organ Co.	Pfd. & Com.

September 5, 1950

American Oil Producers, Inc.	Common
Copper Canyon Mining Co.	Common

September 6, 1950

Dow Chemical Co.	Common
Northwestern Public Service Co.	Common
Tobin Packing Co., Inc.	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 19, 1950

Central Maine Power Co.	Common
Cleveland Electric Illuminating Co. noon (EDT)	Bonds
New Hampshire Electric Co.	Bonds

September 26, 1950

Delaware Power & Light Co.	Bonds

September 12, 1950

Duquesne Light Co.	Preferred
Pennsylvania RR. noon (EDT)	Equip. Trust Ctfs.
Virginia Electric & Power Co. 11:30 a.m. (EDT)	Bonds

September 27, 1950

New Bedford Gas & Edison Light Co.	Notes

October 4, 1950

Vanadium Corp. of America	Debentures

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
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

● **Logan Home Telephone Co., Logan, Ohio**
Aug. 25 (letter of notification $50,000 of 20-year 3½% first mortgage bonds, series A, due 1969. **Price**—At 102.17. **Underwriter**—The Ohio Co., Columbus, Ohio. **Proceeds**—To pay for installation of automatic machinery.

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.

● **McDonald (H. A.) Creamery Co., Detroit, Mich.**
Aug. 21 (letter of notification) 14,685 shares of class "B" stock. **Price**—$4 per share. **Underwriter**—None. **Proceeds**—For working capital. **Office**—9700 Oakland Ave., Detroit, Mich.

● **Meck (John) Industries, Inc., Plymouth, Ind.**
Aug. 28 filed 150,000 shares of common stock (par $1). **Price**—To be filed by amendment. **Underwriter**—Otis & Co., Cleveland, O. **Proceeds**—For working capital.

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.)

● **Middle States Telephone Co.**
Aug. 23 (letter of notification) 410 shares of common stock. **Price**—$14 per share. **Underwriter**—None. **Proceeds**—To Central Telephone Co., the selling stockholder.

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.

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.

● **Missouri Utilities Co., Cape Girardeau, Mo.**
Aug. 24 (letter of notification) 1,500 shares of 5% preferred stock (par $100). **Price**—$102 per share. **Underwriter**—Wachob-Bender Corp., Omaha, Neb. **Proceeds**—For construction and improvement of property.

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 Orleans Public Service Inc.**
Aug. 24 (letter of notification) 7,754 shares of common stock (no par) to be offered to stockholders (other than Middle South Utilities, Inc., parent) at rate of 0.163

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share for each share held. **Price**—$25 per share. **Underwriter**—None. **Proceeds**—To finance plant additions. **Office**—317 Baronne Street, New Orleans 9, La.

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.

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. (9/6)
June 9 filed 49,200 shares of common stock (par $3) to be offered to present stockholders at rate of one share or each 10 held. **Underwriter**—A. C. Allyn and Co., Inc., New York. **Price**—To be filed by amendment. **Proceeds**—For construction expenditures.

• **Norwich (N. Y.) Pharmacal Co.**
Aug. 28 (letter of notification) 3,890 shares of common stock (par $2.50). **Price**—At market price (about $13.50 per share) on the New York Stock Exchange. **Underwriter**—A. M. Kidder & Co., 1 Wall St., New York, N. Y. **Proceeds**—To selling stockholder.

Ohio Oil & Gas Co.
May 5 (letter of notification) 1,100 shares of common stock now held in treasury. **Price**—50 cents per share. **Underwriter**—None. To be offered through Preston, Watt and Schoyer. **Proceeds**—Toward repayment of bank loans.

Orchards Telephone Co., Orchards, Wash.
March 16 (letter of notification) 500 shares of common stock. **Price**—At par ($100 per share). **Underwriter**—None. **Proceeds**—To modernize plant.

• **Pacific Power & Light Co.**
Aug. 30 filed 1,750,000 shares of common stock (no par), representing all of the outstanding shares of the company to be sold by a group of 16 stockholders headed by A. C. Allyn & Co., Inc. and Bear, Stearns & Co. Marketing arrangements to be supplied by amendment.

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. Expected about the middle of September.

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.

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.

• **Puim Manufacturing Co., Inc., Seattle, Wash.**
Aug. 24 (letter of notification) 400,000 shares of common stock (par one cent). **Price**—25 cents per share. **Underwriter**—None. **Proceeds**—For working capital to be used in the manufacture and sale of tractors. **Office**—301 Insurance Bldg., Seattle, Wash.

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.

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**—McDonald-Moore & Co., Detroit. **Proceeds**—To go to two selling stockholders. **Office**—2307 East Ganson St., 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.

• **Stator Co., Cambridge, Mass.**
Aug. 23 (letter of notification) 39,100 shares of capital stock. **Price**—At par ($1 per share). **Underwriter**—None. Proceeds—For working capital, to maintain foreign patents and develop and patent new inventions, etc. **Office**—1430 Massachusetts Ave., Cambridge, Mass.

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.

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.

• **Tennessee Gas Transmission Co., Houston, Tex.**
Aug. 28 filed 100,000 shares of common stock (par $5) to be issued in exchange for 80,000 shares of common stock of Sterling Oil & Gas Co., and for 10-year subscription warrants to purchase 133,333 shares of Sterling common stock. The rate of exchange is to be supplied by amendment. **Exchange Agent**—The National Bank of Commerce of Houston, Tex.

• **Tobin Packing Co., Inc., Rochester, N. Y. (9/6)**
Aug. 28 (letter of notification) 34,000 shares of common stock (par $3). **Price**—$8.75 per share. **Underwriters**—Cohu & Co. and Hayden, Stone & Co., New York; George B. Cooley & Co., Inc., Albany, N .Y.; Johnston, Lemon & Co., Washington, D. C.; Coburn & Middlebrook, Inc., Hartford, Conn.; Sage, Rutty & Co., Inc., Rochester, N. Y.; and Mead, Miller & Co., Baltimore, Md. **Proceeds**—For working capital.

• **Transcon Lines, Los Angeles, Calif.**
Aug. 24 filed voting trust certificates to be issued for 13,040 shares of common stock (par $10). The voting trust agreement will expire in April, 1967. **Business**—Operator of truck lines. Formerly known as Cain's Truck Lines.

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. Statement effective Aug. 21.

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 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; rights will expire on Oct. 4. **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. **Proceeds**—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**—Must 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.

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.

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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 an issue of $10,000,000 preferred stock (par $100). **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. **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.**
Aug. 28 it was reported the company plans to sell in October $6,000,000 of first mortgage bonds, series G. **Underwriters**—To be determined by competitive bidding. Probable bidders: 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 of which it is intended to issue 100,000 shares as 4½% preferred, series A. May be placed privately. Traditional underwriters: F. S. Moseley & Co.; Glore, Forgan & Co.; and Merrill Lynch, Pierce, Fenner & Beane.

● **Big West Oil & Gas Co. (Texas)**
Aug. 26 it was reported this company plans early registration of $1,750,000 5% sinking fund debentures due 1965. **Underwriter**—H. M. Byllesby & Co., Chicago, Ill. **Proceeds**—For development.

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.

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.

● **El Paso Natural Gas Co.**
Aug. 25 it was announced that company plans to issue between 225,000 and 250,000 additional shares of common stock (par $3), probably through rights to common stockholders, in order to raise about $5,000,000. The proceeds are to be used for expansion. Traditional underwriters: White, Weld & Co. and Stone & Webster Securities Corp. Stockholders on Sept. 19 will vote on increasing the authorized common stock by 500,000 shares of 3,800,000 shares.

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); Lehman Brothers. **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.

● **Holeproof Hosiery Co.**
June 22 it was announced that registration statement is expected to be filed shortly covering not less than 25% and not exceeding 33⅓% of the stock held by principal stockholders following proposed 7½-for-1 split up. Stockholders meeting, scheduled for Aug. 16, was postponed indefinitely. **Underwriter** — A. G. Becker & Co., Inc., Chicago, Ill.

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.**
Aug. 29 company asked SEC authority to issue $20,000,000 first mortgage bonds, series H, due Sept. 1, 1980, and requested exemption from competitive bidding, planning to place the issue privately. Proceeds would be used to repay bank loans and to reimburse treasury for construction expenditures.

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.

● **Louisville Gas & Electric Co.**
Aug. 29, SEC was notified that Standard Gas & Electric Co. plans to sell its holdings of 137,857 shares of common stock (no par) of Louisville Gas & Electric Co., and use the proceeds to retire $2,250,000 of bank notes.

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.

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.**
Aug. 22 company applied to SEC for authority to issue $3,500,000 promissory notes to banks to mature April 27, 1951, the proceeds to be used for construction purposes. The permanent financing program is expected to be consummated prior to October, 1950 and will involve the refinancing of $13,334,000 first mortgage 4½% bonds due 1967, $2,000,000 of 7% preferred stock and bank loans (about $8,500,000) through the issuance of $27,000,000 of bonds, and $6,000,000 of preferred stock (to be offered publicly and $3,000,000 of common stock to common stockholders. (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). Registration expected mid-September.

● **Montana Power Co.**
Aug. 22 it was reported company plans to sell in 1950 and 1951 approximately $22,000,000 of new securities, with part of financing expected in October or November. **Underwriters**—To be determined by competitive bidding. Probable bidders for bonds: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc.; Union Securities Corp.; Merrill Lynch, Pierce, Fenner & Beane; Smith, Barney & Co.; First Boston Corp.; Lehman Brothers. **Proceeds**—For expansion and extension of gas and electric properties.

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Mountain Fuel Supply Co. of Utah

June 6 company announced plans to create a new firm to take over its exploration and development of natural gas and oil operations. It will be financed, in part, through public sale by the new unit of 1,000,000 shares of capital stock (par $8). Financing plan submitted by First Boston Corp. Expected this Fall.

Mountain States Power Co.

May 17 the stockholders voted to increase the authorized preferred stock (par $50) from 75,000 to 150,000 shares. There are presently outstanding 72,993 shares. Probable underwriter: Merrill Lynch, Pierce, Fenner & Beane.

New 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 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.

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.

● **Panama (Republic of)**

Aug. 18 it was reported that $10,500,000 of new 3% bonds due 1996 would be issued through Lehman Brothers, the proceeds, together with treasury bonds, to be used to retire the 3¼% bonds, series A, due 1994, and 3½% bonds, series B, due 1967, and 5% bonds due 1963, of which a total of approximately $15,000,000 are outstanding. The new 3% bonds are expected to be placed with a small group of institutional investors, and are to be secured by the $430,000 annuity annually paid by the United States to the Republic.

Pennsylvania RR. (9/12)

Bids will be received by the company up to noon (EDT) on Sept. 12 for the purchase from it 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 $4,700,000 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.

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 (10/4)

Aug. 21 company announced plans to offer publicly $5,000,000 of convertible debentures. Underwriting negotiations are being carried on with Kidder, Peabody & Co. Proceeds will be used for modernization and expansion of the company's properties. Expected beginning of October.

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 & 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-Majestic Corp.**

July 14 it was announced that in connection with acquisition by Wilcox-Gay Corp. 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. **Underwriter**—Gearhart, Kinnard & Otis. **Proceeds**—For working capital. Expected in October.

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NSTA Notes

SECURITY TRADERS ASSOCIATION OF NEW YORK

Bowling will start for the Security Traders Association of New York on Sept. 7 at 5:30 p.m. to 8 p.m., at the City Hall Bowling Center. All STANY members interested may contact any one of the following captains:

Jules Bean, Singer, Bean & Mackie; Richard H. Goodman, Shields & Co.; Thomas Greenberg, C. E. Unterberg & Co.; Arthur Burian, Daniel F. Rice & Co.; Walter Mewing, D'Assern & Co.; S. I. Murphy; Wilbur Krisam, Geyer & Co., Inc.; Lewis H. Serlen, Josephthal & Co.; George Leone, Leone & Pollack; John Sullivan, Merrill Lynch, Pierce, Fenner & Beane; William Kumm, Dunne & Co.; or Herman D. Meyer, Gruntal & Co., Chairman of the Bowling Committee.

There will be a meeting of all Captains at the office of Daniel F. Rice & Co. at 4:30 p.m. on Sept. 6.

BOND CLUB OF DENVER

Twenty-six out-of-town guests were the highlight of the Annual Frolic of the Bond Club of Denver and the Rocky Mountain Group of the Investment Bankers Association held at the Park Hill Country Club on Aug. 18. Among the guests were: Don Sloan, Donald C. Sloan & Co., Portland, Ore., as representative of the National Security Traders Association; Jack Hecht, Dempsey-Tegeler Co., Los Angeles, and Jack Egan, First California Co., San Francisco, who represented the West Coast.

Chicago had the best turnout with: Fred Carpenter, John Nuveen & Co.; Frank C. Carr, John Nuveen & Co.; Paul Fairchild, First Boston Corp.; Edde K. Hays, Central Republic Co.; Art Kirtley, First Boston Corp.; Julian Meyer, Salomon Brothers & Hutzler; Clifton Nourse, Illinois Co.; Jack Parker, Lord, Abbett & Co.; Edward H. Welch, Sincere & Co.; George B. Wendt, First National Bank of Chicago; Ed Stephenson, Chase National Bank, representing the "Windy City."

No party is complete without Texans, and William G. Hobbs, Russ & Co., San Antonio; Louis J. Kocurek, Rauscher, Pierce & Co., San Antonio, and Harold S. Stewart, Harold S. Stewart & Co., El Paso, had the eyes of Colorado upon them.

Other out-of-town guests included: Harry Beecroft, Beecroft, Cole & Co., Topeka, Kan.; Hank Dahlberg, Dahlberg & Co., Phoenix, Ariz.; Homer G. Kaupp, Juran & Moody, St. Paul, Minn.; Mark A. Lucas, Jr., Lucas, Eisen & Waeckerle Co., Kansas City, Mo.; Sidney J. Mohr, Jr., Thornton, Mohr & Co., Montgomery, Ala.; Arthur P. Quinn, Quinn & Co., Albuquerque, N. M.; Duane T. Smith, Smith Investment Co., Wichita, Kan.

The annual Sweepstake Prize went to Wichita, Kan., this year with Chicago in second and third places.

John Toner of Bosworth, Sullivan & Co., and Mark Lucas of Lucas, Eisen & Waeckerle Co., were in the golf finals, having tied for the first place low net.

Golf Tournament Results

Individual Low Net 1st
John Toner, Bosworth, Sullivan & Co. (63)
Mark Lucas, Lucas, Eisen & Waeckerle, Kansas City (63)

Individual Low Net 2nd
Harry Buchenau, Bosworth, Sullivan & Co. (64)
Jerry Bachar, J. A. Hogle & Co. (64)
Elwood Kulgren, Colorado State Bank (64)

Individual Low Gross 1st
Bob Baker (69)

Individual Low Gross 2nd
Harry Buchenau, Bosworth, Sullivan & Co. (71)

Team Low Net 1st
Glen Clark, Colorado State Bank (129)
Jerry Bachar, J. A. Hogle & Co.

Team Low Net 2nd
Neil King, First National Bank (137)
John Toner, Bosworth, Sullivan & Co.
Dave Dodge, J. A. Hogle & Co. (137)
Jack Fuller, Boettcher & Co.

Most Birdies and Hole-in-One
Harry Buchenau, Bosworth, Sullivan & Co.

Booby Prize (High Gross)
Fred Blume (124)

Results of Annual Calcutta Team Play were:

Team	Net Score
Jerry Bachar, J. A. Hogle & Co. Glen Clark, Colorado State Bank	129
Dave Dodge, J. A. Hogle & Co. Jack Fuller, Boettcher & Co.	137
Neil King, First National Bank John Toner, Bosworth, Sullivan & Co.	137
Elmer Longwell, Boettcher & Co. Jack Ormsby, Peters, Writer & Christensen	138
Clifton Nourse, Peters, Writer & Christensen Gerald Peters, Sr., Peters, Writer & Christensen	138
Gerald Peters, Jr. Barton Newlin	139
George Writer, Peters, Writer & Christensen Frank Tettemer, J. K. Mullen Investment Co.	139
Jerry Ryan, Peters, Writer & Christensen John Alff, Denver National Bank	139

With Clyde C. Pierce

JACKSONVILLE, Fla.—Clark W. Toole, Jr., is now with Clyde C. Pierce Corp., Barnett National Bank Bldg.

Joins Leedy, Wheeler

ORLANDO, Fla.—James J. Nehez is with Leedy, Wheeler & Alleman, Inc., Florida Bank Bldg.

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.

DIVIDEND NOTICES

CALUMET AND HECLA CONSOLIDATED COPPER COMPANY
DIVIDEND NO. 65

A dividend of twenty cents ($0.20) per share will be paid on September 21, 1950, to holders of the outstanding Capital Stock of the Calumet and Hecla Consolidated Copper Company of record at the close of business September 5, 1950. Checks will be mailed from the Old Colony Trust Company, Boston, Mass.

J. H. ELLIOTT, *Secretary*
BOSTON, MASS., August 24, 1950

Allied Chemical & Dye Corporation
61 Broadway, New York

August 29, 1950

Allied Chemical & Dye Corporation has declared quarterly dividend No. 118 of Fifty Cents ($.50) per share on the Common Stock of the Company, payable September 20, 1950, to common stockholders of record at the close of business September 8, 1950.

W. C. KING, Secretary

AMERICAN LOCOMOTIVE COMPANY
30 Church Street New York 8, N. Y.

PREFERRED DIVIDEND No. 169
COMMON DIVIDEND No. 101

Dividends of one dollar seventy five cents ($1.75) per share on the Preferred Stock and of twenty five cents (25¢) per share on the Common Stock of this Company have been declared payable October 1, 1950 to holders of record at the close of business on September 8, 1950. Transfer books will not be closed.

CARL A. SUNDBERG
August 24, 1950 *Secretary*

The American Tobacco Company
INCORPORATED
111 Fifth Avenue New York 3, N.Y.

184th PREFERRED DIVIDEND

A quarterly dividend of 1½% ($1.50 a share) has been declared upon the Preferred Stock of THE AMERICAN TOBACCO COMPANY, payable in cash on October 2, 1950, to stockholders of record at the close of business September 8, 1950. Checks will be mailed.

HARRY L. HILYARD, *Treasurer*
August 29, 1950

ANACONDA
DIVIDEND NO. 169

August 24, 1950.

The Board of Directors of Anaconda Copper Mining Company has today declared a dividend of Fifty Cents (50¢) per share on its capital stock of the par value of $50 per share, payable September 29, 1950, to stockholders of record at the close of business on September 5, 1950.

C. EARLE MORAN
Secretary and Treasurer
25 Broadway New York 4, N. Y.

At a meeting of Directors held August 22, 1950 in London it was decided to pay on September 29th half yearly dividend of 2½% (less tax) on issued 5% Preference Stock and Interim Dividend of One Shilling for each One Pound of Ordinary Stock free of income tax.

Coupon No. 94 must be used for dividend on 5% Preference Stock and Coupon No. 208 must be used for dividend on Ordinary Stock.

All transfers received in London on or before August 29th will be in time for payment of dividends to transferees.

Also decided to pay on October 31st half yearly dividend of 3% (less tax) on issued 6% Preference Stock. All transfers received in London on or before October 6th will be in time for payment of dividents to transferees.

Stockholders who may be entitled by virtue of Article XIII (1) of the Double Taxation Treaty between the United States and the United Kingdom, to a tax credit under Section 131 of the United States Internal Revenue Code can by application to Guaranty Trust Company of New York obtain certificates giving particulars of rates of United Kingdom Income Tax appropriate to all the above mentioned dividends.

BRITISH-AMERICAN TOBACCO COMPANY, Limited
August 22, 1949

DIVIDEND NOTICES

HOMESTAKE MINING COMPANY
DIVIDEND No. 877

The Board of Directors has declared dividend No. 877 of seventy-five cents ($.75) per share of $12.50 par value Capital Stock, payable September 15, 1950 to stockholders of record September 5, 1950.

Checks will be mailed by Irving Trust Company, Dividend Disbursing Agent.

JOHN W. HAMILTON, *Secretary*.
August 22, 1950.

C.I.T. FINANCIAL CORPORATION
Dividend on Common Stock

A quarterly dividend of $1.00 per share in cash has been declared on the Common Stock of C. I. T. FINANCIAL CORPORATION, payable October 1, 1950, to stockholders of record at the close of business September 11, 1950. The transfer books will not close. Checks will be mailed.

FRED W. HAUTAU, *Treasurer*
August 24, 1950.

THE FRANCISCO SUGAR COMPANY
106 Wall Street, New York 5

The Board of Directors has this day declared a dividend of Two Dollars and Fifty Cents ($2.50) per share on the Capital Stock outstanding, payable September 29, 1950, to stockholders of record at the close of business on September 15, 1950.

J. S. LEVENE,
Secy. & Treas.
August 28, 1950.

IBM INTERNATIONAL BUSINESS MACHINES CORPORATION
590 Madison Ave., New York 22

The 142nd Consecutive Quarterly Dividend

The Board of Directors of this Corporation has this day declared a dividend of $1.00 per share, payable September 9, 1950, to stockholders of record at the close of business on August 18, 1950. Transfer books will not be closed. Checks prepared on IBM Electric Punched Card Accounting Machines will be mailed.

A. L. WILLIAMS, Vice Pres. & Treasurer
June 27, 1950

IRVING TRUST COMPANY
One Wall Street, New York

August 24, 1950

The Board of Directors has this day declared a quarterly dividend of 20 cents per share on the capital stock of this Company, par $10., payable October 2, 1950, to stockholders of record at the close of business September 5, 1950.

STEPHEN G. KENT, *Secretary*

REYNOLDS METALS COMPANY
Reynolds Metals Building
Richmond 19, Virginia
PREFERRED DIVIDEND
COMMON DIVIDEND

The regular dividend of one dollar thirty-seven and one-half cents ($1.375) a share on the outstanding 5½% cumulative convertible preferred stock has been declared for the quarter ending September 30, 1950, payable October 2, 1950, to holders of record at the close of business September 20, 1950.

A dividend of twenty-five cents (25¢) a share on the outstanding common stock has been declared payable September 18, 1950, to holders of record at the close of business September 8, 1950.

The transfer books will not be closed. Checks will be mailed by Bank of the Manhattan Company.

ALLYN DILLARD, *Secretary*
Dated, August 24, 1950

DIVIDEND NOTICES

WESTERN TABLET & STATIONERY CORPORATION

Notice is hereby given that a dividend at the rate of $.50 per share on the issued and outstanding shares without par value of the Common Stock of Western Tablet & Stationery Corporation has been declared payable on September 25, 1950, to holders of record of such shares at the close of business on September 11.

E. H. BACH, Treasurer.

THE SAFETY CAR HEATING AND LIGHTING COMPANY, INC.
DIVIDEND NO. 213

The Board of Directors has declared a dividend of 25¢ per share on the outstanding Capital Stock of the Company of the par value of $12.50 per share, payable October 2, 1950, to holders of record at the close of business September 12, 1950.

J. H. MICHAELI,
August 22, 1950 *Treasurer*

UNITED FRUIT COMPANY
DIVIDEND NO. 205

A dividend of seventy-five cents per share and an extra dividend of one dollar per share on the capital stock of this Company have been declared payable October 13, 1950 to stockholders of record September 7, 1950.

EMERY N. LEONARD
Treasurer

MIDDLE SOUTH UTILITIES, Inc.

DIVIDEND

The Board of Directors has this day declared a dividend of 27½¢ per share on the Common Stock, payable October 2, 1950, to stockholders of record at the close of business September 8, 1950.

H. F. SANDERS,
Treasurer
New York 6, N. Y.
August 25, 1950

ROBERTSHAW-FULTON CONTROLS COMPANY
Greensburg, Pa.
COMMON STOCK

A regular quarterly dividend of 35c per share and an extra dividend of 15c per share on the Common Stock have been declared, payable September 25, 1950 to stockholders of record at the close of business September 11, 1950.

The transfer books will not be closed.

WALTER H. STEFFLER
Secretary & Treasurer
August 23, 1950.

ROYAL TYPEWRITER COMPANY, INC.

A dividend of 1¾%, amounting to $1.75 per share, on account of the current quarterly dividend period ending October 31, 1950, has been declared payable October 15, 1950 on the outstanding preferred stock of the Company to holders of preferred stock of record at the close of business on October 2, 1950.

A dividend of 50¢ per share has been declared payable October 15, 1950, on the outstanding common stock of the Company, of the par value of $1.00 per share, to holders of common stock of record at the close of business on October 2, 1950.

August 30, 1950 D. H. COLLINS
Secretary

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Washington . . . And You

Behind-the-Scene Interpretations from the Nation's Capital

WASHINGTON, D. C. — From whatever angle you look at it, the Federal Budget is going to become one of the unhappiest issues of the 1951 session of Congress even if this country does not become involved before then in total war.

In all, Congress has appropriated for or authorized contracting for, expenditures totaling just about $60 billion in the current fiscal year. The official forecast of revenues for the current year is for $37.3 billion, to which something less than $5 billion will be brought in by the quickie tax bill, or a total on the receipt side of $42 billion.

This leaves superficially the prospect of a deficit of $18 billion for the current year. All in all, however, the deficit will not be that large this year, it is thought, for the very good reason that the enhanced arms procurement program will not get a full head of steam for several months. The pay, subsisitence allowances, and transportation of the enlarged military establishment, of course, will increase in direct proportion to the addition of manpower.

While there will be a lag in purely military procurement, there will be little lag in the civil side of the Federal establishment. Civilian expenditures are inexorably increasing under the permanent annual outlays and subsidies which Congress has been adding, almost by the week. Then, too, some of the latest things, such as subsistence allowances for dependents of service men, haven't shown up fully in the estimates. It may be doubted that "Presidential economy" will halt the trend toward higher expenditures on civilian account.

The total of $60 billion of appropriations, however, assumes that Congress has really knocked down the civilian side of the expenditure picture by a total of nearly $2.3 billion. Of this, $550 million is in the form of an indefinite mandate to the President to achieve just that much economy. A great proportion of the $1,750 million of specific Congressional cuts under Budget requests are of doubtful value—unless the White House develops a real will and intention of economizing.

So in the net, the prospect that Treasury outpayments during the current fiscal year will be less than the $60 billion Congress provided probably rests upon the inability of the military to let contracts soon enough and fast enough to use the money appropriated.

It is just a random guess, but it would be surprising if outpayments—within the scope of present programs—exceeded a figure this year of, say, $55 billion.

Revenues, on the other hand, have a tendency to rise much faster than expected in an inflationary epoch, to which this government has now committed the country. Hence the January estimate of $37.3 billion of receipts (without the quickie bill) is in all probability too low, how much no one can make much of a guess at this early stage. With receipts from the interim tax bill it is within the realm of possibility that the actual deficit for the current year (and some collections from additional tax legislation next year, retroactive to Jan. 1 will be added), that the fiscal picture on next June 30 could turn out to be somewhere above $10 billion.

Appallingly large as is such a deficit, however, it is likely to be the smallest deficit in the future years of "short of all-out war" preparations and the outlook, as the fiscally-minded at the Capitol see it is nothing more or less than the selection of three alternatives: (1) A drastic reduction in the existing aid and subsidy programs now entrenched in the political fabric. (2) Such onerous taxation as the country never before contemplated. (3) Deficits of a minimum of $15 billion annually but probably much larger, probably exceeding $30 billions.

For if the inertia of getting the military back to letting contracts and industry to retooling and producing war implements results in a fortuitous happenstance of a deficit for the current year of only $10 billion, the result will be far different in the next and succeeding fiscal years. The $10 billion or so which is not spent in this fiscal year will hang over and be spent in the next and succeeding years, on top of their "short of total war" appropriations for war and foreign arms and economic aid of $36 to $37 billions.

So if next year the level of appropriations was not boosted beyond this year, there would be a gap of some $25 billion or more that would have to be accounted for by the more "permanent" tax bill which the Treasury staff and the Congressional tax staffs are studying separately.

On the other hand, Rep. George Mahon (D., Tex.) has announced that the Administration has set the wheels in motion to draft a further supplemental defense program of an additional $10 billion. This would raise to well over $35 billion the gap between revenues and expenditures.

The most that those steeped in tax matters at the Capitol think can really be garnered from next year's tax bill is $7. billion. Senator Walter F. George (D., Ga.), Chairman of the Senate Finance Committee, has publicly placed the amount between $6 billion and $7 billion. The maximum is based simply on the largest rates which it is thought could be feasibly imposed under existing conventional types of tax laws, and breaks down this way:

Some $2.5 billions might be obtained by a combination of both lowering the exemptions and raising the rates of tax on personal incomes.

Some $4 billion might be raised by corporation income tax boosts, involving a "form of" or something which would be analogous to an excess profits tax.

Some $500 million could be raised by further "loophole" closing. Incidentally, informed members assert that taxation of cooperatives not only would be necessary to achieve such an increment of revenue, but that they bloody well mean to really sail into the tax exemption of the co-ops next year.

This adds up to $7 billion, and reduces the prospective longrange annual deficits to something in the neighborhood of $30 billion. With drastic jettisoning of some of the veterans, farm and social security benefits and perhaps a general sales tax, the existence of large permanent annual deficits might be avoided. Otherwise the only alternative, say these legislative observers, is a stiff general Federal transactions tax that pyramids on everything that is sold, a tax which would apply at every stage of production and distribution, and which would bring about a drastic reduction in the country's standards of living.

* * *

In all the rush to find new ways to spend money for many years to come, there is one little exception. The House passed the bill to make possible the insuring of the construction of $100,000,000 of fruit and vegetable markets for farmer cooperatives or other non-profit organizations. Senator Elmer Thomas (D. Okla.), the Chairman of the Senate Agriculture Committee, will not give this scheme a casual look in his committee. Senator Thomas says he is just too busy. Thomas was defeated for the Democratic nomination by Rep. Mike Monroney.

* * *

Although it won't get by the Senate, a House Post Office subcommittee has made a tentative step toward reducing below 2% the interest paid on postal savings deposits. The subcommittee reported out a bill providing for reduction to 1% in steps of ¼ of 1% at 6-month intervals, provided existing deposits are not affected.

* * *

When the Senate Banking Committee's version of the controls bills came out, it carried an even stronger authorization to the President than was contained in the House bill, to regulate "any" credit, not merely consumer and real estate credit.

The House bill, by defining "any" credit as a separate section, implied that the President could regulate not only consumer and real estate credit, but "any" credit; i.e., business credit. There was a possibility, however, the way the House language was worded, that it was intended to amplify the power of the President to control real estate and consumer credit.

Not so in the Senate bill, however. The Senate bill would have specifically authorized the President in separate sections to control consumer credit, real estate, construction credit, and "any" credit.

This section was so reduced in conference as to remove the threat of political control of business loans. The elimination of this threat was due primarily to the persistence of Rep. Jesse P. Wolcott, ranking Republican member of the House Committee, who first sought unsuccessfully to kill this amendment in the House. The power to control "any" credit was written somewhere in the Administration and was "slipped in" to the bill during the course of its consideration in both committees, no one revealing just how and by whom. Wolcott is believed to have been able to get across in conference the consciousness that this was a broad new angle. Most of the members were unaware of its implications, particularly in the Senate.

* * *

Whether there is to be a general war contract renegotiation law enacted at this session is reported to depend entirely upon whether the Administration will retreat from its attempt to apply this contingent liability to every government supply contract, whether to a new price-difficult item of war material, to a loaf of bread or a pool of thread. If the Administration limits the scope of its bill, the legislation may be passed, though time is getting short.

(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.)

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