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EDITORIAL

As We See It

"These gains [of labor under Presidents Roosevelt and Truman] include the right of collective bargaining, the elimination of the court injunction as a club with which to overcome strikes, minimum hours of labor, improvement of working conditions, the payment of fair wages, elimination of child labor, workmen's compensation laws and the establishment of welfare funds and pension rights to care for the worker in his helpless periods."

The words quoted are those of Justice Pecora, candidate for Mayor of New York City, but they could about as well be those of any politician who hopes to gain advantage by parading his Democratic connections before the politically-minded union membership of the country. Indeed, it has become a sort of commonplace assumption that the New Deal and the Fair Deal have done all this for "labor." The fact is that more than one Republican either openly or tacitly agrees with that contention.

Yet it would seem to us that this assumption stands on weak legs in more than one respect. The elimination of child labor had been under way for decades before any one ever thought seriously of Franklin D. Roosevelt for the Presidency. The same may be said of what is commonly known as sweat shop conditions. Only the ignorant could possibly imagine that either President Roosevelt or President Truman is in any way to be credited with workmen's compensation laws. The same is, of course, to be said of a number of other "gains" listed, as, for example, the restriction of the use of court injunction

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Investment and the Business Outlook

By RAYMOND RODGERS*
Professor of Banking, New York University

Dr. Rodgers reviews economic, business and political developments in postwar years, and lists "props" that have accounted for current prosperity. Though admitting conditions and outlook are full of uncertainties, predicts because of rearmament program business activity and employment will be at high levels, with material increase in disposable incomes. Warns all this will strengthen inflation pressures, unless the American people "don't want it." Advises conservative policies in investing by trustees and conservatives, because, if spending philosophy continues in Washington, "we are headed for trouble."

Investment of the funds of others has always been one of the most serious responsibilities in our entire economy. From the social standpoint, directing the flow of capital to the enterprises and uses where it will be most productive, that is, make the greatest contribution in raising our standard of living, is the most important of the many services rendered by capitalism. From the individual standpoint, the preservation, and the multiplication, of savings does more to preserve our way of life than anything else of an economic character. In short, you serve the individual, the economy and the nation, which is to say, democracy!

Raymond Rodgers

Now, probably the most remarkable thing about this triple responsibility is that the better you serve all, the better you serve each. (I refer, of course, to the long-run and not to day-to-day situations.) This observation regarding the essential interdependence of these three aspects of investment is

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*An address by Dr. Rodgers before the President's Section of the National Fraternal Congress, New York City, Sept. 26, 1950.

Stock Market on Trial—The Weight of Evidence

By JACQUES COE
Senior Partner, Jacques Coe and Co., Members of N. Y. S. E.

Mr. Coe lists several "empirical" formulas as indicating the market price level is now at a major top. Asserts market has been over-bought since pre-Korea. Emphasizes desirability of maintaining selective attitude in lieu of appraising market-as-a-whole.

We now approach a time factor in the Stock Market where certain formulas which heretofore have been excellent guides, again should be examined for the purpose of determining whether or not they still contain that prophetic substance which has been so helpful in the past.

Jacques Coe

This article will not deal with the business or political outlook, heavier taxation, international complications, or any of the numerous economic factors which usually compile and crystallize to create that combination of circumstances which determine the top of any bull market.

Forecasting Formulas

This article is concerned entirely with empirical formulas which have a most satisfactory forecasting record.

(1) First we discuss the 41-to-44-month stock market cycle of industrial averages. In numerous previous articles we have analyzed these recurrent upward and downward waves. Our article which appeared in the "Chronicle" during the summer of 1949 ("Throw Away Those Dark Glasses") strongly took into consideration the mathematical evidence that the cycle was in a turning zone.

This cycle wave now is approaching a selling area. The median month for the classical top market area was set for July 1950. In the past, these top areas have been established as much as five months early and five months

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COMING SOON—A complete account of the proceedings of the National Security Traders Association Annual Convention, now in progress at Virginia Beach, Va., will shortly be published by the CHRONICLE.

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

International Nickel Co.—Candler Dobbs, Partner, Dobbs & Co., New York City.

Great American Insurance Co. of New York—Charles H. Drew, Charles H. Drew & Co., New York City.

Theodore Gary & Co. $1.60 Cumulative First Preferred—Allen J. McNeal, Allen J. McNeal & Co., New York City.

CANDLER DOBBS
Partner, Dobbs & Co.
Members of N. Y. S. E.

(International Nickel)

Although the articles in this Forum appear under the caption "The Security I Like Best," let me say at the outset that it would be most difficult to select a security that would be "best" for all prospective investors. I am, however, firmly convinced that during the present economic conditions, and as a protection against continued inflation, all investors should consider—not only the return on money invested, but possible equity appreciation. Considering the international scope of all of our thoughts at this time, I have selected International Nickel as a security worthy of careful consideration.

Candler Dobbs

I think International Nickel is unusually attractive for inclusion in every conservative investment account. The company is the world's outstanding producer of Nickel and has a long record of profitable operations, but it also has substantial additional production of copper, gold, silver, platinum and other metals of the so-called platinum group. Nickel is estimated to produce only about 50% of total sales with about 25% from copper and about 25% from the various rare metals. The company has maintained a strong financial position and has no funded debt outstanding. During the past ten years working capital has almost doubled, from $75,000,000 at the end of 1940 to more than $137,000,000 at the 1949 year-end.

Management is considered of the first quality. The record of dividend payments has been quite good, and at the current price of the shares, around 34, the regular dividend of $2 U. S. gives a yield of nearly 6%. Inasmuch as the company acquires large supplies of U. S. dollars through its sales of nickel in this country, there seems to be no reason to anticipate any exchange difficulties.

At the present time the Canadian economy appears to be expanding at a considerable rate, and as a matter of investment policy I favor the commitment of some part of every portfolio in Canadian operations. I also favor the inclusion of some shares of companies with underground assets as better than average protection from the possible extension of inflation.

In considering past market action and price-earnings ratios, the shares of International Nickel at this time appear far behind the market. For example, in 1938 the company reported earnings of $2.09 per share. The price range for that year was 57⅝ high and 36⅞ low. For the year 1949 earnings of $2.08 were reported with a price range of only 31¼ high and 25⅝ low. Dividends paid in each of these two years were $2. Again, in 1936 earnings reported were $2.40 with a dividend of only $1.30—yet the stock sold at 57⅝. The present outlook for 1950 earnings appear extremely favorable. Metal prices have risen sharply and demand is heavy. In the case of nickel, the company announced allocations of sales because of a sharp rise in orders to a point which exceeded the company's capacity to produce. As a result of this situation, an all-time high in sales has been forecast for 1950 and earnings of $2.75 or better have been estimated.

From its past record the company appears to have followed a liberal dividend policy and, if earnings for 1950 expand as now anticipated, an increased extra dividend seems quite within the realm of possibility.

CHARLES H. DREW
Charles H. Drew & Co.,
New York City

(Great American Insurance Co. of New York)

For the past many years, 95% of my investment business has been marketing municipal, railroad and corporate bonds to banks in New York City and upstate. Not infrequently a banker asks me for a stock suggestion for himself, a member of his family, or a client. So years ago I came to the conclusion that I ought to have a prime recommendation in readiness. After considerable thought I decided on Great American Insurance Co. of New York—and have never regretted it.

Charles H. Drew

In the first place, insurance is an indispensable factor in modern economic life and the last protection asset a prudent man will relinquish.

"Great American's" is a short story. Long, tedious financial tales rarely have merit—facts are stubborn things: **Great American was organized 78 years ago and has an unbroken dividend record of 78 years: this spells good management. There is no bonded debt or preferred stock.** Institutions and investors—14,000 of them—own the 2,000,000 shares of common. Quoted daily in the newspapers, "Great American" is an insurance stock leader and readily marketable.

"Great American's" resources total $163,311,443; of this 39% is in U. S. Government bonds and cash, 43.7% is in the highest grade preferred and common stocks.

I have delved into former and present managements of this fine old organization, and believe "Great American's" current directing personnel, as in the past, is one of integrity, purpose, and conservative progress. An outstanding highlight has been the company's practice of paying dividends from portfolio income and letting the underwriting profit ride into surplus. The three important features of investment are safety, satisfactory yield and marketability, and "Great American" fulfills these cardinal requisites.

It is the strange and unfortunate philosophy of many people that profits are realized only through "flyers" in low priced, third class stocks, which are often "jobbed" without the buyer's knowledge. This is a hazardous procedure and similar to betting on a horse—except that at the race track one would have a day's outing and sunny weather. But the chances of success are equally negative.

Buying "Great American" means to me potentiality of further future stock distributions and increased dividends, and **eight hours' sleep, too.**

"Great American," selling presently at 31 (liquidating value, by the way is $41.21) and paying $1.20, yields approximately 4%.

ALLEN J. McNEAL
Partner, Price, McNeal & Co.,
New York City

(Theodore Gary & Co. $1.60 Cumulative First Preferred)

To make money in Wall Street it is necessary to dig into many situations, preferably those which are not too well known, and come up with one which offers a well-calculated risk, which after certain things are accomplished will bring to light the inherent value in this security.

Allen J. McNeal

There are many factors which must be taken into account, such as good timing and a thorough understanding of

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Sound Banking—Our Common Problem

By THOMAS B. McCABE*

Chairman, Board of Governors, Federal Reserve System

Warning banking system is threatened by international crisis, Chairman McCabe urges we fight with all our resources to eradicate inflation, which "is right here." Calls attention to large increase in commercial bank and consumer credit since Korean crisis and urges tax system to meet defense costs on pay-as-you-go basis. Asserts specific steps already taken to curb inflation are inadequate, and hints new measures will be taken to curb consumer and real estate credit. Wants banks to restrict loans and calls for a common understanding on changes in bank reserve requirements.

All of us represented here today share a responsibility for the maintenance of a sound banking system in the United States. That is our common problem. In the past 50 years there have been tremendous forward strides to make our banking system more efficient. At the turn of the century, State banking departments were relatively undeveloped in sharp contrast to their present-day organizations. There was no Federal Reserve System to provide flexibility in the provision of credit. There was no Federal Deposit Insurance Corporation to maintain confidence of depositors. The whole philosophy of banking has undergone a substantial overhaul.

Thomas B. McCabe

When I was a boy, we had just been through the money panic of 1907-1908 and Congressional investigations in the field of money and banking were the order of the day. In Delaware, my father was the Banking Commissioner who inaugurated the regular inspection and physical examination of the records and books of State-chartered banks.

It was all too common practice in the early days for banks to be organized for the private benefit of a few business and professional men, and for the officers and directors to be the largest borrowers. All too frequently, there was inadequate recognition of the credit needs of the community or of the people who lived in that vicinity. Today, I am glad to say that the vast majority of our bankers are men of vision. They pride themselves on the fact that they have been able to develop an honored profession. There is less response today to the age-old jokes about the glass-eyed bankers and the Shylocks that evoked hilarity when I was a boy. Our bankers recognize that the basic premise of their operations must be "service to the community." As a result, the banking community today stands in higher respect throughout the body politic than ever before.

Ours is still a country predominantly of independent local banks. We are coming to think of the banker as an active participant in local affairs, generous with his time for the welfare of the community. To fulfill his new role, he is inspiring the confidence of his customers to greater extent than ever before, and they are confiding in him the most intimate details of their financial affairs. More and more he is making credit services available to meet the legitimate needs of all classes and conditions. We have seen a distinct trend in recent years away from the cold marble halls that typified banking accommodations a generation ago. With the inauguration of personal loan departments, sales finance departments, and, more recently, specialized departments to facilitate small business financing, our banks are becoming more and more to be regarded as genuine "community centers" for financial affairs.

Banking System Threatened

Today, the banking system—indeed the existence of our republic—is threatened by the international crisis. War and preparations for war inevitably raise credit problems that go to the foundation of our credit structure—specifically the threat of inflation. I welcome this opportunity to counsel together on how we may mutually prepare ourselves to meet that threat.

For the second time in a decade—the third time in a generation—this country faces the grim prospect of adjusting to a program of preparedness. It is clear that the defense programs thus far announced are only a beginning. There is no escaping the need for huge defense expenditures. It is now nearly three months since the North Koreans first set foot on the wrong side of the 38th parallel, and still it is impossible to predict what the ultimate cost in either men or materials will be on the battlefront. It is impossible to foresee what sacrifices will be necessary on the home front to assure peace and security. Of cardinal importance, however, is the fact that our ultimate objective is now firmly fixed—under the banner of the United Nations we have resolved to resist by force, if necessary, a further cor-

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*An address by Chairman McCabe before the National Association of Supervisors of State Banks, Boston, Mass., Sept. 21, 1950.

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Role of Puts and Calls in Securities

By HERBERT FILER*

Partner, Filer, Schmidt & Co., New York City

Dealer in Puts and Calls describes origin and purpose of these options along with part they play in security marketing. Distinguishes between options used in speculation and options used as protection. Points out by use of Puts and Calls larger purchases or sales of securities can be made by individuals than can be done through outright purchases or sales on margin. Explains use of a "straddle" and why Stock Exchange members guarantee Put and Call transactions.

The Put and Call business is very, very complicated, very specialized, but I am going to try to make it very simple. I am going to try to give some idea of its origin and of its use in the security business. Then I am going to give some examples as we go along.

Herbert Filer

The option business, according to records, originated in about 1634 in Holland where options were used in connection with the shipment of tulips in the tulip boom. Back in those days the tulip bulb was a great medium of speculation, and when a man made a shipment of tulips, in order to guarantee himself against the sinking of the cargo or the loss of the tulip bulbs, he would take an option from another grower which would be a guarantee for him in case he suffered the loss of the tulip bulbs, he could take up his option from another grower and and thereby replace his tulips.

Now, I will see if I can get an option down to the most understandable definition. I always like to explain options to a man according to the line of business he is in, but to those who are not in business, I will see if I can give you a very easy definition.

Example of an Option

Suppose you own a house which you would be willing to sell for $20,000. Now, I think I can sell that house in the next 30, 60, or 90 days for $25,000, but I don't want to buy your house because my sale is not complete. Therefore I come to you and say, "I will give you $500 in cash for the option for 60 days to buy your house at the asked price of $20,000." If the deal that I contemplate materializes, then I can sell your house for $25,000, and pick up my option to buy it from you for $20,000, thereby making $5,000 less the $500 that I gave you.

You will have sold your house for $20,000 plus the $500; I will be happy because I made $4,500, and the fellow who bought it will be happy because he got what he wanted.

That goes through all lines of business. If a real estate developer wanted to put up a building on this whole block, he might be able to buy one building, but he wouldn't buy that unless he could buy the others. So he goes out and gets an option on all the buildings on the block. Then he knows he can pick up the option and build the property, whereas if he had failed to get an option on, say, two of the pieces of property, he would not be able to go through with his building project, and he would lose only his option money.

You might be interested to know that aside from options used in Holland, they have also been used in Paris, London, Berlin, Amsterdam, and all of the exchanges in Europe for hundreds of years. The business was curtailed during the war, and it is curtailed now due to monetary restrictions, but a large part of the dealings on the London Exchange before the war were done through options. They have a little different kind of options than we have here. They have more complicated options, but we learned from them about 15 years ago that the most interesting option was the Call or Put at the market for 90 days or six months for a better consideration. I will point that out as we go along.

Going back about 15 or 20 years, we in the United States dealt only in the three-day, the seven-day or 15- and 30-day options. We rarely went beyond 30 days. Europeans made fun of those; they didn't think they had too much value to the buyer nor were they interesting for the seller. So we took over their idea of market options, which, in my opinion, is much more interesting to the buyer and the seller. I am going to explain those options to you.

Effect of the SEC Act

In 1933 when they formed the Securities Act, the framers of the Act tried to put the Put and Call people out of business. They really didn't understand the business. They thought the whole thing was a speculation and was unnecessary. To use Mr. Thomas Corcoran's explanation to the Finance Committee of the Senate when he explained the bill paragraph by paragraph, he said, "Not knowing the difference between the good and bad Puts and Calls, for the matter of convenience we strike them all out." Well, an explanation like that was very easy to combat, and through our efforts we convinced the committee that Puts and Calls had a place in the economic picture and that they were insurance mediums. Puts and Calls have been allowed under the supervision of the SEC which was then formed.

After the SEC remade a study of them—the law said they could be dealt in if they were "not in contravention to the rules" set down by the SEC—there has not to this day been a rule set down by the SEC so there can be no contravention. I don't say this because I am in the business, but the Put and Call options do play a very interesting role in the security business.

The reason for the attitude of the framers of the Securities Act was that many years ago there was an option called a free option which was usually granted surreptitiously by the holder of a large block of stock to a manipulator, who for this grant would go out and tout the stock, create stories, and get the public to buy the stock at advancing prices so he could benefit by the option and the holder of the stock could dump it at advancing prices. That has been pretty well stopped because an option granted today must be reported to the SEC, and they watch that very carefully. That is practically out of business.

The Legitimate Options

That brings us back to legitimate options. There are various ways to use Put and Call options. I would like to show you on the blackboard some of the various uses.

First let us go back a little bit and show you how an option was done years ago. As I said, options were done primarily for 30 days. [Writing on blackboard]. Let us say a stock was selling at 50, and a man would buy an option at 55 for 30 days. For that he would pay $137.50. This $137.50 happens to be a price that was set by custom. It has been that way for the 31 years that I have been in business, and I understand, years before.

It originated, I understand, by the option broker paying to the maker of the contract what they call a dollar per share. That was this $100, the balance going to the broker.

Now, with the stock selling at 50 and the call at 55 in 30 days for $137.50—in those days we had very wild fluctuations—suppose in 30 days that stock went to 75, then the holder of that contract could call for his stock at 55 and sell it at 75, and he would have 20 points profit, less the cost of the contract.

I should like to point out to you, and have you watch the point in all of these cases, that regardless of what happened to this movement of stock, even had it gone the other way, the total risk was $137.50.

Today, by reason of the fact that we have copied the European method of trading, instead of a man calling for the stock at 55 in 30 days, he buys a call at 50, at the current price, for 90 days, and for that he will pay about $375. Now, you can see that he eliminates the five-points-markup that he had, but he has three times the amount of time, and while the cost is greater than the cost of the 30-day contract, you will find that it is cheaper in the end. Here he has a net working cost of $375, but he has three times the amount of time in which to make a profit, and sometimes that is a very, very important element in the option business. That is what we call "Calls for Speculation."

I would like to show you Puts for speculation, which is just the reverse. Suppose a stock is selling at 50, and a man thinks it is going to decline, he buys a Put at 50 for 90 days for approximately $350.

I might add at this time that the money prices that I put down, like that $350, fluctuate according to supply and demand for those particular options, and to the fluctuation of the stock in question.

When a man buys such a Put at 50 for 90 days for $350, should the stock go to 20 in the time, he buys 100 shares of stock in the market and he delivers it according to his Put contract to the maker of the Put at 50, and he has made 30 points, less the cost of buying the stock and the Put.

I should like to point out that if this man were wrong, and the stock went to 75, he merely abandons his option and his total loss is $350.

Let's compare that with a man who sells 100 shares of stock short at 50 because he too thinks it is going to 20. These people who play the market are very, very sure that their ideas are right, or else they wouldn't do it. The one man buys a Put at 50 good for 90 days for $350. The other man says, "I am not going to spend $350 to buy such a Put because that means the stock has to go down to 46½ before I start to

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*A lecture given on Aug. 11, 1950, the 15th 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.

Korea and Aftermath

By ROGER W. BABSON

Mr. Babson holds Administration may have been prudent in not backing Chiang Kai-shek in China, and as regards Europe, says our policy should be to hope for best and prepare for worst. Believes there will be no World War III, and advises owning own home and having diversified list of good common stocks as inflation hedge.

During the past few days I have again been in New York City where I contacted some very important people. Perhaps you would like a brief summary of what these real thinkers believe regarding the Korean situation and the world in general.

Roger W. Babson

Even some leading Republicans feel that we have pursued a wise Chinese policy in accepting the theory that Communism would inevitably spread throughout China. When I visited China, I found terrible poverty and suffering among these hundreds of millions of people. I am not surprised that they blindly grasp at the promises of the Communists. The State Department, therefore, may have been prudent in *not* backing Chiang Kai-shek; it may be unjust for us to persecute Lattimore or any other honest man for taking a similar position.

Certainly, at all costs, we should hold Formosa but avoid war with China. These people have always been friendly to us. By a "hands-off" attitude, we can again have their friendship after the present storm is over. People in close touch with the Far East believe that Communism is less likely to spread throughout Indo-China, Burma and India if we stick to the State Department's much criticized position.

What About Europe

My knowledge of Europe indicates that our policy there should be "to hope for the best but prepare for the worst." The people in Western Europe are unhappy, and this includes the English people. They have been through two wars and feel that if World War III comes, their homes and farms will be the center of the conflict and they would suffer tremendously, whoever wins. Certainly, their only hope is for the formation of a united Western Europe and Great Britain with a combined army, navy and air force as urged by Winston Churchill. Governments will attempt this, but what the reaction of the masses will be at that time is uncertain. The Communists are making great promises while the Conservatives have little to promise excepting the *status quo*.

It is hoped by the common people of Western Europe and Great Britain that Russia will not risk a World War III, but if Russia does, that they can remain neutral. However, it is up to us now to help arm these people and aid them in every way. Otherwise, if we should get into war with Russia, our boys might be left to fight Russia pretty much alone. I have no fear of Russia licking us; but it is possible we cannot lick Russia! My present guess is there will be no World War III now, but that the Cold War will surely become hotter and more expensive.

Let's Look at History

All readers should secure from their local library "Wells' Outline of History" or some popular History of England and read same. Starting several hundred years ago, when our ancestors were all serfs and had no property or other rights, up to the present time, there has been a continuous series of revolutions. These have come about once every 150 years and have been accompanied by bloodshed, sabotage and most inhuman actions by the masses against large property owners. The same frightful practices, now used by the Russians and their allies, were common during the days of the English Cromwell, the French Revolution and the Thirty Years European War. This does not justify present Russian practices, but it indicates that through such crimes, dishonesty and atrocities have the masses secured for us the freedom which we today enjoy.

The fate of wealthy people in Poland, Bulgaria, Hungary and other Russian satellites is only a repetition of what has happened many times before. Those who owned only their own homes and land *which they themselves cultivated* were not disturbed, but the rich who collected rents for houses or land or interest on money suffered great losses. Those who had most of their assets well diversified among many things, including small amounts of coins, jewelry, good furniture, useful tools, etc., got by. Those who had some trade or profession were protected. This included stone masons, carpenters, mechanics, shoemakers, and even musicians, artists and poets. All these revolutions were, however, followed by periods of destructive inflation which today would seem to make a well-diversified list of good common stocks and especially convertible bonds the best hedge. Of course, a home in the country, in good repair, having all modern conveniences and enough fertile land for self support, with well-educated grandchildren, is our best protection.

The State of Trade and Industry

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

An appreciable rise was noted in total industrial production last week with output for the country markedly above the level of the comparable period in 1949. Reflecting higher production, overall claims for unemployment insurance held virtually steady with the previous week.

* * *

Indicative of the heavy spending program contemplated by the National Administration to help defray the cost of the Korean War and now being implemented, Congress on Saturday last approved a $4,500,000,000 tax increase bill. In keeping with the provisions of the bill employers will be required to start withholding taxes from wages and salaries at the higher rates on Oct. 1, next.

Personal income taxes will advance about 17% on the average and corporation levies about 15%. The increases are not fully effective until Jan. 1, but for 1950 they will apply to one-fourth of an individual's income and one-half of a corporation's.

The present 15% withholding tax on wages and salaries (after personal exemptions) will be raised to 18% on the first of next month.

Steps are now being taken to supplement the government's revenue in the form of an excess-profits tax to raise additional billions. It is expected that such a bill will be ready when Congress resumes its work in November.

* * *

Increased costs about the home and for clothing are playing a significant part in higher living expenses. According to the Bureau of Labor Statistics' consumer price index, living costs continued to climb between mid-July and mid-August, but the pace was slower. Food prices, which had been rising rapidly since mid-April, declined slightly in the latest period, while price advances for home furnishings, clothes and fuel lifted the index as of Aug. 15 to 173% of the 1935-39 average. This represented a gain of 0.3% over July 15. From mid-April to mid-July, the index advanced more than 3%.

* * *

This week inflationary pressures are mounting in the iron and steel markets with supply shortages increasing despite record production, says "Steel," national authority on the metalworking industry. Demand is stronger than ever with military and related needs expanding steadily. Prices are moving upward, reflected in continued isolated advances, especially last week's increase of $3 per ton on pig iron by several leading midwestern producers. Meanwhile, continued stability of the finished steel price structure is jeopardized by a possible early hike in steel wages coupled with continued rising general production costs.

Expectations are, states the magazine, that the larger steelmakers will await settlement of the wage question before acting on prices. In the meantime, however, smaller producing interests continue to effect increases.

No easing in tight supply is in early prospect. Actually, conditions are expected to worsen over coming months despite government sponsored allocations and inventory controls. The latter means little in present circumstances since consumers' stocks have not been excessive for months past, and with producers allotting tonnage based on historical pattern of sales there is little possibility of consumer hoarding.

Barring serious labor trouble, continues "Steel," production is certain to hold at or close to capacity for months to come. Sporadic wildcat strikes currently are hampering finished steel output at some plants. Seeking to keep in step with the expanding demand for steel, the industry again has revised upward its expansion plans, its program now calling for increasing present ingot capacity of over 100,000,000 tons to 108,000,000 tons by the end of 1952. This is an increase of about 3,000,000 tons over projected construction earlier this year.

* * *

Synthetic rubber will account for about 54% of the country's total consumption in the last four months of this year and considerably more in 1951, states Harry E. Humphreys, Jr., President of United States Rubber Company. In the first eight months of this year it was 40%.

The reason for the transition is that the government is buying large tonnages of natural rubber for stockpile to insure our security in the event supplies from the plantations should be cut off, he said.

* * *

A moderate rise in August building permit valuations for 215 cities of the United States over the July level was registered, according to Dun & Bradstreet, Inc.

The aggregate volume for August came to $550,997,973, a gain of 5.0% over July's $524,978,208, and a drop of only 3.2% below the all-time high of $568,904,044 set last May. It was 58.5% above the August, 1949, valuations of $347,409,808 and the highest for any previous August on record.

For New York City alone building plans filed during August amounted to $37,858,882, a rise of 2.0% over $37,123,541 in July, but a decrease of 8.4% from $41,341,128 in the like month of last year.

The first eight months of 1950 set a new all-time high mark in building permit valuations. The total for 215 cities for the elapsed portion of this year went to $3,785,896,378 or only slightly less than the aggregate for the entire hitherto peak year of 1949. It was 49.8% greater than the $2,527,756,054 for the corresponding eight months' period of last year.

Steel Output Scheduled at Largest Weekly Amount Ever Made

Steel users looking for some clear-cut rules on defense steel

Continued on page 33

Says Nation Can Supply War and Civilian Needs

The full needs of the armed services can be met and the civilian economy maintained at a very high level if America makes full use of its enormous productive capacity, Dr. Allen A. Stockdale, of the National Association of Manufacturers, told the Savings Bank Association of Maine at its recent annual "family dinner" in the Rangeley Lakes Hotel, Rangeley, Me.

Dr. A. A. Stockdale

"At no time in the past has American industry been so well prepared for whatever assignments may lie ahead," the representative of an association whose 15,000 members produce 85% of this country's manufactured goods said.

This country's manufacturing capacity is at least 50% greater today than it was only 10 years ago and goods are being turned out at a rate of 60% above the 1940 level, he asserted, adding:

"The $10 billion requested by the President for defense purposes represents only about 4% of our present gross national product."

American industry today is capably manned with well-trained and experienced workers and has an abundance of skilled engineers, chemists and other technicians, Dr. Stockdale said, "who can be shifted from peacetime to defense production as needed with a minimum of dislocation or delay."

The United States is in a strong position, industrially, Dr. Stockdale continued, because of the "tremendous investment" in new plants and in modernization and improvement of old plants since the end of World War II.

These enormous investments by private business, plus the 100-odd government-owned plants built in World War II, will make it unnecessary, Dr. Stockdale said, to use materials and manpower for new construction on anything like the scale necessary in the last war.

Observing that some people in Washington "appear more concerned with controlling this nation's economic life than they are in expanding it," Dr. Stockdale said that experience has shown that controls "discourage and depress" production. He quoted Earl Bunting, managing director of the Manufacturers' Association, as having said:

"American productive might has well been termed the 'arsenal of democracy.' It can best be maintained as such by a minimum of economic controls and governmental interference. Industrial management has time after time demonstrated its understanding of national problems as well as its ability to out-perform the world. If the time should come when allocations and priorities are required in the public interest, then such controls can best be exercised by industry committees functioning under government approval and protection."

With Russell, Hoppe Co.

(Special to THE FINANCIAL CHRONICLE)

PORTLAND, Ore.—Harpel W. Keller is with Russell, Hoppe, Stewart & Balfour, Wilcox Bldg.

With H. L. Robbins

(Special to THE FINANCIAL CHRONICLE)

WORCESTER, Mass.—J. Arden Woodall is now with H. L. Robbins & Co., Inc., 390 Main Street.

Observations . . .

By A. WILFRED MAY

The Investor Today—In a World of Uncertainty

In the first place, the basic division between the state of prosperity of "Wall Street" as an industry, and the welfare of the individual investor in recent years should be realized.

A. Wilfred May

It is true that in the 1920's, from the end of World War I to the 1929 debacle, the profitability of investment banking and brokerage was quite closely correlated with the ups and downs of the individual investor. Both the industry and the investor-turned-gambler were quite thoroughly annihilated in the 1929-'32 holocaust. The brokerage fraternity and the industry generally got "burned" in the *New Era* because they could not withstand the *New Era* urge to abandon their traditional safe functioning as uninvolved commission earners with the result that much of the professional element as participants too, also went down with the pyramided "investment trusts," gambling pools, and wildly-floated new issues of that time.

During the ensuing 1930s and 1940s the individual investor seemed on the whole to fare considerably better than the "industry," partly because of the imposition of the New Deal's securities regulation, self-purging and general legitimization. This was typically reflected in the contrast between the post-depression quintupling of the stock price averages to a level above one-half their fantastic 1929 peak; in contrast to which the price of Stock Exchange seats, geared to activity, has recovered to barely one-tenth of the 1929-inflated high. Some fillip to the Street's long-term prosperity has, of course, been furnished by the sensationally increasing popularity of mutual fund distribution; but this is as yet not been decisive.

The Long-Term Corrosion of the Investor

Irrespective of such Investor-Street comparative developments surely the status of the individual investor has been in a long-continued state of deterioration. This we can note in three stages: (1) The period of relatively free capitalism pre-1933, (2) post-1933 controlled capitalism, and (3) the current and prospective armament economy post-Korea.

The contrast between the contemporary plight of the creditor class and its former high estate can be demonstrated by recalling his early 19th Century lending operations when private bankers like the Rothschilds in Europe rescued their governments with loans affording 5-9% interest rates. To periods of uncertainty private bankers had large holdings of gold, (a medium today enjoyed mainly by Hindus). During the Civil War the United States Government paid the rentier 6% on his long-term bonds and 12% for short-term money. In 1919 the Victory Loan bore a coupon as high as 4¾%.

During the past two decades the investor has found himself living in an era of managed and otherwise debased currencies, forbidden to protect himself through gold-holding and gleaning from his dollar bonds only 2½%—before taxes at continually higher rates. Nor can the owner of capital escape from the difficulties resulting from money tinkering by simply assuming continued dollar depreciation—because of timing difficulties. We must remember that, during the past 150 years three long-term in-flations have been offset by three de-flations beginning with the 29-year period following the war of 1812.

The Modern Equity Holder's Dilemmas

Likewise, worsening has been the status of the capital owner holding equities. On a world-wide scale he has had to face constantly increasing political interventions and socialization. Without the deliverable votes, since investing is an avocation

Continued on page 37

Insurance Stocks—Their Past and Prospects

By VINTON C. JOHNSON*

Vice-President, First Boston Corporation

Mr. Johnson reveals growth of profits and advances in insurance stock values in recent years. Points out insurance stocks are still selling roughly at only 84% of book value. Holds underwriting gains in current year, though probably not equal to 1949, will still be very substantial, and lists several life insurance companies whose shares may be considered as growth stocks and thus good investment for trust funds.

As shown on Exhibit A you will notice the Dow-Jones Industrial Average, Best's Fire Insurance Company Stock Index and Best's Casualty Insurance Company Index—listed by year-ends since 1933 — the entire time that the latter two indices have been compiled. At the bottom is listed the month-end "averages" for this year together with the percentage changes so far this year and the preceding two years. Study of the tabulation reveals that the industrial average is up this year, while fire insurance and casualty insurance stocks are down. Why is this so?

Vinton C. Johnson

The fire insurance industry in 1949 experienced its most profitable underwriting year on record. There are several ways of measuring this success but I think the simplest and easiest way is to combine the losses and expenses into what is known as the combined loss and expense ratio. This is compiled by measuring the losses against premiums earned and the expenses with premiums written. The industry showed a combined loss and expense ratio (before Federal income tax) of 83.1% in 1949—an indicated profit of about 17%. This compares with 89.4% in 1948 and ten-year average of 95.03%. In other words the indicated profit, before Federal taxes, was better than three times the ten-year average.

During the first eight months of this year fire losses throughout the country were 4.7% *more* than for the corresponding period last year and 3½% *less* than for the same period in 1948. However, these figures do not include certain extended covers such as windstorm—and losses in this category have been greater than in 1948. So it looks like underwriting results of the fire insurance companies will approximate the 1948 underwriting results when the combined ratio was 89.4%—an indicated profit of over 10% and more than twice the ten-year average.

The casualty insurance industry is also expected to show smaller underwriting profits. The combined loss and expense ratio for the industry last year was 91.8% and this year it probably will approximate 95%. The ten-year average was 93.0%.

I have mentioned underwriting ratios which have to do with the insurance part of the earnings. The other main source of earnings is the income the companies receive upon their portfolios. Of course, the investment income will be substantially higher for both fire and casualty insurance companies this year but the underwriting results usually determine the price performance of these stocks. For instance, the last real "big" years that the industry had prior to 1948 and 1949 were in 1934 and 1935. In those years the combined loss and expense ratio was 91.0% and 88.3% respectively. You will note on the stock averages sheet that for this two-year period the index for fire insurance stocks rose more than 100% while the Dow-Jones Industrial increased about 45% or less than half of the increase shown by the fire insurance company stocks.

1950 Underwriting Profits Will Still Be Substantial

So at the present time it appears that although underwriting profits will be lower in 1950 than last year, they will, however, be very substantial. Investment income will be higher. There is another factor which has kept insurance stocks from performing as well as the industrials — namely, yield. At the beginning of the year a representative group of fire insurance stocks yielded 3.50%. Such a yield is not too bad if the outlook is for appreciation in the market for the stocks. However, when the industry had just completed its most profitable year on record, the chances at the beginning of this year were better for a reduction in earnings rather than for a further increase.

Exhibit B lists the aggregate operating results of eight selected fire insurance companies. In 1914 these companies were eight of the largest stock fire insurance companies in the country and I believe today—35 years later—that they are all within the first 15 companies. So it is safe to say that this is a representative group of the type of company in which there is a very good investor interest.

I understand that one of the purposes of this forum is to ascertain the merits of insurance company stocks under the prudent man theory of investment for trust funds.

The domestic stock fire insurance companies, which prior to World War I had shown only a very modest development, have since that time, as shown by this tabulation, reported (1) a fairly good underwriting profit and (2) a remarkable increase in investment income. Moreover, during this time stockholders have been rewarded with a substantial and a fairly steady increase in cash dividends.

The aggregate adjusted underwriting profits of this group were particularly high in the years 1919, 1935, 1948 and 1949, as a result of substantial declines in loss ratios. Although losses were reported from underwriting operations in nine of the 36 years tabulated, net investment income was sufficient to more than offset these losses so that there were net profits in *every* year. I think this is a very important factor from a trustee's point of view. The investment income of the eight companies increased gradually up through 1930 and again from 1933

*A paper by Mr. Johnson before the Insurance Forum of the New York Society of Security Analysts, New York City, Sept. 20, 1950.

EXHIBIT A

Date—	Dow-Jones Industrial	Best's Fire Insurance Stock Index	Best's Casualty Insurance Stock Index
12/31/33	99.90	100.0	100.0
34	104.04	147.5	137.3
35	144.13	203.4	239.5
36	179.90	194.1	282.0
37	120.85	142.3	197.3
38	154.76	171.4	260.4
39	150.24	183.4	285.2
40	131.13	184.3	287.1
41	110.96	179.8	274.4
42	119.40	177.8	314 2
43	135.89	192.9	349.6
44	152.32	195.0	363 4
45	192.91	229.8	458.8
46	177.20	200.9	400.5
47	181.16	199.5	383.4
48	177.30	236.3	403.2
49	200.13	285.7	478.1
1/31/50	201.79	279.3	479.0
2/28/50	203.44	286.6	496.8
3/31/50	206.05	283.3	486 9
4/30/50	214.33	273.8	478.1
5/31/50	223.42	282.9	492.8
6/30/50	209.11	273.4	445.0
7/31/50	209.40	253.6	413.1
8/31/50	216.87	269.2	444.7
Percent Change:			
12/31/49-8/31/50	+ 8.3%	— 5.8%	— 7.0%
Year 1949	+12.8%	+20.9%	+18.5%
Year 1948	— 2.1%	+18.8%	+ 5.2%

EXHIBIT B

AGGREGATE OPERATING RESULTS OF EIGHT SELECTED FIRE INSURANCE COMPANIES

(Not Consolidated)

Year—	‡Adjusted Underwriting Profit	§Net Investment Income	*Net Operating Earnings	Cash Dividends Paid to Stockholders	Investment Income Paid in Dividends
	—000's Omitted—				
1914	$1,094	$7,359	$8,453	$5,980	81.26%
1915	5,968	7,478	13,446	5,980	79.97
1916	4,685	8,319	13,004	6,420	77.17
1917	11,489	8,967	20,456	6,868	76 59
1918	12,341	9,947	22,288	7,340	73.79
1919	24,322	11,449	35,771	8,866	77.44
1920	9,317	13.558	22,875	9,440	69 63
1921	¶4,163	15,125	10,962	10,520	69.55
1922	4,527	15.124	19,622	12,020	79.48
1923	5,764	15,829	21,593	12,810	80.93
1924	¶3,595	16,636	13,040	13,112	78.82
1925	¶3,973	18 040	14,067	13,565	75 19
1926	¶1,922	18,047	16,125	14,090	78.07
1927	8,411	19,121	27,532	15.320	80.12
1928	14,065	20,203	34,268	16,123	79.80
1929	18,481	21,775	40,256	17,530	80.50
1930	¶2,325	26.004	23,679	21,249	81 71
1931	3,083	24,362	27,245	21,667	88.94
1932	¶3,347	19,430	16,083	17,728	91.24
1933	13,113	16,756	29,869	14,644	87.40
1934	16,309	17,400	33,709	14,929	85.80
1935	20,833	17,832	38,665	19,542	109.59
1936	9,647	21,257	30,904	17,430	82.00
1937	11,791	22,108	33,899	19,211	86.90
1938	10,498	20,204	30,702	19,252	95 29
1939	8,665	22,092	30,757	19,252	87.14
1940	9,223	23,490	32,713	20,702	88.13
†1941	6,850	24,824	31,674	21,702	87.42
1942	¶844	24 662	23,818	20,702	83.94
1943	10,760	24,299	35,059	21,576	88.79
1944	¶972	25,529	24,557	19,980	78.26
1945	3,856	26,480	30,336	20,494	77.39
1946	¶2,179	27,969	25,790	20,880	74 65
1947	539	30,833	31,372	21,130	68 53
1948	27,870	35.973	63,843	22,527	62 62
1949	54,035	42,188	96,223	25,719	60.96
Average					80.69

*Does not include realized or unrealized profit or loss on securities.

†Prior to 1941, Federal income taxes in most instances were charged to adjusted underwriting profits; therefore, to keep the figures comparable, we have charged the taxes to underwriting in 1941 and subsequent years, although actually the practice has been to charge income taxes to the total of underwriting and investment income.

‡Consists of statutory underwriting profit plus or minus the change in the equity in the Unearned Premium Reserve. Since 1941 an allowance has been made at the then prevailing rates for the indicated incurred Federal income tax on this change in equity.

§Including only dividends received from subsidiaries.

¶Indicates deficit.

through 1949 when in the latter year the previous high year—1930—was surpassed 1½ times. Last year's investment income was more than double that of 1938. In every year with but one exception (1935) investment income exceeded cash dividend payments and in every year net operating earnings exceeded cash dividend payments by a considerable margin. This is another factor that should be of interest to trustees.

I have indicated that underwriting ratios for 1950 will probably approximate those of 1948. For this group of companies—at a 45% tax rate—the underwriting profit should approximate $25,900,000. Although it is a little difficult to know what year-end dividend payments of industry in general will be, I would assume that the net investment income of these eight companies would be not less than $46½ million—or total net operating earnings of about $72½ million. On Sept. 15, 1950, the aggregate market value of this group was $901,075,000 or approximately 12½ times estimated earnings for 1950. A year ago they were selling for 7.9 times latest published earnings — two years ago for 11.7 times and three years the figure was 13.4 times.

With dividend payments to stockholders of this group of companies this year of at least $30,600,000, or 19% more than in 1949 but still only two-thirds of projected investment income for this year, it is reasonable to expect increases in dividends to stockholders of fire insurance companies within the next six months.

Immediately you say — what about excess profits taxes and how will such a law affect the earnings and dividend outlook. I don't know what legislation will be enacted but I have heard that average earnings of the years 1946 through 1949, is one method that will be used as a base figure. The average earnings before taxes for this group for the years 1946 through 1949 was $54 million. This amount is substantially below our most recent figures and may affect fire insurance company stock prices adversely. I have mentioned that the market value last Friday (Sept. 15) was $901,075,000. This figure is 16¾ times the base earnings calculated on the average earnings. This seems amply high and may be another reason why insurance stock prices have not participated in the general rise experienced by many equities. Another method for figuring excess profits during World War II was based upon the amount of invested capital. Applying this method and the then prevailing rates to our particular group, the base figure is $62 million. At the present market these stocks are selling at 14½ times this estimated base figure. Again this figure is somewhat higher than the usual "times earnings" figures for insurance stocks.

According to the aggregate figures in Exhibit B the net operating earnings after taxes in 1948 amounted to about this same figure. The Best's Stock Fire Insurance Index in the year 1948 varied from a high of 236.3 and a low 195.4 as compared with the figure at the end of August this year of 269.2.

It should be noted, however, that under either method of calculation of a base earnings figure that present dividends to stockholders would be covered by a generous margin—in fact sufficient to allow for dividend increases. This should be important to trustees.

While nothing has been said about adjusted book values or so-called liquidating values, it may be of interest to note that at the close of 1949, the aggregate figure of this group was $1,105,866,000. So these stocks are selling at the present time for roughly 84% of adjusted book value.

Based upon this very short analysis it would seem to me that insurance stocks should give a good account of themselves in the next six months in comparison with stocks in general but I am not too optimistic about them on the plus side.

Life Insurance as Growth Stocks

In addition to the fire and casualty insurance company stocks, I want to suggest that if any of you that are really looking for growth stocks—that you take a look at life insurance company stocks. While the supply of life stocks is not great—there are several that have a fairly good market. The yields on life insurance stocks are much lower generally than other insurance stocks but in recent years life companies have demonstrated exceptional growth and earning power.

Stocks you might look it—Connecticut General, Lincoln National Life, Monumental Life, Aetna Life Insurance, Continental Assurance, Travelers Insurance.

The first four are strictly life insurance while the latter two operate in the fire and casualty fields as well as life. Maybe some day we can have a session devoted to life insurance company stocks.

COMING EVENTS

In Investment Field

Sept. 26-30, 1950 (Virginia Beach, Va.)
National Security Traders Association Annual Convention at the Cavalier Hotel.

Sept. 28, 1950 (New York City)
Charles Hayden Memorial Trophy Golf Tournament at the Baltusrol Golf Club, Springfield, N. J.

Sept. 29, 1950 (Chicago, Ill.)
Investment Analysts Club of Chicago luncheon meeting in the Georgian Room, Carson Pirie Scott & Co.

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).

June 11-14, 1951 (Jasper Park Lodge, Alberta, Canada)
Investment Dealers Association of Canada Annual Convention.

With Waddell & Reed

(Special to The Financial Chronicle)

YUMA, Colo.—Albert W. Morris is connected with Waddell & Reed, Inc. of Kansas City.

Frank Newman Adds

(Special to The Financial Chronicle)

MIAMI, Fla.—Simon Pleiter has become affiliated with Frank D. Newman & Co., Ingraham Building.

Irving Lundborg Admits

SAN FRANCISCO, Calif. — Irving Lundborg & Co., members of the New York and San Francisco Stock Exchanges, will admit S. Duffield Mitchell to partnership on Oct. 5. Mr. Mitchell will make his headquarters at the firm's San Jose office, Bank of American Building, of which he is Resident Manager.

With Kaiser Co.

(Special to The Financial Chronicle)

SAN FRANCISCO, Calif.—William W. Guelph and Howard W. Proefrock are with Kaiser & Co., Russ Building, members of the San Francisco Stock Exchange.

Two With Peters, Writer

(Special to The Financial Chronicle)

DENVER, Colo.—John S. Ralston, Jr. and Patrick T. Thompson are now affiliated with Peters, Writer & Christensen, Inc., 724 Seventeenth Street. Mr. Thompson was formerly with Revel Miller & Co., Los Angeles.

Boom and Bust, and Gold

By FRANK LILLY
President American "Hard Money" Association
Executive Secretary, Prospector and Mine Owners Association

Mines research statistician, ascribing "booms and busts" to over-expanded paper money credit, points out that during "bust" periods gold equities increase in value while other values fall. Contends present U. S. gold price is too low, and present London gold price parity is equivalent to $102 an ounce. Warns U. S. is losing gold and present Treasury gold stock is not excessive in view of a heavy National debt and expanded business activity. Says world still operates on gold standard, and U. S. is in disadvantageous position because of absence of free gold market.

"There is a tide in the affairs of men,
Which, taken at the flood, leads on to fortune."

Since ocean tides occur in two flow-and-ebb cycles during the lunar day of 24 hours and 49 minutes, Shakespeare could have worded his statement as follows: "There are *cycles* in the affairs of men, which, taken on their *upward trend*, lead on to fortune. Or, taken on their *downward trend*, lead to a loss."

Frank Lilly

The fact that almost every phase of nature occurs in cycles is now well established by science. There are, for example, cycles of wet and dry years, good and poor crops, sunspots, salmon runs, flu, wheat prices, building construction, common stock prices, etc., etc. Each of these cycles has an upward trend which persists for rather definite periods, peculiar to its own category, and a succeeding downward trend covering a period which, on the whole corresponds to the time covered by the upward trend.

23-22 Major Boom-and-Bust Cycles

Since 1795 there have been 23 major booms and 22 busts in the United States. In other words, there have been 23 periods of upward trend, including the present one, in industrial activity as reflected by common stock prices, and 22 downward trends or busts. The average length of a boom-and-bust cycle has been approximately seven years, including both upward and downward trends.

Of the 23 major booms, three were the result of price inflations, four were during war periods, four were postwar, four were secondary postwar, one was bank credit expansion, two were land booms, one a railroad boom, one a corporation merger boom, one (1929) is classified as a bull-market boom, leaving two due to diversified factors.

Of the 22 major busts, four were war depressions; three, primary war depressions; four, secondary war depressions; three, widespread bank failures; one, debt repudiation; one, rich man's panic; one, crop failure panic; one, crop surplus panic, leaving four due to diversified causes.

Boiled down to essential facts, the booms were the result of expanding credits established on debts incurred in the purchase of war materials, postwar reconstruction, land purchases, railroad building, industrial construction, etc. The busts occurred when the debts represented by paper currency, bonds, notes, mortgages, etc. were out of balance with the hard money supply.

Here is an eye-witness report of what occurred during one of the boom periods around the middle of the 19th century:

"Paper money brought everyone to Wall Street. It circulated like the fertilizing dew throughout the land, generating enterprise, facilitating industry, developing internal trade; the railroads found their business increased beyond their most sanguine expectations, speculation became wide and extravagant. Many persons denounced the speculation but that was entirely idle; the thing to be denounced was the cause. Remove the cause and you remove the evil. Preserve a sound money and speculative gambling

Continued on page 31

Dealer-Broker Investment Recommendations and Literature

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

Guide to Wartime Controls, Washington Policies & Business Trends—Kiplinger's Washington Letter—Special 13-week offer only $4.50 with ad on page 4 of today's issue—Kiplinger Letters, Room 52, 1907 K Street, N. W., Washington 6, D. C.

Inflation vs. Deflation—Discussion—Francis I. du Pont & Co., 1 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.

Textiles—Study—H. Hentz & Co., 60 Beaver Street, New York 4, New York.

* * *

Archer Daniels Midland Co.—Memorandum—Sutro Bros. & Co., 120 Broadway, New York 5, N. Y.

Central Maine Power Co.—Memorandum—Maine Securities Co., 465 Congress Street, Portland 2, Maine.

Also available is a memorandum on **St. Croix Paper Co.**

Chicago & North Western Railway—Analysis—Dreyfus & Co., 50 Broadway, New York 4, N. Y.

Cooper-Bessemer Corporation—Bulletin—A. M. Kidder & Co., 1 Wall Street, New York 5, N. Y.

Dominion Steel & Coal Corp., Ltd.—Analysis—Cohu & Co., 1 Wall Street, New York 5, N. Y.

Also available is an analysis of **Kaiser Aluminum & Chemical Co.**

Fairchild Engine & Airplane Corp.—Memorandum—Selig Altschul, 25 Broad Street, New York 4, N. Y.

General Box Company—Analysis—Semple, Jacobs & Co., Inc., 408 Olive Street, St. Louis 2, Mo.

Kimberly-Clark Corp.—Memorandum—Shearson, Hammill & Co., 14 Wall Street, New York 5, New York.

Long Bell Lumber Co.—Memorandum—May & Gannon, 161 Devonshire Street, Boston 10, Mass.

Maule Industries—Circular—Aetna Securities Corp., 111 Broadway, New York 6, N. Y.

Nashville, Chattanooga & St. Louis—Circular—Vilas & Hickey, 49 Wall Street, New York 5, N. Y.

Also available are an analysis of **Pennsylvania Railroad** and a leaflet of **Railroad Developments.**

Riverside Cement Company—Card memorandum—Lerner & Co., 10 Post Office Square, Boston 9, Mass.

Rockwell Manufacturing Co.—Memorandum—Walston, Hoffman & Goodwin, 35 Wall Street, New York 5, N. Y.

Royalite Oil Co.—Report—Bache & Co., 36 Wall Street, New York 5, New York.

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

Stromberg - Carlson Company—Card Memorandum—Rogers & Tracy, Inc., 120 South La Salle Street, Chicago 3, Ill.

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

West Penn Electric—Memorandum—Josephthal & Co., 120 Broadway, New York 5, N. Y.

Western Airlines, Inc.—Special review—John H. Lewis & Co., 63 Wall Street, New York 5, N. Y.

No Likelihood of Early European Unity!

By E. W. FLENDER
Partner, C. B. Richard & Co., Members of N. Y. S. E.

Reporting his impressions gained on a recent trip to Europe, E. W. Flender expresses pessimism regarding a quick and voluntary unity of Europe, notwithstanding the Russian menace. Says European investor may have to revise opinion of American securities as "Iron Ration."

The striking observation forced upon the American observer during the past summer on the European continent was the feeling of alarm about Russia. The fear of impending political complications was the more acute as one approached the Iron Curtain. In cities close to the Eastern Zone of Germany, such as, for instance, Hamburg, people were practically prepared to leave at a minute's notice.

In some part satisfaction was keen that the United States has taken a firm stand in Korea. Nobody doubted the ultimate successful outcome of the American action. Naturally, Europeans are Europeans first, so on second thought apprehension as to the effect of the Korean campaign on European security became a much discussed subject. The possibility that the Korean, or similar war-like action in Indo-China, Burma, etc., might necessitate keeping many U. S. divisions in the Far East, is considered a weakening of the ability of the United States to help the European continent in case of need.

Military circles seem to be less alarmed for the immediate future. Speculation was rife as to the Russian strategy in the event of war. The majority view reasoned that Russia would strive to reach the Pyrenees quickly in the first onslaught and to make an effort to hold the Atlantic Coast. Failing to be able to do so, she would probably put as much European manpower into Russian labor battalions and, after a most thorough scorched earth policy in the industrial districts, would retire to the marshes of Poland for a long, drawn-out campaign.

In view of such dire possibilities, it appears strange to the American observer that the idea of European unity has gained so little ground. To be certain, lip service to the thought is rendered everywhere but very little tangible, if anything, has been achieved so far. The traditional antagonisms and economic rivalries, the long-ingrained nationalism, and the jockeying of private interests and political parties for positions or some selfish advantages are heavy obstances in the way of achieving European unity quickly by voluntary agreement.

One conclusion drawn from the recent political events, very pleasing to the Europeans, is the fact that logic demands continued help under the Marshall Plan for an indefinite period of time.

Bankers in Switzerland and Holland are wondering how high American taxes can be raised without killing all incentives. There is agreement that there is a limit somewhere. It is admitted that this limit is higher in an economy which carries on a deliberate "controlled" mild price and wage inflation, permitting skimming off larger amounts of taxes than would be possible in an economy of steady prices. The imponderables of the situation as it is developing in the United States are, however, judged to be such that the time may come when the European investor may have to revise his opinion about U. S. securities as representing to him the never-failing "Iron Ration."

Bogota Bond Exchange Plan Extended

Holders of Bogota bonds are being notified that the time in which these bonds might be exchanged for Republic of Colombia 3% external sinking fund dollar bonds, due Oct. 1, 1970 has been extended from Oct. 1, 1950 to April 1, 1951. The bonds covered by this extension of time are City of Bogota (Republic of Colombia) 8% external sinking fund gold bonds of 1924, due Oct. 1, 1945, and Municipality of Bogota (Republic of Colombia) Power and Light Consolidation Loan of 1927 20-year external 6½% secured sinking fund gold bonds, due April 1, 1947.

Full Employment Policy— An Inflationary Threat

By STUART ARMOUR*

Economic Adviser to the President,
The Steel Company of Canada, Ltd., Hamilton, Ont.

Canadian economist, commenting on the Full Employment doctrine as exemplified in U. S. and Great Britain, points out its dangerous implications to free enterprise and the national economy. Sees, in implementation of doctrine, continuous inflation and loss of individual liberties as well as destruction of the middle class, together with Capitalism. Cites Britain as example, and warns of policies that tend toward Stateism. Concludes following an inflationary policy plays into Russian hands.

While Americans and Canadians may be divided politically, and while there are important differences in our respective national economies despite superficial resemblances, we have pretty much the same social aims and ambitions.

Stuart Armour

We live beside you, and we are enormously influenced by you every hour of every day. We like you; and yet we seem to feel there is something not quite right in our doing so. Perhaps our attitude may best be compared to that of our fathers who flocked to the Midway in this great city more than half a century ago. They certainly liked, but they most certainly highly disapproved of, those Hoochie-Coochie dancers.

Which is not to suggest that we have ever compared you as a nation to anything so flighty as a Midway dancer. Perish that thought. Still, the involutions and convolutions of your governmental policies, both international and domestic, have at times seemed to us almost as intricate, if considerably less exciting, than those of La Bella Fatima.

Perhaps as a resident of a country which belongs to what until recently was called the British Commonwealth of Nations, I should remind you that considerably less undulating policies earned for Britain the opprobrious title: "Perfidious Albion." That title did Britain's popularity no good; and in certain quarters it may even have dimmed the real glory of her achievement. It is said, for instance, that the popularity of Albion, save as a political issue, has not been very great hereabouts.

Yet one dares to suggest, even in this vicinity, that you might benefit from Britain's long experience. After all, Britain was the creator of Capitalism. Furthermore, until she turned away from what was perhaps her greatest creation, she exercised leadership on a world scale. Perhaps history will regard Britain as the best example of what happens to a nation which loses faith in the system which has made her great.

You now bestride the Western World. Today your actions, and even what you say, set the pattern for all of what we call civilization. We all look to you, and we are all so dependent upon you, that what you may decide upon almost any economic, social or political question will affect the future, as it affects the present, of every believer in personal freedom everywhere in the world.

Being dependent upon you, we other nations are in varying degree at your mercy. Because of our own lack of self-sufficiency, especially in the face of our need to keep our living standard in approximate consonance with your own, we Canadians in particular are often affected quite as much by your domestic as by your international policies.

Paradoxically we can usually survive our own work stoppages better than we can those which deprive us of such essential supplies from U. S. sources as coal, ore, oil, refractories, and certain classes of food and steel products.

Because of these factors it may not be too presumptuous for an outsider to suggest that your every economic, social and political action should now be framed with at least some reference to its possible repercussions far beyond your own borders.

Above all, it seems to me to be vitally necessary for you to remember that what your relatively closed economy may be able to afford is likely to prove quite beyond the reach of many others less fortunately situated. Does not the world dollar problem in essence arise from the desire of other nations to duplicate your standard of living without having the means, or perhaps even the desire, to adopt the American way of life?

In other words, you have set a pattern which others often find it quite impossible to copy. This is bound to create grave strains and stresses throughout the world — strains and stresses which may prove very dangerous unless you can not only maintain an extremely high level of statesmanship, but also develop in non-government quarters a restraint which does not always come naturally to those who live in our exhilarating North American atmosphere.

You may remember that one of the most urbane and cynical and modern writers said not so many years ago: "If a nation values anything more than freedom it will lose that freedom; and the irony of it is that if it is comfort or money that it values more it will lose that too." [1]

Danger of Losing Freedom

It has often seemed that in the pursuit of comfort and money we North Americans have been in no little danger of losing our cherished freedom. Perhaps we may still lose it if we look on Freedom as something we can buy with money alone. The men who in signing your Declaration of Independence signed the death warrant of tyranny in North America, and throughout the Western World, did not seek to buy liberty. They unflinchingly pledged their lives and their sacred honor, as well as their property, to a great cause.

But we, doubtless animated by the highest motives, have too often sought to achieve what we conceived to be a good end by the worst of bad means.

Whatever social justification one may choose to adduce, the fact remains that ever since the end of World War I we have taken collective action which has put a premium upon extravagance. In a sense we thereby reversed an age-old practice of war. For while we forbade our fighting men to loot the cities they captured we taught them, and civilians as well, to loot their own economies.

Some of the most pressing of present-day problems had their genesis in the actions we took as long ago as the end of World War I, now some 30 years ago.

In the intervening period our people learned that if only they cried loud enough or long enough our governments would give them what appeared to be aid under the attractive name of Social Security or Social Welfare. Of course, those we had chosen as our leaders did not bother to point out that State aid was bound over time to become more and more illusory. Perhaps they themselves did not realize that in pursuit of a policy of succouring its citizens the State would inevitably be bound to indulge in practices tending continuously to lower the value of its money. We also failed to establish in the public mind the fact that everything must be paid for out of production. It is apparently still news to many people that every wage increase or pension or welfare payment is a claim upon production, and hence that unless man-hour productivity rises concurrently such benefits will not only be worthless but actually destructive because of the inflation they engender.

Thus our failure to establish in the public mind the connection between cause and effect in the realm of economics has already cost us very dear. Unless we can make the people of North America realize that connection, we shall eventually pay an even more bitter price.

Squeeze on Middle Class

We have also failed so far to convince the man-in-the-street that if we continue the process of robbing Peter to pay Paul we shall at some point inevitably squeeze the Middle Class out of existence. Truth to tell we have scarcely bothered to make people realize the value of a solvent middle class—the great dynamic of our society. Perhaps our failure to make manifest the vital role of a thrifty and hence a capital-creating middle class goes far to explain the current public ignorance or misunderstanding with respect to profits.

Nicolai Lenin, that master revolutionary, realized what an insuperable barrier a prosperous middle class represented to the forward march of Communism. Lenin laid it down that one of the first moves in the destruction of Capitalism, and hence of personal freedom, must be the destruction, through inordinate taxation, of the middle class. We ourselves have been able to observe, on the southern part of this hemisphere in particular, the baleful results of erecting societies which did not encourage the growth of a middle class.

If we in North America do wipe out our middle classes economically we shall eventually wipe them out socially and politically. If, or when, that happens be assured that government here, as it has done elsewhere, will degenerate into a contest between dictatorships of the right and of the left.

Out of a sense of equity, or perhaps because of a bad conscience, we tempered the wind to the shorn lamb after the debacle of 1929. In thus seeking to save people from the results of their own folly were we not perhaps guilty of trying to play God? At any rate, by doing what may at the time have appeared to be only an isolated humanitarian action did we not embrace the fallacy that two wrongs make a right?

Having embraced that fallacy we have been driven by the logic of our action to do many other things which seem very unlikely to be in the long-run public interest. For instance, because we helped "A" in 1930 it was successfully argued that we must help "B" in 1933. However, the claims of A and B being no more valid than those of C and D, we soon found ourselves involved in subsidizing out of the public purse, in one form or another, nearly every class in our society.

Such proof of the open-end character of commitments which have as their objective saving mankind from the results of its own folly should certainly have taught us the economic futility of trying to play God. But despite our proven record of hardheadedness, we evolved in the process of satisfying the claims, however outrageous, of A, B, C, and D, the mad notion that government had some secret source — other than the printing press—from which to satisfy our every demand. We, who had laughed to death a score of absurd ideas, found nothing amusing in our own failure to realize that government itself produces nothing and is hence the great parasite. We shut our eyes to the fact—writ so large upon history, and always at the forefront of our own experience—that in order to give, a government must first take. We chose to ignore the fact that in taking the State could only seize the production of someone in order to play Fairy Godmother to someone else.

It was but a step—and a speciously logical one—from this to the doctrine that the government must provide a job for every person who wanted to work. That commitment—surely the greatest burden ever laid upon production in peacetime—was explicit in the case of Britain and Canada through the issuance of White Papers setting Full Employment as their goal. This was done despite the fact that not even the most learned economist appeared able to define exactly what was meant by that glittering generality.

Commitment to Full Employment

The commitment to Full Employment in your case was at first only implicit, since Congress changed the title of the enabling legislation from the Full Employment Act to the Employment Act 1946.

While that change in legislative title may have implied a limitation upon how far your government might go toward providing jobs, in practice you have shown the same disposition as the rest of the Anglo-Saxon world to make job creation a task of the State.

Incidentally, as a result of its five-year pursuit of Full Employment, the Anglo-Saxon world is now confronted with a dilemma which appears well-nigh impossible to resolve.

Existence of that dilemma, and also, incidentally, of our continued failure to see the connection betwixt cause and effect, was set forth, unfortunately, in rather involved language, in an editorial in the New York "Times" only three weeks ago. Said the "Times": [2]

"The real choice that faces the United States is the choice between the philosophy which glorifies full employment at the expense of all other values, including long-term economic stability, and free enterprise, including the wholesale economic phenomenon known as the business cycle. If the latter (that is Free Enterprise) is to be preserved as against the former, with its destructive long-term inflationist consequences, then those who would defend it, it seems to us, must be prepared to accept two basic responsibilities. First, they must be prepared to resist inflation wherever it appears, since it is during inflation that the disequilibrium is created which transforms the downward phase of the business cycle into depression. Second, they must be prepared to see that, just as the community has placed a floor un-

Continued on page 28

*An address by Mr. Armour at the 19th Annual Meeting of the Controllers' Institute of America, Chicago, Ill., Sept. 20, 1950.

1 Somerset Maugham.

2 Editorial, The New York "Times," Aug. 31, 1950.

Bank and Insurance Stocks

By H. E. JOHNSON

This Week—Insurance Stocks

The investment merits of insurance stocks and insurance company investment policies were the subject of discussion at a luncheon meeting on Sept. 20 of the New York Society of Security Analysts. The panel featured talks by Vinton C. Johnson, Vice-President of the First Boston Corporation; Shelby Cullom Davis of the investment firm that bears his name, and C. John Kuhn, Vice-President of National Surety Corporation.

Mr. Johnson reviewed the current outlook for insurance company earnings, pointing out that while results in 1950 are not likely to equal the extremely favorable showing of last year, they would be favorable compared to any other previous period. Although underwriting results have varied considerably from year to year, the steady flow and growth in investment income over the years was emphasized.

A tabulation of eight selected fire insurance companies was presented to those present showing the record of earnings and dividends going back to 1914. During this period it was shown that investment income of the eight companies increased gradually up through 1930. There was some decline in the following three years but from 1933 through 1949 there was an increase in each year and since 1938 such income has more than doubled.

It was also pointed out that investment income for the current period will show a substantial increase and that it is reasonable to expect further increases in the dividend payments of fire insurance companies within the next few months. *(For full text of Mr. Johnson's remarks see page 6.)*

Mr. Davis held similar views on the long range position of insurance stocks. Also, it was his belief that the Korean war would have certain beneficial results for insurance company operations.

First, the pressure on premium rates would be lessened because of the changed conditions. It was his feeling that regulatory authorities because of the recent rises in prices and costs would be inclined to be a little more liberal with the companies. Also, the companies should be less worried about volume and the effort to obtain business through increasing commission rates would be less likely.

Mr. Davis also indicated that interest in insurance stock as long-term protection against a decline in the purchasing power of the dollar is increasing. *(Full text of Mr. Davis' remarks will appear in the "Chronicle" of Oct. 5.)*

Mr. Kuhn discussed the investment policies of fire and casualty companies pointing out that after certain fundamentals there were great differences among companies. Considerable emphasis was placed on their conservative characteristics. As a result of long experience he said it had been determined that where equities are purchased quality stocks are preferred. Because it is much easier for directors to buy than to sell it is advisable to own only good stocks in any phase of the cycle.

With Hutchins & Parkinson

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass.—Willoughby I. Stuart has become associated with Hutchins & Parkinson, 27 State Street, members of the New York and Boston Stock Exchanges. In the past he was with Baker, Young & Co., Inc.

With F. L. Putnam

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass.—Andrew W. Pollock, Jr., has become affiliated with F. L. Putnam & Co., Inc., 77 Franklin Street, members of the Boston Stock Exchange. He was previously with Chas. A. Day & Co., Inc.

From Washington Ahead of the News

By CARLISLE BARGERON

With the Congressional elections only slightly more than five weeks away, the Washington political experts are fairly generally of the opinion that once again the Republicans are not in a position to take full advantage of the enemy's derelictions. The belief is they will profit from the general mess of things but not to the extent they should because their position is lost in the confusion in the voters' minds and the fact that they have seemingly become so punch drunk in the pounding they have taken, the overwhelmingness of the revolution through which the country has gone, they can't present any party coherence.

Carlisle Bargeron

Take the Korean episode, for example. A few days after Truman ordered our troops into that country—the handful that were available with no equipment—a prominent Republican Senator told me he had never expected such political manna from Heaven. He had long since given up any hope of the Republicans returning to power except in the event of a serious depression, he said, and he did not want to see anything like this. But the war in Korea coming as it did, he felt had political value equal to this depression.

However, in the days of near hysteria in Congress that followed, the Republicans threw their full opportunity away. They did not focus up the main point involved: Why in the name of Heaven are our troops in Korea? Instead they became more excited than the Administration forces and began yelling for rigid controls of the country's economy, for the draft, for higher taxes, for more spending on the military. They had no criticism of Truman's declaring war overnight, in effect, without consulting anyone save his immediate advisers, and to this day, Washington correspondents have not been able to ascertain just which of them he consulted. Oh, there was some criticism of the manner in which Truman took his action but the critics made haste to say they approved what he had done, would have upheld him had he come to Congress. If they approve of the principle, so to speak, they can't hope to make a case out of the details.

This, they are still not trying to do. Their big fire is around the charge that although Congress had appropriated more than $50 billion since World War II for the military, we were unprepared for the Korean war. They have accomplished Louis Johnson's dismissal with this line of attack but this is an accomplishment they are not particularly proud of and certainly it won't pay any dividends in November.

The fact is that the victory now in sight explodes their charge of unpreparedness. It seems now as though we were quite prepared. The men and equipment were not right there on the spot, of course, and under the Administration policy of not defending either Korea or Formosa there was certainly no reason why the men and equipment should be there. Under the circumstances, the military seems to have done a remarkable job in adapting itself to an entirely unexpected situation. It is ironical that this job was done under the man who has been kicked out because of our alleged unpreparedness, not the man who has succeeded him.

The Republicans are, of course, making the point that the stage for Korea was set by Roosevelt's and Truman's coddling of Stalin and it is difficult to see how there could be any gainsaying of this. But a more immediate fact is that there would not have been the Korean war had Truman not overnight, insofar as can be determined, in a moment of impetuousity such as that which penned the letter about the Marines, ordered it when his previous attitude had been an open invitation to the North Koreans.

It seems to me that if the Republicans had just stuck to these simple facts they would be in a much better position than they are. The espousal of the cause of the Chinese Nationalists by an influential group of Republicans, their charge that the betrayal of Chiang Kai-shek in favor of the Chinese Reds is responsible for Korea, won't in my opinion, get them any votes. The purpose of this group was to prevent Acheson from recognizing Red China and permitting her to be seated in the United Nations but this has never been clear to the general public. The average American was inclined to go along with the contention of these Republicans that the scuttling of Chiang Kai-shek turned China over to the Reds but it is doubtful if there was any great popular support for financing the Nationalist leader in the recovery of the country. It was something for the Republicans to cite in the list of foreign policy blunderings on the part of the Roosevelt and Truman Administrations but there the matter should have stopped.

As matters now stand, Truman seems destined to end up on top in the Chinese controversy. Red China has been kept out of the Korean war. Much will be heard between now and Nov. 7 from him and his propagandists of how his masterful diplomacy accomplished this. And the Republicans can't truthfully claim any part of it.

The question should arise in the public's mind, though, as to why if Red China is eventually to get the recognition it seeks anyway, there should have been the fireworks in Korea. But what is more apt to stand out in the propaganda is that Truman called Stalin's bluff, and that is what the American people apparently want.

With Smith, Barney

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill.—Donald D. Schubert has become associated with Smith, Barney & Co., 105 West Adams Street. He was formerly with Bacon, Whipple & Co.

With Webber-Simpson

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill.—Bruce J. Simpson is with Webber, Simpson & Co., 208 South La Salle Street, members of the Midwest Stock Exchange.

Customers' Brokers Elect Officers

Nicholas Novak

Alfred Elsesser

Marshall Dunn

At the largest dinner meeting in the history of the Association of Customers' Brokers, the slate of officers and members of the Executive Committee were chosen to administer the organization's affairs till Oct. 1, 1951. The election and dinner, which was attended by more than 100, was held at Miller's Restaurant, Sept. 27.

The slate elected was:

President: Nicholas Novak, Drysdale & Co.

Vice-President: Alfred Elsesser, Kidder, Peabody & Co.

Treasurer: Walter Ferguson, C. J. Lawrence & Co.

Secretary: Marshall Dunn, Wood, Struthers & Co.

Executive Committee: (serving to 1954): Milton Leeds, Pershing & Co.; William Cogswell, Fahnestock & Co.; Joseph Deetor, Laidlaw & Co.; Harry Hern, Eastman, Dillon & Co.; (serving to 1952): John Tilney, Wood, Walker & Co.; Greg Lawrence, Francis I. du Pont & Co.; (serving for 1951): William Specht, Hay, Fales & Co.

Pay Final Respects To George Shaskan

More than 400 people, including officials of Nassau County, branch businessmen and civic officials, paid their final respects to George Shaskan, senior partner of the New York Stock Exchange firm of Shaskan & Co., New York City, at funeral services last week. Schools in the district were closed out of respect. Mr. Shaskan for the past 20 years had been a member of the Board of Education of School District No. 15 and for the past five years had acted as its President.

In his eulogy, Robbi Judah Cahn declared that Mr. Shaskan almost to the end had spent his time serving the public and had taken a great interest in seeing that local youth received a good education.

State Tax Collections in 1950

By V. J. WYCKOFF
Professor of Economics, DePauw University, Greencastle, Ind.

Dr. Wyckoff, using U. S. census figures and other data, estimates state and local tax revenues for fiscal year ended June 30 as around 7% above previous year. Ascribes most of rise in local government tax revenue in last decade to price and wage increases, but asserts state tax collections are about one-fifth more than justified by monetary inflation. Finds sales taxes superseding property taxes as chief state and local revenue source, and predicts further upward trend in state tax collections.

I

Tax collections by the 48 states reached an all-time high for the fiscal year closing June 30, 1950, according to a preliminary report just released by the Governments Division of the Bureau of the Census. The total of $8,967 million was approximately 7% above state taxes for 1949. Aid from the Federal government, charges for services, and some miscellaneous items will bring total state revenue to about $12,000 million when all information is at hand.

V. J. Wyckoff

In comparison with Federal finances the above state tax figure of a rounded $9 billion, although double the 1941 sum, represents a rather modest increase. For the fiscal year ended June 30, 1950, the Federal Treasury took in $35.6 billion from internal revenue (income, excise, estate, and employment taxes) and customs, a total five times that of 1941. Miscellaneous revenues not counting borrowing brought the total to $37 billion. Even at that the Federal government had a deficit of $3.1 billion before any expenditures of a direct kind were made for the Korean war.

When one comes to local governments (counties, townships, cities, villages, and special districts) tax collections have to be estimated. With about 155,000 units of local government (116,000 are school and special districts) the Census cannot collect financial data annually, though all cities with populations over 25,000 now are covered on a year-by-year basis. Local tax collections for 1950 of about $8.2 billion may be considered a usable approximation, an increase of 86% over 1941. Additional revenue of probably $4 billion came to local governments in the form of state and Federal aid.

In spite of larger tax collections on all levels of government than a decade ago, the sums were not adequate to meet expenditures. It has been mentioned that the Federal government had a deficit of $3.1 billion for the fiscal year just ended June 30. Yet with an even larger deficit officially predicted when President Truman in January of this year presented the Administration's budget to Congress, the budget for the 12 months ending June 30, 1951, was planned for a deficit of $5.1 billion!

Needless to say the stepped up expenditures of the Korean war are throwing the Federal budget even more out of balance. The effect of the to-be-voted higher taxes remains to be seen. A similar story of revenues inadequate to cover expenses is heard from officials of many states and local governments.

II

Although treasurers are collecting more tax dollars than ever before from the citizens of this country, several adjustments are necessary if one is to obtain the real significance of the trends of tax revenue over a decade or so. There are more people to pay such taxes, and for the most part people have more income with which to pay them. Also services offered citizens by their governments are costing an increasing amount month by month as prices continue to rise. When these qualifications of population, income, and price increases are considered, the tax burdens imposed by Federal, state, and local governments are somewhat less harsh.

Population changes can be worked in with tax revenue by dividing population into tax collections. On such a per capita basis 1950 state tax collections came to approximately $61, an increase of 80% over 1941, whereas total dollar tax revenue in 1950 was double the 1941 sum. Local tax revenue over the 10-year period can be less accurately measured, but reasonably close estimates indicate that on a per capita calculation all local governments in 1950 collected about 64% more than in 1941.

When one comes to the Federal government the ordinary operating expenses, the hangover costs of World War II, the pre-Korean defense measures, and the subsidies of the Welfare State forced a great increase in tax revenues even when expressed in per capita amounts. Federal taxes in 1941 worked out to about $53 per person; for the fiscal year just ended the figure was about $236!

The above data show that the "statistical person" is paying more tax dollars to each level of government than in 1941. But it is generally observed that the average person has more dollar income than 10 years ago, and the idea of tax burden certainly involves not only the tax bill but also the money with which to pay it. This relation can be expressed through the use of national income figures which groups together for total individual income, corporate profits before taxes, and inventory valuation adjustments.

National income in 1941 was about $104 billion; as of mid-1950 it probably will prove to be at least $225 billion, an increase of 116%. During the 10 years from 1941 to 1950 state and local taxes increased at a somewhat slower rate than national income. Federal tax collections, however, leaped ahead. As a result whereas tax collections on all governmental levels in 1941 were about 15.4% of national income, by mid-1950 the total was 23.5% almost one-fourth of the money with which people must buy food, shelter, clothing, medical care, and try to save.

Is this increase in the "take" of governments too much? What will be the effect of the Korean war and continued military costs? There are no definite answers to these questions and many others which may be raised. Furthermore, such an analysis is beyond the scope of this article. But if our industrial enterprise is now operating at near capacity, continued warfare accompanied by heavier Federal taxation certainly will result in the total tax bill for the average person being substantially a higher percentage of that person's income than is now the case.

Adjustments of state tax collections as well as local and Federal levies to allow for population and income changes somewhat modify at least the mental impact of taxes, as has been shown. A further consideration is that of price changes during the past decade. Although difficult to get a good index number to measure commodities and government payrolls, the Bureau of Labor Statistics wholesale and consumer price indexes can be combined to give an increase of about 60% from 1941 to 1950, excluding the renewed rise in prices since July of this year.

In essence the adjustment of tax collections for price changes seeks an answer to this question: If prices had remained stable during the past decade what would be the amount of current tax revenues? Thus, 1950 taxes are expressed in terms of 1941 dollars.

Without giving the details of calculations and qualifications it may be said that most of the rise in local government dollar tax revenue in the past 10 years can be accounted for by price increases in materials, supplies, and labor. State tax collections, however, were up about one-fifth more than justified by monetary inflation. And Federal tax receipts of $35.6 billion in 1950 even after adjustment for price changes about three times the 1941 figure.

An increase in tax collections by governments from 1941-1950 in excess of amounts called for by changes in the price level suggests an expansion in the functions or services of government. One measurement of such expansion is the number of public employees. Here again the Bureau of the Census offers help in its periodic publications. Federal, state, and local civilian public employment, which includes school teachers, was reported as 6,358,000 persons in April, 1950, compared with 4,627,000 in April, 1941, a gain of 37%.

Another indication of expansion in government comes from a study of payrolls. With a larger personnel a higher payroll is to be expected, but during the past decade governmental civilian payrolls increased 141%, a percentage substantially more than the change in number of persons and more than enough to allow for price or wage increases. Furthermore, the gains on the state and local levels were not much less than for Federal government.

III

What kinds of taxes are used by states? This question is important to businessmen in making plans for expansion, to individuals where there is a choice of legal residence, to public officials faced with the problem of finding new tax bases not preempted or exhausted by competing governmental units.

Fifty years ago the states raised very close to one-half of their total tax revenue from property even though the same base was almost the sole source of funds for county, township, and municipal governments. In 1950 the states as a group collected only 3.4% from this source, with three states no longer tapping property and several others drawing only negligible amounts.

For some years the dominant source for state tax revenue has been the group of sales taxes. This group includes the comprehensive general sales or gross receipts tax which in its most common form is levied on retail sales with certain exemptions. The general sales tax provided fully one-third of total tax revenue for a number of the 28 states which used this source in 1950.

Among sales taxes on specific or selected objects, that on motor vehicle fuels, a tax base used by all 48 states, brought in about $1,548 million for 1950, a sum just slightly less than the general sales tax. Alcoholic beverage sales taxes although coming next to motor fuels provided much less money, $422 million, a sum almost identical with the tax on tobacco products no used by 40 states. taxes on gross receipts of insurance companies and public utilities, on admission pari-mutuals, and miscellaneous bases offered the balance from sales taxes.

Income taxes, individual and corporate, amounted to $1,321 million in 1950 compared with $1,234 million in 1949 for two-thirds of the states using this source. License and privilege taxes or fees, predominantly those on motor vehicles and operators, also constituted an important category with $1,211 million.

A quick summary is offered in the accompanying table of these taxes for 1950 together with a comparison of similar sources for 1949, the war year 1944, and the last of the pre-World War II years 1941—a decade ago. The columns giving the percentage change of major tax receipts from 1949 to 1950, as well as the per-cent distribution of tax bases in 1950 are worth noting. For most of the tax groups dollar collections continued to mount over the decade; an exception in the war year 1944 was the tax on rationed motor vehicle fuel.

STATE TAX COLLECTIONS, BY MAJOR SOURCE: 1950, 1949, 1944, AND 1941

	Tax Collections (Amount in millions)				% Change from	% Distri-
TAX SOURCE	1950 (Prelim.)	1949	1944	1941	1949 to 1950	bution 1950
General sales, gross receipts	$1,679	$1,609	$721	$575	4.3%	18.7%
Motor vehicle fuels	1,548	1,361	685	913	13.7	17.3
Alcoholic beverage sales	422	426	267	216	—1.1	4.7
Tobacco products sales	421	388	160	106	8.4	4.7
Motor vehicle, operator license	749	665	394	434	12.7	8.4
Individual, corporate incomes	1,321	1,234	762	422	7.0	14.7
Property	305	280	247	268	10.7	3.4
Death and gift	170	176	112	118	—3.4	1.9
Severance	210	201	71	53	4.5	2.3
Unemployment compensation	1,028	973	1,319	901	5.7	11.5
Other tax sources	1,114	1,036	646	501	7.6	12.4
Total tax collections	$8,967	$8,349	$5,384	$4,507	7.4%	100.0%

Reference: *State Tax Collections in 1950* (same for 1949), Bureau of the Census, Washington, August, 1950.

There is a natural interest in the position of individual states in regard to tax collections in absolute amounts, on a per capita basis, and so forth. For details on each of the 48 states reference will have to be made to the publi-

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Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

Federal's handling of the refunding and its monetary endeavors against the forces of inflation continue to dominate the government market. As is to be expected when an important change in policy is being worked out, it is usually accompanied by considerable uncertainty. Today's situation is no exception to the general rule. These uncertainties include the all-important questions of larger reserve requirements and higher short-term rates. Due to these conditions, the indecisive action of the government market should not be considered strange. Operators are confused and this means the sidelines hold the greatest attraction until there is clarification of some of the issues at stake.

In a market which is trying to find out where it is going the tap bonds have given a better performance than the eligibles. This is attributed in no small measure to official support by the Central Banks. The longer and intermediate bank issues have been on the defensive, due to a considerable extent to insurance company liquidation, especially in the 1956/58s. The shorter-terms have been coming and going from bank portfolios, because of the higher prime bank rates. The 1⅜%, 1½% and 2% issues have been under pressure because of this and the tight money conditions.

Inflation in the Spotlight

With inflation very much in the forefront, so much so that the Chairman of the Federal Reserve Board gave it a full outing and official recognition in a recent speech, it is not surprising that the government market is in an anxious mood. The more the inflation spiral is emphasized the less likelihood there is that pressure will be lifted from the money markets. Restrictive measures will be continued at least until other controls are put into effect by the President which will most likely not be until after the election. In the interim and probably for a considerable time thereafter, the Central Banks will keep the money market in an uncertain state to combat the inflationary trend. There has already been a tightening of interest rates, which has had a noticeable effect upon yields of government securities. Yet on the other hand, many of the other inflationary forces, one of which is loans, have not been influenced so far by higher money rates. Also there is considerable question whether just slightly higher interest rates will slow the demand for loanable funds.

Higher Reserves Expected

This brings up the point as to whether there will be a further rise in interest rates in an attempt to slow the trend of loans. It is believed in some quarters this might knock out some of the marginal ones. It is also expected (as a part of the whole program) there will be an increase in reserve requirements to mop up excess reserves which have been created by Federal's buying of securities to put over the Treasury's refunding operation. This means the commercial banks are right in the middle again. What will they do to meet higher reserve requirements? It is more than likely that government securities will be sold in order to take care of larger reserves. This would not only take away buyers from the bank issues but it would bring liquidation into these securities.

With a raising of reserve requirements will there be another increase in short-term rates? Under such conditions not a few of the well-informed followers of the money markets look upon another upping of the certificate rate as distinctly more than a mere possibility. It is being pointed out that more stringent monetary measures as an effort to retard the inflationary trend will probably bring with them a one-year rate of 1½%. A narrowing of the credit base, along with somewhat higher short-term rates, might have a dampening influence upon loans. Nonetheless, the monetary authorities can do only so much to slow down the inflationary forces, because there are other outside factors which must be controlled before a real effort can be made to stop the spiral.

Investors in a Quandary

In the meantime, while there is all this indecision in the government market, as to whether reserves are to be increased or whether short-term rates are to go up again, it is not surprising to find buyers on the uncertain side, to say the least. If there is to be further adjustment in money rates, there will most certainly be changes in yields of government securities especially the eligibles. This feeling seems to account for the slackening in demand for the intermediate-term banks. There is, however, still a certain amount of scale buying but in a less vigorous vein than was the case recently. The longest-term bank issue has also been affected in a not dissimilar fashion.

The ineligibles continue to back and fill within a narrow range without going anywhere in particular. These issues would also be affected by higher short-term rates, as well as by the amount of support or the lack of it, by the Central Banks. Nonbank holders are still getting out of these obligations to take on higher-yielding non-government securities. Pension funds and charitable organizations have been doing some spotty scale buying of these bonds. Switching between the various tap issues has accounted for quite a bit of the activity in these securities.

More interest seems to be building up in the last three maturities of the partials, because of the desire among deposit banks for tax shelter. Although these securities are quoted down in periods of market weakness, very few of these bonds have come into the market for sale. A real price decline in the 2¾s would be welcomed by many commercial banks.

Restrictions on Bank Holding Companies

By HON. JOHN J. SPARKMAN*
U. S. Senator from Alabama
Chairman, Senate Committee on Small Business

Senator Sparkman, upholding control of free enterprise not in public interest, describes actual and proposed regulations of bank holding companies. Points out banks may be controlled by interests who do not own shares in these institutions or who do not vote their stockholdings. Sees holding companies as means of using bank funds for non-banking purposes and contends bank holding regulation is not threat to dual banking system. Concludes, though bank holding companies are not necessarily undesirable, provisions of existing control laws are inadequate to prevent abuses.

I have been asked to discuss the subject "The Banker's Stake in Free Enterprise," with particular emphasis on bank holding company legislation.

To begin with, I think there are several phases of the problem of free enterprise that we should keep clearly in mind:

First, freedom of enterprise does not mean freedom for economic forces, dominated by selfish interests, to run rough-shod over the legitimate activities of business. It means, as I understand it, opportunity for those forces to operate without restriction so long as they do not encroach upon these other activities, or upon the public interest. When that limitation is exceeded, it is proper that freedom of enterprise should be brought under such control as may be necessary in the public interest.

Second, it should be recognized that government has for a great many years very properly undertaken to regulate private enterprise when necessary to curb abuses growing out of its unrestricted use of monopolistic power.

Thus the phrase "free enterprise" is a relative term. In its strictest sense, there is no absolute freedom of enterprise, just as there is no absolute freedom of the individual. In a civilized society it often is necessary to impose restrictions in order to insure a maximum of freedom.

Third, I think we should not lose sight of the fact—and I think it is a fact—that bigness of business is not in itself an economic evil. Bigness of business is against the public interest only when the power inherent in size is abused—when it is used to cripple or destroy other business enterprises in order to crush out legitimate competition and to enable the big concern to increase its profits at the expense of the public.

With these preliminary observations, let us proceed to consider the banker's stake in free enterprise within the limits of justice and fair dealing.

It would be "carrying coals to Newcastle" for me to undertake to outline to this group what is involved in the problem of free enterprise as related to the business of banking. Your organization has worked too long and too hard for the changes you want in the banking laws for me to burden you with those details.

While efforts toward effective regulation of monopolistic developments in banking have been carried on for a number of years, and have not been entirely fruitless, there is still much to be desired. I shall refer briefly to what has been accomplished, and then discuss current efforts toward needed changes.

Your organization grew out of the spirit that impels the small operator in any line of business to oppose undue encroachment upon his legitimate field of operations, particularly after he has worked hard and established his right to the field by rendering satisfactory service to his customers and his community.

Opposed to Undue Expansion of Bank Holding Companies

To narrow this to the field of banking, it means, I assume, that the independent bankers are opposed to the undue expansion of branch banking, chain banking, and bank holding companies. At this time it is necessary to confine our attention to only one of these related problems—that of bank holding companies.

Bank holding companies are not a new development in the business of banking. They have existed to some extent for a great many years, but their expansion was phenomenal in the Twenties—a period in our economic life that had many other phenomenal features.

It was during this decade that bank holding companies reached such proportions that they were widely recognized as a threat to the sound and orderly conduct of the banking business.

Among the more important dangers that seemed to lurk in the unregulated expansion of bank holding companies were their power to acquire and operate non-banking businesses, and their freedom from the supervisory and examination restrictions traditionally and wisely imposed upon banking institutions. There were other dangers, it is true, but perhaps these were the most outstanding.

Efforts to eliminate or to minimize these objectionable features of the bank holding company problem began, so far as Congressional action is concerned, in 1930. After extensive hearings Congress recognized the need for the regulation of bank holding companies, and there was included in the Banking Act of 1933 legislation designed to provide such regulation.

It was provided, among other things, that before a holding company may vote the stock which it may hold in a bank which is a member of the Federal Reserve System it must obtain a permit to do so from the Board of Governors of the Federal Reserve System.

The Board has discretion to grant or to withhold the permit, but as a condition of granting the permit the holding company is required, on behalf of itself and its controlled banks, to agree to submit to examinations, to establish a reserve fund, and to dispose of all interests in securities companies.

These changes in the law brought some of the bank holding companies under regulation, but left others, even though covered by the same definitions in the law, entirely free from regulation, because the law is based solely on the voting permit to which I have just referred.

Voting Permit Not Effective

There is no requirement in the law that a holding company must obtain such a permit, although when the law was passed it was believed that all would do so. Many of them, however, have not done so, chiefly because they find it possible, as a practical matter, to control the operations of their banks without voting their shares in the banks.

Where a voting permit is applied for, the Board of Governors makes a thorough examination of the holding company and its affiliated nonbanking organizations, and reviews reports of examinations of the affiliated banks to determine what corrections, if any, are necessary to bring the holding company and its affiliated banks into line with established banking standards. If the Board finds that such corrections are necessary, it requires that they be made as a condition for the granting of the permit.

It is of record that in one important case where a holding company applied for a voting permit, and was directed to make certain corrections before the permit would be granted, it simply abandoned its application for a voting permit because it was able to control its banks without voting the shares it owned in these banks.

It was thus able to avoid making corrections in its operations that in equity and good conscience, and in the public interest, should have been made. Clearly a situation of this sort creates unequal and discriminatory conditions among banks, when justice demands that they should be subject to the same legal requirements.

It has been found that in some cases a holding company may completely control banks without owning a single share of the stock of those banks. This is done by means of a management corporation, organized by the owners of the banks, which manages the banks in every detail of their operation. Obviously it is a difficult undertaking to enact legislation that would correct such a situation, and yet every fairminded and public spirited banker knows that it should be corrected.

Operating Non-Banking Businesses

As to the power of bank holding companies to acquire and operate

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*An address by Sen. Sparkman at luncheon of Independent Bankers Association of Twelfth Federal Reserve District, New York City, Sept. 26, 1950.

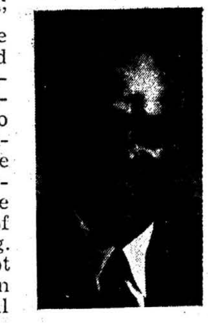
The Investor Looks at Accounting

By HARRY A. McDONALD*

Chairman, Securities and Exchange Commission

Though admitting average investor, as well as those who give investment advice, are not interested in technique of accounting, SEC chief insists role of accountant is important in preparing financial statements for reports. Says financial statements should be simple and holds great progress has been made in this direction. Contends SEC has upheld objective and uniform accounting practices. Lauds cooperation of accounting profession with SEC, and defends its accounting rulings. Discusses accounting practices for depreciation.

I have called this talk "The Investor Looks at Accounting." But it would be more practical, at least, to say "The Investor Does Not Look at Accounting." The average investor, and even most securities professionals who give investment advice are not interested in the technique of accounting. They are not interested in its technical disputes. The investor, either directly or through his advisers, looks not at accounting as such, but—when he looks at all—looks at accounts. And the stockholders' report is one of the direct ways of getting the accounts to the investors.



Harry A. McDonald

Sometimes the stockholders' report contains little more than the financial statements. Sometimes it is more elaborate. American business is beginning to realize that the stockholder welcomes a discussion of the progress and problems of management. I am whole-heartedly in favor of full reports. The wisecrackers may remark about the "gorgeous technicolor" of some of these "travelogues." But while some reports do seem unnecessarily elaborate, that is error in the right direction. Management's efforts to make the stockholders' report interesting and readable are to be commended. And I particularly congratulate the university and business groups that have combined to stimulate management to improve these reports. In making the stockholders' report more readable and interesting we are recognizing one of the essential obligations to the stockholder—the obligation to account for the stewardship of his money.

Through stockholders' reports millions of Americans are finding out about the businesses they have helped to finance; they are being helped to a more enlightened participation in the enterprises of which they are, ultimately, the owners. The stockholders' report is bridging the gap between management and investor. The interest and knowledge that results from good reports will be extremely important in keeping open the channels between savings and enterprise.

But it does not matter how elaborate a report is; it does not matter whether the report makes good or bad bedtime reading. The investor is likely to do what many detective story readers do—turn to the income statement to see how it all came out.

It is impossible, therefore, to talk meaningfully about the stockholders' report without talking about the role that the accountant plays in preparing the financial statements. And it is impossible to appraise some of the vital issues which the accounting profession faces without considering the investor and the investor's approach to a financial statement.

Certified by a public accountant, precise, down-to-pennies financial statements carry with them an atmosphere of definiteness and certainty. The ordinary investor does not realize how much judgment lies behind the making of a typical statement. He does not realize how great can be the effect of applying different principles to the same set of facts. He does not know how fundamental are some of the disputes over principle which rage in the accounting profession.

In his quick glance a stockholder may not notice whether a non-recurring item has been run direct through the surplus account rather than income. He is not likely to observe whether depreciation is taken on a replacement or historical cost basis. I doubt if 999 out of 1,000 stockholders who read reports can tell you whether their companies carry inventory on a last-in-first-out basis, or other basis. Even if the stockholder did notice these items he would not be likely to grasp their meaning. In short, the stockholder reads the financial statement as a book of revelation. Technical disputes about accounting are to him like the disputes of scholastics over theological mysteries.

Progress Toward Simplicity in Financial Statements

It is easy to say what an investor should get out of accounting—he should get a simple statement of the truth about his company. In fact, the accounting profession can share with corporate management and with the SEC (whose statutory aim is to get truthful statements) great credit for the strides industry has made in this direction. We tend to take good reporting by many of our large enterprises as a matter of course. But not too long ago there were some managements who tended to regard the accounts as an internal secret to be kept from stockholders. Even as late as the 1920's accounting was sometimes called an art of "impublicity."

We have come a long way since then. To keep up with the growing demand for publicity, to provide the means for presenting, in an objective and understandable way, our increasingly complex business structures, accounting has left simple bookkeeping far behind. It has built up an impressive body of skills and concepts. In fact, it has even built up organizations that can handle a project like a big audit which is in itself a big business.

Nevertheless, many accountants will tell you that accounting is far from perfect. They will tell you that, on some issues, "truth" in accounting is an elusive thing, even when the facts are handled honestly and skillfully. Don't expect all accountants to agree on what these issues are. Accountants are likely to have pet peeves against certain existing conventions and practices while they find no fault with others. And, as you might expect, disputes about accounting principles are prone to change with changes in business conditions. When profits are low some managements may tend to hunt for accounting devices that will improve the showing of profits. When profits are high the tendency may be naturally to the contrary. Profits or losses, in the language of Shakespeare, are the stuff that accounting disputes are made of.

The science of accounting is a science of measurement. Adequate and objective accounting principles, uniformly applied, should give us a consistent story of the development of any one enterprise and a basis of comparing that enterprise with others. A management may wish to preserve, despite changing business levels, a normal income level in its financial reports. But a science of accounting that permits it is not a science at all. It is worth no more than a thermometer that always stands at 75 degrees.

SEC and Uniform Accounting

We, at the Securities and Exchange Commission, have a vital interest in the development of objective and uniform accounting. We do not regulate the accounting profession. Our direct concern with accounting principles and practice is limited to financial statements officially filed with us under the statutes we administer. We do not generally pass on stockholders' reports; they are not even filed with us except in connection with proxy solicitations by companies whose securities are listed on an Exchange. But companies that propose to make public offerings of securities are required to register those securities with us and to file financial data. Companies which have registered large issues and companies which have securities listed on Exchanges are required to file annual reports with us.

The statutes administered by the Commission authorize it to prescribe the form or forms in which required information shall be set forth. The Congress, recognizing that financial information would be the most significant information, made specific provisions with regard to accounting. You will find some of them in Section 19 of the Securities Act of 1933, Section 13 of the Securities Exchange Act of 1934, Sections 14 and 20 of the Public Utility Holding Company Act of 1935, Sections 30, 31 and 32 and 38 of the Investment Company Act of 1940. Let me read to you some of the provisions of Section 19(a) of the Securities Act — the statute that provides for the registration of public offerings of securities. Under that section the Commission has:

". . . authority from time to time to make, amend, and rescind such rules and regulations as may be necessary to carry out the provisions of this title, including rules and regulations governing registration statments and prospectuses for various classes of securities and issuers, and defining accounting, technical, and trade terms used in this title. Among other things, the Commission shall have authority, for the purposes of this title, to prescribe the form or forms in which required information shall be set forth, the items or details to be shown in the balance sheet and earning statement, and the methods to be followed in the preparation of accounts, in the appraisal or valuation of assets and liabilities, in the determination of depreciation and depletion, in the differentiation of recurring and non-recurring income, in the differentiation of investment and operating income, and in the preparation, where the Commission deems it necessary or desirable, of consolidated balance sheets or income accounts of any person directly or indirectly controlling or controlled by the issuer, or any person under direct or indirect common control with the issuer."

Similar powers are granted under the Securities Exchange Act of 1934 in relation to annual filings of financial information with the SEC.

SEC and Accounting Profession

Both the Commission and the accounting profession have worked side by side in the evolution of accounting practices. We, at the SEC, do not want to create a tight little island of accounting under these laws remote from the mainland of accounting generally. Nor does the accounting profession want to see that happen. For that reason both we and the profession have put a high premium on constant and intimate contact with each other in the development of accounting practice.

The Commission has, of necessity, always defended objective and uniform accounting practices. The statutes we administer require information to be given to the investor. Financial statements are presented to us by thousands of companies who file official information that must be reviewed. Each of these statements, in some form or other, directly or indirectly, is destined for use by investors. These statements are guide lines and, unless they are objective and uniform, much of their usefulness is destroyed. We must, therefore, constantly be on guard to prevent the confusion that may result from a loss of objectiveness and uniformity.

It is not my intention to dispute or redispute accounting principles. My aim is to illustrate the importance of keeping accounting objective and uniform. I am going to cite some examples. Let me make it clear that I do not cite these to put into issue the principles involved. I cite them because they illustrate the hazards of sacrificing objectivity and uniformity.

One of my examples involves a large textile company that has many stockholders and whose stock is actively traded on one of our large Exchanges. Recently the company made public an interim earnings report which indicated that a net profit of over $500,000 arising from the sale of certain non-manufacturing properties had been credited direct to earned surplus. In a similar period for the previous year it had credited direct to earned surplus a similar net profit of over $1,200,000. In neither year did the income account show these profits.

Both the New York "Times" and the "Herald-Tribune," on the same day, Sept. 13, carried summaries of the company's report. One newspaper commented on the direct credits to surplus. The other did not. In 1949 the item not shown in the income statement amounted to 15 cents a share. For 1948 the similar item amounted to over 30 cents a share.

Which newspaper do you read? Depending on the accident of your reading taste, it so happens that if you subscribed to one of these newspapers you would have been able to make a more adequate appraisal of the earnings than if you subscribed to the other. The fault was not, however, that of a financial reporter. He cannot be expected to do a full scale analytical job to find items neatly tucked away in the balance sheet that he would expect to find reflected in the income statement.

The company's official filings with us for the year 1949 showed that an aggregate of almost $3,000,000 of such profits had bypassed the income statement and been charged direct to surplus. Of course our staff has taken exception to the treatment of these items.

Those of you who are familiar with this type of problem recognize that the filing I am discussing raised the issue of the so-called "all-inclusive income statement." Whatever your views may be about that issue I think you will agree that neither an analyst, nor an investor, nor a reporter

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*An address by Commissioner McDonald at the Annual Reports Forum, University of Michigan, Ann Arbor, Mich., Sept. 21, 1950.

Mutual Funds

By ROBERT R. RICH

A Shareholder's Loyalty

The anatomy of shareholder loyalty is of some importance to mutual funds, because only when one understands its structure can designs be made for cultivating it.

One of its elements, certainly, is confidence in the fund's management in good times and bad. Another element is a certain rapport or intimacy which is established between the shareholder and the fund, a feeling on the part of the shareholder that even though he lives in Coswego, the management is thinking about him and his interests all the time.

It is doubtful that the confidence of a shareholder may be gained solely by the performance record of a fund, *per se*. The bare figures, as it were, may make him think that a bull market, or some other factor extraneous to management's realm, accounts for his fund's good fortune, even though he, as an individual investor, may not have fared so well under similar circumstances if he were managing his own portfolio. In any case, letting the record speak for itself is certainly a negative approach to the problem.

This shareholder confidence, rather, seems better built on the extracurricular explanations that management may make to an investor through a monthly or quarterly letter.

Witness the pains which some funds take to give their shareholders the reasons for portfolio selections. An example of this is the regular **National Securities and Research** circular.

Another effort to gain shareholder confidence takes the form of the excellent **Perspective** letter issued by Calvin Bullock, which, by the knowledgeable analyses of various industries, certainly gives the investor the feeling that management knows its way about in the performance of its duties.

Aside from confidence, the creation of an "atmosphere of belonging" is necessary before we can have shareholder loyalty.

Two excellent examples of efforts in this direction are Keystone's **"Investor"** and Putnam Fund's **"Prudent Investor."**

Both of these letters rather obliquely give the shareholder the idea that the particular fund is a good one to **belong** to. From both of these letters, the shareholder is apt to think that management is sufficiently interested in him to prepare and send periodically well-designed letters with simplified and interesting articles. The most successful of these letters, of course, are amusing (to wit: the proverbs quoted in Putnam Fund's letter), instructive (Keystone's article "Dollars Fluctuate Too"), and directed to one basic idea, mutual funds are good investments.

One hardly need comment on the value to a mutual fund of shareholder loyalty. In the first place, during market breaks, a fund's position is more mobile, if its cash isn't being drawn down by heavy redemptions, or the fear of heavy redemptions. And, secondly, additional sales will certainly be easier if the shareholder is loyal to his fund.

Putnam Fund, in reference to this latter point, has headlined its latest circular to dealers with "To Help You Make 'The Second' Sale." The circular begins by quoting a dealer in what could be the theme for this week's column: "I'll make the first sale to a customer, but it's up to the funds to make the second one."

In determining a criteria for effective second sales efforts, several things might be said about form and content.

The form, in itself, should be personal, like the note-size Keystone **"Investor,"** or letter-size **"Prudent Investor"** of Putnam Fund, both of which have the "for our shareholders only," air. And, while the reproduction shouldn't be expensive, it need not be obviously cheap. The differential between the better reproductive methods and the cheapest ones is not significant.

The content of the letter should be directly or indirectly based on one idea: What the Fund is doing for its shareholder. Every letter should virtually say, "How much better off you are because you're a mutual funds investor."

It is perhaps the weakness of most of us that we must be continually assured that we are doing the right thing. And these letters can cleverly erase any small doubts a shareholder may have had about mutual funds at the time he purchased his shares.

Ira Haupt Struck Tap Roots of Economy

Charles Bacon's recent excursion, on behalf of Ira Haupt & Company and the mutual funds industry, to the Mineola State Fair struck deep into the tap roots of the American economy.

Since the mutual funds industry is essentially a grass roots industry, it can only be hoped that this first effort is only an opening move. Considering the attendant publicity, which was North American-wide, and the final tally, the program was certainly a success.

Charles Bacon, in reporting the affair, stated that the people who entered the tent at the Fair, were a selective group who really meant business.

How much these outlying districts, apart and autonomous from the financial centers of the country, can mean in terms of mutual funds' sales is evidenced by recent statistics that, of all the people whose income is between $3,000 and $7,000, only 8% own stocks. And this group accounts for 51% of the national income. Although sales may not be substantial, it can be a volume way of doing business, with an aggregate that may well exceed the more selective selling to affluent, and necessarily few customers.

TV Fund Forecasts Doubled Industry Output

Output of the top 10 teleset manufacturers in 1950 will almost double the entire industry production last year, it is disclosed in the annual television industry forecast issued by Television Shares Management Company, investment advisor and sponsor of Television-Electronics Fund, Inc. The estimated figures for 1950 show Radio Corporation of America in top place, Philco Corporation second and Admiral Corporation third.

Estimates of the top 10 manufacturers indicate that the entire industry, comprising some 100 companies, will produce substantially in excess of 6,500,000 sets in 1950. This compares with 3,100,000 sets in 1949.

Television Shares Management Company points out that its estimates on individual companies have been scaled down slightly from earlier figures because of the very tight situation in some components which has existed since the outbreak of hostilities in Korea. As a result of the Korean situation, it was explained, the industry has been unable to take care of the increased demand for component parts used in both civilian and military equipment, and as a result many items are already in tight supply.

Growth Cos. Announces Opening Portfolio

A total of 37 stocks selected for their growth possibilities make up the initial portfolio of Growth Companies, Inc., the recently organized open-end mutual fund whose directors include several of the nation's top ranking industrialists and scientists.

The portfolio, made public today lists a number of the better known seasoned securities, as well as a selection of lesser known stocks such as McBee Co., Oak Manufacturing, Skilsaw, Inc., etc.

Growth Companies made its initial public offering early last month. It is designed primarily for investors who seek growth of capital through investment in the common stocks of companies with more than ordinary possibilities of growth over a period of years.

The Fund listed the following securities in its portfolio as of Sept. 26, 1950.

Group I—Aluminum Company of America, General Electric Company, General Motors, Gulf Oil Corp., and Union Carbide and Carbon. Stocks in this group are limited currently to not more than 15% of the assets of the Fund.

Group II—Addressograph-Multigraph, American Cyanamid, American Natural Gas, Corning Glass Works, Hanna (M. A.) Company, Lincoln National Life Insurance Company, McGraw Electric, Pfizer (Chas. E.) & Co., Inc., and Thompson Products.

Group III—Ashland Oil & Refining, Boeing Airplane, Carrier Corp., Chicago Corporation, Elliott Co., Jaeger Machine Co., Philco Corp., Radio Corp. of America, Robbins Mills, Inc., Savage Arms, Shellmar Products, Standard Steel Spring, Texas Gulf Producing, and United States Plywood.

Group IV—Bancroft (Joseph) & Sons, Commonwealth Gas Corp., Diana Stores, Haloid Company, McBee Company, Northwest Airlines Cum. Pfd., Oak Manufacturing, Skilsaw, Inc., and Speer Carbon Co.

The Board of Directors of Growth Companies, Inc, includes such outstanding industrialists and scientists as Bayard D. Kunkle, a director of General Motors Corp., and recently retired as Vice-President and member of the management committee of that corporation; Dr. Zay Jeffries, recently retired Vice-President in charge of the Chemical Department of the General Electric Company, and past President of the American Society for Metals; Dr. Roger Adams, President of the American Association for the Advancement of Science and past President of the American Chemical Society; and Dr. Clyde E. Williams, the director of Battelle Memorial Institute for Industrial Research and recently President of the American Institute of Mining and Metallurgical Engineers.

Other directors are Harry J. Haas, past President of the American Bankers Assn.; John M. Templeton, President Templeton, Dobbrow and Vance, investment counsellors; and Dr. John H. Gross, investment counsellor, President of the Fund.

Swaney and Uhrbrock Join Lewis Fund

Election of John Swaney and E. Frederic Uhrbrock, Jr. as directors of the John H. Lewis Fund, Inc. was announced by John H. Lewis, President.

Mr. Swaney has been in the investment banking business for 30 years, during the last 12 of which he has been the wholesale representative of Century Shares Trust the principal underwriter of which is Harriman, Ripley & Company, Incorporated.

Mr. Uhrbrock's entire career has been in the security business as an analyst of railroad companies. Prior to his becoming head of research at Vilas & Hickey, members of the New York Stock Exchange, he was with The National City Bank of New York.

Chemical Fund Offers

Chemical Fund, Inc., of New York has filed a registration statement with the Securities and Exchange Commission covering an offering of 220,917 shares of $1 par value capital stock. The underwriter is F. Eberstadt & Co., Inc.

Corporate Leaders Effective

The registration statement of Corporate Leaders of America, Inc., filed with the Securities and Exchange Commission on July 21, 1950 became fully effective on Sept. 21, as of Sept. 9. The registration covered $10,000 trust fund certificates, series B period payment certificates, and 474,748.53 participations, and $500,000 trust fund certificates, series B single payment certificates, and 25,170.26 participations.

Delaware Fund Offers

Delaware Fund, Inc., Philadelphia, filed a registration statement with the Securities and Exchange Commission on Sept. 26 covering 500,000 shares of $1 par value common stock. The underwriter is Delaware Fund Distributors, Inc., of New York.

Charles Hayden Golf Tourney Sept. 28

The 22nd annual Charles Hayden Memorial Trophy golf tournament will be held on Thursday, Sept. 28, at the Baltusrol Golf Club, Springfield, N. J., it was announced by Francis A. Cannon, First Boston Corp., Chairman of the committee in charge. Teams from approximately 50 Wall Street investment firms are expected to participate in the match.

The Hayden trophy, which is kept in perpetual play as a memorial to the late Charles Hayden, will be awarded this year to the team having the lowest aggregate score, less handicap. In previous years, the trophy was awarded on the lowest gross score. The First Boston Corp. was the winner of the 1949 competition. Additional prizes supplied by Hayden, Stone & Co. also will be distributed this year.

The First Boston Corp.; Merrill Lynch, Pierce, Fenner & Beane, and Fahnestock & Co., together with Hayden, Stone & Co. are in charge of the affair.

DeCourcy Taylor With Richard J. Buck & Co.

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass.—DeCourcy L. Taylor has become associated with Richard J. Buck & Co., 8 Newbury Street. He was formerly with Raymond & Co. and prior thereto was a partner in W. R. K. Taylor & Co., New York City.

The GI Loan in Our Defense Economy

By T. B. KING*

Director, Loan Guaranty Service, Veterans Administration

VA official, after reviewing Housing Act of 1950 and effects of its application arising from Korean crisis, defends recent VA loan restrictions. Says if such restrictions were made severe unemployment in building industry would result. Predicts reduction in number of GI guaranteed loans and urges banks use caution in granting loans to men re-entering armed services. Says present tightened credit and material shortages will cut rate of new residential construction substantially.

Only by review of past events does one perceive in proper perspective how many and how swift in their succession are the changes that confront us in our daily lives. Such a review of the past nine months compels the conclusion that swift and radical shifts in scene and theme have been the keynote of the housing finance picture this year. At no time has the succeeding shift paused long enough in the wings to let the scene upon which it was to enter settle or crystallize.

T. Bertram King

First, the year was ushered in amid the uncertainties which developed the great rush on FHMA and compelled the temporary shut-down of that market. At the same time the level of residential construction was gathering momentum at a rate well above normal seasonal expectations. GI home loan volume was beginning to burgeon, reflecting both the flow of FHMA funds and the increased participation of private capital. By March applications were incoming at a 40,000 monthly rate, more than double the level of a year ago, and nearly double the rate VA was staffed to handle.

Housing Act of 1950

Then, just as we were beginning to adapt ourselves to the problems attendant upon our sharply rising loan volume, the legislative framework of the government credit aid programs was radically revamped by the Housing Act of 1950.

The new law made many basic changes. Most of them, as you well know, further liberalized the guaranty and insurance terms of both the VA and FHA programs. The VA guaranty was increased, FHA mortgage maximums were raised, our maximum terms went to 30 years, and a limited direct loan program was authorized. To be sure, several features of the new law were aimed at curbing credit supports which had proved undesirable or susceptible to abuse. The more expensive combination form of financing under Section 505(a), long a subject of attack by veterans' organizations, was counted out. The FHMA market was revived but—without its commitment weapon—only as a shadow of its former self. Apart from the law itself, the reduction in the maximum interest rate for FHA-insured loans to 4¼% altering as it did the relative pattern of investment yields—undoubtedly required a careful rescreening of investment plans.

All of these changes, and there were many more, involved substantial readjustment problems for all of us. Regulation, policy, investment planning, day to day procedures—all had to be revised according to the new rules.

During this period, all of the indexes of activity kept climbing toward new records. Housing starts, reflecting strong market demand buttressed by a general availability of credit on liberal terms, soared to new peaks. Dwellings were being put under construction at an unprecedented annual rate approximating 1¼ million units. GI loan applications were experiencing a similar upsurge. By July we had reached over 60,000 applications a month. Home loan applications were at an all-time peak in that month, surpassing even the feverish demobilization period in the Fall of 1946. For the first time in several years GI 4% loans were available in ample supply to World War II veterans in most of our communities.

Most of the troublesome innovations of the new law and other changes had been taken in stride and the plans of the building and financing industry had been adjusted to the new situation. There were some foreboding signs, it is true—such as the noticeable and steady rise in costs and prices—but all in all the outlook was for a sustained period of record housing production underscored by a generally-shared attitude of optimism and confidence.

Effect of Korean Crisis

Then came the North Korean invasion and the urgent need to step up our production for defense purposes. In our full employment economy with negligible slack resources the construction industry with its tremendous rate of consumption of labor and materials stood out immediately as an area where some cutbacks would have to be made so that resources could be diverted to defense production. Moreover, the weapons of control were easily at hand since a great segment of the housing boom was being fueled by the availability of government guaranty and insurance credit aids on very liberal terms. It was inevitable that some restrictions would be imposed on government-supported housing credit without delay.

At the same time it was recognized that no one could say definitely just how much of a cutback was needed. Clearly, in the program of partial mobilization which confronts us at present, there did not seem to be a need to clamp down on housing construction in too drastic a manner. Indeed, if the restrictions were made too severe there would be a danger of unnecessary unemployment in the building industry as well as allied industries. The best course, at least until a more quantitative definition of objectives could be crystallized, seemed to indicate as a first step the application of relatively moderate restraints on the terms offered by government guaranty and insurance programs. This was done as you know in mid-July. Minimum down payment requirements were increased for FHA-insured loans and the 5% down payment minimum was ordered for most GI loans. Both agencies also pegged their value estimates to the level of production costs prevailing on July 1, 1950. In effect this means that cost increases above the July 1 level will require correspondingly higher down payments from the borrower. This cost "freeze" will have a substantial retarding effect if costs keep rising the way they have been in recent weeks. For the Nation as a whole BLS figures show about an 8% increase in wholesale building material prices since July 1.

Undoubtedly these measures, coupled with uncertainty over rising costs and material shortages, will have a restrictive effect on building plans. Unfortunately, most of the statistics available to us do not give a sensitive enough indication of what is happening right *now*. Take our GI home loan application figures as an example. Preliminary figures show a total of nearly 70,000 for the month of August. This is more than 3½ times the low-point of March, 1949 when only 19,000 home loan applications were received.

The point could be made that the mid-July credit restrictions have had no effect whatever. I do not believe that is true. We must remember that hundreds of thousands of dwellings which are now being completed and sold are exempt because they were started prior to July 19, 1950. Many veterans facing recall to service have decided to see that their families are adequately housed before they shove off. Many lenders have speeded up their processing of the 505(a) combination loan to meet the deadlines of its elimination schedule.

A Reduction in Loans Predicted

These and other factors have combined to create what I believe is a sort of last minute flurry. Statistics on our appraisal assignments for proposed construction support that belief—they show a rather marked decline in the latter half of August. Thus, while application volume may show only moderate cutbacks from the record high of August for the next month or two, I am convinced that a substantial fall-off will begin to show up in the last quarter of the year, over and above the expected seasonal decline. This conviction is strengthened by a recent spot survey of builders' plans by the National Association of Home Builders. That survey showed a rather general belief that the present pattern of tightened credit and material shortages will cut the rate of new residential construction substantially.

That being true, it can be argued that no further restrictions are necessary as far as GI loans are concerned, especially if the desired cutback in housing construction can be achieved largely at the expense of higher priced housing, much of which is supplying the non-veteran market. On the other hand the evolving picture of our overall defense needs may necessitate some further restrictive measures for GI loans, particularly if more severe action is taken against other housing loans. Moreover, the problem is a dual one. It evolves both the diversion of material and labor supply and the restraint of the inflationary impact of such measures. Although the extent to which construction has been so far cut back is conjectural, the inflationary splurge is very real. VA cost estimates have dragged far behind without materially deterrent effect. The demand, and the cash behind it is heavy, maybe due to the same psychology that causes sugar hoarding. So it may be that if restriction upon construction is regarded as sufficient for present purposes, new restrictions aimed at cutting down demand may be deemed advisable.

Veterans Will Continue to Have Preferences

In any case if further restrictions are deemed necessary, the law provides that the relative credit preferences of veterans under existing law shall be preserved. Thus, even if a substantial reduction in housing construction should be required, the Congress apparently intended that veterans should continue to enjoy the preferential position they now have.

As you know, the Defense Production Act of 1950 gives very broad powers to the President to control real estate credit, conventional as well as government-supported. To implement the new law, the President has by Executive Order vested broad regulatory powers over new construction in the Federal Reserve Board and has vested concurring or independent powers in the Housing and Home Finance Agency with respect to residential construction and government-credit aids in that field.

The task with which these designees are thus confronted demands an almost Delphian perception of future courses. They undoubtedly should have the sympathy and support of all concerned as they endeavor to strike the needed chord of balance between the continuance of a peacetime economy and the necessary diversion of a part of our great national potential to meet our defense needs.

Loans to Those Recalled to Armed Services

Running conversely to these contractions of our credit structure, but of equally vital importance to those whose responsibility it is to develop and service a portfolio of mortgage loans, is the projected expansion of our armed forces. Should you make a loan to a veteran who has a reserve status, or to one of draft age?

The answer is emphatically yes. He who might be inclined to decide otherwise will be brought up short by the realization that he must permit others the same privilege of tailoring their business to suit the prospective military status of each applicant, client, or customer. He will have proscribed the man upon whom our country may soon have to rely for its defense. Clearly such a line of lending policy would involve the twisting and distortion of principles and values.

The mere possibility of a call to military service may not, therefore, properly be a factor in your approval or rejection of a loan application. It is clearly contemplated by the VA that in applying the income or "ability to pay" test required by Section 501(2) of the GI Loan Act, a lender should measure repayment ability solely on the basis of the applicant's income from his civilian employment—present and prospective—and the possibility of military service should not be given any weight whatever in the making of that determination.

But as we pass from the prospect of military service to the imminence of military service we must be governed by different considerations. As to applications for guaranteed loans by those who have been recalled to active military service, we request that each case be analyzed carefully as an individual problem, determining as accurately as possible what the income of the veteran and his spouse will be from all sources while he is in active service. If it appears that the loan requested will be beyond his ability to repay, the applicant should be counselled to seek a purchase within his means, or defer purchasing until the termination of his service.

In any event, if the veteran is re-entering military service, the pay and allotments which he is to derive therefrom, plus any other income which he or his spouse may have, will be the basis for determining that the cost bears "a

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*An address by Mr. King before the Annual Convention of the Savings Banks Association of Massachusetts, Portsmouth, N. H., Sept. 15, 1950.

CED Stresses Reduced Civilian Demand in Combating Inflation

Program Section of its Research and Policy Committee advocates restraint in non-military buying, both government and private, as chief item of strategy for economic mobilization. Says present mobilization effort, though not big one, is still strong inflation potential.

In a special report relating to problems of military and economic mobilization, the Committee for Economic Development, through the program section of its Research and Policy Committee, recommends, as a chief strategy item for economic mobilization, restraint, both government and private, upon non-military demand for goods and services as a means for aiding the military effort as well as preventing inflation. Commenting upon the mobilization task the report said in part:

Obviously the program now in sight is much smaller than our accomplishment of World War II, when war expenditures rose to a maximum of $90 billion and we had over 12 million persons in the armed forces. And our capacity to produce is now much greater than when we entered the rearmament program in 1940-41. Our labor force is 10% larger and our productivity, largely due to technological advances, probably one-third greater than 10 years ago. Thus our overall productive potential is probably 50% larger. Moreover, during most of World War II the severest limits upon military and essential civilian production were set by the shortages of basic raw materials and shipping, in both of which respects we are now much better supplied.

How big a task will it be to increase the annual rate of military expenditures from $15 billion at mid-1950 to $30-35 billion at mid-1951? In our opinion the answer to this question has four parts:

(1) The task is not very big in terms of the overall reduction that will be required in the supply of goods for civilian uses. The increase in military output would be 6% to 8% of the rate of non-military production before the Korean attack. We should be able to increase our total output 6% and possibly 8% in the next year, by reemploying some of the unemployed, increasing the hours of work, normal growth of population, increase of productivity, and entrance of more women and older workers into the labor force. Thus we can probably carry through the present program with little reduction in total overall civilian supplies.

(2) The task is bigger but still not very big in terms of the reduction in civilian supplies of particular types. A larger than average cutback will be required in civilian supplies of certain "hard" goods using metals or other scarce materials. But even in these fields the kinds of cutback in sight will leave the civilian economy adding to its already large stocks of durable goods at a rapid rate.

(3) The task is very big in terms of the speed required in defining and executing the program. We are calling for about as big a step-up in military expenditures as we achieved in the calendar year 1941. This demands speed in planning the military program, speed in letting contracts, speed in diverting materials and facilities to military production, speed in getting production out.

(4) The task is very big in terms of its inflationary potential. The addition of $15 or $20 billion of extra military demand to non-military demands which were already near our productive capacity could produce a great excess of demand, with resulting general price increases, unless adequate steps are taken to curb the non-military demands. Inflation would impede the military effort and cause immediate and future hardships to the American people beyond the real requirements of the program. **The inflationary potential must be restrained at its source, which is excessive demand.**

Strategy for Economic Mobilization

Strategy for economic mobilization should rest upon three principles:

(1) Restrain non-military demand, government and private, to release resources for the military effort and prevent inflation.

(2) In particular cases if the general restraint of non-military demand does not provide sufficient resources for the military effort, invoke industry cooperation and, if necessary, mandatory production or distribution controls to assure the availability of materials, manpower and facilities.

(3) Keep the economy as free as possible, and minimize use of direct controls, including price, wage and rationing controls, in order to avoid freezing an economy that must be kept growing.

The key to success is adequate limitation of non-military demand. Given this, the problem becomes manageable. Without it, nothing else will suffice.

The chief reliance in restraining demand should be placed on fiscal, monetary and debt measures. As we have pointed out in previous statements, fiscal, monetary and debt policies are the appropriate means for attacking the problem of instability in a free society. The fact that our present problem of inflation results largely from a military program does not make these instruments less appropriate. They are appropriate because they can be effective. They are appropriate because they do not involve government decisions about all the details of the economic system. They leave the economy as free as it can be to operate efficiently and to grow.

To restrain demand the following steps will all be necessary:

(1) Curtail government non-military expenditures to the maximum possible extent, and achieve the greatest efficiency and coordination in military procurement.

(2) Raise taxes, so that as the military program absorbs production, taxes will withdraw income from private hands.

(3) Conduct a savings program that will bring home to the American people their opportunity to support the military effort by sensible management of their private finances.

(4) Take advantage of the continuing large maturities of Federal debt to sell more bonds outside the banking system and reduce the supply of money.

(5) Restrict credit to curtail the demands that are mainly financed by credit expansion—notably the demands for consumers' durable goods, for housing and for business plant, equipment and inventories.

If the military program were very much bigger than is now in sight, price, wage and rationing controls might be needed. The heaviest tax program consistent with incentives to work, plus government economy, plus credit controls and voluntary savings might not then be sufficient to restrain excess demand. Presumably this situation would be temporary. In such a critical and temporary situation it would be better to accept the evils of overall direct controls than to accept runaway inflation. But this is not our present position, and the possibility that it may be our future position does not require the adoption of such measures in the present program. In fact, the possibility that we may face a still greater emergency makes it all the more important not to put the American economy now in a straitjacket that would prevent its growth.

The demand for price-wage rationing controls has probably been influenced by the panic buying and price increases of July and August and the desire to do something quickly about that. The panic buying has already subsided considerably, as purchasers find that the stores are well stocked. Many of the prices that have advanced have only recovered from depressed levels that would have called for adjustment in any normal prosperity. **Nonetheless buying continues at a high level and prices and wage rates are rising. We need quick and fundamental action now, quicker and more fundamental than is possible by the route of direct controls. We need higher taxes now. We need action to cut government expenditures now. We need strict control on consumers' credit now. We need strict control on construction credit, government and private, now. We need general credit restraints, now. We need full and responsible explanation to the American people of the dimensions of the program upon which the nation has embarked and of the requirements that it places upon them.**

How to Restrain Non-Military Demand

As we have said, the main elements of a program to restrain demand are budget policy, credit policy and public debt policy. In this brief statement we shall comment only on the considerations most relevant to immediate policy in these fields.

(1) **The Federal Budget**—Unless the military program grows substantially beyond its present apparent size we should balance the Federal cash budget in fiscal 1951 (July, 1950-June, 1951). We recognize that at some, much higher, rate of military expenditures it would be impossible to adhere to the pay-as-you-go prin-

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State Tax Collections in 1950

cations of the Bureau of the Census; but some of the high-low ranking can be given here.

As far as total tax collections are concerned it is to be expected that there would be a fairly close correlation between state population and tax receipts. On this basis the preliminary census report again shows New York in the lead with taxes of $1,097 million, but closely followed by California with $934 million. Then there is a substantial drop to four states in the $400-$500 million group: Pennsylvania, Michigan, Illinois and Ohio. At the other end of the scale the lowest collections were reported by Navada with $12 million; Wyoming, Vermont and New Hampshire brought in slightly less than $25 million each. It is improbable that final reports from the states will materially affect their relative positions at the extremes of the list.

But a better method for interstate comparison is by per capita figures. The census publication on state tax collections offers such information, using population estimates for July 1, 1949. The following tabulation gives the five highest and the five lowest:

State—	1950 Tax Collections per Capita
High:	
Washington	$97.76
Louisiana	96.22
California	91.41
New Mexico	85.32
Delaware	83.90
Low:	
Mississippi	43.81
Alabama	42.80
Kentucky	42.80
Georgia	41.16
New Jersey	39.23

In comparison with similar information for 1949, it is of interest to note that Washington and Louisiana changed places. California last year was third, but Colorado and Michigan were fourth and fifth rather than New Mexico and Delaware. On the low end of the list Nebraska was at the bottom in 1949, Mississippi entered in 1950; the other four are the same though in slightly different order.

Probably the best measurement of capacity to pay taxes, as has been mentioned, is a correlation of tax collections with income. On the state level, Department of Commerce figures for individual income payments can be used. Such payments are composed of wages, salaries, proprietors' income, property income, and all other payments going to individuals within the designated time period.

Here again only a few high-low positions of individual states will be given with the figures taken from the preliminary report by the census without minor adjustments for those states using the corporate income tax. 1949 data have to be used for income; however, no appreciable distortion results for the 1950 fiscal period.

State—	1950 Tax Collection as % of 1949 Income Payments %
High:	
Louisiana	9.6
New Mexico	8.3
Oklahoma	7.2
Mississippi	6.9
North Carolina	6.9
Low:	
Missouri	3.6
Pennsylvania	3.4
Nebraska	3.4
Illinois	3.1
New Jersey	2.7

Although total state tax collections for 1950 were 7.4% ahead of fiscal 1949, there were noticeable contrasts among the individual states for these two years. On the one hand, Delaware with its new tobacco tax, showed a gain of 59% in total tax revenue. South Dakota and Florida each had collections in 1950 about 26% ahead of 1949. On the other hand, a few states collected less from tax sources this year than last year: West Virginia was 3% under 1949, South Carolina 2.6% and Pennsylvania 2.2%.

The relative importance of the major kinds of taxes on a 48-state basis has been indicated. Sales taxes, general and specific, brought in 52% of all state tax collections according to this preliminary report for 1950, and a few states ran this almost up to 75%. For only about a half-dozen states did any other major tax category yield more than sales. New York, Oregon and Wisconsin continued to rely heavily upon their individual and corporate income taxes, and for these states such taxes in 1950 were reported as returning more than the sums from taxes on sales or licenses. Delaware had almost equal income from sales, licenses and individual income taxes, the license revenue continued to offer evidence of the popularity of this state for incorporation of businesses.

IV

The probability that the upward movement of state tax collections will be reversed is negligible. To be sure, a major depression may give temporary totals appreciably below the trend line, but taking the figures on a decade basis the odds are very high that state taxes will get larger and larger as the years pass by, unless there is a fundamental change in intergovernment relations in this country. Not only will the absolute dollar amounts of state tax revenues mount, but also there is little reason to believe that either on a per capita basis or as a percentage of national income will such state taxes decline.

It is hardly necessary to spell out all of the reasons lying behind this forecast. Unless the Federal Government wipes out states' rights and the prerogative now exercised by states to determine their own tax sources and those for their local governments, the state will continue to face maintained or mounting demands for services and benefits.

Part of this growth will be in the increasingly important state aid to local units of government. In 1949, for instance, aid to local governments was 30% of state general expenditure. Such help in addition to the states' own operating expenses cost money, that is, means more taxes.

Moreover, the long-term movement of absolute dollar prices is upward. (Note the added kick just in the last several months from the Korean war.) Is it probable except under conditions of economic collapse that salaries of government employees in terms of dollars will return to the levels of previous decades? Will construction costs get back to even the prices of the '30s, or fuel and supplies for public buildings drop appreciably from current rates? And it does not seem inappropriate to suggest that if this country moves more toward socialism or any form of centralized, authoritarian government there will be an added impetus toward the expansion of governmental functions on about all levels of our government.

Probably apocryphal is the statement attributed to Louis XIV at the height of the monarchial power in France that he was the state. The strength of democracy, however, is an exact paraphrase of the French monarch's boast. You and I can say that *we are the state*. As long as we can say this and make it stick, we shall have some control over the expenditure of government and, thus, over the amount of taxes collected by our representatives from us.

But this right to remain vigorous requires exercise. It requires an alert citizenry. It means that time must be taken to attend the regular meetings of the city council, the county commission. Letters must be written to state and national legislators. It means that we must vote in the primaries and inform ourselves of the merits of the candidates.

Such an alertness probably will not reverse the upward trend of tax collections by states or any other units of government in this country, but it will exert a positive force an lawmakers and administrators. And it will increase the possibility that when tax money is collected, it will be spent for the general welfare.

We Must Be Militarily Strong Until Mutual and Complete Disarmament

By HAROLD W. DODDS*
President, Princeton University
Member, Commission on Universal Military Training

Prominent educator, in describing present international crisis, says there is no durable solution of situation short of a rapid move toward complete and mutual disarmament. Holds until this can be accomplished, U. S. should strengthen both its military and economic resources, since unilateral disarmament cannot be trusted. Urges continued faith in U. N.

Beneath the nation's strain and anxiety lies an uneasy national conscience. By specific words and actions the United States Government has accepted the responsibility of world leadership in building the United Nations into an effective international government. Yet the diplomacy of the mightiest and richest people on earth has not been able to prevent resort to war. Whether it can prevent explosion of present hostilities into global war only the future can say.

Dr. Harold W. Dodds

Yet our collective national mind has been wobbly, uncertain and divided. Too often the baser features of practical politics, revealed in unsavory maneuvers for personal and party advantage, have tainted the treatment of the gravest issues. Our prestige as a nation fit to be trusted with the function of world leadership has diminished since 1945. While paying lip service to the need for military strength, we have seen that strength decline, experts tell us, to a point on June 25, last, substantially under that on Pearl Harbor Day. The total military strength of all of the free nations is below that of Russia's, as was made clear last month in the figures announced in Parliament and in the British and French memoranda to our government.

Our military deterioration has naturally weakened our diplomatic officers in their dealings with an adversary which considers our military weakness but an index of spiritual flabbiness. We have been unfair to our diplomats, for we have compelled them to lead from military weakness rather than from military strength. Neither have their hands included the ace-card of an intellectually united and spiritually harmonious America, at a time when our personal and material comforts have been increasing at a most extraordinary rate.

"Deficit Diplomacy"

Walter Lippmann's phrase "deficit diplomacy" aptly describes the way in which American commitments abroad increased while our power to meet them declined. Last January, Mr. Acheson defined our "defensive perimeter" in the Far East. Whether or not he excluded Korea is open to argument, but in any case he included more territory than we are militarily able to defend at the moment. Mr. Truman's recent announcement of intention to increase "substantially" our forces in western Europe merely reminds us of the patent fact that in the last analysis Europe is the critical area in respect to world war or peace.

In the last few years we have heard a great deal about "One World." Yet, as thoughtful observers have pointed out, the grim fact is that in several respects we are further from "One World" than we were in 1914, at the outbreak of World War I. In those old complacent days one could travel throughout two hemispheres without a passport. (My first visit to Europe was possible only by working my way over on a cattle boat. So limited were my resources that had I had to pay the costs of a passport and various visas necessary today, the trip would have been beyond my means.) Then trade, as well as travel, was far less restricted; international monetary exchange was freer; intercourse between peoples was easier and friendlier; both commerce and culture were more cosmopolitan than they are today. International intercourse today is between governments rather than between individuals with the consequence that, whether you define war in terms of cold or hot, the restricted intercourse we enjoy today is more warlike than at the opening of the century.

On the other hand, however, it is not all on the grim side; there are some new assets which must be stresed as indications of progress toward world order. In favor of world order today must be listed the credit item of a functioning, if embryonic, world organization, the United Nations. Power imperialism, as western nations used to practice it, has almost passed from the scene. Today more consideration is being given to backward peoples by the more advanced. A greater popular awareness of the horror and stupidity of war has grown up. There is a wide realization (although it is yet far from general) that only new and extreme measures will maintain peace and that there can be peace only with justice. There are grounds to hope that if global hostilities can be postponed for a period, a world order sufficient to meet the requirements of a durable peace can be established.

Now, where does all this leave us? The only way I can answer is to review what I have been preaching for several years. From this point my remarks will be somewhat personal, I fear.

No Common Basis for Peace

As the end of hostilities approached in 1945, I became increasingly alarmed by a growing expectation that somehow victory would bring automatically a durable peace through the easy and quick organization of a comprehensive world government which could be established and made to function overnight. In several addresses throughout the country in the interests of a just and durable peace, I pointed out that the basic elements of common consent, of common legal and political experience and habits of thought, which are the foundation of domestic law and popular government within a nation, were still lacking in international relations. As yet, international law is not full-fledged law—it is still in a process of becoming—not merely for the reason that it lacks an international police power to enforce it, but more truly because there does not yet exist among the leading nations of the world the common basis of peaceful habits, popular acquiescence and accepted custom at the international level which underlie the domestic law that we obey without question. Take the Russians, for example. They have had no experience with such democratic practices as free elections or the impartial, judicial settlement of private disputes. Yet it is these very institutions of democracy, arrived at by years of struggle in our own history, that we correctly consider to be the only rational and enduring basis of a peaceful world order. Therefore, was it to be expected that, no matter how proficient in science and technology, politically backward peoples, unacquainted with the familiar democratic processes of free elections and the judicial settlement of private disputes, would be willing suddenly to intrust their national security to an agent so new and strange as the United Nations? Rather, was it not to be expected that they would naturally adhere to a system they understood, viz., the familiar methods of force, at least for as long as their aims were being successfully attained by force?

International Communism—A New Form of Aggression

But there is more to Russia's behavior than political inexperience with free, representative institutions. Something new has been added to old-fashioned power politics. International communism is a new style in national aggression. Now we are coming to understand that the Communist Manifesto meant what it said, and that the gospel of communism is a ruthlessly expansionist doctrine of both domestic and foreign violence; physical, intellectual and spiritual. Now, after many lessons, although not until international communism under Russia's domination had gained control over one-third of the population of the world, we are piercing the smoke screen of its false social philosophy and perverted ideals of social justice to an understanding of its evil driving power when once it has captured the minds of men.

For these and other reasons there were, at the end of the war, convincing grounds to anticipate that as a practical matter, for an interim period at least, the basic deterrent to war would be found in some form of an international balance of power, in which balance Russia and the United States would appear as the chief elements. The unpleasant truth was that, if there was to be peace long enough to enable the United Nations to grow into an effective world government, it would be with the help of balance of power. We who argued thus were not popular among our brethren in educational circles. We were charged with militarism, jingoism, treason to the United Nations and similar crimes and misdemeanors. Nothing was further from my mind and heart. I want to emphasize that never for a moment did I suggest that a balance of power would keep the peace indefinitely. Balance of power has never been a durable agency of peace; its best and only possible service would be as a block on war, long enough for the nations to develop an effective world organization to replace war. I did feel that if America played her part, a balance could be achieved which could keep the peace long enough to permit the United Nations to develop into an effective international government.

I have to admit that I underestimated the strength of Russia's resistance to a functioning United Nations, although I cannot but feel that a more courageous military and diplomatic position on our part in the early stages would have influenced her towards more peaceful ways. I realized that the time which balance of power would give for this purpose would be relatively short, but it could be long enough, if the world powers which alone can support great armaments were imaginative and zealous for enduring peace. I knew that this line of reasoning placed upon America, as the strongest and therefore the most responsible nation in the world, a rugged two-fold task, viz.: to maintain a strong military position with a willingness to fight for our way of life if need be, yet at the same time to work incessantly, day and night, for world government as a substitute for war. I realized that these were most difficult—almost contradictory—courses for any nation or any individual to pursue at one and the same time. If we plumped for force alone we were lost; yet, if we neglected force we were equally lost. Military strength alone would not be enough. Balance of power alone could not only result in war eventually, as it always has. But it alone could give us hope of a breathing space sufficient to the development of a wholehearted acceptance and implementation of the ideal of world law under world government.

Military Position Must Be Strengthened

It is at last clear that there is no present alternative to a substantial strengthening of our military position as the only possible road to peace in the fevered state of the world today. You young people may accuse me, who am past the age for military service, of cold-blooded willingness to sacrifice you to a course of action in which your lives must bear the brunt of disruption and perhaps danger. But, I repeat, I can find no alternative to a larger mobilization of our military resources, although as I shall indicate in a moment, it alone is not enough. I do not venture to suggest what degree of military mobilization will be necessary; no one can now say, least of all an amateur like myself. Later developments will point the way; but from my study in 1947 as a member of the Commission on Universal Military Training, I believe that the President's estimate of approximately 3,000,000 in the armed forces is a minimum. Basic to every other consideration (let us never forget) is a full degree of unity and willingness to sacrifice on the part of the millions who will not be called to serve in the military establishment proper. I repeat, we must lead from the harmonious combination of military, economic and spiritual strength; we cannot influence the course of events by being weak in the face of hostile forces that despise weakness.

Despite all I have said, to conclude that another world war is inevitable is rank defeatism. There are reasons to hope that Russia has over-extended her front—that she has bitten off more than she can chew; that behind her iron curtain lurk grave internal weaknesses; that she knows that her economy cannot support a war and that the mass of her people are psychologically against it. There is reason to believe that the oligarchy that rules Russia is vulnerable to a campaign of psychological warfare; that behind the iron curtain the dictatorship is less securely entrenched with the masses than we think; which suggests the importance of a more alert campaign of understanding than the feeble efforts undertaken so far. Nor can her rulers be so ignorant and stupid as not to be aware of the overwhelming industrial potential

Continued on page 21

*An address by Dr. Dodds delivered at the opening exercises of Princeton University, Princeton, N. J., Sept. 17, 1950.

Bank's Position in Present Crisis

By PRESTON DELANO*

Comptroller of the Currency

Comptroller Delano, in making comparison of present banking situation with that of 1941 at our entrance into World War II, holds it is safe to say, should a severe emergency develop, banks are now in position to fulfill and discharge their financing responsibilities. Warns bankers must avoid speculative loans and in some cases provide for additions to their capital. Stresses need of banking flexibility to meet changing conditions.

Once again the free peoples of the world take up the burden of defending their civilization against the threat of a ruthless aggression. History repeats itself in these ever-recurring attempts of savage and covetous invaders to overwhelm the culture and appropriate the superior advantages won from nature by their neighbors.


Preston Delano

Yet, in November of 1942 when we took counsel together at Philadelphia, no one of us, I daresay, thought that once the threat of World War II was met, we should be called upon within a few short years to take up arms again, and in a similar cause. We must brace ourselves to this reality, and once more be prepared to make the sacrifices which the occasion demands.

Let us take stock, for a moment, of the banking system and compare its ability and capacity to do its share with the position it held in 1941 when last we gathered our strength against another but equally relentless enemy.

At the close of 1941, only a few weeks after our entry into World War II, all banks in the country had total deposits, using round figures, of $82 billion. 64% of this amount was represented by cash and U. S. bonds; 32% by loans which at that time amounted to nearly $27 billion. A gross capital structure of $8½ billion provided what we considered, in the main, was a reasonable capitalization in relation to the volume of loans and other risk assets. I believe it is correct to say that at that time we regarded our banking system as sufficiently liquid and well capitalized to meet adequately and well its duties and responsibilities in the forthcoming war. It is now known to all that this conclusion was correct.

The changes of composition in bank assets and liabilities during the course of World War II are interesting. At the end of 1944, deposits had jumped to $142 billion (from $82 billion at the end of 1941), but only $26 billion, or 18%, of the deposits were invested in loans and 82% were represented by cash and U. S. bonds. The dollar volume of loans during the three-year period between 1941 and 1944 remained relatively constant, the virtual elimination of certain categories of loans, such as consumer paper, offsetting increases in other categories directly concerned with the war effort. At the end of 1945, deposits had increased an additional $24 billion to a total of $166½ billion, the amount represented by cash or its equivalent remaining at 82%, with $30½ billion, or 18%, invested in loans. At that time the capital structure of all banks amounted to $10½ billion, or an increase of $2 billion since 1941.

*Remarks by Comptroller Delano at meeting of the National Association of Supervisors of State Banks, Boston, Mass., Sept. 21, 1950.

Thus, at the close of World War II, while our banks had increased their deposits since 1941 from $82 billion to $166½ billion, the percentage of deposits held in cash and U. S. bonds had increased from 64% to 82%, and the percentage invested in loans had declined from 32% to 18%, the actual dollar volume of loans remaining throughout at a fairly constant level. In other words, our banks were easily and soundly able to absorb those war financing needs which they were called upon to meet without increasing the dollar volume of total loans outstanding, and at the same time, actually increasing their capital protection to depositors in relation to the total volume of loans and other types of risk assets.

It is of interest to note at this point, and without any attempt at analyzation, that for the four-year war period between the end of 1941 and 1945, bank deposits increased $84.3 billion (102%) and the national debt increased $209.7 billion. Roughly, for each $2.50 of increase in the national debt, bank deposits increased $1.00, and each $1.00 of additional bank deposits was invested to the extent of 87 cents in U. S. bonds, 4 cents in loans and 9 cents retained as cash or its equivalent.

Banks Return to Prewar Status

Over the period covered by the four postwar years ending Dec. 31, 1949, the composition of bank assets, apart from the respective percentages of cash and U. S. bonds, has steadily reverted, as was to be expected under a peacetime economy, to the positions they occupied on Dec. 31, 1941. On this date total bank deposits had declined slightly to a total of $165.2 billion. However, the percentage of deposits invested in loans had increased from 18% at the end of 1945 to 30% at the end of 1949. This compares quite closely to 32% of deposits in loans at the end of 1941. The amount of deposits invested in U. S. bonds or retained as cash or its equivalent had decreased at the end of 1949 to 69% from 82% at the end of 1945, and you will remember that at the end of 1941 the percentage so invested stood at 64%. It is safe to say that at the present time the asset composition of our banks in relation to deposits, broadly speaking, is almost identical with the position shown at the end of 1941. Even when we delve into details, the similarity of the present asset composition of banks is striking in relation to the 1941 figures. A detailed analysis shows that over that period commercial and industrial loans have doubled and real estate mortgage loans have slightly less than doubled.

Capitalization—An Item of Difference

The main difference between the position of banks at the end of 1949, as compared with the end of 1941, rests in their capitalization, particularly in relation to deposits. In 1941, the ratio of capital to deposits stood at $1.00 of capital to $9.68 of deposits. At the end of 1949, this ratio stood at $1.00 to $12.55. The relationship of capitalization to risk assets has moved up from $1.00 of capital to each $4.52 of risk assets at the end of 1941 to $1.00 of capital to each $4.91 of risk assets. In other words, the capital positions are not as strong now as they were just prior to World War II, and in certain individual instances inadequate capital positions constitute definite weaknesses. However, through the medium of retained earnings and the sale of additional capital stock this problem is being reduced in its severity.

I think it is safe to say that our banks, should a severe emergency develop, are in a position to fulfill and discharge their financing and other responsibilities. In all probability, the trend and pattern would be much the same as in World War II. Consumer paper would liquidate rapidly, loans to many types of business concerns would be reduced or completely liquidated as cash replaced depleted inventories which could not be maintained at normal levels, real estate mortgage loans would steadily recede through normal amortization and limitations imposed on new housing, and the dollar drop in those loans would be offset by loans directly concerned with war financing. In other words, the dollar loan volume would remain fairly constant, at a level our banking system could easily meet.

Must Avoid Speculative Loans

As matters now stand, in justice to all concerned, bankers must avoid loans for speculative purposes and cooperate wholeheartedly with Regulation W of the Federal Reserve. Those bankers with marginal capitalizations and prospects for increased loan volume should meet this situation squarely by providing additional capital. Bankers with already heavy loan volumes in relation to deposits should work out programs of reasonable liquidation on nonessential loans to make way for the future essential loaning requirements of their communities and the government.

In brief, it is our charge as supervisors to urge that the banking world frame its policies so that it will be in position at all times to meet and discharge every responsibility which may grow out of the present world distress and unrest. One of the characteristics of this American system of ours is the ability, not only in the banking field, but also of the whole economy, to rapidly change its complexion and operations to meet diverse conditions. This flexibility, as illustrated by the comparisons just made in the banking sector, is an important weapon in the arsenal of free enterprise. It gives us great mobility in times of stress, as opposed to the rigidity of a totalitarian state.

In conclusion, let us face this task with confidence in our strength. The roots of this nation are drawn from the same stock which throughout the centuries has successfully defended the West against the East. We are of that basic civilization which threw back Attila at Chalons, which defeated the Moors at Poitiers and which held the Saracens at the gates of Vienna. This is our heritage. Let us be worthy of it.

Seeger & Co. Is Formed in New York

Seeger & Co. is being formed Oct. 1 with offices at 150 Broadway, New York City, as successor to Bauman, Seeger Co. Partners will be Jacob Seeger and E. B. Seeger. The firm will act as brokers and dealers in unlisted securities specializing in real estate bonds, title and mortgage company certificates and whole mortgages.

Canadian Securities

By WILLIAM J. McKAY

The deliberate over-devaluing of sterling a year ago is now creating world-wide repercussions that were hardly anticipated at that time. It is most probable that had the British monetary authorities had any inkling last September of the recent march of events, no action whatsoever would have been taken with regard to the level of the pound. As far as the United Kingdom itself was concerned it was fully realized that the $2.80 level was about 10% below the then generally accepted estimate of the true value of the pound. When Sir Stafford Cripps was critized for the drastic extent of the devaluation he replied that there was nothing to prevent subsequent revaluation in the event that future circumstances warranted such action. There is much to suggest that the British Treasury is now offered an unexpectedly early opportunity to put the finishing touch to the 1949 currency adjustment.

Although over-devaluation on the part of the United Kingdom was intentionally arranged in order to have sufficient leeway for subsequent convenient revision, other countries who precipitately and completely followed the British lead have now run into unexpected difficulties. Australia, which permitted its currency to fall to an even lower level in relation to the United Kingdom pound, is now particularly embarrassed by the present turn of events. In this case the call for revaluation has now become a matter of the utmost urgency. Although until recently the Australian Country Party minority has opposed the Liberal Government on this subject in the interests of the wool producers and other exporters, the government threat of an export tax in excess of a proposed 10% revaluation, has greatly dampened opposition ardor. It is possible therefore that it will be left to Australia to set in motion a series of upward currency adjustments.

In Britain and Sweden the current inflationary pressure on the cost of living is also causing political embarrassment and widespread discussion of the advisability of the employment of currency revaluation as a counter-inflationary measure. Increasing attention is likewise being given to the fact that the United Kingdom in particular, as the world's leading importer, has a vital interest in a high rather than a low level of sterling. This consideration has all the more weight as the terms of trade are now moving against the United Kingdom. The return from exports even at their present gratifying level is tending to fall behind the more rapidly mounting cost of imports. The urge for immediate action to curb the rising trend of prices in Britain is all the more pressing as the powerful Trade Union Congress has refused to support the Labor Government's wage-freeze policy, unless an effective curb is placed on the rising level of prices. As imports from hard-currency areas are a predominant factor in the British standard of living, the upward revaluation of the pound vis-a-vis the U. S. dollar would at least constitute a step in the desirable direction.

In the case of the Canadian dollar it would appear that an almost complete unanimity of opinion exists concerning the ultimate appreciation of the currency. Under normal circumstances the Canadian authorities would probably be predisposed to let nature take its course. Events now however are tending to force the issue. U. S. and other foreign capital funds are now pouring into the Dominion on an unprecedented scale. Part of this influx is speculative based on expectations of an imminent appreciation of the Canadian dollar, but the major portion reflects external confidence in what promises to be Canada's greatest era of dynamic economic expansion. It is likely therefore that the Canadian authorities will take the appropriate initiative before the boom attains even more embarrassing proportions.

Revaluation of the currency would at least restrain the entry of undesirable "hot" money and would also serve a useful purpose in holding in check the domestic inflationary pressures. In view also of the obvious undervaluation of the Canadian dollar and its natural trend towards a higher level as the vast natural resources of the Dominion are progressively developed, it is difficult to justify the official exchange policy whereby Canadian dollars in unlimited volume are supplied at an obviously undervalued level of exchange.

During the week there was again evidence of unusual offerings of external bonds from north of the border which served to satisfy the increasing local demand. Following persistent rumors of an imminent currency change activity in internal Dominions reached a new peak of intensity and the premiums on free funds for future deliveries reached a new high level. Before levelling off in sympathy with the reaction in New York stocks also surged ahead on strong U. S. demand. The industrials again led the advance with the paper and lumber issues particularly prominent. C.P.R. was also an outstanding feature, which is hardly surprising in view of its important and diversified stake in the booming Canadian economy. Base metals were less buoyant but Noranda sold at its highest level in 10 years, and International Nickel on reports of the development of an important new ore-body met with strong support. Western oils were steady, but the golds, except in isolated cases, made little headway.

With Wagenseller-Durst

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—Franklin C. Roberts has joined the staff of Wagenseller & Durst, Inc., 626 South Spring Street, members of the Los Angeles Stock Exchange.

Our European Partnership In Current Crisis

By W. RANDOLPH BURGESS*

Chairman, Executive Committee, The National City Bank of New York

Asserting our struggle against communism may last for decades, prominent New York banker warns we must meet it with long-range policies that can be maintained. Says struggle calls for not only military strength but also economic and social strength. Stresses need of cooperation and aid of other democratic countries, and reveals facts of Western European economic and political recovery. Holds avoiding inflation "will not be easy," and urges cuts in non-military spending.

Whether or not the Korean crisis is a prelude to a third World War, we know beyond reasonable doubt that this country and its allies face a long period of struggle with communism. For communism has at last been clearly revealed to even the most sanguine as a force seeking world domination.

W. R. Burgess

This is a different kind of conflict from the one we faced in two World Wars. Then the issues were decided by an all-out effort over a brief span of years. This is a long-range struggle that may last for decades. It calls for long-range policies, for a pace that can be maintained. It is an even more difficult challenge to our patriotism; our national unity of action; and our economic, social, and political wisdom. It calls for effective joint action with other democratic countries.

The lives of men are just as surely at stake. Only such convincing strength that communism will avoid the test of arms can save us from terrible bloodshed. That convincing strength must be achieved quickly and maintained.

This struggle which we face calls not alone for military strength, but for that underlying economic and social strength which is essential to long-term military power. One of the dangers we face is that we may be forced by military spending into a continuing inflation which would impair the value of money, and as a result penalize the thrifty and industrious and reward the speculator. Another danger is that the defense effort may force us into a regimented totalitarianism which would largely sacrifice the economic and social virtues and advantages of the way of life which we call "private enterprise." Either of these courses would weaken our power to defend ourselves and weaken our power to win the support of other countries for the democratic way of life.

Our success in these efforts rests not on us alone, but is dependent on the action of the other democratic countries, and especially those countries of Western Europe which live in the shadow of the Communist menace. It is against this background that the American traveler looks at Europe today. The questions he asks himself are: whether the Western European countries are willing and able to do their share in the mutual military effort; whether in the process they can resist the dangers of inflation and regimentation; and whether Western Europe will become a permanent dependent on the American taxpayer.

*An address by Mr. Burgess before the Fifteenth Anniversary Dinner of the Graduate School of Banking, New York City, Sept. 23, 1950.

European Recovery

In the face of these rather appalling questions, it would be easy to despair. My recent trip to Europe reassures me in the belief that if this country will take vigorous leadership, the democratic countries have a good chance of winning this struggle with communism and doing so without the loss of the essential freedoms. If we lead wisely, I believe the Western European countries will prove worthy partners, able and willing to carry their share of the load.

The first reason for confidence is the record of what Western Europe has done since World War II.

We do well to recall that a few months after that war France and Italy trembled on the brink of falling into the hands of Communist governments. That struggle was fought and won. In country after country of Western Europe, governments have slowly swung from left to center. The number of Communists elected to legislatures has receded.

Even governments and parties which call themselves Socialist have slowed down their Socialist experiments under weight of public opinion and as a result of their own experience.

Today in England and France and Belgium and Holland, and even in Western Germany, rationing of food and clothing has almost disappeared. Many of the other direct controls have been eased. In their place has come a recognition of the more democratic measures of sound fiscal and monetary policies. Add it all up, and we may say with confidence that as of today the people of Western Europe have turned their faces away from communism and totalitarianism and towards democracy—this despite the huge Soviet military power always threatening their borders.

This great political change has gone along with an impressive economic improvement. In 1947 when General Marshall invited the European countries to prepare a joint economic program, the statesmen of Western Europe responded at once by establishing a study group known as the C.E.E.C., the Committee of European Economic Cooperation. This group prepared careful measures of Europe's production of food and coal and industrial products, and what she could reasonably hope to do with some help from the United States. These estimates were submitted in this country to the Harriman Committee of citizens and then, after review and revision, to the U. S. Congress as a basis for the Marshall Plan. At that time, these projections of Europe's output and exports into the future looked very optimistic.

Today after three years, actual output is a little better than even those rosy estimates. British production, for example, is now 50% above prewar. Exports are well up to the estimates. The trade deficit, the so-called "dollar gap," has been reduced rapidly, even faster than had been hoped.

All of this has been done with less dollar aid than was considered necessary by the C.E.E.C., the Harriman Committee, the State Department, or the U. S. Congress. The Harriman Committee came nearest the mark when it estimated an aid requirement of between $12.5 billion and $17.2 billion. Based on actual expenditures to date and the improved position, the total through 1952 should be less than the minimum estimate of the Harriman Committee, and well below every other official estimate.

In the 12 months since sterling and other currencies were devalued, the Marshall Plan countries have increased their gold and dollar reserves by something like $2 billion. This is all to the good and brings nearer the day when currencies can be made more freely convertible.

Western Europe has indeed been aided by the great industrial boom in America, which has swelled our imports. But after all qualifications, the cold facts constitute a record of great achievement by the people of Europe. They are a record of hard work, and a good deal of self-denial.

Gradual Reestablishment of Currencies

When we review the experience of all these countries for the post-war years, there is one economic principle related more closely than any other to their progress. In instance after instance, it has been demonstrated that the establishment of currencies in which people have confidence is the prime key to recovery. Belgium led the way by currency reform in 1944 and credit controls in 1946 and 1947, including Central Bank rate increases to 5% on advances; and she enjoyed the first recovery. Germany wallowed in disorder until her money was made good in 1948 by cutting down the quantity. Italy made a startling recovery in 1948 and 1949 after she adopted adequate measures of money reform. The British loss of gold and dollars was reversed when in September, 1949, the pound sterling was given a realistic value in which people could have confidence. In Europe, old-fashioned economic policies—tough ones, requiring political courage — have paid off.

The Korean crisis has found Europe just approaching a state of economic equilibrium in which she offered promise of operating under her own power. The achievement since World War II is the best basis for hoping that Europe can meet this new crisis.

A second reason for hope is the progress we and they have made in joint action. The Marshall Plan is a joint enterprise. So are the European Payments Union, and the Schuman Plan, and the North Atlantic Treaty. These are, it is true, just beginnings; and we may well ask whether we shall learn to act together fast enough to meet the grave danger.

In this joint effort, it is difficult for us to visualize the position of the Western European countries. At the present time, there are only about a dozen divisions of American, British, and Continental troops to stand between these countries and the vast power of the Soviet. Under these circumstances, it is not strange that some of the people should shrug their shoulders when they are asked to put more troops in the field. Their enthusiasm for fighting would be entirely different if they saw a joint and realistic program for the trained and well-equipped force of 60 or 70 divisions which Mr. Churchill proposes. The French alone before the war had more than that available. Our joint effort will succeed only as we make it big enough to justify the hopes of countries which have felt the heel of the invader. Such a program is now fortunately being developed, though far less vigorously and rapidly than the danger requires.

I am assured by well informed Frenchmen that an adequate joint defense program would be the best possible economic and social stimulus, for it would be the greatest help to confidence: in money, in enterprise, in the whole fabric of life.

A second deterrent to wholehearted support of the arms program by Western European countries is their problem of financing it. With a low rate of savings, with budgets still in some cases out of balance, with the confidence in their currencies not too secure, and with their taxes at very burdensome levels, their financing of arms outlays by taxes or by bond issues is a real poser. The only easy way of doing it is through their central banks, and that way lies inflation. Certainly they can have guns only at the sacrifice of butter, and butter is not too plentiful.

Must Again Roll Boulder Uphill

In these latter weeks, with a new war on our hands, many of us have felt like the legendary Greek hero whose fate it was in the underworld to roll a boulder up a steep hill. When the great stone was near the top, it always rolled back to the bottom of the hill and poor Sisyphus started his task over again.

This new war starts us pushing up the hill once more, just when we thought we could settle down to normal living. We face again as individuals, as a nation, and as a group of nations the supreme test of our abilities, our understanding, and our endurance. But we have won before, and we can do so again. We and the other democracies hold the great preponderance of power. Once we bring our united physical and moral force to bear, we can win; or if we act soon enough, we can probably prevent a war.

The Inflation Threat

There is one special phase of the national effort which lies in the field of finance. That is, quoting President Truman, "to carry out the defense program without letting inflation weaken and endanger our free economy."

This is not going to be easy. This new wave of government spending is highly inflationary. It increases the money in the hands of the people, and cuts into the supply of things they can buy.

As the President said: "Everybody would lose if we let inflation go unchecked. Workers would be hurt. The extra dollar in Saturday's pay check would be taken away by the higher prices for Monday's groceries." The Western European countries face this same problem even more acutely than we.

In this inflation question, as in armament, the leadership is ours. Others will take their cue from us. A sound dollar in a sound American economy is the first essential for the economic stability of all the democracies.

The President and the Congress have proposed and taken some measures to meet this situation, including the tax bill and provisions for credit control. The Federal Reserve System has moved to tighten money. So far, action is wholly inadequate. The real test case is the willingness to cut unnecessary nonmilitary spending. To have the men and material and money for arming, we must spend less for other things: for houses, for automobiles, for public works. Government must cut its own spending and its stimulation of private spending by guaranties.

The principle which we must never forget and must preach and practice is that a stable currency, with stable buying power, is essential in the long drawnout struggle the nation faces. For only with such a currency can we rely on the economic strength which will largely determine our military strength. Sound money is the result of sound fiscal and monetary policies, of a proper balance between the whole country's income and its spending. Government policy will face up to this only if the people understand.

Fortunately at this time, which calls for the best in leadership and judgment and devotion, there is in the banking business of the United States a body of 2,500 men with the ability, training, and mutual respect and friendship which make it possible for them to be leaders along the difficult paths of sound policy. These 2,500 men are the men of The Graduate School of Banking. They constitute a task force in cities and towns in every state of the nation which can do much to see that in at least one area of the national life there will be public understanding and unremitting effort to meet today's challenge.

Mackintosh V.-P. of Harriman Ripley

Joseph P. Ripley, Chairman of Harriman Ripley & Co., Inc., 63 Wall Street, New York City, announced that, at a meeting of the board of directors George M. Mackintosh was elected a Vice-President.

G. M. Mackintosh

Mr. Mackintosh, after attending Colgate University, was with the Irving Trust Company and later was with Anaconda Copper Mining Company. Following that, for a period of 16 years he was with Moody's Investors Service. He joined Harriman Ripley in January, 1945, and in February, 1947, was appointed Manager of the Industrial Division of the Buying Department.

Lambert Co. Formed In New York City

Jean Lambert has announced the formation of Lambert & Co., a firm that has been set up for the purpose of making capital investments and of furthering the development of industrial enterprises in the United States and elsewhere through rendering assistance on financial problems, particularly of an international nature.

Mr. Lambert stated that associates of the firm will be Alan T. Christie, presently Assistant Vice-President of the Bank of New York and Fifth Avenue Bank and previously Supervisor, Investment Department, Sun Life Assurance Co. of Canada, and Ross Cissel, formerly with Sullivan & Cromwell and the Department of State, and more recently an officer and a director of International Hudson Corporation.

F. B. Simpson, Jr. With Aubrey Lanston

F. Bradford Simpson, Jr. has become associated with Aubrey G. Lanston & Co., Inc., 15 Broad St., New York City, as Vice-President in charge of the firm's municipal bond department. Mr. Simpson was formerly with Lee Higginson Corp., and has long been identified with the municipal bond business.

NEWS ABOUT BANKS AND BANKERS

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED CAPITALIZATIONS

The board of Directors of **J. P. Morgan & Co. Inc. of New York,** on Sept. 20 elected J. Delafield DuBois as a Vice-President, according to an announcement made by George Whitney, President of the Bank. Mr. DuBois has been Secretary of J. P. Morgan & Co. Inc., since Feb. 6, 1946, and will continue to hold that office. He is a graduate of Harvard College and of the Harvard Law School. Before the last war, he practiced law for 15 years. Except for the years 1933-1936 when he was an Assistant Counsel to the Board of Governors of the Federal Reserve System in Washington, D. C., his practice was in New York City, first with Cadwalader, Wickersham & Taft and later with Davis Polk Wardwell Sunderland & Kiendl. He joined J. P. Morgan & Co. Inc. in 1946, after returning from service in the Navy. He is a director of Seaboard Surety Company.

J. Delafield DuBois

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The Board of Trustees of the **Emigrant Industrial Savings Bank of New York** has appointed Arthur J. Morris, Financial Vice - President of the bank according to an announcement made on Sept. 25 by John T. Madden, President. Mr. Morris was associated with the **Fulton Trust Co.** for many years and had been President for over 15 years when the Fulton Trust Co. merged with the **New York Trust Co.** on Sept. 2, 1949. Since the merger Mr. Morris has been a Vice-President of the New York Trust Co. Mr. Morris has been a Trustee of the Emigrant since June, 1941, and is a member of the Executive, the Real Estate and the Investment Committees of the Board of Trustees.

Arthur J. Morris

* * *

Henry C. Brunie, President of **Empire Trust Co. of New York** announced on Sept. 20 the election of M. Stuart Roesler as Assistant Vice - President. Mr. Roesler was formerly associated with the **Commercial National Bank & Trust Co. of New York** as Assistant Cashier.

* * *

Within 24 hours after the new Federal Revenue Act of 1950 became law on Sept. 23, **The National City Bank of New York** and its trust affiliate the **City Farmers Trust Company** had copies in book form ready for distribution. Besides a summary of important changes based on Congressional Committee Reports, the book contains the law in full and provisions of the U. S. Internal Revenue Code, as amended.

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Henry L. O'Brien, who is General Counsel and director of Cities Co., has been elected a trustee of the **Williamsburgh Savings Bank of Brooklyn, N. Y.,** it is announced by Elliott M. Eldredge, President of the bank.

* * *

The capital of the **Newton National Bank of Newton, Mass.,** was increased, effective Sept. 1, from $200,000 to $250,000 by the sale of $50,000 of new stock.

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The Board of Managers of **The Montclair Savings Bank of Montclair, N. J.,** have elected Gertrude S. Clayton to the office of Assistant Secretary, it is announced by T. Philip Reitinger, President. Miss Clayton has been Director of the School Savings Department for 22 years. She will continue in this capacity. Under her direction the School Savings program has expanded beyond the Montclair schools to all of the Caldwells, Cedar Grove, Essex Fells and Roseland schools. Twenty-eight schools with a total enrollment of 9,554 students were served by the Montclair bank in the last school year. Miss Clayton is Vice-President of the New Jersey School Savings Forum. She received her B.A. degree from the University of Wisconsin, and her M.B.A. degree from the Graduate School of Business Administration of New York University.

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Harold H. Stout, Assistant to the President of **South Side Bank & Trust Co. of Chicago,** has been named Vice-President in charge of loans and bank management, it is learned from the Chicago "Journal of Commerce" of Sept. 18.

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In indicating that Charles T. Fisher, Jr., President of the **National Bank of Detroit, at Detroit, Mich.,** has been appointed Administrator of the newly formed Real Estate Credit Office, according to an announcement by the Federal Reserve Board, the "Detroit Free Press" of Sept. 15 stated in part:

"The new office is to be set up under the 1950 Defense Production Act, the FRB added. Board Chairman Thomas B. McCabe said the new office will administer regulations, with administration approval, of the Housing and Home Finance Agency. The Real Estate Credit Office is authorized by Executive Order to issue regulations governing credit for new construction in the real estate field. Mr. Fisher has been serving as a special consultant to the Board in connection with financial and credit matters. He has been connected with the Federal Reserve Board since Aug. 22, as consultant. Mr. Fisher is President of the Detroit Board of Commerce. In 1935 and 1936 and from 1942 to 1945, Mr. Fisher served as director of the Reconstruction Finance Corp."

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Through a stock dividend of $25,000 and the sale of new stock to the amount of $25,000, the capital of the **Garden National Bank of Garden City, Kansas,** was increased as of Sept. 7 from $150,000 to $200,000.

* * *

Allard A. Calkins, President of the **Anglo California National Bank of San Francisco,** announced on Sept. 15 several promotions in the official staff of the bank. Joseph J. Pausner has been appointed a Vice - President. He heads all consumer loan activities of the bank; he entered the institution in 1937 as assistant manager of the contract department. Edward M. Landis has been named Vice-President in charge of overall contract department operations. Formerly with General Motor's Acceptance Corp. in Chicago, he joined Anglo Bank in 1948 as manager of the contract department in the Oakland main office. Ernest I. Jager is now manager of the contract department at the Oakland main office; he joined the bank's staff in 1936. George W. Heuermann is now a Vice-President at the head office with duties as a general officer in the bank's loaning division. His first assignment with Anglo was at the Potrero office in 1920 and he attained the rank of Assistant Vice-President in 1948. John R. Dryden has been appointed manager of the head office credit department with the title of Assistant Vice-President. He started as a page boy in 1930 at the head office and was appointed an Assistant Cashier in the credit department in 1948. Edward J. Schneider has been promoted to the position of Assistant Vice-President at the head office.

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Advices to the effect that the capital of the **First National Bank of Lebanon, Oregon,** has been enlarged from $50,000 to $300,000 by a stock dividend of $250,000 were contained in the Treasury Department's Bulletin of Sept. 18.

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Announcement is made of the opening on Sept. 16 of the Springfield (Oregon) Branch of **The First National Bank of Eugene, Ore.,** at 7th and Main Streets. L. S. McCready is President and M. O. Dahl, Vice-President and Manager of the bank.

Central States IBA Training Courses

CHICAGO, Ill.—Thirty employees of Chicago investment banking houses and commercial banks attended the opening session of the Ninth Training Course in Fundamentals of Investment Banking which is sponsored by the Central States Group of the Investment Bankers Association of America and offered in cooperation with the School of Commerce of Northwestern University.

The course is designed to provide an opportunity for trainees to coordinate theory with on-the-job training and practical field experience. It will again be taught by Warren Browne, Assistant Professor of Finance, under the supervision of Harold W. Torgerson, Chairman, Department of Finance, Northwestern University. The class will meet for three two-hour sessions a week for 21 weeks.

Approximately 250 employees of member houses in Chicago and nearby cities have enrolled in these courses since their inauguration shortly after World War II, according to David J. Harris, Sills, Fairman & Harris, Incorporated, Chairman of the Central States Group Education Committee. Members of the IBA who have employees enrolled in the present course are:

A. C. Allyn and Co., Inc.; Ames, Emerich & Co., Inc.; Bacon, Whipple & Co.; A. G. Becker & Co. Inc.; Julien Collins & Co.; The First Boston Corp.; The First National Bank of Chicago; First Securities Co. of Chicago; Goodbody & Co.; Harris, Hall & Co.; Harris Trust and Savings Bank; Hornblower & Weeks; The Illinois Co.; Kebbon, McCormick & Co.; Ketcham & Nongard; Kidder, Peabody & Co.; McDougal and Condon, Inc.; Mullaney, Wells & Co.; Paine, Webber, Jackson & Curtis; Reynolds & Co.; Stern Brothers & Co., and Webber-Simpson & Co.

Similar courses have been given in cooperation with IBA groups by more than 20 leading universities and colleges in various sections of the country, with an overall enrollment of more than 2,300 since the end of World War II.

Banking in the Garrison State

By ELLIOTT V. BELL*

Chairman, Executive Committee, McGraw Hill Publishing Co.
Former New York State Banking Commissioner

Former State Bank Supervisor, contending direct controls of prices cannot prevent inflation, advocates cutting down civilian spending by taxes as well as by tightened credit and wise public debt policy. Sees serious disappointment in Treasury and Federal Reserve working at cross purposes, and denounces Treasury's low interest policy. Wants Federal Reserve to be free in control of money markets.

Tremendous events sometimes occur on a tiny stage. What seemed like the start of a minor civil war in Korea last June has set in motion powerful forces that may shape the pattern of our lives for many years to come. We now know there is no hope of peace by conciliation or appeasement. We know that the ruthless men of the Kremlin are perfectly willing to risk all-out war if necessary to gain their ends.

Elliott V. Bell

But for all its tragedy, the war in Korea may yet prove to be our salvation. It shook our government out of its trance-like attitude toward Communism in Asia. It revealed the shocking weakness of our defense preparations. It breathed new life into the United Nations which was rapidly becoming the graveyard of our hopes of peace.

The United States by common consent has become the chief defender of the free world. It is our plain duty to organize the defense of freedom and to develop its sinews of strength. But to strengthen and defend the free world against Communism means that we must transform our country into a garrison state. We must be like a community where military forces are permanently quartered. We face an unlimited period of what may be not war, not peace, but a little of both.

We face the prospect of devoting from 10 to 20% of our total national production to war purposes for perhaps a generation or more.

Stalin has devised a new and subtle approach to his major object of destroying America, the citadel of freedom. He knows that he could never win by launching an all-out frontal attack at this time. Instead, he hopes to wear us down and weaken us by forcing upon us a long and costly rearmament that he hopes will lead to either a disastrous inflation or a permanent regimentation that will sap our economy of its magic productivity. In either case the end result would be to ruin the American economy so that we would become defenseless against a future full-scale war.

In the face of this threat to our economy, some determined effort to combat inflation is imperative. There are two broad alternatives. One is to clamp down direct controls on prices and wages through a system of rigid ceilings, rationing and all the other paraphernalia which was used in the last all-out war. The other course is to use indirect controls through taxation, public debt management and credit policy.

Direct Controls to Control Inflation Ineffective

There is a certain attractive simplicity about attacking a complex economic problem by the direct method of slapping on price ceilings, allocations and rationing. All too many individuals and groups, especially in Washington, are heartily in favor of this kind of direct control, especially if they can do the controlling. But it would be, to my way of thinking, a tragic error playing directly into the hands of our communist enemies if we were to succumb to this superficial and fallacious course.

In the first place, it should be understood that direct controls do not and cannot prevent inflation. The most they can do is to suppress the effects of inflation and delay their appearance until a later time. During the last war, OPA ceilings succeeded in holding back the rise of prices during the period of actual warfare but as soon as the fighting was over, suppressed inflation had its way. Price ceilings were undermined in all directions by the black market and in the end were swept away while the delayed inflation ran its course.

The same thing has been true at other times and in other countries. Even Great Britain with its great talent for abiding by a system of direct controls has not been able to prevent a severe inflation leading last fall to the devaluation of the pound sterling. In Australia the story has been the same.

Our best hope to get maximum production and to hold the line against inflation in this garrison state, with its limited effort for an unlimited time, lies in the wise but courageous use of indirect controls.

They are called indirect controls because they are not directly applied to prices in the market place. But, in fact, the sort of controls I am talking about strike directly at the sources of inflation, namely, the expansion of credit and of spendable income.

The root of our problem is to cut down civilian spending that puts an upward pressure upon prices. To do this we must tax vigorously, tighten credit and manage the public debt wisely. The use of credit and fiscal policies to put a curb upon inflation fits best with our system of enterprise because it permits more freedom to the individual in the market place. It allows the price system to operate as the regulator of that production which can still be permitted for non-war use.

The administration of credit and fiscal controls as contrasted with price ceilings and rationing is easier, cheaper and interferes less with individual freedom. Fiscal and credit measures on the whole are also easier to adjust to changing situations than are direct controls. They make sense as our principal weapon for a long emergency such as the one we seem destined to face.

Both heavier taxes and tighter credit aim directly at the principal target—curtailed spending by individuals and businesses. But so far, our progress has been slow and disappointing.

Treasury and Federal Reserve at Cross Purposes

The most serious disappointment of all has been to find that in this grave moment, when all of us should be working together, the Treasury and the Federal Reserve

*An address by Mr. Bell at the Annual Convention of the National Association of Supervisors of State Banks, Boston, Mass., Sept. 20, 1950.

System are working at cross purposes.

This is a condition that involves grave consequences for the country. It is especially disturbing to the banking system and to bank supervisors who find themselves directly in the crossfire between the opposing Treasury and Federal Reserve camps.

The Federal Reserve System has announced that its policy is to use all the means at its command to restrain further expansion of bank credit. The System had for some time been allowing the price of government securities to drop slowly so as to firm up interest rates and discourage banks and others from selling government securities in order to finance expanding loans.

A month ago, the System carried its operations an important step further by raising the rediscount rate at the Federal Reserve Bank of New York and allowing the price of short-term government securities to decline in the market.

The very same day, as you know, the Treasury announced a refunding issue priced above the prevailing market in what was plainly an effort to embarrass the Federal Reserve by making it reverse its policy or risk being held responsible for the failure of a Treasury offering.

This was certainly extraordinary behavior for a responsible government department. It was followed up on subsequent days by background stories in the newspapers and statements from Treasury spokesmen indicating that the Treasury regarded credit control measures as a mere gesture of no practical value in combating inflation. The Treasury, it was indicated, felt it should be free to do its financing as cheaply as possible with the aid of a bountiful outpouring of central bank credit, regardless of the consequences.

What that means as a practical matter, of course, is that the Treasury rules out the hope of restraining inflation by indirect controls and is making inevitable the imposition of price ceilings and rationing.

Treasury Is Wrong

In this dispute, the Treasury, in my judgment, is wrong, both from the standpoint of public policy and economics. Moreover, unless the President intervenes, a courageous Federal Reserve Board is bound to win. Thus far, however, the Treasury seems to me to have had the best of the argument in the public prints.

Central banking techniques are abstruse and difficult to understand and the Treasury's suggestion that a minor rise in interest rates cannot do much to combat inflation seems plausible, however specious. It is, therefore, vitally important that the banking community and especially the bank supervisors, who are equipped to understand what is at stake in this dispute, should support the Federal Reserve System in its advocacy of indirect controls.

If the Treasury should have its way, the Federal Reserve System, deprived of the use of open market operations and the discount rate, would be compelled to go once more to Congress and ask for power to manipulate the reserve requirements of all commercial banks, whether member banks or not.

Those of us who regard such a development as an assault upon the freedom and independence of our dual banking system will be in a poor position to protest unless we now vigorously support the Federal Reserve System in its courageous effort to reassert the usefulness of traditional central banking techniques.

Let me tell you why I think the Treasury is so wrong in this matter. First, as to policy: When the Federal Reserve System was established in 1913, Congress determined, as a matter of public policy, that it should not be government owned and operated, but should be an independent control banking system.

This policy has been modified over the years, but never abandoned. Instead, it has from time to time been strikingly reaffirmed. In the Banking Act of 1935, following the Great Depression, Congress threw the Secretary of the Treasury out as a statutory member of the Federal Reserve Board. It was apparently the opinion of Congress that the Secretary of the Treasury had influenced the Board against taking more stringent measures to restrain the boom of the late twenties.

Here is a bit of not so ancient history which might well be read now in the Treasury.

Furthermore, as recently as last year, a joint committee of Congress, the Douglas Committee, after an extended study of fiscal and credit questions reaffirmed the plain intent of the Federal Reserve Act that the primary power and responsibility for regulating the supply, availability and cost of credit is vested in the Federal Reserve System.

Second: As to the economics of the matter. It is a confession of ignorance to speak as though the Federal Reserve System's arsenal of credit control weapons involves merely a matter of tightening up interest rates a minor fraction. The heart of central banking operations is the manipulation of bank reserves to influence the availability of credit. If the Federal Reserve System is free to operate in the open market, it can influence the reserves not only of member banks, but of all banks.

For many years, banks in this country have enjoyed a substantial excess of reserves and borrowings from the Federal Reserve System have been small. But it would take a relatively small net sale of government securities by the Federal Reserve to wipe out the excess reserves of a great many banks and to compel a good many others to borrow at the increased discount rate from the Reserve Banks in order to maintain their existing volume of loans.

Bankers do not have to be hit over the head with an ax in order to see the handwriting when a central bank chooses to write upon the walls of the money market. It will not be long before banking policies are adjusted to a less liberal supply of credit if the Federal Reserve chooses to use the powers it has available.

But in the process, of course, there would have to be some further stepping down of the market for government securities, especially short-term government securities. That in itself would tend to put a restraint upon the lending activities of banks because it would discourage them from selling their existing holdings of governments in order to make increased loans.

Federal Reserve Has Brake

Whatever the Treasury may think, there is no doubt in my mind whatsoever but that the Federal Reserve System has the power to put a considerable brake upon the forces of inflation at any time it sees fit to use that power.

The State bank supervisors have an especial interest in the outcome of this contest between the Federal Reserve and the Treasury. If the Treasury has its way, the Federal Reserve will be reduced once more to the status that it occupied all during World War II. In that period, the primary function of the central banking system came to be the pegging of government security prices at a rigid level and the pumping out into the money market of whatever supplies of credit were necessary to insure a resounding success for every Treasury offering.

In effect, of course, the government was indulging in that ancient fiscal sin of financing its deficit by the inflation of central bank credit. The wages of that sin in other lands and other times has always been death, the death of the national currency.

We could condone such a course during World War II because we hoped and believed that there would be a definite end to this crude inflation. When the war was over, we had reason to believe the Federal Reserve System would be restored to its old independence, the inflationary excesses of the war would be greatly reduced. While the dollar would have permanently lost a considerable part of its value, the wearing away of our money would at some point be brought to an end.

But we now face a completely new situation. We face the demands of a partial war which has no calculable ending but which may go on for as long as many of us live. Under those circumstances, we cannot permit the Treasury to continue financing the deficit at record low rates of interest when the price of that course is to feed the fires of inflation.

In this time of swiftly churning events, banking and bank supervisors have a high and difficult responsibility. Theirs is especially the responsibility to assist by action and by wise counsel in holding the line against inflation. It is part of the western tradition of freedom that by regulating our credit and money system, we can keep the rest of the economy free and strong without resorting to totalitarian devices.

It is especially important to maintain this free tradition under a garrison state economy such as we are destined to have for many years to come. Linked to a tax program that bites deeply into civilian spending, wise credit policies can hold down inflation pressures and avoid resort to a straitjacket of direct controls of the economy.

The indirect approach to inflation control operates primarily through the mechanism of the banking system. Accordingly, it demands a high responsibility and purpose of the banking community. It requires diligence on the part of banks in rejecting loans for speculative non-war purposes. It requires of bankers renewed efforts to preach the doctrine of thrift and encourage savings. It requires of bank supervisors energetic efforts to assist the banks in carrying out these purposes.

This whole approach to inflation control calls for close cooperation between the state and Federal banking authorities. Only by wise and understanding cooperation can we escape grave perils for the dual banking system in the years ahead. To be effective the nation's whole banking system must take part in the effort to combat run-away prices. Inevitably there will be those who will seek to use the situation as a pretext for imposing wider Federal controls over state chartered banks. There will be, especially if the Treasury has its way, a renewed demand to impose Federally determined reserve requirements on all commercial banks. To do this would, I earnestly believe, toll the bell for the dual banking system. We must combat such an effort with all our strength but it is important that we place ourselves in a strong position to make our opposition effective.

While I am unalterably opposed to direct Federal control over non-member bank reserve requirements, I do believe that state banking authorities should be prepared to take their lead from the Federal Reserve System in the fixing of reserve requirements.

If this is done, it will be a hard task for the enemies of the dual banking system to undermine it through centralized control by Washington of bank reserves.

The new boldness of the communist challenge has evoked a response that shows the free world has a stout will to resist and defend its way of life. Upon our own country has been thrust the chief responsibility of organizing and leading that defense. We have the resources and the genius to win through in this strange kind of half war against the forces that would enslave the world. It may be a long struggle; it will force us to live for many years under the demands of a garrison state. As we mobilize our power we must not permit virulent inflation to sap our strength. We must act vigorously and wisely on the financial front. In this effort, bankers and bank supervisors have a high responsibility. In meeting this challenge you can help win more than the victory over communism. You can safeguard the wellsprings of our national strength.

Continued from page 17

We Must Be Militarily Strong Until Mutual and Complete Disarmament

of the United States and the role it would play in global war. There is reason to hope that we can contain Russia, that we can still buy more time, if we are willing now to pay the price in terms of disruption for a period of those pleasant pursuits appropriate to a world at peace.

Power Alone Will Not Insure Peace

Let us never forget that power alone will not insure peace; it can only buy us time to develop the foundations of peace. Therefore, what we do now with the time we may buy is all important. If we fail to link to our power a bold and comprehensive program for achieving the peaceful settlement of grave international differences, we shall be committed to an armament race that can have but one ending, disaster. That disaster will be the greater because we shall descend into it with all the bitterness and self-recrimination of a guilty conscience. Policies more fundamental than have heretofore been advanced must be put forward, not as vague ideals to be adopted at some unnamed future date, but as goals to be achieved soon. It is not time for homeopathic doses. The disease just won't wear itself out.

After long consideration I have joined that school of thought which holds that there is no durable solution short of the *mutual* and *complete* disarmament of the nations now comprising the United Nations; and that the time to announce our support of it, as the ultimate solution, is now. I stress the words "mutual" and "complete." I place no trust in unilateral disarmament. Moreover, it must be under an accepted world government empowered to administer the process of disarmament; for efforts heretofore to civilize war or to attain peace by international treaties have always failed. Such methods as Hague Conventions of 1899 and 1907, the Naval Disarmament Agreement engineered by Charles E. Hughes in 1921, and the Kellogg Pact of 1928, have long since demonstrated their inadequacy. I therefore stress the existing organization of the United Nations as the only agency available for undertaking the task in time. I suggest therefore that the United Nations turn its attention to the rapid accomplishment of complete disarmament; not merely to the abolition of A bombs and H bombs. (May I parenthetically observe that I am here expressing the general philosophy which is most cogently argued in a little book by Grenville Clark, entitled "A Plan for Peace," to be published soon and which I commend to you.)

Russia's Disarmament Proposals

Realism suggests that the process of universal disarmament must necessarily progress by degrees, beginning with the elimination of the newest and most devastating weapons. The real point is that the accepted goal must be complete disarmament and that, while we are improving our military position to meet the present crisis, America should throw her influence behind disarmament and assert her readiness to lead.

I know that many sincere public officials who have endured prolonged frustration in nerve-wracking negotiations with Russia will reply that, since our good intentions have failed in lesser efforts, they cannot succeed in a more revolutionary and comprehensive program. I agree that our intention to support a broad program of disarmament should not retard for a moment the rapid restoration by the Western world of a favorable power position. But while we are improving our power position as a negative restraint on violence, why should we not also be developing a new positive weapon in the form of a great purpose.

If you object that the proposal that universal and complete disarmament is too bizarre to merit consideration by responsible statesmen, I shall reply in the words of George Washington: "Let us raise a standard to which the wise and just can repair; the rest is in the hands of God."

One thing is clear. The peoples of the world do not want war. Increasingly aware, as they are, of the human costs of another one, are there not grounds for hoping that before it is too late they can be aroused to demand a lasting solution? And isn't it better to work and fight in behalf of a permanent solution than a temporary palliative? One thing we can be sure of: that to fight and win a war, no matter how just the cause or complete the victory, brings no enduring peace. To contain Russia is wise and necessary, but alone it lacks the driving force of a profound ideal which carries the promise of the future we all desire. Heretofore, the bold stroke which would arouse the spirit of peoples by penetrating to the deep heart of our fears and dangers has been absent. To reduce the possibility of war Mr. Baruch has wisely urged that America declare her peace terms now. I should go further by including in such terms the extreme proposal of general disarmament as the chief function of the United Nations.

As a practical matter, a national decision by a strong America in favor of disarmament under world government would be good psychological warfare right now. In terms of the vision by which men and nations live or die, such a stand would cleanse our national conscience and renew our awareness of the mission which our strength lays upon us.

Can Capitalism and Communism Live Side by Side?

By JACKSON MARTINDELL*
President, American Institute of Management

Pointing out communism is no longer mere theory, Mr. Martindell says present balance of power struggle is between nations and not between ideas and ism's, and this poses threat of maintaining potential to wage war indefinitely. Says present cause of conflict is not economic, but political and geographic. Holds West has self-sustaining economy, but Asia is turning to Russia for capital and technical progress. Holds U. S. has not invested sufficiently abroad and has thus failed to grasp opportunity to spread civilization and its benefits.

Over a century ago, a French visitor to these United States predicted the very problem which now engages us today. In the closing paragraps of the first volume of his celebrated work, entitled "Democracy in America," Alexis de Tocqueville warned us as follows:

Jackson Martindell

"There are at the present time two great nations in the world, which started from different points but seem to tend towards the same end. I allude to the Russians and the Americans. Both of them have grown up unnoticed; and whilst the attention of mankind was directed elsewhere, they have suddenly placed themselves in the front rank amongst the nations, and the world learned their existence and their greatness at almost the same time.

"All other nations seem to have nearly reached their natural limits, and they have only to maintain their power; but these are still in the act of growth. All the others have stopped, or continue to advance with extreme difficulty; these alone are proceeding with ease and celerity along a path to which no limit can be perceived. The American struggles against the obstacles which nature opposes to him; the adversaries of the Russians are men. The former combats the wilderness and savage life; the latter civilization with all its arms. The conquests of the American are therefore gained by the ploughshare; those of the Russian by the sword. The Anglo-American relies upon personal interest to accomplish his ends, and gives free scope to the unguided strength and common sense of the people; the Russian centres all the authority of society in a single arm. The principal instrument of the former is freedom; of the latter, servitude. Their starting-point is different, and their courses are not the same; yet each of them seems marked out by the will of Heaven to sway the destinies of half the globe."

Seldom has man spoken so prophetically. In the century and more which have passed since de Tocqueville voiced his warning, America and Russia have emerged as the two great powers of the world—each controlling virtually half of the globe. What the author feared — and what we should fear today—was not a new political or social form arising in Russia, but Russia herself. As he predicted, Asian despotism, in harness with the natural resources, the vast land area, and the countless multitudes of the Orient, have created a military and economic system of unparalleled strength. The fact that Russia is communistic and we are not is relatively unimportant. What matters most is that our world is now engaged in a contest between conflicting powers, in a struggle between the two nations whose rise to strength de Tocqueville foresaw in 1833.

Communism Is No Longer Mere Theory

Let us face this squarely. Communism is no longer a mere theory operating in a world of ideas, its weapons that of argument and its technique that of propaganda alone. The theory has now become a political fact, grounded on a geographical base. Its main adherents live within this geographic scope. Its weapons are those of war; its technique that of conquest.

A Struggle for Balance of Power

I repeat: the balance of power which we talk about today is not between ideas and ism's. It is between nations: between geographic, political entities whose populations fear each other, distrust each other—whose leaders hate each other—and which have military potentials to wage war almost infinitum. Russia and its satellites stand on one side, postured for attack: we stand on the other, partly absorbed in Korea, but with our eyes returning steadily to the real opponent. We wonder whether, and when, he will unleash. The rest of the world watches us both, fixed in deadly fascination.

We are potentially, if not actually, in balance. We could stand this way for a long, long time—and so long as we *stay* in balance, armed conflict between us two will be postponed, inevitable though it may be in the end. At the moment, engaged as we are in Korea, we are like the business management which has allowed outside circumstances to control its actions and shape its decisions. Through good management of our national affairs, we must become once more the good management which retains the initiative—so that we can ask, in every exigency, "Must we do this at all? If so, must we do this now?"

The ordinary concepts of war between two great industrial powers do not prevail as between America and Russia. Neither of us can annihilate the other, nor could either one permanently cripple the other. The resources of the United States are overwhelming in a war for our defense. Our natural barriers against invasion would stagger the imagination of the most ambitious enemy. No fleet in the world could stage a vital landing on our shores. No air arm is great enough to invade us successfully from the skies. The same is true of Russia. Neither of us is a France nor an Alsace-Lorraine, susceptible to overnight attack, with vital industrial areas lying between us, exposed to the first secret blow. Militarily, we might as well be on separate planets: we are as secure from each other's all-out onslaught as were ancient Rome and the Empire of Cathay.

Present Causes of War Not Economic

Economically, much the same is true. The so-called "economic causes of war" do not apply in this instance. There is none of the conventional bickering over markets and raw materials. They are so incidental to our relations that, if we do fight a war, it will have to be without thought of material advantage for either side.

This aspect is significant: let us look into it a little. The man in the street, and many well-positioned business leaders in the bargain, exaggerate the economic importance of trade between the East and West. They feel, for example, that if China disappears indefinitely as our customer and supplier, we might have to close up shop. They think that if the Iron Curtain were drawn aside, Russia and her European satellites would buy from us in the billions. Let's take a look at some figures.

In the typical prewar year—before World War II, that is—the United States exported 15.6% of the world's total exports: she imported 12.2% of the world's total imports. Soviet Russia's share in world trade by contrast, was only one percent. She imported little and exported less. In 1938, as a matter of fact, Russia's entire world commerce was only $520,000,000; her exports only $250,000,000. Sears, Roebuck did a bigger business than that—$537,000,000, in 1938! $250,000,000 is less than the people of Chicago spend every year in Marshall Field's and Carson, Pirie, Scott & Co. Far less than the people of New York hand across the counters in Macy's and Gimbel's!

Of course, Russia was only one country in 1938. But even when we add in all the exports and imports, for that year, of all the nations which then were independent and now are Russian satellites — the grand total of all their world trade about equals the sales of General Motors Corporation for 1938! Even including China!

China is worth a separate look, because its conditions in the world today show how far autarchy has progressed in recent decades. Without burdening you with figures, let us call off the roll of China's former exports to the United States and see what has happened to them. Soya, once a principal export? We grow our own in vast quantities, and now export it ourselves. Hog bristles? Our brush makers now use nylon and other synthetics. Cheap cotton cloth? It was always low-grade and made under sweated conditions: we get along perfectly well without it, and our labor standards are higher because of this. Tungsten? We mine it here, and there is plenty of the ore in other Western countries. Tung oil and ground nut oil? Synthetics again have replaced the natural product. Tea? We consume more than ever before, but can buy all we want from India. And so it goes.

The two largest exports from this country to China during so-called "normal" years were canned milk and petroleum. We are managing to use up the milk ourselves, and the same is true of oil.

China's foreign trade has been largely within the East — with Japan, Malaya, India, Indo-China and the rest. She can manage to get along without us, in much the same way that the Russian sphere can stay independent of the West.

In view of such facts, the talk we hear daily of restrictions of trade within the communist orbit is unduly exaggerated. The areas of trade in question, and the volume of commerce involved, are too small for prohibitions within them to have an appreciable effect upon the foreign commerce of the United States, England, France or the western world in general.

Russia's Communism Does Not Affect U. S. Trade

We can therefore dismiss any thought we may have entertained regarding the ruinous effects of Russian Communism upon America's foreign trade. If all the world's trade with the Soviet sphere were to vanish, the effect would be negligible. The average person would not even be aware that it had vanished.

We must not make the same old mistake, in regard to the East-West trade situation, that we made regarding Germany between the two great wars. As I have pointed out elsewhere: [1]

"Within Germany's borders and among the neighbors she dominated, were shortages of petroleum; inadequate supplies of steel and iron; no cotton or natural silk; a scarcity of wool; no natural nitrogenous fertilizers; no rubber; insufficient grains for human consumption; no cane sugar; few animal fats or greases; no coffee or tea. Optimists outside the German periphery exulted during the Thirties that the Reich could not wage war since she lacked the essential raw materials and the foreign exchange with which to buy them.

"Yet it was only a few years before the word *ersatz* insinuated itself into all languages. Ersatz flour, ersatz coffee and ersatz tea became staples of the German diet . . . Germany's lack of natural rubber was compensated by the production of synthetic. Plastics displaced wood in many uses. Structural steel was economized through the use of aluminum and magnesium, neither of which are encountered in metallic form in nature. Nitrates, the inmost heart of both the modern war machine and the fertilizer industry, were extracted not from the ground but from the air. Rayons and other synthetic fibers substituted for cotton, wool and silk. Glass piping was introduced extensively to serve for scarce and militarily indispensable iron. Petroleum, the most precious of all the products of the earth in this age of automotives, was obtained through the synthesis of coal.

"This development in Germany marked the first time in human history that the intellect and ingenuity of an entire nation was called upon to relieve, by scientific substitution, a people from almost total dependence upon natural materials monopolized by others.

"It is interesting to recall how (the rest of the world) bemoaned this development. Economists of all countries claimed that these trends were part of a destructive autarchy. What they should have said was that their conception of a world market in which raw materials garnered on one spot on the earth's surface exchange, as though by inflexible law, for finished products fabricated at some distant point, was already outmoded. They failed to grasp—as many of us still fail to grasp—the break in historic continuity which the coordinated researches of German science had brought about. An epoch had died."

Today, gentlemen, we are witnessing the further progress of this independence; through research and industrial development, of this ability on the part of one nation or group of nations to become materially and economically independent of the rest of the world. That is the position of the Western world today, in relation to the East. Because of our industrial progress in the realm of research, there is no strategic raw material not plentifully available in the Anglo-American economic orbit, with the single posssible exception of manganese. Even rubber, should its supply from the Orient be reduced drastically or cut off altogether, can be replaced for most uses with the synthetics now available.

West Has Self-Sustaining Economy

The West, in short, if we can include in that term the developing areas of the British Empire, is a self-sustaining economy. It is not dependent upon the Communist land areas for any truly significant article of commerce.

The reverse is also true. The Communist areas of the globe, now stretching from the Oder to the Pacific, require no appreciable trade with us for the successful operation of their economies. The world is divided into two wholly autarchical areas which, as I said before, might just as well be on different planets so far as their interdependence is concerned.

It might be thought, then, that frictions between the two groups could not easily lead to war. Unfortunately, the absence of fear over permanent material loss from a prolonged and destructive conflict is a counter-balance to the lack of hope for material gain from such a war. Defeat for either contender need not mean that the defeated nation will be separated permanently from its raw materials or its industries which are indispensable to its prosperity. Victory will not increase the economic potential of either side—but defeat will not necessarily be as ruinous as it proved in Europe's wars. Autarchy robs victory of its laurels and defeat of its sting.

U. S. and Russia Potentially In Balance

Why, then, do we and the Russians posture and plan for war? Because we are potentially in balance—and because balance, in the sense of military balance of power, means that we have to thrust at one another in order to retain our relative positions. This balance is not static, nor can it be. We maintain it only by expanding and developing; by growth to match the other's growth. Sometimes there even have to be outbreaks and conflicts on the outer edges, just as Great Britain fought countless "border wars" to keep herself and the rest of the world peaceful.

In the last analysis, power is weakness until expressed. It is tentative, questionable, an unmeasured quantity, until tried in an actual contest between contending parties. This is the verdict of history. A balance of power is nothing more nor less than armed forces poised at specified places confronting potential enemies, in the knowledge that a single step forward might bring war, and that a single step backward may bring the threat of ruin. There can be no balance of power until each nation in that balance has tested its opponent's willingness to fight, and has learned just how far it can go in ever-decreasing safety until that safety vanishes in the clamor of war. It is on a descending calculus of the possibility of peace, on our ascending calculus of the chance of war, that the balance of power is reached. Ultimately, history tells us, it is overpassed—and then comes convulsions (which we call war) which last until a new balance has been reached—usually between two other parties.

This explains Korea, as it also explains Greece—and as it will explain future conflicts which will be thrust upon us in our role as a Great Power—as one of the two Great Powers which now are balanced, one against the other. It also explains a lot of other things, such as why we must keep ourselves armed and invincible, and why we must—at the same time—cement our friendship with all the

*An address by Mr. Martindell before the 19th Annual Meeting of the Controllers Institute of America, Chicago, Ill., Sept. 18, 1950.

1 "The Scientific Appraisal of Management," by Jackson Martindell. Harper & Brothers, New York, 1950.

people of the world who do not side in with the Russians.

We cannot win them over by shouts or threats, or by merely preaching about our democracy and how much better it is than the other fellow's peculiar brand of politics. The world is more interested in our deeds than in our salesmanship. The vanishing of empires—British, French, Dutch—has resulted in a vacuum. India is incapable of filling it. England would if she could, but she cannot. We have not convinced the world that we can, or wish, to fill it. The natural result is what we are now experiencing: Asia is turning her eyes to Russia as the source of capital supply, of trained technicians, of new investment and of a permanent and expanded business relationship.

Have We Invested Enough Abroad?

We Americans boast of our risk-taking ability, of our pioneering character. But the record of international financing does not bear us out—and the rest of the world knows the truth. For example, we point with pride to the fact that between 1919 and 1930 the United States provided $11,600,000,000 to foreigners by way of subscriptions to new foreign issues and in new investments abroad. But during those same years $3,300,000,000 flowed back to this country in amortization and retirement of these long-term funds. By 1939, in fact, the United States was a creditor on long-term account to the extent of $4,500,000,000, or not much more than one-third of long-term capital exports between 1919 and 1930. Even this figure was offset by a $2,600,000,000 debit on short-term account — leaving net United States investments throughout the world at less than $2,000,000,000—at $1,800,000,000, as a matter of fact.

In other words, at the end of 21 years—the most crucial years in modern times and the period of United States supremacy—our investments abroad, net of foreign investments here, had declined by $1,900,000,000. If it is argued that a net position is not truly indicative, let me reply that, on long-term account alone, U. S. investments abroad had been $4 billion in 1919 and were only $500 million higher in 1939.

Is this the action of a risk-taking nation? It seems to me that it is not. Like the British, who stood supinely while their cotton and coal trades dwindled, while her shipping rusted at her quays, and while her young men sought safety at home instead of careers, fortunes and creative lives abroad, we have failed in our generation to keep faith with our destiny. We have been afraid to take the risks our forefathers took—and took for granted. This is the basic economic aspect of the war which perhaps now impends. We have failed to send our money and our skilled young men to build up industry in the Orient. Britain has skilled young men to build up industry in the Orient. Britain has withdrawn her men and her money. Hence the vacuum that has been created.

We are now paying for the failure of western, democratic capitalism to spread its advantages and methods to the more backward areas of the world. The past 60 years have witnessed a slowing down of the rate of actual foreign investment in new enterprises in these backward areas. To put it more properly, there has occurred a sort of systematizing of investments abroad, with capital flowing almost solely to areas of proven profitability within a narrow geographic scope. Consequently, we have witnessed a rapid and almost continuous rise in industrial activity and living standards in such areas as South Africa, India and Canada — but simultaneously we have witnessed an actual decline in the living standards of China, Central Africa and the Eastern Mediterranean basin. With this has been a purely exploitative development of the Near East, the East Indies, the French, Dutch and Belgian Empire regions, and of many of the countries of South and Central America.

In short, from 1890 until the present time, we of the West have proven ourselves shortsighted and unwise. We were possessed of resources ample enough to set in motion a continuous and profitable upward spiral of economic achievement in any populated area of the world blessed with natural resources. We had the opportunity, unexcelled in history, to spread our civilization and its benefits, and we let it go by.

That opportunity, thank Heaven, is not gone forever. We still have it in our power, financially and ecomically, to make up lost ground. The undeveloped portions of the earth which still lie ungrasped by Russia need our help and will welcome it. We have more than enough means to render this assistance, and we have the economic and technical know-how to do it successfully. Doing so is part of the "White Man's Burden," 1950-style. If we do it rightly, we will profit in the end —and the chance of our deferring the final show-down with Russia will be vastly improved.

But there is more to this than economics. Russia has gold; Russia has technicians and scientists —some of the best in the world. Russia does not have to rely on individual investors to send money around the globe: the Kremlin holds the purse-strings and can open or close them in conformance with national policy. Russia has all these things, and more. But we have something that Russia once had, but lost—a Something that dwarfs all the rest, and which may solidify the balance of power in our favor until such time as balances of that sort no more are needed.

I refer to the spirit of religion —the Christianity, once so brilliantly vivid in Moscow and St. Petersburg, even during the Mongol oppression, which is no longer an "official" part of Russian living. Without religion, even the greatest conquerors must perish, and their conquests disappear into the grave. Because it is ungodly, Russian strength and aggressiveness may prove our salvation, rather than our downfall. Nothing could serve so well as Russian absolutism, or as Communist unmorality, to put us on our guard and to revive in us the strength that comes from within.

We are, and claim to be, a Christian nation. But the essence of our Christianity will not be found in lip service. It lives and has its being in our daily conduct with each other, both here at home and in international relations. Every nation that has endured has been animated by a great religion—and of the eight great religions in the world today (each one of which has devout followers among our citizens) every single one is based upon the elementary truth of the Golden Rule. Seven sets of sacred writings underlie these eight religions, and in these seven works the Golden Rule is referred to 13 times. In our own Bible it appears twice in the Old Testament and four times in the New.

In the opportunity which now awaits us to combine our manifold natural and human resources with the spiritual resource of the Golden Rule lies our best hope of peace.

The peoples of the earth have known no such leadership for centuries. We alone can give it to them. We can save them from their fears of conquest—once we learn to conquer ourselves.

Stone & Webster Form Canadian Subsidiary

Alfred T. Krook

John W. McKee

Stone & Webster, Incorporated, announces the formation of a Canadian subsidiary, Stone & Webster Canada Limited. The Canadian company, with present offices at 50 King Street West, Toronto, Ont., has been organized for the purpose of making the services of the whole Stone & Webster organization available to Canadian industry.

Alfred T. Krook, previously district manager of the Stone & Webster Engineering Corporation for the southwestern area, with headquarters in Houston, Texas, has been named President of the new company. John W. McKee of Toronto is Chairman of the Board of Directors upon which are serving Whitney Stone and Philip B. Scott of New York, as well as prominent citizens of the Dominion, including Hon. G. Peter Campbell, K.C.; William Eric Phillips, C.B.E., D.S.O., M.C., also of Toronto, and Hartland De M. Molson, O.B.E., of Montreal.

In recent years, in addition to their work in this country, the Stone & Webster Engineering Corporation and E. B. Badger & Sons Company, of Boston, process engineers, whose facilities were added to the Stone & Webster organization in 1948, have completed important projects in the United Kingdom and in Canada. These included major chemical and petroleum plants for the Anglo-Iranian Oil Company, Ltd., in England and the middle East and large installations in the Dominion for the Polymer Corporation, the Marathon Paper Company, Lever Brothers, the Ontario Hydro-Electric Power Commission and the Sick Children's Hospital of Toronto. In addition, assistance has been rendered to interests engaged in planning the exploitation of the vast iron ore reserves of Labrador, as well as to companies developing the oil and gas resources of western Canada.

The Stone & Webster management, presently headed by Whitney Stone, President, and son of one of the original founders, stated that the creation of Stone & Webster Canada Limited will increase the ability of the entire Stone & Webster organization to serve Canadian industry.

Chicago Analysts to Hear J. K. Langum

CHICAGO, Ill.—John K. Langum, Vice-President of the Federal Reserve Bank of Chicago, will address the Sept. 29 luncheon meeting of the Investment Analysts Club of Chicago to be held at the Georgian Room, Carson Pirie Scott & Co. Mr. Langum's subject will be "Current Problems of Monetary Management."

With Minneapolis Assoc.

(Special to THE FINANCIAL CHRONICLE)

MINNEAPOLIS, Minn.—Alfred J. Larson is now affiliated with Minneapolis Associates, Inc., Rand Tower.

Public Utility Securities

By OWEN ELY

Pacific Power & Light Company

American Power & Light Co. sold its entire holdings of common stock of Pacific Power & Light Co. to an investment group headed by Bear, Stearns & Co. and A. C. Allyn & Co. for $16,125,000 on Feb. 3, this year, after spirited bidding by competing groups, to meet a tax deadline for the sale. Earlier bids were rejected by the SEC on the ground that competitive conditions had not been maintained during negotiation, and a final competing bid by Allen & Co. was also rejected.

A controversial question during this bidding period was whether Pacific Power & Light would continue under private management, or be resold to public utility districts. A provision of the final sale agreement gave the purchasers authority to dispose of certain parts of the property to public ownership interests, but they have not availed themselves of this proviso. Opposition has been expressed in some utility quarters to proposed sales to PUDs.

Later the company's 500,000 shares of common stock was split 3½-for-1, making the present number 1,750,000. On this basis the syndicate's cost per share approximated $9.20 a share. Recently the syndicate decided to sell the stock (or at least a major portion of it) to the public, and Lehman Bros., Union Securities Co. and Dean Witter & Co. are undertaking to form a group to market the issue. Details of the offering have not yet been published, and the sale is, of course, subject to SEC clearance.

The company supplies electricity and some miscellaneous services to a wide territory in the Columbia River Valley in southern Washington and northern Oregon. Some 90 communities are served at retail, including Yakima, Walla Walla, Dayton and Sunnyside in Washington; and Portland, Astoria, Bend, Pendleton, Dallas, Rainier, and Hood River in Oregon. (However, the major portion of domestic and commercial consumers in Portland are served by the non-affiliated Portland General Electric Co.) Water is retailed in one community, and central steam-heating service is supplied in Portland and Yakima. The total population of the area served is estimated at 800,000. About 93% of revenues are electric, 5% water and steam heating, and 2% office rentals.

Principal industries in the area include flour and feed mills, sawmills and logging operations, woolen mills, pine and paper-box factories, ice manufacturing plants, fruit and meat cold storage, packing plants, canneries and dairies. Electric revenues are 49% residential and rural, 30% commercial, 18% industrial and 3% miscellaneous. Paper mills are the largest industrial customers, accounting for one-quarter of industrial revenues or 4% of total revenues.

In the 12 months ended July 31, 1950, the company generated 52% of its power requirements (a larger proportion than usual) and purchased the remainder. Capacity (name-plate rating) is 126,000 hydro, 53,000 steam and 1,000 diesel. Steam plants are fairly old, and in the calendar year 1949 only about 10% of generated electricity was obtained from these units.

The company's main power system forms an integral part of the inter-connected Northwest Power Pool, which was created to assure the most effective use of all power resources in the Pacific Northwest. It consists of the systems of eight private electric companies operating in Oregon, Washington, Idaho, Montana, Utah and British Columbia, the municipal systems of Tacoma and Seattle, and the Federally-operated Bonneville, Grand Coulee and Fort Peck systems. Most of the company's power has been purchased under contract from Washington Water Power, a former affiliate, although it was obtained from various sources including Bonneville.

Since the company is not adding to its production facilities in any substantial way, the construction programs, estimated at $6.4 million for 1950 and $5.5 million for 1951, are principally for distribution and transmission facilities. The company does not expect to do any additional financing in 1950 ($9 million first 3s due 1980 were sold April 20) but about $3 million in new capital may be required in 1951.

The approximate earnings record has been as follows, with adjustments for the merger with Northwestern Electric Co. in 1947 (000s omitted):

	Revenues	Net Oper. Revenue	Net Income	Balance for Common Dividends
12 mos. ended July 31, 1950	$18,204	$4,436	$3,062	$2,612
Calendar year 1949	17,464	3,677	2,226	1,776
1948	16,046	2,920	1,547	1,096
1947	15,645	3,561	1,839	
1946	14,301	3,718	1,637	
1945	13,499	3,262	1,194	

In the calendar year 1949, depreciation and maintenance approximated 14.5% of revenues after deducting the cost of purchased power.

In the 12 months ended July 31, 1950, earnings approximated $1.49 a share on the common stock. Adjustment of Federal income taxes to a 42% basis would reduce earnings about 9 cents, and with a 45% basis about 16 cents, it is estimated. However, further improvement in earnings reflecting improved hydro operations might cancel part of this reduction. No estimate is available as to potential effects on earnings of excess profits taxes (which Congress proposes to enact later this year, or early in 1951), including probable retroactive application to part of the year 1950.

Dividends have been initiated at the annual rate of $1.10 a share on the common stock.

Mobilizing for Freedom On the Non-Military Front

By CARL BYOIR*
Carl Byoir & Associates, Inc.

Mr. Byoir asserts in espionage and propaganda Communists are greatest masters in world's history, while we remain most amateur. Maintains we must have program and plan in addition to words to win minds of peoples. Calls on labor leaders to place patriotism above group objectives and organize campaign to insure war effort against strikes and slowdowns.

The struggle for the preservation of liberty on this earth is being fought on two fronts.

The war on the battlefront requires a tremendous mobilization of men and materials. The discussion of that is better left to our military and naval experts.


Carl Byoir

The second front is the struggle for the minds of men. In the next year or two we will find out whether we in America must fight the war against dictatorship alone or whether we will have effective allies among all the free people of the world. And perhaps even more important than that, whether we will have effective allies among the hundreds of millions of people who now live in slavery in dictator countries.

I have to say to you that in the fields of espionage and propaganda the Communists are the greatest masters in the history of the world and we are, perhaps, the most amateur. It is no exaggeration to say that the Russians can pinpoint every factory in the United States capable of producing munitions of war and I wouldn't be surprised if they could even supply an inventory of every tool machine in this country, including those in our atomic energy installations.

In the field of struggle for the minds of men, they have created the greatest propaganda machine in all history. We have created almost nothing. I admit we suffer great handicaps.

Handicaps of Democracy

Suppose, for example, we decided on a propaganda campaign in Malaya. We would have great difficulty in finding even one trained publicist familiar with the history and aspirations of the Malayan people and capable of understanding the impact upon them of the great forces at work in the world of today. Suppose we found such a man: What would be the chances of our finding one who in addition spoke the language of Malaya or understood the history and aspirations of its people?

On the other hand, for 32 years the Russians have been carrying on great training schools for propagandists, not only in Moscow, but throughout the world. Long ago they will have trained at least 500 Russians for work in Malaya and many of them will have lived in that country for 20, 25 or 30 years.

In addition, through the years they have brought Communist leaders from Malaya to Moscow for indoctrination.

Beyond that, there are probably 50 or 100 thousand native Malayans who are already Communists. Among these they will find competent newspapermen, radio commentators, authors, playwrights, actors, lawyers — in a word, all of the raw material they need for a propaganda campaign that will include few mistakes due to unfamiliarity with the country.

*A talk by Mr. Byoir before the 315th Regular Meeting of the National Industrial Conference Board, New York City, Sept. 20, 1950.

Our Efforts Childlike

I say to you, and believe me it is not said in mock modesty, that I have devoted most of my adult life to the study of propaganda. I compare with the Russians as an eight-year-old school boy compares with Einstein in mathematics. The State Department propagandists are yet unborn.

The Russians know the importance of propaganda because in 32 years they have conquered a third of the world by capturing the minds of men.

We now are faced with the necessity of initiating a great and realistic campaign to persuade all the peoples of the world, including people in our own country and the people behind the Iron Curtain, that they must join in the great struggle for the preservation of liberty.

If we want the support of the free governments of the world to the extent of more than a few hundred thousand sulpha tablets, we must realize that these governments, like our own, are responsive to their people.

We should appropriate immediately at least $100 million for this purpose.

We should send trained missions to these countries to tell the American story and to discredit the Communist story in every medium of communication.

We should bring here from those countries leaders of thought — newspaper, magazine and radio men—and acquaint them with America's peace aims.

We must penetrate the Iron Curtain so that war efforts in dictator countries will be faced with internal strife, failure by the civilian populations to support the armies in the field and perhaps, at last, even revolution.

The "Iron Curtain" is only a master simile thrown off the mind of Winston Churchill.

Actually, we do not penetrate it because we attempt to beam our millions of words through a barrage of interference to millions of nonexistent radios and, at the most, to a few thousand equipped to receive short-wave transmission. To be caught listening to one of these broadcasts means death.

It is possible to deliver to tens of millions of people behind the Iron Curtain news and pictorial publicity at only a slightly higher cost than our post office delivers the airmail here in America.

In the First World War we delivered these messages not only to the civilian population of enemy countries, but even to the armies in the field. The methods are tested, proved, and they will work again.

Words Not Enough

But we cannot win the minds of the people of the world with words alone. We must have a program and a plan.

First of all, we must create a new concert of nations which does not include the aggressors. We cannot achieve the moral and spiritual leadership of the world by association with criminals.

In the United Nations we gave Russia two votes and a veto. Just today the votes for dictatorship have grown to 16 and our own Secretary of State has announced that we would not veto the admission of Communist China.

Here at home we did not get rid of the Capones and the Dillingers by creating an organization of decent people to abolish murder, kidnapping and bootlegging and include murderers, kidnappers and bootleggers and give them the power to veto.

I cannot recall that Christ created a commission for the cleansing of the Temple and gave the Pharisees two votes and a veto.

Peace Palace Has Supplanted Manger

We have built here in New York City a great 65-story building for world peace. May I remind you that the Prince of Peace was born in a manger? Four men of good will could sit down in a stable and guarantee the peace of the world for a hundred years, but one of the four men has given ample evidence that he does not want peace and that he will not agree to peace.

Nevertheless, I think it is necessary to make one great, last moral gesture in the present forum to persuade all the peoples of the world that America wants peace and that we are willing to make sacrifices for peace comparable to the sacrifices which we must make for war.

Things to Do

If we could bring ourselves to spend half the money and persuade the other peace-loving nations of the world to spend half the money that we spend on armaments on a great program to bring up the living standards of the world, war might be forever banished from this earth.

The conditions of such an offer would be effective international control and inspection to prevent national arming for purposes of aggression of any nation, and especially to guarantee the conversion of the use of atomic energy for life instead of for death.

If the Russians refused our offer, we would in an instant have made clear to all the rest of the world that America stands for peace and that Communism stands for war.

When Senator McMahon put forth such a proposal I think he was greatly misunderstood because neither statesmen nor people took time really to understand him, or failed to realize that the failure of its acceptance would constitute almost as great a victory as acceptance itself.

Such a declaration would give us a program. We would have an idea to sell to the people of the world that would give us a moral and spiritual leadership that is necessary for victory in this crisis.

I would like to see the 150 thousand lawyers in this country, who have been specially trained to understand arguments and to be persuasive, organized into a great speakers' bureau to tell our own people what the issues are and what we must do and what sacrifices we must make for victory.

I would like to see all the foreign-born in this country, particularly those who have come here from countries now behind the Iron Curtain, organized into a great propaganda machine. Many of these people would willingly lay down their lives in the effort to achieve freedom for the slaves behind the Iron Curtain.

Labor Must Cooperate

I would like to see the leaders of labor, who put patriotism above the immediate objectives of a group, organized to carry on a great campaign to make sure that our war effort is not hampered by strikes, slowdowns or other labor troubles.

These are only a few of the things that we can do if we really put our minds to the tasks of matching and over-matching the great campaign of misrepresentation and confusion which the Russians have carried on here and throughout the world.

Geo. Eustis & Co. to Acquire Business of Weiss, Work & Co.


George Eustis


Willard C. Weiss


Robert Weiss


Joseph R. Work

CINCINNATI, Ohio—The business of Weiss, Work & Co. Inc. investment firm will be acquired by the firm of Geo. Eustis & Co., Traction Building, effective Oct. 1, 1950, it was announced by George Eustis, President. The name and corporate structure of Geo. Eustis & Co. remain unchanged.

Willard C. Weiss and Joseph R. Work were elected Vice-Presidents and Robert Weiss was elected Assistant Secretary of Geo. Eustis & Co., all of them were officers of Weiss, Work & Co. Inc.

Willard C. Weiss has been engaged in the investment business for the past 40 years. He is Chairman of District 10 National Association of Securities Dealers, member of The Cincinnati Stock and Bond Club, member of The National Security Traders Association, member of The Bankers Club, director of Sorg Paper Co., director of Vulcan Corporation and director of 220 Bagley Corporation, Detroit, Mich.

Mr. Work, who has a wide acquaintance in financial and business circles, entered the investment business in 1924 after graduating from Miami University where he majored in business administration. He is a member and Past President of The Cincinnati Stock and Bond Club, member of The National Securities Traders Association, and member of The Bankers Club.

Mr. Weiss and Mr. Work were partners of J. S. Todd & Co. which firm was succeeded by Weiss, Work & Co. in 1945.

Robert Weiss has been engaged in the investment business since 1936 after graduating from the University of Cincinnati where he majored in business administration with the exception of about three years spent overseas in the U. S. Army. He is a trustee and member of The Cincinnati Stock and Bond Club and a member of The National Securities Traders Association.

Organized in 1862, Geo. Eustis & Co. is the oldest investment concern in Cincinnati and one of the oldest in the middlewest. The officers of the consolidated company will be George Eustis, grandson of the founder, President; Lee R. Staib, Vice-President and Secretary; Joseph H. Vasey, Vice-President and Treasurer, Willard C. Weiss, Vice-President; Joseph R. Work, Vice-President; and Robert C. Weiss, Assistant Secretary. The firm is a member of The Cincinnati Stock Exchange and The Midwest Stock Exchange.

Arcturus Electronics Stock Publicly Offered

Gearhart, Kinnard & Otis, Inc. are offering 50,000 shares of 6% convertible preferred stock (par $5) and 100,000 shares of class A stock of Arcturus Electronics, Inc. in units of one share of preferred and two shares of class A stock at $5.20 per unit. In the event that the underwriter does not sell at least 25,000 units of these securities within 60 days from the date of the initial public offering, or within such further period as the company may approve, all sales shall be cancelled.

If and when the proceeds are realized from the sale of such 25,000 units, approximately $75,000 will be used for construction and purchase of new machinery and equipment to manufacture television picture tubes, $25,000 will be applied to repayment of advances made to the company by Morris H. Cohn, President, and the balance, if and when realized, will be used to provide additional working capital.

Arcturus Electronics, Inc. manufactures and sells both round and rectangular Cathode-Ray tubes, popularly known as television picture tubes, used in television receivers. The management of the company believes that Cathode-Ray tubes in the class manufactured by it are also used for such military uses as radar and sonar. As of Sept. 20, 1950 the company had not received any orders for the production of tubes for military purposes. The management believes that the company can readily convert its plant and facilities to war production at reasonable conversion costs.

Cement Production Up in California

According to the U. S. Dept. of the Interior, Bureau of Mines, Mineral Industry Surveys, the production of cement in the State of California was up 11% for the 7 months ending July, 1950, compared with the like period last year.

For the month of July, 1950, production was up 18%, compared with July, 1949, while shipments were up 25%, compared with July, 1949.

Riverside Cement Co., the largest producer in Southern California, earned $1,619,105 net in 1949, equivalent to $3.70 per share on the "B" stock, disregarding arrears on the "A." It is understood that the company has in 1950 completely paid off the bank loan, originally as high as $3½ million. This sum was part of a $6 million expansion program, commenced in 1946 and completed in 1948.

According to Lerner & Co., 10 Post Office Square, Boston, Mass., earnings to the "B" stock for 1950 should be better than $4 per share. This calculation is based on an allowance for current dividend of $1.25 per share to the "A" stock, on which at present there is an arrearage of $18.37 per share.

Continued from first page

Investment and the Business Outlook

made because some insurance men—happily, not in the field of fraternal insurance—have suggested that certain basic conflicts are inherent in them, especially in recent years. As you will note, this talk today is based on the conviction so well expressed in the battlecry of Alexander Dumas' immortal "Three Musketeers": "All for one; and one for all!"

Props to Business Activity

At the end of last March, Doctor Nourse said that the prevailing high rate of business activity was supported by four props, namely, the G. I. insurance refund, the increases in consumer credit, the increases in mortgage credit, and high rate of capital goods spending by government and industry. Why Doctor Nourse, who is one of our most distinguished agricultural economists, did not add agricultural price supports to his list of props, I do not know; but I hereby remedy the omission!

Other than the G. I. insurance refund—which, however, will be with us again in reduced form next year—these props are still with us. It follows that what happens to them will have a very important effect on the economy.

Since March, consumer credit has continued the most rapid increase in its history until it has passed the $20 billion mark; but now, it will be regulated. So far, the regulation promises to be quite mild. It will, however, undoubtedly stop the upward trend, and may even cause a moderate decline in volume. As this type of credit is in the front line trenches of the price battle, this regulation will have more than a proportionate effect on price pressures.

Likewise, since March, mortgage credit has continued the sharpest upward trend in its history. Put on a quantitative basis, home mortgage loans made by all lenders in the first six months of this year exceeded $6.5 billion. As a result, by the end of June, total home mortgage debt reached a new peak of more than $40 billion. This is more than double the home mortgage debt at the end of World War II. That's a real "l-e-a-n" on the "old homestead"! The implications, I am sure, are obvious to this audience of experts.

Increased down payments and other credit curbs which have been announced are rather mild. So far, they have had little effect. The newly formed National Production Authority, however, estimates that credit restrictions and shortages of such materials as lumber, copper, zinc, iron and steel will cause a cutback of 400,000 single dwelling units **in 1951.** To get proper perspective on this great reduction, please remember that 839,000 single dwelling units were started in the first seven months of this year. This means that a decline of 400,000 units in 1951 would bring the home construction level back approximately to that of the 1,025,000 units started in 1949, which was a peak construction year. Thus, while the reduction is large and will relieve a great deal of the pressure against the prices of certain materials, it still leaves home construtcion at a very high level—**and the reduction is to be in 1951!**

Additional Capital Outlays

On the capital outlay side, the Securities and Exchange Commission reports that, as a result of the Korean developments, capital expenditures planned for 1950 have risen from $16.1 billion to $17.9 billion. In particular, estimates for the second half of this year are now put at $9.8 billion, as compared with an actual outlay of $9 billion in the same period of last year. In this connection, it should be kept in mind, also, that the Defense Production Act places at the President's disposal another $2 billion, which can be used in part for loans to expand defense industries.

Farm marketing receipts are now estimated at $27,500,000,000, an increase of $2,500,000,000 from the April forecast. This is concrete evidence that the international political uncertainty, considerable speculation and unseasonable weather for certain crops have, at least temporarily, bailed out the badly bogged down agricultural price support program. The "Great Glut" that "Life" and other magazines were deploring in feature stories at the beginning of the summer has been succeeded by a widespread public fear of shortages.

In terms of physical quantity, the harvest is estimated at 125% of the 1923-1932 average. In fact, despite acreage and production restrictions, it is higher than any harvest before 1946 and only moderately below the peak of 1949. This "bullish" agricultural outlook is stressed because of the close correlation between farm prosperity and high-level demand for manufactured goods.

"Managed" Economic Expansion

Back of all of these "props" and far more important than any, or all of them, is the philosophy of "managed" economic expansion which the President and his Council of Economic Advisers have embraced. The New York "Times" of September 12 quoted Keyserling's view on the burden of further tax increases as follows: "The genius of American production should increase this country's output in five years to the $350,000,000,000 mark. Then we will be able to bear the burden out of present production and expand our industrial plant to sustain basic civilian needs." That speaks for itself!

Now, you undoubtedly will agree with me that what they really have in mind is controlled inflation—and you doubtless also share my misgivings as to the possibility of controlling such a virulent economic disease. But, our reaction is beside the point: they are actively engaged in the expansion program. To the extent that Congress permits—and I have seen little concrete evidence of any "hold the line" policy in those great legislative halls, despite a great deal of lip service in that direction — we are on our way. "Cold" war or "hot" war, we are going to have "guns and butter" too!

Lest you think this is a political speech, let me give you just one over-all specification. In the fiscal year 1950, about $12,000,000,000 was distributed to individuals by the Federal government in the form of Social Security benefits, unemployment payments, veterans' pensions and subsidies to farmers and others, for which no productive service was rendered. In addition, the states spent about $1,500,000,000 for which no service was performed. Thus, nearly 25% of all government receipts in fiscal 1950 went for welfare; and this, with Russia "throwing her weight around"!

In his 1950 message to Congress, President Truman said that 1949 demonstrated that "economic affairs are not beyond human control." While I bow to no man in my admiration for the wonders which can be accomplished with monetary management and debt management, and while I fully realize that we live in a directed economy, any philosophy which rules out economic law, as this apparently does, is bound to prove a "snare and a delusion" sooner or later.

As an indication of how far they think they can go, let us consider the attitude of the President's Council of Economic Advisers on interest rates. The Council has categorically stated that "low interest rates are always desirable" and that even in inflationary periods the Council "would not abandon the advantages of cheap money and use central bank operations to cause an anti-inflationary increase in interest rates." Instead, the Council "would retain the advantages of cheap money and adopt other measures to curb the inflationary forces."

There you have "What Makes Sammy Run" although, this time, it is Uncle Sam, and we don't know how long the race will be!

The Korean Involvement

Superimposed on this background of government thinking, aims and policies, we now have the Korean involvement and a vast rearmament program. At the very time that we were—almost entirely because of government policies—riding the crest of an inflationary wave, the added burden of a "little" war and preparation for a potential "big" war is placed on the economy. More specifically, the Defense Department estimates rearmament costs at $25 billion annually for the next three years, provided the Korean War is over by next summer and no new war breaks out.

As for our ability to carry the added financial burden, the National City Bank "Monthly Letter" of September estimates that the $5 billion of anticipated new taxes, the increased revenues flowing from expanding business activity, and the natural lag in spending, may keep the deficit of the current fiscal year down to around $2 billion instead of the much higher estimates you hear on every hand. And the National City "Monthly Letter" certainly is conservative!

On the quantitative side, using steel, the most basic war material, as an example, the regular and special military appropriations voted by Congress are not expected to take more than 4.6 to 6.6% of steel production, and foreign aid another 4%, giving a total of 10%. Thanks, however, to the wartime expansion of the steel industry, this leaves more than 90,000,000 tons for civilian use, as compared with total steel production of 81,600,000 tons in 1940.

Without laboring the point any further, let me say that the productive capacity of America is so enormous that we can carry both Korea and rearmament comfortably, and in our stride, if a sincere and realistic effort is made in Washington.

Continued High Spending Policy Means Trouble

On the other hand, if the spending philosophy continues to prevail in Washington to the exclusion of all other considerations, we are headed for economic trouble, war or no war! Already, wholesale prices are rising sharply and promise to surpass their post-war peak of 1948, raw materials, in particular, having shown almost unprecedented increases. Already, the spiral between wages and prices, particularly in manufactured goods, is under way. And, the sad thing about these developments is that they arise from a situation which is not a temporary one, as Russia holds the initiative and can continue to bleed us with one "incident" or "provocation" after another, while she stands aloof and increases her strength.

Nonetheless, we must not overlook the salient economic fact that the increased military expenditures for years to come set a pattern for business. So long as the rearmament expenditures continue in their present magnitude, business activity will be at a high level, employment will be plentiful, and the national income and the national output will be very large. What the long-range consequences of this increased business activity will be, particularly as regards prices of commodities and the cost of living, will depend on how the rearmament program is financed, what taxes are levied, and how the controls which the Congress has given the Administration are handled. As for the immediate outlook, however, there has never been a time when you could be more certain: **no depression is in the making, and business will be good.**

Well, given this background of elemental forces of a world in torment, what investment policy should fraternal insurance—insurance dedicated to the welfare of the man in the street—follow? Is there, to use the title of the book on atomic warfare, "No Place to Hide"?

Let us start at the top, with the long-term governments. Some investors have gotten a little nervous since the press associations carried a story in August about a "battle" between the Federal Reserve authorities and the Treasury. To the initiated, there was little new about those developments. The issue has been a fundamental one since the end of World War II. It has even flared into the open before. You remember the famous, so-called "Christmas present" of December 1947, in which the Federal Reserve lowered the pegs and started an avalanche of selling which necessitated the purchase of $10 billion of the long-term issues between November 1947 and November 1948. But, you should also remember that during the same period, the Federal Reserve banks sold $9 billion of short-term issues and the Federal Reserve Board increased reserve requirements $3 billion, giving a net reduction of $2 billion in the credit base!

Interest Rates and Treasury Policy

To put the outlook for this so-called battle as briefly as possible, may I say that in any issue between the monetary authorities and the Treasury, the result is foreordained. So long as the President backs the Treasury—and the Administration's bias in favor of low interest rates has been given at some length—the Treasury can't lose. The attachment of the Treasury to the long-term 2½% rate becomes clearer every day and, as I said, they have what it takes to make it stick! Given this basic rate of 2½%, it is only a question of evaluating credit risks, market behavior and special features in determining the spreads that should exist between it and the other issues.

High grade corporate bonds, for example, in the last few years have been too good and they are getting better. The total of long-term corporate debt is only moderately above the peak established in 1930, although revenues and profits are much higher. Moreover, book values are steadily increasing because of the ploughing back of a large percentage of earnings. Thus, the Federal Reserve Bank of Chicago estimates that, in the 1946-49 period, American industry invested $60 billion in plant and equipment and $36 billion in receivables and inventory. Of this $96 billion total, $60 billion came from retained earnings, and depletion and depreciation allowances, while $29 billion came from outside sources, broke down as follows: Bonds $12.6 billion; stocks $5.2 billion; bank loans $5.5 billion; mortgages $2.6 billion; and, increase in current liabilities $2.4 billion.

This experience of the 1946-49 period indicates that the supply of corporate bonds, even in the expansion period ahead, will be unequal to the demand. That means you will have to look further and dig harder; but the market risk as well as the credit risk should be even less than now.

Municipals are another story. There you have special tax features, special considerations and special risks. There, the range in quality is really infinite, although current market rates may indicate but little difference. The limitations on marketability and the substantial credit risk on many of these issues is belied by the artificially low interest rates born of their tax exemption feature. In particular, the heavy demand for municipals since February, and even more, since June, reflects in large measure efforts to reduce income tax liabilities in a period of inflationary activity.

Any organization which does not need the tax exemption afforded by municipals, should reflect, pause and hesitate before placing a substantial commitment in such issues. This, of course, applied manifold to the purchase of second, third and fourth grade municipals.

In these difficult days, naturally many think of hedges against inflation. Let me assure you, there is no such hedge, particularly one which a fraternal organization could invest in. The best policy to follow under present conditions is to endeavor to obtain the highest going rate of return and not to take too many risks. Conditions are uncertain. We don't know what the tax bill next year will be. We don't know what the international political situation will be, and under these circumstances, those who follow a policy of conservatism and caution are bound to come out best.

Conclusion

In conclusion, the message I wish to leave with you is this:

As a result of the rearmament program, business activity will be at high levels, employment will be record-breaking, and disposable income will materially increase. At the same time, the supply of certain types of commodities will decrease. These developments obviously will strengthen the already great inflation pressures. Nonetheles, whether more inflation eventuates or not will depend on the American people. **If they don't want it, we will not have it!** So, as in the past, and even more particularly now, investments of trustees and fiduciaries should be conservative. This is the only policy to follow.

Federal TV Shares Offered at 50c a Share

John F. McBride Co., Inc., New York, are offering 596,000 shares of common stock of Federal Television Corp. at 50 cents per share.

The net proceeds will be used to purchase component parts as required for necessary operations and for working capital.

Federal Television Corp. was organized in New York in March, 1948, and presently is engaged in the business of manufacturing, assembling and selling home television receivers using 16 and 19 inch picture tubes in table consoles and consolette models. It has developed and intends to produce and sell an electronic magnifier which enlarges the center of a television picture by pressing a remote control button wherein the effect resembles a movie close-up. It also intends to manufacture and sell an indoor electronic antenna.

Will Sterling Be Revalued Upward?

By PAUL EINZIG

Commenting on whether sterling should be revalued upward, Dr. Einzig presents views in favor of proposition, but concludes there is very little likelihood of its adoption. Says revaluation might gravely handicap British export trade and would be also a mistake from political viewpoint. Sees position of pound sterling improved because of Korean crisis.

LONDON, Eng.—Less than a year ago there was much talk about the possibility of a second devaluation of sterling. At present the possibility of a change in its parity in the opposite direction tends to become a favorite topic of conversation among financiers, economists and politicians. Even though most people dismiss the suggestion—a fact which is indicated by the weakness of free sterling in New York—in some quarters it is considered to be not only possible but even probable. Their anticipation of an increase in the gold and dollar value of sterling by government decision is based on the statement made by Sir Stafford Cripps when announcing the decision to devalue sterling to $2.80, that if it should be found that this rate is too low the government would raise it. Possibly this observation was made as a gesture indicating the government's confidence in sterling at its new level, aimed at discouraging any speculation of its further devaluation by suggesting the existence of a risk of its appreciation. Nevertheless, many people are now inclined to take it at its face value.

Dr. Paul Einzig

Beyond doubt, the situation has changed substantially in favor of sterling since its devaluation. This was due in part to the successful efforts to keep down the rise in the cost of production. Credit is due for it mainly to Sir Stafford Cripps who is also responsible for the successful efforts to keep down imports from the dollar area and for the progress of the dollar drive. To a much larger extent, however, the improvement has been the result of conditions outside the control of the British Government. Favorable business conditions in the United States and the American policy of stockpiling have helped sterling area exports to the United States to no slight degree. They have resulted in a sharp rise in the prices of sterling area raw materials without causing a decline in the volume of their export to the United States. Thanks to this factor, the dollar earnings of the sterling area increased beyond all hopes during the first half of 1950. The improvement has become further accentuated during the third quarter of 1950 as a result of the Korean conflict and the American rearmament drive.

It may be said that, while during the first two quarters following the devaluation the improvement of the position of sterling was mainly due to the direct or indirect consequences of the devaluation, since then the factors mentioned above, which would have operated even if sterling had not been devalued, gained great prominence. The chances are that they will continue to operate. It is mainly on this assumption that the case for a revaluation of sterling to above $3 rests. Those in favor of it argue that a higher rate would not prevent a further improvement due to business boom, stockpiling and rearmament requirements. Indeed, it is even considered possible that higher sterling prices of British Commonwealth raw materials would mean more or less correspondingly higher dollar yields.

Another argument in favor of a revaluation of sterling is that prices in the United States are expected to rise faster than in Britain. Beyond doubt, on the basis of $2.80 to the pound, the British price level is very low. In a sellers' market this means that British exporters accept less for their goods than what foreign buyers would be prepared to pay. There is a strong temptation in existing circumstances to change the terms of trade in Britain's favor through a revaluation of sterling.

In spite of this there is very little likelihood of such a decision being reached. The government is not even considering it seriously. For it is feared that, should wage demands result in an appreciable increase of the British price level, a higher dollar rate might gravely handicap British export trade. The British Government would be reluctant to do away with the very substantial safety margin secured through the excessive devaluation of sterling. Although this attitude may to some extent amount to taking the line of least resistance, it can be justified on the basis of the desire not to do anything which might interfere with the success of the rearmament drive.

As a result of the scarcity of labor created by rearmament requirements, there are bound to be frequent wage demands during the coming period. Needless to say, it is to the interest of the country that the rising trend of wages and costs should be kept as moderate as possible.

The creation of additional purchasing power through an increase of wages in excess of the increase of the cost of living would earmark for civilian requirements an unduly large proportion of productive capacity and would therefore hinder rearmament. Indeed, it is to the interest of the rearmament effort that nominal wages should lag behind prices, in order to achieve a reduction of real wages and a curtailment of civilian demand. On the other hand, the need for an unduly rigid resistance to wage claims would result in a series of strikes and would gravely handicap rearmament. Such a need might easily arise if sterling were to be revalued. A revaluation would be a distinctly deflationary move, and even if all other economic arguments were in favor of deflation they would be outweighed by the fact of the increasingly strong bargaining position of industrial workers. The government would be unwise if it were to place employers in a position in which they could not afford to meet wage claims to a sufficient extent to avoid unduly grave wage conflicts.

From a political point of view, too, it would be a mistake to revalue sterling. Even though such a move might slow down the rise in prices it could not check the trend altogether. Such gain as would be achieved in this respect might be more than outweighed by the unpopularity the government would incur as a result of the numerous industrial disputes in which it would have to side with the employers for the sake of maintaining the output and keeping down the cost of production.

It seems reasonable, therefore, to conclude that in spite of the improvement of the position of sterling its revaluation is unlikely. At its present level it unquestionably commands confidence abroad. This is a psychological advantage which the government is not likely to sacrifice for the sake of dubious material advantages.

Continued from page 4

Role of Puts and Calls in Securities

make money. I am going to sell 100 short and make those 3½ points extra."

Well, the stock goes up, contrary to his guess, to 66. The man is worried. It goes to 70, and he is frantic, and usually at the top of the move, when man's judgment is the worst, he covers his stock at 75, and takes a $2,500 loss. Now, the man who had the Put loses only $350, and he still has conserved enough of his assets that if he wants to, at 60 or 70 he can try again. If he buys five such Puts in a row he still will not have lost as much money as the man who sold the stock short.

Put and Call for Insurance Protection

Now, I have given the Put and Call for speculation. I should like to give you the Put and Call for insurance or protection.

A man buys 100 shares at 50 and he thinks it is going to 75. This is merely another use of the same instrument. He is not willing to risk the effect that political news, war news, or any kind of news will have on the market. He doesn't want to risk owning the stock if it gets down to 20, so he comes to me and asks what I will charge him to guarantee him against loss for the next 90 days. For $350 I will sell him a Put at 50, good for 90 days.

Now, I am guaranteeing him that even if the stock should sell at 20, he can deliver 100 shares to me at 50 any time within 90 days.

If the market starts to break and gets down to 40 or 35, this man doesn't have to worry. He knows that he can dispose of his stock at 50 any time before the end of his time limit. Therefore, he is not a panicky seller.

In the last 90 days if you have watched the market, and I imagine you have, you would notice that if a man had bought 100 shares of General Motors at 85 about a month ago and had seen the stock go down, I believe, to 76, he might have worried and sold the stock down there.

Compare that with a man who bought 100 at 85, and bought a Put for 90 days at $400, let us say. He was protected against loss for 90 days. When the stock went down to 76 within a couple of weeks, he didn't have to worry because he knew he could always deliver at 85.

Then the news came out about the General Motors dividend, and the stock went up to 94. By virtue of having the Put which enabled him to hold on to his stock with a limited loss, he could now sell his stock at a nice profit.

You can compare that with the other man who just bought 100 shares of General Motors, and sold it, only to see it rally 10 points above his cost price.

People say this kind of insurance or protection is expensive. You buy insurance against fire in your house; you buy insurance against knocking someone down with your automobile, but this kind of protection is really more important than that because these commitments in the purchase or sale of stock very often constitute a large part of a man's assets. He can be wiped out in one fell swoop if he is not careful.

I do business with people who over a period of years always protect their commitments. You will see if you have studied charts of stock movements, and I imagine you have, you will find that the chart goes like this [illustrating an irregular line], but all of a sudden it goes like this [indicating an upward line] or this [indicating a downward line]. Here is where the big loss comes every so often that cleans a man out, but if a man makes these commitments with the knowledge that he is protected against these unlimited losses, he knows he is conserving his assets.

I have given you Puts and Calls for speculation and Puts for protection, and I think you can readily understand that Calls are just the reverse of Puts.

Calls Enable Larger Purchases

It might interest you to see how a man can control a greater number of shares through a Call than he can by buying his stock on margin or outright.

Suppose someone was smart enough to anticipate some of the big moves we have had like Zenith Radio which back in January was selling at 36 but which rose to above 70 in less than 90 days. If a man wanted to buy 100 shares he would have put up $1,800 margin, but suppose 100 shares didn't satisfy him. Then he could have bought Calls for $300 a piece for each hundred at 36 for 90 days and he could have controlled through the Calls, 500 shares for $1,500. You can see that through the use of the option, you can control many more shares than you could if you bought them on margin or outright.

There is one more little point that I would like to show you in the buying of options which is very interesting, and which particularly interests the account executive, as they call him.

If an account executive had a man who a month or so ago wanted to buy 100 shares of Chrysler at 80, or who did buy 100 shares of Chrysler at 80, and it was now selling at around 64, this fellow's account would show a shrinkage in equity of $1,600. If at that time instead of buying 100 shares, he had bought a Call for 90 days for $450, his equity would have gone down only by $450. Subsequently when the stock sold at 64, all that could be taken out of his account would be $450, and he would now be able to use his equity to buy 100 shares of stock at 64, which in my judgment is very sound business.

Who Makes Options

I think that will do for the buying of options for both speculation and protection. Now, I should like to show you the other side of these options—who makes them and why they make them. I remember I was speaking in Chicago some years ago and during the question and answer period some man said, "You know, I have been buying these Puts and Calls all my life, but I never knew you could sell them." I guess he thought Santa Claus brought them.

Now, here are two men, A and B. They both want to buy so many shares of stock totaling $100,000. Mr. A buys 100 shares of X, Y, and Z and so on. Mr. B says, "I have $100,000 with which to buy the securities, but instead of buying them, I am going to give somebody the privilege of delivering the stocks to me to the amount of $100,000." For that this man takes in $4,000 in premiums, let us say.

The market breaks and A has the stock, but B has all the stocks delivered to him. They are in the same position with the exception that B has taken in $4,000 in premiums which cut the cost of these stocks by that amount.

Suppose A bought the stocks and B sold the Puts, and the market didn't go down, but went up. A would have a direct profit on his holdings, but B would have still had $100,000 uninvested and would have had $4,000 on the sale of options. He would not have profited by the increased value of the stock, but B is at liberty to do it over again and sell Puts on the same list or another list of stocks.

I think you can see that if B does that in 90-day periods for a year, he is going to make about 16% which is not too bad. Over a period of time B will do much better than A.

Now, in the reverse, if you have a company or an individual that owns 500 shares of X, 500 Y, and 500 Z; this gives them a dividend of $6, $5, or $4 a year respectively. If they hold on to the stock over a period, they get the dividend. Most people don't sell. They sell usually at a loss when they are pressed for funds.

Mr. Jones over here owns the same stock, and I say to him, "Mr. Jones, Steel is selling at 36. If I give you $300 will you give me a Call on 100 shares for 90 days?" Mr. Jones doesn't know too well what I am talking about, so he asks:

"What happens to the $300 in the event you don't Call?"

I say, "You keep that in any event." So he sells me a Call on 100 for $300, and he has received the equivalent of 39, as though he had sold the stock at 39. If the Call is not exercised he is in a position to repeat the sale of a Call and receive another premium of $300. There is no telling how long this sale of Calls can continue.

This is the European way of doing business. The difference between many investors abroad and investors here is that when an American buys 100 shares of stock at 20, he thinks it is going to sell at $7,000, with the result that he usually gets 10, but when a European buys 100 shares at 20, and you tell him you will give him $150 for a Call for 90 days he immediately figures percentagewise that this has marked the stock down 1½ points or to 18½. If you go ahead and Call the stock from him, he won't worry. He has already made $150. Every time he sells a Call and it isn't called from him, he marks his cost down another point and a half. If that is done long enough, he will own the stock for nothing.

There is another point that I think I should explain to you.

The Straddle

If, instead of buying a Call from Mr. Jones, I say, "Mr. Jones, I would like to buy a straddle for 90 days for which I will give you $500."

What does that mean? Would you be willing to lose this stock equivalent to 41 or willing to take new stock equivalent to 31? When a man writes a straddle for 90 days, we know that at the end of the option the stock will be either up or down. It can't be two places at once. So then he would either have the Put side of the straddle exercised and buy the 100 shares at 36 plus the $500 which would make the stock cost 31, or in the case of the stock going up, he will have it called from him at 36 plus the $500 which he received which makes his sale price equivalent to 41.

This is a very interesting business and it would amaze you to see how these premiums add up at the end of a year.

I did business with a fellow a few years ago who had taken in $160,000 in premiums. The market broke, and had he sold out the stocks at the low, he would have had a loss of $170,000. Compare him with a fellow who had exactly the same thing without selling the options and collecting the premiums. That fellow would have had a loss of $170,000 with nothing to offset it. The first fellow had all his premiums. That is like an insurance company that writes a lot of policies, and all of a sudden they have a lot of claims against them. All those premiums are applied to offset the claims.

I think that will give you a good idea of Puts and Calls. Now, if you have any questions I will try to answer them.

Professor Ricciardi: I should like to ask the first one. Would you explain what is meant by all of the options being guaranteed by a member of the Stock Exchange?

Mr. Filer: If I bought a Put or Call contract from John Jones, and wanted to sell it to you, you would want to know who John Jones is, and where he would be in case you wanted to exercise the contract, and who said he was good for the contract—and you would be perfectly right. John Jones has an account with a Stock Exchange broker, and he leaves with him enough collateral, according to Stock Exchange requirements, so that the Stock Exchange member will put his name on the back of the contract guaranteeing to you, the purchaser, that the terms of the contract will be fulfilled. The only way in which the terms of that contract would not be fulfilled would be if that Stock Exchange house should fail. Even then you have redress against John Jones, the original maker. That is the endorsement.

Student: If that stock is bought or sold over the counter, will a member of the Stock Exchange guarantee the option?

Mr. Filer: There is no reason why he wouldn't. If you own 100 shares of over-the-counter stock and you want to sell a Call on it, if the stock was either properly margined or you were responsible, there is no reason why not. Most of our business, however, is done on listed securities. We do trade options on a few stocks on the Curb from time to time, but I repeat that most of our business is done on the big board stocks.

Student: How do you determine the price of Puts and Calls?

Mr. Filer: The price of a Put or Call is determined by the selling price of stock. You can readily see that a stock that is selling at 20 would not command as much premium as one selling at 150. You can also readily see that the stock selling at 20 wouldn't fluctuate as much as the one selling at 150. So it is the price of the stock plus the possible fluctuations of the stock plus the supply and demand.

If everybody and his brother is looking to buy Call options on this stock, and it had been offered for $187.50, if the demand is big enough and outstrips the supply, in order to get more you will have to bid more than $187.50, so the price will increase.

On the other hand, if you want to sell a Call on this stock and you offer it for $187.50, and there is no demand for it, you will either not sell the Call or you will lower the price to a point which will attract a buyer.

Student: Are there not accepted units of price for Puts and Calls at certain levels? You kept mentioning 90-day Calls at $375 and Puts at $350.

Mr. Filer: I just did that to make it easy to give you a rough idea of it. For instance, Calls for 90 days on Steel would cost you about $275; Anaconda would cost about $225; General Motors would cost about $575; Studebaker would cost you about $275 etc.

Professor Ricciardi: Standard Oil.

Mr. Filer: Yes, a stock like Standard Oil of New Jersey would cost about $400. Of course, a high priced stock like Allied Chemical, before it is split is very difficult to obtain a Put or Call because, as you can well imagine, the supply is limited. Everyone doesn't own Allied Chemical and everyone wouldn't contract to buy or sell 100 shares of Allied Chemical regardless of the premium because they wouldn't be in a position to play with 100 shares of the old stock for $25,000.

Student: I thought I read somewhere that the price of a Put or Call at one point was $137.50 for 30 days?

Mr. Filer: That is right. On the 30-day contracts the base price is $137.50 per hundred shares plus tax on Calls. I might add that the Federal and State governments insist that a tax be affixed to all Call contracts, but not on the Put contracts.

Now, the only fluctuation on the 30-day contract is the number of points up or down. For instance, on Steel for 30 days you can buy a Call one point up. You can buy Anaconda at one point up. General Motors will cost you five points above the market. Studebaker will be 1½ points, and New Jersey will be three points above. Of course on a stock like General Motors that has just gone from 76 to 94, it is not unreasonable to ask for five points because it has fluctuated 18 points in 30 days.

You can buy a Call at the market by paying a higher premium price for the option. Let us say a stock is at 95, and you have a Call price of 100, and you will pay $137.50 for the Call. The stock will have to go over 102⅜ before you start making any money.

Now, if you buy a Call on General Motors for 90 days, and you pay $575, the stock will have to go to 100¾ before you make any money, but you have 90 days in which to do it. For the larger outlay in cash, you get a much better run for your money.

On the other hand, if the stock should decline instead of going up, your loss would be $575, whereas in the other case it would only be $137.50.

Student: What happens when a stock sells ex-dividend down the amount of the dividend?

Mr. Filer: All Puts and Calls are reduced by the amount of the dividend on the day that the stock sells ex-dividend on the Exchange. There is no advantage either way.

If a man owns 100 shares at 50 and he sells a Call at 50 and a Put at 50, and the next day the stock on the Exchange sells ex-dividend $1, the Call becomes 49 and the Put becomes 49. The stock also, under normal conditions would be down one point.

Student: What happens when they give stock rights?

Mr. Filer: It used to be very, very confusing when they gave stock rights because the rights would fluctuate before they expired. The owner of a Call would like to reduce his Call by the greatest price at which the rights sold, and the maker of the Call would like him to reduce the Call by the lowest price at which the rights sold, or the owner of a Call could call 100 shares of stock plus the rights if the rights were still in existence. It became very complicated both for the buyer and the seller, and the Put and Call Association made a ruling that when a stock goes ex-rights, the first sale of the rights on the Exchange shall be deducted from the price of the Put or Call option outstanding.

That makes it very simple because suppose I own 100 shares of stock at 50, and I sold a Call at 50, and during the life of the Call, rights were issued and opened at ¾, and then ran up to 2 before the expiration of the Call. I wouldn't know whether to subscribe to the stock that the rights entitled me to because I wouldn't know whether the Call was going to be exercised or not. That put the writer of a contract in a funny position, and that is why we ruled that the opening sale of the rights would be deducted from the option price so that the man who owned the rights could immediately sell them out at the opening price. The holder of the Call would deduct the amount of the opening sale of the rights from the Call contract.

Student: Do you always hold yourself open to option sales or do you restrict your activities somewhat to your own market outlook?

Mr. Filer: I am not always the maker of these contracts. When I have a bid for a Call, it is my business to contact owners of that stock and try to buy the Call from them. Through my knowledge of the business I know that Mr. Jones owns or would be willing to own Woolworth, for instance. We have various contacts both for selling of the contracts and buying of the contracts.

Yesterday you may have inquired how you could buy a Call on Philco, and perhaps at that time we couldn't meet your terms, but today a Call comes into the market which I think is reasonable, so I call you up and say, "Mr. Jones, you inquired about a Call on Philco. I can offer you one so-and-so." This is the result of our knowledge of the business as to who is the possible seller and who is the possible buyer.

Student: Are your quotations on Puts and Calls nominal or firm?

Mr Filer: All quotations are nominal until we say they are firm. If I offer you a Call on General Motors, I don't actually offer it. I say that I think I can get it because that leaves me a little leeway. If I call you and say, "I can offer you firm on the wire a Call for General Motors, for $500," that is firm until I get off the wire or until you get off the wire.

Student: How do you handle business in small cities?

Mr. Filer: I neglected to tell you that all of the Put and Call brokers in the United States are in New York City. All of the Puts and Calls bought in the United States are bought in New York City. If Joe Zilch out in Kalamazoo wants to buy a Call on 100 shares he inquires from the local broker who in turn wires his New York office. The New York office contacts a Put and Call broker, and the resulting message goes back to Kalamazoo after which time the customer decides whether he is interested in buying such a Call or not.

If he isn't, it is merely a quotation. If he is, he places his order and it retraces the steps back from the branch office to the main office to the Put and Call dealer who tries to fill the order. That is usually done in a very short time, and the contract is consummated, delivery of which is made to the main office of the Stock Exchange house, and the contract is charged or debited against the account of the individual customer who bought the Call.

Student: How many Put and Call dealers are there?

Mr. Filer: There are about 27 Put and Call dealers in New York or in the United States.

Student: What are the capital requirements, if any, set up by the Put and Call Brokers and Dealers Association?

Mr. Filer: There are really no capital requirements because if I act merely as a broker without ever taking a position, all I am required to do is to give my check for the contract which I might buy from you. I immediately take that contract to the Stock Exchange house, and that day or the next day I am paid, so my capital requirements are not great. All I have to have is a checking account unless I position these contracts and carry a large inventory.

I don't think in the 31 years that I have been in this business I have ever heard of a Put and Call broker going bankrupt, and I don't know of a welsh on a contract. Although we deal in millions of dollars in contracts in a year and it is all done over the phone by word of mouth, we very seldom, if ever, have a mistake.

Student: Do you make a commission for executing these contracts? I mean how do you make any money?

Mr. Filer: I buy for less than I sell. If you are going to give me $575 for a contract, I try to buy it for less than that, and the difference is my profit.

Student: What is the time limit when an order is placed? If you get a Put order how soon do you have to confirm it before it expires?

Mr. Filer: All orders are considered to be day orders unless otherwise specified. Now, there is a certain treatment to which you are entitled when you place an order. For instance, if General Motors is selling at 90, and we receive an order from a broker to buy a Call at the market for 90 days for $575, if within 15 or 20 minutes we haven't been able to execute that order, we feel duty bound to return to the broker and have him report to you that we can't produce it for $575 or we need more time, and so forth. That is the proper way for an order to be handled.

If, when we received the order, the stock was selling at 90 and before we can produce that Call, it goes up to 91, 91½, or 92, which is a good fluctuation, we will contact you through your broker and advise that the stock has gotten away, and that we don't want to execute the order unless we are told to. I always try to picture a fellow sitting in Detroit wondering which price will be paid for his Call so I think we are duty bound to let the customer know just where he stands if we have the order any length of time.

Usually, orders are filled pretty quickly, and we know just where to put our hands on that contract by using the least number of Calls.

Student: Would you mind telling how the contracts are fulfilled. You said something about going directly to the Stock Exchange. How are the contracts fulfilled?

Mr. Filer: You mean the execution of the contracts?

Student: Yes.

Mr. Filer: You merely notify your Stock Exchange broker to exercise a Call on 100 shares of General Motors which is in your account at 90 and sell the stock at the market. Now, you have bought 100 shares and you have sold out in the market.

Professor Ricciardi: You must place the margin requirement on your Call?

Mr. Filer: The Stock Exchange rule is that you must deposit with your broker 25% of the value of the stock that you Call, but that need only be left with the broker until the trade clears three days. Then you may withdraw the proceeds, your deposit with your profit.

There is no law that says if you own a Call on stock at 90 and it is selling at 94 that you can't sell the actual contract to Mr. Jones without buying the stock or selling it. You are merely selling a contract which you own. There are some tax angles, but I don't think I shall burden you with those.

Professor Ricciardi: I want to thank Mr. Filer for a very interesting lecture.

Mr. Filer: I have tried to give it to you as simply as I can. The difficulty with this subject is that if you become too involved, it is not understandable, and still if you try to keep it too simple, you will not cover the subject, so I have tried to strike a happy medium and I hope that you have learned something from it.

H. E. Gray Mgr. of New Bache Branch

Henry Evans Gray has been appointed Manager of the Tulsa, Okla., office of Bache & Co., members of the New York Stock Exchange, the firm announced. For the past 30 years he has been in the investment and brokerage field in New York. L. G. Moore, who has been associated with Bache & Co. for many years, will act as Assistant Manager.

Henry Evans Gray

Mr. Gray is a graduate of Yale University and a member of The Tulsa Club and The Hillcrest Country Club of Bartlesville Okla. During World War I he served overseas as a Captain in the Field Artillery.

Financial Writers Going on With Show

The New York Financial Writers' Association's annual show lampooning big business and political luminaries will be held this year on Nov. 17 at the Hotel Astor, Joseph D'Aleo, President, announced.

Rumors that the "Financial Follies of 1950" would be cancelled this year because of the Korean War were quashed when members of the Association voted that the show will go on as scheduled.

The "Follies" have been held in each year since the organization was founded in 1938 with the exception of the war years.

As has been the practice in previous years, members will do all of the acting and also write the scrip of the show.

Now Sole Proprietorship

Lester Frenkel is continuing the investment business of Gersten & Frenkel, 150 Broadway, New York City, as a sole proprietorship.

Railroad Securities

Delaware, Lackawanna & Western

Delaware, Lackawanna & Western common has been attracting considerable speculative interest in the past week or so. Probably one of the important reasons for this renewed buying surge is the action of Nickel Plate common stock. Lackawanna has a substantial stock equity in that highly profitable carrier. Nickel Plate common, which sold as low as 90 just a few months ago, advanced to a new high of 153½ late last week. This dramatic advance has been accompanied by recurrence of the usual rumors that a stock recapitalization plan has been devised and will be submitted to the Board of Directors in the very near future. The plan, if there is one, would be designed to eliminate the large dividend arrears on the preferred.

Many people close to Nickel Plate question the imminence of a stock recapitalization plan satisfactory to stockholders and the interstate Commerce Commission whose approval would be necessary. Nevertheless, there is little disagreement among railroad analysts as to the justification, on an intermediate and longer term basis, for materially higher prices for the Nickel Plate common. Substantial progress has already been made toward reduction in the preferred dividend arrearages. In many quarters it is expected that another substantial cash payment will be declared before the 1950 year-end. Accumulations have been cut to $60 a share. Even without a plan the company should be able to solve the problem through cash payments by early 1952 at the latest.

With preferred dividend arrears out of the way, Nickel Plate common would still look very attractively priced at present relatively advanced levels. At last week's close it was selling less than three times estimated 1950 earnings of $55 to $60 a share. Lackawanna owns 60,000 shares of this stock, purchased at prices below $50 a share. At last week's close, which was slightly off from the top, this holding had a market value of $9,120,000. This was equivalent to $5.40 a share on the 1,688,824 shares of Lackawanna stock outstanding. This alone accounted for nearly 50% of the selling price of the Lackawanna stock.

Aside from the likelihood of eventually substantially higher values for its Nickel Plate holdings, Lackawanna common is considered to have quite attractive potentialities on its own merits. In support of this contention it is pointed out that in 1946 it hit a high of 16¼, and that was before it had acquired its equity in Nickel Plate. Fundamentally the road itself is in a far better position now than it was in 1946, and certainly its prospects are far more promising than they were at that time. Also, it is now on a dividend basis, although to date the distributions have been held to more or less token levels. Payments of $0.25 a share have been made in each of the past three years.

One thing that has long been considered a major weakness in the Lackawanna picture has been the importance to it of anthracite coal tonnage. For years this has been looked upon as a sick industry. Certainly the inroads made by substitute fuels such as oil and gas for domestic heating have been well known. It has been taken for granted that over the long term this erosion of anthracite coal markets would continue, and Lackawanna still gets approximately 17% of its total freight revenue from this source. With recent international developments this weakness is no longer considered of particular importance. Over the foreseeable future the outlook for anthracite coal appears quite favorable. Price increases for oil and the memory of the oil shortages of World War II offer strong incentives to home owners to place their trust in the more readily available solid fuel.

Aside from the change in the coal picture, the overall traffic outlook of Lackawanna is highly favorable, based on its status as an essential link in one of the most important through routes between the west and the New York Harbor area. Earnings this year to date have been on the upgrade and this trend is expected to continue, probably at an accelerated pace. For the full year 1950 they should at least reach $2 a share before sinking and other reserve funds, and they could well top that figure by a significant margin. Even more important basically is that the anticipated sustained high level of traffic and earnings should enable the management to accelerate its debt retirement program. Also, a somewhat more liberal dividend policy appears as a distinct possibility.

Merrill Lynch Group Offers Winn & Lovett Grocery Com. Stk.

Merrill Lynch, Pierce, Fenner & Beane and associates on Sept. 26 publicly offered 210,000 shares of Winn & Lovett Grocery Co. common stock (par $1) at $15 per share. The issue was oversubscribed and the books closed.

The proceeds from the sale of these shares will be added to the general funds of the company and used from time to time for such corporate purposes as the board of directors may determine. The company presently contemplates capital expenditures aggregating approximately $1,650,000 in the current fiscal year, and part of the proceeds of the financing will be applied to costs of this program. The balance of the proceeds may be used for carrying increased inventories incident to the general growth in the company's business, further expansion and improvement of its chain of retail stores, warehouses and other facilities, the prepayment of a portion of its outstanding funded debt, the possible acquisition of other food stores or chains of stores, and other general corporate purposes.

Winn & Lovett Grocery Co. was incorporated in 1928 as successor to a grocery business established in 1920. At the time of its incorporation the company operated a chain of 65 small neighborhood type grocery stores in the central and northeastern sections of Florida and southern Georgia. On June 24, 1950, the company and its subsidiaries operated 172 retail self-service, cash-and-carry food stores and nine wholesale cash-and-carry units in Florida, Georgia, Kentucky and Indiana.

With Waddell & Reed

(Special to THE FINANCIAL CHRONICLE)

COLORADO SPRINGS, Colo.—Victor E. Mattocks is with Waddell & Reed, Inc. of Kansas City, Mo.

Continued from page 9

Full Employment Policy— An Inflationary Threat

der wages, so it must place a floor under the poverty which threatens the retired and the temporary disemployed."

Surely an attempt to "resist inflation wherever it appears" and the other welfare efforts advocated by "The Times" must tend overtime to be mutually exclusive.

We certainly can choose whether or not we want a policy of Full Employment by government fiat. But if our choice is a favorable one then, it seems to me, we inevitably choose a policy of inflation, since Full Employment by State action is bound to be inflationary. When we have inflation the organized segments of society — the various pressure groups—may keep their money income above constantly rising prices. But those who can assert no monopoly position, or who cannot bring political pressure to bear are bound to suffer, and to suffer very severely. In this latter category I would certainly include the retired, if not the temporarily disemployed.

Lord Beveridge, whose cradle-to-grave social security program really introduced the government policy of Full Employment to Britain, foresaw this danger when he said: "Inflationary developments not only spell expropriation for the old-age pensioner and small rentier, but also endanger the very policy of Full Employment."[3]

Unfortunately neither Beveridge nor anyone else has to my knowledge so far come forward with any practical plan for eliminating the inflationary effects of a policy which is in itself inflationary. That has not, of course, worried the doctrinaires. They say that their aims are social; and they are quite frank in declaring that the economic problems involved are of little or no interest to them. As usual, it is left up to the businessman to take care of such tiresome details.

In this connection let us for a moment listen to the voice of experience. In a recent issue of "The London Economist," itself long an advocate of what it calls "purposive economic planning," there was this revealing statement as to what has happened in Britain. I quote: "Of the old, well-tried apparatus of carrot-and-stick incentives, the full-employment welfare state has left only an ineffective shadow; while of that new spirit of zealous community solidarity on which Socialists have always relied to replace it there is as yet little sign."[4]

By undertaking, through legislation, to pursue policies which would "achieve and maintain a high and stable level of employment and income"[5] (which I take it means to provide a job for everyone who wants work) the governments of the Anglo-Saxon world have also clothed themselves with a moral sanction transcending anything hitherto known in a democracy. Under the cloak of that sanction they can claim that whatever they do is in pursuit of Full Employment. Such a claim is one most difficult to resist, for to do so brands the resistor as being opposed to seeing everyone happily at work with little or no prospect of ever being fired.

Full Employment and One-Party Government

Thus the pursuit of Full Employment through legislation tends more and more toward the perpetuation of one-party government. In this connection it is interesting to observe that one political party has furnished the government of your country for the past 17 years, and another of mine for only two years less.

Hitler used the sanction of Full Employment to justify both conscription and his enormous rearmament program. Indeed, when anyone tried to call him to account for distorting the German economy through his pursuit of military policies Hitler could, with complete truth, say: "Ah, but I have abolished unemployment, and that is what I promised the German people I would do."

The efforts of both Hitler and Mussolini to maintain what was in effect Full Employment at any cost certainly contributed largely toward bringing on World War II.

Japan's attack upon Pearl Harbor undoubtedly also had its roots in the economic and social commitments of the Tokyo government; and today the Politburo probably sees war as the only means of keeping all Russians fully employed by the State.

Britain's Loss of Prestige

The same sort of devotion to the ideal of Full Employment has caused once-dominant Britain to forfeit much of her Continental prestige because of her virtual refusal to cooperate wholeheartedly with other than Socialist governments. This persistent adherence to an undefinable, and in the long run unworkable, principle, has also caused that once-proud nation to accept handouts and other assistance even when these represented the fruits of a now-despised capitalism. Ironically enough, even the most rabid of Socialists[6] admits that without economic aid from North America the British Full Employment program would today be a total failure.

These examples from not too-distant history should certainly raise the question in our minds whether in pursuit of current policies "to promote maximum employment"[7] we North Americans are not, in addition, making the demise of democracy in this hemisphere at least a possibility. Certainly in the process we have raised our respective bureaucracies to new size and heights of power, and have thereby created vested interests in regimentation which make anything we have hitherto known seem puny by comparison.

Whether we shall succeed in killing democracy is still a moot point. But there is no doubt that the changes we have already wrought in the pattern of government would cause at least grave concern to those who at such peril achieved self-government for us.

Since the advent and maintenance of Full Employment in the sense that government will provide everyone with a job is a commitment which can in the long run only be fully implemented by a police state, it is not surprising that there have, of late years, been considerable encroachments upon our individual liberties. You may remember that such encroachments were the principal cause of the English revolution of the 17th Century, of your own in the 18th, and of our too-little-known rebellion of 1837.

In the process of embracing the fallacies, and incurring the risks to personal freedom, I have already mentioned, we Anglo-Saxons found ourselves ineluctably compelled to embrace the ancestor of all economic, social and political errors—the belief that you can get something for nothing. We embraced this master fallacy despite the fact that Biblical injunction had been reinforced by scores of such homely proverbs as "You cannot get a quart out of a pint pot."

Can We Get Something for Nothing?

The instrument chosen for getting ourselves something for nothing was, believe it or not, the State—perhaps the most unfeeling and wasteful of man's creations. In choosing thus we chose to ignore—or worse still failed to realize—that when the State does things for you it also does things to you.

By thus deifying the State we have not only turned our backs upon the lessons of our own history, but we have embraced that which we fought two world wars to avoid. We told both the Kaiser and Herr Shickelgrubber that we wanted no part of Stateism, and then we not only adopted much of Bismarkian Socialism but many of the tenets of Karl Marx.

Relying upon what we chose to call our new learning, we proceeded to brush aside as hopelessly old hat not only Divine wisdom, but the collective experience of our race.

Under the new dispensation our politicians were at some point to decide and declare that we were too prosperous. After this first miracle had been wrought, the politicians would then proceed to reduce government expenditures and raise taxes—so went the new economic rubric.

But the new doctrine also had a converse remedy for depression. Again it would fall to the politicians to declare we were not prosperous enough. At that point they would reduce taxes and up government expenditures, no matter what happened to the budget in the process.

"Jeez!" "Oh boy!" and "How jolly!" were, I am told, the respective ejaculations with which politicians of the Anglo-Saxon world received that invitation to pile up a deficit.

The Prevalence of Keynesism

And it was an invitation from the very pinnacle of modern economic authority. Indeed, you need not be surprised if in the near future you see in pork-barrel appropriations a handsome sum to cover the erection in every State capital in your land of a fine statue to the late John Maynard Keynes. For it was that fantast, as Garet Garrett has called him, who was indubitably the answer to a politician's prayer.

By the application of Keynesian or neo-Keynesian, or even crypto-Keynesian theories, it has even been possible for politicians, or their bureaucratic advisers, to discern a state of depression, and to go in for deficit financing, while an economy functioned at well-nigh its highest peacetime level. In other instances taxes have been upped but government expenditures have gone up with them to such an extent that the widely-advertised anti-inflationary effect of high taxes has been largely nullified.

It is said, of course, that we have to turn our backs upon history, and to discard the warnings of homely maxims, in order to buy off what usually goes under the generic name of Communism. Let me expose my naked Victorianism by saying that I could never see a real prospect of victory over Communism through destroying a solvent and a free economy by inflation and controls. Even the attempt to do so seems

3 "Full Employment in a Free Society," by William Beveridge.

4 Page 360, "The Economist," Aug. 19, 1950.

5 Canadian Government White Paper "Employment and Income," 1945.

6 Rt. Hon. Aneurin Bevan, P. C., M. P.

7 Sec. 2, U. S. Employment Act, 1946.

to me to argue a basic and a very dangerous lack of faith in democracy.

But what, for instance, did we businessmen in our role as citizens do while the politicians were listening to and acting upon the advice of those who saw in Full Employment, no matter by what means achieved, the be all and end all of existence? What was our part in that and other battles —battles whose outcome would probably decide the fate not only of private enterprise but of personal freedom as well?

Most of us, I fear, went on with our golf and our bridge just as if nothing were happening; or as if nothing could be done about it. Is it not perhaps fair to suggest that we valued our comfort more than freedom, and that we felt the expenditure of a sufficient sum of money through appropriate channels would give victory to the American way of life?

Let me remind you that those who "put over" the new order did not believe nothing could be done to change things. Despite the fact that they had set out to attack the system which had made us great and prosperous, and had even given them the highest standard of living in the world, they went confidently to work. Because of their sense of dedication, plus their willingness to do dull and tiresome jobs day in and day out, they have achieved results far beyond their wildest dreams. Indeed anyone who wants to see what hard work plus dedication can accomplish, let him look at the economic and social policies now being pursued by the Anglo-Saxon world. Strangely enough, the hard work was done in pursuit of the objective of more of everything for less effort! Unfortunately for those eager beavers, and for society at large, the means by which they hoped to achieve their objective were all more or less inflationary in character. Since Marx and Lenin declared the destruction of Capitalism by any and all means to be the first goal of Communism, Stalin and his Politburo must be getting a great kick out of the current inflationary policies of Anglo-Saxon Governments. For surely no better means for the destruction of Capitalism could have been devised, even by the Kremlin, than destruction of the value of our money.

Yet practically all the policies being pursued by Anglo-Saxon Governments today, such as cheap money, deficit financing, welfare transfer payments, price supports or subsidies, minimum wages without reference to productivity, are inflationary. They thus have the effect of destroying the value of our money. In fact, our governments have now become coin clippers on a truly staggering scale. Small wonder that the International Monetary Fund now expresses alarm at the devastating effects of inflation on a world scale. It seems strange, however, that it has taken more than four years for the Fund to see the inevitable inflationary effect of international postwar economic policies, many of which derived their inspiration from that institution.

Is all this not exactly what Marx and Lenin hoped and planned for; and what Stalin and his evil collaborators have consistently worked for? Certainly it is hard to imagine anything more suicidal for those who still profess a belief in human freedom than the continued pursuit of such policies. Will history have to record that we ourselves destroyed Capitalism through inflation?

Playing Into Russia's Hands

Whether we destroy Capitalism ourselves, or whether it is done through the machinations of Moscow, will make little difference to Stalin and his Politburo. It is, however, terrifying to see the extent to which we of the Anglo-Saxon world are willing, through following inflationary policies, to play into Russia's hands. It is equally annoying to think that this playing into the hands of our enemies is done in the name of social welfare.

Our vaunted intelligence must look pretty contemptible to Moscow as we allow ourselves to be lured by doctrinaires to our own ultimate destruction in the morass of inflation. Perhaps indeed the contempt thus engendered will have its influence on the further development of Russian policy. After all, if, through our own policies, we make ourselves look stupid enough in Russian eyes they may figure we really are nothing but a bunch of pushovers.

Entering War on an Inflationary Level

At this grave juncture we are faced with the possibility of a third world war. Already the conflict has assumed the character of a two-front war, that bane of all good strategists. On one front we are fighting the physical forces of Communism; on the other we are being stabbed in the back by Communism's greatest ally—inflation, and largely self-engendered inflation at that. Does this not give rise to the question: Where exactly does soft-heartedness and muddleheadedness stop and treason to our way of life begin?

We went into this strange conflict not from a depression level, but from an inflation level. The question now arises: Can the demands of war be met without greatly curtailing many of the governmental services we have come to regard as essential?

Many times in the past few years we have demonstrated our belief that we can have our cake and eat it too. If there should be a third world war it will certainly be the most costly and destructive in human history. Can the full demands of such a war be met without relieving the economy of many another claim upon the fruits of production? Is it not essential, for instance, to keep our social demands within bounds lest their claims upon production prove so great as to cause a terrible economic debacle through violent inflation?

Should we have an economic debacle, the resultant social turmoil would undoubtedly produce most devastating political repercussions. Indeed, we might well see the death of liberty and the triumph of dictatorship through our own refusal to realize that there is a limit to the burdens one can put upon an economy.

All that I have been saying today may appear harsh doctrine. Yet is it not time we again began to recognize that this is a hard world, and that not all our sophistry will ever serve to make it really soft? "As ye sow so shall ye reap" is still a truth which we ignore at our peril.

Above all let us refuse to act longer upon the false assumption that means to an end are of no importance; or upon the evil assumption that two wrongs make a right; or upon the morally destructive assumption that we can by any species of economic or political smart-aleckry hope to get something for nothing.

In discharge of the high office to which destiny has called the United States as a nation, all the Western World will hope and work for your success. It will also pray you will never forget that personal freedom is the true basis of your strength.

There are those who appear to act upon the assumption that we have already lost the right to life, liberty and the pursuit of happiness. But such is not my belief.

On the other hand, it must now be plain to all that the desperate struggle in which the Anglo-Saxon world is engaged today is one which perils our religions quite as much as our liberty and our welfare. The struggle is thus a moral as well as a physical and economic battle.

As businessmen let us never for one moment forget that what is called the Anglo-Saxon civilization is essentially a business civilization. Such being the case, you and I as businessmen seem to me to bear a very great burden of responsibility. We in particular stand in a trustee relationship to our North American civilization, and upon the continued existence of that civilization now rests the future of all civilization. In truth we have reached the stage where upon our sense of dedication; upon our individual as well as our collective ability to think honestly and to act courageously and unselfishly as citizens, lies the only real hope of preserving this our cherished way of life.

We North American businessmen, in short, are inescapably cast in the role of world leaders. Let us resolve to be worthy of so great a trust. If we should shirk our task, or if through carelessness or indifference or incapacity of mind or spirit we should fail in the task of leadership, then make no mistake about it, our way of life is doomed.

Then we shall indeed have been weighed in the balance and found wanting.

Manley, Bennett to Admit Victor Dhooge

Victor P. Dhooge

DETROIT, Mich.—Manley, Bennett & Co., Buhl Building, members of the New York, Detroit and Midwest Stock Exchanges, will admit Victor P. Dhooge to partnership on Oct. 5. Mr. Dhooge, who has recently been with Blyth & Co., Inc., was in the past with M. A. Manley & Co.

American Stores 3% Loan Privately Placed

The American Stores Co., through Lehman Brothers, has concluded arrangements with an insurance company for a $10,000,000 3% loan. The purchasers agreed to buy $5,000,000 of the company's notes prior to Dec. 31, 1950 and the remaining $5,000,000 at anytime prior to June 30, 1951.

This arrangement is in addition to $15,000,000 principal amount of promissory notes sold privately to the same insurance company under an agreement concluded in 1947.

All the notes will be due Aug. 1, 1967, subject to a repayment schedule beginning Aug. 1, 1954 and amounting to 4½% annually of the aggregate principal sum borrowed.

William Park, President of American Stores Co., stated that the purpose of the financing is to provide funds for additional facilities and increase working capital required by its expanding business.

American Stores Co., with headquarters at Philadelphia, Pa., operates stores and supermarkets in seven states and the District of Columbia. Sales for the first five months of the current fiscal year through Sept. 2, 1950 were 8.7% ahead of sales in the corresponding period last year.

Securities Salesman's Corner

By JOHN DUTTON

Several years ago a friend of mine was having a pretty hard time of it working as a trader for a New York firm. Things were slow—this firm specialized in textile securities—and although efforts were made to develop business, nothing much could be accomplished. One day I had a telephone call from another friend who was a dealer, and who was developing a retail clientele and trying to build up his business along sound lines. He asked me if I knew this fellow who was the trader and I told him that I felt favorable toward him.

The two of them got together and things have worked out nicely. The reason I am telling you this is that I think the basis for the success of this team was the sort of relationship which should exist between an honorable and able salesman and the firm for which he works. Too often there is suspicion and distrust in an organization. The salesmen think they are being mistreated—that they don't get enough leads—that they are even treated dishonestly in the settlement of their commissions—that there are too many house accounts and all the rest. Sometimes this is true, and it can never be the foundation upon which a healthy business can be established. Then there are salesmen who expect too much. They are born grumblers, excuse makers, and fellows who want to do it the easy way. They will let expensive leads lay around on their desks until they get cold and worthless. They won't cooperate and try new ideas. They think the boss is getting rich off them and they are always looking for a softer job or a supposed better break.

This team didn't think that way. I remember what my friend the dealer said to me when we discussed the idea that he might give this man who had been the trader a sales job. He said he liked his looks, he thought he was a worker, and he said, "I am going to give him a drawing account and gamble on him—I want him to know that I believe in him, and at the start when we are building up his territory, I don't want him to go home at the end of the week, and if his wife says she would like to take in a movie that he will have to say, 'No, I haven't got the money.'"

The program has worked out fine. This dealer places his men in territories. He also works a plan. I would like to quote from a letter I just received from him: "Business has been moving along nicely here and we are constantly sharpening our methods of getting prospects and closing sales. From my own experiments I am confident that a salesman should be able to produce between $500,000 and $1,000,000 yearly. [He specializes in mutual funds.] Not only that, but a momentum is generated among current clients which means that one does not have to be working at top pitch every single day in the year. On this basis, I am building toward an organization of five men who should all enjoy good incomes and not burden me with some of the large organizations that firms have."

The point here seems to be: conscientous men make a good team. Add sound planning, effective prospecting which produces qualified leads, assigned territories, and helpful assistance in closing business and you will have success.

DON'T LET YOURSELF

Worry—When you are doing your level best.
Hurry—When success depends upon your accuracy.
Think Evil—Of a friend until you have the facts.
Believe—A thing is impossible without trying it.
Waste—Time on peevish or pearing matters.
Harbor—Bitterness in your soul toward God or man.

—From Lee's "Dairy Messenger," Orlando, Fla.

World Bank Bonds Traded on Paris Bourse

The 25-year 3% bonds, with consent of French Government, listed by Lazard Freres & Co. and Banque de Paris et des Pays-Bas, the paying agents, now have market in France.

Trading in the 25-Year 3% Bonds of the International Bank for Reconstruction and Development started Sept. 14 on the Paris Bourse. Eugene R. Black, President of the International Bank, recently announced in Paris that the Ministry of Finance had authorized the introduction and listing of the Bank's dollar bonds in France. The listing application was made by Lazard Freres et Cie. and the Banque de Paris et des Pays-Bas, who will act as paying agents in France.

The opening quotation for the 3's established by the Compagnie des Agents de Change de Paris was 375,000 French francs, equivalent to approximately $1,071 per $1,000 bond. In accordance with the customary practice on the Paris Bourse, the bonds are traded on a "flat" basis—that is, including accrued interest.

Mr. Black expressed himself as particularly gratified that the French financial market would henceforth be in a position to interest itself directly in International Bank bonds. He stressed that this development as well as similar steps taken by other countries reflect the exceptional value of these securities and the international character of the Bank. "The Bank is most appreciative of the full cooperation and assistance received from the French Government," Mr. Black commented, "without which this operation could not have been carried out."

Under present French foreign exchange regulations residents of France may purchase, in the United States, International Bank bonds with dollars acquired through the sale in the United States of other securities. International Bank bonds so acquired will from now on be officially traded on the Paris Bourse and may be purchased directly against French francs. Payment in France of interest and principal will be made through the French paying agents, who will in accordance with present exchange regulations sell the dollar proceeds and pay the holders in French francs.

With Inv. Service Corp.

(Special to THE FINANCIAL CHRONICLE)

DENVER, Colo. — Joseph C. Davis and Victor A. George have been added to the staff of Investment Service Corp., Security Building.

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As We See It

in labor disputes. Welfare and pension funds (that is private plans of the sort) are also of other origins—except, of course, that both Administrations have done all they could to foster extensive labor monopolies which, in turn, have been able to employ the power thus provided them to exact many things from employers.

Real Gains?

But there are other and more important aspects of this situation. All too many unthinkingly assume that an hour deducted from the work week, a dollar added to the weekly wages, a dime more wages per hour, a restriction imposed here or there upon conditions of work, a dollar promised at retirement age, and all the rest are in fact gains. It requires but little contemplation to indicate that such an assumption is very, very dubious. It is undeniable—though one would scarcely suppose so to hear the complaints of labor leaders—that the pay of the laboring man has risen a good deal faster and farther than the cost of living since prewar days. What are known as real wages are higher today than in any prewar day—and if the realities of the situation are taken fully into account, higher than they have ever been at any time.

This, moreover, is true after higher income taxes, which in one degree or another fall upon the wage earner, provided he has not too large a family. It is true also despite the reduction in the hours of labor, and in the unwillingness of many of the wage earners to exert themselves fully, and in the face of many arbitrary restrictions which tend to cut the rate of production down. But this has been possible chiefly by reason of the energetic, aggressive, skilled advancement in technology and management during the years in question. It has, moreover, been a movement which has been carried along on the crest of a long-term inflationary trend which has as yet far from run its course. Money supply at this moment is greater in this country than it has ever been before. Except for a temporary lull during the first half of 1949, a definitely discernible tendency toward more active use of funds on hand was in evidence. That is to say, what is popularly known as the turnover of demand deposits—and probably of currency, though we have no precise measure of it—was rising. All this before the Korean outbreak. There is no reason to doubt that it has been rising even faster during the past few months, and that it is even today, despite some slowing down of feverish buying, higher than at any time since 1939, except during the first few weeks of "scare buying" subsequent to the beginning of hostilities in Korea.

Far be it from us to undertake to say how soon prices will catch up with the upward movement of wage payments, or, for that matter, that they ever will. What we are perfectly certain of is that the fiddler will present his bill at one time or another, and that when he does we shall have to pay the inevitable penalty for all the financial and related misdeeds of the decade or two which has just passed. When the bill-paying date is reached it may well be found that many, if not all, the boasted gains of labor can rather quickly disappear into thin air.

The Penalty

We found by sad experience what such a penalty was after the demise of the New Era of the 1920s. Labor as well as all the rest of us had to pay through the nose during the 'Thirties. There had been much talk during the latter part of the 'Twenties about the gains of labor, and about the abolition of poverty. And in 1928 or 1929, it appeared to many, perhaps to most, that these gains were very real, and probably would be permanent, the more so since prices had not risen, indeed had declined somewhat for a few years. However, although we—or many of us—did not realize it, we were really riding on the crest of inflation which stemmed from World War I and the development (and misuse) of the Federal Reserve System.

Today the inflationary potential flows from public finance, and its incredible misuse of the Federal Reserve banks. The vast rise in money supply has come not from huge brokers' loans and the like, or even from increase in private lending, but from purchase by the banks, even the Federal Reserve banks, of almost astronomical amounts of Federal Government obligations. There are those, of course, who seem to suppose that the fact that the central government is the debtor in all this has somehow taken the curse off. They were never more mistaken in their lives. It is probably true that the fact that so much of the debt has been monetized prevents, or at all events minimizes, the danger of sudden collapse of the banking structure, but this has been accomplished—if it is to be regarded as an accomplishment—at the expense of virtually all else which in the past has tended to keep the banks, the finances of the country, and the credit of the country in a really sound condition. In a rather real sense we have converted these bonds into currency, and have provided no way of retiring any of them. That is really what we are boasting about.

When these chickens come home to roost the "gains" of labor may not appear so genuine as they do to many today.

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The Investor Looks at Accounting

would have had any difficulty in locating an item of that character if it were carried in the income statement with other revenues and expenses.

There has been some criticism of the practice of the SEC to insist on including all such items in the income statement. One of the reasons frequently given for the criticism is that the inclusion of unusual, non-recurrent items in the profit and loss statement may distort that statement. However, this criticism overlooks the fact that the Commission accepts, and even encourages, a segregation of such items in the profit and loss statement so that their unusual character is made amply clear in an appraisal of the statement of net income.

Let me give you another example. Again I want to make amply clear that I am not citing this example in order to defend one side or another in a dispute over accounting principle. I cite it because it illustrates some of the problems that an agency like the SEC can face in dealing with an attempt to depart from objective and uniform practice.

Case of U. S. Steel Statements

In my view, one of the most competent and dramatic presentations of the economic problems faced by management in a rising price cycle was made several years ago by United States Steel Corporation. U. S. Steel added an item of over $26 million as additional "depreciation" for estimated replacement costs. The effect of that change was of course to cut down correspondingly the statement of net income for the year. Steel's argument was simple. It said in effect "Costs have gone so high that when a machine now in use wears out, it will cost more to replace it than when it was installed. If, by the time the machine wore out we were to lay away only the historical cost, we would not be able to replace the machine. Therefore we must take added depreciation as an expense and show less profits."

The Commission decided that it could not accept Steel's income statement presented in that form. That presentation was not in accordance with the conventional concept that the aim of depreciation accounting is to amortize cost and not to provide for replacement.

But the critic of the conventional concept argues that the conventional concept does not show the real facts about profits. He points out that a statement of net income according to traditional accounting is far from being a statement of economic profit if some of that income must be retained to keep the business tooled up The defenders of the conventional view recognize that for practical purposes the businessman and the analyst must look beyond the accountant's presentation to find significant economic realities. But that, they say, is no more regrettable than the fact that a good thermometer records temperature but doesn't diagnose sickness.

When we decide issues like those presented by United States Steel we know that practical businessmen and financial analysts cannot read the whole story in the financial statement without looking further into broader economic realities. But consider for a moment the other problems presented to the Commission as an agency having responsibility for corporate disclosure. If depreciation is not to be based on cost, why should assets be carried at cost? Shouldn't the plant account be reviewed with every change in the price level? And if so, whose revaluation will be accepted, and how often? What, if not cost, should be the basis of depreciation—today's replacement price, or what? Should an index be used? Whose index, taken how often, and how many indices should there be for different types of equipment? Should this be allowed on a permissive basis, or should all companies be required to change their method of accounting? Suppose the new equipment is more productive than the old? And so on almost endlessly.

I repeat that only an objective and uniform system can avoid such problems.

Question of Economic Reality and Accounting Conventions

The happy marriage between economic reality and accounting convention may never be achieved. Economic reality is perhaps no more "real" than accounting convention. Economic ideas are often as ambiguous as any others. What is income? There are as many answers as there are reasons for asking the question. But the accountant is expected to produce one single reliable statement of income.

Uniformity and objectivity in accounting are values that can sometimes be realized only at the cost of other ideals. Business life is dynamic — it surges through year-ends and oher fixed periods; business values change in ways that are not comprehended in the accountant's idea of "realization"; and sometimes those changes cannot be expressed with certainty or adequacy in terms of a nominal dollar.

It is not surprising therefore that criticism of accounting conventions should be dramatized by rapid changes in business cycles. If you look back at earlier literature you will see that many of our accounting principles represent victories over internal manipulation of accounts. Early experience tended to show that if you let everyone tell the truth in his own way too many people were going to tell you something other than the truth.

But the fear of manipulation is not my reason for defending uniformity and objectivity in accounting. More important is the fact that even honest differences of approach in an accounting presentation will result in statements that may tell the truth in their own way, but will distort each other. Perhaps refined and detailed analysis can make any honest statement comparable with any other honest statement. But it is hopeless to expect the ordinary investor to make such an analysis. He looks at the end results and they are to him "like the mariner's compass in a fog."

The evolution of sound principles of accounting has represented what might be called a "tooling-up" development of the profession. It is only part of the profession's enviable history of achievement. A more fundamental development has taken place in the stature of the profession and in its ideals of service and independence.

Responsibility of Accounting Firms

Let me stress that word—independence. The management of a company may hire and fire accounting firms. But the accounting firm's obligation runs far beyond management. It runs to the public. The accountant needs to be independent in order to fulfill that obligation. The Commission, under the law, requires certification by independent accountants. But, in addition, the very existence of the Commission is an aid in maintaining independence. It is a great comfort to a truly independent firm to be able to tell an occasional management that tries to depart from sound accounting that the SEC has the ultimate authority to accept or question an official filing, and that the management cannot change an accounting principle by changing accounting firms.

The Commission has, since its creation, encouraged the profession itself to evolve accounting practice out of the actual, bread and butter problems with which the profession deals. The Commission continues to seek the cooperation of the profession because that cooperation has been so fruitful in the past.

Of course, differences of opinion develop. Our staff and we should be patient and willing to listen to justifications for unconventional ways of doing things. Sometimes we are persuaded. Often a middle ground can be worked out. But whether the arguments persuade us or not, the participants generally are convinced that we don't exercise our ultimate statutory authority for the mere sake of having the last word. We can't help but carry out our statutory job of umpiring the disputes. When we do umpire them we must bear the needs of the investor in mind. And those needs include objectivity and uniformity.

Panama Bond Issue Placed by Lehman

Lehman Brothers, New York City, announced Sept. 21 the private placement of $10,500,000 Republic of Panama 3% external secured serial bonds, dated July 15, 1950 and due annually on March 15 from 1951 to 1995 inclusive. The bonds are secured by the irrevocable assignment of the $430,000 received annually by Panama from the United States pursuant to the Canal Zone treaty of 1936. The new bond issue, which Lehman Brothers sold to institutional investors, was negotiated in connection with the refunding by Panama of its outstanding external dollar indebtedness. Official notice of the call of such obligations has just been made by Panama.

With Hamilton Managem't

DENVER, Colo. — Claude L. Chamberlin, Horace J. Grady, Robert N. Jewett, Edwin M. Matakarski, and Douglas C. Purdy have been added to the staff of Hamilton Management Corp., Boston Building.

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Boom and Bust, and Gold

booms and succeeding busts will be almost unknown."

The trend turned downward when the debt structure became top-heavy. The trend turned upward when repudiation of debts and/or devaluation of paper currencies reached a level below the amount justified by the country's sound money assets of gold and silver.

Gold Equities Reverse "Bust" Trends

During the bust periods of commodity prices, corporation stock prices, mortgages, bonds, etc., the value of gold-backed currency boomed. Coincidentally, the prices of stocks of companies producing the hard money metals, notably gold, turned upward during depressions, reversing general business cycles.

For example, when the bull market of 1929 turned downward, the gold cycle turned upward and continued that course through 1936. During this period, the gold stocks were climbing; Alaska Juneau advanced from $4¼ to $33 a share; Buffalo Ankerite, from 25c to $12¼; Buololo, $1 to $37½; Dome Mines, $4.40 to $61; Golden Cycle, $5 to $50; Hollinger, $4 to $21; Lake Shore, $15 to $59; Homestake (old stock) $65 to $544; Sissece Gold, 32c to $6.50; to name only a few of the gold stocks, some of which (low-priced issues) advanced as much as 10,000%.

By contrast, during this same period, Anaconda Copper declined from $174⅞ to $3; American Smelting & Refining, from $130¼ to $5⅛; Calumet & Hecla, from $61⅞ to $1½; Cerro de Pasco, from $120 to $3½; Hecla Mining, from $23⅞ to $2; Kennecott, from $104⅞ to $4⅞; New Jersey Zinc, from $78⅞ to $14½; Newmont, from $236 to $4⅝; to name only a few of the leading base metal producers.

In this connection, S. I. Miller, former director of Economics for Dun & Bradstreet, pointed out that:

"Gold mining flows in the op-[illegible]rector of Economics for tide and gold mining stocks increase in value during depressions in contrast with all other securities. The value of gold increases as the value of other things decreases and around this fact can be written the industrial history of the world."

Throughout history the Star of Empire has rested with the nation that owned or controlled the majority of the world's gold. Great Britain was dominant in world affairs from the middle of the Renaissance until it abandoned the gold standard during the first World War. Incidentally, the price of gold in London, which was equivalent to $4.05 an ounce around 1250 A.D., was increased six times up to the beginning of the 19th century when it was set at $20.67 an ounce on the assumption that gold was being produced on a 1-to-16 basis with silver which was then priced at $1.29 an ounce.

Present London Gold Price Parity Equivalent to $102.17 an Ounce

Great Britain went back on the gold standard in 1925 but made the mistake of doing so on the basis of only $20.67 an ounce, which undervalued gold. As a result, she lost so much gold to other countries that she was again forced to leave the gold standard in September, 1931. Since that time, the parity price of gold in London has been increased 12 different times (and decreased only once) as follows:

Aver. London Price			U. S. Equivalent of London Price (Conversions at Legal Monetary Parity)
1930	84s	12d	$20.67
*1931	92	6	22.51
*1932	118	--	28.72
*1933	124	10	30.38
*1934	137	--	33.50
†*1934	137	8	56.71
*1935	142	1	58.54
1936	140	3	57.80
*1937	140	9	57.98
*1938	142	7	58.73
*1939	154	4	63.58
*1940	168	--	69.21
1941	168	--	69.21
1942	168	--	69.21
1943	168	--	69.21
1944	168	--	69.21
1945	168	--	69.21
*1946	172	3	70.96
1947	172	3	70.96
1948	172	3	70.96
‡1949	172	3	70.96
1950	248	--	102.17

*Increases.

†*New gold pound parity $8.24 in February.

‡After Sept. 18, devaluation $102.17.

Above figures compiled from report of Director of the United States Mint.

Inasmuch as the first increase, in 1931, was equivalent to only $1.84 an ounce, little attention was paid to it in this country. In 1932, however, the total increase in price reached the equivalent of $8.05 an ounce above the U. S. price, which was followed by a price equivalent to $9.71 above $20.67. As a result of these increases, our gold flowed out to Great Britain and other foreign countries, finally precipitating the Bank Holiday which was, in turn, followed by an increase in the U. S. price of gold which should have been made concurrently with Great Britain.

Note that about the time the United States increased the price of gold to $35 an ounce, the price in Great Britain was increased to the equivalent of $56.71. A monetary value of $56 an ounce, by the way, was later set in this country when, in 1945, Congress passed the act lowering the required gold reserve backing of Federal Reserve notes from 40% to 25% (25%:40%=$35:$56).

Although the increase in the price of gold in the United States occurred during a depression, it would be a mistake to assume that no increase can be made or should be made except in a "bust." Such increases should be made when gold actually has a widely recognized storage of value in excess of a locally established legal price such as we now have in this country.

It is obvious that if any major country of the world gives gold a larger measure of value in its economy than some other country does, gold will inevitably flow from the latter country into the former. When Great Britain and the countries associated with her in the sterling bloc gave gold a higher measure of value in their economies by devaluation last September, they thereby obtained for themselves a big advantage in world trade and turned the flow of gold and foreign trade away from the United States.

United States Losing Gold

The United States has already lost not only some of its foreign markets but also some domestic markets as a result of these devaluations. Moreover, we have lost over half a billion dollars of our gold supply and well over half a billion more that we would normally have acquired in the course of our foreign trade with other countries. Each billion of gold we lose cuts away the legal backing for $4 billion Federal Reserve notes.

There are many people who believe that we have nothing to worry about because we still own most of the world's gold, but they overlook the fact that we have a greater debt than all of the rest of the world combined, and that actually our supply of gold in proportion to our IOU's is far less than it was when the price of gold was raised to $35 an ounce in 1934. Moreover, as we normally handle approximately four-fifths of the world's trade, we need an equivalent amount of gold to maintain that trade, which is essential to our prosperity.

It's the Use Made of Gold That Counts

It is the use, in terms of value, that is made of gold that counts, rather than the quantity of gold in terms of ounces. Obviously Great Britain will not need as much gold on the basis of $102.17 an ounce as it would need if that country measured the value of its gold on the basis of $35 an ounce. France, by the way, is using gold on the basis of $486.50 an ounce and Italy, on the basis of $1,155 an ounce; in other words, these would be the prices of gold in the United States if this country had devalued its currency to the same extent that France and/or Italy have done since 1937.

My interest in monetary academics came about as a result of the 1907 panic which, curiously enough, was the result of an increase in industry and domestic trade that called for more money than we had at that time; that is, our gold holdings had not increased in proportion to our population and the needs of our country's industries. The result of this situation was the establishment of the Federal Reserve System in 1913. That System, however, should not be confused with the present Federal Reserve System, which is a far cry from the original one, because the Federal Reserve Notes as originally established were redeemable in gold.

At the time of the 1929 boom, I was editor of "Mines and Markets" in New York City and I noted and called attention to the similarity of that boom and the European booms that exploded in the Mississippi Bubble and the South Sea Bubble "busts" which upended the French and British economics.

1929-1936 Gold Cycle

In the light of historical facts as I knew them, I concluded early in 1929 that there would soon be a "bust" followed by a Gold Cycle. However, even after the "bust," there were few who would agree that a Gold Cycle would follow. Frankly, the increase in the price of gold was probably illegal under a strict interpretation of United States laws; but the laws of Nature as they operate in cycle could not be thwarted and the price of gold *was* increased 69% to $35 an ounce.

In the summer of 1944, a conference of the world's leading monetary officials and experts was called at Bretton Woods because it was generally agreed that something must be done to provide a solution for the monetary problems that would assuredly follow the war. I attended that conference as an unofficial observer and was told that both gold and silver were outmoded and no longer really necessary as a base for a sound monetary system. The Conference did eliminate silver but provided a token amount of gold for the International Monetary Fund. Most of this gold, by the way, was provided by the United States.

Russia's Managed Currency "Flops"

Although I was not convinced by the arguments of Lord Keynes, Professor Laski and their associates that gold was actually outmoded and that a managed paper currency system could be made to take the place of a gold-based currency, I had to admit that if a managed currency system could be made to work, Russia with its police state controls might do the job. Actually, as events developed, it was only a little over two years before Russia was forced to devalue its paper currency 90%. Incidentally, Russia also devalued, in varying degrees, its government bonds and its citizens' bank deposits.

Russia Establishes Gold Ruble

These Russian devaluations had the over-all effect of increasing the price of gold in Russia and apparently resulted in that country obtaining an additional supply of gold because as of March 1, this year, Russia revalued the ruble in terms of gold instead of the dollar.

As matters stand today, therefore, nearly one billion of the world's population is in the Russion gold ruble bloc and one billion in Great Britain's sterling bloc, leaving only about 250 million in the American dollar bloc.

As I have previously pointed out, Great Britain utilizes gold in its economy at the equivalent of $102.17 an ounce, which gives it a big advantage in world trade. I have been unable to secure figures from official sources as to the total measure of value which Russia's devaluation and revaluation gives to gold there, but it is not less than $79.10 an ounce and could be more, by reason of such rules and regulations as may have been invoked.

Higher Foreign Gold Price Hurts U. S. Producer

Even on the basis of $79.10 an ounce, the practical effect, for example, is to enable Tito of Yugoslavia to sell us lead at 10¢ a pound, receiving payment in gold on the basis of $35 an ounce, which he can in turn use in trade with Russia on the basis of $79.10 an ounce. Thus, Tito, in effect, receives the equivalent of approximately 22¢ a pound for his lead. This situation gives Russia and her satellite countries a great advantage over United States producers on many trade items, and some of the sterling bloc countries have an even better advantage than Russian bloc countries by reason of Great Britain's higher parity prices for gold.

Beginning of Current Gold Cycle

When Russia devalued, in the latter part of 1947, I became convinced that we were at the threshold of another Gold Cycle. Russia's subsequent revaluation of its ruble in gold instead of the dollar was a complete surprise to everyone because it was generally believed that Russia would be about the last nation able to go back on the gold standard. Incidentally, Russia probably does not have more than five billion in gold, but, in view of the fact that its national debt is small and the further fact that it utilizes its gold at a higher measure of value than the United States, Russia may acually be in a better position than we would like to think, particularly in view of the fact that it is now in a position practically to monopolize the trade of China as well as the European countries behind the Iron Curtain.

Average Gold Price Increase 485%

Every country in the world has, either by devaluation or exchange regulations, increased the price of gold since the first World War. The average price increase for the ten leading nations has been 485% or the equivalent of $124.87 an ounce. This compares with an increase of only 69% in the United States. Incidentally, this country's IOU paper currency and public debt have increased over 600% since the price of gold was raised in 1934 to $35 an ounce by President Roosevelt.

Since 1934 the average increase in earnings, prices and income of the following has been 354% according to official U. S. Government publications:

Net profit after taxes of 165 large corporations	831%
Index of prices received by farmers	330%
Index of lumber wholesale prices	270%
Index of meat wholesale prices	260%
U. S. personal income per capita	249%
U. S. manufacturing weekly wage average	184%

If the price of gold, without which there would be no monetary stability, had been increased to correspond with the average of the foregoing the price would now be $161. One may, therefore, conclude that sooner or later earnings, prices and income will decline drastically or the price of gold will increase.

It should be borne in mind that

World Operates on Gold Standard

the world operates on a gold standard basis. Gold, and only gold, is accepted in payment of international trade balances. Gold is truly democratic, having the same value in the hands of the poor and weak as it does in the hands of the rich and strong. No country that denies to its citizens the right to own gold can boast of being a true democracy. It is a citizen's right to place a value upon gold, and he should, for that reason if no other, be permitted a free market for both gold and silver. In such a free market, which must inevitably come, a sound and adequate monetary value for gold would quickly be established.

It is obvious that most of the world regards the $35 an ounce price for gold as too low, and apparently our Treasury officials think the same thing, because they are unwilling either to release the gold with which to restore the gold standard or to permit private ownership of gold. Meanwhile, the national debt is increasing, which is just another way of saying that we need more and more gold as backing for the national debt if that debt is ever to be repaid.

The only alternative to obtaining more gold is to increase the measure of value of our gold as Great Britain, Russia and some 40 other countries have done. The devaluation of the U. S. dollar in terms of its buying power has already occurred and an increase in the price of gold would be no more than an acknowledgment of the facts.

It seems reasonable to conclude that we shall never return to the 5c loaf of bread, the 5c "Saturday Evening Post," the 1¢ daily newspaper, former labor and material costs and low taxes. We must, therefore, either establish a higher measure of value for gold in our monetary system, or return to former price and cost levels—or take the Out of Repudiation.

We can lick Russia and almost any combination of countries in the world in a shooting war, but time and again it has been proven that peace can be won and maintained only in the field of economics. The big question of today is, Can we win the Economic World war unless we give gold the same measure of value in our economy as it has in the economies of the rest of the world?

Gold must not be considered lightly either in relation to money or as the one and only form of wealth that for over 50 centuries has demonstrated its transcendent power over nations, economies and every effort that man has made to provide a substitute for it.

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Sound Banking—Our Common Problem

rosion of the foundations we have been trying to build for a free world and a peaceful world for all peoples.

Our leadership in world affairs, our military responsibilities, rest fundamentally on the rightness of our cause and the strength of our economy. We cannot meet these responsibilities without a strong, dynamic economy. It is no overstatement to say that the peace and safety of the world are dependent on a strong American economy.

The American dollar and the securities of our government have always been symbols of the strength and integrity of our country. Our institutions, the freedoms which we cherish, not for ourselves alone, but for all mankind, rest on the foundations of a strong economy. We must above all maintain the soundness of our credit institutions and our financial structure.

History shows that whenever the forces of inflation have been allowed to run rampant in a country, the faith of its citizens has been shaken and the strength of their economy and of their government itself has been put in jeopardy. We saw how a runaway inflation in Germany after World War I ushered in Hitler and how the astronomical Chinese inflation paved the way for communism in China.

We must fight with all the resources at our command in this country to eradicate the cancerous sore of inflation so that it will not eat into the vitals of the greatest economy the world has ever known.

This is the most pressing internal problem before our country today, and it is ours in common. It is not around the corner. It is here right now.

It is the common problem not only of those of us in the financial community, but of every American citizen.

At every turn in the economic road there are alarming symptoms of the forces of inflation which are already at work. Let me go over with you quickly a few facts which highlight the seriousness of the problem we face.

Credit Expansion Already "Phenomenal"

Since Korea the loans of all commercial banks are estimated to have increased $2½ billion. This expansion is phenomenal. It is very much larger than in the same months of 1948 when the postwar inflation was sufficiently grave for Congress to meet in special session to take steps to deal with it.

Consumer indebtedness has been growing at a spectacular rate in the past few months. Credit extended to consumers, exclusive of the money they owe for the purchase of homes, is now estimated at more than $20 billion. This is a record volume, but even more significant is its recent rate of growth. Adding to this amount the $40 billion of home mortgages brings the total debt of consumers at the present time to more than $60 billion—an increase of roughly $10 billion in the past 12 months.

Prices had begun to move upward even before the outbreak of hostilities in Korea. The pace has quickened measurably since June 25. By mid-September the price index for 28 basic commodities was 25% above the June level and 35% higher than in March. The average levels of all wholesale commodity prices and of consumer prices have risen substantially in this same period.

You are all well aware of the snowballing tendencies of inflationary pressures. Here are a few additional factors to consider in our present situation. For one thing, attitudes of businesses and individuals are less cautious than earlier in the postwar period. Experience of a rapidly rising price level is fresh in the memories of most people. Profits are in record volume and many businesses and individuals are in a highly liquid position and therefore able to carry out extensive buying plans even without borrowing from banks or other lending agencies.

The threat of still higher prices in the months ahead results not only from the existence of a strong demand, but in many cases from mounting costs of labor as well as materials. You are all familiar with the current pattern of price and wage increases.

Unless we live up to our responsibilities the outlook for a serious inflationary spiral is foreboding. Inflation would diminish incentives. It would misdirect tremendous amounts of effort into nonproductive areas. Nothing would be more disruptive to mobilization than a merry-go-round in which wages and prices chased each other. Nothing would serve more to increase the total cost of the defense program. Clearly, we must use every possible means to curb inflation. I do not need to emphasize that inflation would cause untold hardship throughout our economy, particularly to people dependent upon fixed incomes and money savings and to our great educational and religious institutions.

It will be no easy task. There is much more to the problem than merely imposing a few direct controls. If we have learned any economic lessons from our experience in World War II and the postwar period, it is the fact that direct controls will not prevent inflation. They serve mainly to retard its impact. Once we have a vigorous and effective program for fiscal, monetary and credit actions the need for direct controls will become less urgent and their use can be limited to specific situations.

Pay-As-You-Go Financing

A well-rounded program, in my opinion, should have as its keystone a tax system which would put the entire defense effort as far as possible on a pay-as-you-go basis. The President correctly emphasized the necessity for this in his recent broadcast and I think it imperative that there be strong public support for higher taxes all along the line. That means we must cut down the spending power of all but the lowest income group. "During World War II," the President said, "we borrowed too much and did not tax ourselves enough. We must not run our present defense effort on that kind of financial basis."

I sincerely hope we will have the political courage to levy adequate taxes across the board and to economize on nonmilitary expenditures of government and to postpone deferrable projects at every level—Federal, State and local. Of course, it will take time for a tax program to be effective. In the meanwhile our main reliance must be on allocations, control of inventories and measures to curb the expansion of private credit. Without that we cannot hold the line.

Certain concrete anti-inflationary steps have already been taken. By themselves they are inadequate, although they are a beginning, and a good one. In mid-July, the American Bankers Association and other organizations of financial institutions cautioned their memberships against the use of bank credit to stimulate inflationary tendencies. On Aug. 4, the 52 supervisory authorities in the United States issued a joint statement outlining a basic policy for the lending operations of financial institutions during this period of intensified defense efforts. You will recall that this was a strong appeal for the voluntary cooperation of every financial institution in the country in restricting unnecessary credit.

This was a forthright recognition by all of us that our common problem throughout the coming months would be the maintenance of a strong and healthy economy backed up by a sound banking system. It was a clear-cut warning that bank credit for nonessential purposes would have to be curtailed if we were going to avoid a spiraling inflation and to bring our maximum productive potential into the defense effort.

Inadequate Specific Steps Taken

Recently the Federal Reserve System has taken several specific actions designed to restrict the use of credit. Open market operations have been directed toward making bank reserves less readily available and discount rates have been raised from 1½% to 1¾% throughout the country. The System has stated that it is prepared to use all the means at its command to restrain further expansion of bank credit consistent with the policy of maintaining orderly conditions in the government securities market.

When the Defense Production Act became law on Sept. 8, the Board moved within the hour to reinstate consumer instalment credit controls. Starting on Monday, Sept. 18, credit terms on automobiles, refrigerators, television sets and other consumer household goods were again brought under regulation. The initial terms might be considered moderate, but we have the assurance of the most responsible elements in the trade, who should know the most about it, that they are adequate to curtail instalment credit expansion. We have already instituted spot checks to observe operations and we will not hesitate to tighten the regulation promptly, almost any day, if the facts require.

The Defense Production Act also gave the President authority to regulate credit on new real estate construction and, by Executive Order, joint responsibility for this control was delegated to the Board and to the Administrator of the Housing and Home Finance Agency. Probably in no other area has credit expansion had a more inflationary effect recently than the real estate credit that has been generated by our unprecedented housing boom. This situation will soon be brought under control. Mr. Foley, the Housing Administrator, is giving us his full and active cooperation in carrying out the President's Executive Order which applies both to conventional loans and to government mortgage programs.

The top-notch leaders in the private mortgage financing field are working patriotically and conscientiously to help us formulate an effective control that our people can live with and that we hope will be reasonably simple to operate. I know it will be full of headaches, yet I am convinced it is vital to the overall control of credit in this emergency. We are setting up a temporary organization which can be disbanded as soon as the need passes.

The regulation of consumer credit and real estate credit are both selective types of controls in that they apply to specific credit areas. They are needed in these areas, but by themselves they cannot be expected to work miracles. They must be backed by effective general monetary and fiscal policies and by a general attitude of caution and restraint on the part of lending institutions. To make them effective, we will have to lean heavily on the support which the other Federal Agencies and State supervisory authorities can give us.

We will need your aid in helping to administer these selective controls, but above all we need your initiative in helping to curb the expansion of general bank credit outside of these specific areas.

Commercial Credit Restrictions Needed

A few moments ago I referred to the joint statement issued six weeks ago in which we appealed to financial institutions to curtail unnecessary credit extension. Because we live in a democracy, you and we would like to accomplish our objectives by reliance on voluntary methods. In this case, however, I feel we must do something more. We must recognize that in a competitive system it is not always possible for an individual institution to respond to an appeal.

Let me illustrate. I recall one banker who told me recently of a case where an important customer wanted to borrow a substantial sum for the accumulation of an inventory that was about five times his normal supply. The banker talked him out of most of the loan, but nevertheless did advance enough to enable him to double his normal inventory. In this particular case, it took some courage to refuse any part of the loan because the customer maintained a substantial deposit balance and was actually in a position to transfer his account to a competing bank. At the same time, we must recognize that the action of the banker in extending the credit added to the current inflationary picture. I cite this instance because it dramatizes vividly the complexities of the competitive problem the banker faces.

The area of general credit expansion outside of consumer, real estate and stock market credit does not lend itself to organized selective controls. Yet the expansion that is going on in this area today is equally dangerous. Perhaps during this conference you can organize yourselves to explore further this problem and then to discuss with us your suggestions of how best to deal with it.

During such discussions I would welcome the opportunity to establish a common understanding on the subject of bank reserves. It has long been one of my cherished hopes that the laws of the several States would be broadened to give you sufficient authority to cope with this question. There is no doubt in my mind that if you were empowered to take adequate action concurrently with the Federal Reserve this source of difference would be largely eliminated. I am confident that in facing up to this and other problems which we share in common we can achieve a meeting of minds and find equitable and effective solutions which will assure the preservation of the dual banking system.

I would not want to leave the impression with you that the common problem which is on my mind today is primarily a matter of bank reserves. We are faced with general credit expansion and we are the responsible authorities who must find ways to deal with it.

Bank Cooperation Desired

As indicated to you earlier, I think the moves that have been made so far, and are now planned, are good and are in the right direction. I feel, however, that taken alone they are inadequate to meet the problem. What I want to do again, most sincerely, is to ask you what more is there that we should do—and that you can do—to meet our common problem.

I cannot impress upon you deeply enough the genuine humility with which I seek your aid, your counsel, and the best of your judgment. I am fully aware that credit restrictions alone will not prevent inflation. I am equally convinced that we will not control inflation without them.

This is a time when we—all of us—as supervisory officials have grave responsibilities to take the initiative and to make the critical decisions to preserve and protect our economy.

Holeproof Hosiery Co. Common Stk. Offered

Public offering was made on Sept. 26 of 115,263 shares of common stock of Holeproof Hosiery Co. at $15.50 per share. The offering constitutes no financing by the company, but represents sale by a group of present stockholders of a minor portion of their interests. A. G. Becker & Co. Inc. heads the underwriting group.

Holeproof is one of the oldest trade names in the hosiery industry, having been introduced by the company in the 1890s. The business now includes manufacture of both men's and women's hosiery and women's underwear. The underwear division has experienced particularly rapid growth in recent years and accounts for approximately one-half of total sales.

Earnings of the company last year amounted to $1,241,878, equivalent to $2.34 per share, and in the first six months of the current year to $868,347, or $1.64 per share.

Controlling interest in the business has hitherto been closely held in the form of a relatively small issue of stock which was split 7½-for-1 prior to the present offering. The management has indicated its intention to pay dividends of 35 cents per share late in October and again in December, and thereafter to consider dividends on a quarterly basis. At a regular 35-cent rate, or $1.40 per year, a yield of slightly more than 9% is indicated at the offering price.

Midwest Exch. Members

CHICAGO, Ill.—The Executive Committee of the Midwest Stock Exchange has elected to membership the following:

Matthew J. Hickey, III, Hickey & Co., Inc., Chicago, Ill.

Carl McGlone, Carl McGlone & Co., Inc., Chicago, Ill.

Fred G. Morton, The Milwaukee Company, Milwaukee, Wisc.

Mr. Hickey, who is 21 years of age, is the youngest member of the Exchange.

Eric Harvie Director

Eric L. Harvie, K. C., LL.B., of Calgary has been elected to the board of directors of The Canadian Bank of Commerce, it was announced by Stanley M. Wedd, President.

Mr. Harvie, who is active in legal circles in Alberta, has been associated in industrial and oil developments in the Canadian West and among his other interests he is a director of the Southam Company Limited and the Empire Trust Company of New York.

With Edward E. Mathews

(Special to The Financial Chronicle)

BOSTON, Mass.—Howard D. Bemiss, Jr. is now with Edward E. Mathews Co., 53 State Street.

Continued from page 5

The State of Trade and Industry

are doomed to disappointment for at least several more weeks, states the "The Iron Age," national metalworking weekly in its current summary of the steel trade. Official Washington, slow in setting up a priority and allocations program, is hampered by a virtual lack of experienced administrators and politics.

As a consequence, steel producers this week are faced with an order and scheduling picture which amounts to compound confusion.

Meanwhile delivery promises are being pushed back further every week. Automakers appear to be losing inventory, and it is only a question of time before they are on a more or less hand-to-mouth basis and unable to support current peak production. August deliveries to the automobile companies were about 25% below promises and September has been worse, the magazine adds.

A threatened wire shortage gave automakers and other steel wire users the jitters this week. To show how poor their inventory position is, Detroit reports that another two weeks of wildcat strikes in wire will probably be the blow that breaks its current production peak, this trade paper declares.

These strikes are not necessarily indications of what will happen in the steelworkers' union throughout the country. Though no grievances have been filed in wire, observers believe the strikes are not entirely based on dissatisfaction with present wage levels.

A study of recent figures on steel capacity expansion discloses that they may be too conservative. An "Iron Age" survey showed some 4,000,000 tons of new capacity due in by the first of 1952. This was later supplemented by an American Iron & Steel Institute survey showing 6,000,000 tons by the end of 1952. "The Iron Age" has now learned that due to changing world conditions these reports are now on the conservative side. By the end of 1952 the expansion may approach 8,000,000 tons—if the steel is available.

By early this week at least eight pig iron producers had advanced their prices, most by $3 a ton on all grades. One cold-rolled strip producer advanced extras by $3 to $9 a ton.

The American Iron and Steel Institute announced this week that the operating rate of steel companies having 94% of the steel-making capacity for the entire industry will be 100.7% of capacity for the week beginning Sept. 25, 1950, compared to 100.4% a week ago, or a rise of 0.3 point.

The largest amount of steel ever made in one week is schedpled to be poured from steelmaking furnaces this week, the Institute announced.

This week's operating rate is equivalent to 1,942,200 tons of steel ingots and castings for the entire industry, compared to 1,936,400 tons a week ago. A month ago, based on new capacity, the rate was 97.1% and production amounted to 1,872,800 tons; a year ago, based on the smaller capacity then prevailing, it stood at 84.5% and 1,559,600 tons.

Electric Output Lifted Higher the Past Week

The amount of electrical energy distributed by the electric light and power industry for the week ended Sept. 23 was estimated at 6,457,030,000 kwh., according to the Edison Electric Institute.

It was 7,929,000 kwh. higher than the figure reported for the previous week, 901,389,000 kwh., or 16.2% above the total output for the week ended Sept. 24, 1949, and 996,421,000 kwh. in excess of the output reported for the corresponding period two years ago.

Carloadings Advance 15.3% Above Holiday Week

Loadings of revenue freight for the week ended Sept. 16, 1950, totaled 866,207 cars, according to the Association of American Railroads, an increase of 114,931 cars, or 15.3% above the preceding holiday week.

The week's total represented an increase of 123,185 cars, or 16.6% above the corresponding week in 1949, but a decrease of 43,782 cars, or 4.8% under the comparable period of 1948.

Auto Output Rises Moderately in Latest Week

According to "Ward's Automotive Reports" the past week, combined motor vehicle production in the United States and Canada of 186,556 units, compared with the previous week's total of 185,421 (revised) units and 158,007 units a year ago.

Current production is stated by "Ward's" to be running below record levels because of parts shortages, mostly as a result of strikes in supplier plants, and of plant showdowns for inventory or model changeover.

Total output for the current week was made up of 151,064 cars and 26,282 trucks built in the United States and a total of 6,838 cars and 2,372 trucks built in Canada.

For the United States, output was 177,346 units, and in the like week of last year 150,815 units.

Business Failures Turn Downward

Commercial and industrial failures dipped to 155 in the week ended Sept. 21 from 165 in the preceding week, Dun & Bradstreet, Inc., reports. Casualties were slightly lower than a year ago when 169 occurred, but they exceeded the comparable 1948 total of 101. In relation to prewar levels, failures continued to be low, they were down 35% from the 239 concerns which succumbed in the corresponding week of 1939.

Of the week's total casualties, 114 involving liabilities of $5,000 or more, declined slightly from the preceding week, while small casualties having liabilities under $5,000 also declined from the previous week but held at the same level as in 1949.

Most of the weekly decline occurred in manufacturing. Both wholesaling and commercial service had an increase. Three lines, manufacturing, wholesaling and service, had fewer casualties than last year, while retail remained unchanged from 1949 and construction increased slightly.

The East North Central States accounted for most of the decline in mortality. A noticeable decrease also appeared in the Pacific States, while slight dips were noted in the West North Central and South Atlantic States. In contrast to this decline, the Middle Atlantic, New England, and in the West South Central States failures were higher. A decline from 1949 prevailed generally, with only two regions, the Middle Atlantic and West South Central States, having more casualties than a year ago.

Food Price Index Shows Mild Decline in Week

The wholesale food price index, compiled by Dun & Bradstreet, Inc., moved slightly lower last week, registering $6.67 on Sept. 19, as against $6.68 a week earlier. The current figure represents a rise of 16.6% above the corresponding year-ago level of $5.72.

The index represents the sum total of the price per pound of 31 foods in general use and its chief function is to show the general trend of food prices at the wholesale level.

Wholesale Commodity Price Index Turns Slightly Lower

Irregular movements left the Dun & Bradstreet daily wholesale commodity price index slightly lower for the week. After striking a new high for over two years on Thursday of last week, the index closed at 289.88 on Sept. 19. This compared with 290.17 a week ago and with 343.38 on the like date a year ago.

Prices in leading grain markets fluctuated in a highly nervous manner during the past week. Firmness in the early part of the week gave way to a nervous reaction in later dealings which wiped out most of the initial advances.

Favorable war news from the Far East was the chief influence in the decline, coupled with forecasts for larger wheat crops both in this country and Canada than had been anticipated.

Corn was relatively strong, aided by buying for export account, but both corn and oats ended lower after establishing new seasonal highs early in the week. Trading in grain futures on the Chicago Board of Trade was less active last week, totaling 150,443,000 bushels. This represented a daily average of 25,000,000 bushels, comparing with 27,200,000 the previous week, and 30,800,000 the same week last year.

Domestic cotton prices fluctuated irregularly during the past week with closing spot quotations slightly higher than a week ago. Rather sharp declines were encountered at mid-week, reflecting a falling off in trade demand, and hedge selling against purchases of government cotton.

Other bearish factors included uncertainty over the possible effect of the licensing of exports and the recent more favorable war news.

The firmer trend noted in the latter part of the week was influenced by renewed mill and export price-fixing and the prospect that cotton supplies would become increasingly tight as the season progresses.

Reported sales in the ten spot markets rose moderately last week to 262,500 bales, from 243,100 the week before, and compared with 344,400 in the corresponding week a year ago.

Mill consumption of the staple during August advanced sharply to a daily rate of 40,400 bales, the highest since March, 1947. July consumption averaged 32,100 per day, and the August, 1949, rate was 28,800 bales.

Weather conditions were generally favorable but additional rains retarded picking in eastern and central portions of the belt. Demand for cotton textiles continued strong with many finished constructions setting new peak prices for the year.

Trade Volume Stimulated by Anticipated Credit Controls and Fall Buying

The nation's shoppers spent moderately more money in the period ended on Wednesday of last week than during the week before, states Dun & Bradstreet, Inc., in its current summary of trade. The anticipation of consumer credit controls was deemed partly responsible for this rise, along with a normal increase in Fall buying at this time. Aggregate dollar volume was noticeably above the level for the comparable 1949 week.

The buying of apparel rose moderately last week with dollar volume appreciably above last year's level.

The imposition of credit curbs had little effect upon the dollar volume of many housefurnishings items last week; total sales exceeded both those of the week previous and those of a year ago by substantial margins.

There was noticeable interest in electrical appliances and television sets; also in large demand were such items as furniture and floor coverings.

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

New England and Northwest +4 to +8; East and Midwest +5 to +9; South +6 to +10; Southwest +8 to +12 and Pacific Coast +7 to +11.

Wholesale buying, except for apparel, rose slightly in the past week; the aggregate dollar volume of orders continued to be moderately above the level of a year ago. There was a slight decline in the number of buyers attending various wholesale centers.

Department store sales on a countrywide basis, as taken from the Federal Reserve Board's index for the week ended Sept. 16, 1950, rose 17% from the like period of last year. An increase of 8% was recorded for the previous week from that of a year ago. For the four weeks ended Sept. 16, 1950, sales showed a rise of 11% from the corresponding period a year ago and for the year to date registered an advance of 5%.

Despite unfair weather and the religious holiday which tended to curtail the expansion of retail trade in New York the past week, it was noted that sales volume for the period compared favorably with recent levels.

According to the Federal Reserve Board's index, department store sales in New York City for the weekly period to Sept. 16, 1950, advanced 9% from the like period of last year. In the preceding week a rise of 2% (revised) was registered from the similar week of 1949. For the four weeks ended Sept. 16, 1950, an increase of 4% was noted and for the year to date volume showed no change from the like period of last year.

Business Man's Bookshelf

Chemical Products: Exportable Surpluses—Organization for European Economic Cooperation—Columbia University Press, 2960 Broadway, New York 27, N. Y.—Paper—$1.75.

European Recovery Program: Second Report of the O. E. E. C.—Organization for Economic Cooperation — Columbia University Press, 2960 Broadway, New York 27, N. Y.—Paper—$3.00.

Foreign Exchange Regulations in Great Britain, second supplement—Bank for International Settlements, Monetary and Economic Department, Basle, Switzerland—15.00 Swiss francs (plus postage) —(price of complete compilation) —original publication with the first two supplements—is 55.00 Swiss francs, plus postage).

Layoff Policies and Practices—Recent Experience Under Collective Bargaining—Industrial Relations Section, Department of Economics and Social Institutions, Princeton University, Princeton, N. J.—Paper—$2.00.

Law, The—Frederic Bastiat—Foundation for Economic Education, Inc., Irvington-on-Hudson, N. Y.—Paper—65c.

Machinery & Equipment—Export Availabilities and Delivery Periods—Organization for European Economic Cooperation—Columbia University Press, 2960 Broadway, New York 27, N. Y.—Paper—$1.50.

Major Problems of United States Foreign Policy, 1950-1951—The Brookings Institution, Washington 6, D. C.—Cloth—$3.00 (paper bound, $1.50).

Oil Refinery Expansion in the O. E. E. C. Countries—Organization for European Economic Cooperation — Columbia University Press, 2960 Broadway, New York 27, N. Y.—Paper—$1.25.

Scientific Appraisal of Management, The: A Study of the Business Practices of Well-Managed Companies—Jackson Martindell—Harper & Brothers, 49 East 33rd Street, New York 16, N. Y.—Cloth—$4.00.

Welfare State, The—Edited by Herbert L. Marx, Jr.—The H. W. Wilson Co., 950 University Avenue, New York 52, N. Y.—Fabrikoid—$1.75.

With Revel Miller

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—Meda F. Spitzbarth has joined the staff of Noble, Tulk & Co., 618 South Spring Street, members of the Los Angeles Stock Exchange. Miss Spitzbarth was formerly with Edgerton, Wykoff & Co. and G. Brashears & Co.

With Shields & Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill.—John J. Miley has become associated with Shields & Company, 209 South La Salle Street. He was formerly with Shearson, Hammill & Co.

B. F. Musser Joins J. P. O'Rourke Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill. — Benjamin F. Musser has become associated with J. P. O'Rourke & Co., Board of Trade Building. He was formerly with Bache & Co. and Union Security Co. In the past he was with Brailsford & Co. and F. S. Yantis & Co.

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

Between now and election the market will probably go through a series of gyrations that will make some gleeful and others fearful. In fact we have almost an election market now. The only thing lacking is the preelection speeches and they're just around the corner.

* * *

If it were only an election that was ahead it wouldn't be so confusing. There's a definite swing to the conservative and that's all for the good for the stock market. However, there's the Korean War to consider too. Up to this writing it looks all over but the mopping up. At least that's the implication in the news reports.

* * *

A gradual elimination of the war factor is calculated to scare some of the "war buyers" out of the market. At this point I might give a lecture on the morals involved in making money out of a war. Just between ourselves I'd prefer to make my money out of peaceful pursuits. But I'm not in this business to make policy; I try to interpret events and cash in (if possible) on such interpretations. If anybody thinks the cessation of Korean hostilities is the end of the war they're being naive. What I mean to say is that war orders and a war economy won't stop even if we occupy all of Korea, including the zone above the 38th parallel.

* * *

Channelling all this down to the plus and minuses, the answer is that despite some setbacks, and some of them may be severe, the price structure indicates a continuation of a major rise.

* * *

The most important buyers today continue to be the various investment funds. Here and there some large amounts of stock are sold but the funds are used almost immediately for the purchase of other stocks. If there's been any concentrated selling in the immediate past it has escaped my attention.

All this means that if you're long of stocks continue being long. If you're a trader, you might unload part of your line on sharp periods of strength but a maintenance of some stock is advisable. Theoretically a skillful trader, long of 200 shares of ZYX at 25, would sell 100 at, say, 35; go short at say 36, and cover the whole thing at 30 and go long again just under 30. If he's thoroughly experienced he might even sell puts and calls against his position. But all during the major upswing he'd keep 100 shares on the long side. It must be obvious that such trading isn't for the tyro. Not only does it take too much time but also makes quite a dent in cash for commissions and taxes. I'm not suggesting the above method. I'm just pointing out how traders operate.

[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.]

Continued from page 12

Restrictions on Bank Holding Companies

nonbanking businesses, even a novice in the field of banking must realize that banks have always been prohibited from engaging in other types of business, such as manufacturing, merchandising, and the like.

It is just plain common sense that financial institutions, which have the power to lend the funds entrusted to them by their depositors, should not be permitted the unrestricted right to lend those funds to nonbanking businesses which are owned or controlled by the bank or its owners. It is obvious that if they were permitted to do so, the favored businesses would have every advantage over others equally worthy of credit. The banker would be able to finance his nonbanking business freely with his depositors' money.

However, no such restriction applies under the present law to the lending policies which a bank holding company may impose upon the banks which it controls. The holding company may own and operate any type of business, and through its power to dominate the lending policies of the banks under its control it may require them to make loans to the nonbanking concerns owned by the holding company.

Such loans may not only work serious injustice to other businesses which might be in need of loans, but may well be of doubtful soundness, since the law provides no adequate means of regulating such lending.

Another glaring defect in the present law, which was enacted nearly 20 years ago, is to be found in the definition set out in that law. That definition includes only those holding companies which control banks which are members of the Federal Reserve System. This excludes from any regulation those companies which operate in all respects as bank holding companies, but which control only nonmember banks, even though they are insured banks.

In some instances these holding companies have proceeded to acquire banks which were members of the Federal Reserve System, where they particularly desired them, by causing the banks to withdraw from the Reserve System.

A problem in this connection is the difficulty of framing legislation that will effectively prevent the acquisition by bank holding companies of banks which are not members of the Federal Reserve System without encroaching upon the jurisdiction of the States and State banking authorities.

Much of the opposition to the bills which have been introduced in Congress to regulate bank holding companies has come from those who fear that any extension of Federal regulation of nonmember banks may become a threat to the dual banking system.

No Threat to Dual Banking System

The bill introduced in the 81st Congress (S.2318) contains a provision that its enactment shall not be construed as preventing any State from exercising the same power and jurisdiction which it now has with respect to banks, bank holding companies, or their subsidiaries. This would seem to point the way toward a solution of that particular problem.

There are many other factors entering into the problem of providing protection for independent bankers against undue expansion of bank holding companies and consequent expansion of monopolistic power in banking operations. Obviously not all of them can be discussed or even enumerated on this occasion.

I would be less than frank if I did not say to you that I do not think bank holding companies are necessarily undesirable. In some instances they have been helpful in providing better management for banks, in assisting them financially, and encouraging and promoting better banking service. The bank holding company is a menace to the independent bank, in my opinion, only in so far as the power of the holding company is abused.

Basically, the areas in which abuses are possible and have to some extent actually occurred are the unlimited expansion of monopolistic control over banks, and the combining under the same management of large segments of our banking structure with miscellaneous nonbanking businesses. In my opinion bank holding companies should be regulated, as far as practicable, in much the same manner that banks themselves are regulated.

Legislation to control them should, in my opinion, leave the way open for them to perform such helpful functions in bank operation as they may legitimately perform, but should clearly and positively prohibit the abuses that have grown up under the inadequate provisions of existing law.

It was only a short time after enactment of the present law that its inadequacies were recognized, and efforts began toward elimination of its defects.

In a message to Congress in 1938 President Roosevelt recommended the enactment of legislation to prohibit further expansion of bank holding companies and to require their elimination as soon as practicable.

Partially because the attention of Congress and the country was concentrated on threatening world conditions and on the war that followed, no action was taken. Since then, various bills have been introduced, and considerable effort has been made to secure legislation that would provide adequate regulation of bank holding companies.

The deficiencies in the present laws were specifically pointed out by the Federal Reserve Board in its annual report for 1943, and the Board then made, and has several times repeated, certain broad recommendations for new legislation.

The bill introduced in the present Congress, to which I have referred, is perhaps the most carefully prepared of all that have so far been presented. Extensive hearings have been held on the measure by the Senate Committee on Banking and Currency, but the Committee has not taken any official action.

Legislation Forthcoming

This does not mean, however, that legislation along these lines will not eventually be enacted. In my opinion, Congress will in the near future pass such legislation.

My statement that such legislation will eventually be enacted is based on the fact that in 1947 the Senate Committee on Banking and Currency reported favorably a bill to provide for control and regulation of bank holding companies. Although the report of the Committee, of which I was a member, was unanimous, the bill failed to pass.

The bill in the 81st Congress, S.2318, as amended by the Committee, was prepared with a view to meeting some of the objections raised to the 1947 bill and contains, I think, definitely more adequate provisions for regulating bank holding companies than did any of those previously considered.

Briefly stated, the purposes sought to be accomplished are the following:

First, to bring all bank holding companies under reasonable control and regulation on an equal footing, whereas the present law permits many of them to escape all regulation if they so desire.

Second, to give the Federal bank supervisory authorities the power to control the acquisition of banks by bank holding companies, specifying the factors to be considered in acting upon applications involving the expansion of bank holding company groups.

Third, to require bank holding companies to divest themselves, within a reasonable time and with reasonable exceptions, of control over non-banking enterprises.

Fourth, to provide generally for more effective supervision of bank holding companies, with appropriate sanctions for noncompliance.

The proposed legislation is not extreme in its purposes. It contains a minimum of restrictions which seem to be essential to provide reasonable control over bank holding companies.

No "Death Sentence" Contemplated

I should like to emphasize that the proposed legislation is not all-embracing. It does not provide a "death sentence" for bank holding companies. It does not provide for "freezing" all companies in their present situations. It would not prevent a bank holding company from establishing offices across State lines. It does not bring an individual under the restrictions applicable to bank holding companies. And it does not require holding companies to accumulate any greater reserve than is required by the present law.

Another important provision in the bill with respect to the acquisition of banks or branches by bank holding companies is a requirement that the appropriate Federal supervisory agency shall notify the State bank supervisor of the proposed transaction. This would be done so that he may submit his views and recommendations, which the Federal agency must take into consideration in acting upon the proposal.

Furthermore, the term "bank holding company" in the proposed legislation includes any company which controls a bank operating four or more branches.

While the Senate Committee on Banking and Currency has not, as I have said, officially acted on the bills introduced in the 81st Congress, I can see no reason to assume that the Committee's attitude toward such legislation has changed materially since its unanimous report in favor of the 1947 bill.

As one member of the Committee which approved that bill, I say definitely that I am equally favorable at this time to the enactment of legislation that will fairly and adequately provide for the regulation of bank holding companies.

Sound bank holding company legislation is desirable in protecting the bankers' stake in free enterprise.

While I recognize there is opposition to such legislation, I am not unmindful of the fact that practically every progressive measure relating to banks that has been proposed in Congress within my recollection has been opposed by segments of the banking fraternity, if not, indeed, by the entire industry.

I need not remind you that this was true when the Federal Reserve System was established, as well as when important changes in that legislation were found to be desirable.

More recently, it will be recalled, the proposal to insure bank deposits was strongly opposed in banking circles. Today that law is universally recognized, by bankers as well as by the public, as one of the great stabilizing factors in our economy. In my own State, every bank has applied for and has been approved for deposit insurance. Every account in every Alabama bank is insured up to $5,000. This will be increased to $10,000 under legislation enacted this month.

May I also call attention to the fact that no depositor in any insured bank in the United States has lost a penny of his deposit in more than six years.

Fortunately for the banking interests, as well as for the nation as a whole, the opposition to these two great progressive measures—establishment of the Federal Reserve System and insurance of bank deposits—was unsuccessful.

Let us hope that opposition to reasonable regulation of bank holding companies may be equally unavailing.

There are at least two important lessons, it seems to me, that we should learn from the enactment and the operation of the sound, progressive legislation of recent years relating to banking and to other phases of our national economy.

One is that we should not close our minds to every new legislative proposal that is made. We know that conditions are constantly changing—that the status quo is no longer an untouchable idol. As conditions change, business methods and practices change, and changes in the laws relating to those methods and practices are necessary.

We should meet new proposals with open minds. We should be willing to learn from experience, especially when experience has taught that old procedures are outmoded or can be improved upon.

It is only by following such a policy that we have the Federal Reserve System and deposit insurance, to which I have already referred. Without this attitude of willingness to welcome experiment and convert it into experience we would not now have our tested and proved programs of rural electrification, social security, protection against spurious stock issues, prosperous agriculture, and many other undertakings which have brought to our people and to our business better living conditions and sounder prosperity.

Private Enterprise Cannot Fill Public Need

Another lesson that we should learn from our experiences in progressive legislation of the past is that if private enterprise does not or cannot fill a public need, public demand will require that the government do so.

Economic progress is inevitable. If private enterprise follows a policy of obstructionism or extreme reaction, it can only expect to be overruled by the power of the people, exercised through their chosen instrument, the government. The more monopolistic practices interfere with the common good, the stronger will be government action to break up such practices.

It is not realistic for private industry to label proven progress in human welfare as "socialism," on the one hand, and refuse to comply with reasonable demands or required changes for the common good on the other.

The most effective check against revolutionary socialism is a willingness on the part of private enterprise to welcome evolutionary progress in those areas which involve the welfare of all the people.

none of the holder's rights under the guaranty are prejudiced and since the guaranteed indebtedness will be increased by interest accruals and proper advances, we do not expect that holders will make claim in such cases.

The lender must cease to accrue interest on that portion of the loan represented by the claim payment. To retain the full earning power of the entire loan the lender may prefer the alternative right of withholding the claim. Where it eventuates that the claim must be filed at a later date, the guaranty will be calculated upon the outstanding balance of the indebtedness, inclusive of all accrued interest subject to the limitation that the guaranty payment may not exceed the original amount of the guaranty.

Thus it will be apparent that the extremely flexible provisions of the VA's loan guaranty regulations should supply the channel through which borrower and lender may mutually effect arrangements which will obviate recourse to the courts under the Civil Relief Act.

It is our suggestion that as you learn a GI loan borrower whose obligation your institution holds is on his way into uniform you should ask him to come in to talk over his new status, and its probable effect upon his repayment ability. Conceivably his new status may improve that ability—there we would be glad to have you encourage prepayment. But more commonly it may lower the ability-to-pay factor. There you should endeavor to reach an agreement measured in line with your borrower's ability to repay. This will both *enable* and *induce* him to maintain his payments on a reduced scale.

These remarks, I realize, sketch but lightly the broad outlines of the policies and practices we hope to see observed in your servicing of GI loans over the near future and their relation to the indulgence and forebearance provided by the Soldiers and Sailors Civil Relief Act. Our field offices are in possession of complete details on this general subject if any of you would like more adequate information.

As we face together this difficult future, we have little reason to feel pessimistic over the ultimate outcome. Looking back at the noteworthy repayment record your GI borrowers have fashioned over these last five years that are past should occasion hope and confidence. The ex-GI, man for man, will continue to justify the confidence we felt five years back when we forecast that he would prove to be a most reliable risk, creditwise, as he had then so recently proven battle wise.

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The GI Loan in Our Defense Economy

proper relation to the veteran's present and anticipated income and expenses" as stipulated in Section 501(2) of the Act. If the service pay, plus allotments, plus other income is insufficient to meet such other expenses and the payments which would be required to amortize the loan within the maximum term permissible, the VA would not have the authority to approve the loan, since the existing law admits no exceptions for cases of this kind. The foregoing is likewise and equally true with respect to cases processed automatically by supervised lenders.

Supposing now that everything measures up and you make the loan, where do you stand the day after your borrower dons a uniform? With reservists being called up in increasing numbers, the question is heard more and more frequently: "What about the veteran with a GI loan who re-enters the service? Does the VA have a policy designed to protect the veteran whose ability to pay is impaired by reason of his re-entry into military service?"

The answer is again emphatically yes. Of course, the basic protection to the veteran is afforded by the Soldiers and Sailors Civil Relief Act of 1940, as amended, which is in full force and effect. It applies equally to a conventional loan or to a VA guaranteed loan. The Civil Relief Act in general provides that foreclosure cannot proceed while the borrower is in military service if he cannot meet his payments without hardship. You are all probably better informed than I as to the manner in which the mechanics and practical application of that law meshes with your local foreclosure practices.

As regards GI loans the Veterans Administration from the beginning has geared its procedures and regulations with a view toward indulgence in appropriate cases. The GI loan may be handled on a basis which will obviate resort by either a borrower or a lender to the rights and privileges accorded to them respectively under the 1940 enactment.

Unless the veteran's default is willful or unless his ability to pay is not materially affected by reason of his military service, the Veterans Administration encourages the extension or modification of the terms of the loan by a postponement of all or part of the monthly payment. Payments can be postponed by the lender not only during the borrower's military service but also for a reasonable period thereafter. Indulgences to the veteran would, of course, be limited to whatever reduction in the amount of the regular payment is necessary to bring the loan payment in line with his ability to pay. The lender may enter into such an agreement without VA's approval, although our regulations require prompt advice of the terms of the agreement to the Loan Guaranty Officer.

The execution of the agreement modifying the terms of the loan by a postponement of all or part of the monthly payments will not in itself affect the Veterans Administration guaranty or insurance. As long as the terms of such agreement are fully complied with the loan will not be in default and need not be reported as a defaulted loan per section 36:4315 of the regulations.

At this point the typical question we are asked is: "Well what happens when the borrower is separated from the military? In that case wouldn't there be a considerable hardship if the veteran were required to resume the regular payments plus the amount necessary to repay the instalments which were deferred?"

To meet such a hardship our regulations permit the loan to be reamortized and the payment period extended. Such an extension agreement will not vitiate the guaranty provided that it does not involve a rate of amortization below that necessary to amortize at least 80% of the loan balance within the maximum maturity permissible for that type of loan (30 years for home loans). Also no obligor may be released from liability as a result of the agreement, and advice of the terms of the agreement must be forwarded to the Loan Guaranty Officer promptly.

The obligation of VA to pay the guaranty arises after the default continues for the prescribed period. A claim for the guaranty may therefore be made even though the holder must stay its foreclosure action. However, since

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The Security I Like Best

the fundamentals of such a situation.

If the situation is rather highly complicated, that is a real advantage, because you are sure to have very little competition from other brokers who are prone to let the hard ones go by until the price is way up and everybody knows all about it. There may be a little cream left, but most of it has been skimmed off by the fellows who work hard to get the facts and then have the courage of their convictions to put their clients into these situations at low prices.

My selection at this time of "The Security I Like Best" is Theodore Gary & Co. $1.60 cumulative first preferred stock. Certainly this situation is far from being well known and is unusually difficult to analyze.

However, after many months of investigation I feel that I have arrived at a point where I can see clearly a real opportunity for an investor who will buy this stock and put it away for a reasonable period of time, and at the end of that time be able to cash in with a 100% profit on the purchase of the stock at around the present market price.

Theodore Gary & Co. was incorporated in 1919, as an investment company, with interests in various telephone subsidiaries, including Associated Telephone & Telegraph Co. and Telephone Bond & Share Co.

The capitalization as of Dec. 31, 1949, was as follows:

$175.620 series A 6% notes due 1995.
*$94,250 series B 6% notes due 1995.
76,101 shares first preferred $1.60 cum. (no par) callable at $35.
1,295 shares partic. class A (no par) non-cum. callable at $35.
*9,425 shares partic. common (no par) non-cum.—non-callable.
230,440 shares common (par $1.00).
Capital surplus, none.**
Paid-in surplus, $81,026.76.
Earned surplus, $476,575.62.

Theodore Gary & Co. investments, at cost, were carried at only $2,707,232.50 on the balance sheet as of Dec. 31, 1949, which in my opinion were very much understated as will be shown hereafter.

Theodore Gary 1st preferred is presently paying a dividend of only 40 cents per annum, and had accumulated dividends of $25.50 per share as of Dec. 31, 1949.

Thus the total claim at that time was $60.25, being the call price of $35.00 plus arrears. I fully expect holders of the stock to eventually receive call price plus arrears, which would be about double the present cost.

Steps are now being taken to clear up the financial structure of Associated Telephone & Telegraph, which is sure to redound to the benefit of Theodore Gary & Co., which owns 80% of the common stock.

While Associated Telephone & Telegraph, as of Dec. 31, 1949, had arrearages of $11,573,995 on its combined prior preferred, second preferred and class A stock, these arrearages could very easily be recapitalized and/or partly paid off due to the substantial improvement in the position of the company in the last few years.

On Sept. 15, 1950, the Wall Street "Journal" announced that Associated Telephone & Telegraph had reduced its outstanding 7% preferred by 16% and its $6 preferred by 15% during the third quarter of 1950 as a result of purchases on tenders submitted by stockholders, 4,096 shares of the 7% preferred and 6,847 shares of the $6 preferred were purchased, reducing the outstanding 7% preferred to 23,235 shares and the $6 preferred to 31,813 shares—arrearages of approximately $1,000,000 were thus eliminated on the two classes of stock. Further reduction in outstanding stock is contemplated through purchase in the open market or on tenders. The full rate is currently being paid on the two classes of prior preferred stocks.

It is also important to note that the debenture debt of Associated Telephone & Telegraph originally outstanding in the amount of $13,000,000 has been reduced to $7,000,000 and the interest rate cut from 5½% to 3¾%.

Further reduction will probably be made by the end of 1950.

Total assets of Associated Telephone & Telegraph as of Dec. 31, 1949, amounted to $67,107,495.

Net earnings of Associated Telephone & Telegraph for 1949, before special reserve, totaled $6,480,000. Of the total gross earnings of $17,919,336, $16,903,901 were provided by the Automatic Electric Co., manufacturers of Automatic Telephone Systems and related equipment; $561,172 from operating revenue of telephone companies, and $454,261 non-operating.

Each share of Theodore Gary & Co. $1.60 preferred has back of it 10 shares of Associated Telephone & Telegraph common stock and 6 shares of Telephone Bond & Share class B stock.

It is believed that a plan of recapitalization can eventually be put through for Associated Telephone & Telegraph whereby arrears and parity can be taken care of on a 4% dividend return.

If this were accomplished, earnings for 1949 would have covered such a charge about seven times and left over $5 per share available for the Associated Telephone & Telegraph common stock.

Figuring a value of $10 per share for Associated Telephone & Telegraph common, the 10 shares of this stock back of each share of Theodore Gary first preferred would be worth $100.

Since Telephone Bond & Share "A" is currently quoted at around $13 per share, it is reasonable to assume a nominal value of $2 for the "B" stock, or $12 applicable for each share of Theodore Gary & Co. first preferred. Other assets of Theodore Gary & Co., including Allied Syndicate and Monarch Services, Inc., have an indicated real value of at least $2,500,000, equal to $32.85 per each share of Theodore Gary & Co. first preferred.

Thus I feel that the minimum potential value back of Theodore Gary & Co. $1.60 preferred amounts to about $145 per share against par and arrears of only $60.25 at the end of 1949. In addition to Theodore Gary & Co. $1.60 first preferred, I call attention to the following stocks of Associated Telephone & Telegraph which are still well worth buying for capital appreciation:

	Approximate Price	Dividend	Call Price	Arrears 12-31-49
Assoc. Tel. & Tel 7% prior pfd.	148	7.00	125	95.27
Assoc. Tel. & Tel. $6 prior pfd.	138	6.00	115	81.66
Assoc. Tel. & Tel. $4 preference	75	None	62.50	71.00
Assoc. Tel. & Tel. $4 class A___	62	None	105	71.00

*Created by exchange of 1,701 shares of first preferred and 7,724 shares of class A stock. This exchange offer is for an indefinite period and is on the basis of $10 principal amount of B 6% income notes and one share of no par participating common stock for each share of first preferred or class A.

**As of Dec. 31, 1948, capital surplus was $787,308.54. As of Dec. 31, 1949, $668,277.49 of this amount was transferred to investment account to reduce the value of Associated Telephone & Telegraph and Telephone Bond & Share stocks to actual cost. $119,031.05 was transferred to Reserve for possible loss on investments.

F. S. Yantis Adds

(Special to The Financial Chronicle)

CHICAGO, Ill. — Arthur B. Kosobud has been added to the staff of F. S. Yantis & Co., Incorporated, 135 South La Salle Street, members of the Midwest Stock Exchange. He was previously with Dayton & Gernon.

Davies & Mejia Add

(Special to The Financial Chronicle)

SAN FRANCISCO, Calif.—George P. McDonnell and Orph H. Brown have been added to the staff of Davies & Mejia, Russ Building, members of the New York and San Francisco Stock Exchanges.

Indications of Current Business Activity

The following statistical tabulations cover production and other figures for the latest week or month available. Dates shown in first column are either for the week or month ended on that date, or, in cases of quotations, are as of that date:

		Latest Week	Previous Week	Month Ago	Year Ago
AMERICAN IRON AND STEEL INSTITUTE:					
Indicated steel operations (percent of capacity)	Oct. 1	100.7	100.4	97.1	84.5
Equivalent to—					
Steel ingots and castings (net tons)	Oct. 1	1,942,200	1,936,400	1,872,800	1,559,600
AMERICAN PETROLEUM INSTITUTE:					
Crude oil and condensate output—daily average (bbls. of 42 gallons each)	Sept. 16	5,938,330	5,908,830	5,707,580	4,900,550
Crude runs to stills—daily average (bbls.)	Sept. 16	¶5,983,000	5,971,000	6,099,000	5,306,000
Gasoline output (bbls.)	Sept. 16	19,628,000	19,595,000	21,319,000	17,845,000
Kerosene output (bbls.)	Sept. 16	2,175,000	2,172,000	2,265,000	1,759,000
Gas, oil, and distillate fuel oil output (bbls.)	Sept. 16	8,314,000	7,891,000	7,380,000	6,667,000
Residual fuel oil output (bbls.)	Sept. 16	8,160,000	8,285,000	8,311,000	7,485,000
Stocks at refineries, at bulk terminals, in transit and in pipe lines—					
Finished and unfinished gasoline (bbls.) at	Sept. 16	104,305,000	106,381,000	108,274,000	103,331,000
Kerosene (bbls.) at	Sept. 16	26,577,000	26,640,000	24,413,000	26,436,000
Gas, oil, and distillate fuel oil (bbls.) at	Sept. 16	74,136,000	71,597,000	65,107,000	80,114,000
Residual fuel oil (bbls.) at	Sept. 16	42,208,000	42,727,000	42,008,000	68,527,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	Sept. 16	866,207	751,276	851,025	743,022
Revenue freight received from connections (number of cars)	Sept. 16	696,740	642,136	705,661	569,057
CIVIL ENGINEERING CONSTRUCTION — ENGINEERING NEWS-RECORD:					
Total U. S. construction	Sept. 21	$238,899,000	$219,743,000	$198,771,000	$188,659,000
Private construction	Sept. 21	144,425,000	123,324,000	106,138,000	95,673,000
Public construction	Sept. 21	94,474,000	96,419,000	92,633,000	92,986,000
State and municipal	Sept. 21	85,998,000	77,314,000	87,879,000	64,267,000
Federal	Sept. 21	8,476,000	19,105,000	4,754,000	28,719,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	Sept. 16	11,300,000	*10,066,000	11,280,000	8,695,000
Pennsylvania anthracite (tons)	Sept. 16	923,000	768,000	961,000	945,000
Beehive coke (tons)	Sept. 16	152,300	*122,500	140,500	10,000
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100	Sept. 16	368	295	281	315
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	Sept. 23	6,457,030	6,449,101	6,345,503	5,555,641
FAILURES (COMMERCIAL AND INDUSTRIAL) — DUN & BRADSTREET INC.	Sept. 21	155	165	176	169
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	Sept. 19	3.837c	3.837c	3.837c	3.705c
Pig iron (per gross ton)	Sept. 19	$46.61	$46.61	$46.61	$45.88
Scrap steel (per gross ton)	Sept. 19	$40.75	$40.75	$41.58	$27.42
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	Sept. 20	22.700c	22.875c	22.200c	17.325c
Export refinery at	Sept. 20	24.425c	24.425c	22.425c	17.550c
Straits tin (New York) at	Sept. 20	102.500c	102.000c	102.000c	103.000c
Lead (New York) at	Sept. 20	16.000c	16.000c	13.000c	15.125c
Lead (St. Louis) at	Sept. 20	15.800c	15.800c	12.800c	14.925c
Zinc (East St. Louis) at	Sept. 20	17.500c	17.500c	15.000c	10.000c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Government Bonds	Sept. 26	101.65	101.70	102.26	103.84
Average corporate	Sept. 26	115.43	115.63	116.22	115.04
Aaa	Sept. 26	120.02	119.61	120.84	120.84
Aa	Sept. 26	118.60	118.80	119.61	119.20
A	Sept. 26	115.04	115.24	115.82	114.27
Baa	Sept. 26	109.00	109.24	108.88	106.39
Railroad Group	Sept. 26	111.81	111.81	111.81	109.42
Public Utilities Group	Sept. 26	116.02	116.02	116.80	116.22
Industrials Group	Sept. 26	119.00	119.00	119.82	119.41
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Government Bonds	Sept. 26	2.37	2.37	2.32	2.22
Average corporate	Sept. 26	2.88	2.87	2.84	2.90
Aaa	Sept. 26	2.65	2.67	2.61	2.61
Aa	Sept. 26	2.72	2.71	2.67	2.69
A	Sept. 26	2.90	2.89	2.86	2.94
Baa	Sept. 26	3.22	3.21	3.23	3.37
Railroad Group	Sept. 26	3.07	3.07	3.07	3.20
Public Utilities Group	Sept. 26	2.85	2.85	2.81	2.84
Industrials Group	Sept. 26	2.70	2.70	2.66	2.68
MOODY'S COMMODITY INDEX	Sept. 26	468.6	474.2	466.8	344.7
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	Sept. 16	207,785	191,916	265,558	197.991
Production (tons)	Sept. 16	231,325	180,467	229,349	205,128
Percentage of activity	Sept. 16	100	81	101	92
Unfilled orders (tons) at	Sept. 16	714,466	738,187	679,065	369,573
OIL, PAINT AND DRUG REPORTER PRICE INDEX—1926-36 AVERAGE=100	Sept. 22	136.4	135.6	131.1	129.3
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	Sept. 9	19,828	22,266	30,715	12,586
Number of shares—Customers' total sales	Sept. 9	592,738	670,102	923,969	351,896
Dollar value	Sept. 9	$26,141,879	$28,706,532	$41,459,142	$14,312,271
Odd-lot purchases by dealers (customers' sales)—					
Number of orders—Customers' total sales	Sept. 9	21,884	23,381	27,918	15,141
Customers' short sales	Sept. 9	294	222	269	119
Customers' other sales	Sept. 9	21,590	23,159	27,649	15,022
Number of shares—Customers' total sales	Sept. 9	612,186	663,011	801,513	389,619
Customers' short sales	Sept. 9	10.832	8,893	9,653	4,760
Customers' other sales	Sept. 9	601,354	654,118	791,860	384,859
Dollar value	Sept. 9	$23,424,479	$25,091,286	$31,198,271	$12,680,631
Round-lot sales by dealers—					
Number of shares—Total sales	Sept. 9	201,450	214,530	237,540	162,960
Short sales	Sept. 9	------	------	------	------
Other sales	Sept. 9	201,450	214,530	237,540	162.960
Round-lot purchases by dealers—					
Number of shares	Sept. 9	202,020	229,860	345,750	117,330
WHOLESALE PRICES NEW SERIES — U. S. DEPT. OF LABOR—1926=100:					
All commodities	Sept. 19	169.7	*169.1	166.0	154.0
Farm products	Sept. 19	181.3	*182.0	176.4	163.5
Grains	Sept. 19	166.0	166.5	165.5	155.2
Livestock	Sept. 19	235.3	241.5	245.2	208.1
Foods	Sept. 19	179.0	*178.9	174.4	163.3
Meats	Sept. 19	259.9	260.4	259.3	236.1
All commodities other than farm and foods	Sept. 19	159.2	*157.8	155.1	145.5
Textile products	Sept. 19	161.1	*156.0	149.2	139.2
Fuel and lighting materials	Sept. 19	134.9	134.9	134.4	130.2
Metals and metal products	Sept. 19	176.0	*176.0	174.9	168.8
Building materials	Sept. 19	221.8	*220.7	215.1	189.9
Chemicals and allied products	Sept. 19	128.5	*127.4	121.6	116.9

*Revised figure. ¶Includes 512,000 barrels of foreign crude runs.

	Latest Month	Previous Month	Year Ago
BUSINESS FAILURES—DUN & BRADSTREET, INC.—Month of August:			
Manufacturing number	173	151	221
Wholesale number	70	73	96
Retail number	402	343	385
Construction number	91	65	55
Commercal service number	51	62	53
Total number	787	694	810
Manufacturing liabilities	$7,225,000	$8,533,000	$16,008,000
Wholesale liabilities	2,228,000	2,640,000	5,284,000
Retail liabilities	5,685,000	5,251,000	6,424,000
Construction liabilities	1,233,000	1,619,000	2,272,000
Commercial service liabilities	2,077,000	1,495,000	1,187,000
Total liabilities	$13,448,000	$19,538,000	$31,175,000
CIVIL ENGINEERING CONSTRUCTION—ENGINEERING NEWS-RECORD — Month of August:	$	$	$
Total U. S. construction	1,164,682,000	1,175,138,000	781,416,000
Private construction	702,103,000	699,269,000	371,440,000
Public construction	462,579,000	475,869,000	409,976,000
State and municipal	402,598,000	360,214,000	335,813,000
Federal	59,981,000	115,655,000	74,163,000
COMMERCIAL PAPER OUTSTANDING—FEDERAL RESERVE BANK OF NEW YORK—			
As of Aug. 31 (000's omitted)	$286,000	$259,000	$230,000
CONSUMER PURCHASES OF COMMODITIES—DUN & BRADSTREET, INC. (1935-1939=100)—Month of August	360.4	*367.7	284.5
COTTON PRODUCTION — U. S. DEPT. OF AGRICULTURE—As of September 1:			
Production 500-lb. gross bales	9,882,000	------	16,127,000
CROP PRODUCTION — CROP REPORTING BOARD U. S. DEPARTMENT OF AGRICULTURE—As of Sept. 1 (in thousands)			
Corn, all (bushel)	3,162,638	3,167,607	3,377,790
Wheat, all (bushel)	1,011,644	996,490	1,146,463
Winter (bushel)	740,537	740,537	901,668
All spring (bushel)	271,107	255,953	244,795
Durum (bushel)	37,239	35,518	38,864
Other spring (bushel)	233,868	220,435	205,931
Oats (bushel)	1,481,864	1,456,130	1,322,924
Barley (bushel)	297,922	285,402	238,104
Rye (bushel)	22,509	22,509	18,697
Buckwheat (bushel)	4,681	4,807	5,184
Flaxseed (bushel)	34,142	30,695	43,664
Rice, 100 pound bag	36,237	36,237	40,113
Sorghum grain (bushel)	184,641	176,428	152,630
Cotton (bale)	9,882	10,308	16,128
Hay, all (ton)	106,818	104,991	99,305
Hay, wild (ton)	12,657	12,543	12,296
Hay, alfalfa (ton)	41,285	40,316	38,546
Hay, clover and timothy (ton)	29,395	28,656	24,657
Hay, lespedeza (ton)	7,836	7,810	8,571
Beans, dry edible 100 pound bag	16,717	16,733	21,554
Peas, dry field 100 pound bag	2,902	2,920	3,267
Soybeans for beans (bushel)	274,702	270,701	222,305
Peanuts (pound)	1,655,895	1,659,890	1,875,825
Potatoes (bushel)	420,286	407,342	401,962
Sweetpotatoes (bushel)	59,884	59,322	54,232
Tobacco (pound)	1,950,725	1,932,611	1,970,376
Sugarcane for sugar and seed (ton)	7,597	7,597	6,796
Sugar beets (ton)	13,151	15,033	10,197
Broomcorn (ton)	26	28	44
Hops (pound)	58,753	57,765	50,730
Apples, commercial crop (bushel)	119,053	118,227	133,742
Peaches (bushel)	51,990	51,996	74,818
Pears (bushel)	29,964	28,607	36,404
Grapes (ton)	2,538	2,534	2,662
Cherries (12 States) (ton)	231	231	250
Apricots (3 States) (ton)	198	198	198
Cranberries (5 States) (barrel)	941	------	840
Pecans (pound)	106,438	106,571	128,174
DEPARTMENT STORE SALES—SECOND FEDERAL RESERVE DISTRICT, FEDERAL RESERVE BANK OF N. Y. — 1935-1939 AVERAGE=100—Month of August:			
Sales (average monthly), unadjusted	214	188	*184
Sales (average daily) unadjusted	202	192	*174
Sales (average daily) seasonally adjusted	277	274	*238
Stocks, unadjusted	226	194	*206
Stocks, seasonally adjusted	226	218	*206
INTERSTATE COMMERCE COMMISSION—			
Index of Railway Employment at middle of August (1935-39 average=100)	122.0	119.5	115.4
LIFE INSURANCE—BENEFIT PAYMENTS TO POLICYHOLDERS — INSTITUTE OF LIFE INSURANCE—Month of July:			
Death benefits	$117,588,000	$133,973,000	$115,810,000
Matured endowments	36,949,000	48,117,000	34,227,000
Disability payments	7,462,000	8,583,000	7,475,000
Annuity payments	21,183,000	21,568,000	19,970,000
Surrender values	50,442,000	60,244,000	46,979,000
Policy dividends	44,147,000	57,664,000	42,990,000
Total	$277,771,000	$330,149,000	$267,451,000
LIFE INSURANCE PURCHASES — INSTITUTE OF LIFE INSURANCE — Month of Aug. (000's omitted)—			
Ordinary	$1,785,000	$1,404,000	$1,157,000
Industrial	393,000	392,000	381,000
Group	341,000	508,000	240,000
Total	$2,519,000	$2,304,000	$1,778,000
METAL OUTPUT (BUREAU OF MINES) — Month of July:			
Mine production of recoverable metals in the United States:			
Copper (in short tons)	73,633	*74,860	†62,729
Gold (in fine ounces)	202,027	*191,272	†165,982
Lead (in short tons)	31,138	*36,713	†34,159
Silver (in fine ounces)	3,117,719	*3,419,295	†2,889,579
Zinc (in short tons)	43,898	*50,184	†49,433
NON-FARM REAL ESTATE FORECLOSURES—FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION—			
Month of June	2,010	1,895	1,502
ZINC OXIDE (BUREAU OF MINES)—Month of July:			
Production (short tons)	17,987	19,338	9,645
Shipments (short tons)	19,542	18,955	17,129
Stocks at end of month (short tons)	14,571	16,126	19,794

*Revised. †Monthly average 1949.

Continued from page 5

Observations . . .

rather than the vocation of the 15 million-or-so of security holders, the investor remains unprotected in a community of pressure groups and political subsidization. Dependent on corporate earnings, he has had to contend with a general double-standard of government policy toward labor and farmer.

In "the old days" of free capitalism the investor in common stocks could count on long-term growth, correlated with the interest rate and reinvestment of savings—as demonstrated by the studies of Edgar Lawrence Smith, Dwight Rose, Ayres, Crum, and the Harvard Economic Society. Then he mainly had only business fluctuations to contend with; now, to the no less complex business elements the new major factor of government interventionism, undeterminable in kind or degree, has been added.

Of the utmost significance has been the established principle of progressivism in taxation—the politically-popular "soak-the-rich" technique applied to the *nth* degree against the upper-income bracketeers.

The differing effect from high corporate and individual income taxation must be realized. While rises in the levy on corporations can be passed on, and profits protected, by higher prices, efficiency, etc., the inroads on the individual's take-home income cannot be offset. The effect on the stock market price structure from "soak-the-rich-ism" is accentuated greatly by the permanent situation of the overwhelming proportion of equities held by the upper-income recipients (cf. Fed. Res. consumer studies).

Despite the fact that accumulated savings of individuals in the United States today at $170 billion have trebled during the past decade, their distribution has importantly widened to the lower income groups, who devote them largely to U. S. Savings Bonds, savings accounts, life insurance, savings and loan association accounts, and just cash and checking accounts.

Nor has equity-holding afforded the owner of capital adequate protection against dollar-depreciation or other inflationary factors. In the face of the concurrent banking, and credit expansion and monetary expansion of the time, between 1937 and 1942, the D-J average of common stock prices experienced a net decline of 50%; the same non-correlation existing during shorter intervals.

Small wonder is it that American industry, banks, holding companies, closed-end investment trusts in recent years have been evaluated at sizable discounts, that the market is saying that "business is worth more dead than alive";* that many good companies have been priced at far less than their cost or replacement values, and in many cases even less than their working capital after deducting all liabilities.

A Three-Way Squeeze

As a result of the 73% rise in his cost of living, of the managed lowering of the rate of interest, and of rising taxation, the investor over the last decade has found himself in a 3-way squeeze. Since 1935-39 as a base period, adjusting the respective price changes to the concomitant depreciation of the dollar, the holder of high grade bonds has suffered a deterioration of 30%, the holder of mortgages a decline of over 40%, and the common stockholder—despite a 50% rise in market price—is about 15% worse off in purchasing power. From an income standpoint the bondholder has suffered even more. The 15% decline in the gross income earned combined with the loss in the income's purchasing power and the taxation imposed, means that the earning power of his savings has been reduced by over 50%. In the case of common stocks, despite their doubling of income, the accompanying depreciation of the dollar has left only 20% to meet the impact of rising taxation.

The Investor Post-Korea

Surely the various encroachments on the capitalist-investor which we have cited, have been vastly accentuated by our transition into an armament economy since the outbreak in Korea. Over-all, the pervading war atmosphere makes it generally more tempting, as well as easier for those holding those ideological aims, to further the undermining of the capitalist-business interests under the banner of patriotism. Difficult it is to refute the popular plea to the voter-in-the-street that profits are sinful while soldiers are giving their lives. Witness the recent Congressional attitude toward the hasty creation of a so-called excess profits tax.

The warmer the war, the greater is the politician's long-term double-standard of action toward prices and wages (as exemplified by President Truman's recent pronouncements), while increasing the opportunity to extend controls.

Anticipations of monetary policy, with their effects on security prices, are rendered even more uncertain by armament-economy exigencies; witness the current Treasury-Reserve Board conflict regarding money rates, and the Federal Reserve's anti-inflationary expressions regarding Federal farm policy.

Inflation-Deflation Obscurities

The investor's decision whether to expect inflation or deflation, and the gauging of his policies thereto, are no less difficult in war than in peacetime. The in-flationary elements are quite obvious to everyone, to the man-in-the-street as well as the investment expert. But it should be borne in mind that there are also many inherent deflationary factors. We must not lose sight of the effects of the nation's tremendous productive capacity; reflected, for example, in the present record output of automobiles at an 8-million annual rate, of steel currently at 20% more than in 1949; and in textiles with cotton goods production last month exceeding August, 1949, by 40%. Other factors ranging from rising tax collections by Government to abandonment of consumers' scare-psychology constitute additional dis-inflation potentials.

On the other hand, if the Government's non-war spending continues unabated, and if take-home wages rise uncontrolled or only lethargically controlled, the net situation is likely to be in-flationary. Wage rises already being demanded and in some instances granted, are exceeding cost-of-living rises.

Another difficulty facing the Hot-War investor is the difficulty of defining "war" and "peace" issues, and differentiating between them. This is vividly demonstrated by the great irregularity of market price action of different industry groups during Warld War II, and its obvious unpredictability in advance. The investor's difficulty extends to the *timing* as well as the classification of war-and-peace stocks—particularly in the absence of an inclusive conflict. The rails, which may be considered a good war but an undesirable long-term investment, exemplify the investor's timing difficulty. Moreover, even the recognizable "war-armament" companies carry the imponderables of renegotiation, excess profits taxation, and the general headaches of having the Government as a customer.

What to Do?

Midst all these difficulties which confront him, the investor must above all maintain an attitude of realism—without wishful thinking—in facing the relevant conditions as they are. In the area of his investment operations he must not be an ideologist, a politician, or a publicist. He must adjust his policies to conditions as they actually exist, not as he would like to have them. He must live under the established recognized conditions, not under theories.

As to his investing methodology, the following principles are now more indispensable than ever:

(1) He must take the long-term view in weighing his decisions.

(2) He must keep himself de-emotionalized, particularly of war atmosphere over-emphasis.

(3) He must diversify:
- (a) Among government bonds and common stocks.
- (b) In bonds between governments and tax-exempts (if warranted by his individual tax situation).
- (c) In stocks, among industries including both anti-inflation and anti-deflation hedges.
- (d) Among different companies within industries, including both growth companies and defensive situations.

(4) He must not look at the market-as-a-whole, but weigh values in individual situations.

External difficulties, no matter how severe, must not lead us to abandon permanently sound investing principles.

Perhaps the true status of the American investor—along with the owner of capital universally—is one of secular and permanent deterioration, with his maximum opportunity limited to delaying his ultimate demolition by intelligent behavior.

[The foregoing constitutes a summary of the first of a series of lectures, "The Investor in a World of Uncertainty," delivered by the author at the New School for Social Research.]

*An expression first used by Howard F. Vultee, Vice-President of Marine Midland Corp., in a speech before the Rotary Club of Cortland, N. Y., March 1, 1949.

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Stock Market on Trial— The Weight of Evidence

late. It is elementary that if we regard these cycle waves with concern, then we have been in the danger zone since February 1950. Any time between now and December 1950 intensifies the probability of a top to stand for some time to come.

(2) The next formula which has an excellent record over a period of years, is the relationship of the price of General Motors to the market as a whole. Some time ago a "Chronicle" contributor demonstrated that over a period of years, General Motors habitually has made its high or its low approximately four months before the market turned down or turned up. The high this year for General Motors was on June 12 at 99⅛. According to this formula, if General Motors does not sell above 99⅛ (or its equivalent after the splitup) by October 12, danger signals would be flying at the masthead.

Ratio of Automobile to Steel Stocks

(3) A third approach is the relationship of leading automobile stocks to leading steel stocks. The essence of the reasoning supporting this formula among other things, is the tendency of automobile stocks to make their highs some months prior to a general top, whereas the steel stocks inevitably have been laggards and have registered their highs some time after the Stock Market has already turned down.

In our compilation of this ratio and allowing for a certain time lag, the record for the past five years speaks for itself. According to calculations, this ratio formula indicated a sell signal the middle part of April 1946 (average 210)—a buy signal the middle of September 1947 (176)—another sell signal the middle of July 1948 (195). The last buy signal made its appearance the middle of October 1949 (186).

It seems unlikely that during the next three or four months this ratio should change its direction appreciably. Should that be the case, then according to this formula, December is the selling month.

Market Over-Bought

(4) More recently, we have been experimenting with a very interesting compilation treating with total weekly advances and declines in the market itself and disregarding actual price fluctuations. These figures when computed on a moving average with a certain time lag, are from time to time bound to indicate over-bought and over-sold conditions. This particular formula suggested a few weeks prior to Korea that the stock market had reached an over-bought condition. If we follow this formula to its logical conclusion, one should be substantially in cash since the latter part of May. For an over-sold condition to develop, first there must be a substantial and prolonged decline.

(5) Our last and probably most useful combination formula over a period of years deals with Dow-Jones 40 bond prices weighted with an "index of confidence," often described in these articles as a calculated ratio of certain speculative stocks to investment stocks. This index is more sensitive and at times has suggested several minor movements within a major movement.

According to these figures May and June were danger months. Almost immediately after the Korean break, the index turned upward. In its present position, we could not expect another down signal until late November or sometime in December.

We repeat that our emphasis on these formulas and the importance we attach to them largely is based upon their performance in the past. Basically, the ground work supporting these formulas is intelligent. Conditions can change, as they always do, but in laying great stress on these indexes, we feel that changing conditions express themselves in the units which make up the figures. The weight of evidence is there. We pass it along for what it has been worth in the past in the hope that once more it will demonstrate its value in the future.

Selectivity Remains

One final word—the Stock Market never rises or falls as a whole. During practically all bull markets, certain groups or stocks will be making new lows. During bear markets, there will be a certain number of new highs. These are individual situations and it is a well understood fact that investors and speculators holding the wrong stocks can lose money on the long side in a bull market and also on the short side in a bear market.

We simply mention this because the danger signals which according to the indexes should be coming along during the next few months have to do largely with the market as a whole and should not apply to every group or any particular stock.

Merrill Lynch Group Offers Safeway Stores Preferred & Common

Merrill Lynch, Pierce, Fenner & Beane and associates on Sept. 22 offered 110,000 shares of 4% cumulative preferred stock ($100 par value) and 257,064 shares of common stock ($5 par value) common stock of Safeway Stores, Inc. The preferred stock is priced at $100 per share, plus accrued dividends, and the common stock is being offered to common stockholders at $28 per share on the basis of one additional share for each ten shares held. Subscription rights will expire at 3 p.m. (EST) on Oct. 5, 1950, and the underwriters will purchase the unsubscribed portion of the common shares.

Proceeds from the sale of the preferred and common stock will be applied towards the prepayment of $20,000,000 term bank loans obtained on Nov. 16, 1945. The balance of cash required for this purpose will be provided from the company's general funds. However, if only the new preferred or only the common is sold, the term bank loans will be prepaid only to the extent of the proceeds of such sale.

The new preferred stock is entitled to a premium of $3 a share if redeemed on or before Oct. 1, 1954, and at declining premiums down to 50 cents a share after Oct. 1, 1960.

The company operates a chain of 2,102 retail food stores in 23 states, the District of Columbia and the five western provinces of Canada. A general wholesale grocery business also is conducted in Canada.

George A. Young

(Special to THE FINANCIAL CHRONICLE)

George A. Young, former partner in R. L. Day & Co., New York City and Boston, died Sept. 25, at the age of 70 after an illness of two months.

Securities Now in Registration

● INDICATES ADDITIONS SINCE PREVIOUS ISSUE

● A & G Corp., Denver, Colo.
Sept. 18 (letter of notification) 10,000 shares of series B non-voting common stock. **Price**—$10 per share. **Underwriter**—None. **Proceeds**—For wholesale floor covering business purposes. **Office**—3960 Wynkoop St., Denver, Colo.

● Acme Aluminum Alloys, Inc., Dayton, Ohio
Sept. 19 (letter of notification) 2,000 shares of common stock (par $1). **Price**—At market (estimated at about $5 per share). **Underwriter**—Tucker, Anthony & Co., New York. **Proceeds**—To K. A. Stein, Chairman of the Board, the selling stockholder.

● Alabama Power Co. (10/24)
Sept. 22 filed 100,000 shares of 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. **Bids**—Expected to be opened Oct. 24.

Alabama Power Co., Birmingham, Ala.
July 28 filed 64,000 shares of 4.20% preferred stock (par $100) offered in exchange for a like number of outstanding 4.20% preferred shares of Birmingham Electric Co. No underwriter. Offer expires Oct. 20 (extended from Sept. 22). Statement effective Aug. 29.

American-Canadian Uranium Co., Ltd. (9/29)
Sept. 1 filed 500,000 shares of common stock (par 10c). **Price**—$3.50 per share. **Underwriter**—First International Securities Co., Inc. **Proceeds**—To explore and acquire claims and concessions for uranium ore bodies.

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 Mercantile Co., Chicago, Ill.
Sept. 18 (letter of notification) 2,970 shares of preferred stock (par $100) and 2,970 shares of common stock (par $1). **Price**—At par. **Underwriter**—None. **Proceeds**—To establish wholesale mercantile business. **Address**—c/o Louis E. Cohen, 120 West 29th St., Chicago, Ill.

Associated Telephone Co., Ltd. (10/17)
Sept. 14 filed $6,000,000 of 2⅞% 1st mtge. bonds, series F, due Nov. 1, 1979. **Underwriter**—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., Kidder, Peabody & Co. and Shuman-Agnew & Co. (jointly); Equitable Securities Corp. and Harris, Hall & Co. (Inc.) (jointly). **Proceeds**—To repay bank loans and for new construction. **Bids**—Expected to be opened on Oct. 17.

● Bank Building & Equipment Corp. of America
Aug. 28 (letter of notification) 1,000 shares of common stock (par $3). **Price**—At the market price. **Underwriter**—Scherck, Richter Co., St. Louis, Mo. **Proceeds**—To selling stockholder. **Office**—9th and Sidney Streets, St. Louis 4, Mo. This corrects item published in the "Chronicle" of Sept. 7, page 926.

● Beam (James B.) Distilling Co., Chicago, Ill.
Sept. 18 (letter of notification) 1,000 shares of common stock (par $2). **Price**—At market (estimtaed at $5 per share). **Underwriter**—None. **Proceeds**—To Jack Koeski, Vice-President, the selling stockholder.

● Beneficial Finance & Thrift Co.
Sept. 18 (letter of notification) not in excess of $300,000 class A and class B investment certificates. **Underwriter**—None. **Office**—121 E. Travis St., San Antonio, Tex.

Big West Oil & Gas Co., Dallas, Tex.
Sept 5 filed $1,760,000 of 5% sinking fund debentures due 1965 (convertible into common stock on basis of 200 shares for each $1,000 of debentures). **Price**—To be filed by amendment. **Underwriter**—H. M. Byllesby & Co., Inc., Chicago, Ill. **Proceeds** — For drilling and development expenses and for working capital.

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.

● Buensod-Stacey, Inc. (Del.), N. Y. City
Sept. 22 (letter of notification) not exceeding 1,500 shares of class B common stock to officers and employees. **Price**—At par ($20 per share). **Underwriter**—None. **Proceeds**—For general corporate purposes, including liquidation of certain indebtedness. **Office**—60 East 42nd Street, New York 17, N. Y.

● California Electric Power Co., Riverside, Calif.
Sept. 25 filed $4,000,000 of 2⅞% first mortgage bonds due 1980. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Kidder, Peabody & Co. **Proceeds**—For construction program.

California Water Service Co.
Sept. 7 filed 80,000 shares of cumulative convertible preferred stock, series F, (par $25). **Underwriters**—To be supplied by amendment—probably Dean Witter & Co. **Proceeds**—To restore treasury funds used to finance construction and purchase of capital assets and to repay short term bank loans.

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** — $2.50 per share. **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 stockholders. Expected this week.

● Chemical Fund, Inc., New York
Sept. 21 filed 220,917 shares of capital stock (par $1). **Underwriter**—F. Eberstadt & Co., Inc., New York. **Proceeds**—For investment. **Business**—An investment company.

● Chicago Pneumatic Tool Co.
Sept. 19 (letter of notification) 56 shares of common stock (no par) and 75 shares of $3 convertible preference stock (no par). **Price**—At market on the New York Stock Exchange. **Underwriter**—Lee Higginson Corp., New York. **Proceeds**—For general corporate purposes.

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 Oct. 16. **Dealer-Manager**—W. E. Hutton & Co., New York. Statement effective Aug. 16.

● Consumers Power Co. (10/3)
Sept. 22 filed (by amendment) 510,470 shares of common stock (no par) to be offered common stockholders of record Oct. 3, 1950 at rate of one share for each 10 shares held, with an oversubscription privilege; rights to expire Oct. 19, 1950. **Price**—To be supplied by amendment. **Dealer-Manager**—Morgan Stanley & Co. **Proceeds**—For construction program.

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.

Dayton Power & Light Co.
Sept. 13 filed 50,000 shares of common stock (par $7) to be sold to employees. **Price**—To be set each six-month period by subtracting 15% from the average price for the preceding 12 months. **Underwriter**—None. **Proceeds**—For general funds and used, in part, for construction program.

● Delaware Fund, Inc., Philadelphia, Pa.
Sept. 26 filed 500,000 shares of common stock (par $1). **Underwriter** — Delaware Fund Distributors, Inc., New York. **Proceeds**—For investment. **Business**—An investment company.

Delaware Gazette Co., Delaware, O.
Sept. 8 (letter of notification) $140,000 of 5% first mortgage bonds due 1962. **Price**—At 101½. **Underwriter**—The Ohio Company, Columbus, Ohio. **Proceeds**—For construction of newspaper building.

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.

Doman Helicopters, Inc. (10/2)
Sept. 18 (letter of notification) 11,320 shares of capital stock to be issued upon exercise of warrants, series A to F, inclusive. **Price**—$1.50 to $2.25 per share. **Underwriter**—None. **Proceeds**—For general corporate purposes. **Office**—545 Fifth Avenue, New York 17, N. Y.

● East Eagle Mining Co., Seattle, Wash.
Sept. 20 (letter of notification) 50,000 shares of common stock. **Price**—33⅓ cents per share. **Underwriter**—None. **Proceeds**—To construct mill. **Address**—c/o G. R. Holderman, 5515 15th Street, N. E., Seattle, Wash.

El Paso Natural Gas Co.
Aug. 31 filed 230,000 shares of common stock (par $3) offered for subscription by common stockholders of record Sept. 19 at the rate of one share for each 10 shares held with an oversubscription privilege; rights will expire on Oct. 4. **Price**—$21.37½ per share. **Underwriter**—White, Weld & Co. **Proceeds**—To retire either a part of the outstanding 2½% bank notes maturing in 1951 and 1952 or a portion of the 2¼% notes due 1952. Statement effective Sept. 20.

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. Statement effective Sept. 13.

Family Finance Corp. (10/9)
Sept. 19 filed 200,000 shares of common stock (par $1). **Price**—To be filed by amendment. **Underwriters**—Merrill Lynch, Pierce, Fenner & Beane and G. H. Walker & Co., of New York. **Proceeds** — To reduce outstanding bank loans and commercial paper.

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.

Florida Power Corp. (10/2)
Sept. 1 filed 40,000 shares of cumulative 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; Union Securities Corp. **Proceeds**—To repay bank loans and for construction program. **Bids**—Will be received at the office of Messrs. Shearman & Sterling & Wright, 20 Exchange Place, New York 5, N. Y., up to 12 o'clock noon (EST) on Oct. 2. Statement effective Sept. 21.

General Radiant Heater Co., Inc.
May 3 filed 170,000 shares of common stock (par 25c). **Price**—$3 per share. **Proceeds**—For plant and warehouse, advertising research, working capital, etc. Temporarily postponed. Amendment may be filed.

General Shoe Corp., Nashville, Tenn.
June 30 filed a maximum of 32,885 shares of common stock (par $1) to be offered on a share-for-share basis in exchange for outstanding preferred stock of W. L. Douglas Shoe Co. No underwriter. Statement effective July 25.

● Government Employees Corp., Washington, D.C.
Sept. 26 filed 30,000 shares of capital stock (par $5), to be offered to present stockholders. **Price**—$60 per share. **Underwriter**—None. **Proceeds**—For additional capital funds. **Business**—Automobile financing.

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. Statement effective Sept. 18.

Greenwich Gas Co., Greenwich, Conn.
Sept. 1 (letter of notification) 8,000 shares of $1.50 preferred stock (no par) and 9,777 shares of common stock (no par), to be offered first to stockholders. **Price**—Of preferred, $25 per share, and common $10 per share. **Underwriter**—F. L. Putnam & Co., Boston, Mass. **Proceeds**—To retire bank loan and for working capital.

● Haile Mines, Inc. (10/3)
Sept. 19 (letter of notification) 100,000 shares of common capital stock (par 25 cents) to be offered to stockholders of record Sept. 22 on basis of one share for each 14 shares held; rights to expire Oct. 20. **Price**—$1.50 per share. **Underwriter**—None. **Proceeds**—For exploration, development and mining of various properties located principally in Arizona and New Mexico, at present under lease to the company, or to be acquired. **Office**—55 Liberty Street, New York 5, N. Y.

● Hallicrafters Co., Chicago, Ill.
Sept. 22 filed 300,000 shares of common stock (par $1), of which 150,000 shares are to be offered for the account of seven stockholders and the balance for the company's account. **Price**—To be supplied by amendment. **Underwriter**—Kebbon, McCormick & Co., Chicago, Ill. **Proceeds**—To company will be used to pay an $800,000 bank debt, to retire the $78,000 outstanding second mortgage 4% notes and for working capital.

● Hathaway (C. F.) Co., Waterville, Me.
Sept. 21 (letter of notification) 12,000 shares of 5.8% cumulative preferred stock (par $25) and 12,000 common stock purchase warrants for the purchase of 1½ shares of common stock each (purchasers of each share of preferred to receive one warrant exercisable at the rate of $7.50 per common share between Jan. 1, 1953 and Dec. 31, 1955; thereafter and on or before Dec. 31, 1958, at $11 per share; and thereafter and on or before Dec.

31, 1961, at $16 per share). **Price**—Of preferred, $25 per share. **Underwriter**—H. M. Payson & Co., 93 Exchange Place, Portland, Me. **Proceeds**—For working capital.

Home Telephone & Telegraph Co. of Virginia
Sept. 14 (letter of notification) 57,600 shares of capital stock. **Price**—At par ($5 per share). **Underwriter**—None. **Proceeds**—To pay bank loans and for new construction. **Office**—Emporia, Va.

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.

Hub Loan Co., Jersey City, N. J.
Sept. 18 (letter of notification) 100,000 shares of 18 cents cumulative convertible preferred stock (par $2). **Price**—$3 per share. **Underwriter**—Dansker Brothers & Co., Inc., New York City. **Proceeds**—For working capital.

● **Huyck (F. C.) & Sons, Rensselaer, N. Y.**
Sept. 25 (letter of notification) 500 shares of common stock (par $5) to be offered to employees. Of the total, 185 shares are for account of company and 315 shares for account of a selling stockholder. **Price**—$36 per share. **Proceeds**—To reimburse company for the $7,104 cash paid by it on July 23, 1948 to purchase the 185 shares to be offered by company.

● **International Uranium Corp., New York**
Sept. 18 (letter of notification) $250,000 of convertible ore warrants and 500,000 shares of common stock (par one cent), the latter to be reserved for conversion of warrants at rate of two shares for each $1 of warrants. **Price**—Of warrants, $1 per unit. **Underwriter**—Lawrence Frederick Gardner, Merrick, L. I., N. Y. **Proceeds**—To buy mining properties and develop mines. **Office**—11 West 42nd St., New York, N. Y.

James Manufacturing Co. (10/2-7)
Sept. 6 (letter of notification) 15,973 shares of common stock (par $5) to be offered first to common stockholders on the basis of one share for each 10 shares held. **Price**—$18.75 per share. **Underwriters**—Loewi & Co., Shearson, Hammill & Co. and Bell & Farrell, Inc. **Proceeds**—For working capital.

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.

Key West Propane Gas Corp.
Sept. 1 (letter of notification) $125,000 of series A bonds. **Price**—At par ($1,000 each). **Underwriter**—Bioren & Co., Philadelphia, Pa. **Proceeds**—To purchase outstanding bonds and notes of Key West Gas Co. and stock of Island City Gas Co. **Offering**—Expected this week.

Lancaster Processes, Inc., N. Y. City
Sept. 7 (letter of notification) 100,000 shares of 6% cumulative (if earned) and convertible preferred stock (par $2.50) to be offered to common stockholders of record Sept. 6, with rights expiring Oct. 15. **Price**—$2.50 per share (payable as to 64,321 shares at rate of one common share [par $2] and 50 cents in cash for each preferred share. **Underwriter**—None. **Proceeds**—For working capital. **Office**—620 Fifth Avenue, New York 20, N. Y.

Lees (James) & Sons Co.
Sept. 11 (letter of notification) 4,100 shares of common stock. **Price**—At market (estimated at $24 per share). **Underwriter**—To be sold through Wood, Struthers & Co., New York. **Proceeds**—To selling stockholder. No public offering is planned.

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.

● **Lennox Hotel Co., St. Louis, Mo.**
Sept. 23 (letter of notification) 31,805 shares of common stock (par $1). **Price**—$6.09 per share. **Underwriter**—Mayfair Hotel, Inc., St. Louis, Mo. **Proceeds**—To pay off first and second mortgage bonds. **Office**—825 Washington Ave., St. Louis 1, Mo.

Louisiana Power & Light Co.
May 23 filed 90,000 shares of preferred stock (par $100). **Proceeds**—To be used to redeem, at $110 per share 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.

● **Lyon-Raymond Corp., Greene, N. Y.**
Sept. 19 (letter of notification) not to exceed $250,000 of 10-year 5% debenture bonds. **Price**—In units of $50, $100, $500 and $1,000. **Underwriter**—None. **Proceeds**—For working capital and plant expansion.

● **McDonnell Aircraft Corp., St. Louis, Mo.**
Sept. 27 filed 40,000 shares of common stock (par $1).

NEW ISSUE CALENDAR

September 28, 1950

Republic Natural Gas Co. 11 a.m. (EST)....Common

September 29, 1950

American-Canadian Uranium Co., Ltd.....Common

October 2, 1950

Doman Helicopters, Inc....Common
Florida Power Co. noon (EST)....Preferred
James Manufacturing Co....Common
Pacific Power & Light Co....Common

October 3, 1950

Consumers Power Co....Common
Haile Mines, Inc....Common
Sierra Pacific Power Co. 11 a.m. (EST)....Debs.
Sierra Pacific Power Co....Common
Tele-Trip Policy Co., Inc....Common
Southern Co. 11:30 a.m. (EST)....Common

October 4, 1950

Vanadium Corp. of America....Debentures
Western Maryland Ry....Equip. Trust Ctfs.

October 9, 1950

Family Finance Corp....Common
Utah Power & Light Co. noon (EST)....Bonds

October 11, 1950

Ohio Edison Co. 11 a.m. (EST)....Common

October 17, 1950

Associated Telephone Co., Ltd....Bonds
New Bedford Gas & Edison Light Co. 11:30 a.m. (EST)....Notes

October 18, 1950

Chesapeake & Ohio Ry....Equip. Trust Ctfs.

October 24, 1950

Alabama Power Co....Preferred

October 30, 1950

Montana Power Co....Debentures

November 13, 1950

Kansas Gas & Electric Co....Common

November 20, 1950

Kansas Gas & Electric Co....Preferred

November 27, 1950

Kansas Gas & Electric Co....Bonds

Price—At market (estimated at $35.50 per share). **Underwriter**—None. **Proceeds**—To five selling stockholders.

Metropolitan Brick, Inc., Canton, Ohio
Aug. 29 (letter of notification) 50,820 shares of common stock to be offered to common stockholders of record Sept. 25 at rate of one share for each five shares held; rights to expire Oct. 21. **Price**—At par ($4 per share). **Underwriter**—None. **Proceeds**—To pay promissory notes and for plant improvement. **Office**—Renkert Bldg., Canton, O.

Middle South Utilities, Inc.
June 1 filed 400,000 shares of common stock (no par) to be offered to preferred stockholders of three subsidiaries—Arkansas Power & Light Co., Louisiana Power & Light Co. and Mississippi Power & Light Co. **Underwriter**—Equitable Securities Corp will serve as "dealer-manager." (See also listings of Arkansas, Louisiana and Mississippi companies elsewhere in these columns.)

Middlesex Water Co., Newark, N. J.
Feb. 9 (letter of notification) 5,200 shares of common stock offered to common stockholders at $50 per share on a one-for-five basis. **Underwriter**—Clark, Dodge & Co. **Proceeds**—To pay notes and for additional working capital. Indefinitely postponed.

Miller (Walter R.) Co., Inc.
March 6 (letter of notification) 1,000 shares of 6% cumulative preferred stock at par ($100 per share). **Underwriter**—George D. B. Bonbright & Co., Binghamton, N. Y. **Proceeds**—To assist in acquisition of 1216 shares of company's common stock.

Mission Appliance Corp., Hawthorne, Calif.
July 24 filed 50,000 shares of 6% cumulative convertible preferred stock. **Price**—At par ($20 per share). **Underwriter**—Lester & Co., Los Angeles, Calif. **Proceeds**—To retire bank loans and install machinery and equipment in a proposed new plant to be located east of the Rocky Mountains. **Business**—Manufacturer of gas and electric water and space heaters.

Mississippi Power & Light Co.
May 23 filed 85,000 shares of cumulative preferred stock (par 100). **Proceeds**—To be used to redeem at $110 per share plus dividends, the outstanding 44,476 shares of $6 preferred stock and for construction and other corporate purposes. **Bids**—Received by company up to noon (EDT) on June 19 but rejected. Four bids were made as follows: Union Securities Corp., $100.10 per share with a $4.80 dividend; Lehman Brothers, $100.551 with a $4.85 div.; W. C. Langley & Co. and First Boston Corp. (jointly), $100.30 with a $4.90 dividend; and Blyth & Co., Inc., Equitable Securities Corp., Shields & Co., White, Weld & Co. and Kidder, Peabody & Co. (jointly), $100.19 with a $4.90 dividend. Statement effective June 12. No further decision reached.

● **Modern Gold Dredging Co., Spokane, Wash.**
Sept. 15 (letter of notification) 1,000 shares of common stock. **Price**—At par (10 cents per share). **Underwriter**—None. **Proceeds**—For placer operation. **Office**—922 W. Riverside Ave., Spokane, Wash.

Monarch Radio & Television Corp.
Sept. 8 (letter of notification) 600,000 shares of common stock (par 5 cents). **Price**—50 cents per share. **Underwriter**—George J. Martin Co., New York. **Purpose**—For expansion and working capital. **Office**—2430 Atlantic Avenue, Brooklyn 7, N. Y. Expected in about a week.

● **Montana Power Co. (10/30)**
Sept. 25 filed $10,000,000 of 25-year sinking fund debentures due Oct. 1, 1975. **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.; Lehman Brothers. **Proceeds** — To repay bank loans and expansion and extension of gas and electric properties. **Bids** — To be invited Oct. 20 and opened Oct. 30.

● **Morris Plan of America, New York**
Sept. 21 filed 389,449 shares of common stock (par $5), to be offered to common stockholders at rate of one share for each four shares held, with an oversubscription privilege. **Price**—At par. **Underwriter**—None. **Proceeds**—To invest proceeds in its wholly-owned subsidiary, National Industrial Credit Corp., which will use the funds to discharge an indebtedness to American General Corp.

Multnomah Plywood Corp., Portland, Ore.
Sept. 18 filed 160 shares of common stock. **Price**—At par ($2,500 per share). **Underwriter**—None. **Proceeds**—For costs involved in completion and expansion of plant and for working capital.

New Bedford Gas & Edison Light Co. (10/17)
Sept. 14 filed $3,750,000 of 25-year notes, series B, due Oct. 1, 1975. **Underwriter**—To be determined by competitive bidding. Probable bidders: 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. **Proceeds**—To repay bank loans. **Bids**—Expected to be received up to 11:30 a.m. (EST) on Oct. 17.

New Bedford Gas & Edison Light Co.
Sept. 14 filed 10,631 shares of common stock (par $25) to be offered to common stockholders of record June 14, 1950 on basis of one share for each 25 shares then held. New England Gas & Electric Association (owner of 97.37% of the outstanding stock) proposes to purchase any shares not subscribed for by others. **Price**—$67.50 per share. **Proceeds**—To finance property additions.

New Orleans Public Service Inc.
Aug. 24 (letter of notification) 7,754 shares of common stock (no par) offered to stockholders (other than Middle South Utilities, Inc., parent) of record Sept. 1, 1950, at rate of 0.168 share for each share held; rights expire Sept. 25. **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.

North American Acceptance Corp.
Sept. 15 (letter of notification) 16,000 shares of 60-cent cumul. conv. preferred stock (par $5). **Price**—$10 per share. **Underwriter**—Tyson & Co., Philadelphia, Pa. **Proceeds**—To increase notes receivable and for working capital.

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.

● **Northern States Power Co., Minneapolis, Minn.**
Sept. 27 filed 175,000 shares of cumulative preferred stock (no par). **Underwriters**—To be determined by competitive bidding. Probable bidders—Lehman Brothers and Riter & Co. (jointly); Smith, Barney & Co. **Proceeds**—For new construction.

Ohio Edison Co., Akron, Ohio (10/11)
Sept. 15 filed 396,571 additional shares of common stock (par $8) to be offered to common stockholders of record Oct. 11, 1950 at rate of one share for each 10 shares held, with an oversubscription privilege; rights to expire on

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Oct. 30, 1950. **Underwriters**—To be determined by competitive bidding for purchase of unsubscribed shares, plus such number—not in excess of 38,657—of additional shares, if any, to stabilize market. Probable bidders: Morgan Stanley & Co. and White, Weld & Co. (jointly); First Boston Corp.; Lehman Brothers and Bear, Stearns & Co. (jointly); Merrill Lynch, Pierce, Fenner & Beane and Kidder, Peabody & Co. (jointly); Glore, Forgan & Co. **Proceeds**—For construction program and to increase investment in common stock of Pennsylvania Power Co., a subsidiary. **Bids**—To be received up to 11 a.m. (EST) on Oct. 11.

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. (10/2)
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. **Underwriters**—Lehman Brothers, Union Securities Corp., handling books and Dean Witter & Co. **Price** — To be filed by amendment, probably around $14.87½ per share.

● **Packard-Bell Co., Los Angeles, Calif.**
Sept. 20 filed 135,666 shares of capital stock (par 50 cents). **Price**—To be filed by amendment. **Underwriters**—Hill, Richards & Co., Los Angeles, Calif. **Proceeds**—To two selling stockholders. **Business** — Manufacturing and sale of television, radio and phonograph combinations.

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.

● **Philadelphia Dressed Beef Co.**
Sept. 18 (letter of notification) $100,000 of 10-year 6% debentures, series W, and 20,000 shares of 7% cumulative preferred stock (par $10). **Price**—At par. **Underwriter**—None. **Proceeds**—For working capital, plant expansion and equipment. **Office**—114 Moore Street, Philadelphia 48, Pa.

Prudential Fire Insurance Co.
Aug. 30 (letter of notification) 50,000 shares of common stock (par $4) offered first to present stockholders on a two-for-one basis, with an oversubscription privilege; rights expiring Oct. 13. **Price**—$6 per share. **Underwriter**—None. **Proceeds**—To increase capital to become multiple line company. **Office**—Braniff Bldg., Oklahoma City, Okla.

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.

● **Ramie Products Corp.**
Sept. 21 (letter of notification) 25,000 shares of common stock (par $1). **Price**—$3 per share. **Underwriter**—Smith, Talbott & Sharpe, Pittsburgh, Pa. **Proceeds**—For purchase of additional machinery and equipment and working capital. **Office**—507 Liberty Avenue, Pittsburgh 22, Pa.

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.

Royal Television & Electronics, Inc., Washington, D. C.
June 22 (letter of notification) 600,000 shares of common stock (par 10 cents). **Price**—50 cents per share. **Underwriter**—None. **Proceeds**—To buy television set components. **Office**—714 Fifth St., N. W., Washington, D. C.

Safeway Stores, Inc.
Sept. 12 (by amendment) filed 110,000 shares of 4% preferred stock (par $100) and 257,064 shares of common stock (par $5), the latter issue to be offered for subscription by common stockholders of record Sept. 21 at the rate of one share for each 10 shares held; rights to expire Oct. 5. **Price**—For preferred, $100 per share and accrued dividends and for common, $28 per share. **Underwriter**—Merrill Lynch, Pierce, Fenner & Beane. **Proceeds**—Together with other funds, will be used to repay $20,000,000 term bank loans. Statement effective Sept. 21.

● **Scudder, Stevens & Clark Fund, Inc., Boston**
Sept. 26 filed 80,000 shares of common stock (no par). **Price**—At net asset value of shares. **Underwriter**—Scudder Fund Distributors, Inc., Boston, Mass. **Proceeds**—For purchase of securities. **Business**—An investment trust.

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.

Sierra Pacific Power Co. (10/3)
Sept. 1 filed $2,500,000 of debentures due Oct. 1, 1975 and 24,716 shares of common stock (par $15), the latter issue to be offered pro rata to preferred and common stockholders of record Oct. 3 on basis of one share for each six preferred shares and one share for each 12 common shares held rights to expire on Oct. 19. **Underwriters**—For debentures to be determined by competitive bidding, with the following probable bidders: Halsey, Stuart & Co. Inc.; Stone & Webster Securities Corp.; Kidder Peabody & Co. Underwriter for stock; Stone & Webster Securities Corp. and Dean Witter & Co. and others to be named by amendment. **Proceeds**—To pay bank loans and to finance new construction. **Bids**—For debentures to be received by the company at 49 Federal St., Boston, Mass., up to 11 a.m. (EST) on Oct. 3.

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.

Smith-Dieterich Corp., New York City
Aug. 31 (letter of notification) 75,292 shares of common stock (par $2.50) to be offered to common stockholders of record Sept. 8 on a share-for-share basis; rights expire on Sept. 28. **Price**—At par. **Underwriter**—None. **Proceeds**—For purpose of producing motion picture films for television, and for purchase of new equipment. **Office**—50 Church Street, New York 7, N. Y.

Southern Co.
July 28 filed 818,415 shares of common stock (par $5) offered in exchange for 545,610 shares of common stock of Birmingham Electric Co. on a 1½-for-1 basis. No underwriter. Offer to expire on Oct. 20 (extended from Sept. 22). Statement effective Aug. 29.

Southern Co., Atlanta, Ga. (10/3)
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. **Bids**—Will be received at office of company, Room 2000, 20 Pine St., New York 5, N. Y., up to 11.30 a.m. (EST) on Oct. 3. **Proceeds**—To acquire additional common stock of Alabama Power Co. and Georgia Power Co. Statement effective Sept. 22.

● **Southern Discount Co., Atlanta, Ga.**
Sept. 18 (letter of notification) $191,000 of 5% subordinated debentures, series E. **Price**—At par. **Underwriter**—For $100,000 of debentures, Allen & Co., Lakeland, Fla. **Proceeds**—To reduce bank loans and for working capital. **Office**—220 Healey Bldg., Atlanta, Ga.

● **Spreckels-Russell Dairy Co., Ltd.**
Sept. 18 (letter of notification) 18,300 shares of class A preferred stock to present stockholders as part of reorganization plan. **Price**—$15 per share. **Undrewriter**—None.

● **Standard Railway Equipment Mfg. Co., Chicago**
Sept. 27 filed 160,000 shares of common stock (par $1). **Price**—To be filed by amendment. **Underwriters**—Smith, Barney & Co., New York, and The Illinois Co., Chicago. **Proceeds**—To six selling stockholders.

● **Sudanental Corp., Washington, D. C.**
Sept. 19 (letter of notification) 20,000 shares of common stock. **Price**—$10 per share. **Underwriter**—None. **Proceeds**—To acquire concrete products plant. **Office**—222 Bond Bldg., Washington, D. C.

● **Swanson Tool Co., Seattle, Wash.**
Sept. 19 (letter of notification) $100,000 in production promissory notes with participating agreement, to be sold at face value with one share of common stock (par $1) also being issued for every $10 of notes purchased. **Underwriter**—None. **Proceeds**—To manufacture pneumatic hand tools. **Office**—616 Jones Bldg., Seattle, Wash.

● **Tele-Trip Policy Co., Inc., N. Y. City (10/3)**
Sept. 26 (letter of notification) 106,700 shares of capital stock (par 10 cents). **Price**—$2.75 per share. **Underwriter**—Company will sell stock through a group of NASD members. **Proceeds**—To purchase vending machines and for working capital. **Office**—420 Lexington Avenue, New York 17, N. Y.

Tennessee Gas Transmission Co., Houston, Tex.
Aug. 28 filed 133,334 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 as follows: 1⅓ shares of Tennessee stock for each Sterling share; and one-fifth Tennessee share for each warrant. Offer to expire Oct. 6, unless extended. **Exchange Agent**—The National Bank of Commerce of Houston, Tex. Statement effective Sept. 22.

● **Tide Water Power Co.**
Sept. 27 filed 150,000 shares of common stock (no par). **Price**—To be filed by amendment. **Underwriters**—Union Securities Corp. and W. C. Langley & Co. **Proceeds**—For construction program.

Union Investment Co. of Detroit (Mich.)
Sept. 11 filed 55,865 shares of common stock (par $4), to be offered to common stockholders of record Sept. 29 at the rate of one share for each three shares held, with oversubscription privilege. **Price**—To be filed by amendment. **Underwriter**—McDonald-Moore Co., Detroit. **Proceeds**—For general corporate purposes. Expected early next month.

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. May be withdrawn. Company is presently planning to place privately $3,000,000 of 3% debentures with insurance firms.

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. Statement effective Aug. 30.

Utah Power & Light Co.
Aug. 2 filed 166,604 shares of common stock (no par) 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**—Union Securities Corp. and Smith, Barney & Co. (jointly). **Price**—$24.25 per share. **Proceeds**—For construction program. Statement effective Aug. 30.

Vanadium Corp. of America (10/4)
Sept. 14 filed $5,000,000 of convertible debentures, dated Oct. 1, 1950. **Price**—To be supplied by amendment. **Underwriter**—Kidder, Peabody & Co., New York. **Proceeds**—For plant modernization.

Vulcan Silver-Lead Corp., Wallace, Idaho
Sept. 8 (letter of notification) an estimated 90,000 shares of common stock (par $1). **Price**—For the first 50,000 shares, 90 cents each; thereafter price will be determined by market. **Underwriter**—J. A. Hogle & Co., Spokane, Wash. **Proceeds**—To Callahan Zinc-Lead Co.

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.

● **Western Natural Gas Co., Houston, Tex.**
Sept. 22 filed 100,000 shares of common stock (par $1) to be offered to holders of present outstanding common stock. **Price**—To be filed by amendment. **Underwriter**—None. **Proceeds**—To retire bank loans and for general corporate purposes.

● **Western Ventures, Inc., Spokane, Wash.**
Sept. 14 (letter of notification) 9,300,000 shares of common stock. **Price**—At par (one cent per share). **Underwriter**—None. **Proceeds**—To explore lead and silver veins. **Address**—c/o W. L. Henderson, 711 Hutton Bldg., Spokane, Wash.

Prospective Offerings

● **American Telephone & Telegraph Co.**
Sept. 20 it was announced stockholders will vote Nov. 15 on approving a new issue of not to exceed $435,000,000 of convertible debentures (to be offered to stockholders) and an increase in authorized capital stock from 35,000,000 to 45,000,000 shares, 3,000,000 shares of the additional stock to be offered to employees of the company and its subsidiaries. Financing expected some time during the first six months of 1951. **Proceeds**—For expansion program.

● **California Electric Power Co.**
Sept. 25 it was announced company plans to issue, in addition to $4,000,000 of first mortgage 2⅞% bonds due 1980 (registered with SEC), $2,000,000 of debentures due 1960 to be offered contemporaneously and 40,000 shares of $2.50 sinking fund cumulative preferred stock, par $50 (the latter to be placed privately with a group of insurance companies through Merrill Lynch, Pierce, Fenner & Beane). The proceeds from the sale of these securities, together with bank loans and other funds, will be used to finance the estimated 1951 and 1952 construction program of the company and its subsidiary, Interstate Telegraph Co.

● **Chesapeake & Ohio Ry. (10/18)**
Sept. 25 it was reported company is expected to sell about Oct. 18 an issue of $7,950,000 equipment trust certificates. Probable bidders: Halsey, Stuart & Co. Inc.; Harris, Hall & Co. (Inc.); Salomon Bros. & Hutzler.

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.

● **Connecticut Power Co.**
Sept. 18 stockholders approved proposal to issue $10,000,000 of new mortgage bonds. May be placed privately. **Proceeds**—To redeem $7,030,000 of 3¼% and 3¾% bonds, series A, B and C, and for new construction.

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.

Dostal Foundry & Machine Co.
Sept. 12 it was reported company plans to sell in mid-October 84,000 shares of common stock. **Underwriters**—Smith, Hague & Co.; George McDowell & Co.; and R. H. Johnson & Co.

● **El Paso Electric Co.**
Sept. 19, F. C. Womack, President, announced company plans to sell $4,500,000 of first mortgage bonds. **Underwriters** — To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Stone & Webster Securities Corp.; Merrill Lynch, Pierce, Fenner and Beane; Salomon Bros. & Hutzler. **Proceeds** — To redeem $1,000,000 of 3½% bonds due 1978 and for construction program. **Offering**—Expected in November.

Equitable Gas Co.
April 8 company said to be planning the sale this year of $2,000,000 of bonds, with another $2,000,000 in 1951 or 1952. The proceeds are to be used for its construction program.

● **Georgia Power Co.**
Sept. 14 it was learned that company has discussed with the SEC the possibility of refunding its 433,869 shares of $6 cumulative preferred stock and 14,570 shares of $5 cumulative preferred stock with a new lower cost issue. Probable bidders: Blyth & Co., Inc.; First Boston Corp.; Harriman Ripley & Co., Inc.

● **Gulf States Utilities Co.**
Sept. 26, Roy S. Nelson, President, said company plans to issue and sell 70,000 shares of a new series of preferred stock (par $100) at competitive bidding in November, subject to approval of stockholders and FPC. Probable bidders: Stone & Webster Securities Corp.; Lehman Brothers; Union Securities Corp.; First Boston Corp.; Blyth & Co., Inc.

● **Hussman Refrigerator Co.**
Oct. 6 stockholders will vote on creating $1,600,000 of prefererd stock. Proceeds will be used to redeem 14,840 outstanding shares of $2.25 cumulative preferred stock, no par value, and for general corporate purposes. To be placed privately at par with Penn Mutual Life Insurance Co.

● **Interstate Motor Freight System**
Sept. 25 it was reported an offering to the public of 250,000 shares of common stock is being discussed. **Underwriter** — Shields & Co., New York. **Proceeds** — To selling stockholders. **Business**—Operates motor freight system between the Twin Cities, New York and New England.

Johansen Brothers Shoe Co.
Oct. 25 stockholders will vote on proposal to issue and sell $350,000 of 4% sinking fund debentures due 1960. Proceeds to retire outstanding 3½% debentures and for other corporate purposes. Traditional underwriter: Stifel, Nicolaus & Co.

Kaiser Steel Corp., Fontana, Calif.
Sept. 6 it was reported that company was planning a $100,000,000 financing program, which may include $60,000,000 of bonds (which probably will be placed privately with an insurance company) and $40,000,000 of equity financing which is expected to be in units of preferred and common stock, a registration statement for which is expected to be filed with the SEC before Oct. 6. **Proceeds**—$92,000,000 will be used to pay off an RFC loan, and the remaining $8,000,000 added to working capital. **Underwriter**—The First Boston Corp. **Offering**—Expected this Fall.

● **Kansas Gas & Electric Co. (11/13-20-27)**
Sept. 21 the directors tentatively approved the sale to the public of 75,000 shares of new preferred stock (par $100), of 45,000 additional shares of common stock (no par) and $5,000,000 of first mortgage bonds. The dividend rate on the preferred stock has not yet been determined. **Underwriters**—To be determined by competitive bidding. Probable bidders: (1) For all three issues: Blyth & Co., Inc. and First Boston Corp. (jointly); Union Securities Corp.; Merrill Lynch, Pierce, Fenner and Beane and Kidder, Peabody & Co. (jointly); (2) On preferred and common: Lehman Brothers; (3) on common stock only: Glore, Forgan & Co.; (4) on preferred stock only: White, Weld & Co. and Shields & Co. (jointly); (5) On bonds only: Halsey, Stuart & Co. Inc. **Proceeds**—To pay construction costs, amounting to about $19,500,000 through 1952. **Offering**—Expected in November, the common on the 13th; preferred on the 20th and the bonds on the 27th.

Louisiana Power & Light Co.
Sept. 12 it was reported the company is expected to be in the market for about $10,000,000 of bonds around mid-November. **Underwriters** — To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Merrill Lynch, Pierce, Fenner & Beane and Kidder, Peabody & Co. (jointly); Kuhn, Loeb & Co. and Lehman Brothers (jointly); Blyth & Co., Inc.; Harriman, Ripley & Co., Inc.; Shields & Co. and White, Weld & Co. (jointly); Salomon Bros. & Hutzler; W. C. Langley & Co., The First Boston Corp. and Glore, Forgan & Co. (jointly). **Proceeds**—For construction program.

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 Probable bidders: Lehman Brothers and Blyth & Co., Inc. (jointly); First Boston Corp.; Glore, Forgan & Co. and W. C. Langley & Co. (jointly); Merrill Lynch, Pearse, Fenner & Beane, White, Weld & Co. and Union Securities Corp. (jointly). Expected before end of 1950.

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.

● **Milwaukee Gas Light Co.**
Sept. 22 company filed financing proposal with SEC which calls for issuance and sale, at competitive bidding, of $27,000,000 of first mortgage bonds, series due 1975, and $6,000,000 of sinking fund debentures due Nov. 1, 1970; also issuance and sale to parent, American Natural Gas Co., of 250,000 additional shares of common stock at par ($12 per share). Parent now owns 99.84% of Milwaukee outstanding common stock. **Underwriters**—Bonds and debentures to be sold at competitive bidding. Probable bidders for bonds: Halsey, Stuart & Co. Inc.; Glore, Forgan & Co.; and Lehman Brothers (jointly); Kidder, Peabody & Co.; Harriman Ripley & Co.; Otis & Co.; Smith, Barney & Co., Kuhn, Loeb & Co. and Blyth & Co., Inc. (jointly). **Proceeds**—To pay off $13,334,000 outstanding 4½% first mortgage bonds due 1967 and $4,050,000 of 2¾%-3% serial notes and $4,700,000 of 2½% bank loan notes; to retire $2,000,000 of 7% cumulative preferred stock, series A (par $100); and for construction program.

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.
Aug. 23 it was reported that company is considering issuance of additional preferred stock (par $50), of which there are authorized and unissued 77,007 shares. **Underwriter**—May be Merrill Lynch, Pierce, Fenner & Beane. **Proceeds**—To retire $1,250,000 bank loans maturing Oct. 3, 1950, and for expansion program.

Niagara Mohawk Power Co.
Sept. 7 it was reported company plans issuance of $41,000,000 new bonds some time in November. Probable bidders: Halsey Stuart & Co. Inc.; Morgan Stanley & Co.; Kuhn, Loeb & Co.; First Boston Corp. Proceeds would be used as follows: $25,000,000 to pay construction costs and $16,000,000 to refund Niagara Falls Power Co. 3½% bonds (latter amount is dependent upon approval by FPC of merger of Niagara Falls Power Co. with Niagara Mohawk Power 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.

● **North Penn Gas Co.**
Sept. 25 it was announced company plans permanent financing following merger of the Pennsylvania subsidiaries of Pennsylvania Gas & Electric Corp., the parent. **Proceeds**—To retire, in part, proposed bank loans of $3,000,000.

● **Potomac Edison Co.**
Sept. 20 it was announced company has decided to speed up an expansion program, which, it is estimated, will cost $10,000,000.

Republic Natural Gas Co. (9/28)
Sept. 9 it was announced that bids will be received up to 11 a.m. (EDT) on Sept. 28 at the Office of Alien Property, 120 Broadway, N. Y. City, for the purchase from it, as an entirety, of 3,000 shares of common stock. This represents about 2% of the 1,450,693 common shares outstanding. The stock will be sold to American citizens only.

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.

Smith, Kline & French Laboratories.
Sept. 13 stockholders increased authorized common stock from 1,000,000 shares (no par) to 2,000,000 shares (par $1). Following split up of present outstanding 807,295 shares on a two-for-one basis, there will remain unissued 385,410 shares of the new stock. The directors were empowered to issue all or part of the latter shares at any time.

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.

Southern California Petroleum Corp.
Sept. 1, Tyler F. Woodward, President, announced that stockholders should be given the opportunity of subscribing for additional capital stock, the proceeds to be used to develop the company's Cuyama Valley holdings. The offering would be underwritten.

South Georgia Natural Gas Co., Atlanta, Ga.
Aug. 23 company applied with FPC an amended application for authority to build a 526.9 miles pipe line in Georgia and Florida which, it is estimated, will cost between $10,500,000 and $12,080,000 to be financed by sale of first mortgage bonds and the issuance of junior securities. Probable underwriter: Courts & Co.

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.

Texas Illinois Natural Gas Pipeline Co.
Sept. 15 company applied to the FPC for authority to construct approximately 72 miles of new line in Texas at an estimated cost of $11,581,800. It is planned to issue first mortgage bonds for 75% of the required capital and to raise the remaining 25% through the sale of common stock. Probable underwriters—White, Weld & Co. and Glore, Forgan & Co.

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.

● **Washington Water Power Co.**
Sept. 8 it was announced that company plans issuance of a new preferred stock issue and to carry out a construction program involving $11,000,000 of short-term loans. Part of proceeds would be used to redeem outstanding 35,000 shares of $6 preferred stock on a date to be set after the SEC and the Washington State P.S. Commission issue their approval.

● **Western Maryland Ry. (10/4)**
Sept. 19 it was announced that company expects to issue $2,040,000 equipment trust certificates, series O, due annually Oct. 31, 1951 to 1965, inclusive. Probable bidders: Halsey, Stuart & Co. Inc.; Lee Higginson Corp.; Harris, Hall & Co., Inc.; Harriman Ripley & Co., Inc. and Lehman Brothers (jointly); First Boston Corp.; Salomon Bros. & Hutzler. **Bids**—To be received until Oct. 4.

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.

Weymouth Light & Power Co.
Sept. 18 company applied to SEC for authority to issue and sell 16,298 shares of capital stock (par $25) to its stockholders. New England Electric System, the parent, proposes to acquire 16,227⅓ shares and any shares not subscribed for by minority stockholders. **Price**—$35 per share. **Proceeds**—To repay bank loans and advances and for construction.

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 common stock (par $1). **Underwriter**—Gearhart Kinnard & Otis. **Proceeds**—For working capital. Expected in October.

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CED Stresses Reduced Civilian Demand in Combating Inflation

ciple. But it would still be important to come as close to that objective as we possibly can. **The possibility that deficts may become inevitable makes it urgent to balance the budget while that can still be done, so that we do not unnecessarily add to the size of the debt to be managed.**

Last January (1950) the President's Budget estimated that there would be a cash deficit of $2.7 billion in fiscal 1951.[1] The changed economic situation requires revision in almost all the figures underlying that net deficit. As a tentative estimate the situation appears about as follows, before accounting for the new military program: Increased incomes and employment will raise the rate of tax accruals and reduce unemployment benefits enough to balance the budget and possibly yield a surplus of about $1 billion. With high levels of demand for commodities and labor, effective administration should be able to reduce expenditures for farm price support, for mortgage purchases and for veterans' readjustment by about $2 billion. Thus we would get—almost automatically—a cash surplus of about $2 to $3 billion before adding the cost of the additional military program.

In addition we must act positively to reduce non-essential government expenditures. In January the Research and Policy Committee of CED presented a number of suggestions for doing this—by carrying out the recommendations of the Hoover Commission, by postponing immediately non-essential public construction, by reducing the post-office deficit and by deferring many of the new programs contained in the Budget. The opportunity to transfer government employees to the expanding military programs should make curtailment of non-military activities easier. Government economy is even more essential today than appeared to be the case in January. Whatever we do we are going to have to raise taxes—on top of a tax structure that is already very high. Every billion of additional taxes is not only a billion taken from the income of individuals and businesses; it is also something taken from the vitality of the American economy. We believe that $2 to $3 billion could be saved from the costs of running the government, in addition to the nearly automatic savings, such as reduced expenditures for farm price support and mortgage purchases, made possible by the changed economic situation.

In considering future tax increases to finance a rising military program the following points are important:

(a) The three main potential sources of additional tax revenue are the individual income tax, the corporate profits tax and excise taxes. These three taxes are substitutes for each other in raising revenue; they are not substitutes for each other in their economic effects. The individual income tax can restrain consumers' expenditure in general. To do this it must bear not only upon the top brackets but also upon the middle and lower brackets which in the aggregate contain most of the income and most of the expenditures. The corporate profits tax can restrain business investment expenditure. The selective use of excises can focus the restraint of demand on those commodities that compete with the military effort. All three kinds of taxes will be needed. The "first step" tax bill does not include any increase of excises except for television sets and deep freezes. General revision and increase of selective excises should be an important part of the next step.

(b) The increases of excise taxes during the last war were for a mixture of three purposes—to reduce demand for commodities that used resources needed by the war effort, to raise revenues, and to reduce luxury expenditures. The first of these should be our main objective now.

(c) The military effort should not be the occasion for excessive profits. The most effective way to accomplish this is by strict pricing of military procurement, renegotiation of military contracts and an overall stabilization program that will prevent inflation. An excess-profits tax is not an effective way of doing this job because it is impossible to devise a tax that will isolate a particular part of total profits as being due to the military effort rather than to other factors. Considered as a general source of revenue, the essence of the excess-profits tax is that it imposes an extremely high rate of tax on a part of profits rather than collecting the same amount of money through a less extreme rate applied to all profits. The extremely high rates of tax encourage wasteful expenditures by corporations because most of the cost is at the expense of the Treasury. Moreover it is impossible to devise an excess-profits tax that does substantial justice as between new firms and old ones, growing firms and declining ones, firms with large capital and firms with small capital. The defects of the tax would be especially serious if it were used to finance a long-continued program of rearmament such as we must now face. However, we recognize that the excess-profits tax, despite its defects, may be necessary as part of a hold-the-line effort in an extreme emergency. When and if its imposition does become necessary, careful drafting will be required to minimize its inequities and inefficiencies where possible.

(d) The need for increasing tax rates makes it especially important to improve the base of our tax structure. Interest on future issues of state and local bonds should be made taxable. In addition to correcting an inequity this would discourage deficit financing by state and local governments and reduce competition with the sales of saving bonds. The carry-over period for business losses should be lengthened, both backward and forward. More flexible depreciation charges should be allowed for new investment. Higher taxation of corporate incomes increases the need for equitable taxation of all forms of business operated for a profit, in order to reduce discrimination and tax avoidance. Consideration should be given to collecting corporate profits taxes more nearly on a pay-as-you-go basis.

(2) **The Savings Bond Program**—An effective savings bond program is a necessary corollary to the tax program. A major objective of the tax program is to restrain consumers' demand by reducing consumers' income available for expenditure. This effect can be either offset or strengthened by what the American people decide to do about their savings. If they decide to reduce their current rate of saving or spend their accumulated past savings, they can nullify even a very stringent tax program. If they decide to increase their savings, they can help to assure the continuing stability of the economy.

The Savings Bond program is the natural vehicle to promote savings. If the Savings Bond program is to play the role of which it is capable, strong and imaginative leadership must be provided. A great sales effort will have to be initiated, and this must enlist the cooperation of the financial community, business, labor groups, civic organizations and individual volunteers throughout the nation. The sales campaign should bring home to the American people their opportunity to support the national effort for freedom and security. Preparations should be immediately started to launch a major Savings Bond Drive before Thanksgiving.

We shall soon be entering a period of very heavy maturities of outstanding savings bonds as the bonds bought in 1941 and 1942, reach the ten-year age. Maturities will be $1½ billion in 1951, $4 billion in 1952 and almost $7 billion in 1953. Some simple and attractive way must be found to get these maturing bonds exchanged into other bonds on a voluntary basis. A system for handling this exchange should be announced promptly. A new series renewal bond should be offered, in denominations which permit an even exchange with the maturing bonds. The renewal bonds should have redemption privileges like the existing E bonds, and might pay somewhat higher interest than is provided by the E bonds in their early years, as an inducement to hold the E bonds to maturity and to renew them. The income tax liability on the interest on maturing E bonds should be equitably adjusted in a way that will not interfere with renewal, possibly by deferring the tax until the renewal bond is cashed.

(3) **Consumers' Credit and Housing Credit** — The quickest, most powerful and most useful step that could now be taken to restrain non-military demand would be to curtail the extension of credit for the purchase of consumers' durable goods and housing. These two fields are now absorbing vast quantities of materials, manpower and plant capacity, some of which will be needed for the military program. Carrying out the military program will require cut-backs of production in both fields. Tightening credit terms is an effective way to bring about these cut-backs without a scramble for materials or serious administrative difficulties, and at the same time to help to avoid inflation.

Regulation of consumers' credit, by increasing required down payments, and shortening repayment periods can, if sufficiently rigorous, force a release of resources from civilian production at the rate required by the military, and reduce inflationary pressure on the remaining civilian supplies of durables.

(4) **General Credit Control and the Management of the Debt**—The expansion of credit other than installment and housing credit—which means mainly business borrowing for plant, equipment and inventories—must also be controlled as part of a program for curtailing non-military demand. This is a function of the Federal Reserve authorities using their well-established powers over open market operations, rediscount rates and reserves to influence the lending power of the banking system. By reducing its holdings of government securities, and by other supplementary measures, the Federal Reserve can restrict the reserves of the banking system. In this way it can limit the ability of the banking system to make loans and restrict the expansion or force the curtailment of the supply of money. Failure to use this instrument would leave open a means of financing excessive civilian expenditure and speculation and could largely undo the work of other demand-curtailing measures.

To insure an effective instrument of credit control it will be necessary to find ways to increase the part of the Federal debt held outside of the Federal Reserve and outside the commercial banks. The Federal Reserve will then be in a position to take steps to restrict credit without having to nullify its efforts by buying securities in support of the government bond market. The savings bond program can be helpful in this respect. Assuming the cash budget to be in balance, the funds obtained by sale of savings bonds will enable the Treasury to retire some of the debt held by the Federal Reserve and the commercial banks. Also greater flexibility will be required in setting the interest rates on short-term government securities, so that a tendency of banks and others to switch from government to private lending could be checked by an increase in the rates paid on governments. One furtner suggestion which deserves examination is to offer a long-term non-marketable bond, redeemable only at a penalty, to absorb the accumulating funds of savings institutions. Sales of such bonds to any one institution might be limited to its net increase in holdings of governments.

Managing the Federal debt so as to minimize borrowing from banks may involve some increase in the interest burden of the debt. This is, in our opinion, a secondary consideration when compared with the danger of encouraging inflation, especially since a large part of the increased interest would be recovered by the Treasury in higher taxes.

(5) **Coordination of the Program**—Clearly we have a number of instruments of economic policy which must be coordinated with each other and with the military program. What we want is a combination of measures that will have the net effect of releasing resources as the military program requires them. If the several agencies responsible for the separate measures each tries to do the whole job itself, or if in combination they overestimate the acceleration of the military program, we could get a serious deflation. If each waits for the other to do the job, or if they underestimate the size of the job, we shall have inflation.

Coordination of top policy decisions on economic mobilization is the responsibility of the President, and he has the authority to achieve it if he makes coordination a basic principle of his operation.

The Program Committee

The members of the CED Program Committee follows:

Meyer Kestnbaum, Chairman of Research and Policy Committee and Program Committee, President, Hart, Schaffner & Marx, Chicago, Ill.

Marion B. Folsom, Chairman of Board of Trustees, CED, Treasurer, Eastman Kodak Company, Rochester, N. Y.

J. Cameron Thomson, Chairman of Drafting Committee, President, Northwest Bancorporation, Minneapolis, Minn.

John D. Biggers, President, Libbey-Owens-Ford Glass Company, Toledo, Ohio.

Gardner Cowles, President and Publisher, Des Moines "Register and Tribune," Des Moines, Iowa.

Fred Lazarus, Jr., President, Federated Department Stores, Inc., Cincinnati, Ohio.

Philip D. Reed, Chairman of the Board, General Electric Company, New York, N. Y.

Beardsley Ruml, New York, N. Y.

1 This was the estimated deficit in the cash-consolidated budget. The estimated deficit in the administrative control budget was $5.1 billion. As we have explained in earlier statements, it is the cash-consolidated budget that is most relevant for economic policy. See *Tax and Expenditure Policy for 1950*, a statement on National Policy by the Research and Policy Committee, CED, New York, Jan. 1950, pp. 10-11 and Appendix B.

NSTA Notes

NSTA CONVENTION NOW IN SESSION

More than 500 securities traders from all sections of the country are attending the annual convention of the National Security Traders Association, Inc., now in session at the Cavalier Hotel, Varginia Beach, and running through Sept. 30. Principal speakers include Sen. Harry F. Byrd of Virginia, who will address the association's dinner Sept. 30; Philip Barbour, editor of the "Bond Buyer," who speaks at the Municipal Bond forum on Wednesday, and R. A. Graber, Vice-President, Admiral Corp., speaker at the Corporate Bond forum, and Eugene M. Zuckert, Assistant Secretary for Air, who spoke Wednesday evening on "The U. S. Air Force and the World Today."

John F. Egan

The convention is one of the largest yet held by the association with members of all 29 affiliated local security traders and bond clubs over the country represented.

John F. Egan, of the First California Co., San Francisco, is slated to be elected President for the coming year, succeeding H. Frank Burkholder, Equitable Securities Corp., Nashville. Other nominees for election include H. Russell Hastings, Crouse & Co., Detroit, for First Vice-President; Harry L. Arnold, Paine, Webber, Jackson & Curtis, New York, for Second Vice President; Morton A. Cayne, Cayne & Co., Cleveland, for Secretary, and John M. Hudson, Thayer, Baker & Co., Philadelphia, for Treasurer.

Features of the convention include a trip to Williamsburg and golf tournaments.

Joins David Means

(Special to The Financial Chronicle)

BANGOR, Maine — John C. Handy is with David G. Means, 6 State Street.

With Waddell & Reed

(Special to The Financial Chronicle)

GRAND RAPIDS, Mich.—Aaron K. Avenell is with Waddell & Reed, Inc., of Kansas City, Mo.

With Wilson, Johnson

(Special to The Financial Chronicle)

OAKLAND, Calif.—Simon Fernandez is now with Wilson, Johnson & Higgins, Central Bank Building.

Our Reporter's Report

Seemingly unending uncertainty in the Treasury market is proving a real thorn in the side of the corporate new issue market, even though the latter showed momentary signs of life toward the end of last week.

Steady pressure on the government list, together with the mild but persistent stiffening in basic money rates, is giving even institutional investors, the backbone of the new issue market, food for thought.

True the upturn in money rates has not been sufficient in scope to create any serious misgivings. But talk persists of the Federal Reserve's disposition to post an increase in member banks' reserve requirements and there are other straws in the wind which tend to make investors cautious.

The underwriting fraternity was cheered no end toward the close of last week when offering of Cleveland Electric Illuminating Co.'s $25,000,000 of new 35-year bonds encountered an unexpectedly brisk response.

A day or two previous to the opening of subscription books there were indications that earlier potential buyers had cooled a little. But the actual offering evidently brought a quick change of heart on the part of institutions and the issue not only sold out quickly but rose to a slight premium in when-issued trading.

This development gave a slight fillip to the general corporate market but not nearly enough to bring about clearing of shelves of lots left over from earlier offerings.

Bonds Still Available

Dealers were able to work off some of their inventories from previous undertakings. But market observers report it is still possible to obtain goodly lots of a number of such issues.

Indications are that at this time little progress has been made from a week ago in the distribution of Tennessee Gas Transmission Co.'s new issue. Likewise there is a goodly supply of Virginia Electric Power bonds available.

And the more recent $12,000,000 offering of Delaware Power & Light Co.'s bonds while reported moving out, was not credited with being anything in the way of an "out-the-window" operation.

Competition Is Keen

Notwithstanding the none-too-sanguine setting afforded by both the seasoned bond market and the equity market, corporate issuers are profiting by the disposition of bankers to go after all business in sight.

Delaware Power & Light Co.'s offering brought out a total of eight separate bids, showing that bankers are anxious to do business where it can be found.

The winner paid the company a price of 100.157 for a 2.75% coupon, with the runner-up bidding only seven cents per $1,000 bond less, for the same interest rate.

The issue was repriced for public offering at 100.407 to yield the buyer an indicated 2.73% return.

Offering on "Rights"

Consumers Power Co. has amended its registration statement, covering offering of 510,470 shares of additional common to stockholders.

The company is slated to fix the offering price for the shares at a board meeting scheduled to be held next Monday.

Originally it had been intended to offer a total of 489,903 common shares in July. But because of unsettled market conditions the undertaking was postponed.

The current plan already has been approved by the Michigan Public Service Commission which has specified that the price must not be set more than $3 a share below the going market value at the time of offering.

Light Week Ahead

Unless there is action to stir up some of the deals that have been deferred from time to time during the summer months, next week promises to be a dull period in the new issue field.

A handful of small equity undertakings are in prospect, but nothing in the way of substantial new debt operations looms as close.

The next large operation, and that a stock deal, involves Pacific Power & Light Co.'s projected sale of 1,750,000 shares of new common.

Stifel, Nicolaus Adds

(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, Mo.—Bert J. Brockhan has been added to the staff of Stifel, Nicolaus & Co., Inc., 314 North Broadway, members of the Midwest Stock Exchange.

Halsey, Stuart Group Offers Delaware Power & Light Co. 2¾% Bds.

A group of underwriters headed by Halsey, Stuart & Co. Inc. are today (Sept. 28) publicly offering an issue of $12,000,000 Delaware Power & Light Co. first mortgage and collateral trust bonds, 2¾% series due 1980, at 100.407% and accrued interest, to yield about 2.73%. The group was awarded the bonds on Sept. 26 on its bid of 100.157%.

The net proceeds will be used to finance a portion of the construction program of the company and its two subsidiaries.

It is expected that the construction program will require expenditures of approximately $25,000,000 in 1950 and $13,000,000 in 1951, or a total of $38,000,000. Of this total, approximately $10,500,000 had been expended during the first six months of 1950 in connection with the construction program, and at June 30, 1950, outstanding contracts and orders, principally relating to additional generating facilities, amounted to approximately $9,000,000.

Of the total estimated requirement of $38,000,000, it is contemplated that approximately $19,000,000 will be obtained from treasury funds available at Jan. 1, 1950, retained earnings and provisions for depreciation and amortization. Approximately $4,750,000 was received from the sale of 232,520 shares of common stock offered in April, 1950, leaving an estimated balance to be obtained of $14,250,000, of which approximately $12,000,000 will be obtained from the sale of the 1980 series bonds. The company has no plans at present for the sale of any additional securities which may be required for the completion of the construction program.

The company and its subsidiaries are engaged in the production, purchase, transmission, distribution and sale of electricity in substantially the entire State of Delaware and portions of the States of Maryland and Virginia.

The company is also engaged in the production, purchase, transmission, distribution and sale of gas in Wilmington, Del., and surrounding territory.

With Vance, Sanders

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass. — Thomas F. Locke has been added to the staff of Vance, Sanders & Co., 111 Devonshire Street.

Joins Waddell & Reed

MINNEAPOLIS, Minn.—James W. Mullen is connected with Waddell & Reed, Inc., of Kansas City, Mo.

With Sidlo, Simons

DENVER, Colo.—David W. Brunton is now connected with Sidlo, Simons, Roberts & Co., 740 Seventeenth Street.

With Waddell & Reed

KANSAS CITY, Mo.—William B. Talbott, Sr., is now associated with Waddell & Reed, 1012 Baltimore Avenue.

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

The Colorado Fuel & Iron Corporation

DIVIDEND ON COMMON STOCK

The Board of Directors of The Colorado Fuel and Iron Corporation announced today that it has declared a 25 per cent common stock dividend payable November 1, 1950 to holders of common stock of record at the close of business on October 16, 1950. Shareholders will receive one additional share of common stock for each four shares of common stock held on the record date. It is the present intention of the Board of Directors to continue the regular quarterly dividend of thirty-seven and one-half cents on the increased number of shares. No fractional shares will be issued. Cash adjustments will be made on the basis of the market price of common stock on the record date.

D. C. McGREW, Secretary.

DIVIDEND NOTICES

CONSOLIDATED NATURAL GAS COMPANY

30 Rockefeller Plaza
New York 20, N. Y.

DIVIDEND NO. 14

THE BOARD OF DIRECTORS has this day declared a regular semi-annual cash dividend of One Dollar ($1.00) per share on the capital stock of the Company, payable on November 15, 1950, to stockholders of record at the close of business October 16, 1950.

E. E. DUVALL, *Secretary*

September 27, 1950

DIVIDEND NOTICES

GOULD-NATIONAL BATTERIES, INC.

Manufacturers of Automotive and Industrial Batteries

DIVIDEND NOTICE
St. Paul, Minnesota
September 11, 1950

THE BOARD of Directors today declared a dividend of Seventy-five Cents (75c) a share on Common Stock, payable November 1 to shareholders of record October 20, 1950.

A. H. DAGGETT
President

INTER-COUNTY TITLE

GUARANTY and MORTGAGE COMPANY

EXTRA DIVIDEND NOTICE

An extra dividend of $1.00 a share has been declared on the capital stock of this company payable on September 15, 1950, to stockholders of record September 13, 1950.

This disbursement is in addition to the regular and extra dividend paid to stockholders of record on July 1st, 1950.

INTER-COUNTY TITLE GUARANTY & MORTGAGE COMPANY

THOMAS H. QUINN
PRESIDENT

New York, N. Y.
September 20, 1950.

Philip Morris & Co. Ltd., Inc.

The regular quarterly dividend of $1.00 per share on the Cumulative Preferred Stock, 4% Series, and the regular quarterly dividend of $0.975 per share on the Cumulative Preferred Stock, 3.90% Series, has been declared payable November 1, 1950 to holders of record at the close of business on October 18, 1950.

There has also been declared a regular quarterly dividend of $0.75 per share on the Common Stock of the Company ($5 Par), payable October 15, 1950 to holders of Common Stock of record at the close of business on October 2, 1950.

Pursuant to a resolution adopted at the Stockholders' Meeting held on July 10, 1945, no Certificate representing a share or shares of Common Stock of the par value of $10 each is recognized, for any purpose, until surrendered, and a Certificate or Certificates for new Common Stock of the par value of $5 each shall have been issued therefor. Holders of Certificates for shares of Common Stock of the par value of $10 each are, therefore, urged to exchange such Certificates, for Certificates for new Common Stock of the par value of $5 per share, on the basis of two shares of new Common Stock $5 par value, for each share of Common Stock of the par value of $10.

L. G. HANSON, Treasurer.

DIVIDEND NOTICES

NATIONAL SHARES CORPORATION

14 Wall Street, New York

A dividend of fifteen cents (15c) per share has been declared this day on the capital stock of the Corporation payable October 14, 1950 to stockholders of record at the close of business October 2, 1950.

JOSEPH S. STOUT, *Secretary.*

September 21, 1950.

PACIFIC GAS AND ELECTRIC CO.

DIVIDEND NOTICE

Common Stock Dividend No. 139

The Board of Directors on September 20, 1950, declared a cash dividend for the third quarter of the year of 50 cents per share upon the Company's Common Capital Stock. This dividend will be paid by check on October 16, 1950, to common stockholders of record at the close of business on September 29, 1950. The Transfer Books will not be closed.

E. J. BECKETT, Treasurer

San Francisco, California

PACIFIC FINANCE CORPORATION of California

pf

DIVIDEND NOTICE

On September 13, 1950, the Board of Directors declared regular quarterly dividends of $1.25 per share on the 5% Series and the 5% Sinking Fund Series Preferred Stocks ($100 par value) and $0.31¼ per share on the $1.25 Sinking Fund Series Preferred Stock ($25 par value), each payable November 1, 1950 to stockholders of record October 14, 1950.

B. C. REYNOLDS
Secretary

RAYONIER INCORPORATED

PRODUCER OF HIGHLY PURIFIED WOOD CELLULOSE

EXTRA and REGULAR DIVIDEND

The Board of Directors has declared an extra dividend of twenty-five cents (25¢) per share on the Common Stock, and also the regular quarterly dividend of fifty cents (50¢) per share on the Common Stock, each payable November 15, 1950 to stockholders of record at the close of business October 27, 1950.

EDWARD BARTSCH
President

September 19, 1950

WORLD-WIDE BANKING

Chase

THE CHASE NATIONAL BANK OF THE CITY OF NEW YORK

DIVIDEND NOTICE

The Chase National Bank of the City of New York has declared a dividend of 40c per share on the 7,400,000 shares of the capital stock of the Bank, payable November 1, 1950 to holders of record at the close of business October 6, 1950.

The transfer books will not be closed in connection with the payment of this dividend.

KENNETH C. BELL
Vice President and Cashier

Washington . . . And You

Behind-the-Scene Interpretations from the Nation's Capital

WASHINGTON, D. C.—Except for the people who have thus far failed to grasp the fact that the government's plans for materials controls are in a decidedly immature stage, William H. Harrison, Administrator of the National Production Authority, has made a favorable impression on this Capital City and its business visitors.

Mr. Harrison does not bemuse his callers with Boy Scout pep talks and get them all excited about prospective controls. He appears to take an easy-going attitude and reveal with a candor which is seldom found in this seat of government, that he frankly does not yet know what will be required of industry to meet military requirements. This is done, however, with no lack of earnestness to promote the war effort.

It has been known for a long time that the Administration's war preparations have been about as casually decided as pinning the tail on the donkey while blindfolded. While presumably a good body of military planners would know what kind of gear they would order for a possible Asiatic war as against the gear needed for the European war they thought more probable, that apparently has not been the case. Likewise they hadn't seemed to figure out what went with a three million-man armed force, a four-million-man armed force or a two-million-man armed force — just to have the plans handy in case.

One of the first things Mr. Harrison is trying to ascertain is just what are the requirements of the military for steel, aluminum, zinc, copper, nickel, and so on. All that are available present are "guesstimates" of some of the sharper boys who can arrive at half way informed guesses based upon World War II production levels. These are easily distorted, however, by such differences as the fact that aircraft are much heavier than in World War II and that presumably accelerated stockpiling may further impinge upon the supplies of scarce materials.

Another thing Mr. Harrison is trying to ascertain is exactly where does his jurisdiction stop and that of the Interior and Agriculture Departments begin. They also share the same kind of materials controls, although theoretically as to different classes of commodities. This is an effort to avoid as much as possible the endless arguments such as went on among bureaucracies during the last war over who shall do what, with which, and to whom.

Mr. Harrison frankly tells his industry meetings, such as those with steel, copper, and zinc producers, that he is meeting them "to get the feel of their industries" and to learn what they are thinking about what lies ahead and what can be done about it.

Finally, the Administrator of NPA frankly warns the customers that the controls picture is bound to shift its direction sharply from time to time. "It's bound to be a changing order of things that we are going into. We may decide to do it one way today and we may have to do it an entirely different way tomorrow," he told one group. The impact upon materials supplies of the three-million-man program frankly is not known, he asserted.

Mr. Harrison needs only one tip. His public relations should not be pitched so intensively at the prospect of selling 150 million citizens what he is doing, as getting across to trade associations and specific industries, what he is cooking up. They want to know what is expected of them or, if a decision will not be available for a long time, they want to know that too.

Actually, Mr. Harrison has probably been plagued more than by anything else, by the eager beavers of industry and potential bureaucratic manpower. Many a potential budding executive who would like to transfer to Washington and a responsible position, is hounding NPA personnel offices. Many producers who either are boiling with patriotic zeal or are not too well set up for the future, are crying for war contracts at NPA offices.

In general NPA is trying to shy away from the job seekers. On the other hand, it is having a hard time getting to come to its official desks, even second string industrialists. The latter are well set at home. They remember keenly the experience of futility so many of them or their colleagues suffered during World War II. With prospective war contractors, there is no hope of telling now where they can fit in, except as procurement planning slowly makes its way off drawing boards and into requests for contracts.

* * *

When Congress gets around to enacting a rent control law for the latest war, its effect may ultimately be to turn a lot of sour mortgages over to the government.

During the last 15 years, somewhere near 40% of the rental housing of the U. S. has been insured by FHA. The amount in dollar volume outstanding prior to World War II, however, is insignificant compared to the volume since the war and its hangover of rent controls, which made both enterprisers and lenders chary of staking any substantial sums in rental apartments with the government at any time likely to clamp down on the earning power of these projects.

Thus, of multi-family dwelling units constructed during the first six months of 1949, 68% of it went FHA. During the last six months of 1949, the ratio was 69%—and rising.

Of course FHA exercises a "rent control" of its own, fixing maximum rents for the projects as a condition to insuring loans. These are designed to provide service of the loan, taxes, maintenance, and a reasonable return. FHA's power to relax its own rent ceilings in a period of certain inflation due to develop from this war, with higher maintenance costs of apartments, would be nullified by the over-riding rent control bill.

And it is frequently asserted, and seldom denied, that the liberal 90% loan insurance on multi-family projects actually amounts to 100% of the cost of the buildings less contractor's profit.

* * *

Some of the speculation which arose to the effect that the Federal Reserve Board would order a further tightening up in instalment credit regulations may have been stimulated by the strong picture painted of the dangers of inflation by Chairman Thomas B. McCabe and others in recent public speeches.

BUSINESS BUZZ

"No, no coffee, thanks! I have to go back to the office and it'll keep me awake!"

Actually, the Federal Reserve Board seldom moves with such precipitate haste. Its first regulations became effective only Sept. 18. The Board is unlikely to alter those regulations in either direction until there is revealed a clear picture of how they are working out. Such a clear picture probably will not become statistically available until Nov. 1. This does not mean that a further tightening up in the instalment credit terms is due around Nov. 1—that is only the first possible time it could be considered likely that any thought would be given to a change, and then only if notwithstanding the terms ordered Sept. 18, instalment sales continued to show up in large volume.

What instead would seem to be indicated by these speeches is the boost in member bank reserve requirements which has been expected any time during the last few weeks. The nervousness in the bond market which followed the dispute over the short-term interest rate may not be as pronounced in connection with the October as with September Treasury refinacing, and may not preclude a boost in reserve requirements before that latter refinancing is out of the way.

* * *

It may have escaped the attention of many, but the final version of the "quickie" tax bill dropped the provision approved by the House and the Senate Finance Committee, cutting to three months from six months, the qualifying or holding period for operation of the long-term capital gains tax. Senator Hubert Humphrey of Minnesota, the Americans for Democratic Action's special gift to the U. S. Senate, spotted and knocked out this provision in the Senate. The House conferees, frightened because they had stood up against a half-baked excess profits tax, surrendered, and finally killed it.

* * *

Even though Congress will meet definitely after Thanksgiving instead of in January, The Treasury, it is reported, will be ready well ahead of this date with its own recommendations for permanent legislation to raise $7 to $10 billion of additional taxes, including an excess profits tax or some form of corporation taxation which can be labeled EPT. It is said that the Treasury will have its recommendations ready for the staff of the Joint Committee on Internal Revenue by Oct. 15. The Treasury's ideas on where the money is to come from have not even been hinted as yet. The Joint Committee, the expert staff of the two Congressional taxing committees, has come nowhere near settling yet on any overall program for the new tax legislation, and actually may find itself operating on a basis of agreeing to or modifying the Treasury's program.

* * *

There is being studied very quietly here a proposed Point IV program to boost food production in Asia, particularly in India and among the Arabs.

At present time this program is in a most tentative form, and may or may not be offered to Congress in January. The idea is to assist India and the Arabs to produce more of their own food, by furnishing them with seeds, fertilizer, technical education, and perhaps irrigation works.

It will involve primarily grants, and will not be either in the form of an Export-Import Bank loan or private investment. The thought is that the shortage of food is one of the real problems tending to weaken the morale of the Near East and southern Asia to Communist penetration.

(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.)

Geo. H. Taylor Joins Oechsel, Mudge & Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—George H. Taylor has become associated with Oechsel, Mudge & Co., 210 West Seventh Street. Mr. Taylor has recently been conducting his own investment business in Los Angeles.

Frederick Swan With F. S. Moseley & Co.

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass.—Frederick M. Swan has become associated with F. S. Moseley & Co., 50 Congress Street, members of the New York and Boston Stock Exchanges. Mr. Swan was formerly with Draper, Sears & Co. and prior thereto was a principal of Swan, Stickley & Co.